Structuring an Effective State-Sponsored Retirement Savings Plan

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US Workers Like Auto Enrollment

• Auto enrollment made saving easy: 95%
• I started retirement saving earlier: 85%
• Satisfied with process (enrolled): 97%
• Satisfied with process (opted out): 90%
• Glad my company offers (enrolled): 98%
• Glad my company offers (opted out): 79%

— RMS poll 2007
Auto vs. Mandatory: Results

- **UK Large Employers**: 91% coverage *(DWP 8/13 range 85%-95%)*

- **US**: 92% new employees *(Fidelity)* 85% new and existing *(numerous cites)*

- **New Zealand**: About 75%; Only 55% Contributing *(8/13 NZ Financial Services Council)*

- **Australia Coverage**: 87% - 98% of employees *(Australian Bureau of Statistics)*
Start Simply

• *When implementing a state-sponsored plan, it is better to start with a simple plan that works than with a complex plan that does not:*

• While there could be a temptation to solve every retirement savings problem at once, it is far better to start with a very simple plan that works and is understandable to both employers and employees, and then add features to it over time.
Make it Compatible

• As most US workers have a number of jobs during their working life, state-sponsored plans should ensure that their accounts are compatible with those offered through private sector employers.

• It is extremely likely that a significant proportion of plan participants will end up transferring their money to another plan sponsored by a new employer and that other participants will transfer money into the state plan.
Low risk for new savers?

• The United Kingdom’s National Employment Savings Trust (NEST) investment platform places the contributions of new savers in a riskless stable value fund for the first two years after they join the fund. This protects savers from becoming discouraged from continuing after losing money as they start to save.

• After the initial two years, NEST moves their money to the appropriate target date fund for savers of their age and places all new contributions into that fund instead.
Guarantees

• While guarantees are simple in concept, they are highly complex in practice.
• Someone must be prepared to cover the costs, whether it is the saver, the plan sponsor or the taxpayer.
• There are two different measures of cost that are often confused. One measures effect on a government budget, while the other reflects the actual cost to a saver, insurer or government that includes the opportunity cost of a guarantee. Using the wrong measurement can produce overly optimistic low cost estimates.
Consumer Protections

• Explicit consumer protections will help to build confidence in the state-sponsored plan and to encourage participation.
• Appropriately structured state consumer protections could provide the same level of protection as ERISA or even greater protection.
• Policymakers do need to balance the desire for explicit protections with the need to keep the plan simple and to limit the requirements placed on employers.
Retirement Income Illustrations

• Help savers to know how they are doing.

• Can help to encourage additional savings.

• Especially valuable if combined with a Social Security estimate.
2014 EBRI RCS Data

• Useful: 85% yes, 15% no.
• Amount projected: 58% as expected, 27% less, 12% more.
• Will save more: 17% (35% proj. less income)
• Increased saving: 69% by 10%; 24% by 25%+
• Age: 89% won’t affect age I retire.
• Confidence: 20% lower confidence in ability to save. 40% of those to save more.
AARP State Retirement Savings Resource Center

• Individual issue papers
• Savings facts
• National Policy
• State Policy
• Financial Literacy
• http://www.aarp.org/ppi/state-retirement-plans/
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