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## Some DC plan sponsors would switch to state-run plans: LIMRA SRI

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By Editorial Staff      Thu, Aug 10, 2017

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As many as 30% of employers who offer a defined contribution (DC) plan say they are very likely to stop offering their defined contribution plan and have their employees enroll in a state-run retirement savings plan, according to a new study from the LIMRA Secure Retirement Institute.

California and Oregon are the states closest to launching their own state-sponsored Roth IRA plans for workers who don't currently have access to a plan. But Congress' recent reversals of an Obama administration ruling and the Department of Labor's cancellation the federal MyRA program for such workers could hamper the roll out of state run plans.

Employers that sponsor DC plans with over \$50 million in assets were more inclined than sponsors of plans with under \$10 million in assets to say they would replace their existing DC plan with the state-run plan (31% versus 22%), the study showed.

The intent of the state-run retirement plans is to offer workplace retirement access to those who do not currently have it. "Employers who drop their DC plan and shift their employees to a state-run plan may weaken their employees' ability to save adequately for their retirement," LIMRA SRI release warned.

Many state-run plans are designed as individual retirement accounts (IRAs), which limit investors under 50 years of age to contribute \$5,500 per year while DC plans allow up participants to contribute as much as \$18,000 annually.

Institute research finds 86% of workers feel it is important to be able to contribute more than \$5,000 a year to their retirement savings. This could also undermine long-term retirement security.

An employee under age 50 making \$75,000 a year saving 10% in their DC plan (\$7,500 per year) would be limited to \$5,500 a year in a state-run plan. Over the course of 20 years (excluding investment growth, fees, withdrawals, increases in salary, etc.) this amounts to \$40,000 in lost retirement savings.

But, while they can save that much, most current 401(k) participants save much less. The median contribution for all participants in 2012 was only \$2,981, according to a study published in Social Security Bulletin, Vol. 77, No. 2, 2017.

Even among full-time workers ages 25 to 59 in the second-to-wealthiest income decile, the median contribution in 2012 was only \$6,039. Those in the top 10% of earnings contributed a median of \$12,368.

Employees surveyed by LIMRA SRI placed high value on certain aspects of DC plans that may not be part of a state-run plan:

- Nine in 10 workers value the ability of their employer to contribute to their retirement, which is not allowed under state-run IRAs.
- Eight in 10 workers say investment variety and education are important DC features — not offered in most proposed state-run plans.
- Nine in 10 employees value investment diversity (at this point, investment options are unclear in state run proposals).

LIMRA Secure Retirement Institute conducted nationwide surveys of more than 1,000 employers that offer defined contribution plans and nearly 2,500 workers in 2016 to explore perceptions around state-run retirement programs. The results were weighted to reflect the US population.

Any large change to the retirement plan business would have a big impact on the mutual fund business, for which plans are a major distribution channel. Mutual fund assets held in retirement accounts (IRAs and DC plan accounts, including 401(k) plans) stood at \$8.0 trillion as of the end of March 2017, or 47% of overall mutual fund assets, according to the Investment Company Institute.

Fund assets in 401(k) plans stood at \$3.2 trillion, or 19% of total mutual fund assets as of March 31, 2017. Retirement savings accounts held about half of long-term mutual fund assets industry-wide but a much smaller share of money market fund assets industry-wide (14%).

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