The Case for Collaboration among State-Sponsored Savings Plans

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The authors of this article, Angela M. Antonelli, director of the Georgetown University Center for Retirement Initiatives (pictured), J. Mark Iwry, a Brookings Institution fellow, and David C. John, an AARP policy advisor, recommend that individual US states with public-option workplace retirement plans should work in concert rather than alone.

Over the last several years, most states have been actively engaged in exploring ways to enable more private-sector workers to save for retirement. In addition to understanding the need to enhance retirement security by expanding coverage, they recognize that the failure to do this would expose state governments to increased budget pressure, because increasing numbers of retirees with insufficient savings need additional social services.

The proportion of U.S. private-sector workers with access to employer-sponsored payroll deduction retirement savings plans or pensions has not improved significantly for several decades. According to the Employee Benefits Research Institute, approximately one-half of all American workers lacked access to an employer sponsored plan in 2013.

To date, states have considered creating individual retirement savings programs that would serve only their own citizens. However, states should explore other models — ones based on a multi-state or regional approach that would enable participating states to provide even better services to their citizens. Multi-state arrangements offer opportunities for possible economies of scale by spreading both startup and ongoing costs over wider populations. This could enable smaller-population states to make saving opportunities available to their citizens at a lower cost.

Section 529 College Savings Programs and ABLE Accounts: Existing Multi-State Savings Programs

Both the Section 529 college savings accounts and the Stephen Beck, Jr. Achieving a Better Life Experience (ABLE) Act programs provide models for how states have developed multi-state savings programs. For example, most 529 plans are open to residents of other states. Only a handful of states still restrict their college savings plans to their state residents, but even in those states, their residents are not restricted from enrolling in plans of other states.

Most plans have engaged private sector turnkey program managers that provide all necessary services under one comprehensive management agreement. These include investment management, customer service, legal compliance, recordkeeping and administration, marketing and outreach, and distribution. These program managers often run the Section 529 programs in more than one state, which allows them to spread some operational costs among more participants.

The ABLE Act, which gave eligible individuals with disabilities the ability to establish tax-advantaged savings accounts, provides a particularly good example of multi-state savings programs that might serve as a model for structuring multi-state retirement savings programs.

A provision in federal law explicitly allows states to manage ABLE accounts in more than one state, and several of these arrangements exist. The largest is a consortium, managed by Illinois, of 16 states joined together to offer what is essentially the same program, managed by the same firm and offering the same investment choices. Each state can customize the program to meet its individual needs, but use the same basic platform. The consortium allowed them to reduce costs to well below what a similar program would have cost if each state had individually set it up.

Another 11 states have adopted Ohio’s program to establish ABLE accounts. Unlike the consortium, which allows for variations, each state in this case is using the same program. Because it is serving a larger population of savers, administrative costs are lower.

Finally, Oregon has its own program, but consults with other states about how to open and manage their ABLE programs while also offering them the ability to use the same program managers as Oregon uses at a reduced cost.

Strength in Numbers: Options for Multi-State Collaboration to Promote Retirement Security

While any state can choose to create its own program limited to its own residents, a regional or other multi-state approach has the potential to achieve the economies of scale necessary to minimize costs while significantly expanding access to retirement savings options.

There are three general models for multi-state retirement savings programs that states could consider:

An established state program contracts with another state to structure and administer the program for both states. This would be similar to the Ohio ABLE arrangement in that one state would adopt another state's retirement savings program. The originating program's private-sector partners would manage both states' programs jointly.

An interstate alliance or consortium jointly structures and administers a program for the states in the alliance. States could band together and use a master agreement, to build a single system that they would all use, including the private sector partners, creating a true multi-state program. As noted above, several states are currently using this type of arrangement to implement ABLE accounts and allow for some variations in services or investment choices.

A state opens its program to individual savers and employers from other states, and allows them to join its platform. A state that has a retirement savings program could follow the pattern of many Section 529 college savings programs and allow participation by out-of-state individuals or by employers that do not already sponsor plans of their own. While employers that have employees in more than one state typically already sponsor a 401(k) or other plan, not all do.

If an employer had employees in more than one state that offers programs facilitating retirement savings, but the employer had no plan of its own, it could choose to have all of its employees participate in a single state's program. To work, the other states in which the employees are located would have to accept this arrangement.

While the first two models appear to have the most promise for general use, the third might be used to facilitate employer choice in the event that a multi-state employer did not already sponsor a plan.

Whether a state chooses to create its own program or to join a multi-state program, a decision to offer any state-facilitated program will improve the retirement security of its citizens.

A regional or other multi-state approach is not essential, but it is an option that should be considered. Any state can establish its own, standalone state-facilitated retirement savings program. However, multi-state collaboration could have important advantages. By joining together, states have the potential to offer better services and reduce the cost of building or supporting a retirement savings platform.

A multi-state approach of one kind or another can make the process easier and more costeffective — and can accelerate the date when a program can become self-sustaining and fees can be minimized. This is true regardless of which type of state-facilitated savings program the states adopt or which method they use to collaborate.