Retirement Income
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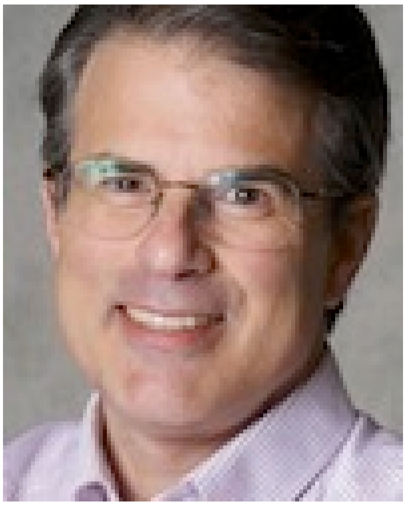
The ‘Coverage War’ Begins

By Kerry Pechter *Thu, May 3, 2018*

Half of Americans have no way to save for retirement at work. But who will help them: private companies, state governments, or a combination of the two?



There’s a turf war brewing over retirement savings plans in America. Public policy wonks and 401(k) trade groups agree that millions of workers don’t have access to an employer-sponsored plan. But they disagree on who should be spearheading the solution and, to use industry jargon, “expand coverage.”

The trade groups would naturally prefer to see the private sector capture the opportunity that this underserved sector presents, and they’d rather deal with just one regulatory body, such as Uncle Sam, instead of 50 state legislatures.

But so far they’ve been frustrated–most recently by Congress’ failure to enact the Retirement Enhancement & Savings Act in March. RESA would have allowed financial services companies to sponsor their own national multi-employer plans.

Meanwhile, state governments, particularly where Democrats hold power, have moved ahead by offering various “public options.” These have taken the form of state-sponsored Roth IRAs (in California and Oregon) or state-supervised marketplaces where employees and employers can meet providers (in Washington State and Vermont).

The states have been slowed but not stopped by the Republican Congress, which in 2017 killed the MyRA program (a federal Roth IRA that would have helped state Roth IRAs get rolling) in its cradle and reversed a Department of Labor ruling that would have exempted the state plans from federal control.

But some states are still proceeding with their plans for public options. Some 11 US states have approved their own retirement savings plans – the latest being New York. But Oregon was the first to enroll employers and employees, having started in October 2017. As of early April 2018, 509 employers had registered and 77% of 38,150 eligible employees had enrolled in **OregonSaves**, according to a report published this week by IPE.com.

These state-run plans are designed for employees who do not have access to retirement-plan coverage at work. According to AARP, the advocacy group for older Americans, 55 million full and part-time private-sector workers have this problem.

In Oregon, about one million residents are estimated to be this situation. Two thirds of Oregon’s 64,000 employers will be affected by OregonSaves, as they do not offer a retirement savings plan, according to the Center for Retirement Research at Boston College. Of those, only 18% have ten or more employees but they represent 78% of the employees affected by OregonSaves.

Employers that do not offer a retirement plan must join the program, even though there is no penalty for those that fail to comply. Employees are automatically enrolled and their contributions automatically escalated, as in the Save More Tomorrow (SMarT) program recommended by Nobel laureate Richard Thaler and Shlomo Benartzi, but they can opt out.

The independent provider Ascensus will undertake the recordkeeping and administration chores, including creating and maintaining the website, managing the call center and the relationship with State Street Global Advisors (SSGA), the investment manager for the program. SSGA was selected through a public process with the assistance of Segal Marco Advisors.

Implementation of OregonSaves is in four waves, depending on size of company:

- October 2017: Companies with more than 100 employees
- April 2018: 50-99 employees
- November 2018: 20-49 employees
- 2020: All companies, including those with 19 employees or fewer

Some Oregonian companies that are already members of the ERISA Industry Committee and offer plans, including 401(k)s, have sued Oregon State for the employer reporting requirement. They settled last March and are exempt from reporting if they inform the state of their ERISA membership and the state verifies this membership.

The state has also made hundreds of presentations to chambers of commerce, business associations, and trade groups to promote awareness.

Additional materials are also available for employers to pass to employees, including a simple retirement calculator, and education sessions are planned.

The initial contribution rate is 5% of salary. This will be automatically increased at the rate of 1% of compensation in January each year to a maximum of 10%. The account structure is a Roth IRA and contributions occur on a post-tax basis. The program currently offers three types of investment options.

The first $1,000 is invested in the OregonSaves Capital Preservation fund – a money market fund. All further contributions are invested in a target retirement fund based on age and year of retirement. The third option is an SSGA US large-cap equity index fund. OregonSaves participants can make their own choices regarding contribution levels.

Costs are about 1% and include all expenses and fund fees. According to the Oregon State Treasury, an analysis of state auto-IRA fees by the Pew Charitable Trusts found that they are competitive, even when compared to the lowest cost 401(k) plans for small businesses. Oregon aims to decrease cost levels over time as assets increase and start-up costs are recouped.