Automatic Enrollment Retirement Programs

Promising State and Federal Policies

By Sepi Aghdaee
For EARN
Mills College Public Policy Program
May 1, 2016

Disclaimer

This study has been prepared for EARN, San Francisco, California. The author conducted this study in partial fulfillment of the requirements for the joint degree of Master of Public Policy and Master of Business Administration at Mills College. The judgments and conclusions are solely those of the author, and are not necessarily endorsed by the Mills College Public Policy Program, the sponsoring organization, or any other agency.

Executive Summary

With the declining availability of pension plans, aging of baby boomers, and projected shortfalls of future Social Security benefits, employer sponsored plans have become an increasingly important tool for retirement savings. Low income Americans, workers of color, and employees of small businesses are far less likely to have access to employer sponsored retirement plans.

This report analyzes the projected outcomes of emerging state and federal policies to improve retirement savings coverage. The criteria used to analyze policy options are potential for impact (participation and sufficient savings), costs, equity and political feasibility. The following policy options were examined:

- *my*RA, a voluntary retirement program sponsored by the federal government and overseen by the US Treasury, aimed at expanding access to retirement savings plans;
- Federal automatic enrollment retirement legislation mandating employers to offer automatic enrollment plans funded by a portion of workers' earnings, thus far rejected by Congress;
- State policy focusing on California's model of a state-sponsored automatic retirement program which was adopted in 2012 and will be implemented in the near future;
- Tax credit models to incentivize and enhance savings; and
- Multiple employer plans (MEP) would allow businesses to voluntarily offer a retirement plan together, lessening the burden of setting up and maintaining such plans.

Automatic enrollment retirement programs simply expand the opportunity to save for retirement.

Main features:

1. The government sponsors and oversees retirement plans.
2. Employers are mandated to participate.
3. All Workers are automatically enrolled and can opt out at any time.

Recommendations

Automatic enrollment legislation mandating employers to enroll workers in a retirement plan shows promise in closing the retirement gap by increasing participation rates.

Short-Term (up to 5 years)

California's Secure Choice Program is expected to expand access to retirement savings accounts for millions of low income residents and workers of color.

1. **Work towards a refundable statewide saver's tax credit in California**

A statewide refundable savers tax credit at the state level could be targeted towards low income and older workers to allow for greater savings.

2. **Support education efforts associated with California's Secure Choice Program**

An education campaign targeting likely participants of Secure Choice is needed. These efforts can be focused on program design and the importance of saving for retirement.

3. **Support state-sponsored automatic enrollment retirement legislation**

Momentum from states can make federal response more feasible, however automatic enrollment legislation has failed to pass in many states. It is important to prioritize supporting automatic enrollment legislative efforts in states with the most potential for impact.

4. **Join growing movement to raise the minimum wage**

Low and stagnant wages will continue to limit workers' savings. With the recent passage of historic minimum wage increase laws in California and New York, the movement for fair wages at the state level has strengthened. Supporting such efforts can be instrumental in ensuring adequate savings and achieving meaningful impact.

Long-Term (up to 10 years)

5. **Pursue federal legislation for an automatic enrollment retirement program**

Political infeasibility at the federal level has led states to move forward with their own automatic enrollment programs. In the long-run a comprehensive nationwide fix is needed. Lost income tax revenue is a significant obstacle to political feasibility at the federal level. As more states adopt their own automatic retirement programs, federal feasibility increases.