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State-Based Retirement Plans: Why or Why Not?

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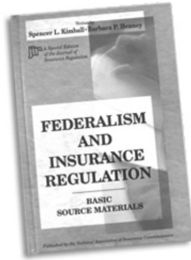

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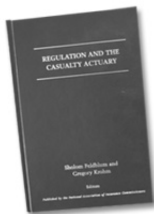

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State-Based Retirement Plans: Why or Why Not?

Jill Bisco*
Cassandra Cole**

Abstract

Many Americans are financially unprepared for retirement. To address this issue, some states have proposed and/or passed legislation to implement state-based, automatic individual retirement account (IRA) plans. With only five states passing legislation, we discuss some of the program design considerations, with a focus on how decisions regarding these considerations impact participation and cost and, ultimately, the feasibility of state-based retirement plans. Next, we analyze the characteristics of the states that have proposed legislation related to state-based retirement programs and those that have not to determine if there are any systematic differences. We also conduct similar comparisons of those states that have successfully passed legislation and those that have proposed but not yet passed state-based retirement plan legislation.

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Introduction

The income adequacy of retirees has been a topic prevalent in the popular press, as well as both industry and academic studies. There is growing concern given that individuals are living longer and savings needs have increased to meet retirement goals. In addition, recent evidence suggests that there has been a decline in the percentage of private sector workers with access to employer-sponsored retirement plans, and the changing demographics of the population has led to a decrease in participation in these plans. Also, almost 45% of working age households do not currently have any assets in a retirement account (considering employer-sponsored savings and individual accounts) and average median retirement account balances for near-retirees is $12,000. Finally, there are also significant differences in account ownership and account balances by income levels and age (Rhee, 2013).

Over the years, there have been efforts to address this potential retirement crisis at the federal level. Recently, this has included proposals for a federal automatic individual retirement account (IRA) and initiatives such as myRA. Early in his first term, President Barack Obama introduced the automatic IRA, which would require employers to establish a savings plan to which all workers would contribute a set percentage of salary through payroll deduction. While President Obama was not successful in passing legislation to create this federal automatic IRA, in 2014, he was able to pass legislation that created the myRA. The myRA is a voluntary Roth IRA designed for individuals who do not have access to retirement plans through their employers. More than 30,000 individuals opened accounts since the program's inception in 2015; however, contributions have only been made to about 20,000 and the median balance is approximately $500. With assets of just $34 million and ongoing costs of $10 million, the U.S. Department of the Treasury announced in July 2017 that it was ending the program (Bernard, 2017).

With the lack of progress at the federal level and so many workers lacking the availability of a retirement mechanism through their employer, a handful of states have passed legislation creating state-based retirement plans, similar in design to the proposed federal automatic IRA. This leads to a natural question: Why have more states not implemented state-sponsored retirement plans? In order to answer this question, we review some of the major decisions the states must make as it relates to the design and structure of state-based retirement plans. Within this discussion, we examine the impact of the decisions on the long-term feasibility of the plans by considering the decisions' effect on both participation and cost. Next, we explore the characteristics of the states and conduct some comparisons. Specifically, we analyze the characteristics of the states that have proposed legislation related to state-based retirement programs and those that have not to determine if there are any systematic differences. We also conduct similar comparisons of those states that have successfully passed legislation establishing a

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state-based retirement plan and those that have proposed but not yet passed legislation.

Given the current lack of personal savings, the diminishing access to employer-based retirement plans and the increase in life expectancy, the potential inadequacy of retirement savings should be an issue of concern to the states and the federal government. Those who are not adequately prepared for retirement may remain in the workforce for longer periods of time, thereby limiting the job availability for future generations. Those unable to work may become largely dependent on government programs, which could lead to increased costs borne by the states and the federal government. This study provides a close examination of one option currently being explored by some states to deal with this issue and provides insight into which states may benefit more from this type of program.

The next section of this paper provides a brief overview of the options available for state-sponsored retirement plans. This is followed by a section that discusses factors that may have influenced the states' decisions to propose state-based retirement plan legislation, along with the state comparisons of these factors. Finally, concluding remarks are provided.

Plan Type

There are a number of decisions that must be made when designing a state-sponsored retirement plan. The first is the type of plan to provide. State-sponsored retirement plans can be either defined contribution plans or defined benefit plans; however, only bills proposing defined contribution plans, specifically IRAs, have been passed by the state legislatures (John and Gale, 2015). This is not surprising for several reasons. Defined contribution plans are more portable and employees know the value of their account at all times. In addition, there is a transfer of retirement risk from the sponsor to the employee. In other words, the employee bears the financial risk associated with the retirement plan, not the sponsor (Boulier et al., 2001). Finally, defined contribution plans are less costly and generally simpler to administer. As such, we focus our discussion on the options for defined contribution plans.

The states have mainly investigated two types of defined contribution plans: 1) automatic IRAs; and 2) multiple employer plans (MEPs) (John and Gale, 2015).[1] With an automatic IRA, employers automatically enroll workers into the

1. One of the options explored by some states is the use of a marketplace as a means for eligible small employers and self-employed to find retirement plans (Pew, 2016). The implementation of a marketplace does not necessarily entail implementing a mandatory retirement plan. However, the states may require specific criteria be met in order for firms to participate in the marketplace. For instance, the New Jersey Small Business Retirement Marketplace Act requires firms wanting to list their products on the marketplace to offer a minimum of two product options, including a target date type fund and a balanced fund. The marketplace will offer three plan options to employers: a Savings Incentive Match Plan for

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plan with a pre-set contribution being made to the IRA via payroll deduction (Iwry and John, 2009). This type of plan has several advantages. It creates little cost for the employer and its simple structure makes it easy to explain to workers. In addition, similar to what was observed with 401(k) plans, the use of automatic enrollment can keep participation rates relatively high (Madrian and Shea, 2001). The automatic IRA is also suitable for a state-sponsored plan because the investment options would be selected by the state, resulting in minimal regulatory burdens for the employers (John and Gale, 2015).

With the automatic IRA, the states must decide between the traditional and the Roth. Two primary considerations with this choice are taxes and income levels. Traditional retirement accounts can have exempted contributions up to some maximum level and accruals are taxed when withdrawn, making this a tax-deferred product. On the other hand, contributions to Roth IRAs are made with after-tax income and accruals are never taxed. If tax rates remain the same (during contribution and withdrawal periods), the tax treatment of the traditional and the Roth IRAs are economically identical (Moore, 2016).[2] If this is not the case, one may be more beneficial than the other for some individuals. One other consideration relates to the income of individuals expected to participate in the plan. There are income restrictions related to the ability to contribute to Roth IRAs. In 2017, those with modified adjusted gross income of $133,000 or more if single/head of household (or $196,000 or more if married filing jointly) cannot contribute. If the expectation is that lower income individuals will be participating in the state-based retirement plan, then a Roth IRA may be more feasible.

The second option is to utilize state-run MEPs, which would allow several small employers to join together to share expenses by providing centralized administration, thereby reducing fiduciary responsibilities (Cole, 2017). MEPs are plans regulated under the federal Employee Retirement Income Security Act (ERISA) that allow for employer contributions. The U.S. Department of Labor currently requires that employers participating in a MEP have a common purpose (i.e., in the same industry); however, a legislative change could make this rule less restrictive (John and Gale, 2015).[3]

MEPs can vary in design, providing more flexibility than the automatic IRA. One of the major advantages of the use of the MEP is that, unlike with the automatic IRA, employers could contribute. While this would be beneficial to plan

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Employees (SIMPLE) IRA, a payroll-deduction IRA and a MyRA (American, 2016). For a discussion of some of the other options explored by the states, see John and Gale (2015).

2. The likelihood that tax rates would remain constant is minute. Therefore, the states must consider the tax implications to the employee. For employees that may be in their peak earning years—and, therefore, subject to higher tax rates during their working years—the traditional IRA is more favorable. On the other hand, employees in the early stages of their career or at lower incomes may be subject to a lower tax rate during their working years. These employees would benefit from the Roth IRA (Moore, 2016). In addition, because contributions to a Roth account can be withdrawn without taxation, the Roth IRA is more suitable for lower-income individuals who may need access to the funds (John and Gale, 2015).

3. For a historical perspective of MEPs, see Weinstein and Wiatrowski (1999).

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participants and could lead to greater wealth accumulation, it creates additional responsibilities and costs for employers.

Major Requirements and Provisions

In this section, we discuss some of the major decisions the states must make in terms of plan design. This includes participation requirements and plan features such as automatic enrollment, contribution rates and automatic escalation, investment options and rate-of-return guarantees. All of these requirements can impact participation and/or cost of the plans and, therefore, the long-term viability of the program.

Number of Employees

Statistics obtained from the Quarterly Census of Employment and Wages indicate that small businesses make up a significant portion of U.S. employers. Approximately 60% of businesses have less than five employees, about 17% have five to nine employees, and slightly more than 11% have 10 to 19 employees. In addition, there is evidence that employees of small firms are much less likely to have access to retirement plans through their employer than those employed by larger firms (Kobe, 2010; and U.S. Bureau of Labor Statistics (BLS), 2017). As such, mandating that all employers offer coverage under a state plan (unless an employer-sponsored plan is provided) would increase the number of workers with retirement plans, primarily increasing access to retirement plans for employees of small companies. In addition, greater levels of participation can generate several internal benefits, including lower cost per participant and less pressure to provide employer-sponsored retirement plans. This can also generate broader economic benefits, with more assets being invested in the market and, potentially, an increase in the demand for financial services (John and Gale, 2015).

Each state must determine the guidelines that would make employers subject to participation in the state-based retirement plan. Although not a requirement, a state can establish a threshold number of employees, thereby exempting small employers from participation. While, in theory, these plans are designed to limit costs and administrative management by the employers, as noted in a report to the Oregon Legislature, "… there will be 'start-up' and ongoing costs that cannot be reduced or eliminated without a financial incentive" (Oregon State Treasury, 2016). As such, not requiring smaller employers to participate would exempt companies that would be most challenged in meeting the requirements. At the same time, because availability of employer-based retirement plans is directly proportional to the size of the company, exempting small employers can have a significant impact on the overall number of employees that will not be covered by the state-based retirement plan. As noted above, this can have an impact on the cost per plan participant and, subsequently, the viability of the plan.

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Automatic Enrollment

One reason employees do not enroll in 401(k) or IRA plans is that the employee must take action to participate (Gale, 2011). In addition, these plans can be confusing to some (i.e., selecting investment options or other features and understanding tax implications). These issues can result in lower participation rates, which can lead to lower levels of savings at retirement. The implementation of automatic enrollment 401(k) plans helped address these issues (Gale, 2011). For large plans, the use of automatic 401(k) plans dramatically increased enrollment (Beshears et al., 2008). In addition, automatic enrollment has improved participation rates among eligible employees of all ages, genders, racial or ethnic groups, and income levels (Madrian and Shea, 2001).

Given the positive impact on participation observed with 401(k) plans, the use of automatic enrollment can be an important component of state-based retirement plans. With an automatic IRA, employers automatically enroll workers into the state-based plan at some predetermined minimum contribution rate. If employees elect not to participate, they would be able to opt out. However, when employees are automatically enrolled in a 401(k) plan, very few opt out (Thaler and Sunstein, 2003). Similar behavior is expected with automatic IRAs. As noted in an Oregon report to the legislature, it is expected that 70 to 80% of employees automatically enrolled in the plan will stay in the plan (Oregon State Treasury, 2016).

While there is strong evidence of a positive impact of automatic enrollment on participation, there is also evidence that automatic enrollment is negatively related to contribution rates and the impact is greater for low-income earners (Butrica and Karamcheva, 2015). To combat this negative impact, employees can be allowed to increase contribution rates up to some maximum level. The states can also use automatic escalation of contributions. Both of these options are discussed in the next section.

Contribution Rates and Escalation

The states considering a state-sponsored retirement plan have to determine a maximum contribution rate, as well as a default contribution rate for automatic enrollment. Establishing the default contribution is a critical factor to the success of the program and wealth accumulation. The Connecticut feasibility study finds that a contribution rate "…of 6% compared to 3% improves the income replacement ratio by more than 20%" (State of Connecticut Retirement Security Board, 2016).

While investigating the difference in employee behavior before and after automatic 401(k) enrollment, Madrian and Shea (2001) find evidence of "default" behavior. This behavior has automatic enrollment participants maintaining the default contribution rate (3%), whereas more of the employees that enrolled prior to the automatic enrollment selected higher contribution levels (over 6%). Other studies find that the participation rate with automatic enrollment is not affected by

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the default contribution rate (Chandler and Mottola, 2014; and Oregon State Treasury, 2016). This evidence suggests that a higher default contribution rate may be more beneficial. However, default contribution rates of plans are often set at levels below the maximum allowable contribution rate. In these cases, the states may choose to implement an automatic escalation provision in order to address the "default" behavior previously discussed. Increasing the contribution rate over the course of time will substantially increase accumulated wealth, especially when wage growth occurs simultaneously (Cole, 2017). Unfortunately, it can be a challenge to identify employees' optimal stopping points, making it difficult to determine how best to structure this provision (VanDerhei, 2010). In a recent study, Belbase and Sanzenbacher (2017) find that participation rates in state-sponsored automatic IRAs are consistent with 401(k) plans at contribution rates up to 6%. However, when contribution rates are automatically increased above this level, the rate that employees opt-out increases.

Investment Options and Rate-of-Return Guarantees

Investment choice is an important consideration of the design of state-sponsored retirement plans. Most state plans will have a default investment option with a limited number of alternative investments from which employees may choose (John and Gale, 2015). As previously discussed, one of the reasons that employees do not participate in a 401(k) plan or contribute to an IRA is because they find it difficult to select investment options (Gale, 2011). In fact, Iyengar, Jiang and Huberman (2004) find that the probability that an employee participates in a retirement plan decreases when the number of investment options increases. As part of its feasibility study, California conducted some focus groups and identified this as one of the major challenges it would face. Specifically, the focus group expressed a lack of comfort with basic financial concepts and investments (Overture Financial, 2016). Limiting options for the state programs may help in increasing participation.[4]

Finally, the states can include a minimum rate-of-return guarantee on invested funds. Since the financial crisis of 2007–2008, the demand for state-based guarantees for retirement savings has increased; however, one concern with a government-provided guarantee is who would bear the costs (Gale, John, and Kim, 2016). Because investors are considered risk-averse (Fama and MacBeth, 1973), it is believed that participation will increase when minimum returns are guaranteed.

4. In lieu of multiple options, the states can use a target fund. These funds contain a mixture of investments that are automatically adjusted based on the participant's age (John and Gale, 2015). There are two main advantages of utilizing target funds. First, these funds are meant to be the only investment held by the participant. Second, they require little to no ongoing decision-making or portfolio rebalancing from the account owner, as required when multiple investment options with different risk-return profiles are available.

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State Comparisons

In this section, we summarize the data and analysis employed. The analysis provides some comparisons of the states based on whether the states proposed legislation related to state-based retirement plans during the sample period. A similar analysis is provided for the states that successfully passed legislation to create a state-based retirement plan, in comparison to the states that proposed but did not pass such legislation.

Data and Analysis

This study focuses on legislative activity between 2012 and 2016 due to the number of states proposing legislation during this time period. We utilize state-level data from a variety of resources in the state comparisons. The control variables are lagged one year such that we are comparing the environment in the states in the prior year. A full list of the variables, along with brief descriptions and sources, is provided in Table 1. Summary statistics for the variables of interest are reported in Table 2. The analysis uses means comparisons of the variables of interest to test whether the means are statistically different for the groups.[5]

Variable Descriptions and Results

As shown in Table 3A and Table 3B, numerous states have proposed bills related to state-based retirement programs in the past few years. The majority of these bills simply propose researching the viability of creating a state-based retirement plan, while others propose creating a MEP or an automatic IRA. However, as of year-end 2016, five states have been successful in passing

5. In addition to the means comparisons, we also conduct a probit analysis in which the dependent variable is equal to one if the state proposed a bill (or proposed a bill to create a state-based retirement plan) in that year and zero otherwise. However, due to the high correlations among several of the variables included in the analysis, only a handful of the independent variables could be included. We do find consistency in the results for most of the variables included. Specifically, the states with more employers with five to nine employees and fewer employers with 10 to 19 employees were more likely to propose bills. Also, the states with a more highly educated population and a higher gross state product were more likely to propose bills. Finally, the states with a lower minority population, and more of its population in the 18 to 24 and 35 to 44 age groups, were more likely to propose bills. The notable differences are that the unionization variable is only significant in the model in which the states proposed state-based retirement plan bills. The Democratic governor variable is never significant. Results are available from the authors upon request.

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legislation creating a state-based retirement plan.[6] These five states are California, Connecticut, Illinois, Maryland and Oregon.[7]

Table 1:
Variable List and Description

Variable	Description	Source
Percent Establishments (< 5)	Percent of companies with less than five employees	U.S. Bureau of Labor Statistics
Percent Establishments (5 to 9)	Percent of companies with five to nine employees	U.S. Bureau of Labor Statistics
Percent Establishments (10 to 19)	Percent of companies with 10to19 employees	U.S. Bureau of Labor Statistics
LN of Median Income	Natural logarithm of median household income	U.S. Census Bureau
Percent Living in Poverty	Percentage of the population living below the poverty level	U.S. Census Bureau
Gross State Product	The gross market value of the goods and services attributable to labor and property located in a state	U.S. Census Bureau
Percent 18 to 24	Percentage of the population age 18 to 24	U.S. Census Bureau
Percent 25 to 34	Percentage of the population age 25 to 34	U.S. Census Bureau
Percent 35 to 44	Percentage of the population age 35 to 44	U.S. Census Bureau
Percent 45 to 54	Percentage of the population age 45 to 54	U.S. Census Bureau
Percent 55 to 64	Percentage of the population age 55 to 64	U.S. Census Bureau
Educational Attainment	The percent of persons age 25 or older with at least a bachelor's degree	U.S. Census Bureau
Percent Minority	Percentage of non-white population	U.S. Census Bureau
Age-Adjusted Death Rate	Age-adjusted death rate	Centers for Disease Control and Prevention
Percent Unionized	Percent of the workforce covered by a union	www.unionstats.com*
Percent Democratic	Percent of the population that voted for the Democratic candidate	U.S. House of Representatives**
Democratic Governor	Indicator variable equal to 1 if the governor is a democrat and 0 otherwise	National Governors Association

* For more specifics information on the union data, see Barry T. Hirsch, David A. Macpherson, and Wayne G. Vroman, "Estimates of Union Density by State," *Monthly Labor Review*, Vol. 124, No. 7, July 2001, pp. 51–55.
** Data on presidential election results was obtained from the Statistics of the Presidential and Congressional Election issued by History, Art & Archives of the U.S. House of Representatives.

Social and economic factors can affect a state's willingness to consider new ideas, especially in legislation that will affect its citizens. The various factors will vary depending on the purpose of the legislation. For example, Gray (1973) finds that the states with a wealthy population are more receptive to innovative legislation, while other studies find that the level of a state's unionization can impact the legal climate (Kau and Rubin, 1979; Kau and Rubin, 1981).[8] Research also indicates that hostility and prejudice against immigrants increases as the size

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6. New Jersey and Washington passed legislation to create a marketplace that would promote participation in low-cost, low-burden retirement programs offered by the industry. Neither program mandates employers participate in a state-based retirement program.

7. A brief summary of the structure of the plans created by the five states that passed legislation is provided in the appendix. For a more detailed review of the state-based plans, see Cole (2017).

8. Kau and Rubin (1979) find that the level of union membership in the state has a significant effect on almost all issues. As an ideological measure, Kau and Rubin (1981) utilize a measure of electoral margin of the congressman in the last election and the percentage voting for Nixon in the 1972 presidential election. The authors find that ideological variables are important in explaining voting.

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of the immigrant population increases (Alba, Rumbaut and Marotz, 2005). Also, when there is a well-established, high percentage population of minority within a state, legislation more inclusive of immigrants is likely to pass (Chavez and Provine, 2009).

Table 2:
Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Percent Establishments (< 5)	258	0.6009	0.0499	0.1700	0.8775
Percent Establishments (5 to 9)	258	0.1666	0.0169	0.1079	0.2039
Percent Establishments (10 to 19)	258	0.1134	0.0116	0.0767	0.1333
LN of Median Income	258	10.8759	0.1711	10.5165	11.4240
Percent Living in Poverty	258	0.1482	0.0321	0.0820	0.2420
Gross State Product	258	12.1913	1.0142	10.2243	14.7305
Percent 18 to 24	258	0.09935	0.006465	0.08354	0.12713
Percent 25 to 34	258	0.1330	0.0093	0.1105	0.1600
Percent 35 to 44	258	0.1247	0.0065	0.1099	0.1411
Percent 45 to 54	258	0.1383	0.0100	0.1034	0.1693
Percent 55 to 64	258	0.1286	0.0102	0.0903	0.1567
Educational Attainment	258	28.2868	4.8920	17.6000	40.5000
Percent Minority	258	0.1982	0.1215	0.0452	0.7436
Age-Adjusted Death Rate	258	7.5200	0.8589	5.8490	9.6370
Percent Unionized	258	10.5729	5.2291	2.0000	24.7000
Percent Democratic	50	0.4810	0.1018	0.2473	0.7015
Democratic Governor	258	0.3953	0.4899	0.0000	1.0000

In identifying characteristics that might impact a state's decision to explore the feasibility of or implement a state-based retirement plan, we draw upon relevant existing academic literature and studies, as well as factors that may impact the ability to save and/or relate to longevity risk. These characteristics include the size of employers, financial wealth, the age distribution of the population, educational attainment, the size of the minority population, life expectancy, the extent of union membership and the political environment. Results for the comparison of the states that proposed some bill to those that did not propose any bill related to state-based retirement programs is provided in Table 4.[9]

9. Because creating state-based retirement plans is a much larger endeavor than simply studying the issue or creating a marketplace, we re-run the analysis comparing the states that proposed creating a state-based retirement plan to other states. Though the size of the differences varies, the results of the comparisons are statistically similar to those reported here, with one exception; i.e., the percentage of the population 35 to 44 is not significant.

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Table 5 provides the comparison of states that did not pass a state-based retirement plan bill to those that passed a state-based retirement plan bill.

Table 3A:
Detailed Bill Activity

Year	State	Bill	Passed	Bill Purpose			
				Research Issue	Create MEP	Create State Plan	Create Market-place
2012	Massachusetts^	HR 3754	*			*	
2013	Maine	LD 1473				*	
2013	Nebraska	LR 344		*			
2013	Ohio	SB 199				*	
2013	Oregon	HB 3436	*	*			
2014	Arizona	HB 2063				*	
2014	Connecticut	SB 249				*	
2014	Illinois	SB 2758	*			*	
2014	Louisiana	SB 283				*	
2014	Minnesota	HF 2419	*	*			
2014	Minnesota	HF 2536	*	*			
2014	Vermont	S 193	*	*			
2014	Vermont	H 885	*	*			
2015	Colorado	HB 1235		*			
2015	Indiana	HB 1279				*	
2015	Indiana	SB 555				*	
2015	Kentucky	HR 261				*	
2015	Maine	LD 768				*	
2015	Massachusetts	H. 939				*	
2015	Massachusetts	H. 924			*	*	
2015	New Hampshire	HB 239		*			

^ This law applies to not-for-profit organizations only. As such, Massachusetts is not considered to have passed a bill establishing a state-based plan in the analysis.

As noted earlier, the larger the employer (measured in number of employees), the more likely the employer is to offer retirement savings plans. The U.S. Bureau of Labor Statistics (2017) notes that 50% of employers with one to 49 employees offer retirement savings plans, while 85% of employers with 100 or more employees offer retirement savings plans. The states that have passed state-based retirement plan legislation require employers to participate in the state plan unless they offer an employer-sponsored plan. As such, this legislation will predominately impact smaller employers. For this reason, we anticipate the states that propose and/or pass state-based retirement plan legislation will have a greater percentage of businesses with a small number of employees relative to other states. Because the states generally set the requirement for compliance at a fairly low

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level, we examine the percentage of establishments in the states with less than five, five to nine, and 10 to 19 employees.

Table 3B:
Detailed Bill Activity

Year	State	Bill	Passed	Bill Purpose	Year	State	Bill
2015	New Jersey	S 2831				*	
2015	New Jersey	A 4275				*	
2015	New Jersey	S 3261	*				*
2015	New York	INT 0692-2015		*			
2015	North Carolina	HB 515		*			
2015	North Dakota	HB 1200				*	
2015	Oregon	HB 2960	*			*	
2015	Oregon	SB 615	*			*	
2015	Rhode Island	HB 6080				*	
2015	Utah	SJR 9	*	*			
2015	Virginia	HB 1998	*	*			
2015	Washington	SB 5826	*				*
2015	West Virginia	SCR 58		*			
2015	Wisconsin	SB 45				*	
2015	Wisconsin	AB 70		*			
2012/2016	California^	SB 1234	*	*		*	
2016	Connecticut	HB 5591	*			*	
2016	Iowa	SSB 3164				*	
2016	Iowa	HF 2417				*	
2016	Maryland	HB 1378	*			*	

^ As noted in the appendix, while SB 1234 was passed in 2012, the creation of the state-based plan through the enactment of the California Secure Choice Retirement Savings Trust Act did not occur until 2016, following the review of studies on the issue.

As shown in Table 4, when we examine these variables in comparing the states that proposed some bill to states that did not propose any bill, there is evidence of significant differences. The states that proposed bills had more employers with fewer than five employees, but a smaller percentage of employers in the five to nine and 10 to 19 group. As reported in Table 5, when we consider the comparison of states that simply proposed a state-based retirement plan bill to those that were successful in passing a state-based retirement plan bill, we find similar results. The states that passed a bill have a significantly larger percentage of employers with less than five employees and a smaller percentage within the other two categories. This finding suggests that the states that exempt companies with fewer than five employees, such as California and Connecticut, could still have a significant percentage of workers not covered by a plan. In addition, it is likely that the states with a mandatory requirement for all companies, such as

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Oregon and Maryland, could have a larger impact in terms of the number of workers with access to a retirement plan of some type.

Table 4:
Comparison of States That Proposed a State-Based Retirement Plan Bill to Those That Did Not Propose a Bill

	No Bill States		Bill Proposed States		Comparison	
	Mean	SD	Mean	SD	Diff.	Sign.
Percent Establishments (< 5)	0.5916	0.0516	0.6084	0.0473	-0.0169	**
Percent Establishments (5 to 9)	0.1706	0.0147	0.1633	0.0180	0.0073	***
Percent Establishments (10 to 19)	0.1151	0.0091	0.1121	0.0131	0.0031	*
LN of Median Income	10.8255	0.1668	10.9164	0.1641	-0.0909	***
Percent Living in Poverty	0.1581	0.0333	0.1402	0.0287	0.0179	***
Gross State Product	11.9838	0.9806	12.3582	1.0132	-0.3745	**
Percent 18 to 24	0.0988	0.0040	0.0998	0.0079	-0.0011	
Percent 25 to 34	0.1331	0.0080	0.1330	0.0102	0.0001	
Percent 35 to 44	0.1236	0.0065	0.1255	0.0064	-0.0020	*
Percent 45 to 54	0.1362	0.0078	0.1399	0.0113	-0.0038	**
Percent 55 to 64	0.1278	0.0078	0.1292	0.0117	-0.0014	
Educational Attainment	26.2487	3.5281	29.9259	5.2201	-3.6772	***
Percent Minority	0.2373	0.1393	0.1668	0.0944	0.0705	***
Age-Adjusted Death Rate	7.7814	0.8817	7.3098	0.7817	0.4716	***
Percent Unionized	9.4148	5.4727	11.5042	4.8461	-2.0894	**
Percent Democratic	0.4504	0.0983	0.5071	0.0992	-0.0568	*
Democratic Governor	0.2609	0.4410	0.5035	0.5017	-0.2426	***
Observations	115		143		258	

National studies have consistently shown that individuals who do not have access to an employer-sponsored plan tend to be lower paid and younger workers (Moore 2016; Pew, 2016). The U.S. Bureau of Labor Statistics (2017) reports that of employees in the lowest 25% of average wages, only 45% have access to retirement savings plans at work. And, when considering the lowest 10% of wage earners, only 34% have access to employer-sponsored plans. Clearly, lower wage employees would benefit more from state-sponsored retirement plans. In addition, financial literacy among young adults is low. People with low financial literacy are less likely to plan for retirement (Lusardi and Mitchell, 2007). Lusardi, Mitchell and Curto (2010) find that less than one-third of young adults have basic knowledge of inflation, interest rates and risk diversification. For these reasons, we anticipate that the states with a higher percentage of their population living in poverty, with lower median incomes and lower gross state products will be more likely to propose state-sponsored retirement legislation and will be more likely to implement a state-sponsored retirement plan. We also expect the states with a greater percentage of younger residents will be more likely to pursue state-sponsored retirement programs. To capture potential differences in the age distribution of the population of states, we examine the percentage of the population in five age categories: 18 to 24; 25 to 34; 35 to 44; 45 to 54; and 55 to

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64. Because the focus is on funding for retirement, we focus on these age groups and omit those younger than 18, as they are unlikely to be full-time employees, and those 65 and older, as these individuals are retirement age.

Table 5:
Comparison of States that did Not Pass a State-Based Retirement Plan Bill to Those That Passed a State-Based Retirement Plan Bill

	No State Plan Bill Passed States		State Plan Bill Passed States		Comparison	
	Mean	SD	Mean	SD	Diff.	Sign.
Percent Establishments (< 5)	0.6033	0.0536	0.6400	0.0433	-0.0367	**
Percent Establishments (5 to 9)	0.1645	0.0157	0.1493	0.0220	0.0153	**
Percent Establishments (10 to 19)	0.1135	0.0133	0.1019	0.0138	0.0116	***
LN of Median Income	10.8977	0.1725	11.0260	0.1503	-0.1283	***
Percent Living in Poverty	0.1430	0.0297	0.1378	0.0289	0.0052	
Gross State Product	12.2889	0.8255	13.0638	0.8945	-0.7750	***
Percent 18 to 24	0.1002	0.0096	0.0968	0.0041	0.0033	*
Percent 25 to 34	0.1319	0.0083	0.1361	0.0081	-0.0042	*
Percent 35 to 44	0.1235	0.0059	0.1300	0.0038	-0.0065	***
Percent 45 to 54	0.1403	0.0094	0.1418	0.0096	-0.0016	
Percent 55 to 64	0.1297	0.0079	0.1273	0.0080	0.0024	
Educational Attainment	28.7671	5.4424	32.9808	3.1398	-4.2136	***
Percent Minority	0.1606	0.0779	0.2330	0.0959	-0.0724	**
Age-Adjusted Death Rate	7.4193	0.8503	6.8675	0.4090	0.5518	***
Percent Unionized	11.7200	4.0989	14.9731	2.0782	-3.2531	***
Percent Democratic	0.5029	0.0840	0.5843	0.0292	-0.0813	**
Democratic Governor	0.3286	0.4731	0.9231	0.2717	-0.5945	***
Observations	70		26		96	

Table 4 shows that the states that proposed some type of state retirement bill had higher median incomes and gross state products and lower poverty rates than other states that did not propose some type of state retirement bill. In addition, they also have a larger percentage of the population in the 35 to 54 age group. While similar results are observed in Table 5 as it relates to the financial measures (with the exception of the poverty variable), we find that the states that passed a state-based retirement plan bill have a larger percentage of the population in the 25 to 44 age group and a lower percentage of the population in the 18 to 24 age group, in comparison to the states that were not successful in passing such legislation. Collectively, these results are somewhat contrary to expectations.

The level of education attainment directly impacts financial literacy. Lusardi and Mitchell (2007) find that as the education level of an individual increases, so does financial literacy. The education level of a state's occupants may impact the need for a state-sponsored retirement plan. Higher-educated individuals are more likely to have access to an employer-sponsored plan. If this is the case, then the states that propose or pass legislation related to state-based retirement plans will have a less educated population. However, highly educated individuals understand the value of retirement programs and are more likely to understand the benefits of

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such a program for lower-income residents. Therefore, they may be more likely to support state-sponsored plan legislation, even if it is highly unlikely they would directly benefit. Our measure of educational attainment is the percentage of the population age 25 or older with at least a bachelor's degree. The results in both Table 4 and Table 5 support the latter argument. It appears the states that have proposed state retirement plan legislation or passed a bill to create a state-based plan have more highly educated populations. Because more educated individuals tend to have higher incomes, the education results may also explain the findings on the financial variables discussed in the preceding paragraph.

On the "Fast Facts on Retirement Insecurity" provided on the California plan's website, it notes that minorities make up a significant percentage of its population and that "(a)lmost half (47%) of workers in California likely to be eligible for Secure Choice are Latino" (Office of the State Treasurer, 2017). However, the results of empirical studies on the relation between race and participation rates in retirement plans are mixed (Springstead and Wilson, 2000; Shuey, 2004). This suggests that while some states that propose and/or pass state-based retirement plan legislation would have larger minority populations than other states, this may not be true for all states. The results of Table 4 indicate that the states that have proposed bills of some type have a lower minority population. However, we find that the states that passed a state-based retirement plan bill do indeed have a significantly larger minority population (approximately 23% compared to 16%).

The life expectancy of the population can greatly impact the amount of retirement income needed such that individuals do not outlive savings. Over time, life expectancy has increased (U.S. Census Bureau, 2017). Because individuals with a longer life expectancy may have a greater need for retirement income, we would expect that the states that have proposed or passed legislation would have lower age-adjusted death rates than other states. This is, in fact, what we find. As shown in Table 4, residents of the states that proposed state retirement plan legislation live longer than residents of the states that have not proposed any such legislation. We find similar results in the Table 5 comparison.

The U.S. Bureau of Labor Statistics (2017) reported that in March of 2017, while 66% of non-union workers have a retirement plan provided by their employer, 94% of union workers do. The positive relation between unions and employer benefits has been documented in the academic literature (Belman and Heywood, 1991; Budd, 2004). Given this information, we expect the states that propose and/or pass legislation related to state-based retirement plans will have a lower percentage of union membership, as the residents of these states may be less likely to have access to employer-sponsored plans. Alternatively, there is empirical evidence that the states with larger union memberships are associated with greater voter turnout and "electoral alternatives that are farther to the left" (Radcliff and Davis, 2000). This suggests that the states with a stronger union presence will be associated with behaviors that favor social equality. In this case, we would expect the states that propose and/or pass legislation will have a larger percentage of workers participating in unions. We find the latter to be the case in

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both comparisons. As reported in Table 4 and Table 5, both the states that proposed some type of bill and the states that passed a state-based retirement plan bill have larger percentages of union membership when compared to other states. We also find that the difference is greater when comparing the states that passed a state-sponsored plan bill compared to those that proposed but did not successfully pass such a bill.

Government structure and political parties can impact the type of legislation proposed and passed by states (Owens, 2003; Carey, 2007). As such, it is possible that if one political party strongly supports state-based retirement plans and the leadership in the state is a member of that party and/or if the population (evidenced by voting data) strongly favors that party, then we may see more legislative activity in that state. Based on the comments of legislators, it appears that more Democrats supported state-based retirement programs while Republicans were generally against them (Lobosco, 2017, Weiland, 2017). As such, if we see differences along party lines, we would expect the states that proposed or passed state-based retirement plan legislation to have a Democratic governor and/or a larger percentage of the population supporting Democratic candidates. The results presented in Table 4 and Table 5 provide evidence that the states that have proposed some legislation or successfully passed a bill to create a state-based retirement plan have a larger Democratic presence than other states. This difference is substantial in the states that passed bills to create state-based retirement plans, with 92% of these states having a Democratic governor.

Conclusion

Currently, more than 55 million Americans are without a workplace retirement account and there is growing concern that a majority of working Americans are not adequately saving for retirement (Weiland, 2017). To address this concern, some states have proposed legislation to create state-based retirement programs. Although the concern regarding retirement savings is widespread, only a few states have been successful in passing legislation to create these retirement programs. The purpose of this research is to consider some of the decisions the states must make when establishing a state-based retirement program and provide some discussion as to how these decisions may impact participation rates and cost. This discussion is important given that if expected participation rates are too low and/or costs too high, these programs will not be viable. We also investigate the characteristics associated with the states that proposed and/or implemented state-based retirement plans versus those that have not.

We find that for the same reasons employer-sponsored plans are trending toward more defined contribution plans, the states have focused their efforts on evaluating the viability of these types of plans. We also find that there are a number of important factors the states must consider when evaluating the decision to create a state-based retirement plan. Decisions related to plan provisions, such

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as contribution rates and investment options, can significantly impact the feasibility of these programs.

Our comparisons suggest that there are systematic differences between the states that proposed state-based retirement accounts and those that did not. For instance, residents of the states that proposed legislation tended to have higher average income and education level, as well as a longer life expectancy. These states also have a larger percentage of unionized workers, a stronger Democratic presence, a lower poverty level and a lower percentage of minorities. We further find that differences exist between the states that implemented proposed legislation and those that have not yet passed their bills. Similar to the prior comparisons, we find differences in financial wealth, educational attainment, life expectancy, unionization and political ideology. We also find that the states that enacted the legislation had a larger percentage of employers with five or fewer employees.

Based on these comparisons, the states that tend to favor equity, such as those with a stronger union presence and a stronger Democratic presence, are those that have pursued and/or passed state-based retirement plan legislation. It also appears that the states with a larger percentage of smaller employers and longer life expectancies have pursued and/or passed legislation related to state-based retirement plans. These are states that are likely to have more citizens with inadequate retirement savings, as smaller employers are less likely to provide retirement benefits and more citizens are subject to more longevity risk.

The future of state-based retirement plans is still unknown. Political turmoil between Democrats and Republicans continues to affect various government programs, including the automatic IRA. Although President Donald Trump signed a measure on May 17, 2017, that may slow the adoption and implementation of state-based retirement plans (Iacurci, 2017), this has not stopped some states from continuing to pursue this type of legislation. In June 2017, the governor of Vermont signed into law Senate Bill 135, which establishes a voluntary MEP for employers with 50 or fewer employees. Opponents of state-based plans "fear that giving states freedom to set up programs would impose conflicting and burdensome mandates on private-sector businesses of all sizes and eliminate long-standing federal retirement protections for workers provided under ERISA" (Bradford, 2017). On the other hand, those in favor of these plans simply point to the 55 million Americans that do not have access to workplace retirement plans as a reason to continue moving forward.

For the states that have already passed legislation to create state-based retirement programs—California, Connecticut, Illinois, Maryland and Oregon—the plan is to continue to move forward with implementation (Iacurci, 2017). Oregon State Treasurer Tobias Read stated that "(t)he need to address the oncoming retirement crisis is too great" to not move forward (Thornton, 2017). In a joint statement with Read, California state Sen. Kevin de León (D-Los Angeles) stated that "the California Secure Choice program stands on firm legal and statutory ground and will proceed without delay" (O'Brien, 2017).

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Another 30 states are contemplating state-based retirement plans (Thornton, 2017). While the analysis in this study provides some information on the states that may be more likely to pursue state-based retirement legislation, as noted in earlier discussions, there are a number of decisions that need to be made that will impact the viability of such plans. With the recent termination of the myRA program, the success of the early adopting states may affect the decision of other states to move forward.

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Appendix

In September 2012, California became the first state to pass legislation to enact an automatic IRA program (Moore, 2016; Cole, 2017).[10] The act created the California Secure Choice Retirement Savings Investment Board, which was responsible for the design and management of the new plan, called the California Secure Choice Retirement Savings Program. The plan applies to all employers with five or more employees that do not offer another retirement savings option for their employees (Pension, 2016).[11] Employees will automatically be enrolled in the program; however, they can opt out. For each employee enrolled, an IRA will be established and the default contribution rate will be 3%. The board has the authority to change the default contribution from 2% of salary to 5% (Pension, 2016). Employees also have the option to adjust their contribution rates (Pew, 2016). Automatic escalation of the contribution rate is permitted up to a maximum of 8% (Cole, 2017). Assets would be invested in managed accounts or other low-risk investment options, with other investment options available in the future. No minimum rate of return is guaranteed and employees will be charged management fees. Finally, although the plan implementation date was originally Jan. 1, 2017, this has been revised to 2019.[12]

Illinois and Oregon became the next states to pass legislation for the purpose of creating a state-based retirement plan in 2015. The Illinois Secure Choice Savings Board was charged with implementing the program and hiring an external investment advisor. The participation requirement for employers in Illinois is at least 25 employees. This is greater than any other state, subjecting substantially fewer small businesses to this law. Enrollees in the plan will be placed in a Roth IRA with a target date investment option, with other investment options available (Cole, 2017). The accounts will be subject to low fees (Pension, 2016). Like California, the default contribution rate is 3%; however, the employees can elect alternative contribution levels and employees have the ability to opt out. No minimum rate of return is guaranteed. Similar to California, the implementation date has been pushed back and is expected to begin with a pilot program in 2018.[13]

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10. While SB 1234 was passed in 2012, the creation of the state-based plan through the enactment of the California Secure Choice Retirement Savings Trust Act did not occur until 2016, following the review of studies on the issue.

11. The requirement to participate in the state plan will be phased in over a three-year period. The phase-in will depend on the employer's size. Within 12 months after the plan starts, employers of 100 or more employees must have an arrangement to allow employees to participate in the plan. Beginning 24 months after the start of the program, employers of 50 or more employees must participate. Beginning 36 months after enrollment, the size of employer covered by the mandate drops to those with five or more employees.

12. Refer to the California State Treasurer's Office website, *www.treasurer.ca.gov/scib*, to learn more about the implementation of the California Secure Choice Retirement Savings Program.

13. Refer to the Illinois State Treasurer website, *http://illinoistreasurer.gov/Individuals/Secure_Choice*, to learn more about the program.

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State Retirement Plan Summary of Key Characteristics

	California	Illinois	Oregon	Connecticut	Maryland
Bill	SB 1234	SB 2758	HB 2960	Public Act 16-29	HB 1378
Passed	2012/2016	2015	2015	2016	2016
Oversight	Secure Choice Board	Secure Choice Savings Board	Oregon Retirement Savings Board	Connecticut Retirement Security Authority	Maryland Small Business Retirement Savings Board
Effective	2019	2018	2017	Unknown	Unknown
Mandatory	Yes	Yes	Yes	Yes	Yes
Employee Requirement	5	25	None	5	None
Products	IRA	Roth IRA	Roth IRA	Traditional or Roth IRA	IRA
Opt-Out	Yes	Yes	Yes	Yes	Yes
Automatic Enrollment	Yes	Yes	Yes	Yes	Yes
Default Contribution Rate	3%	3%	5%	6%	Not defined
Escalation	Yes	No	Yes	No	No

The Oregon Retirement Savings Plan (called "Oregon Saves") is similar to the other two state plans, with two major differences: 1) the default contribution rate is 5%; and 2) it applies to all employers. The plan also includes an auto-escalation provision up to 10%. The default investment option is an age-based fund (i.e., target date) and a 1% fee covers the operating expenses of the investment funds. There is no minimum guarantee for performance. This program appears to be the furthest along in the implementation process. A pilot program became effective in July 2017 and the remainder of the program will be phased in based on the number of employees, with full implementation occurring by 2019 or 2020.[14]

Finally, in 2016, Connecticut and Maryland passed comparable state-based retirement plan bills. The Connecticut plan is most similar to the California plan. It applies to all employers with five or more employees who do not offer another retirement savings option for their employees and the default contribution rate is 3% (Pension, 2016). However, there is no escalation provision for the contribution rate and no minimum rate of return is guaranteed. The automatic enrollment plan will allow either a traditional or Roth IRA.[15] In Maryland, the Maryland Small Business Retirement Savings Board was established to manage its state-sponsored retirement plan. This state has the largest board, at 11 members (Cole, 2017).[16] The original bill established a minimum requirement of 10 employees for participation; however, in the final version of the bill, similar to Oregon, all employers that do not maintain an employer-sponsored retirement plan must participate and expenses must be limited to 0.5% of funds under management (Pension, 2016 and Cole, 2017). The board has been charged with establishing

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14. Information was obtained on the program website: *www.oregonsaves.com*.

15. Information obtained from the State of Connecticut Retirement Security Board's website at *www.osc.ct.gov/retirementsecurity/index.html*.

16. The Maryland Board is made up of three members appointed by the governor, three appointed by the Senate president and three appointed by the House speaker. Two members serve ex officio. Refer to *http://msa.maryland.gov/msa/mdmanual/25ind/html/66smallbusret.html* to learn more about the board and the act.

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default contribution rates and investment options, but no information appears to be available on these provisions.

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