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TESTIMONY BY RODERICK K. BECKER
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON FINANCE
ON
SENATE BILL NO. 1374, S.D. 2, H.D. 1

March 29, 2019
3:30 p.m.
Room 308

RELATING TO THE HAWAII RETIREMENT SAVINGS PROGRAM

Senate Bill (S.B.) No. 1374, S.D. 2, H.D. 1, establishes the Hawaii Retirement Savings Program for private sector employees who do not have access to an employer-sponsored retirement program and sets operating and reporting requirements for the program. The bill also establishes the Hawaii Retirement Savings Program Administrative Fund and appropriates unspecified amounts of general funds and special funds in FY 20 and FY 21 for the program's administrative and operating expenses.

The Department of Budget and Finance (B&F) supports the intent of S.B. No. 1374, S.D. 2, H.D. 1; however, we believe that specifying the program parameters (page 4, line 2, to page 6, line 11) prior to conducting an implementation study and performing other necessary due diligence tasks may not be the best way to develop and implement a realistic and successful retirement savings program.

With a program of this importance and magnitude, we believe that it would be prudent to approach implementation in two steps. Therefore, we strongly recommend that:

- First, a working group be established to define workable program parameters and an implementation strategy.
- Then, after that groundwork has been completed, the Legislature would enact the retirement plan parameters and the plan be implemented.

This approach, we believe, will provide a process to make informed choices on program design and make the retirement program much more manageable to implement.

We would also strongly recommend that a five- to seven-member board (Illinois, California, Oregon and Connecticut) be established to oversee the retirement program rather than the Director of Finance. The board should represent small business interests, non-organized labor interests and the general public – these are the intended beneficiary groups of the program. B&F staff can support the board with professional assistance from professional consultants as necessary.

Attached for the Committee's information are feasibility studies conducted by Illinois and Oregon. It is recommended that a comparable third-party evaluation be conducted here as part of the working group's efforts.

Thank you for your consideration of our comments.

Attachments

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Feasibility Study: Illinois Secure Choice

March 2017

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Executive Summary

Over 2 million workers in Illinois do not have access to a plan such as a 401(k), because their employers do not offer one. The Illinois Secure Choice Program (“Secure Choice”) will require employers with 25 or more employees to automatically enroll their workers into a state-sponsored program of Individual Retirement Accounts (“auto-IRAs”), expanding access to some 1.2 million Illinois workers.

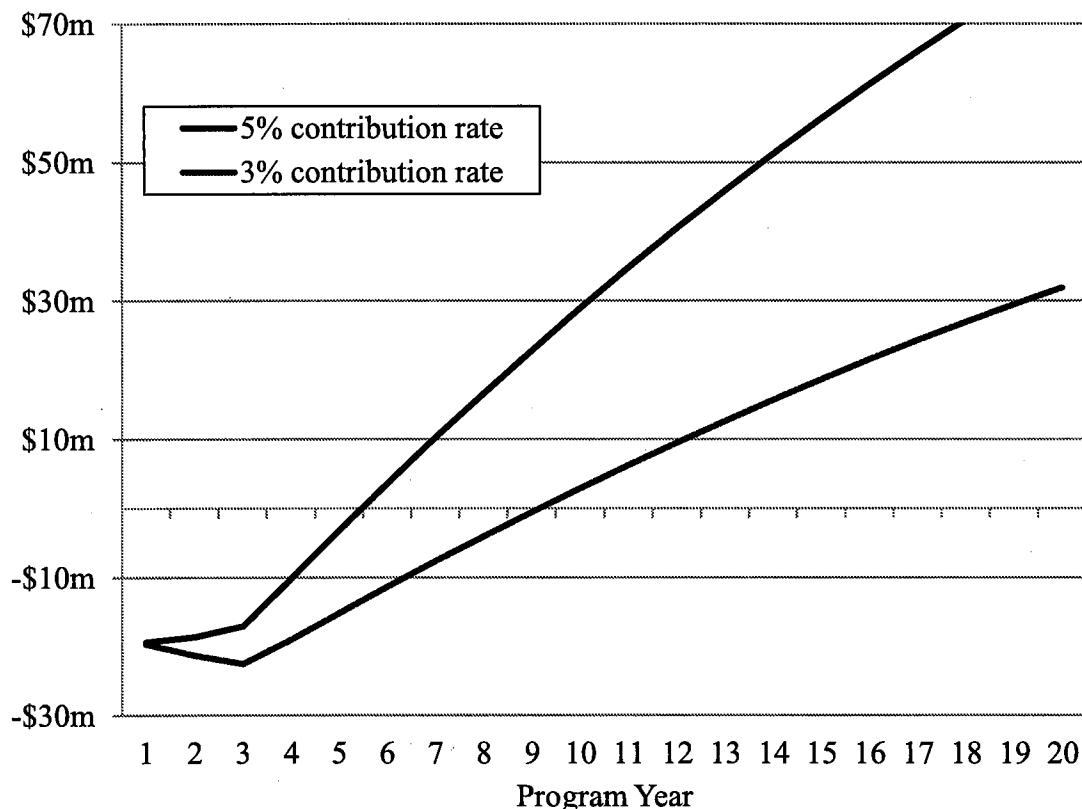
Secure Choice – which will be administered by private sector companies with state oversight – faces one significant challenge: the program must pay for itself. Addressing this challenge is difficult because, in the beginning, program costs will rise more rapidly than revenues. Costs are driven by the number of accounts, and the program is expected to enroll many participants in the initial years. In contrast, revenues are driven by assets under management, which are initially low since employee contributions and investment returns take time to accumulate. Overcoming this challenge will be especially difficult in Illinois because the Secure Choice statute sets a relatively low default contribution rate of 3 percent and a fee-cap of 0.75 percent of asset under management (75 basis points).

As a result, this study projects that it will take 10 years for Secure Choice to have enough revenue from its fees to pay for ongoing administrative costs, and another eight years for operating profits to cover losses incurred during those first 10 years. In other words, under current law the program will need 18 years to be profitable to a service provider. Since Illinois law sets a 10-year contract limit, service providers may be less likely to bid for recordkeeping responsibilities. At the same time, Secure Choice has the advantage of scale and should clear \$1 billion in assets – a benchmark used by other states to determine program feasibility – in less than three years. And this report will also show that Secure Choice will become more attractive to potential plan administrators if it has a higher default contribution rate.

To illustrate how finances depend on the contribution rate, Figure 1 shows the number of years before annual revenue from the program covers annual costs under two default contribution rates: 1) 3 percent, per current statute; and 2) 5 percent, which Oregon (another state implementing an auto-IRA) is using. By increasing the default contribution rate from 3 percent to 5 percent,

Secure Choice can “break even” and begin paying off its initial losses four years earlier – without significantly lowering participation in the program.¹

Figure 1. *Difference between Ongoing Revenue and Costs of Secure Choice, in Millions*



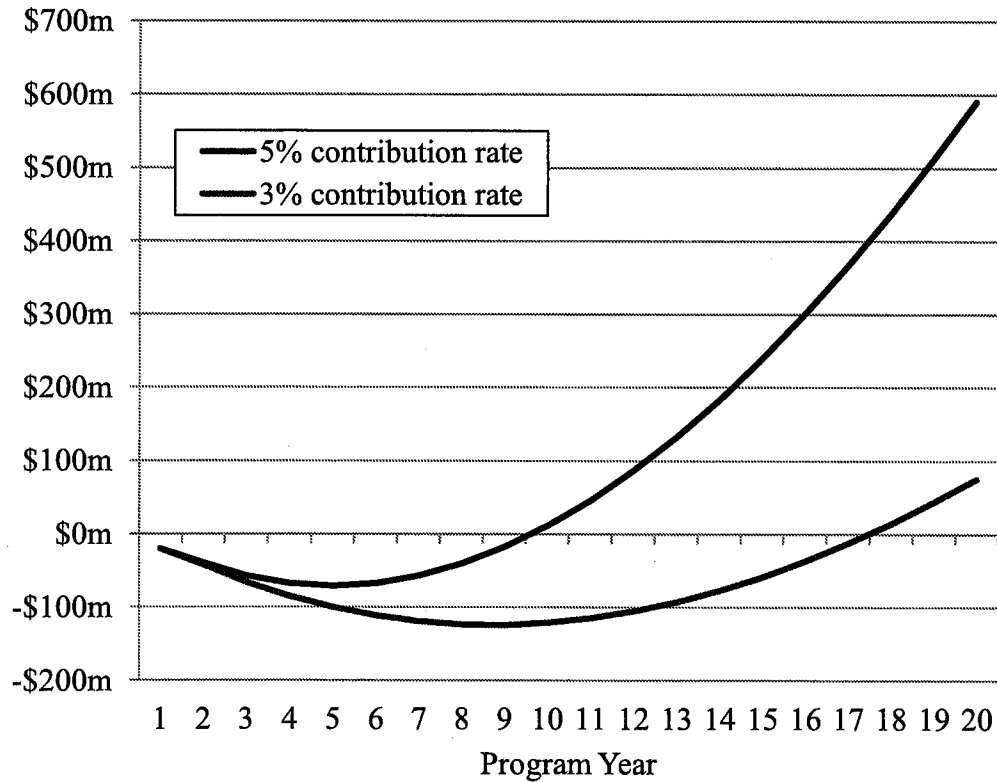
Source: Center for Retirement Research at Boston College (CRR) calculations.

The four-year head start in achieving operating profits with a 5-percent default contribution rate also results in an eight-year reduction in the time it takes for the program to pay off start-up costs and reduces the program’s cumulative losses. Figure 2 illustrates the cumulative deficit from both the ongoing costs and the fixed start-up costs under the two contribution rates. This deficit is one measure of the risk a private sector firm may perceive when bidding on the program. With a 5-percent default contribution, this risk is considerably less at \$71 million, compared to \$124 under a 3-percent default contribution. The figure also shows that with a 5-percent default rate the program

¹ A number of studies have shown that workers automatically enrolled into retirement plans with contribution rates between 3 percent and 6 percent participate at almost identical rates (e.g. Choi and Madrian, 2002, Vanguard, 2012, Belbase and Sanzenbacher, 2016, etc.)

becomes profitable in Year 10, versus Year 18 with a 3-percent default. In other words, Secure Choice can be profitable within the 10 years required if the default contribution rate is increased. While the results of this analysis do not automatically mean that the state will not get interest from providers under the current default rate of 3 percent – the sheer size of the Secure Choice program may attract bidders who think they can keep costs lower than assumed in this study – it does suggest that the program’s attractiveness to potential service providers can be improved significantly with a relatively simple change that is unlikely to harm participation (and likely to boost retirement security).

Figure 2. *Running Secure Choice Net Profits, in Millions*



Source: CRR calculations.

Feasibility Study

Introduction

Very few workers save for retirement unless their employer offers them a retirement plan, typically a 401(k). In Illinois, employers for more than 2 million workers do not offer such a retirement plan. The Illinois Secure Choice Program (“Secure Choice”) will require certain employers without plans to automatically enroll their workers in a state-sponsored program of Individual Retirement Accounts (“auto-IRAs”), expanding access to approximately 1.2 million Illinois workers. Secure Choice – which will be administered by private sector companies with state oversight – faces one significant challenge: the program must pay for itself to be attractive to private sector administrators. Addressing this challenge is difficult because, in the beginning, program costs will rise more rapidly than revenues. Costs are driven by the number of accounts, and the program is expected to enroll many participants in the initial years. In contrast, revenues are driven by assets under management, which are initially low as employee contributions and investment returns take time to accumulate. Because the maximum length of such a contract in Illinois is 10 years, and because the state cannot take on any liability associated with the program, having a program that becomes profitable within a decade will be important to attract bids from potential service providers.

To evaluate how attractive Secure Choice will be to private sector providers, this study will use two metrics. The first metric is the time it will take for the program to become cash positive or “self-sufficient,” i.e., for the revenue generated by account balances from the fee to exceed the cost of maintaining the accounts. The second metric is the time needed for the program to become net positive, i.e., to generate enough revenue to pay back the cost of starting up the program, including the initial losses. Both metrics can be influenced by parameters within the state’s control, such as the default contribution rate, and parameters outside of the state’s control, such as the costs a provider anticipates incurring to run the program or the behavior of participants regarding withdrawals.

The goal of this study is to present how these two metrics look under the current parameters of the program – a default contribution rate of 3 percent and a fee on assets of 75 basis points – as well as under alternate scenarios. In particular, the study emphasizes how using a 5-percent default contribution rate would improve the economics of Secure Choice without significantly reducing participation in the program.

This study's financial projections rely on a number of assumptions about program design. For example, the projections assume that account holders' money is invested in a blended target date fund and that employers who offer no retirement plan are required to automatically enroll their employees in a Roth IRA in a staggered manner: in Year 1, employers with 100+ employees will be enrolled; in Year 2, employers with 50+ employees; and in Year 3, the remaining employers.²

The study also makes assumptions about population growth, worker participation, worker mobility, and withdrawals. Perhaps the most important of these is the assumption that the majority of workers will participate in the program – our market research suggests that 88 percent of full-time and 85 percent of part-time workers will participate. The justifications for these assumptions are discussed in the Appendix. Because the final program design has not been determined and because any one assumption may differ from reality once the program is implemented, the study will also test the sensitivity of its results to changes in participation, costs, account closures, and other assumptions. The analysis will pay particular attention to program participation rates under alternative defaults, since increasing the default from 3 percent to 5 percent is one way to improve the program's finances.

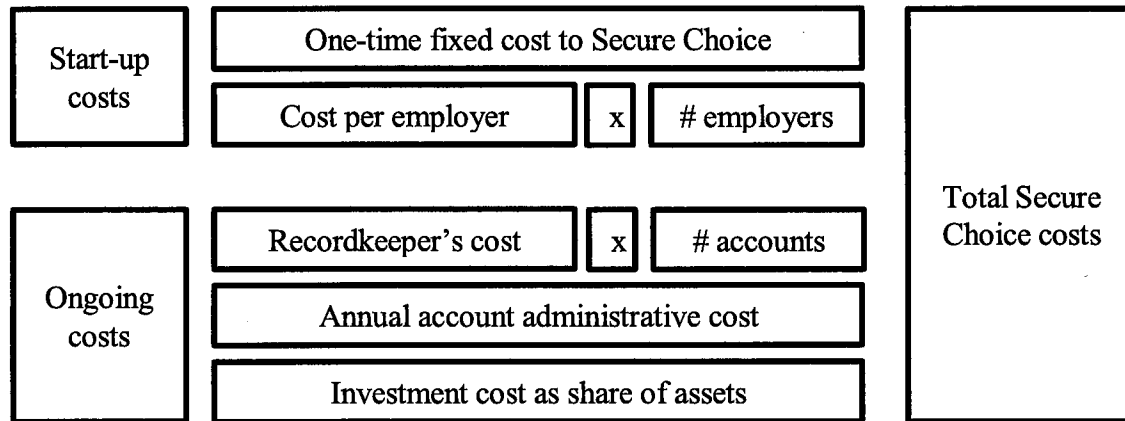
This report is organized as follows. The first section estimates the start-up and ongoing costs of Secure Choice. The second section estimates program revenue, which is ultimately collected as a fraction of total account balances and which, in turn, depends on worker participation, the contribution rate, asset returns, and account withdrawals. The third section projects how costs and revenue will interact to determine when the program becomes self-sufficient and when any initial losses will be covered. The fourth section provides insight into how alternative fees might affect estimates of the time needed to break even. The final section concludes that, under the initial assumptions for program design, it will take more than 10 years for the program to become profitable, but that increases to the default rate or fee could bring the time to profitability within the maximum contract length.

² Secure Choice may be rolled out in a slightly shorter amount of time than indicated here (two years instead of three). This change will not significantly affect the numbers presented in this report.

Program Costs

Secure Choice's costs fall into two categories: 1) the start-up costs associated with creating the program and bringing on employers; and 2) the ongoing administrative costs associated with maintaining accounts, serving participants, and managing investments. Figure 1 illustrates these costs schematically, highlighting two drivers of start-up costs: 1) the number of employers that will be brought into Secure Choice; and 2) the number of accounts that must be administered.

Figure 1. *Secure Choice Costs*



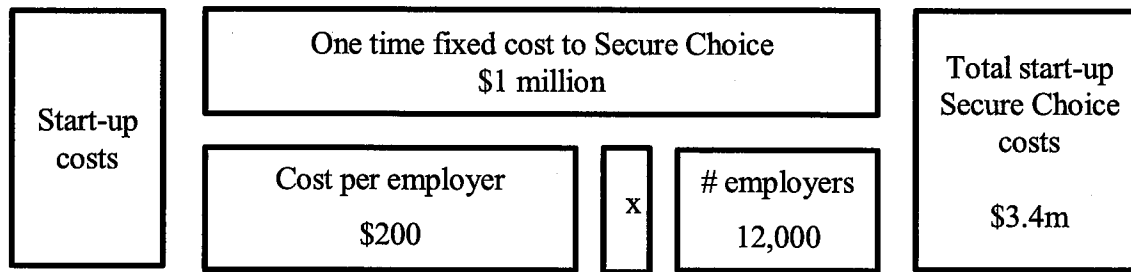
Start-up Costs

Start-up costs reflect two basic facts: 1) an auto-IRA program like Secure Choice does not currently exist; and 2) one of a third-party recordkeeper's biggest costs is connecting to individual employers. The first fact means that the initial fixed cost of developing Secure Choice's required infrastructure will need to either be paid by Secure Choice itself or borne by a recordkeeper. Based on information from auto-IRA studies for other states, as well as consultations with the Secure Choice Board, the fixed cost of developing the infrastructure to run the program was assumed to be \$1 million. The second fact means that the recordkeeper must anticipate an additional cost to enroll each employer. After consultation with Segal, the study assumes an average enrollment cost of \$200 per employer.³ Although Illinois has over 150,000 employers that do not offer a retirement plan, just over 14,000 of these have 25 or more employees and have been in business for two or

³ Adding new employers involves getting information from an employer to a recordkeeper to auto-enroll workers and set up accounts, as well as setting up an interface between an employer's payroll system and the recordkeeping platform to process ongoing payroll deductions.

more years, as required by the mandate. The study further assumes that 20 percent of these employers will decide to offer a private sector plan instead of enrolling its employees in Secure Choice. The end result is that the study assumes roughly 12,000 employers will need to be enrolled in the program.⁴ Figure 1A updates Figure 1 to include these start-up costs.

Figure 1A. *Summary of Start-up Costs*



Ongoing Costs

The next driver of overall cost is the per-account administrative cost, which the recordkeeper incurs to keep track of account funds and to provide statements, cover call centers, and maintain the program’s website for the account holders. The administrative cost also covers the transaction costs associated with money coming into the program and money going out of the program through distributions. After consultation with Segal on the operating models being considered, this report assumes a per-account cost of \$30 per year.

The contribution of account administrative costs to Secure Choice’s total costs largely depends on the number of accounts. In this study, two types of accounts exist: active and inactive. In active accounts, an individual is working for an employer without a plan and is contributing to the plan. Inactive accounts are held by someone who is no longer employed at an eligible employer but who has not closed out his account. Given the initial scenario, the number of active accounts is presented in Table 1.⁵

⁴ The start-up costs associated with connecting employers to Secure Choice is paid over the first three years of the program, as it is rolled out to more employers.

⁵ For a more detailed description of these estimates, see the Appendix.

Table 1. *Number of Active Full- and Part-time Participants in Secure Choice*

	Year 3	Year 5	Year 10	Year 15	Year 20
Full-time	714,000	721,000	739,000	758,000	777,000
Part-time	169,000	171,000	175,000	180,000	184,000
Total	883,000	892,000	914,000	938,000	961,000

Source: CRR calculations.

Inactive accounts are assumed to come from two types of employees who exit the program and do not close their accounts: 1) workers who become unemployed; and 2) workers who switch to an employer that offers a retirement plan. The rates at which individuals transition from active to unemployed and from active to ineligible appear in the Appendix and are based on the *Survey of Income and Program Participation* (SIPP); the basic assumption is that 85 percent of active accounts remain active each year, while 9 percent become inactive.⁶ The number of inactive full- and part-time accounts is shown in Table 2.

Table 2. *Number of Inactive Full- and Part-time Participants in Secure Choice*

	Year 3	Year 5	Year 10	Year 15	Year 20
Full-time	75,000	131,000	207,000	245,000	266,000
Part-time	28,000	44,000	64,000	73,000	77,000
Total	103,000	175,000	271,000	318,000	343,000

Source: CRR calculations.

Combining Tables 1 and 2 and assuming the \$30 per-account administrative cost allows the calculation of total account administrative costs shown in Table 3. Because these administrative costs are sensitive to several assumptions made so far, Box 1 highlights how costs would change under alternative assumptions.⁷

⁶ The remaining 6 percent of accounts close, which is discussed in more detail in the revenue section of this report. Once inactive, some workers do reenter the program. Each year, 5 percent of inactive workers in the covered sector are assumed to return to eligibility, and workers who become unemployed are assumed to reenter the program the next year. For more details, see the Appendix.

⁷ It is worth noting that Table 3 shows administrative costs under a default contribution rate of 3 percent. Although the default rate does not influence costs directly, CRR research indicates that slightly more people will opt out under a 5 percent default than a 3 percent default, reducing the account administrative costs. However, the reduction in participation is relatively small (about 1 percentage point), so costs under a 5-percent contribution are not shown.

Table 3. *Annual Account Administrative Costs*

	Year 3	Year 5	Year 10	Year 15	Year 20
Active accounts	883,000	892,000	914,000	938,000	961,000
Inactive accounts	103,000	175,000	271,000	318,000	343,000
Total accounts	886,000	1,067,000	1,185,000	1,256,000	1,304,000
x cost per	\$30	\$30	\$30	\$30	\$30
Account admin. costs	\$26.9m	\$32.0m	\$35.6m	\$37.7m	\$39.1m

Source: CRR calculations and discussions with Segal.

Box 1. *Account Administrative Costs under Alternative Assumptions*

Because administrative costs are driven by the number of accounts, costs are lower with fewer accounts. For example, assume that participation is 50 percent, and 50 percent of workers exiting the program close their accounts (rather than the initial assumption of 85-88 percent participating and 20 percent closing accounts). In this case, by program Year 20, there would be 676,000 accounts resulting in account administrative costs of \$20.3 million, rather than \$39.1 million under the initial scenario. Of course, these assumptions also reduce program assets and revenue substantially (see Box 2).

Going back to the original assumptions on participation and closures, should per-account costs increase from \$30 to \$35, administrative costs would increase substantially by Year 20, to \$45.6 million, demonstrating the importance of controlling the per-account cost.

In addition to the cost per account, other yearly costs include general operating costs such as program governance, the costs of communicating with employers and employees across Illinois, and staffing. Unlike the per-account costs, these costs are not assumed to be a function of the number of accounts and remain roughly constant over the life of the program.⁸ Table 4 shows the assumed costs associated with the state's administrative operation, reflecting CRR consultation with the Secure Choice Board. In addition to the cost per-account, Secure Choice will cost roughly \$1 million dollars per year to run.

⁸ In practice, we assume that the cost of governance and communication grows 1 percent faster than inflation, and the cost of staffing grows 2 percent faster than inflation over the course of the program.

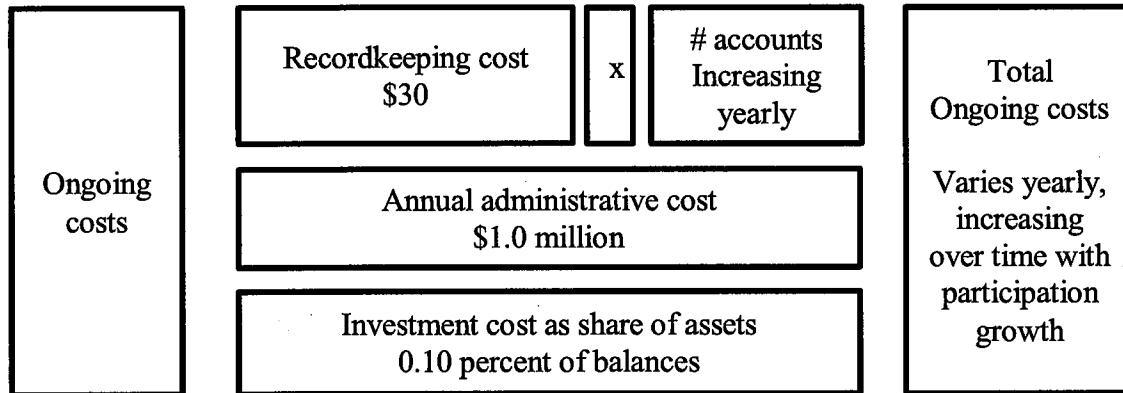
Table 4. *Yearly Program Administrative Costs*

Administrative task	Yearly cost
Governance	\$150,000
Communication/publications	\$450,000
Staff	\$400,000
Total	\$1,000,000

Source: CRR discussions with Secure Choice.

The final type of cost associated with the program is the fee for investment management. This cost is simply a fraction of participants' total account assets under management. Because it is assumed Secure Choice will have investment options with limited management (such as a Target Date Fund) and because Secure Choice is expected to achieve significant scale, these costs are assumed to be relatively low, at one-tenth of 1 percent or 10 basis points. Figure 1B fills in the ongoing costs portion of Figure 1.

Figure 1B. *Summary of Ongoing Costs*



Figures 1A and 1B summarize the total costs of Secure Choice. While these costs are high initially due to fixed costs, they also contain a component that increases over time with the number of accounts. Thus, to be feasible, Secure Choice must quickly generate revenue to cover its fixed costs and ultimately have higher balances per account so that the \$30 fee can be covered by the fee on assets, which under statute is limited to 0.75 percent of assets (75 basis points). The next section will discuss whether these conditions are likely to be met.

Program Revenue

The feasibility of Secure Choice largely comes down to the ability of revenue to exceed ongoing costs in a relatively short time. After this “breakeven” point is reached, the program can begin to pay back the start-up costs highlighted above, along with any losses incurred during the initial period when ongoing costs exceeded revenue. This part of the study estimates the revenue generated by the program, given the initial assumptions laid out above and in the Appendix. Since fees are estimated as a percentage of assets under management, this section analyzes what will drive the underlying asset levels: 1) how much money participants contribute to the program each year; 2) how much money exits the program through participant withdrawals and account closures; and 3) how much assets grow through investment returns. The section closes by describing how account balances can be expected to accumulate over time.

Contributions to the Program

Contributions are generated by the active accounts laid out in Table 1 above. The total dollars contributed depend on two factors: 1) the contribution rate of each participant; and 2) the average participant’s income. Due to the current statutory language, the initial scenario assumes participants are enrolled at a contribution rate of 3 percent of gross pay, with an alternative scenario of 5 percent. To determine the contribution amount, the contribution rate is applied to the average income of full- and part-time workers in Illinois (based on the *Current Population Survey*): \$38,500 for full-time workers and \$11,000 for part-time workers.⁹ Given the number of active accounts, the contribution rate, and the average wage, Table 5 shows the projected contributions to the program by full- and part-time workers in various program years under the two default contribution rates under consideration.

⁹ These are participation-weighted averages by age, reflecting the fact that older workers have higher wages but are also more likely to opt out. If the wage were calculated as a simple average, it would be higher. These average wage calculations also eliminate anyone earning over \$117,000 a year, as these individuals may not be eligible for a Roth IRA.

Table 5. *Estimated Annual Contributions to Secure Choice, in Millions*

	Year 3	Year 5	Year 10	Year 15	Year 20
<i>3-percent default</i>					
Full-time	\$824.5	\$832.7	\$853.7	\$875.3	\$897.4
Part-time	55.2	55.7	57.1	58.6	60.0
Total	879.7	888.4	910.8	933.9	957.4
<i>5-percent default</i>					
Full-time	\$1,356.7	\$1,370.3	\$1,404.9	\$1,440.4	\$1,466.7
Part-time	90.7	91.6	94.0	96.3	98.8
Total	1,447.4	1,461.9	1,498.9	1,536.7	1,565.5

Source: CRR calculations.

Account Withdrawals and Growth

Once money is contributed to an account, it can exit the plan in one of two ways: 1) through in-service withdrawals that occur even when a participant is not closing his/her account; or 2) through account closures (cash-outs). In-service leakages, including withdrawals and account closures, typically average around 1 percent of total 401(k) plan assets, and that rate is assumed here.¹⁰ However, account closures are likely to be more frequent in Secure Choice than in 401(k)s, because workers covered by Secure Choice are more mobile than 401(k) participants and are more likely to become unemployed. This study assumes that 20 percent of workers either becoming unemployed or exiting Secure Choice-covered work (by switching to an employer that offers a retirement plan) close their Secure Choice account. Additionally, the study assumes any worker retiring or moving out of Illinois closes their account. Estimates of the rate at which these events occur are provided in the Appendix, but the net result is that, in any given year, 6 percent of Secure Choice accounts are likely to close.¹¹

Regarding investment returns, the study initially assumes that money in the plan is invested in a blended fund with an average rate of return of 5 percent annually. Consistent with the current statute, the study also assumes an initial fee level of 0.75 percent, so that the net-of-fees return is 4.25 percent.¹² Figure 2 shows how assets are estimated to accumulate over time in Secure Choice

¹⁰ Sensitivity to this assumption is tested later in the study.

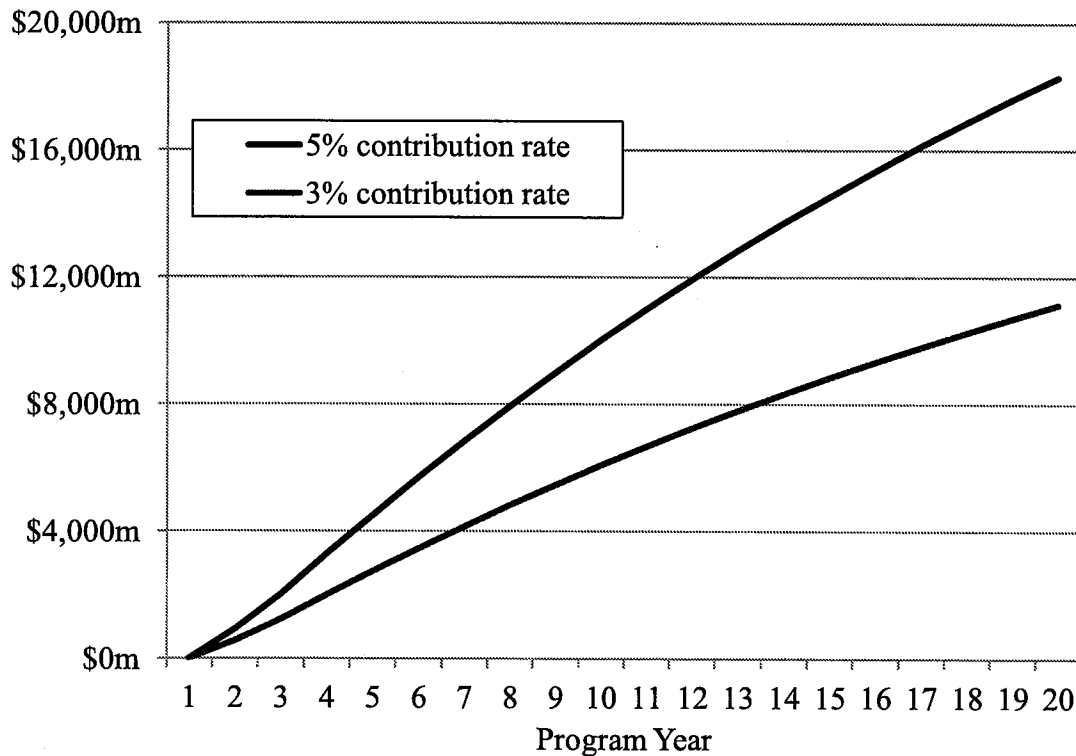
¹¹ The study assumes that accounts that close have balances equal to the average of all accounts. Because larger accounts are less likely to close than smaller ones, this assumption likely overstates losses due to closures.

¹² As discussed below, the initial fee level of 75 basis points is higher than is needed to cover costs in the long run. Alternative assumptions on the rate of return are also shown below.

under these assumptions regarding contributions, leakages, and investment returns, and given default contribution rates of 3 percent and 5 percent.

Figure 2 illustrates that assets grow quickly as the program rolls out, with almost linear growth occurring thereafter. Two things are worth noting about Figure 2. First, at contribution rates of either 3 percent or 5 percent, the program achieves scale relatively quickly. For example, at 3 percent, program assets reach \$1 billion – a benchmark used in Connecticut’s Feasibility Study as a target – in under three years and assets exceed \$2 billion in five years.¹³ Second, at 5 percent, the program’s assets accumulate much quicker, ultimately exceeding \$4 billion within five years. Box 2 discusses how these assets change under the same assumptions presented in Box 1, as well as under alternative assumptions of higher in-service leakages or lower investment returns. The next section highlights how the revenue generated by these assets interacts with the costs described earlier to determine the breakeven point as well as the highest initial loss accrued by the program.

Figure 2. *Estimated Total Assets under Management in Secure Choice, in Millions*



Source: CRR calculations.

¹³ See State of Connecticut Retirement Security Board (2016), available here: http://www.osc.ct.gov/crsb/docs/finalreport/CRSB_January_1_Report.pdf

Box 2. *Secure Choice Assets under Alternative Assumptions*

In Box 1, fewer participants (a 50-percent participation rate) and more account closures (a 50-percent closure rate) than under the initial assumptions lead to fewer accounts and lower costs. But these assumptions also lead to lower asset levels. Under these assumptions, in Year 20 of the program there would be \$4,994 million in Secure Choice accounts given a 3-percent default contribution and \$8,323 million under a 5-percent default, compared to \$11,130 and \$18,315 under the initial scenarios for asset levels, respectively.

Staying with the initial higher participation levels and lower closure rates, but assuming higher leakages from workers' accounts, asset accumulation also declines. If leakages are 4 percent (instead of 1 percent under initial assumptions), asset accumulation drops to \$8,554 million by Year 20 under a 3-percent default and \$14,076 million under a 5-percent default. Finally, assuming a rate of return of 3 percent (2.25 percent net of fees) reduces assets to \$9,694 and \$15,591 under 3- and 5-percent defaults, respectively.

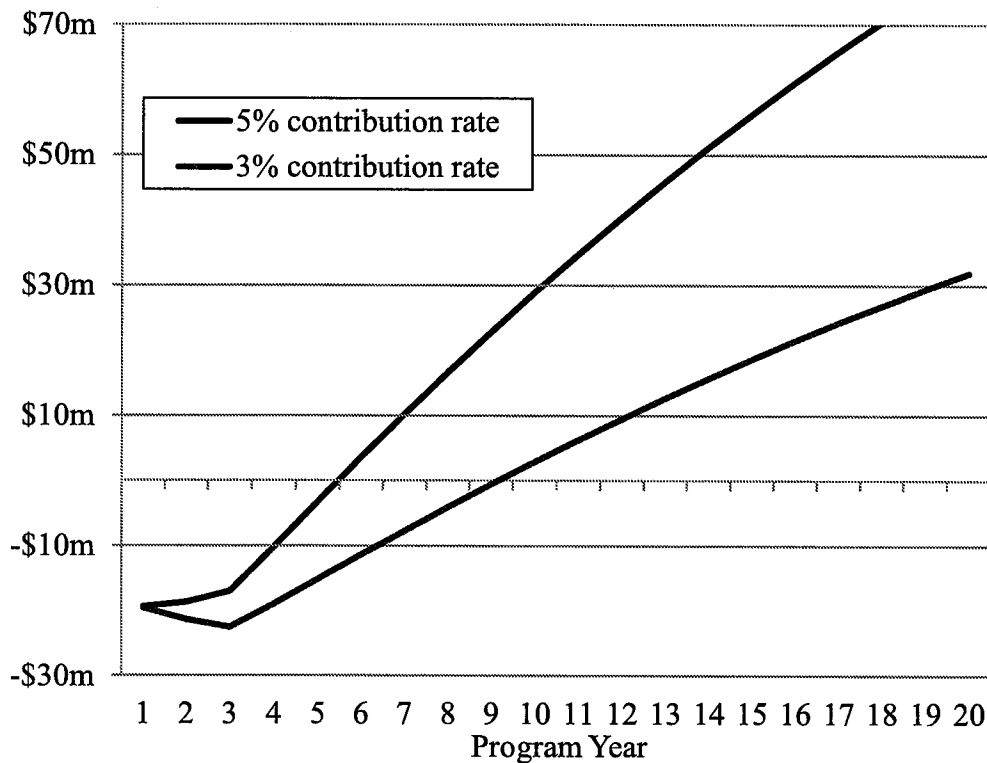
Secure Choice Finances

Front-loaded costs and back-loaded revenue pose a financing challenge for Secure Choice given the limit on fees of 0.75 percent (75 basis points). Projecting how long it will take the program to breakeven and how large a deficit will accumulate during the time period that revenue falls short of costs can help the Secure Choice board decide whether program or plan design (e.g. the default contribution rate) need to be changed before asking vendors to bid for a contract to operate the plan.

The "Breakeven" Point

A key driver of the program's financial status is the length of time for the revenue to exceed the ongoing costs of account and program maintenance (summarized in Figure 1B). If Secure Choice goes on too long with an operating deficit the program will end up with a large overall deficit. As Figure 3 shows, the amount of time for the program to break even is very sensitive to the default contribution rate. At a rate of 3 percent, the program breaks even in Year 10, but under a rate of 5 percent the program breaks even in Year 6, a full four years earlier.

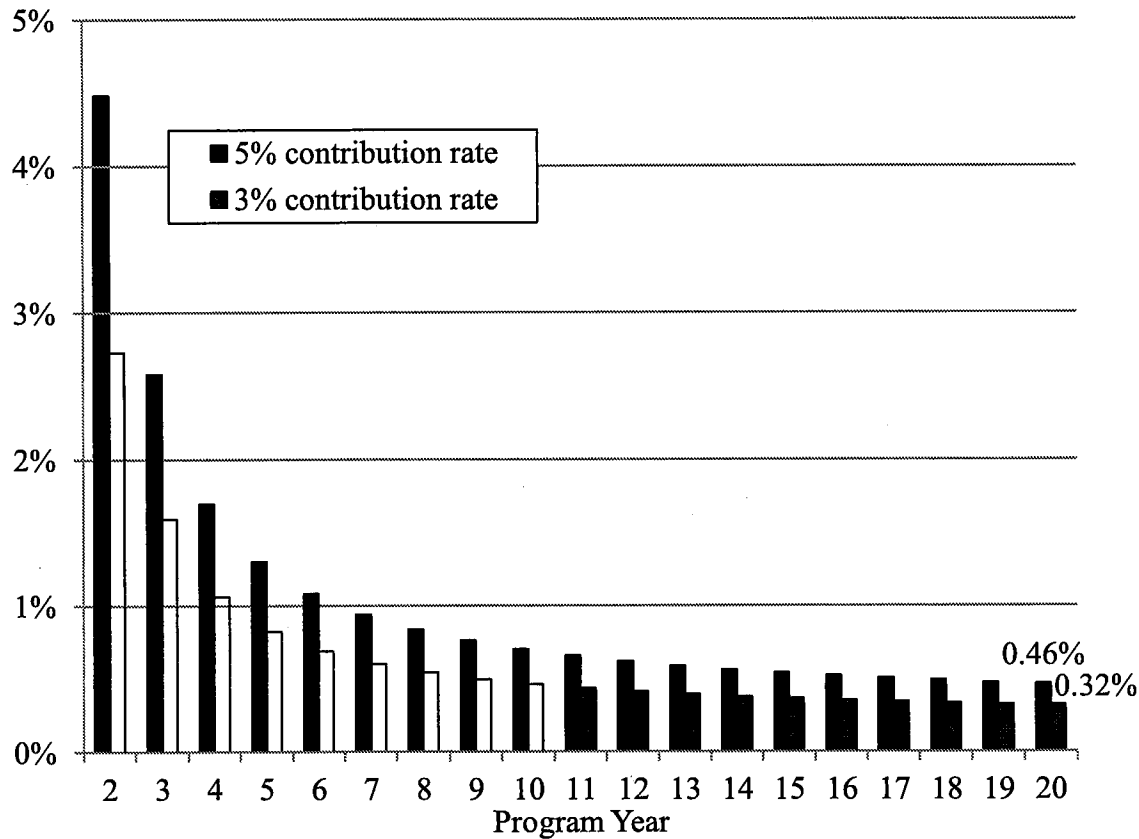
Figure 3. *Difference between Ongoing Revenue and Costs of Secure Choice, in Millions*



Source: CRR calculations.

The study estimates that in no more than 10 years after Secure Choice’s launch, the cost of running it should fall below 0.75 percent of assets regardless of the default contribution rate chosen. Figure 4 shows the progression of ongoing costs as a share of asset balances and illustrates that long-run costs fall below 0.50 percent of assets under either assumption on the default contribution rate. This longer term trend suggests that fees could be lowered for program participants once the program is up and running. Box 3 contains information on how the number of years to the breakeven point change based on changes to the program design and the economic assumptions outlined in Box 2 and under some alternative cost assumptions.

Figure 4. *Ongoing Costs as a Share of Assets*



Source: CRR calculations.

Box 3. *Secure Choice Time to Breakeven Under Alternative Assumptions*

Should participation be lower than anticipated (50 percent) and account closures higher (50 percent), the time to breakeven is 11 years under a default contribution of 3 percent (instead of 10 years) and still 6 years under a 5-percent default. The small effect of these changes occurs because lower revenue is generally offset by lower account administrative costs.

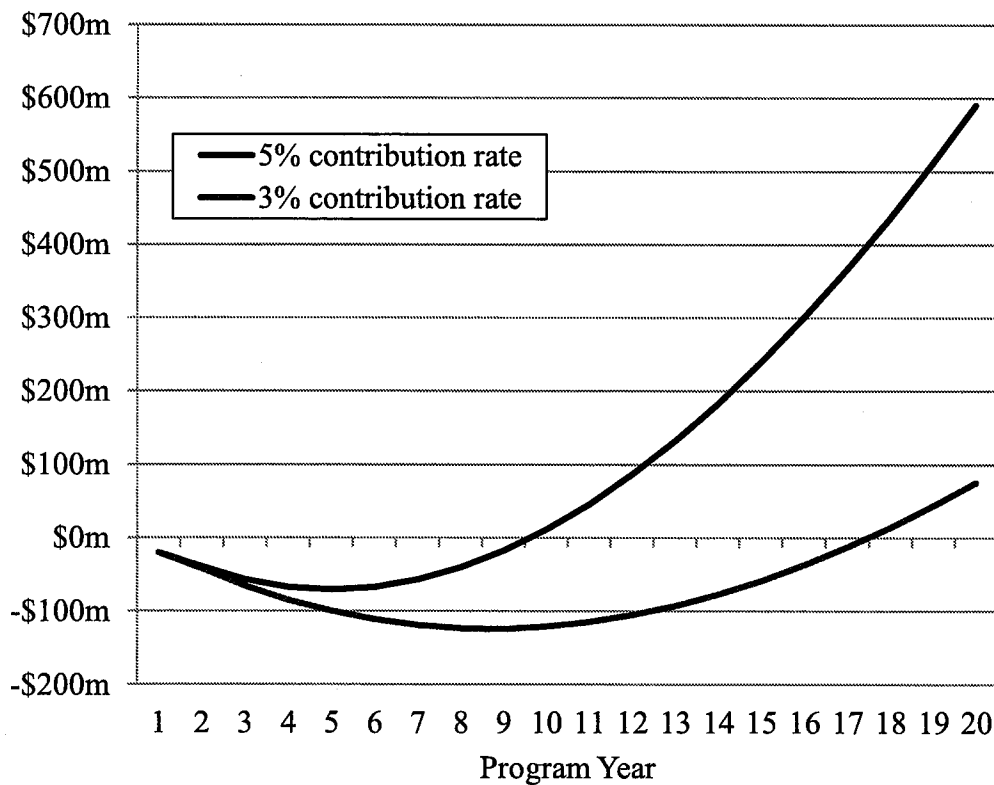
Given the initial assumed participation and account closure rates, quadrupling leakages to 4 percent increases the breakeven time to 12 years under a default contribution of 3 percent and it remains at 6 years for a default contribution of 5 percent. Reducing stock returns to 1 percent does not change the breakeven year under either contribution rate. This result stems from the fact that early Secure Choice asset growth is driven primarily by contributions.

Increasing recordkeeping costs per account to \$35 increases the breakeven year from 10 to 11 and from 6 to 7 under default contribution rates of 3 percent and 5 percent respectively.

Paying Off Initial Losses

As shown above, Secure Choice initially will operate at a loss. These losses will compound with any start-up costs to create an initial program deficit that must be repaid once the breakeven point is reached. The feasibility study calculates both the length of time it takes for the program to ultimately repay this initial deficit and the largest deficit that could occur. This maximum potential deficit is important, because it serves as a measure of risk to the potential private sector partners that might bid on the program. If Secure Choice wishes to take out a loan to be paid back out of program assets, the largest deficit also provides an estimate of how large such a loan would have to be. Figure 5 shows this calculation with both a 3- and 5-percent default contribution rate, again under the assumption that fees are 0.75 percent of assets under management.

Figure 5. *Running Secure Choice Net Profits, in Millions*



Source: CRR calculations.

Figure 5 shows that the program achieves a positive running profit by Year 10 if the default contribution rate is 5 percent, but not until Year 18 if the rate is 3 percent. This finding suggests that

a recordkeeper that absorbs the initial start-up costs and operating deficit would be willing to accept a 10-year contract under a 5-percent default but might not under a 3-percent default. The maximum deficit is \$71 million under a 5-percent default and \$124 million under a 3-percent default. If Secure Choice took on a portion of these losses through a loan to be paid back later, then a shorter contract could be offered (and less risk-averse vendors might bid to serve the program). Box 4 shows how these quantities vary under the alternative assumptions from Box 3.

Box 4. Length to Repay Starting Costs and Maximum Deficit under Alternative Program Design and Economic Assumptions

If participation is low (50 percent) and account closures are high (50 percent), Secure Choice will take over 20 years to pay off the initial loss at a contribution rate of 3 percent, but with a smaller maximum deficit of \$77 million, as opposed to \$124 million under the initial assumptions. The reason for a smaller deficit is that while fewer accounts exist to generate revenue to pay off the deficit, the costs of a smaller account base are also lower. Under a default contribution rate of 5 percent, the comparable numbers are 11 years and \$44 million, instead of \$71 million under the initial assumptions.

If the initial participation and closure rates are assumed, then with a default contribution rate of 3 percent and 5 percent, quadrupling the leakages increases the length of time to become profitable to over 20 years and 11 years, respectively, and results in corresponding deficits of \$142 million and \$75 million. If the rate of return is 3 percent instead of 5 percent, the corresponding times until Secure Choice becomes profitable are 20 and 11 years, with deficits of \$130 million and \$72 million.

If the cost is \$35 per account instead of \$30, then the time to become profitable is over 20 years at a default contribution rate of 3 percent and 12 years under a default of 5 percent. The corresponding deficits are \$172 million and \$95 million, respectively.

Increasing the Default: Does it Impact Participation?

Clearly, increasing the default contribution rate has a positive impact on Secure Choice's attractiveness to third-party providers. But a frequent concern is that increasing the default will also increase the rate at which Illinois workers opt out of the program, interfering with its goal of expanding retirement savings to as many people as possible. However, studies from the academic literature and other states' plans suggest that this concern is unfounded.

For example, to study participation in their programs, California and Connecticut performed online benefit-enrollment experiments in which participants were randomly assigned to programs with different contribution rates and asked about their decisions to remain enrolled or opt out. Box

5 shows how this experiment was conducted in Connecticut, where some respondents saw a default contribution rate of 6 percent.¹⁴ A second group of workers saw a program with a 3-percent contribution rate and a third group saw the contribution rate *rise* over four years, from 6 to 10 percent. In California, workers saw a similar type of program description with either a 3-percent or 5-percent contribution rate. Changing the program descriptions slightly and seeing how workers respond shows how the level of the default contribution rate affects participation.

Box 5. Example of Program Shown to Respondents in Connecticut's Enrollment Experiment

Imagine you're offered the chance to participate in a retirement program at work. Please read the information about the program offered (below) and select the choice you'd likely make if this program were offered to you in reality.

Your employer will automatically deduct a contribution from each paycheck (just like it does for Social Security), and deposit the money into a retirement account in your name. Your savings will be invested and grow over time to provide you with income in retirement. Some important features of this program:

- 6 percent of your pay, or \$60 per every \$1,000 you earn, will be deducted and deposited into your account. You can change how much you contribute to your account once a year and can stop contributing at any time by opting out of the program.
- The money will be invested in a fund appropriate for someone your age, managed by a private company selected by the State of Connecticut.
- You can withdraw your contributions without penalty at any time; you pay taxes on your contributions up front.
- You can access *all* of your account balance (contributions plus investment earnings) without penalty or taxes when you retire.

Detailed information on the program can be found [here](#).

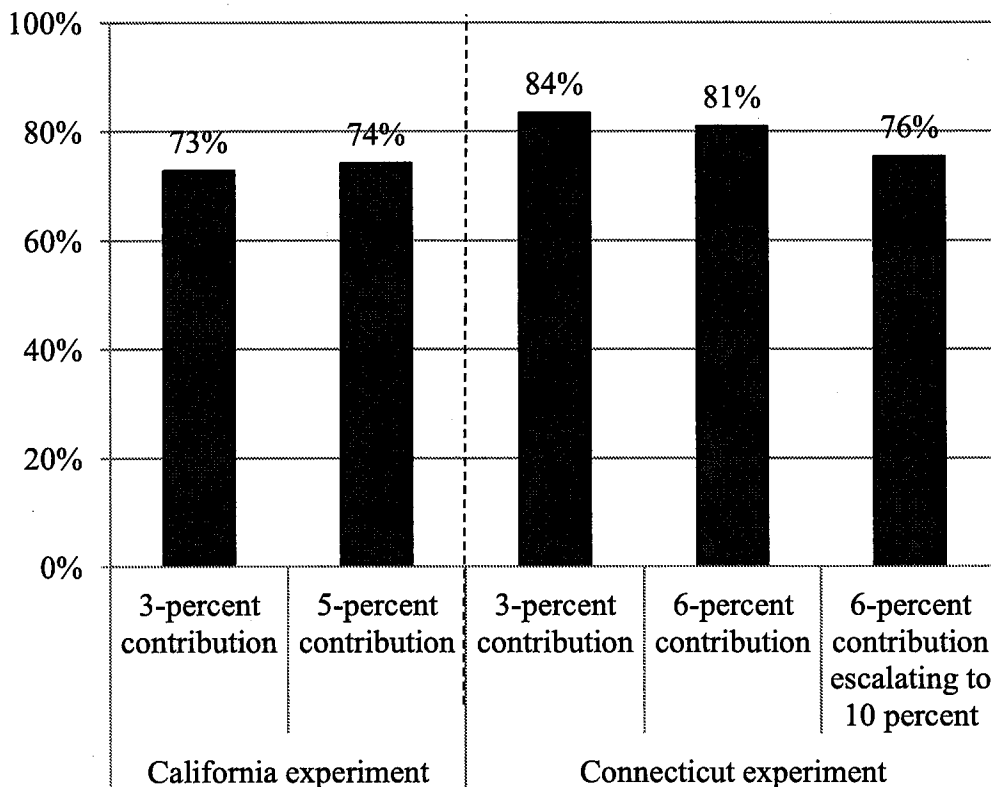
Source: State of Connecticut Retirement Security Board (2016).

The small difference in participation between 3 percent and 6 percent in the Connecticut experiment and 3 and 5 percent in the California experiment – shown in Figure 6 – suggests that states can likely default workers in at a higher contribution rate without risking low participation.¹⁵

¹⁴ For more details on Connecticut's enrollment experiment, visit the Connecticut Retirement Security Board's website, <http://www.osc.ct.gov/crsb> and view Appendix A to the Market Feasibility study. For more detail on California's enrollment experiment, visit the California Secure Choice website, <http://www.treasurer.ca.gov/scib> and view the Overture Financial Final Report.

¹⁵ While Connecticut's experiment was given to individuals across the country and then re-weighted to represent Connecticut's uncovered workers, California's experiment was able to focus on just workers because of California's larger size. This focus on California workers has been proposed as one reason why participation rates in California's

Figure 6. Results from California and Connecticut Enrollment Experiments



Source: Overture Financial (2016) and State of Connecticut Retirement Security Board (2016).

Secure Choice under Alternative Fees

So far, this report has projected program finances with a fixed set of assumptions other than the default contributions, which were projected using both 3 percent and 5 percent. In addition, Boxes 1 to 4 presented the effect of one-off changes to the fixed assumptions and suggest that the program will take well over a decade to become profitable even if some of the fixed assumptions are changed significantly. Under a default contribution of 5 percent, the outlook is better, with the program becoming profitable within 10 years even if some of the underlying assumptions turn out to be different than expected. But the default contribution rate is not the only lever that Secure Choice can use to make the program more attractive to service providers: fees can also dramatically alter financial projections. Table 6 shows how Secure Choice outcomes differ under fees of 1

experiment are lower than Connecticut's, since workers in California indicated some distrust of the state government to run the program that may not have been present nationwide.

percent of assets, or 100 basis points, or by adding a fee of \$2 per month on each active account. Although a fixed \$2 fee on each account is regressive (i.e., it is a higher share of lower asset accounts), it is a simple way to alleviate some of the risk faced by a third-party provider.

Table 6. *Outcomes under Alternative Fees and Default Contributions*

Contribution rate	3 percent	3 percent		5 percent	
	0.75%	0.75%	1.0%	0.75%	1.0%
Fee	None	\$2	None	\$2	None
Monthly fee on actives	None	\$2	None	\$2	None
Year 20 accounts	1,304,000	1,304,000	1,304,000	1,288,000	1,288,000
Year 20 assets	\$11,130m	\$10,850m	\$10,935m	\$18,038m	\$17,994m
Breakeven year	10	4	7	3	5
Payoff year	18	6	12	4	7
Max deficit	\$123.9m	\$12.3m	\$86.7m	\$6.9m	\$52.0m
Year 20 cost/assets	0.54%	0.55%	0.55%	0.37%	0.37%

Source: CRR calculations.

Table 6 makes it clear that increasing fees decreases the time it takes for the program to pay for itself and that charging a fixed fee has an especially large impact. The reason a fixed fee has such a large effect is simple: it counteracts the small balance issue so prevalent at the beginning of the program by linking revenue to the number of accounts rather than account balances. And it might make sense to link fees to the cost of providing service. Of course, charging a fixed fee does result in participants paying a larger share of their assets to the program during the first few years than they might have paid if they had joined a well-run corporate 401(k) plan instead.

Conclusion

This study has shown that Secure Choice will face challenges in becoming financially self-sufficient in a short amount of time. Under a default contribution of 3 percent and a fee of 75 basis points, the program will take well over a decade to become profitable. This may, in turn, make it difficult for the program to attract third-party providers given Illinois' limit on contract length.

However, an increase in the default contribution rate from 3 percent to 5 percent could make the program much more attractive, as could an increase in the fee charged on assets. While it may be that third-party providers believe they can provide services at costs lower than assumed here because of Secure Choice's scale – after all, Secure Choice will have over \$1 billion in assets within three years – increasing the default contribution rate seems like a good way to ensure the program

becomes self-sufficient quickly. Furthermore, because the evidence suggests higher defaults do not decrease participation significantly, this approach is consistent with Secure Choice's goal of increasing retirement security.

Appendix

This Appendix lays out the assumptions used to derive the number of active and inactive accounts, as well as the number of account closures. These assumptions drive both program costs and program revenues.

Number of Active Participants

The number of participants in Secure Choice is driven by two factors: 1) the pool of eligible workers; and 2) the rate of participation of eligible workers. As Table A1 shows, about 1.2 million of the 2 million people in Illinois working for an employer without a retirement plan will be required to auto-enroll in Secure Choice (bolded in the table).¹⁶ It is worth noting that other uncovered workers in Illinois, for example those ineligible for their employer's plan and the self-employed, will not be covered under the current Secure Choice mandate. While other states have included the possibility of allowing these workers to opt in eventually, this possibility was not considered in the current study.

Table A1. *Uncovered Workers in Illinois, 2012*

Reason for not having coverage	Number of workers	Share of total workforce
All Illinois workers	5,756,000	100.0%
<i>Uncovered workers</i>	<i>3,173,000</i>	<i>55.1%</i>
Employer does not offer plan	2,029,000	35.3%
25+ employees, 2+ years in business	1,226,000	21.3%
Employer offers plan, not included	697,000	12.1%
Self-employed without plan	447,000	7.8%

Note: Weighted using the *Current Population Survey March Supplement* weights. Includes both private and public sector workers. All public sector workers are considered as working for an employer offering a plan without being included.

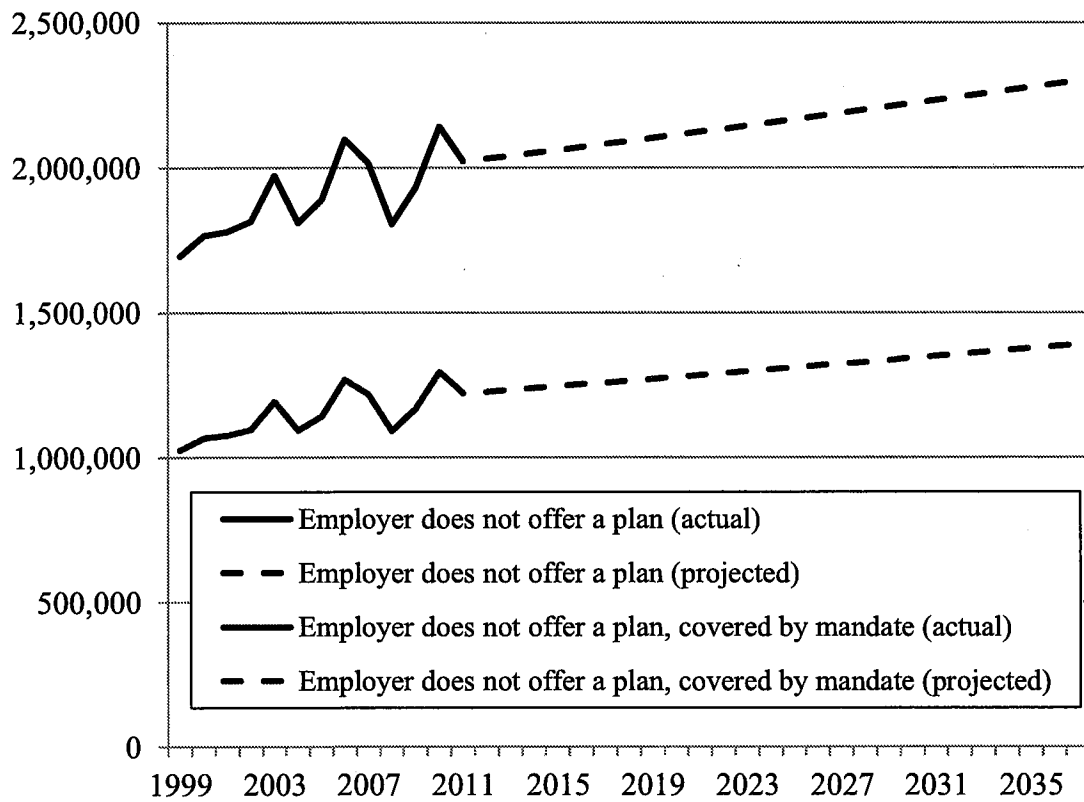
Source: CRR calculations from *Current Population March Supplement*, 2013 (reflecting calendar year 2012).

Of course, projecting the feasibility of Secure Choice requires knowing not just the population of eligible workers today but also the eligible population over the next 20 years.

¹⁶ The base year was 2012 in the population calculations, because a change in sample design and weighting of the *Current Population Survey* used in this analysis may result in an artificially inflated number of uncovered workers. See Copeland (2015).

According to the Bureau of Labor Statistics, the U.S. labor force is expected to grow 0.5 percent per year over the next decade, and this rate was assumed for the feasibility study. The net result of that assumption is shown in Figure A1: by 2037, the last year projected in this study, an estimated 1,389,000 workers will be eligible for auto-enrollment in Secure Choice. Figure B1 also shows projections for the full group of workers without a plan at work.

Figure A1. *Actual and Projected Number of Workers Over 18 at Employers without a Retirement Plan, 1999-2037*



Source: CRR calculations from *Current Population Survey March Supplement, 2000-2015* (representing calendar years 1999-2014).

Once the number of workers without a plan at work whose employers are eligible for Secure Choice is determined, the feasibility model divides this population between full-time and part-time workers. This division of workers is important for three reasons stemming from our research: 1) part-time workers are more likely to opt out than full-time workers; 2) part-time workers are more mobile than full-time workers; and 3) part-time workers earn less than full-time workers. Based on

an analysis of *Current Population Survey* data for Illinois, the feasibility study assumes that roughly 80 percent of workers without a plan at work are full-time workers (30 or more hours per week) and the remainder are part-time workers.

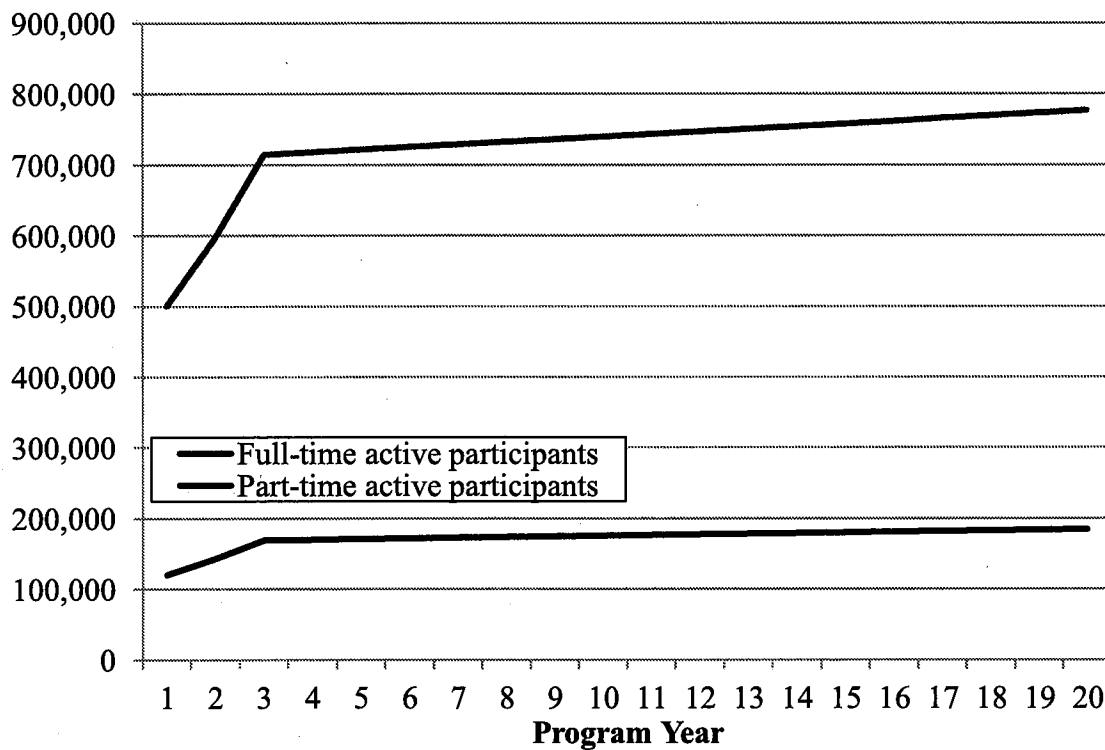
Of course, not all of eligible full-time and part-time workers will participate in the plan. For one, employers currently without a plan may decide they would rather offer their own in-house alternative to Secure Choice. Until the program is actually rolled out, it is unclear how often this will occur. The study has assumed that 20 percent of employers currently not offering a plan take this alternative course regardless of their firm's size. This combination of assumptions means that the number of potential participants highlighted in Figure A1 was reduced by 20 percent in the study. Next, the study assumes that the program is rolled out to employers with 100+ employees in the first year, 50+ employees in the second, and then 25-49 employees in the third year. This roll-out schedule means that in the first year of the program, only 42 percent of workers at firms touched by the mandate are reached, in the second year an additional 8 percent, and in the final year the remaining half.

Finally, some workers who are eligible for the plan (and whose employer chooses Secure Choice) will opt out. Under the plan design currently being considered – a Roth IRA with a default contribution of 3 percent – the Center for Retirement Research estimates that roughly 88 percent of full-time and 85 percent of part-time workers will participate in the program. This estimate is based on a nationwide survey of uncovered workers, with the results weighted to reflect the Illinois population's distribution of income and age. These participation rates reflect the fact that participation is expected to be higher under a lower default rate than a higher one. In the projections that assume a default contribution of 5 percent, participation is subsequently reduced to 86 percent and 84 percent for full- and part-time workers, respectively. The rates also reflect the age and income distribution of Illinois workers – older workers are less likely to participate in Secure Choice and higher-income workers are more likely to participate, according to the national survey. Although other relevant variables do influence participation – Hispanic and black workers are more likely to participate than whites, for example – the most significant factors are income and age. Because these participation rates are estimates, the feasibility model is also tested under lower assumed rates of participation, with results presented in the main body of the report.

The number of active Secure Choice accounts is arrived at by multiplying the number of eligible workers and the participation rate – i.e., the number of accounts where an individual is

currently deducting a contribution from their paycheck. Based on the projections contained in Figure A1, the assumptions on employer response to Secure Choice, the roll-out schedule, and the participation rates discussed above, Figure A2 shows the number of full- and part-time active participants over the first 20 years of the plan. Participation quickly increases during the first three years of the program as more employers are reached by the roll-out, and participation continues to grow in line with population growth. Figure A2 shows the result for a 3-percent default, with the estimates slightly lower if a 5-percent default is used.

Figure A2. *Estimated Number of Full- and Part-time Active Participants under 3-Percent Default*



Source: CRR calculations.

Number of Inactive Participants

Inactive participants are participants formerly eligible and participating in Secure Choice who have either become unemployed or switched to a job not covered by Secure Choice (because the employer offers a qualified plan) but have maintained their account. Three factors influence the number of inactive accounts. The first are the levels of mobility between jobs and between jobs and nonemployment amongst active participants. The second is the rate at which participants who

switch jobs end up employed at an employer offering a qualified plan. The third is the rate at which workers making these transitions close their accounts.

To estimate worker mobility – the first two measures – longitudinal data are required to follow individual workers who would currently be eligible for Secure Choice to see their transition rates. For this purpose, the *Current Population Survey* used throughout much of this study is inadequate, since only a subset of the sample contains longitudinal data. Instead, the study turns to the *Survey of Income and Program Participation*, a study that follows individuals for two to five years and asks detailed information about retirement plans and tracks an individual’s place of employment. In particular, the study identifies a sample of workers who would be eligible for Secure Choice and then follows them for one year to see if they: 1) remain at the same job; 2) switch jobs; 3) become nonemployed; or 4) leave Illinois. The study assumes workers who switch jobs or become nonemployed have the chance to become inactive participants, while workers exiting the state will close their accounts (see below). Table B2 shows the estimated rates of mobility.

Table B2. *One-Year Job Mobility Rates for Illinois and U.S. Workers by Coverage and Hours Worked, 1997, 2005, and 2009*

	Full-time			Part-time		
	Covered at work	Employer does not offer plan	Employer offers plan, not included	Covered at work	Employer does not offer plan	Employer offers plan, not included
<i>Illinois</i>						
Same employer	80.6%	69.1%	69.8%	76.3%	57.5%	50.3%
New employer	13.9	22.7	24.2	16.3	24.0	33.5
Not working	4.1	7.2	4.6	7.5	17.9	12.9
Exit Illinois	1.4	1.0	1.3	0.0	0.6	3.2
<i>Rest of U.S.</i>						
Same employer	79.9	67.7	65.0	68.3	53.4	53.9
New employer	14.8	23.1	26.4	21.3	28.3	30.1
Not working	3.8	7.8	6.4	8.9	16.8	13.6
Exit state	1.4	1.3	2.3	1.5	1.5	2.4

Source: *Survey of Income and Program Participation*, 1996, 2004, and 2008 Panels (representing data on mobility for 1997, 2005, and 2009).

Because the sample of workers from any one state in the SIPP is small, Table B2 shows the results for both Illinois workers and U.S. workers. The results are fairly similar and indicate that

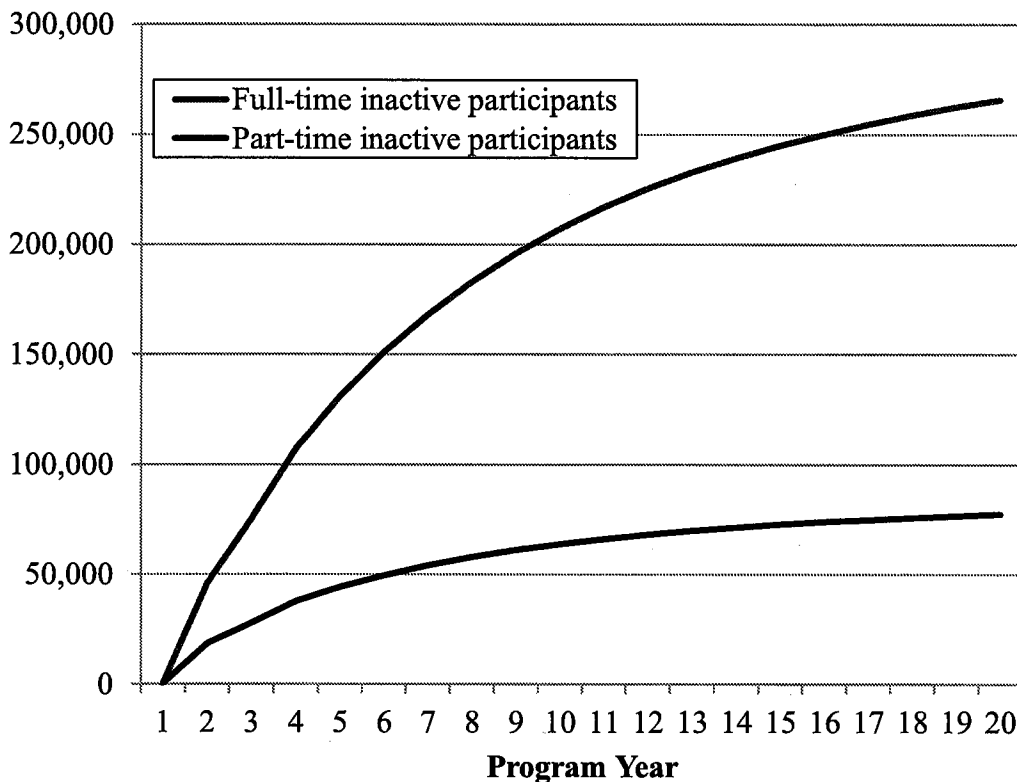
workers affected by Secure Choice, and particularly part-time workers, are more mobile than workers covered by a private-sector employer plan. Because the sample of Illinois workers is relatively small, U.S. estimates were used in the study. Although the table above uses several panels of the SIPP to increase sample sizes, the 2008 data have a special feature: the survey asks people two different times one year apart about their employer's pension offerings while the other panels ask these questions only once. This allows the study to estimate the rate at which employees who switch jobs end up at an employer offering a qualified plan. This was accomplished by examining the pension coverage of workers who were said they were not covered by a retirement plan in 2009 when they were first interviewed, but who said they were covered in 2010. The study finds that 74 percent of eligible workers who switched jobs still did not have a retirement savings plan at their second job.

These numbers can be used to estimate the rate at which workers either remain covered by Secure Choice or transition out of the program. Because 68 percent of eligible workers remain at the same job and another 17 percent (0.23×0.74) switch jobs but remain eligible for Secure Choice, the study assumes 85 percent of active accounts remain active.¹⁷ Of the remaining 15 percent, 6 percent of workers are assumed to switch jobs to employers ineligible for Secure Choice. Of these, and in the absence of reliable data on the likely rate account closures, the study assumes 20 percent close their account and 80 percent maintain it. An additional 8 percent of workers are assumed to leave their job for nonemployment. Of these, we assume 30 percent retire (based on the age profile of Illinois workers), while 70 percent look for work and have a choice as to whether to maintain their account. Again, we assume 20 percent of these workers close their accounts while 80 percent maintain them. The net result of these assumptions is that, in any period, about 5 percent ($0.23 \times 0.26 \times 0.80$) become inactive due to switching to an ineligible employer while 4 percent ($0.08 \times 0.70 \times 0.80$) of active accounts will become inactive due to nonemployment.¹⁸ The end result is shown in Figure A3.

¹⁷ This number is for full-time workers. Part-time workers have a rate of 74 percent remaining active, which is lower than for full-time workers due to part-time workers' higher rates of job mobility and transitions to not working.

¹⁸ This number is for full-time workers. Part-time workers have a rate of 15 percent becoming inactive, which is higher than for full-time workers due to part-time workers' higher rates of job mobility and transitions to not working.

Figure A3. *Estimated Number of Full- and Part-time Inactive Participants*



Source: CRR calculations.

Account Closures

Workers who transition to an ineligible employer or who cease working temporarily can also close their accounts. The numbers presented above can be used to calculate the rate of account closures in a straightforward way. Because 20 percent of workers who move to an ineligible employer close their accounts, a little over 1 percent (0.06×0.20) of active accounts will be closed annually by these workers. Another 1 percent ($0.08 \times 0.70 \times 0.20$) will be closed by workers who cease working temporarily. Finally, we assume all workers retiring or leaving Illinois close their accounts. This results in an additional 4 percent of active accounts closing each year – 2 percent due to retirement (0.080×0.30) and 2 percent due to moving out of Illinois. On the whole, about 6 percent of active accounts are assumed to close each year.¹⁹

¹⁹ This is the number for full-time workers. Part-time workers have a rate of 10 percent closing, which is higher than for full-time workers due to part-time workers' higher rates of job mobility and transitions to not working.

Inactive Accounts Returning to Active

The last transitional feature of the model is that some inactive accounts again become active. In particular, the model assumes that all unemployed workers “churn” back into the market the next year, since spells of not working are usually brief. Of the inactive accounts held by workers at ineligible employers, a small fraction re-enter Secure Choice each year as they transition back to covered companies. In the *Survey of Income and Program Participation* analysis described above, about 11 percent of workers with a plan at work switch jobs in a given year and, of these, about 33 percent switch to a job without a plan. Thus, each year about 4 percent of inactive accounts held by workers outside of Secure Choice reenter the program.

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Feasibility Study: Oregon Retirement Savings Plan

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Executive Summary

The Oregon Retirement Savings Plan (ORSP) will require employers who offer no retirement plan to automatically enroll their employees in a Roth IRA. For ORSP to succeed, it has to be financially self-sufficient. The following analysis shows that ORSP will be cash-flow positive (annual revenue will be equal to annual operating costs) within four years and net positive (revenue will cover both start-up and operating costs) in seven years. These results are based on a set of initial assumptions for program design and participant behavior, and include annual fees of 1.2 percent (or 120 basis points) on asset balances. Once start-up costs are paid back, fees can be greatly reduced to as low as 30-50 basis points. These results hold under a variety of scenarios, but the number of years needed to break even would go up if the state chooses a default contribution rate that is below 5 percent, account maintenance costs are higher than expected, or initial fees are set too low. Appendix A contains a range of outcomes based on alternative assumptions. Program costs are based on discussions with Bridgepoint/Segal, other state feasibility studies, international experience, costs faced by existing IRA providers, and discussions with the ORSP Board.

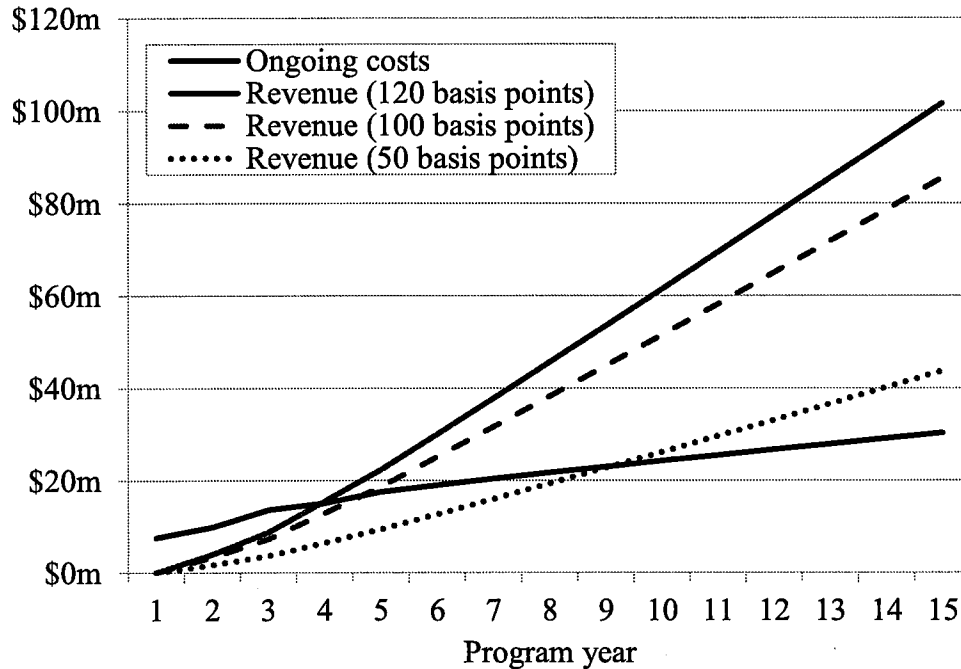
The initial assumptions regarding program design are threefold. First, the default contribution rate is 5 percent, with auto-escalation to 10 percent. Second, contributions are invested in a blended target date fund. Third, employers without a plan are enrolled in a staggered manner: Year 1, employers with 50+ employees; Year 2, employers with 10+ employees and a payroll provider; Year 3, all employers with 5 or more employees; and Year 5, employers with fewer than 5 employees.

This feasibility study first identifies the number of years that it takes the program, under the initial assumptions, to become cash-flow positive and net positive, and the maximum size of the deficit during the initial years. These results will inform the required length of a contract to attract bids from recordkeepers or, alternatively, the size of a loan that ORSP might need to cover short-term losses. The study then assesses how sensitive the program's financial performance is to changes in the underlying assumptions.

Under the program design laid out above, with revenues generated from asset management fees of 120 basis points, the program becomes cash-flow positive in Year 4. As noted, in the long run, costs as a share of assets will likely fall below 50 basis points, so the program can charge lower

fees in the longer term. These results are depicted in Figure 1, which shows program costs and revenues, with revenues estimated under three alternative fee levels: 120, 100, and 50 basis points. Clearly, higher fees cause the program to break even earlier, but – even under the lowest fee – the program is cash flow positive in Year 10.

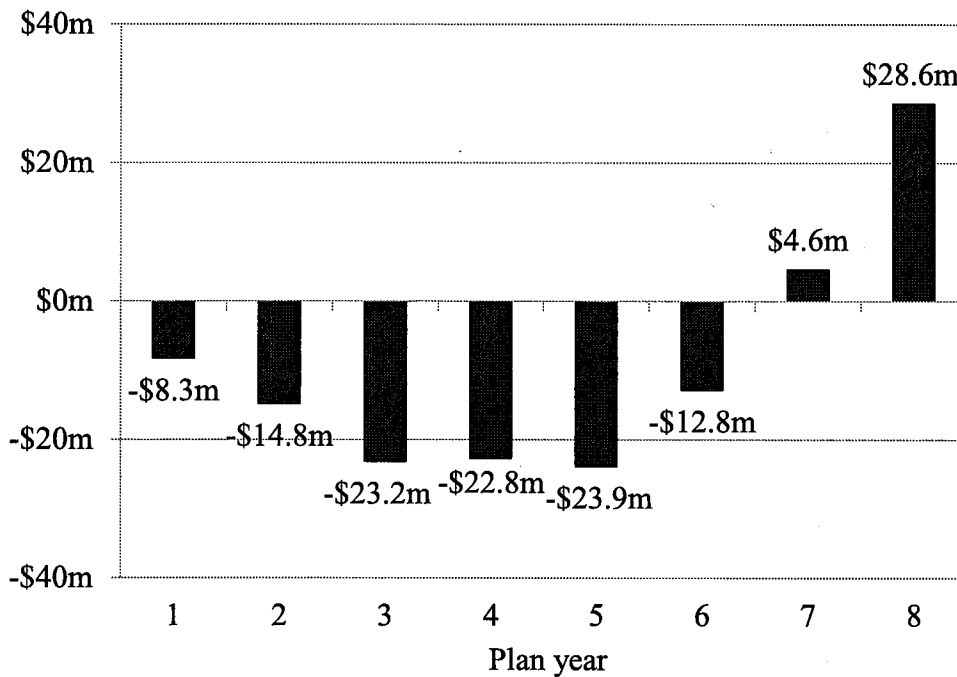
Figure 1. *Estimated Ongoing Revenue and Costs of ORSP Under Initial Scenario, in Millions*



Source: Center for Retirement Research at Boston College (CRR) calculations.

Figure 2 adds start-up costs to the analysis. It shows the program’s cumulative deficit from both the ongoing costs and the fixed start-up costs, under the initial assumption of a 120-basis-point fee. Under these assumptions, the program runs up a deficit of \$23.9 million by Year 5 and then begins running surpluses and paying the deficit down. The deficit is completely paid off by Year 7. This finding suggests three strategies for managing the start-up years of the program. The first alternative is to offer a recordkeeper a seven-year contract, which will allow it to use surpluses in later years to eliminate any losses in the early years. The second option is for ORSP to take out a loan to cover some of these upfront costs. ORSP could also combine these two approaches.

Figure 2. *Running ORSP Program Net Profits, in Millions, Assuming Fees of 120 Basis Points*



Note: The loss increases slightly from Year 4 to Year 5, despite ongoing costs being covered, because of the enrollment of employers with fewer than 5 employees at a per-employer cost of \$200.

Source: CRR calculations.

Of course, these results could be sensitive to the underlying assumptions. The analysis shows that the program is particularly vulnerable if either: 1) contribution rates are below 5 percent, or 2) per-account costs are higher than expected. A fixed contribution rate of 3 percent increases the number of the years for the program to become cash flow positive by three years and net positive by five years. Increasing per-account costs by \$10 – from \$30 to \$40 – has a slightly smaller effect, with an increase of one year for cash flow positive and two years for net positive. However, the program is not especially vulnerable to lower asset returns, higher-than-anticipated account leakages, or higher rates of account closures as workers change jobs. In other words, early program revenues are driven primarily by contributions and by early costs, primarily costs per account.

Detailed Feasibility Study

Introduction

This study will evaluate the financial feasibility of the Oregon Retirement Savings Plan (ORSP) using two metrics. The first metric is the time it takes for the program to become cash positive or “self-sufficient,” i.e., for the fee revenue generated by account balances to exceed the costs of creating and maintaining the accounts. The second metric is the time needed for the program to become net positive, i.e., to generate enough revenue in excess of costs to pay back the cost of starting up the program. This second metric will depend on the magnitude of the start-up costs and how start-up costs are financed – one option is to give an outside vendor a long enough contract to recoup any start-up costs and initial losses; a second option is for the ORSP to take out a loan to finance these losses, with ORSP being paid back out of program revenue. In either case, it is critical to that the program generates revenue in excess of operating costs within a short period of time, with reasonable fees, and without accumulating large losses. This study will evaluate whether the ORSP is likely to meet these goals.

Program and plan design can affect projections of costs and revenue; thus, the majority of this study presents results under an initial program design and using a set of additional assumptions on worker behavior. Under this initial design, employers who offer no retirement plan are required to automatically enroll their employees in a Roth IRA at a default contribution rate of 5 percent with auto-escalation over time to 10 percent. The initial scenario assumes that all employers without a plan will be enrolled, but in a staggered manner: in Year 1, employers with 50+ employees will be enrolled; in Year 2, employers with 10+ employees and a payroll provider; in Year 3, employers with 5 or more employees; and in Year 5 employers with fewer than 5 employees. The study initially assumes account holders’ money is invested in a blended target date fund.

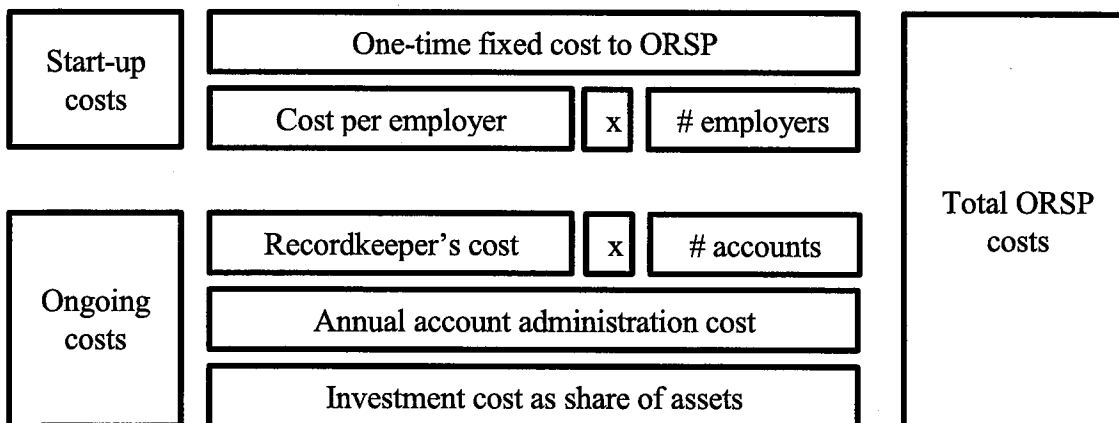
The study makes several other assumptions, including population growth, worker participation, worker mobility, and withdrawals. Perhaps the most important of these is that the majority of workers participate in the program – our Market Research Report suggests 79 percent of full-time and 76 percent of part-time workers will participate. The justifications for all of these assumptions are discussed in detail in the Appendix B to this report. Because the final program design has not been determined and because any one assumption may differ once the program is implemented, the study will also present analyses to test the sensitivity of our results to changes in participation, costs, account closures, and other assumptions that may affect program outcomes.

This study is organized as follows. The first section estimates the start-up and ongoing costs of the ORSP. The second section estimates program revenue, which is ultimately collected as a fraction of total account balances and which, in turn, depends on eligible worker participation, the contribution rate, asset returns, and account withdrawals. The third section projects how costs and revenue will interact to determine when the program becomes self-sufficient and when any initial losses will be covered, as well as how these losses might be financed. The fourth section provides insight into how alternative program designs and economic assumptions might affect estimates of costs, revenue, and the time needed to break even. The final section concludes that, under the initial assumptions for program design, revenue will equal operating costs within the first four years, and that the start-up costs and operating losses over this time period would be less than \$24 million, a sum that could be paid back by Year 7 with program fees of 120 basis points.

Program Costs

ORSP's costs fall into two broad categories: 1) the start-up costs associated with creating the program and bringing on employers; and 2) the ongoing administrative costs associated with maintaining accounts, serving participants, and managing investments. Figure 1 illustrates these costs schematically, highlighting two drivers of start-up costs: 1) the number of employers that must be brought into ORSP; and 2) the number of accounts that must be administered.

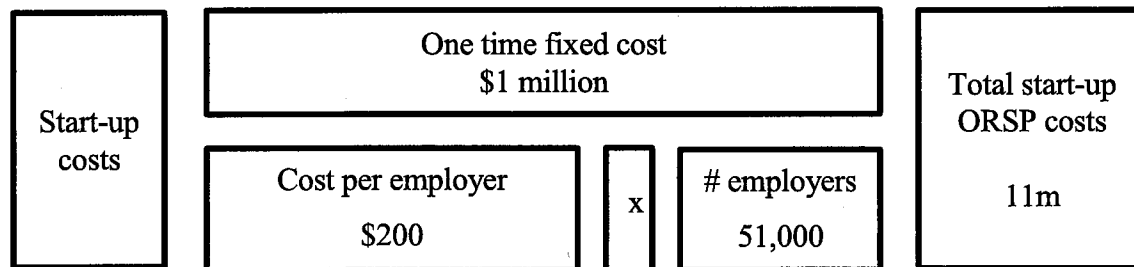
Figure 1. *ORSP Costs*



Start-up Costs

Start-up costs reflect two realities: 1) presently, an auto-IRA program like the ORSP does not exist; and 2) one of third-party recordkeepers' biggest costs is connecting to individual employers. The first fact means that an initial fixed cost of developing the program's required infrastructure will need to be paid by the ORSP or borne by a recordkeeper. Based on information from other state auto-IRA studies, as well as consultations with the ORSP Board, the fixed cost of developing the infrastructure to run the program was assumed to \$993,000. The second fact means that an additional charge must be anticipated by the recordkeeper to enroll each employer. After consultation with Segal/Bridgepoint, the study assumes a cost of \$200 per employer to reflect the average cost of bringing on new employers.¹ Because some of the more than 64,000 employers described in the Market Research Report who may be affected by the ORSP may choose to offer a private sector plan, the study assumes only 80 percent of eligible employers end up participating (which is projected to translate to 20 percent of eligible employees). These assumptions yield a start-up cost estimate of over \$11 million – \$1 million in fixed costs and \$10 million to enroll the 51,000 employers affected by the program who do not switch over to a private sector plan.² Figure 1A updates Figure 1 to include these start-up costs.

Figure 1A. *Summary of Start-up Costs*



Ongoing Costs

The next driver of overall cost is the per-account administration cost, which the recordkeeper charges to keep track of account funds, provide statements, cover call centers, and

¹ Onboarding an employer involves getting information from an employer to a recordkeeper to auto-enroll workers and set-up accounts, and also setting up an interface between an employer's payroll system and the recordkeeping platform to process ongoing payroll deductions.

² The start-up costs associated with connecting employers to ORSP is paid over the first five years of the program, as it is rolled out to more employers.

maintain the program’s website for account holders. The administration cost also covers transaction costs associated with money coming into the program and money going out of the program through distributions. After consultation with Segal/Bridgepoint on the operating model being considered, this report assumes a per-account cost of \$30 per year.

The contribution of account administrative costs to ORSP’s total costs largely depends on the number of accounts. In this study, two types of accounts exist: active and inactive. In active accounts, an individual is employed at an employer without a plan and is contributing to the plan. Inactive accounts are maintained by someone who is not employed at an eligible employer but who has not closed out their account. Given the initial scenario, the number of active accounts is presented in Table 1.³

Table 1. *Number of Active Full- and Part-time Participants in the ORSP*

	Year 3	Year 5	Year 10	Year 15
Full-time	265,000	297,000	304,000	312,000
Part-time	74,000	83,000	85,000	87,000
Total	349,000	380,000	389,000	399,000

Source: CRR calculations.

Inactive accounts are assumed to come from two types of employees who exit the program and do not close their accounts: 1) workers who become unemployed; and 2) workers who switch to an employer that offers a retirement plan. The rates at which individuals transition from active to unemployed and from active to ineligible are based on the *Survey of Income and Program Participation* (SIPP) and described in detail in Appendix B; the basic assumption is that each year, 85 percent of active accounts remain active, while 9 percent become inactive.⁴ The number of inactive full- and part-time accounts is shown in Table 2.

³ For a more detailed description of how these estimates were obtained, see Appendix B.

⁴ The remaining 6 percent of accounts close, which is discussed in more detail in the revenue section of this report. Once inactive, some workers do reenter the program. Each year, 5 percent of inactive workers in the covered sector are assumed to return to eligibility, and workers who become unemployed are assumed to reenter the program the next year. For more details, see Appendix B.

Table 2. *Number of Inactive Full- and Part-time Participants in the ORSP*

	Year 3	Year 5	Year 10	Year 15
Full-time	24,000	47,000	83,000	100,000
Part-time	10,000	19,000	30,000	35,000
Total	34,000	66,000	113,000	135,000

Source: CRR calculations.

Combining Tables 1 and 2 and assuming the \$30 per-account administrative cost allows the calculation of total account administrative costs, as shown in Table 3. Because these administrative costs are sensitive to several assumptions made so far, Box 1 highlights how costs would change under alternative assumptions.

Table 3. *Annual Account Administrative Costs*

	Year 3	Year 5	Year 10	Year 15
Active accounts	349,000	380,000	389,000	399,000
Inactive accounts	34,000	66,000	113,000	135,000
Total accounts	383,000	446,000	502,000	534,000
x cost per	\$30	\$30	\$30	\$30
Account admin. costs	\$11.5m	\$13.4m	\$15.1m	\$16.0m

Source: CRR calculations and discussions with Segal/Bridgepoint.

Box 1. *Account Administrative Costs under Alternative Assumptions*

Because administrative costs are driven by the number of accounts, costs are lower with fewer accounts. For example, assume that participation is 50 percent, and 50 percent of workers exiting the program close their accounts (the initial case is 75-80 percent participating and 20 percent closing accounts). In this case, by program Year 15, there would be 308,000 accounts resulting in account administrative costs of \$9.2 million, as opposed to \$16 million under the initial scenario. Of course, these assumptions also reduce program assets substantially (see Box 2).

Should per-account costs increase from \$30 to \$40, administrative costs would increase substantially by Year 15, to \$21.4 million, demonstrating the importance of the per-account cost.

In addition to the yearly cost per account, other yearly costs include general operating costs such as program governance, the costs of communicating with employers and employees across Oregon, and staffing. Unlike the per-account costs, these costs are not assumed to be a function of

the number of accounts and remain roughly constant over the life of the program.⁵ Table 4 shows the assumed costs associated with the state's administrative operations after consultation with the ORSP. In addition to the cost per-account, the ORSP will cost roughly \$1.3 million dollars per year to run.

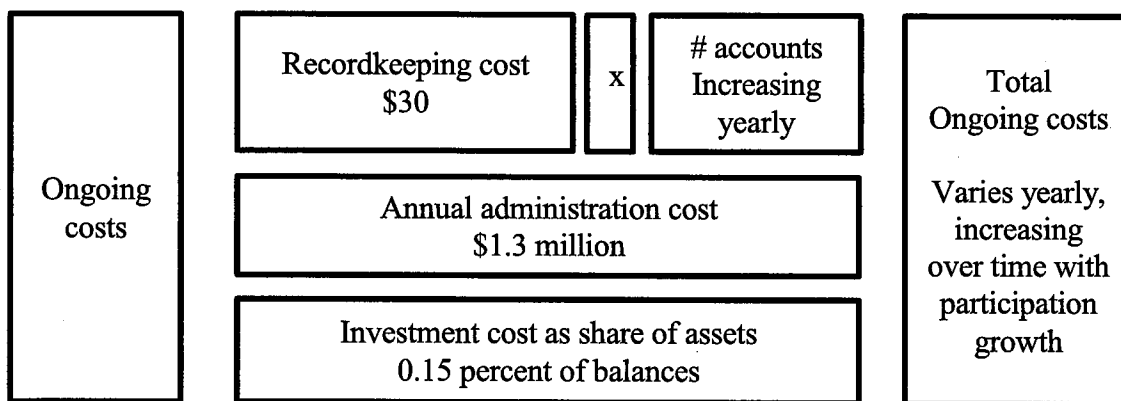
Table 4. *Yearly Program Administration Costs*

Administrative task	Yearly cost
Governance	\$250,000
Communication/publications	\$550,000
Staff	\$500,000
Total	\$1,300,000

Source: CRR discussions with ORSP.

The final type of cost associated with the program is the fee for investment management. This cost is simply a fraction of participants' total account assets under management. Because it is assumed the ORSP will have investment options with limited management (such as an Index Fund or a Target Date Fund), these costs are assumed to be relatively low, at 15 basis points. Figure 1B fills in the ongoing costs portion of Figure 1.

Figure 1B. *Summary of Ongoing Costs*



Figures 1A and 1B summarize the total costs of the ORSP. These costs are high initially due to fixed costs but also contain a component that increases over time with the number of

⁵ In practice, we assume that the cost of governance and communication grows 1 percent faster than inflation and cost of staffing at 2 percent faster than inflation over the course of the program.

accounts. Thus, to be feasible, the ORSP must quickly generate revenue to cover its fixed costs and ultimately have higher balances per account so that the \$30 fee does not represent a prohibitive cost for participation. The next section will discuss whether these conditions are likely to be met.

Program Revenue

The feasibility of the ORSP largely comes down to the program's ability to have revenue exceed ongoing costs in a relatively short amount of time. After this "break-even" point is reached, the program can pay back the start-up costs highlighted above, along with any losses incurred during the initial period when ongoing costs exceed revenue. This portion of the study estimates revenue generated by the program, given the initial assumptions laid out above and those in Appendix B. Since fees are estimated as a percentage of these assets under management, this section analyzes several drivers of these assets: 1) how much money is contributed to the program each year; 2) how much money exits the program through participant withdrawals and account closures; and 3) how much assets grow through investment returns. The section closes by describing how account balances accumulate over time.

Contributions to the Program

Contributions are generated by the active accounts laid out in Table 1 above. The total dollar amount of the contributions depends on two factors: 1) the contribution rate of each participant; and 2) the average participant's income. The initial scenario assumes participants are enrolled at a contribution rate of 5 percent, with auto-escalation to 10 percent over their first five years in the program.⁶ To determine the contribution amount, the contribution rate is applied to the average income of full- and part-time workers in Oregon (based on the *Current Population Survey*) – \$40,000 for full-time workers and \$15,000 for part-time workers.⁷ Given the number of active accounts, the contribution rate, and the average wage, Table 5 shows the projected contributions to the program by full- and part-time workers in various program years.

⁶ This feature does not mean that the overall average contribution rate increases from 5 to 10 over the first five years of the program. Since new workers are always entering and some old accounts close, the average contribution rate never reaches 10 percent. For example, even by Year 10 of the program the average contribution rate is assumed to be just 7.3 percent. Alternative scenarios are presented later in the report with a fixed contribution rate.

⁷ These are participation weighted averages by age, reflecting the fact that older workers have higher wages but are also more likely to opt out. If the wage were calculated as a simple average, it would be higher.

Table 5. *Estimated Annual Contributions to the ORSP*

	Year 3	Year 5	Year 10	Year 15
Full-time	\$577.3m	\$706.8m	\$875.6m	\$1,052.4m
Part-time	61.6m	75.5m	93.5m	112.4m
Total	638.9m	782.3m	969.1m	1,164.8m

Source: CRR calculations.

Account Withdrawals and Growth

Once contributed to an account, money can exit the plan in one of two ways: 1) through in-service withdrawals that occur even when a participant is not closing his/her account; or 2) through an account closure (cash-out). In-service leakages typically average around 1 percent in 401(k) plans and that rate is assumed here.⁸ However, account closures are likely to be more frequent in the ORSP than in 401(k)s, because workers covered by the ORSP are more mobile than 401(k) participants and are more likely to become unemployed. This study assumes that 20 percent of workers entering unemployment or exiting ORSP-covered work (by switching to an employer who offers a retirement plan) close their ORSP account. Additionally, the study assumes any worker retiring or moving out of Oregon also closes their account. Estimates of the rate at which these events occur is provided in Appendix B, but the net result is that in any given year, 6 percent of ORSP accounts are likely to close.⁹

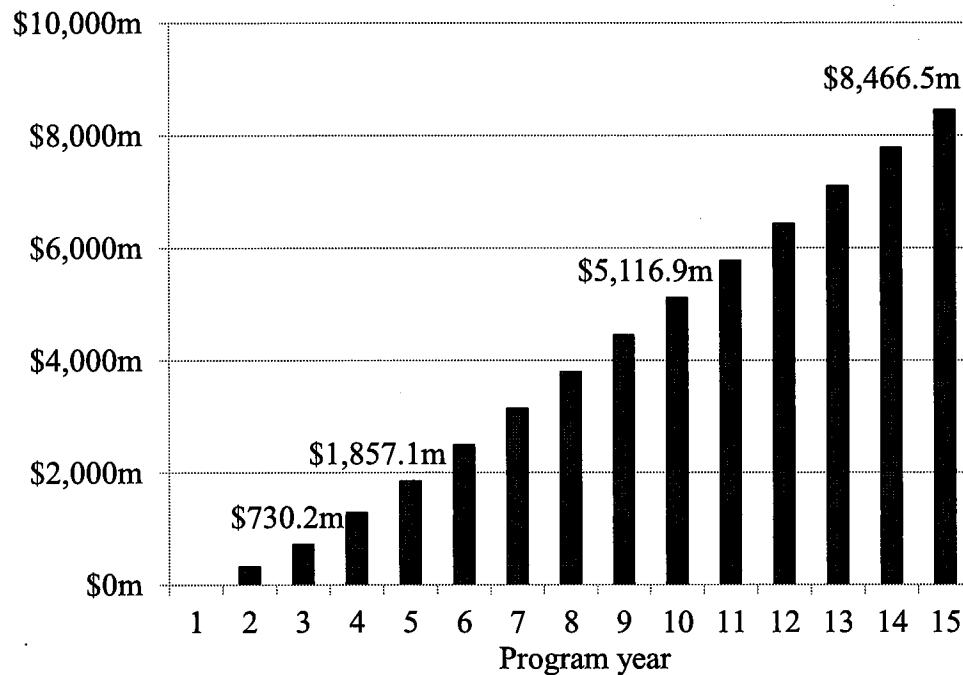
Regarding investment returns, the study initially assumes that money in the plan is invested in a blended fund with an average rate of return of 5 percent annually. The study also assumes an initial fee level of 120 basis points, so that the net-of-fees return is 3.8 percent.¹⁰ Figure 2 shows how assets are estimated to accumulate over time in the ORSP under these assumptions regarding contributions, leakages, and investment returns.

⁸ Sensitivity to this assumption is tested later in the study.

⁹ The study assumes that accounts that close have balances equal to the average of all accounts. Because larger accounts are less likely to close than smaller ones, this assumption likely overstates losses due to closures.

¹⁰ As discussed below, the initial fee level of 120 basis points is higher than is needed to cover costs in the long run. Alternative assumptions on the rate of return are also shown below.

Figure 2. *Estimated Total Assets under Management in ORSP, in Millions*



Source: CRR calculations.

Figure 2 illustrates that assets grow quickly as the program rolls out, with almost linear growth occurring thereafter. The next section highlights how the revenue generated by these assets interacts with the costs described earlier to determine the program's break-even point as well as the highest initial loss accrued by the program. Box 2 discusses how these assets change under the assumptions in Box 1, as well as under alternative assumptions of 3- and 5-percent contribution rates, higher in-service leakages, or lower investment returns.

Box 2. ORSP Assets under Alternative Program Design and Economic Assumptions

In Box 1, fewer participants (a 50-percent participation rate) and more account closures (a 50-percent closure rate) lead to fewer accounts and lower costs. But these assumptions also lead to lower asset levels. Under these assumptions, in Year 15 of the program there would be \$4,478 million dollars in ORSP accounts from \$8,446 under the initial scenario.

Other assumptions are important for asset accumulation as well. If the contribution rate is 5 percent but without automatic escalation, assets in Year 15 are reduced to \$6,693 million from \$8,446 million under the initial scenario. Dropping the rate to 3 percent (without escalation) assets fall to \$4,067 million in Year 15.¹¹

Assuming in-service leakages are 4 percent instead of 1 percent has a marginal effect on asset accumulation, reducing them to \$7,041 million by Year 15 instead of \$8,446 under the initial scenario. Finally, assuming a return of 1 percent (-0.2 percent net of fees) reduces assets by a similar amount, to \$7,086 million in Year 15.

ORSP Finances

Front-loaded costs and back-loaded revenue pose a financing challenge for the ORSP. Given that the ORSP has the desire not to set fees too high for the early participants, the program may be financed by: 1) offering a long enough contract that the vendor ultimately makes a profit; 2) taking out a loan on some of the initial losses to be paid back through program fees; or 3) through some combination of the first two options. Understanding how long it takes to cover ongoing costs and the size of the largest deficit (amount needed to finance) will help the program make several decisions, including: 1) how much to self-finance versus finance through a long contract period; 2) how much to smooth asset fees over time; and 3) which employers to roll out the program to first.

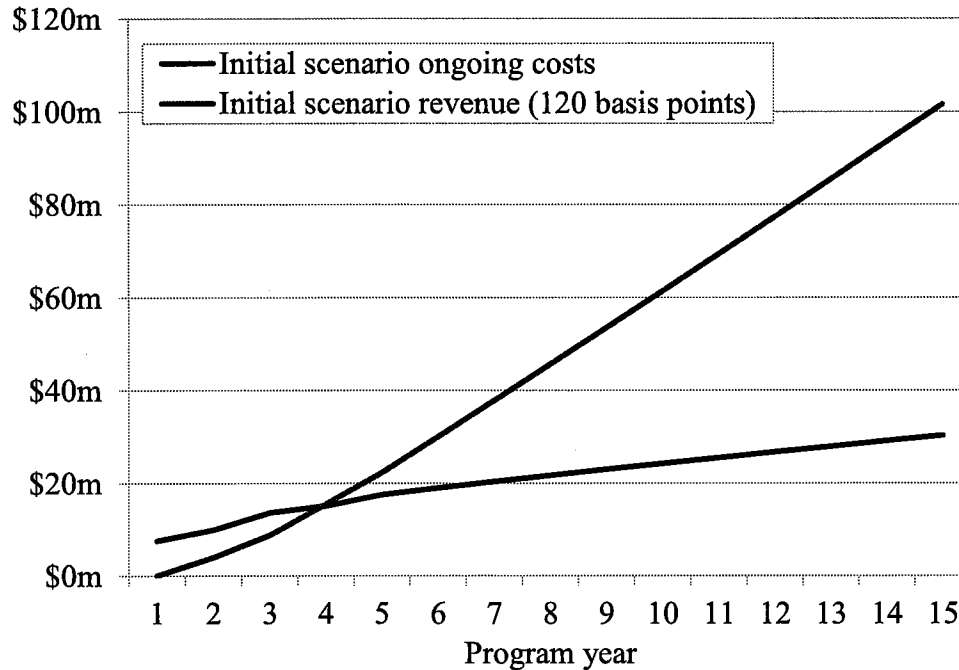
The “Break-even” Point

Ignoring fixed costs, a key driver of the program’s financial status is the length of time before revenue exceeds the ongoing costs of account and program maintenance (summarized in Figure 1B). If the ORSP goes on too long with an operating deficit then, when combined with fixed costs, the program will end up with a large overall deficit. Fortunately, as Figure 3 shows, under the

¹¹ Since automatic escalation is associated with lower participation, these projections reflect an assumption that the number of accounts increase by about 50,000 by Year 10 due to increased participation under a fixed contribution rate versus auto-escalation.

assumptions of the initial scenario, program revenue – again defined as 1.2 percent of the asset balances shown in Figure 2 – exceed ongoing costs within 4 years.

Figure 3. *Estimated Revenue and Ongoing Costs of ORSP, in Millions*



Source: CRR calculations.

In other words, the study estimates that within 4 years of ORSP’s launch, the cost of running it should fall below 120 basis points, or 1.2 percent of assets. Figure 4 shows the progression of ongoing costs as a share of asset balances and illustrates that, not only do costs fall below 1.2 percent of assets within four years, but also that long-run costs fall below 0.5 percent of assets. This longer term trend suggests that fees could be lowered for program participants once the program is up and running. Box 3 contains information on how the years to the break-even point changes based on the changes to program design and the economic assumptions outlined in Box 2 and under some alternative cost assumption.

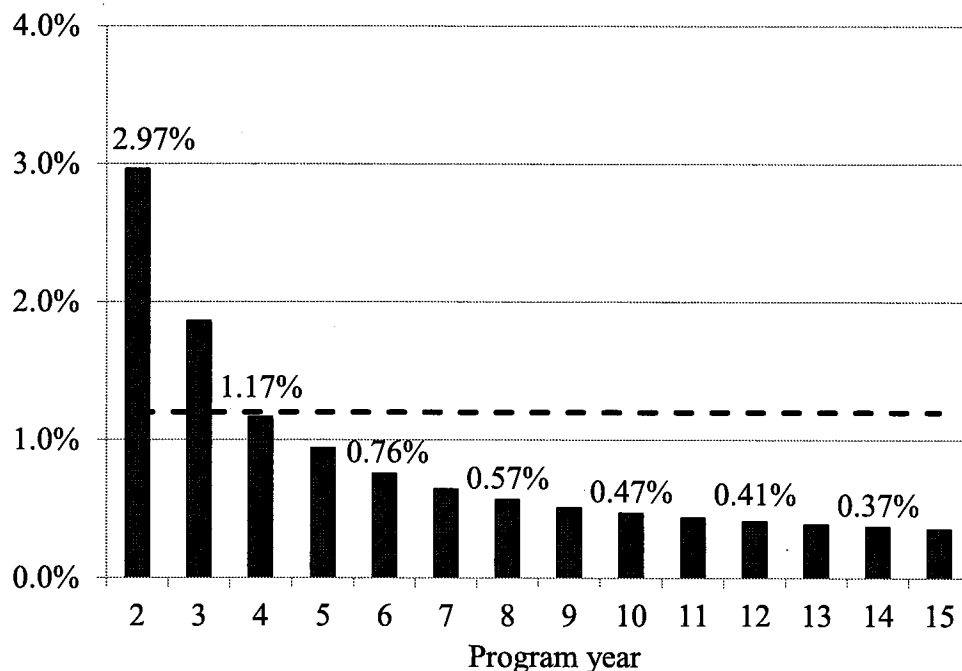
Box 3. *ORSP Time to Break Even Under Alternative Program and Economic Assumptions*

Should participation be lower than anticipated (50 percent) and account closures higher (50 percent), the time to breakeven is 5 years, since lower revenue is generally offset by lower account administrative costs.

A fixed contribution rate of 5 percent also increases the break-even mark by just 1 year (since, early in the program, the average contribution rate is close to 5 even under auto-escalation), but a fixed rate of 3 percent increases the time to 7 years. Quadrupling leakages to 4 percent or reducing stock returns to 1 percent also increase the break-even point by just 1 year. This result stems from the fact that early ORSP asset growth is driven primarily by contributions.

Increasing recordkeeping costs per account to \$40 also increases the breakeven year from 4 to 5 as does doubling the yearly cost of program administration (e.g., communication, governance).

Figure 4. *Ongoing Costs as a Share of Assets*



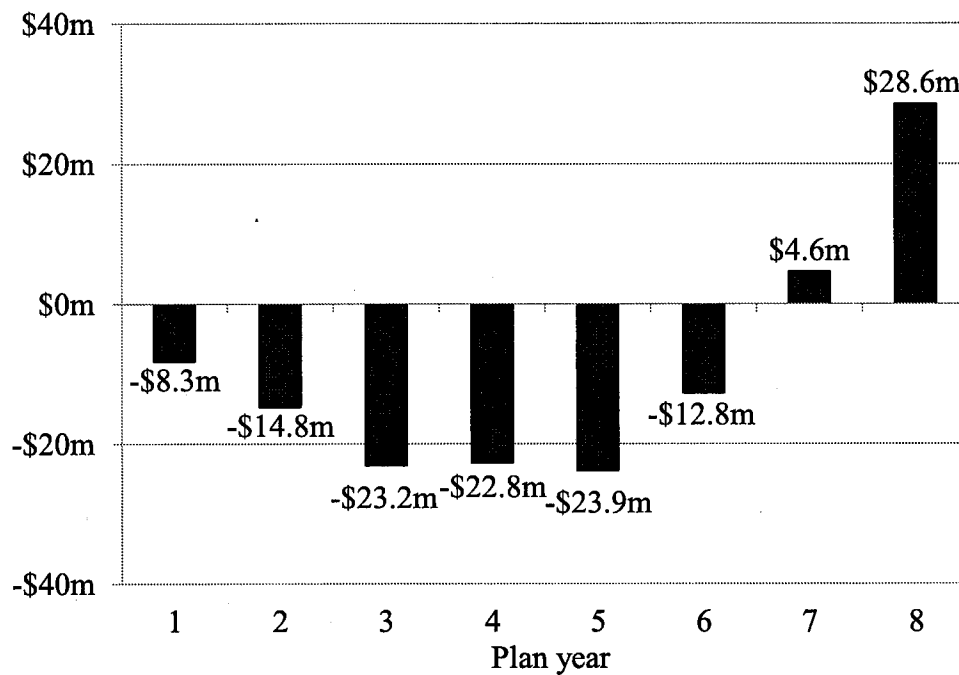
Source: CRR calculations.

Paying Off Initial Losses

Initially, the program will operate at a deficit because of the start-up costs and the fact that ongoing costs exceed revenue. The ORSP will likely consider some combination of offering a long enough contract that a vendor ultimately makes a profit or taking out a loan to finance some of the initial losses, paid back out of fees on program participants.

As ORSP considers these options, two numbers are important: 1) the length of time it would take for the recordkeeper to offset initial losses with gains; and 2) the largest loan ORSP would have to take on, i.e., the maximum deficit accumulated by the program. Calculating these two quantities is relatively straightforward – the financial model developed by the Center for Retirement Research (CRR) keeps a running sum of the program’s start-up costs and each year’s losses and reduces the loss total by the amount that revenue exceeds costs until the total loss is zero. Figure 5 shows this calculation for the initial scenario, again under the assumption that fees are 1.2 percent of assets under management.

Figure 5. *Running ORSP Program Net Profits, in Millions*



Source: CRR calculations.

Figure 5 shows that the program achieves a positive running profit by Year 7. This finding suggests that a recordkeeper that absorbs the initial start-up costs and operating deficit would be willing to accept no less than a 7-year contract to be the first recordkeeper for the ORSP. It also shows that the highest total loss is \$23.9 million. If the ORSP took on a portion of these losses through a loan to be paid back later, then a shorter contract could be offered (and less-risk averse vendors might bid to serve the program). In any case, the findings suggest that under the initial

scenario, the program achieves the break-even point relatively quickly and with a manageable initial deficit. Box 4 shows how these quantities vary under the alternative assumptions from Box 3.

Box 4. Length to Repay Starting Costs and Maximum Deficit under Alternative Program Design and Economic Assumptions

If participation is low (50 percent) and account closures are also high (50 percent), ORSP will take 8 years to pay off the initial loss instead of 7, but with an overall smaller maximum deficit of \$18.2 million, as opposed to \$23.9 million. The reason for a smaller deficit is that while fewer accounts exist to generate revenue to pay off the deficit, the costs of a smaller account base are also lower.

However, a fixed contribution rate of 5 percent increases the time to pay off the loss by one year – to 8 years in total – and increases the maximum deficit to \$27.2 million due to more accounts (lower contribution rates increase participation slightly) and less revenue. A fixed contribution rate of 3 percent has larger consequences, increasing the payoff period to 12 years and the largest deficit to \$47.0 million.

Quadrupling leakages or reducing the assumed rate of return on stocks have small effects – they increase the payoff period by 1 year and increase the maximum deficit to \$26.4 million and \$25.3 million respectively.

Changing the cost assumptions has predictable effects on these results. Doubling start-up costs and increasing employer onboarding costs from \$200 to \$250 per account does not increase the payback period but does increase the maximum deficit to \$26.3 million. If the administrative cost of individual accounts is increased from \$30 to \$40, the time to payoff initial losses increases to 9 years and the maximum deficit increases to \$40.7 million. On the other hand, if yearly administrative costs (e.g., communication, governance) double, the effect is smaller with a one-year increase in the payoff period and with an increase in the maximum deficit to \$30.5 million.

Alternative Scenarios

So far, results have been presented for an initial scenario, with Boxes 1 to 4 presenting one-off changes to these assumptions. This section presents the cumulative effect of several program changes that, taken together, could alter the financial status of the ORSP, including changes in the rollout of the program and changes in the fees charged and the default contribution rate. Table 6 provides alternative assumptions for the rollout of the program. Because ORSP is interested in covering as many workers as possible as soon as possible, there has been discussion of rolling out the program to employers with fewer than five employees in Year 3 instead of Year 5. This line of thinking has led ORSP to also consider allowing workers at employers that have a retirement savings plan in which they are not covered (e.g., because they are part-time workers) to opt into the

ORSP, along with the self-employed, in Year 4 after the initial rollout. Although ORSP has also considered allowing workers with a plan at work who are not included to be automatically enrolled, this study, to be conservative, has assumed only opt-in status is achieved by these workers.

Table 6. *Outcomes under Alternative Program Rollouts*

	Initial scenario	Add employers under 5 employees in year 3	Add employers under 5 in year 3 and allow opt in of other uncovered workers in year 4
Year 15 accounts	533,000	534,000	627,000
Year 15 assets	\$8,467m	\$8,547m	\$10,315
Year 15 assets/account	\$16,000	\$16,000	\$16,000
Breakeven year	4	5	5
Payoff year	7	7	7
Max deficit	\$23.9m	\$30.3m	\$32.6m
Year 15 cost/assets	0.36%	0.36%	0.34%

Note: Opt-in of workers not included in a plan offered by their employer and the self-employed are assumed to opt in at a rate of 20 percent, much lower than the participation rate of those auto-enrolled.

Source: CRR calculations.

Table 6 shows that changing the rollout to expand coverage has the long-run benefit of increasing accounts and assets. But a shorter-term cost also occurs, since more employers and employees with small balances are brought on during the low revenue period of ORSP. Under both of these alternative rollout scenarios, the maximum deficit increases to over \$30 million.

The ORSP also has an interest in keeping fees low, even during the initial period when account balances are low. Table 7 shows three scenarios that build off of fees of 100 basis points on assets under management: 1) the initial scenario but with fees of 100 basis points, rather than 120 basis points; 2) the initial scenario with fees of 100 basis points and a default contribution of 5 percent without the auto-escalation assumed in the initial scenario; and 3) the initial scenario with fees of 100 basis points and a default contribution rate of 3 percent, also without auto-escalation. The second and third scenarios are meant to reflect concerns that auto-escalation may be difficult to implement and that even a 5 percent contribution may be high for some uncovered workers.

Table 7. *Outcomes under Alternative Fees and Default Contributions*

	Initial scenario	100 basis points with auto-escalation from 5 to 10 percent	100 basis points and 5-percent default	100 basis points and 3-percent default
Year 15 accounts	533,000	533,000	584,000	591,000
Year 15 assets	\$8,467m	\$8,545	\$6,762	\$4,109
Year 15 assets/account	\$16,000	\$16,000	\$12,000	\$7,000
Break-even year	4	5	6	8
Payoff year	7	8	9	15
Max deficit	\$23.9m	\$32.2m	\$35.9m	\$56.8m
Year 15 cost/assets	0.36%	0.36%	0.43%	0.62%

Source: CRR calculations.

Table 7 makes it clear that while fees of 100 basis points slightly increase the break-even period than do fees of 120 basis points, combining these lower fees with a lower default of 3 percent increases the time it takes to pay off the initial losses and the largest deficit substantially. As a final exercise, and because ORSP has an interest in financial outcomes under various fee structures, Table 8 shows the results of the initial scenario, but with fees at 50, 75, and 150 basis points.

Table 8. *Outcomes under Alternative Fees*

	Initial scenario: 120 basis points	50 basis points	75 basis points	150 basis points
Year 15 accounts	533,000	533,000	533,000	533,000
Year 15 assets	\$8,467m	\$8,746m	\$8,645	\$8,350
Year 15 assets/account	\$16,000	\$16,000	\$16,000	\$16,000
Break-even year	4	10	7	4
Payoff year	7	>15	11	6
Max deficit	\$23.9m	\$66.9m	\$42.8m	\$20.0m
Year 15 cost/assets	0.36%	0.35%	0.35%	0.36%

Source: CRR calculations.

Table 8 illustrates that when fees are very low the maximum deficit can be substantial, and at 50 basis points the program will not pay off initial losses within 15 years. Higher fees obviously reduce the payoff time and reduce the maximum deficit. With fees of 150 basis points, the largest deficit the program achieves is just under \$20 million. In addition to these scenarios, Appendix A

lays out the range of outcomes under several alternative program setups that impact ORSP finances.

Conclusion

Under the initial set of assumptions – 75 to 80 percent participation, contributions equal to 5 percent of pay with auto-escalation to 10 percent, and 120 basis point fees – this study suggests that the ORSP should be able to generate revenue to cover its costs within four years and pay back initial losses within seven years. This result suggests the plan is feasible. Furthermore, as Appendix A shows, the program is still feasible even under assumptions less favorable than the initial ones discussed in the main body of this study.

However, several caveats are in order. The program will perform worse financially if contribution rates are set low or per account costs are high, and a combination of these factors could lead to a program that is either financially unsustainable or requires fees that are too expensive to be beneficial to participants. The program is less vulnerable to the risk of low participation rates, high rates of withdrawals, low returns on investment, or high rates of account closure when workers transition from job-to-job or out of the labor force. The reason is simple: early program revenue is driven primarily by contributions and early costs primarily by costs per account. Although fixed costs are important, due to the anticipated scale of the program, higher initial costs are not prohibitive in the long run, even though they can lead to high deficits that will need to be covered in the ORSP's early years. In short, it is anticipated that the ORSP will be financially feasible under the initial scenario presented.

Appendix A

This Appendix lays out the range of outcomes that occur under the alternative program designs that ORSP has expressed an interest in. These are laid out in Table A1 along with the inputs used and ordered from lowest deficit to highest deficit. Costs may also vary and alternative scenarios with respect to costs are laid out in Table A2 given the initial program assumptions made throughout the report.

Table A1. *Alternative Outcomes under Various Program Assumptions*

	Scenario							
	1	2	3	4	5	6	7	8
Inputs								
Rollout to under 5 employees	Year 5	Year 5	Year 5	Never	Year 3	Year 3	Year 3	Year 3
Fees	150	120	120	100	120	100	100	100
Cont. rate	5 to 10	5 to 10	5 to 10	5 to 10	5 to 10	5 to 10	5	3
Employees	No plan	No plan	No plan, others opt in	No plan	No plan	No plan	No plan	No plan
Outputs								
Year 15 accounts	533,000	533,000	627,000	480,000	534,000	534,000	585,000	592,220
Year 15 assets (\$m)	\$8,350	\$8,467	\$10,235	\$7,788	\$8,547	\$8,627	\$6,842	\$4,158
Year 15 assets/account	\$16,000	\$16,000	\$16,000	\$16,000	\$16,000	\$16,000	\$12,000	\$7,000
Break-even year	4	4	5	5	5	5	5	8
Payoff year	6	7	7	8	7	8	9	15
Max deficit	\$19.9m	\$23.9m	\$27.0m	\$27.4m	\$30.2m	\$35.1m	\$37.9m	\$57.5m
Year 15 cost/assets	0.36%	0.36%	0.35%	0.36%	0.36%	0.35%	0.43%	0.62%

Source: CRR calculations.

Table A2. *Alternative Outcomes under Various Cost Assumptions*

	Scenario		
	1	2	3
Inputs			
Start-up costs	Double start-up \$250 per employer	Initial assumptions	Double start-up \$250 per employer
Ongoing costs	Initial assumptions	Double admin. \$40 per account	Double admin. \$40 per account
Outputs			
Year 15 accounts	533,000	533,000	533,000
Year 15 assets (\$m)	\$8,467	\$8,467	\$8,467
Break-even year	4	6	6
Year 15 assets/account	\$16,000	\$16,000	\$16,000
Payoff year	7	9	9
Max deficit	\$26.3m	\$47.4m	\$49.9m
Year 15 cost/assets	0.36%	0.44%	0.44%

Source: CRR calculations.

Appendix B

This Appendix lays out the assumptions used to derive the number of active and inactive accounts, as well as the number of account closures. These assumptions drive program costs through the ongoing administrative cost per account and drive program revenues.

Number of Active Participants

The number of participants in the ORSP is driven by two factors: 1) the pool of eligible workers; and 2) the rate of participation of eligible workers. As Table B1 shows, three groups of uncovered workers may be eligible for the ORSP and either automatically enrolled in the program or allowed to opt in: 1) workers without any retirement plan at work; 2) workers with a retirement plan at work; and 3) workers who are self-employed and do not have a retirement savings plan.

Table B1. *Uncovered Workers in Oregon by Reason for Lack of Coverage, 2014*

Reason for not having coverage	Number of workers	Share of total workforce
All Oregon workers	1,746,000	100 %
<i>Uncovered workers</i>	<i>1,051,300</i>	<i>60</i>
Employer does not offer plan	591,000	34
Employer offers plan, not included	259,000	15
Self-employed without plan	202,000	11

Note: Weighted using the *Current Population Survey March Supplement* weights. Includes both private and public sector workers. All public sector workers are considered as working for an employer offering a plan in which they are not included.

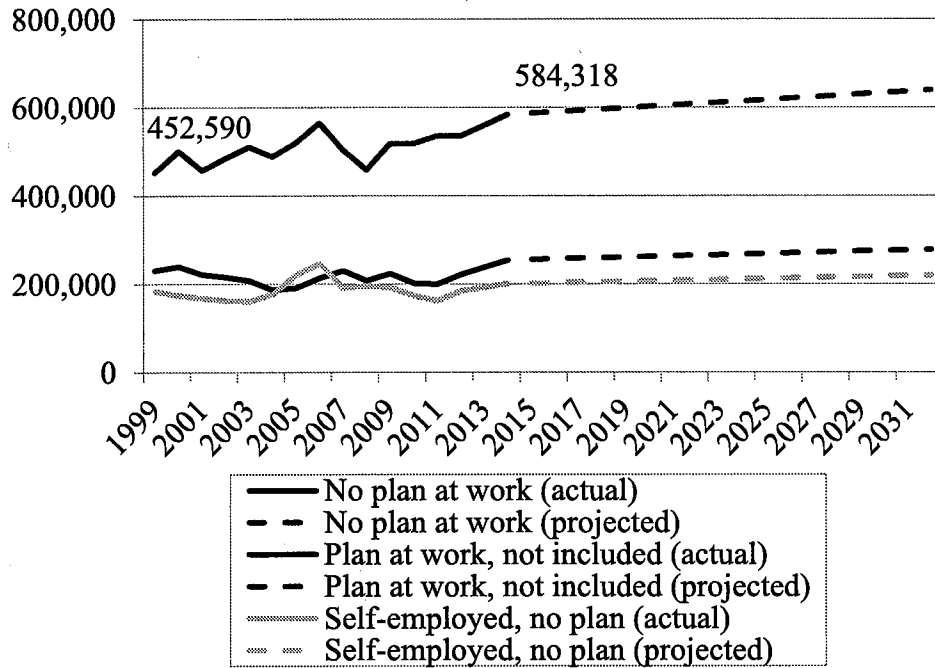
Source: CRR calculations from *Current Population March Supplement, 2015* (reflecting calendar year 2014).

The initial assumption of the feasibility study is that only workers who do not have a plan at work will be automatically enrolled in the ORSP and that other workers will not be given the opportunity to opt in. It is also assumed that workers under the age of 18 are not eligible for the program – this assumption eliminates just over 6,000 workers from the 590,581 eligible workers shown in Table B1. The net result is a population today of roughly 584,000 eligible workers.

Of course, projecting the feasibility of the ORSP requires not just the population of eligible workers today, but also the eligible population over the next 15 years. According to the Bureau of Labor Statistics, the U.S. labor force is expected to grow at a rate of 0.5 percent per year over the next decade, and this rate was assumed for the feasibility study. The net result of that assumption

is shown in Figure B1: by 2032, an estimated 642,000 workers will be eligible for auto-enrollment in the ORSP. Figure B1 also shows projections for the other two groups of uncovered workers.

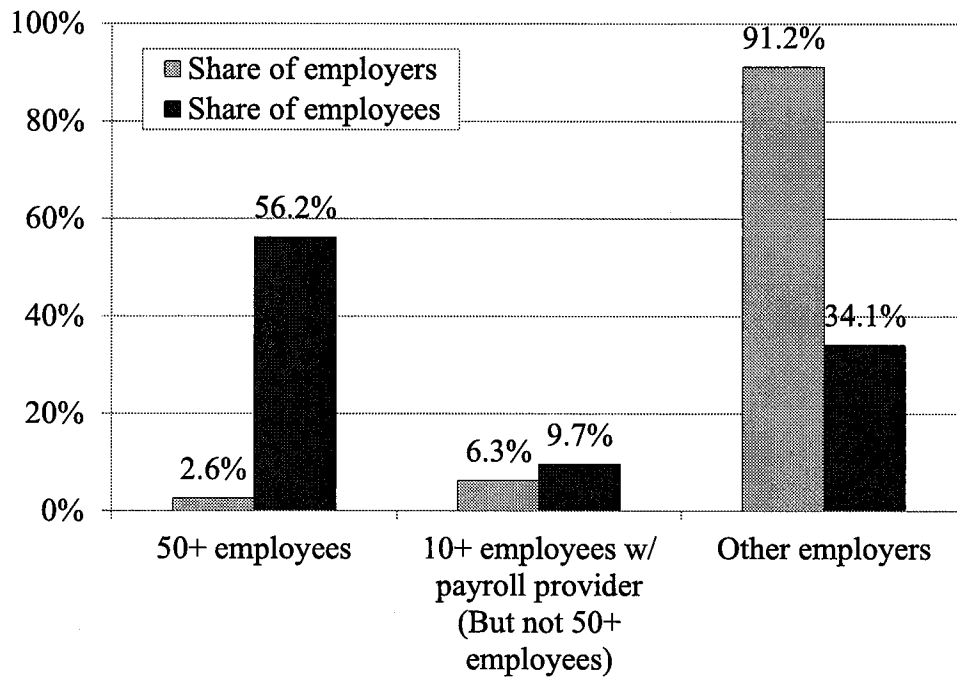
Figure B1. *Actual and Projected Number of Uncovered Workers Over 18, 2000-2032*



Source: CRR calculations from *Current Population Survey March Supplement, 2000-2015* (representing calendar years 1999-2014).

Although all workers without a retirement plan at work shown in Figure B1 will ultimately be eligible for the ORSP, to ensure the plan functions smoothly, the ORSP roll out is planned in stages: first to employers with 50 or more employees, then to employers with 10+ employees and a payroll provider, then to employers with 5 or more employees, and finally to the remainder of employers. This roll out will ensure that in the early years of the program, few employers are affected, as is illustrated in Figure B2. At the same time, the rollout strategy includes a majority of Oregon workers in the first stage.

Figure B2. *Share of Employers and Employees by Size and Payroll Management*



Sources: Oregon Employment Division, 2015; and *Current Population Survey March Supplement*, 2015 (representing calendar year 2014).

Once the number of workers without a plan at work whose employers are eligible for the ORSP is determined, the feasibility model divides this population between those who are full-time and those who are part-time workers. This division of workers is important for three reasons stemming from the market research: 1) part-time workers are more likely to opt out than full-time workers; 2) part-time workers are more mobile than full-time workers; and 3) part-time workers earn less than full-time workers. Based on the market research, the feasibility study assumes that roughly 75 percent of workers without a plan at work are full-time workers (30 or more hours per week) and the remainder are part-time workers.

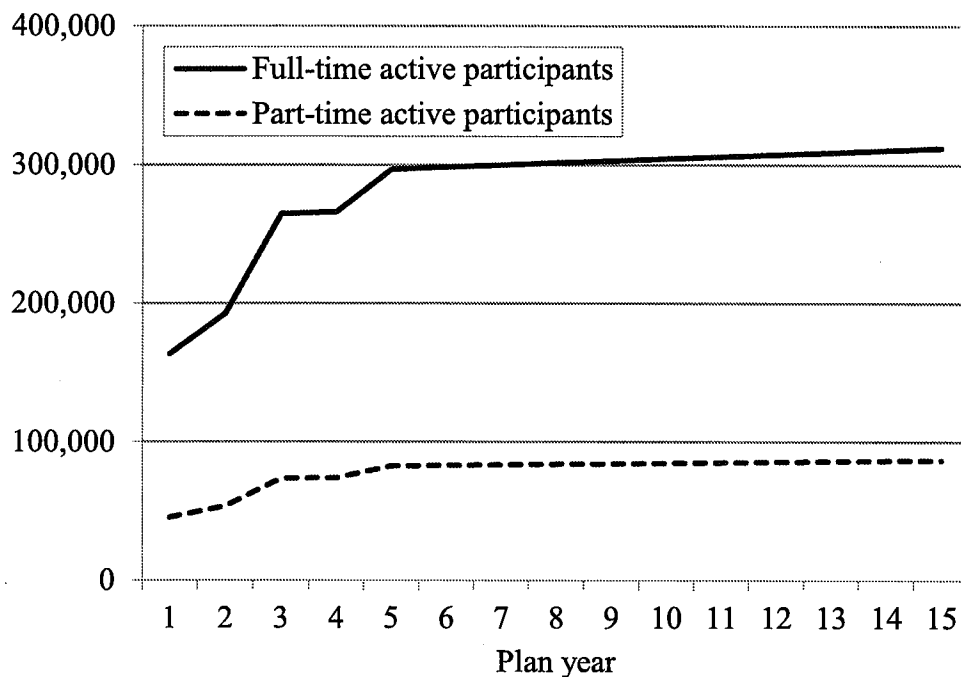
Of course, not all of these workers will participate in the plan. For one, employers currently without a plan may decide they would rather offer a private-sector alternative to the ORSP. Until the program is actually rolled out, it is unclear how often this will occur. The study has assumed that 20 percent of employers currently not offering a plan take this alternative course and that there is not a relationship between the number of employees at a firm and the firm deciding to offer a private sector alternative. This combination of assumptions means that the number of potential participants highlighted in Figure B1 is reduced by 20 percent in the study.

Next, some workers who are eligible for the plan and whose employer chooses the ORSP will opt out. Under the plan design currently being considered – a Roth IRA with a default contribution of 5 percent, auto-escalating to 10 percent – the Center for Retirement Research (CRR) estimates that roughly 79 percent of full-time and 76 percent of part-time workers will participate in the program. This estimate is based on a nationwide survey of uncovered workers, with the results weighted to reflect the Oregon population distribution of income and age.¹² These participation rates reflect the fact that auto-escalation is predicted to decrease the probability of participation by about 5 percentage points. The rates also reflect the age and income distribution of Oregon workers – older workers are less likely to participate in the ORSP and higher-income workers are more likely to participate. Although other relevant variables do influence participation – for example, Hispanic and black workers are more likely to participate than whites – the most significant are income and age. Because these participation rates are estimates, the feasibility model is also tested under lower assumed rates of participation, with results presented in the main body of the report.

The number of “active accounts” is arrived at by multiplying the number of eligible workers and the participation – i.e., the number of accounts where an individual is currently contributing from their paycheck. Based on the estimates contained in Figures B1 and B2 and the participation rates discussed above, Figure B3 shows the number of full- and part-time active participants over the first 15 years of the plan. Participation quickly increases during the first three years of the program as more employers are reached by the roll-out and then continues to grow in line with population growth.

¹² See the Market Research Report for more detail on how these estimates were maintained.

Figure B3. *Estimated Number of Full- and Part-time Active Participants*



Source: CRR calculations.

Number of Inactive Participants

Inactive participants are participants formerly eligible and participating in the ORSP but who have either become unemployed or switched to a job not covered by the ORSP (because the employer offers a qualified plan), but maintained their account. Three factors influence the number of inactive accounts. The first is the level of job-to-job and job-to-nonemployment mobility amongst active participants. The second is the rate at which participants who switch jobs end up employed at an employer offering a qualified plan. The third is the rate at which workers making these transitions close their accounts.

To estimate the first two quantities, longitudinal data are required to follow individual workers who would currently be eligible for ORSP to see their transition rates. For this purpose, the *Current Population Survey* used throughout much of this study is inadequate, since it contains the required longitudinal data for only a subset of its sample. Instead, the study turns to the *Survey of Income and Program Participation*, a study that follows individuals for two to five years and asks detailed information about retirement plans and tracks an individual's place of employment. In particular, the study identifies a sample of workers who would be eligible for ORSP and then follows them for 1 year to see if they: 1) remain at the same job; 2) switch jobs; 3) become

nonemployed; or 4) exit the state of Oregon. The study assumes workers who switch jobs or become non-employed have the chance to become inactive participants, while workers exiting the state will close their accounts (see below). Table B2 shows the estimated rates of mobility obtained.

Table B2. *One-Year Job Mobility Rates for Oregon and U.S. Workers by Coverage and Hours Worked, 1997, 2005, and 2009*

	Full-time			Part-time		
	Covered at work	Employer does not offer plan	Employer offers plan, not included	Covered at work	Employer does not offer plan	Employer offers plan, not included
I. Oregon						
Same employer	82.2%	62.7%	59.3%	81.5%	56.1%	46.2%
New employer	11.2	23.1	28.8	11.1	26.3	30.8
Not working	5.1	11.8	8.5	7.4	15.8	23.1
Exit Oregon	1.5	2.4	3.4	0.0	1.8	0.0
II. Rest of U.S.						
Same employer	79.9	67.7	65.0	68.3	53.4	53.9
New employer	14.8	23.1	26.4	21.3	28.3	30.1
Not working	3.8	7.8	6.4	8.9	16.8	13.6
Exit state	1.4	1.3	2.3	1.5	1.5	2.4

Source: *Survey of Income and Program Participation*, 1996, 2004, and 2008 Panels (representing data on mobility for 1997, 2005, and 2009).

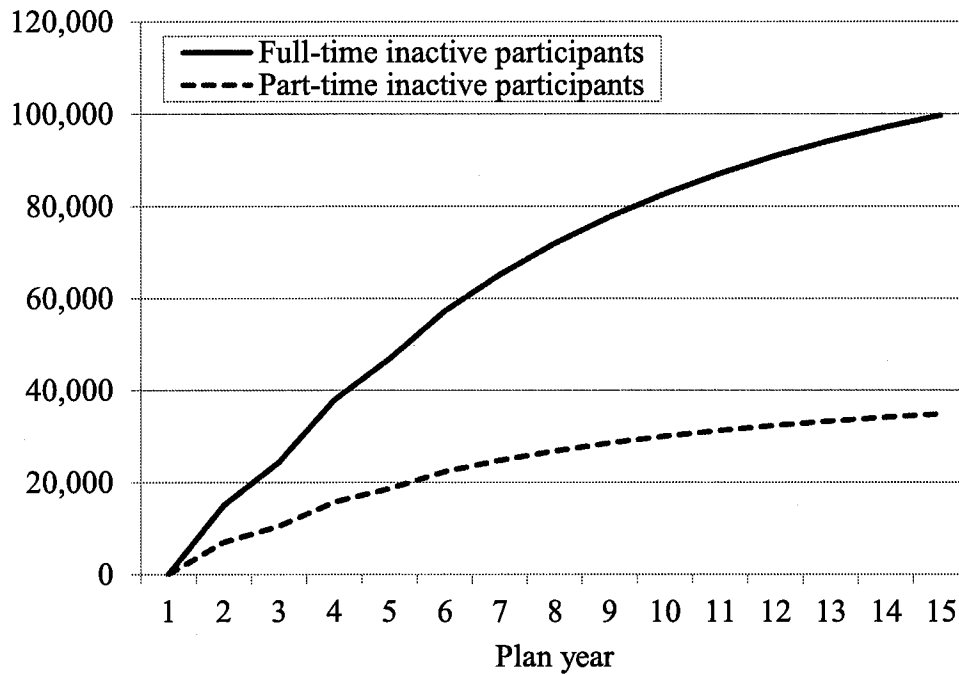
Because the sample of workers from any one state in the SIPP is small, Table B2 shows the needed results for both U.S. workers and Oregon workers. The results are fairly similar and indicate that workers affected by ORSP are more mobile than workers covered by a plan with part-time workers especially so. Because the sample of Oregon workers is relatively small, U.S. estimates were used in the study. Although the table above uses several panels of the SIPP to increase sample sizes, the 2008 data has a special feature: it asks people two different times one year apart about their employer's pension offerings while the other panels only ask these questions once. This allows the study to estimate the second quantity above, the rate at which employees who switch jobs end up at an employer offering a qualified plan. This was accomplished by examining the pension coverage of workers who were not covered by a plan in 2009 when they were first interviewed about retirement plans, but who said they were covered in 2010. The study finds that 74 percent of eligible workers who switched jobs still did not have a retirement savings plan at their second job.

These numbers can be used to estimate the rate at which workers either remain covered by ORSP or transition out of the program. Because 68 percent of eligible workers remain at the same job and another 17 percent (0.23×0.74) switch jobs but remain eligible for ORSP, the study assumes 85 percent of active accounts remain active.¹³ Of the remaining 15 percent, 6 percent of workers are assumed to switch jobs to employers ineligible for the ORSP. Of these, and in the absence of reliable data on the likely rate account closures, the study assumes 20 percent close their account and 80 percent maintain it. An additional 8 percent of workers are assumed to leave their job for nonemployment. Of these, we assume 30 percent retire (based on the age profile of Oregon workers), while 70 percent look for work and have a choice as to whether to maintain their account. Again, we assume 20 percent of these workers close their accounts while 80 percent maintain them. The net result of these assumptions is that in any period, about 5 percent ($0.23 \times 0.26 \times 0.80$) become inactive due to switching to an ineligible employer while 4 percent ($0.08 \times 0.70 \times 0.80$) of active accounts will become inactive due to nonemployment.¹⁴ The end result is shown in Figure B4.

¹³ This number is for full-time workers. Part-time workers have a rate of 74 percent remaining active, which is lower than for full-time workers due to part-time workers higher rates of job mobility and transitions to not working.

¹⁴ This number is for full-time workers. Part-time workers have a rate of 15 percent becoming inactive, which is higher than for full-time workers due to part-time workers higher rates of job mobility and transitions to not working.

Figure B4. *Estimated Number of Full- and Part-time Inactive Participants*



Source: CRR calculations.

Account Closures

Workers who transition to an ineligible employer or who cease working temporarily can also close their accounts. The numbers presented above can be used to calculate the rate of account closures in a straightforward way. Because 20 percent of workers who move to an ineligible employer close their accounts, a little over 1 percent (0.06×0.20) of active accounts will be closed by these workers. Another 1 percent ($0.08 \times 0.70 \times 0.20$) will be closed by workers who cease working temporarily. Finally, we assume all workers retiring or leaving the state of Oregon close their accounts. This results in an additional 4 percent of active accounts closing – 2 percent due to retirement (0.080×0.30) and 2 percent due to moving out of Oregon. On the whole, about 6 percent of active accounts are assumed to close each year.¹⁵

¹⁵ This is the number for full-time workers. Part-time workers have a rate of 10 percent closing, which is higher than for full-time workers due to part-time workers higher rates of job mobility and transitions to not working.

Inactive Accounts Returning to Active

The last transitional feature of the model is that some inactive accounts become active. In particular, the model assumes that all unemployed workers “churn” back into the market the next year, since typically spells of not working are brief. Of inactive accounts held by workers at ineligible employers, a small fraction re-enter the ORSP each year as they transition back to the covered sector. In the *Survey of Income and Program Participation* analysis described above, about 11 percent of workers with a plan at work switch jobs in a given year and, of these, about 33 percent switch to a job without a plan. Thus, each year about 4 percent of inactive accounts held by workers outside of ORSP reenter the program.

SB-1374-HD-1

Submitted on: 3/27/2019 12:55:39 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
GARY SIMON	Policy Advisory Board for Elder Affairs (PABEA)	Support	No

Comments:

Dear Chair Luke, Vice Chair Cullen, and Honorable Members of the House Committee on Finance:

I am Gary Simon, Chairperson of the Policy Advisory Board for Elder Affairs (PABEA), which is an appointed board tasked with advising the Executive Office on Aging (EOA).

I am offering testimony on behalf of PABEA.

My testimony does not represent the views of the EOA but of PABEA.

PABEA wholeheartedly supports SB 1374 SD 2 HD 1.

We encourage you to establish the Hawaii Retirement Savings Program as soon as possible.

Employees are 15 times more likely to save when they can do so at work.

The Hawaii Retirement Savings Program will make it easier for businesses to offer employees a way to save out of their regular paychecks, helping them take charge of their financial futures and live independently as they age.

It is their own money that they can take with them from job to job.

It is their own money that they can rely on in later years for a more secure future.

Contributions will be made with an automatic deduction from their paychecks.

Providing employees a simple way to save for retirement will mean fewer will need to rely on public assistance later in life, which will save taxpayer dollars.

We urge you to support SB 1374 SD 2 HD 1, and we urge you to recommend its passage.

We thank you for seriously considering the bill.

Very sincerely,

Gary Simon

Chairperson, Policy Advisory Board for Elder Affairs (PABEA)

Aloha Finance Committee Chair Senator Luke and Senators,

The Hawaii County Mayor's Advisory Committee on Aging has prioritized Senate Bill 1374 House Bill 1, which creates a voluntary retirement savings plan for the many people who do not have any pension or retirement plan through their jobs, as one of our main priorities. It is essential not just for those individuals and families, but for the state and its elderly services programs.

In Hawaii County, already a quarter of our population is over 60, and that percentage will increase. People are healthy and living longer - which means they need some income as they age, and Social Security, with payments which average about \$1000/month, is not adequate. With the high cost of living, people are not saving and many do not have financial advice that could help them set up accounts; but with automatic deductions, people feel less pain since they never see the money, and it simply accumulates and increases in value over time. It makes saving for retirement simple and easy.

At a minimal cost to the State to set up the mechanism by which employers can do voluntary automatic deductions from an employee's wages to the plan, our state can minimize future social service expenses. Please support this sensible and low-cost program that builds assets for Hawaii's citizens and prevents elder poverty.

Mahalo,

Meizhu Lui, Chair
Hawaii County Advisory Committee on Aging



HAWAII APPLESEED

CENTER FOR LAW & ECONOMIC JUSTICE

Testimony of Hawai‘i Appleseed Center for Law and Economic Justice
Supporting SB 1374 SD2 HD1 – Relating to the Hawaii Retirement Savings Program
House Committee on Finance
Friday, March 29, 2019, 3:30 PM, conference room 308

Dear Chair Luke, Vice Chair Cullen, and members of the Committee:

Thank you for the opportunity to testify in **SUPPORT** of **SB 1374 SD2 HD1**, which would establish the Hawaii retirement savings program administrative fund as well as require the department of budget and finance to prepare an annual report detailing the department's activities for the previous fiscal year to the governor and legislature.

According to the U.S. Census Bureau's supplemental poverty measure, Hawai‘i's senior poverty rate is 17 percent, the 6th highest rate in the nation.ⁱ Astoundingly, over half (54 percent) of Hawai‘i's seniors have incomes below 200 percent of the supplemental measure, which is the 2nd highest rate among the states.

Meanwhile, 85.3 percent, or over 253,000, Hawai‘i residents aged 65 or older received Social Security benefits in 2017, which was lower than the national average of 90.1 percent.ⁱⁱ Hawai‘i seniors received a median monthly Social Security benefit of \$1,332, just below to the national average of \$1,347,ⁱⁱⁱ while having to contend with the highest cost of living among all the states.

With our ever-growing senior population facing statistics like that, encouraging and enabling our working-age population to save for retirement is crucial to prevent more poverty among our seniors and to protect our state's future economic health.

According to the AARP, half of our state's private sector workers do not have access to an employer-sponsored retirement plan, and very few who are eligible to contribute to an individual retirement account actually do so. Low-wage workers are especially unlikely to have a retirement plan available to them at their workplace.

The vast majority of Hawai‘i registered voters polled by AARP wish that they had more retirement savings, are concerned that some of their fellow residents will end up on public assistance programs in retirement, and agree that lawmakers should do more to make it easier for small business owners to offer their employees a way to save for retirement.^{iv}

Dozens of states have been considering the ways that they could help their workers save more via state-managed retirement plans. In fact, at least five states – California, Connecticut, Illinois, Maryland, and Oregon – already have automatic enrollment retirement savings plans for their workers.

According to the Center for Economic and Policy Research, one major advantage of state plans is that workers could keep their accounts with them when they change jobs.^v In addition, the fees of state-managed plans would likely be just a fraction of those levied by private 401(k)s:

This may seem like a small difference, but it adds up over a worker's career. Imagine a person earning \$60,000 a year and putting 6 percent of their pay, or \$3,600 a year, into a 401(k) for thirty years. At the end of thirty years, the difference between a plan with annual administrative costs of 0.3 percent and a plan with costs of 1.0 percent would be almost \$30,000. (This calculation assumes a 5.0 percent average annual nominal return.)

The difference would be even larger if we factored in that private accounts are likely to charge between 10 to 20 percent of savings to convert the sum into an annuity when workers retire. A public plan would charge considerably less.

Another important feature of many of these types of plans is automatic enrollment. According to the AARP, 90 percent of those who are participating in employer-sponsored retirement programs state having their savings automatically deducted from their paychecks makes it easier for them to save. As a possible remedy to the lack of retirement savings, automatic enrollment can affect senior poverty levels and, by reducing the number who would need to rely on public assistance, state budgets.

We need to start now to ensure that as few of our future retirees as possible end up struggling in poverty. Mahalo for your consideration of this testimony.

ⁱ <https://www.kff.org/report-section/poverty-among-seniors-issue-brief/>

ⁱⁱ https://www.ssa.gov/policy/docs/statcomps/oasdi_sc/

ⁱⁱⁱ <https://www.ssa.gov/policy/docs/statcomps/supplement/2017/index.html>

^{iv} https://www.aarp.org/content/dam/aarp/research/surveys_statistics/econ/2016/2016-Hawaii-Work-and-Save-Onepager-AARP-res-econ.pdf

^v <http://cepr.net/blogs/beat-the-press/the-paul-ryan-small-savers-tax>

The Hawai'i Appleseed Center for Law and Economic Justice is committed to a more socially just Hawai'i, where everyone has genuine opportunities to achieve economic security and fulfill their potential. We change systems that perpetuate inequality and injustice through policy development, advocacy, and coalition building.



CGPTA
Chinatown Gateway Plaza Tenant Association
Since 2006

To: Committee on Finance (FIN)
From: Chinatown Gateway Plaza Tenant Association (CGPTA)
Date: Friday, March 29, 2019, 3:30 PM
Place: Conference Room 308, State Capitol, 415 South Beretania Street

Re: Strong Support for SB1374 SD2 HD1, Relating to the Hawaii Retirement Savings Program.

Aloha e Chair Luke, Vice Chair Cullen, and Members of the Committee on FIN,

My name is Steve Lohse, I'm a resident of Chinatown Gateway Plaza (CGP), a 200-unit, city-owned, affordable housing property in Chinatown. I'm also chair of the CGP Tenant Association (CGPTA), organized by CGP residents in 2006 to keep ourselves informed and engaged in matters of concern to our community. On behalf of the CGPTA, thank you for this opportunity to submit written testimony in **Strong Support for SB1374 SD2 HD1**.

We have low- and fixed-income elderly residents in our affordable housing community who wish they'd had this Hawaii Saves opportunity, including myself, and we have younger low-income residents who will benefit from a retirement savings program made easy. This as a *family program* that will ease the private and public burdens of multiple generations without savings and so needing family support or public assistance to get by.

Hawaii Saves is a good idea that is overdue in Hawaii. Our choice is an easy one between the power of compound interest available to workers without existing savings plans versus the private hardships and public expense of a growing number of elderly retirees without retirement savings. Please consider the following:

- 216,000 workers in Hawaii have no access to retirement savings through work, the easiest way to save.
- Commercial financial institutions don't meet the needs of this market, whatever they claim.
- 70% of small business owners surveyed support a private retirement savings program that employers don't administer or pay for.
- Similar existing programs, e.g., Oregon, demonstrate that Hawaii Saves won't cost taxpayers, either, as employees themselves make all the contributions into their own retirement accounts.
- This appropriation is merely a temporary loan from the state to set the program up.
- In fact, Hawaii Saves could save Hawaii taxpayers over \$30 million in public assistance within 15 years when Hawaii participants save an extra \$1000/year, a mere \$20/week.
- Workers are 15 times more likely to save for retirement when saving is made easier through payroll deductions. Work Hard, Save Easy!

Please, give private-sector Hawaii workers and their small-business employers a choice for retirement savings through work! Hawaii Saves is the right program now for Hawaii and for Hawaii's quarter-million workers who lack employer-sponsored retirement savings plans. **Please, pass SB1374 SD2 HD1**. Thank you!

Aloha no,
Steve Lohse, Constituent of Rep. Daniel Holt and Chair,
Chinatown Gateway Plaza Tenant Association (CGPTA)
CGP.Tenant.Association@gmail.com

Aloha Rep. Luke and members of the Finance Committee

On behalf of the 800+ registered members of the Young Progressives Demanding Action, I would like to voice my strong support for SB 1374, which will implement a Hawai'i Saves retirement savings program similar to the OregonSaves program.

Oregon was the first to start a state-facilitated retirement savings program to help private-sector workers and small businesses with an easy way to save at work. From July 2017 to Dec. 2018, 22,000 Oregon workers have saved nearly \$11 million. California's CalSavers and Illinois' Secure Choice are in the pilot phase and at least seven other states should roll out their programs soon.

Hawai'i needs to catch this wave and join other states in helping workers and small business. The alternative – doing nothing – means more people will age into poverty. Studies consistently show that people are 15 times more likely to save if it comes out of their paychecks and 20 times more likely to save if they are auto-enrolled and given the option to opt out.

But about half of Hawai'i's private-sector workers can't save at work because their employers don't offer payroll deduction savings plans.

Contrary to what some might have you believe, Millennials understand the importance of saving early for their retirement. We currently witness the distress of many elderly citizens who struggle to survive on social security payments, and we also recognize the threats to the continuation of these benefits in the long run.

Understanding the need to save for retirement, however, is just the starting point, and government action is needed to help private-sector workers to participate in a valid and sustainable retirement savings program.

Young people will benefit most from having access to savings because of compounding. A 20-year-old who starts with \$100 and saves \$100 a month (the average amount OregonSaves workers contribute) for the rest of his or her working life will have over \$1 million at age 67, assuming a 10 percent annual return. And that doesn't count additional contributions you might make as you make more money.

But all generations will benefit from starting to save and getting into the savings habit. And fewer people retiring into poverty means we will all pay less taxes for social services programs that kupuna living on just Social Security will need.

Hawai'i must take action now and join in the movement to find ways to help our future retirees to be retirement-ready.

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House Committee on Finance

Friday, March 29, 2019

3:30 pm

Conference Room 308

Dear Chair Sylvia Luke and Members of the Committee:

My name is Sylvia K.S. Ching and I strongly support SB 1374, SD2, HD 1 (Hawaii Saves Retirement Savings Program).

There is a retirement crisis in America. The average retirement savings is only \$2,500 and about half of all workers are in danger of retiring broke. Nearly half of Hawaii's private sector workers have no access to a retirement savings plan through their employers.

Programs such as Hawaii Saves is an effective way to get people to save. People are 15 times more likely to save if the money comes out of their pay checks through payroll deduction.

A Retirement Savings Program can save taxpayers \$32.7 million in public assistance programs in less than 15 years if retirees save an extra \$1,000 a year.

I worked for the State of Hawaii government and am grateful for their savings plans I had access to through payroll deduction. I saved enough money to be self sufficient and not rely on public assistance programs now and in the future. Prior to working for the government I worked for small business and non profits which didn't offer such savings plans. If I were offered such plans I would have saved a lot more. I want all employees to have access to employer provided savings plans.

This is a zero cost solution. The small start up cost will be reimbursed as the program grows.

Please pass and fully fund SB1374, SD2, HD 1 for the good of employees, business, and the taxpayers.

Thank you.

Sylvia Ching

sching35@gmail.com

SB-1374-HD-1

Submitted on: 3/28/2019 12:25:06 AM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Gil A Penaranda	AARP	Support	No

Comments:

My name is Gil Penaranda and I am writing testimony in support of SB 1374.

There are 216,000 Hawaii private sector workers without a way to save for their retirement through automatic payroll deduction. And studies have shown that only 5% of workers will save for their retirement without the assistance of this simple to implement automatic payroll deduction.. And without this retirement savings, these workers will retire into virtual poverty -- needing the help of their families and taxpayers through their retirement years.

Other States, like Oregon, have foreseen this crisis and passed laws similar to Hawaii's SB 1374. YET IT'S BEEN FOUR LONGS YEARS, since supporters of SB 1374 have been trying to pass this Hawaii Saves bill.

We need to pass this bill and allow Hawaii's workers enjoy their golden years of retirement with their families and friends. Help them save for their retirement. We have waited long enough,...

TESTIMONY OF THE AMERICAN COUNCIL OF LIFE INSURERS IN
OPPOSITION TO SB 1374, SD 2, HD 1, RELATING TO THE HAWAII
RETIREMENT SAVINGS PROGRAM

March 29, 2019

Honorable Representative Sylvia Luke, Chair
Committee on Finance
State House of Representatives
Hawaii State Capitol, Room 308
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chair Luke and Committee Members:

Thank you for the opportunity to testify in opposition to SB 1374, SD 2, HD 1, Relating to the Hawaii Retirement Savings Program.

Our firm represents the American Council of Life Insurers (“ACLI”). ACLI advocates on behalf of 280 member companies dedicated to providing products and services that promote consumers’ financial and retirement security. 90 million American families depend on our members for life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, dental and vision and other supplemental benefits. ACLI represents member companies in state, federal and international forums for public policy that supports the industry marketplace and the families that rely on life insurers’ products for peace of mind. ACLI members represent 95 percent of industry assets in the United States. Two hundred twenty-one (221) ACLI member companies currently do business in the State of Hawaii; and they represent 95% of the life insurance premiums and 99% of the annuity considerations in this State.

Section 1 of SB 1374, SD 2, HD 1, states the purpose of the bill “is to establish a Hawaii retirement savings program for private sector employees” to be administered by the State’s Department of Budget and Finance.

The proposed retirement savings plan is an AARP branded state-run retirement plan called “Work and Save.” This AARP plan has been introduced in approximately 30 states, most of which have rejected it. It is an expensive employer mandate that requires the business owner to offer the state plan and automatically enroll their workers. It also poses significant costs, risks, legal complexities and significant potential liabilities for the state and its private employers.

By way of background, since 2012 six states have adopted state created and run retirement plans similar to that proposed in SB 1374, SD 2, HD 1, namely, California, Connecticut, Illinois, Maryland, Oregon and most recently, New York. This year, legislation to adopt the AARP plan has been introduced in Hawaii and 4 other states – Nevada, Tennessee, Virginia and Washington.

While ACLI is strongly committed to promoting retirement security both at the state and federal levels, ACLI joins with many employer groups in opposing enactment of the proposed AARP plan set forth in this bill.

Of the six states who have adopted the plan only one, Oregon, has begun to implement its plan, the OregonSaves program. The remaining five states have not yet moved forward and for good reasons.

The employer mandate in the state-run and administered retirement savings plan proposed by SB 1374, SD 2, HD 1, is likely pre-empted by federal law. In addition, the auto-enrollment provisions in the bill will very likely subject business owners to liabilities under ERISA.

While in 2016 the Department of Labor (DOL) adopted ERISA safe harbor rules that could have allowed these plans, the rules also required the sponsoring state to meet certain requirements that would add even more costs. For example, the state had to take responsibility (i.e., assume liability) for the safety of the plan's investments and was required to provide a mechanism for enforcement of worker rights under the plan. In 2017, however, Congress determined that all private workers deserve the protection of ERISA and disapproved the DOL safe harbor in a resolution passed under the Congressional Review Act. Thus, there is no longer any ERISA safe harbor for these state-run plans.

The U.S. Chamber of Commerce has since received a definitive legal opinion that the AARP plan will likely be determined to be an employer-sponsored plan subject to and governed by ERISA. The opinion also concludes that the plan's provisions will most likely be found to be pre-empted by ERISA and therefore the plan could be challenged in court – in which case the state's money spent on implementing the plan will have been wasted. At the very least employers will be found to be the fiduciaries of the plan and become responsible for all of the obligations under ERISA that the sponsoring state refused to assume¹. The Courts will ultimately determine the legal status of these plans.

Indeed, the California plan, now called CalSavers, is now under serious legal threat from a lawsuit filed in Federal District Court² in November of last year, asserting that the plan subjects employers to ERISA liability, in violation of the authorizing statute. If the lawsuit is successful, it would undermine the premise of the five other AARP plans that have already passed and those that are proposed this year in this state and in Nevada, Tennessee, Virginia and Washington.

Hawaii's adoption of SB 1374, SD 2, HD 1, will, therefore, force Hawaii's small business owners, the owner's employees and the State of Hawaii to enter into a costly program that may expose them to enormous liabilities.

The flawed assumption underlying SB 1374's proposed State run retirement savings plan is that there is a lack of access to retirement plans in the private sector.

¹ By its terms SB 1374, SD 2, HD 1, states that the program, the Department of Budget and Finance, its Director and the State of Hawaii "shall not guarantee any rate of return or any interest rate on any contribution; provided that the program, the department, the director, and the State shall not be liable for any loss incurred by any person as a result of participating in the program." See page 6, lines 12 through 17, SB 1374, SD 2, HD 1.

² Howard Jarvis Taxpayers Association, et al. vs. The California Secure Choice Retirement Savings Program, et al., No. 2:18-cv-01584 MCE-KJN, Dist. Ct, Eastern Dist., CA.

To the contrary, the current market place offers a wide variety of low cost and affordable vehicles that facilitate worker retirement savings. These include, for example, individual and payroll deduction IRAs, SIMPLE plans for small employers, and individual annuities.

The creation of a new State sponsored and run retirement plan for private sector employees would be costly.

In states that have studied the AARP plan, the estimated startup and ongoing state costs are prohibitive, ranging from \$15M to \$20M in Illinois, \$23M in Oregon³, \$45M in Connecticut, and \$170M in California.

While the State of Hawaii should as a matter of policy encourage all of its residents to accumulate the savings they need to secure their own retirement, the wisdom of the State's spending its scarce resources to fund the cost of State run retirement plan mandated by SB 1374 SD 2, HD 1, may be questioned. Indeed, as this Committee is well aware, funding the state's own employees' retirement plan and other costly government funded programs has been and continues to be challenging.

There are currently two bills pending before Congress which expand access to retirement savings for millions of private sector workers: the Retirement Enhancement and Savings Act of 2018 (RESA), S. 2526, which has been referred by the Senate to its Finance Committee; and the Family Savings Act of 2018, HR 6757, which was recently passed by the House and will now be considered by the Senate. I've attached a one page summary of the major provisions of both bills for your information. ACLI and AARP both support this legislation. Its passage by Congress is quite possible this year. If so, it will address the very issues that the AARP plan seeks to address – which is to provide an effective vehicle to facilitate and encourage retirement savings by employees of small businesses.

For the foregoing reasons ACLI must respectfully oppose SB 1374, SD 2, HD 1, and urges this Committee to defer passage of this bill.

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³ The Oregon Legislature initially allocated \$1.3 million over the first 18 months after the bill became effective. This funding only covered the initial design of its proposed state-run plan for private workers. A pilot phase of the OregonSaves program began in July 2017 and through calendar year 2018, the Board has now borrowed and spent more than \$5 million in General Fund dollars for startup costs.

ACLI URGES CONGRESS TO PASS COMPREHENSIVE RETIREMENT SECURITY LEGISLATION

The House of Representatives passed the [Family Savings Act](#) in September 2018 as an important first step toward enhancing America's retirement system. The bill expands access to retirement plans for millions of workers, provides lifetime income protection for savers, and makes it easier for employers to offer annuities in their plans. Congress can go even further to help Americans saving for retirement by adding additional provisions from the [Retirement Enhancement and Savings Act](#) to any final retirement package. This bipartisan, bicameral legislation includes a variety of long-supported provisions that can help enhance the employer-provided retirement system.

A STRONG RETIREMENT SECURITY PACKAGE WILL:

ENCOURAGE SMALL EMPLOYER PLAN COVERAGE

- **Expand Multiple Employer Plans (MEPs).** This provision expands retirement plan access by permitting employers not yet prepared to sponsor their own retirement plan to join together to achieve economies of scale and receive advantages with respect to plan administration. Sens. Susan Collins (R-ME) and Bill Nelson (D-FL) sponsored a bill on this topic in the Senate and Reps. Kind and Vern Buchanan (R-FL) have led efforts in the House.
- **Provide a Small Employer Plan Start-Up Credit.** This provision would encourage small employers to establish a plan by providing them with up to a \$5,000 credit toward start-up costs. Legislation on this provision has been sponsored by Reps. Kind and Dave Reichert (R-WA).

ENCOURAGE WORKER PARTICIPATION AND EDUCATION

- **Facilitate Auto-enrollment Enhancements.** This provision removes the 10% cap on automatic employee contribution rate increases, allowing employees to automatically save more for retirement on a yearly basis. Employees can always opt-out. Furthermore, employers can take up to a \$1,500 credit to add auto-enrollment to a new or existing plan. This provision is included in bills sponsored by Sens. Collins and Nelson and Rep. Richard Neal (D-MA).
- **Facilitate Lifetime Income Disclosure.** This provision will help participants better understand their retirement savings by providing an illustration of how their savings account balance translates into monthly lifetime income in retirement, similar to the illustration included in the federal Thrift Savings Plan. It also provides employers greater certainty in offering plan participants the option to elect to take a portion of their retirement savings in the form of an annuity. Sens. Johnny Isakson (R-GA) and Chris Murphy (D-CT) have sponsored a bill on this topic in the Senate and Reps. Luke Messer (R-IN) and Mark Pocan (D-WI) have led efforts in the House.

ASSIST WORKERS IN SECURING THEIR RETIREMENT SAVINGS OVER THEIR LIFETIME

- **Improve Upon the Current Annuity Selection Safe Harbor.** This provision will provide clear guidance to employers on how to satisfy their duty to consider an insurer's financial capability when selecting an insurer to provide annuities to plan participants. The provision allows employers to rely upon specific representations from insurers regarding their status in relation to state insurance regulation and enforcement. Reps. Tim Walberg (R-MI) and Lisa Blunt Rochester (D-DE) have sponsored legislation to advance this effort.
- **Provide Lifetime Income Portability.** To continue lifetime income protections in the event of a sponsor-initiated change, this legislation permits participants to roll over lifetime income options to an IRA that provides the same or similar lifetime income protection. Legislation on this topic has been sponsored by Reps. Neal and Mike Bishop (R-MI).

ACLI POSITION

Now is the time to enact comprehensive retirement security legislation. These components are extremely timely and necessary - every day between now and the year 2030, 10,000 Americans will reach age 65, and many of these retirees will live another 20-30 years in retirement. ACLI strongly encourages Congress to take advantage of this once-in-a-generation opportunity and pass comprehensive retirement security legislation this year to ensure as much access to retirement products for as many people as possible.



House Committee on Finance
March 29, 2019 – 3:30 pm

SB 1374, SD2, HD1: Relating to the Hawaii Retirement Savings Program

Chair Luke, Vice Chair Cullen, and members of the Committee, my name is Cynthia Takenaka representing NAIFA Hawaii, an organization of life insurance agents and financial advisors throughout Hawaii who primarily market life, annuities, long term care and disability income insurance products.

SB 1374, SD2, HD1, will enact a Hawaii Retirement Savings Program to establish, implement and maintain a Hawaii retirement savings plan via payroll deductions provided that the employer does not offer a qualified retirement plan. This measure also has blank appropriations for two years for administrative and operating expenses of the program. The Director of Finance will administer the program with duties listed on pages 6 to 8 of the bill but will also be able to enter into a management contract requiring a “financial organization” to perform the duties listed on pages 6 to 8.

We respectfully do not support SB 1374, SD2, HD1.

On page 4 of the bill, item# 2 is a **mandate** since it “...**requires** an employer to offer its employees the opportunity to contribute to an account in the program through payroll deduction unless the employer offers a qualified retirement plan...” Additionally, this mandate to facilitate payroll deductions will be an administrative burden especially for small employers. Past session legislative bills on this matter were voluntary participation by employers/employees. With this automatic enrollment, it will allow employees to opt out of the program.

NAIFA understands the importance of retirement security and acknowledges that many Americans are not saving enough for retirement. A lack of financial education about the need to save for retirement, competing financial needs which cause many to live from paycheck to paycheck with nothing left over each month to put away in a retirement account, as well as a lack of discipline needed to place long term security over immediate wants, all play a large role in our country’s retirement savings.

Analyzing the potential effectiveness of legislative proposals to address the real reasons behind the low rates of retirement savings, policy makers need to carefully consider the potential costs of this proposal and the impact it will have on already over-extended state budget.

We do not believe that a state-run plan that competes with private market plans is the answer. Availability and access to retirement savings options are not the problem— there already exists a strong, vibrant private sector retirement plan market that offers diverse, affordable options to individuals and employers. If a retirement plan is not offered in the workplace, employees have ready access to low cost IRAs through financial institutions and financial advisors.

Both policymakers and media attention have focused on workers not saving enough for retirement. Many states have considered bills that would implement state run IRA type retirement plans options available to workers at small and medium companies.

Since 2012 Massachusetts has established their Security Choice Savings Program but only for small non-profit organizations. Oregon became the first state last year to receive contributions from private sector employees. California (population 39 million), Connecticut (population 3.5 million), Illinois (population 12 million), Maryland (population 6 million), and Oregon (population 4 million), Vermont (population 600,000+) have begun to implement similar plans in various stages of full roll out. We also question the limited investment options that will be available to the employees.

The use of state funds for the start-up, operating costs, state responsibilities and obligations under ERISA would be better served by using scarce state resources for education and outreach efforts designed to educate our citizens about the importance of saving for retirement, rather than implementing a costly state-run plan.

State auto-IRAs should not apply to truly low income workers but rather benchmarking minimum salaries to participate in the state run plan. For the truly needy households, means-tested benefit programs such as food stamps, TANF, SSI, Medicaid, and housing subsidies could be in jeopardy since asset and income tests may be triggered and disqualify workers.

- There's also **a lawsuit pending in California** (Howard Jarvis Taxpayers Association et al. vs. The California Secure Choice Retirement Savings Program, et al.) filed in federal District Court where the plaintiffs maintain that the California plan is subject to ERISA and therefore is in violation of its provisions. Having a state law requiring participating employers to set up an employee retirement plan may be subject to or pre-empted by ERISA depending how the court will interpret the plan design.

On April 6, 2016, the U.S. Department of Labor issued its final fiduciary rule that affects financial advisors and their clients' retirement plans. Since the Trump administration the fiduciary rule is partially final with a transition period of eighteen months from January 1, 2018 to July 1, 2019.

In August 2016 the U.S. Department of Labor under the Obama administration adopted a rule that would facilitate the enactment of state-run retirement plan legislation by exempting such

plans from coverage under ERISA. Under this DOL rule, these state programs would not be considered a “employee pension benefit plan” under ERISA and participating employers would therefore not be subject to the duties and responsibilities required by ERISA.

However, **in early 2017 the Congress utilized the Congressional Review Act to override this DOL action and nullify this rule.** President Trump signed the repeal into law in May 2017. As a result, many open questions exist as to whether and to what extent these state-run plans will be subject to duties, responsibilities and potential liability under the federal ERISA law. **The “safe harbor” under the ERISA exemption is no longer in effect and now, participating employers may be subject to the duties and responsibilities currently required by ERISA and liability issues for the employer as a fiduciary.**

Several retirement savings measures are moving through Congress right now. Wouldn't the federal government be better suited to create a program since there's a good chance of passage?

NAIFA supports the Retirement Enhancement and Savings Act (RESA), HR 5282 that has bipartisan support and enhancing safe harbors, create incentives for employers to expand participation and savings and easing administrative, reporting obligations and costs to employers.

Thank you for allowing us to share our views and respectfully **ask that this measure be held in committee.**



March 28, 2019

The Honorable Sylvia Luke, Chair
The Honorable Ty J.K. Cullen, Vice Chair
House Committee on Finance
State Capitol
415 South Beretania Street
Honolulu, HI 96813

RE: SB 1374, AN ACT RELATING TO THE HAWAII RETIREMENT SAVINGS PROGRAM

Dear Chair Luke, Vice Chair Cullen and Members of the House Committee on Finance:

The Securities Industry and Financial Markets Association¹ is a national trade association which brings together the shared interests of more than 340 broker-dealers, investment banks and asset managers. Many of our members have a strong presence in Hawaii where they provide services to investors and retirement plans, including advisory services, investment opportunities and plan recordkeeping.

SIFMA appreciates the opportunity to provide feedback on SB 1374, which seeks to establish a state-sponsored, mandatory-on-employer auto-enroll IRA for private sector workers. SIFMA strongly agrees with the sponsor on the need for increased retirement savings. We are facing a retirement shortfall in this country that poses serious challenges for both individuals and governmental entities.

While we support the goal, we respectfully disagree with this legislation's proposed solution. A state-run plan poses numerous challenges, including cost, liability, and potential effectiveness. We would encourage you to explore a broader set of possibilities, including public-private partnerships, tax breaks, education efforts and other options before settling on a state-run auto IRA program. Specifically, as you discuss this legislation, we urge you to consider the following:

- **Current Access to Retirement Savings.** The market for retirement savings products in [Hawaii](#) is robust and highly competitive and has seen notable growth over recent years. More than 16,000 people are employed in the finance and insurance industries, which provide numerous, fairly-priced retirement savings options, including 401(k), 403(b), 401(a) and 457(b) plans, as well as SIMPLE, SEP and traditional and Roth IRAs. Where an employer does not provide a plan, IRAs are readily available on-line and at most financial institutions. We believe lack of access to retirement savings products is not the problem.

¹ SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. For more information, visit www.sifma.org.

- **Factors, Other Than Access, are Creating Underlying Obstacles to Savings.** With a variety of options already available, factors other than access may be keeping people from saving. It is important that any state proposal address some of the underlying issues with retirement under-saving, including competing financial needs and a lack of understanding about the importance of saving over time. In fact, an [AARP survey](#) found that “No money left after paying bills” was the leading obstacle to retirement savings. Additionally, a [survey](#) by the California Secure Choice Retirement Savings Investment Board concluded that “the leading reasons for not saving more for retirement are not making enough money or needing to pay off debts.” Indeed, not earning enough, paying off debt, unexpected expenses and a focus on helping family were the top four responses, affecting 74% of all respondents. A state-run auto IRA program does not address this issue.
- **A State-Run Plan Could Encourage Employers with Strong Retirement Plans to Re-evaluate, Thereby Lowering Overall Retirement Saving.** We are very concerned that a state-run plan could encourage employers with strong existing plans to drop their current plan in favor of a state alternative. Employers often contribute up to 6% of an employee’s gross salary directly to his or her retirement account. A state program could curb the use of employer contributions if employers with strong retirement savings plans move to the state plan for ease of compliance, lower costs or other reasons – ultimately leading to lower account balances. In fact, a market feasibility [analysis](#) of the proposed state-run plan in Connecticut showed that only 48% of employers with existing plans would not consider moving to a state-sponsored plan.
- **The Cost of a Proposed Solution.** States have estimated that the start-up costs or up-front financing costs of a program that centers around a state-run auto-IRA can range anywhere from \$8 million to over \$170 million dollars, depending on the type of plan and the size of the state. Conversely, the marketplace start-up costs in Washington State, described below, were roughly \$500k and the estimated cost of the [Utah](#) tax credit, as well as certain education initiatives that some states have explored, would all have a lower fiscal impact.
- **When Assessing Cost, it is Important to Not Overstate Projections.** Oregon’s plan (OregonSaves) is currently the only operative state-run, mandatory-on-employer, auto-IRA in the country. It has been operating for 18 months and all employers with 20+ employees are currently required to participate. In the program’s initial feasibility study, the state estimated a participation rate between 75 and 80%. A recent analysis puts the participation rate at 62%. The study estimated annual contributions over \$600m/year by Year 3. Only \$12m has been saved to date – with estimated start-up costs of \$11m. Finally, the feasibility study estimated that the plan’s budget would reach net positive after 7 years. Current estimates – if met – predict that it may take up to 10 years. The state even had to re-evaluate the number of potentially eligible workers.² Any errors in the starting estimates of any proposed ongoing program could significantly understate the cost to the state or the length of time the state would need to break-even or develop a self-sustaining program.
- **Potential Liabilities for the State.** There are several liability and litigation risks with certain state-sponsored retirement programs for private sector workers. The federal Employee Retirement Income Security Act of 1974 governs the liability of plan sponsors. According to the

² See: Oregon’s initial feasibility report, and updated feasibility [report](#) presented to the program’s Board in March 2018, an [analysis](#) of the plan by the Boston College Center for Retirement Research and the February 2019 [update](#) shared by the Board.

U.S. Department of Labor, “[p]ension plans covered by ERISA are subject to various statutory and regulatory requirements . . . These include reporting and disclosure rules and stringent conduct standards derived from trust law for plan fiduciaries.” Such requirements increase an entity’s costs and liabilities but also provide substantial investor protection.

To help facilitate the creation of a certain type of state-run plan, the DOL finalized a [rule](#) in 2016 that gave states a limited safe harbor from ERISA. Citing investor protection and other concerns, Congress [repealed](#) the rule in 2017. As such, states with qualifying plans – as this proposal would likely create – will be subject to the full range of federal requirements. They, for example, may face penalties in administrative actions or may be civilly liable for violating federal law, including failing to comply with document production deadlines, investment-related requirements and other obligations. States may also be subject to other litigation challenges. For example, a lawsuit was filed (and settled) in Oregon alleging that its state-run auto-IRA represents an overreach of the state’s authority.³

Conversely, under a marketplace program (also discussed by the U.S. Department of Labor in an Interpretive [Bulletin](#)), because the state is merely acting as an educator and facilitator, it would face minimal to no liability while ensuring participating residents receive full, robust consumer protections. The same would be true for Utah’s tax [credit](#) or any education-focused initiatives.

- **Potential Harm to Participants.** A state-run plan for private sector workers also poses some risks to participants. ERISA is a vital investor protection law that has been [effectively](#) protecting investors since the 1970s. The state should consider the value of the protections afforded by ERISA – particularly to women, children and heirs of deceased account holders - and what is potentially lost if a plan seeks to go outside the ERISA umbrella.

A state-run auto-IRA program could also harm investors who have IRA eligibility issues. There are several (often complicated) reasons why someone might be ineligible, including having a spouse with access to a workplace plan or being married and filing taxes separately. This could mean that too many residents, through no fault of their own, could find themselves penalized by the IRS.

In addition, Bankrate recently [reported](#) that 60% of people couldn’t handle a \$1000 unexpected expense without borrowing money or going into debt. A state-run plan should consider how to make sure workers understand that an emergency savings account takes precedence over retirement savings, particularly if lack of emergency savings results in consumers taking on additional debt or paying significant early withdrawal penalties.

- **A Wide Variety of Possible Solutions Exist.** As previously mentioned, there are a wide variety of potential solutions to the retirement savings crisis which we urge you to consider. For instance:
 - In May 2015, Washington State enacted and funded the first voluntary small business retirement plan “Marketplace” in the nation, which works with private providers and establishes a web-portal structure to connect private sector employers with qualifying plans.

³ Wealth Management, “First state run retirement plan faces legal challenge,” October 2017. Available at: <http://www.wealthmanagement.com/retirement-planning/first-state-run-retirement-plan-faces-legal-challenge>.

This program officially launched on March 19, 2018 and is available at www.retirementmarketplace.com. The platform was built to host other marketplaces, meaning that the Hawaii marketplace could utilize this existing infrastructure at a significantly reduced cost;

- Vermont enacted a law authorizing the development of a multiple employer [plan](#); and
- Massachusetts [established](#) a 401(k) for small non-profits.

Hawaii could also pursue additional education efforts, tax breaks to encourage businesses to participate in retirement plans, the establishment of emergency savings accounts for all Hawaii residents, or a unique initiative not addressed here.

In short, while we applaud you for seeking to address Hawaii's retirement crisis, we respectfully suggest you explore a variety of solutions before determining that a state-run plan best meets the needs of Hawaii residents.

We appreciate your willingness to consider our concerns. If you have any questions, please contact me at kchamberlain@sifma.org or 202-962-7411.

Sincerely,

/s/

Kim Chamberlain

Managing Director & Associate General Counsel
SIFMA



FINANCIAL GROUP

Strength Flexibility Preservation

Date: March 29, 2019 3:30 p.m. Agenda
Room 308

To: Rep. Sylvia Luke, Chair
House Finance Committee

From: Joanna Amberger, 3 Financial Group LLC

Subject: Support for SB 1374, HD1 Relating to the Hawaii Retirement Savings Program

Good morning Chair Johanson and Committee Members. My name is Joanna Amberger. I'm a CERTIFIED FINANCIAL PLANNER™ and owner of **3 Financial Group LLC**, a local small business. I'm writing to request your support of SB 1374 HD1, relating to the Hawaii Retirement Savings Program. This legislation would help small business and workers in the private sector save for retirement through payroll deduction and help the state facilitate the establishment of an "Auto-IRA" retirement savings program.

With the high cost of living in Hawaii, it is often hard for people in the low and middle income brackets to save for the future. Hawaii is a state of small businesses and government workers. While the government workers have many opportunities to save and invest, the private sector small business employees do not. Because of this, there is a deep disparity among Hawaii's workers, which threatens the future of individuals and our communities.

Hawaii's private sector workers need more opportunities and incentive to save. "Hawaii Saves" could help. In looking at the "Oregon Saves," model, I note that the average income of those who have participated is less than \$30,000 a year. This income group is underserved by the financial industry because they are not viewed as profitable customers.

Therefore, I want to reassure the committee that a financial planner, I'm not concerned about the proposed "Hawaii Saves," legislation taking business away from me. The group that would be most helped by this legislation is not a group that would typically look to me for services. I wholeheartedly support this avenue of helping Hawaii's private sector workers achieve financial security in retirement. Further, I note that if this group starts to invest, they will become eligible for the IRS's "Savers Credit," a special tax credit designed specifically for low and moderate-income taxpayers to help encourage saving more for retirement.

I respectfully urge you to support Hawaii Saves.



CERTIFIED FINANCIAL PLANNER™



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Art Nelson Sailmaker/Ullman Sails Hawaii

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808-593-9958 808-591-9056 fax

info@artnelsonsailmaker.com

House Finance Chair Sylvia Luke
and committee members
Hearing on Friday, March 29
3:30 p.m.
Room 308

Testimony in Support of Senate Bill 1374, HD1

My name is Larry Stenek and I am the owner of Art Nelson Sailmaker/Ullman Sails Hawaii and I am writing in strong support of Senate Bill 1374, HD 1.

We need to make it easy for workers to save for retirement. Payroll savings is the easiest way to save. But it's not easy for small business owners like myself. In fact, it's expensive and time-consuming for a business owner to set up a payroll savings plan. Our company is small. We don't have a human resources department and I don't have the time nor money to research all of the plans that are out there, nor do I have the time and money to do everything needed to keep the program going. All my time and energy and my worker's time and energy is focused on making the best sails and rigging possible and delivering quality products to our customers.

Having a state-facilitated savings plan, that we could implement into our payroll system easily, at little or no cost, would give my workers a common-sense way to save at work and make us more competitive as an employer.

Too many people in Hawaii are unprepared for retirement and have little or no savings. One of the reasons for that is the lack of access to payroll savings plans. About half of private sector workers, according to AARP, are not able to save easily at work.

What will happen to them if they get sick or can't work anymore? It's likely that we as taxpayers will have to help them with rent, food and medical care.

To me, it's a no brainer. We have to do something to make it easier for people to save or workers won't save and we will all pay for that down the line. The longer we wait to create a program like Hawa'i Saves, the less time there is for people to save and that will mean a bigger bill for taxpayers in the future.

Sincerely,

Larry Stenek

Art Nelson Sailmaker/Ullman Sails

419 Waiakamilo Road #2d

Honolulu, HI 96817

(808)593-9958

Presentation to The
Committee on Finance
March 29, 2019 at 3:30 p.m.
State Capitol Conference Room 308

Testimony in opposition to Senate Bill 1374, SD 2, HD 1

TO: The Honorable Sylvia Luke, Chair, Committee on Finance
The Honorable Ty J.K. Cullen, Vice Chair Committee on Finance
Members of the Committee

My name is Neal K. Okabayashi, the Executive Director of the Hawaii Bankers Association (HBA). HBA is the trade association representing eleven banks, including eight with headquarters in Hawai'i.

While SB 1374, SD 2, HD 1 is a worthwhile concept in that it seeks to offer a retirement plan for employees whose employer does not currently offer a qualified retirement plan it should be recognized there are many alternatives for a retirement plan do presently exist, such as an IRA. Thus, the rush to judgement seems unwise as any person seeking a retirement plan may do so now.

The intrusion of the State into a complex financial program, which may involve laws on taxation, ERISA (Employment Retirement Income Security Act), and securities law, which may expose the State to liability should not be undertaken without a careful review of the risks embedded in such a complex undertaking. The State must develop the expertise to handle such a program, if one is to be successful. It should not advance based on mimicking another state's program without careful thought. Therefore, we urge that a careful and in-depth study be undertaken before adopting any state retirement program.

The measure is mere bones which skeletal structure does not address certain key items. The advocates have claimed that the plan is for small businesses but the bill does not address that desire. They have claimed that they do not seek to compete with the private sector, but the bill does not address that issue.

HBA is concerned that the requirement of a low program fee will be a competitive edge which may tempt employers with a qualified retirement plan to terminate its plan and enter the state retirement savings program because it is cheaper. In the alternative, companies planning to offer a 401K program will be enticed to use the State plan due to lower costs which may lead to inefficiency and reduced return to consumers.

If, rather than a careful study, this measure is to pass, the program should be prohibited from enrolling employers if the employer has terminated its qualified retirement program within the previous three

years unless the employer has entered into bankruptcy or otherwise suffered adverse economic condition from reasons not within the employer's control.

Thank you for the opportunity to submit this testimony on SB 1374, SD 2, HD 1 and for the reasons set forth herein, we oppose this bill. Please let us know if we can provide further information.

Neal K. Okabayashi

SB-1374-HD-1

Submitted on: 3/27/2019 7:36:16 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Carl Takamura	Individual	Support	No

Comments:

Please support and pass SB 1374 that will create a Hawaii Saves program in Hawaii that will enable over 216,000 workers in Hawaii to have access to a simple, payroll deductible savings system. The inability for Hawaii employees to save at work is a major factor in retirement insecurity. Since people without adequate savings in retirement risk becoming dependent on social safety net programs like Medicaid, Hawaii taxpayers have a vested interest in helping its citizens save for retirement.

I urge you to support SB 1374.

SB-1374-HD-1

Submitted on: 3/27/2019 5:54:16 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Randy Ching	Individual	Support	No

Comments:

Chair Luke, Vice Chair Cullen and members of the committee,

I am in strong support of Senate Bill 1374 House Draft 1 to create a Hawai'i Saves Retirement Savings Program for private-sector workers.

It's a no-brainer. The small start-up cost will be reimbursed as the program grows and taxpayers will save money because as more people save and retire with savings, less money will be needed for social programs. A university study estimates that the state will save \$32.7 million over the first 15 years of the program if workers are able to save enough money to generate \$1,000 in annual retirement income. The combined state and federal savings would be more than \$160 million.

Hawai'i residents and an increasing number of retirees are on the edge of a fiscal crisis. The typical working household has only \$2,500 in retirement assets and those close to retirement have only \$14,500. About half of all workers are in danger of retiring broke.

Many workers – about 216,000 in Hawai'i -- have no access to a 401K, or other way to save for retirement at work via payroll deduction. This is critical because studies show that workers are 15 times more likely to save for their future if they can save through payroll deduction.

This is not a government handout. It's a public-private partnership. Workers will save their own money in accounts held by private, reputable financial services companies. Workers win; small businesses who cannot offer workers retirement savings programs win; and taxpayers win.

Randy Ching (Honolulu)

**TESTIMONEY FOR SB 1374, SD2, HD1
RELATING TO THE HAWAII RETIREMENT SAVINGS PROGRAM**

To: Representative Sylvia Luke, Chair,
Representative Ty J. K. Cullen, Vice Chair
Committee on Finance

RE: Support for SB 1374, SD2, HD1, Relating to the Hawaii Retirement Savings Program

**Hearing Date: Friday, March 29, 2019, 3:30 p.m.
State Capitol, Conference Room 308**

Chair Sylvia Luke, Vice Chair Ty J.K. Cullen, and Members of the Committee:

My name is Anna Filler and I am submitting testimony in strong support of SB 1374, SD2, HD1, to create Hawaii Saves Retirement Savings Program for private-sector workers'

Hawaii residents and an increasing number of retirees are on the edge of a fiscal crisis. The typical working household has only \$2,500 in retirement assets and those close to retirement have only \$14,500. About half of all workers are in danger of retiring broke.

Many workers, about 216,000 in Hawaii, have no access to a 401K, or other way to save for retirement at work via payroll deduction. This is critical because studies show that workers are 15 times more likely to save for their future if they can save through payroll deduction.

This is not a government handout. It's a public-private partnership. Workers will save their own money in accounts held by private, reputable financial services companies, workers win. Small businesses who cannot offer workers retirement savings programs win and taxpayers win.

Thank you for the opportunity to testify in support of SB 1374, SD2, HD1.

Anna Filler
Email: afiller@twc.com
Kaka'ako, District 12

SB-1374-HD-1

Submitted on: 3/27/2019 6:43:13 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Randolph Hack	Individual	Support	No

Comments:

Hawaii Saves is an innovative program which will increase retirement security for those not covered by employer based retirement programs. With the decrease in such plans as Defined Benefit (pension) plans, many employees just won't have much besides Social Security.

Therefore, it is important to support this bill.

SB-1374-HD-1

Submitted on: 3/27/2019 8:43:27 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Dan Gardner	Individual	Support	No

Comments:

I am in strong support of Senate Bill 1374 House Draft 1 to create a Hawai'i Saves Retirement Savings Program for private-sector workers.

This legislation is a win-win. The small start-up cost will be reimbursed overtime as the program grows and taxpayers will save money when more people save and retire with savings, less money will be needed for social programs.

Many workers – about 216,000 in Hawai'i -- have no access to a 401K, or other way to save for retirement at work via payroll deduction. This is critical because studies show that workers are 15 times more likely to save for their future if they can save through payroll deduction.

This is not a government handout. It's a public-private partnership. Workers will save their own money in accounts held by private, reputable financial services companies. Workers win, Small businesses who cannot offer workers retirement savings programs win and taxpayers win.

SB-1374-HD-1

Submitted on: 3/27/2019 9:30:13 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Kathy Jaycox	Individual	Support	No

Comments:

Chair Luke, Vice-Chair Cullen and Members of the Committee:

Thank you for providing this opportunity to testify in support of SB1374 SD2 HD1.

This program is a sustainable, revenue-neutral solution that will provide all workers with the incentive to save for retirement. Research shows that people will save when it is easy to do so. This program makes it easy for workers to save without imposing undue strain on employers.

Plus, as people save for retirement, the demand for state-supported social services will be reduced. This is a great example of how a public-private partnership can be a "win/win" situation.



FINANCIAL GROUP

Strength Flexibility Preservation

Date: March 29, 2019

To: Rep. Sylvia Luke, Chair
House Finance Committee

From: Joanna Amberger, 3 Financial Group LLC

Subject: Support for SB 1374, HD1 Relating to the Hawaii Retirement Savings Program

Good morning Chair Johanson and Committee Members. My name is Joanna Amberger. I'm a CERTIFIED FINANCIAL PLANNER™ and owner of **3 Financial Group LLC**, a local small business. I'm writing to request your support of SB 1374 HD1, relating to the Hawaii Retirement Savings Program. This legislation would help small business and workers in the private sector save for retirement through payroll deduction and help the state facilitate the establishment of an "Auto-IRA" retirement savings program.

With the high cost of living in Hawaii, it is often hard for people in the low and middle income brackets to save for the future. Hawaii is a state of small businesses and government workers. While the government workers have many opportunities to save and invest, the private sector small business employees do not. Because of this, there is a deep disparity among Hawaii's workers, which threatens the future of individuals and our communities.

Hawaii's private sector workers need more opportunities and incentive to save. "Hawaii Saves" could help. In looking at the "Oregon Saves," model, I note that the average income of those who have participated is less than \$30,000 a year. This income group is underserved by the financial industry because they are not viewed as profitable customers.

Therefore, I want to reassure the committee that a financial planner, I'm not concerned about the proposed "Hawaii Saves," legislation taking business away from me. The group that would be most helped by this legislation is not a group that would typically look to me for services. I wholeheartedly support this avenue of helping Hawaii's private sector workers achieve financial security in retirement. Further, I note that if this group starts to invest, they will become eligible for the IRS's "Savers Credit," a special tax credit designed specifically for low and moderate-income taxpayers to help encourage saving more for retirement.

I respectfully urge you to support Hawaii Saves.



CERTIFIED FINANCIAL PLANNER™



The certification marks above are owned by Certified Financial Planner Board of Standards Inc. and are awarded to individuals who successfully complete CFP Board's initial and ongoing certification requirements.

1888 Kalakaua Ave., Suite C312 | Honolulu, HI 96815 | 808.791.2925 | www.3FinancialGroup.com
Investment Advisory Services offered through Continuum Advisory, LLC., 868 E. Riverside Drive, Suite 200, Eagle, ID, an Independent Registered Investment Advisor. Continuum Advisory, LLC and 3 Financial Group, LLC are not affiliated.

SB-1374-HD-1

Submitted on: 3/28/2019 9:32:03 AM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Francine Roby	Individual	Support	No

Comments:

I strongly support Senate Bill 1374 House Draft 1 to create a Hawai'i Saves Retirement Savings Program for private-sector workers. I am a retiree and know how hard it is to accumulate savings to make a life into retirement. Hawai'i residents and an increasing number of retirees are on the edge of a fiscal crisis. The typical working household has only \$2,500 in retirement assets and those close to retirement have only \$14,500. About half of all workers are in danger of retiring broke.

As I understand it, this small start-up cost will be reimbursed as the program grows and taxpayers will save money because as more people save and retire with savings, less money will be needed for social programs. A university study estimates that the state will save \$32.7 million over the first 15 years of the program if workers are able to save enough money to generate \$1,000 in annual retirement income. The combined state and federal savings would be more than \$160 million.

Many workers – about 216,000 in Hawai'i -- have no access to a 401K, or other way to save for retirement at work via payroll deduction. This is critical because studies show that workers are 15 times more likely to save for their future if they can save through payroll deduction. I was fortunate to do this through my employer while I worked, and know this from personal experience.

This is not a government handout. It's a public-private partnership. Workers will save their own money in accounts held by private, reputable financial services companies. Workers win, Small businesses who cannot offer workers retirement savings programs win and taxpayers win.

Mahalo, please pass this bill.

Francine Roby

PO Box 1787

Honokaa HI 96727

SB-1374-HD-1

Submitted on: 3/28/2019 9:34:52 AM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Esther Ueda	Individual	Support	No

Comments:

Please support SB1374 SD2 HD Relating to the Hawaii Retirement Savings Program.

This proposal will help private sector employees save more for retirement by providing an

automatic savings program.

Retirement in Hawaii is very expensive, and too many young persons are not saving enough.

I've been retired for about 20 years and know how increasing costs can be a problem for retirees who have not prepared enough.

I believe that this program will pay for itself in the long-run, and help

future seniors enjoy a more secure retirement.

Thank you for your support.

Esther Ueda(Pearl City)

SB-1374-HD-1

Submitted on: 3/28/2019 10:01:08 AM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Francis Nakamoto	Individual	Support	Yes

Comments:

Chair Sylvia Luke, Vice Chair Ty Cullen and members of the Committee on Finance, my name is Francis Nakamoto, speaking as a private citizen in support of SB1374, which would provide Hawai'i's workers who do not have retirement savings plans an opportunity to save for their retirement needs.

SB1374 is patterned after the Oregon Saves Retirement Savings Plan which is now successfully assisting over 70,000 workers to save on an average of \$100 a month. Over \$14 million has been saved in the 1½ years of the fund's operation.

The cost of setting up Hawai'i Saves, which will allow Hawai'i's 216,000 workers without a qualified retirement savings plan, will be repaid many times over in savings from State social and welfare benefits and costs, reduced homelessness and health care expenses under Medicaid.

For the rest of my reasons for supporting SB1374, I urge you to consider my Island Voices article regarding Hawaii Retirement Savings published in the Honolulu StarAdvertiser:

Honolulu StarAdvertiser, ISLAND VOICES: "Prepare for Retirement with Hawai'i Saves" (2/17/19)

This year, the Hawaii State Legislature is considering bills which will dramatically impact the lives of nearly every person in the State. The legislation would create a sustainable, public-private retirement savings program for 216,000 Hawai'i private-sector employees, who do not have access to payroll savings for their retirement, the easiest and most effective way to save.

About half of all employees in Hawai'i's private sector, mostly in small and medium sized companies, are heading for an uncertain future because they do not have an easy way to save at work. Without retirement savings to supplement Social Security, these hard-working Hawai'i residents will age into poverty and are in real danger of falling into a life of financial dependence on family and government, if not homelessness.

SB1374, sponsored by Senator Brian Taniguchi and HB1189, sponsored by Representative Aaron Johanson, would take the first steps to create a Hawaii Saves

payroll saving program for 216,000 workers in the private sector who are not currently able to save for retirement at work.

The Employee Benefit Research Institute found that workers are 15 times more likely to save if the money is taken from their paychecks, before they get a chance to spend it. They are 20 times more likely to save if they are auto-enrolled in a program with the option to opt out. The easier it is to save, the more people do it.

Several states have created or are creating state-facilitated retirement savings programs, including OregonSaves, CalSavers in California and Illinois Secure Choice. In Oregon, the first state to have a working state-wide retirement savings program for private-sector workers, about 72% of eligible employees in 2,899 companies have saved \$12.5 million between July 2017 and Feb. 1, 2019. The average savings rate is 5.6% of their paycheck or about \$100 a month. These workers didn't have an easy way to save before OregonSaves and now they are taking full advantage of the opportunity.

It's not only workers who like the program. Small businesses want it. Most care about their employees and want to offer savings programs to be competitive. A recent AARP survey revealed that about 7 out of 10 Hawai'i small business owners support giving them a Hawaii Saves retirement savings option and 8 out ten believe state lawmakers should support it.

About 2/3rds of small businesses do not offer retirement savings programs, the survey found. The reasons – small businesses say it's too expensive, complicated and time consuming to do so.

The Hawaii Saves program could save taxpayers an estimated \$160 million in federal and state public assistance programs, with the state's share of the saving estimated at \$32.7 million between 2018 and 2032 if workers save enough to generate an additional \$1,000 a year in extra retirement income.

The Hawaii Saves program is not a government handout. It is about giving workers an easy way to save their own money for retirement. The program will be setup by the state, as in Oregon, and will be managed and investments made by private, reputable financial services companies in a public-private partnership similar to college 529 savings plans.

But now, as the Legislature seeks to find a responsible solution, lobbyists for big insurance companies, financial institutions and financial planners oppose this legislation and now insist that workers without plans should use their products. These opponents have been unable, unwilling or disinterested in creating and marketing savings programs that small businesses can afford and easily implement.

Unfortunately, the fact that fully half of Hawai'i's private sector workers have no retirement savings offered through their employers prove existing retirement savings products are not working. We cannot accept the status quo any longer. There is a cost

to workers, society, families and taxpayers of ignoring this impending crisis when thousands are in danger of retiring broke or are forced to work because they cannot afford to retire.

To the private financial sector which failed this huge segment of working people and which now oppose any remedy, it is time for the industry to offer its expertise to get a Hawaii Saves program started and operating....or get out of the way.

Francis M. Nakamoto

SB-1374-HD-1

Submitted on: 3/28/2019 10:05:13 AM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Robert Culbertson	Individual	Support	No

Comments:

SB-1374-HD-1

Submitted on: 3/28/2019 11:39:05 AM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Eric Burkhardt	Individual	Support	No

Comments:

I am in strong support of Senate Bill 1374 House Draft 1 to create a Hawai'i Saves Retirement Savings Program for private-sector workers.

It's a no-brainer. The small start-up cost will be reimbursed as the program grows and taxpayers will save money because as more people save and retire with savings, less money will be needed for social programs. A university study estimates that the state will save \$32.7 million over the first 15 years of the program if workers are able to save enough money to generate \$1,000 in annual retirement income. The combined state and federal savings would be more than \$160 million.

Hawai'i residents and an increasing number of retirees are on the edge of a fiscal crisis. The typical working household has only \$2,500 in retirement assets and those close to retirement have only \$14,500. About half of all workers are in danger of retiring broke.

Many workers – about 216,000 in Hawai'i -- have no access to a 401K, or other way to save for retirement at work via payroll deduction. This is critical because studies show that workers are 15 times more likely to save for their future if they can save through payroll deduction.

This is not a government handout. It's a public-private partnership. Workers will save their own money in accounts held by private, reputable financial services companies. Workers win, Small businesses who cannot offer workers retirement savings programs win and taxpayers win.

March 28, 2019

To: Rep. Sylvia Luke, Chair and Ty J.K Cullen, Vice Chair - Committee on Finance

Re: Finance Hearing on March 29, 2019 – 3:30 PM , Room 308 Hawaii State Capitol

RE: **SB 1374,SD2,HD1 -- RELATING TO THE HAWAII RETIREMENT SAVINGS PROGRAM**

Testimony in Support of Senate Bill SB 1374,SD2,HD1 to create a Hawai'i Saves Retirement Savings Program for private-sector workers.

Most Honorable Chair Luke and Vice Chair Cullen:

For many facing retirement without planning for it, income and expenses don't match up.

If a retirement savings plan is not available to a worker during his/her healthy working career, then the crushing cost of living expense in Hawaii, prescription drug and medical needs, and caretaking assistance will deplete (and override) the monthly social security income (averaging \$1400/mo**) --the income that is the only salvation for retired American workers.

*"Among elderly Social Security beneficiaries, 21% of married couples and 44% of unmarried persons rely on Social Security **for 90% or more of their income.**"***

(**According to the Federal Government's Social Security Website)

SB 1374,SD2,HD1 is a solution to this dilemma.

Hawaii Saves is a sensible savings plan that can occur when an employee is young, healthy and truly oblivious to their future struggles as a senior--faced with the monetary challenges of everyday living.

This bill – a public-private partnership – is a win-win-win.

Win -The small start-up cost will be reimbursed to the State as the program grows.

Win -Taxpayers will save money because more people save and retire with savings.

Win -Less state money will be needed for social programs for future senior citizens.

- Workers will be saving their own money in their own ROTH IRA in accounts held by private, reputable financial services companies....with a choice of investment and full control of their account...as well as the option to 'opt out' if they do not want to participate in the program.
- Small Business Employers (who don't already have a retirement savings program for their employees) will now have a retirement program to offer...and will not incur ANY cost for the program.
- A university study estimates that the state will save \$32.7 million over the first 15 years of the program if workers are able to save enough money to generate \$1,000 in annual retirement income. The combined state and federal savings would be more than \$160 million.

Very few Americans win the lottery. There's not even a chance in Hawaii.
Let's give Hawaii workers the chance to save.

Thank you for the opportunity to testify in support of **SB 1374,SD2,HD1**

Respectfully submitted,
Christine Olah
Honolulu Resident

COMMITTEE ON FINANCE
Rep. Sylvia Luke, Chair
Rep. Ty J.K. Cullen, Vice Chair

Friday, March 29, 2019
3:30 P.M.
Conference Room 308

RE: Strong support for SB1374

Aloha Chair Luke and Members of the Committee,

I thank you for the opportunity to submit written testimony in SUPPORT of SB1374 (Hawaii Saves) and encourage you to allow the program to begin a.s.a.p. It's about time for Hawai'i Saves.

I am not writing this for me, I was fortunate to have an employer-sponsored retirement plan which helped me build a savings to supplements my Social Security. However, because I started late, I still fear that I may not have saved enough. I personally know that education is not enough; once you have money in hand it's hard to give it up even if you know better. And I now know that Social Security alone is not going to cut it. I also know that I am not alone, about half of all workers are in danger of retiring broke. About 216,000 private-sector workers in Hawai'i have no access to a 401K, or other way to save for retirement at work via payroll deduction.

I believe SB1374 will save the State money, approximately \$32.7 million on public assistance programs through 2032 if retirees saved enough to generate \$1,000 in extra in annual retirement income. The program is also designed to reimburse the state for its initial and ongoing costs over time as the number of participants and amounts saved grows. Workers will save their own money in accounts held by private, reputable financial services companies. Workers win, Small businesses who cannot offer workers retirement savings programs win and taxpayers win.

Please pass SB1374 and begin the process of making saving, and retirement easier for workers in the private sector who do not have employer-sponsored IRAs. Thank you for your consideration

Re: SB1374 Relating to the Hawaii Retirement Savings Program

March 29, 2019 3:30 p.m. Rm. 308

Aloha Chair Luke, Vice Chair Cullen and committee members

As a Kupuna advocate and volunteer with AARP, Kokua Council, the Hawaii Alliance of Retired Americans and the Legislative Committee of PABEA, I urge strong support of SB1374 to establish a Hawaii retirement savings program for private sector employees, to establish an administrative fund and require the Department of Budget and Finance to prepare an annual report..... (for) the governor and legislature.

Studies show that more than half the private sector employees in Hawaii are not covered by employer sponsored savings plans and that those who do have access are more than 15 times more likely to save. Those who participate in opt-out programs are more than 20 times more likely to save.

Small business owners are often not able on their own to offer such plans.

Please support passage of this bill, to begin the process of making it easier for Hawaii residents to put away money for their retirement and be much less likely to retire into poverty.

Please pass SB1374.

Barbara J. Service MSW (Ret.)

House District 19

Senate District 9

Chair Luke, Vice Chair Cullen, and members of the House Committee on Finance. My name is Gerry Silva. I live in Kaneohe and I strongly support the passage of SB 1374, SD2, HD1. It will create a program that allows employees of small businesses to save part of their earnings using payroll deduction—a program that is enjoying success in Oregon and other states.

This is a revenue-neutral program. Although there are start-up costs, these will be reimbursed to the state during the program's early years.

Hawaii residents are living longer, but unfortunately many cannot afford to retire because they have meager savings. This program would help offset that.

The alternative is costly. It would cause many to rely on Hawaii's safety-net programs and that is a choice that affects all of Hawaii's taxpayers.

My name is Dean Ueda.

I strongly support Senate Bill 1374 HD1 regarding a Hawai'i Saves Retirement Savings Program.

From what I've learned, the bill is a win-win-win for small business, workers and taxpayers.

About half of all private sector workers do not have access to payroll savings, the easiest and most effective way to get people to save. Experience in the OregonSaves program shows that if workers are given access, they will participate and start saving. About 70 percent of workers offered a chance to save took advantage of the opportunity. They are saving their own money for their own futures, it's not a state handout.

Seventy percent of Hawai'i small business owners surveyed support a privately-managed, retirement savings program because in many cases it's too expensive, complicated and time consuming for them to offer a plan to their workers. About the same percentage of businesses say they would offer the savings program to their employees if it existed.

In addition, it is estimated that Hawaii Saves could save taxpayers \$32.7 million in public assistance programs in less than 15 years if retirees save enough to generate \$1,000 in extra income each year.

Let's make saving, and retirement in Hawai'i, easier for our workers and small business and save money for taxpayers.

Thank you for your support.

Dean Ueda

FIN-Jo

From: mak221@aol.com
Sent: Wednesday, March 27, 2019 6:55 PM
To: FINtestimony
Subject: Writing in STRONG SUPPORT OF SB1374, HD1; HAWAII SAVES

Aloha Esteemed Committee Members,

My name is Mark Koppel. I live at 31-392 Lepoloa Rd.,
Umauma.

I am writing in STRONG SUPPORT OF SB1374, HD1.

You do not need to hear the reasons again. People save
money leading to the State saving Medicaid money.

No downsides.

Mahalo,

Mark A. Koppel

finance1 - Sean

From: Blyth <blythkozuki@hotmail.com>
Sent: Wednesday, March 27, 2019 10:37 PM
To: FINtestimony
Subject: HAWAII SAVES

Chair Sylvia Luke
House Finance Committee
Friday, March 29, 2019

TESTIMONY IN SUPPORT OF SB 1374 SD2 HD1

Dear Chairman Luke and Members of the Committee

My name is Blyth Kozuki, and I am writing in strong support of SB1374 SD1. As a federal retiree I enjoy the benefits of a traditional retirement program. However these types of programs have disappeared and replacement programs are now heavily dependent on savings for retirement. Currently many workers – about 216,000 in Hawai‘i -- have no access to a 401K, or other way to save for retirement at work via payroll deduction. So I foresee a looming crisis for future retirees.

It is expensive to retire and this is especially true in our state. And until you retire I don't think you realize what it means to be on a "fixed income." So retirees will need as much money as they can save to sustain themselves in retirement. The typical working household has only \$2,500 in retirement assets and those close to retirement have only \$14,500. About half of all workers are in danger of retiring broke. The most likely alternative for this segment of our community is to rely on government resources.

In much the way my traditional retirement operated, the beauty of the Hawaii Saves program is being automatically enrolled in a payroll deduction plan. This makes it easier to save but they can opt out when they want. It is a portable program that they control as they move through the employment world. Although retirement has already changed for future generations it is my hope that our retirees not retire impoverished and reliant on government resources.

Thank you for considering my testimony and please pass this bill.

Sincerely,
Blyth Kozuki
3721 Kanaina Ave #222
Honolulu, Hawaii 96815

finance1 - Sean

From: Sophie Tang <sophyst@icloud.com>
Sent: Wednesday, March 27, 2019 9:41 PM
To: FINtestimony
Cc: jwooley@aarp.org; barbarajservice@gmail.com
Subject: House Committee on Finance - SB1374 HD1 Hearing 3/29/19 3:30 pm

Aloha Rep. Luke, Chair &
Aloha Rep. Cullen, Vice Chair,

I am in strong support of Senate Bill (SB) 1374, House Draft (HD) 1 to create a Hawai'i Saves Retirement Savings Program for private-sector workers.

Thank you for providing the opportunity to testify in strong support of SB 1374 HD 1.

Sophia Tang
Senate District 25
House District 51

Sent from my iPhone

finance1 - Sean

From: Michael Janovsky <mjinole@gmail.com>
Sent: Thursday, March 28, 2019 10:19 AM
To: FINtestimony
Subject: SB 1374

Aloha,

I am in strong support of Senate Bill 1374 House Draft 1 to create a Hawai'i Saves Retirement Savings Program for private-sector workers.

It's a no-brainer. The small start-up cost will be reimbursed as the program grows and taxpayers will save money because as more people save and retire with savings, less money will be needed for social programs. A university study estimates that the state will save \$32.7 million over the first 15 years of the program if workers are able to save enough money to generate \$1,000 in annual retirement income. The combined state and federal savings would be more than \$160 million.

Hawai'i residents and an increasing number of retirees are on the edge of a fiscal crisis. The typical working household has only \$2,500 in retirement assets and those close to retirement have only \$14,500. About half of all workers are in danger of retiring broke.

Many workers – about 216,000 in Hawai'i -- have no access to a 401K, or other way to save for retirement at work via payroll deduction. This is critical because studies show that workers are 15 times more likely to save for their future if they can save through payroll deduction.

This is not a government handout. It's a public-private partnership. Workers will save their own money in accounts held by private, reputable financial services companies. Workers win, Small businesses who cannot offer workers retirement savings programs win and taxpayers win.

Michael Janovsky

D1/P4

finance1 - Sean

From: Gordon Takaki <bqnwzggikyjaqts@ujoin.co>
Sent: Wednesday, March 27, 2019 8:18 PM
To: FINtestimony
Subject: Tell your Representatives your concerns on increasing the minimum wage

From: takakig002@hawaii.rr.com <Gordon Takaki>

Message:

Aloha Chair Luke, Vice Chair Cullen and members of the House Finance Committee,

I respectfully oppose SB789 SD2 HD1 and am very concerned with the current push to increase the minimum wage and the unintended consequences this will have on our business and other businesses like ours in Hawaii. We are proud of both our business and our employees. We recognize that our employees are a large part of what makes our business a success and do everything we can to retain them through both wages and benefits. With that said, we hope that when contemplating passing legislation raising the minimum wage, that you please consider the consequences it will have on businesses of all sizes.

If the minimum wage is increased, businesses will have to alter operations to stay afloat. It is a misconception that all increases in business costs can be passed on to the customer. That is simply not true. Businesses cannot afford the increased costs mandated through this legislation.

Thank you for your time and consideration of my concerns.

Gordon Takaki

Hilo

Hawaii

To: Chair Sylvia Luke and
members of the Finance Committee
Re: SB 1374, HD 1
3:30 p.m. Friday March 29 hearing
Room 308

Testimony in Support of Senate Bill 1374, HD 1

We need to create a Hawaii Saves program and I am in strong support of Senate Bill 1374, HD 1. My name is Elizabeth Hata-Watanabe and I own Burgers on Bishop. We pride ourselves on making the best burgers and desserts in town and our success is due to the hard work my employees and I put into our craft. So I want to help my employees succeed. I want them to save for retirement and I want them to be able to retire.

But I can tell you as a small business owner that it's not easy to help workers save. I cannot afford to offer them a payroll savings plan, even though I know they are 15 times more likely to save if the money comes out of their paychecks. Not only is it expensive and complicated to hire a financial advisor, possibly a lawyer and then pay fees to set up payroll savings, but it's also time-consuming. And I don't have time to set up a program and manage it. I'm too busy running a restaurant.

So a state-facilitated retirement program like Hawaii Saves is the easiest way for me to offer savings to my employees and the best chance they have of actually saving. If I can add it to my payroll system at little or no cost and have my employees' funds managed by a private, reputable financial service company selected by the state, similar to the way the state runs college 529 savings plans, I would enthusiastically participate. It would help me keep my employees happy and compete against larger businesses that can offer savings plans.

One of the reasons I'm passionate about supporting this program is because as a woman business owner I know women are much more likely to retire into poverty and this program will help women save. On average women live longer so their retirement savings needs to go further. They also make less money, which means lower savings and lower Social Security benefits. So it's critical that women have access to payroll savings and a retirement account that is their own that can travel with them no matter where their life takes them.

Many of my workers are young and they will benefit most from starting retirement savings early because of compounding – the fact that, if invested properly and not withdrawn, their money will likely double every seven to ten years. So \$2,000 invested at age 20 could become more than \$176,000 by age 67 if you averaged a 10 percent annual return. And that doesn't even count the additional money workers would save over the course of their lifetime. But even older workers would benefit from a Hawaii Saves program. The key is to get into the savings habit and without an easy way to save, too many workers do not save.

This is not a government handout. This program is about helping workers save for their own futures.

As a taxpayer, I worry about the ticking time bomb cost of all the workers who are not saving now. The average retirement savings for workers is \$2,500 and the average worker close to retirement has saved only \$12,000. We as taxpayers will have to pay for them when they get old and cannot work anymore. What will our homeless situation be like if we have kupuna who cannot pay for their housing because

their Social Security payments can't cover medicine, food and rent? How many of these older homeless will be women?

The time to act is now. We cannot do nothing. Please pass Senate Bill 1374.

Elizabeth Hata-Watanabe
Burgers on Bishop
745 Fort Street, #130
Honolulu, HI 96813
(808)586-2000

FIN-Jo

From: Roberta Murray <rwongmurray@gmail.com>
Sent: Thursday, March 28, 2019 1:29 PM
To: FINtestimony
Subject: re: Testimony in favor of SB1374, HD1

Chair Sylvia Luke
Vice Chair Ty Cullen
Members of the Committee,

Aloha,

My name is Roberta Wong Murray, a resident of Kailua Kona, HI. I am writing in support of SB 1374, HD1, to create a Hawaii Saves Retirement Savings Program for private sector workers.

This program would benefit as many as 216,000 employees of small businesses which do not offer an automatic payroll deduction retirement plan. Saving for retirement is easier when the money is taken out of a paycheck before it's spent.

The program would benefit small business owners who do not have the resources to manage a retirement plan for their employees.

And it would greatly benefit the state by reducing the fiscal burden of providing public assistance to the elderly poor.

A university study estimates that the state will save \$32.7 million over the first 15 years of the program if workers save enough to generate \$1,000 in annual retirement income. The combined state and federal savings would be more than \$160 million by 2032. That is no small change, particularly since each year the legislature faces budget challenges that call for reduced spending. This program would not provide a fiscal burden to the state – in fact it would pay for itself.

Thank you for noting my testimony in support of SB 1374 HD1.

Roberta Wong Murray

Roberta Wong Murray

78-6833 Alii Drive B5
Kailua Kona, HI 96740
Home (808) 322-6886
Mobile (808) 557-8027

To: Chair Sylvia Luke and
members of the Finance Committee
Re: SB 1374, HD 1
3:30 p.m. Friday March 29 hearing
Room 308

Testimony in Support of Senate Bill 1374, HD 1

We need to create a Hawaii Saves program and I am in strong support of Senate Bill 1374, HD 1. My name is Elizabeth Hata-Watanabe and I own Burgers on Bishop. We pride ourselves on making the best burgers and desserts in town and our success is due to the hard work my employees and I put into our craft. So I want to help my employees succeed. I want them to save for retirement and I want them to be able to retire.

But I can tell you as a small business owner that it's not easy to help workers save. I cannot afford to offer them a payroll savings plan, even though I know they are 15 times more likely to save if the money comes out of their paychecks. Not only is it expensive and complicated to hire a financial advisor, possibly a lawyer and then pay fees to set up payroll savings, but it's also time-consuming. And I don't have time to set up a program and manage it. I'm too busy running a restaurant.

So a state-facilitated retirement program like Hawaii Saves is the easiest way for me to offer savings to my employees and the best chance they have of actually saving. If I can add it to my payroll system at little or no cost and have my employees' funds managed by a private, reputable financial service company selected by the state, similar to the way the state runs college 529 savings plans, I would enthusiastically participate. It would help me keep my employees happy and compete against larger businesses that can offer savings plans.

One of the reasons I'm passionate about supporting this program is because as a woman business owner I know women are much more likely to retire into poverty and this program will help women save. On average women live longer so their retirement savings needs to go further. They also make less money, which means lower savings and lower Social Security benefits. So it's critical that women have access to payroll savings and a retirement account that is their own that can travel with them no matter where their life takes them.

Many of my workers are young and they will benefit most from starting retirement savings early because of compounding – the fact that, if invested properly and not withdrawn, their money will likely double every seven to ten years. So \$2,000 invested at age 20 could become more than \$176,000 by age 67 if you averaged a 10 percent annual return. And that doesn't even count the additional money workers would save over the course of their lifetime. But even older workers would benefit from a Hawaii Saves program. The key is to get into the savings habit and without an easy way to save, too many workers do not save.

This is not a government handout. This program is about helping workers save for their own futures.

As a taxpayer, I worry about the ticking time bomb cost of all the workers who are not saving now. The average retirement savings for workers is \$2,500 and the average worker close to retirement has saved only \$12,000. We as taxpayers will have to pay for them when they get old and cannot work anymore. What will our homeless situation be like if we have kupuna who cannot pay for their housing because

their Social Security payments can't cover medicine, food and rent? How many of these older homeless will be women?

The time to act is now. We cannot do nothing. Please pass Senate Bill 1374.

Elizabeth Hata-Watanabe
Burgers on Bishop
745 Fort Street, #130
Honolulu, HI 96813
(808)586-2000



FINANCIAL GROUP

Strength Flexibility Preservation

Date: March 29, 2019 3:30 p.m. Agenda
Room 308

To: Rep. Sylvia Luke, Chair
House Finance Committee

From: Joanna Amberger, 3 Financial Group LLC

Subject: Support for SB 1374, HD1 Relating to the Hawaii Retirement Savings Program

Good morning Chair Johanson and Committee Members. My name is Joanna Amberger. I'm a CERTIFIED FINANCIAL PLANNER™ and owner of **3 Financial Group LLC**, a local small business. I'm writing to request your support of SB 1374 HD1, relating to the Hawaii Retirement Savings Program. This legislation would help small business and workers in the private sector save for retirement through payroll deduction and help the state facilitate the establishment of an "Auto-IRA" retirement savings program.

With the high cost of living in Hawaii, it is often hard for people in the low and middle income brackets to save for the future. Hawaii is a state of small businesses and government workers. While the government workers have many opportunities to save and invest, the private sector small business employees do not. Because of this, there is a deep disparity among Hawaii's workers, which threatens the future of individuals and our communities.

Hawaii's private sector workers need more opportunities and incentive to save. "Hawaii Saves" could help. In looking at the "Oregon Saves," model, I note that the average income of those who have participated is less than \$30,000 a year. This income group is underserved by the financial industry because they are not viewed as profitable customers.

Therefore, I want to reassure the committee that a financial planner, I'm not concerned about the proposed "Hawaii Saves," legislation taking business away from me. The group that would be most helped by this legislation is not a group that would typically look to me for services. I wholeheartedly support this avenue of helping Hawaii's private sector workers achieve financial security in retirement. Further, I note that if this group starts to invest, they will become eligible for the IRS's "Savers Credit," a special tax credit designed specifically for low and moderate-income taxpayers to help encourage saving more for retirement.

I respectfully urge you to support Hawaii Saves.



CERTIFIED FINANCIAL PLANNER™



The certification marks above are owned by Certified Financial Planner Board of Standards Inc. and are awarded to individuals who successfully complete CFP Board's initial and ongoing certification requirements.

*1888 Kalakaua Ave., Suite C312 | Honolulu, HI 96815 | 808.791.2925 | www.3FinancialGroup.com
Investment Advisory Services offered through Continuum Advisory, LLC., 868 E. Riverside Drive, Suite 200,
Eagle, ID, an Independent Registered Investment Advisor. Continuum Advisory, LLC and 3 Financial Group, LLC
are not affiliated.*

From: Roberta Murray <rwongmurray@gmail.com>
Sent: Thursday, March 28, 2019 1:29 PM
To: FINtestimony
Subject: re: Testimony in favor of SB1374, HD1

Chair Sylvia Luke
Vice Chair Ty Cullen
Members of the Committee,

Aloha,

My name is Roberta Wong Murray, a resident of Kailua Kona, HI. I am writing in support of SB 1374, HD1, to create a Hawaii Saves Retirement Savings Program for private sector workers.

This program would benefit as many as 216,000 employees of small businesses which do not offer an automatic payroll deduction retirement plan. Saving for retirement is easier when the money is taken out of a paycheck before it's spent.

The program would benefit small business owners who do not have the resources to manage a retirement plan for their employees.

And it would greatly benefit the state by reducing the fiscal burden of providing public assistance to the elderly poor.

A university study estimates that the state will save \$32.7 million over the first 15 years of the program if workers save enough to generate \$1,000 in annual retirement income. The combined state and federal savings would be more than \$160 million by 2032. That is no small change, particularly since each year the legislature faces budget challenges that call for reduced spending. This program would not provide a fiscal burden to the state – in fact it would pay for itself.

Thank you for noting my testimony in support of SB 1374 HD1.

Roberta Wong Murray

Roberta Wong Murray

78-6833 Alii Drive B5
Kailua Kona, HI 96740
Home (808) 322-6886
Mobile (808) 557-8027

From: Giovanni Paciello <giannip@hawaii.rr.com>
Sent: Thursday, March 28, 2019 5:01 PM
To: FINtestimony
Subject: Senate Bill 1374

I am in strong support of Senate Bill 1374 House Draft 1 to create a Hawai'i Saves Retirement Savings Program for private-sector workers.

It's a no-brainer. The small start-up cost will be reimbursed as the program grows and taxpayers will save money because as more people save and retire with savings, less money will be needed for social programs. A university study estimates that the state will save \$32.7 million over the first 15 years of the program if workers are able to save enough money to generate \$1,000 in annual retirement income. The combined state and federal savings would be more than \$160 million.

Hawai'i residents and an increasing number of retirees are on the edge of a fiscal crisis. The typical working household has only \$2,500 in retirement assets and those close to retirement have only \$14,500. About half of all workers are in danger of retiring broke.

Many workers – about 216,000 in Hawai'i -- have no access to a 401K, or other way to save for retirement at work via payroll deduction. This is critical because studies show that workers are 15 times more likely to save for their future if they can save through payroll deduction.

This is not a government handout. It's a public-private partnership. Workers will save their own money in accounts held by private, reputable financial services companies. Workers win, Small businesses who cannot offer workers retirement savings programs win and taxpayers win.

With aloha — Lois Paciello, Kailua Kona, HI 96740

LATE

House Committee on Finance
Friday, March 29, 2019
3:30 p.m.
Conference Room 309

Testimony in Strong Support of SB1374, HD1

Aloha Chair Luke, Vice-Chair Cullen and Members of the Committee,

My name is Jessica Wooley and I am the Advocacy Director for AARP Hawai'i. AARP is a membership-based organization of people age fifty and over with about 150,000 members in Hawai'i. AARP advocates for issues that matter to Hawai'i families, including the high cost of long-term care, access to affordable, quality health care for all generations and serving as a reliable information source on issues critical to people over the age of fifty.

AARP Hawai'i strongly supports SB1374, HD1, which authorizes the department of Budget and Finance (B&F) to set up a self-sustaining, Hawai'i retirement savings program (Hawai'i Saves) for private-sector employees. Hawai'i Saves is low-hanging fruit in these challenging times and would be a meaningful, triple win – for employees, small businesses and taxpayers/government. We can't afford to wait to pass Hawai'i Saves, so all employees have the choice to save easily for retirement at work.

Today, we are on the edge of a retirement fiscal crisis in Hawai'i and many *kupuna* are suffering. According to the U.S. Census Bureau, the senior poverty rate in Hawai'i is 17 percent (the 6th highest rate in the nation) and more than half (54 percent) our seniors have incomes below 200 percent of the supplemental measure (the 2nd highest rate in the nation). At the same time, our *kupuna* contend with the one of the highest costs of living in the nation, if not the highest.

The typical working household in Hawai'i has only \$2,500 in retirement assets and those close to retirement have only \$14,500. **A secure retirement is out of reach for about half of our private-sector workers (many working for small businesses).** Fewer and fewer people have a pension plan and many workers – about 216,000 people in Hawai'i -- have no access to a 401K, or other way to save for retirement at work via

payroll deduction. This is critical because studies show that workers are 15 times more likely to save for their future if they can save through payroll deduction.

The good news is people save when it's easier, and Hawai'i Saves will make it easy.

When people save for retirement, they not only help themselves, they reduce their reliance on government assistance which saves taxpayers.

When people save for retirement, they are less likely to rely on public assistance programs later in life. An AARP study estimates Hawai'i would save \$32.7 million on public assistance programs through 2032 if retirees saved enough to generate \$1,000 in extra income.

Ten states and localities have already passed legislation that improves workers' access to a retirement program, and 22 more are in progress to help their future retirees. Hawai'i must join in this national effort to implement solutions to help future retirees be retirement ready. It is time for every worker to have access to a retirement plan at work.

The Hawai'i Saves program, envisioned by SB1374, HD1, is most similar to the Oregon State retirement program and would be operated like a 529 college savings plan. The state would set up a plug and play retirement program that small business owners could use but don't have to run or pay for. It is completely voluntary for employees who choose how much they want to put away, if anything, and what they want to invest in. The program is intended to be self-sustaining, paid for via participant fees. The state and employers are not on the hook for gains or losses, as the program works just like a typical IRA. What the employee puts in is what they get out when they retire, plus or minus gains and losses.

You may hear opposition from a few commercial financial institution lobbyists who advocate for a status quo approach to address a growing crisis in Hawai'i and across the Nation. First and foremost, the industry does not speak with one voice on this issue. Numerous financial institutions are supporting these programs across the country and many have bid for the work. The opponents will call for more financial education, which is necessary but not sufficient to solve this impending crisis. We have tried educational programs for decades and yet access to retirement savings plans at work has not changed in forty years.



1132 Bishop Street | Suite 1920 | Honolulu, HI 96813-2830
1-866-295-7282 | Fax: 808-537-2288
aarp.org/hi | aarphi@aarp.org | twitter.com/AARPHawai'i
facebook.com/AARPHawai'i

Some commercial, financial lobbyist opponents may even attempt to use smoke and mirrors to muddle the issue of federal law, the Employee Retirement Income Security Act (ERISA). They may argue that our state cannot take action. Yet, we know that Oregon Saves has been up and running for over a year-and-there is no legal challenge. In fact, as of March 1, 2019, over seventy thousand employees (72% of those eligible) have enrolled in the program. On average, employees continue to contribute about \$100 per month, and assets in the program now exceed \$14.1 million. The average savings rate is currently 5.60%.

It is time to use what we know are the best behavioral economic practices in the industry- access to payroll deduction and automatic enrollment – to solve our retirement crisis. Hawai'i Saves will help people live independently as they age, which is vital for the future of our state.

AARP Hawai'i stands ready to work with the Legislature to see a Hawai'i Saves program through. Let's WORK HARD – SAVE EASY. We cannot afford to take a wait-and-see approach any longer. With a statewide program, everyone will have the choice to save for retirement at work.

Mahalo for your leadership and providing the opportunity to testify in favor of SB1374, HD1.

LATE

From: Diane Ware <volcanogetaway@yahoo.com>
Sent: Friday, March 29, 2019 7:43 AM
To: FINtestimony
Subject: In support: SB1374 SD1

Aloha Chair Luke, Vice-Chair Cullen and Members of the Committee,

My name is Diane Ware and I am a senior on social security and no other pensions. After paying my Medicare health insurance I am left with a little over \$600/mo. I was fortunate to have a small inheritance and some savings now invested which gives me another \$600/mo. I could not be independent financially without my savings invested. I am still not sure I can afford to stay in this state. Health care costs and availability is so high. There are no Medicare Advantage programs on Hawaii Island.

SB1374, HD1, which authorizes the department of Budget and Finance (B&F) to set up a self-sustaining, Hawai'i retirement savings program (Hawai'i Saves) for private-sector employees. Hawai'i Saves is low-hanging fruit in these challenging times and would be a meaningful, triple win – for employees, small businesses and taxpayers/government. We can't afford to wait to pass Hawai'i Saves, so all employees have the choice to save easily for retirement at work.

Today, we are on the edge of a retirement fiscal crisis in Hawai'i and many *kupuna* are suffering. According to the U.S. Census Bureau, the senior poverty rate in Hawai'i is 17 percent (the 6th highest rate in the nation) and more than half (54 percent) our seniors have incomes below 200 percent of the supplemental measure (the 2nd highest rate in the nation). At the same time, our *kupuna* contend with the one of the highest costs of living in the nation, if not the highest.

Sincerely,

Diane Ware
808-967-8642
P. O. Box 698
99-7815 Kapoha
Volcano HI 96785

28 March 2019

LATE

Dear Representative Sylvia Luke,

I am asking for your support of SB 1374 Hawaii Saves.

A couple of years ago I was fortunate to attend the high school reunions of two schools. Waipahu and Maryknoll. The topic of conversation was the usual inquiry of how were our parents, children and grandchildren. But the one subject that was commonplace with both groups was, "When are you retiring?"

Those that worked for the government would likely retire by 62. Those in the private sector said 70 because they lacked a thrift savings program.

As a 36-year federal worker I was lucky. Unfortunately, in January 2018 my father's Hematologist shared that my WWII 91-year-old father had 6 months left to live.

With my Thrift Savings plan I was able to take a leave of absence. My father lived till August 7, 2018. I can tell you that those eight months were the best eight months a son could spend with his father.

I've personally asked the small business' that I patronize about how they felt about Hawaii Saves. 100% of those polled said they were in favor of the program.

For my classmates at both schools. All of them indicated that they wished there was a program like Hawaii Saves and that it existed when we entered the workforce in the mid-1970s.

A majority of my classmates wish to take care of their parents but don't have the same fiscal opportunity that I had from the federal sector. They've resigned themselves to do as much as they can afford to do. All of them would support their Kupuna fulltime if they had the means. I believe, in the islands it is our culture to do so, it is part of our heritage.

Because of these facts, I ask you to support SB 1374 so that the people of Hawaii will have an opportunity to care for their Kupuna and their own future as well.

Sincerely,

Jicky Ferrer
abferrjc@yahoo.com
808.220.5093

LATE

House Committee on Finance

March 29, 2019

Conference Room 309

Testimony in support of SB 1374, SD2, HD1

Chairperson Luke and Members of the Committee:

I support the concept proposed by Hawaii Saves, a program to help private sector workers save for retirement. With input from private sector employers and employees, this measure can provide a convenient, informed process for private sector workers to save.

Thank you for allowing me to comment on this measure.

Sincerely,

Mary Kagawa

Maryk96744@yahoo.com

finance1 - Sean

From: Michael Hahn <hahnm004@hotmail.com>
Sent: Friday, March 29, 2019 10:17 AM
To: FINtestimony
Subject: SB 1374 SD2 HD1, HAWAII SAVES



House Finance Committee Members:

I am writing in strong support of this bill. People need to save as much as they can for retirement so our state cannot put off passing this piece of legislation any longer. Please pass this important bill so that future retirees do not become poor in what could be the best years of their lives. Thank you for the opportunity to submit testimony.

Mahalo!

Michael Hahn
[2547 Akepa St.](#)
[Pearl City, HI 96782](#)

Chair Sylvia Luke
Vice Chair Ty J.K. Cullen
House Committee on Finance



CARING
ACROSS
GENERATIONS

Friday, March 29, 2019

**TESTIMONY IN SUPPORT OF SB 1374, SD2, HD1
RELATING TO THE HAWAII RETIREMENT SAVINGS PROGRAM**

My name is Pedro Haro, and I wish to testify on behalf of Caring Across Generations in strong support of Senate Bill 1374, SD2, HD1.

Caring Across Generations is a national movement of families, caregivers, people with disabilities and aging Americans working to transform the way we care in this country, calling for policy solutions that enable all of us to live and age with dignity and independence.

This will be the fourth year the Legislature has considered Hawaii Saves, a program to help private sector workers save for retirement. It needs to pass this year.

This program is a sustainable, revenue-neutral solution that will give all workers the choice to save for retirement at work. The program is designed to reimburse the state for its initial and ongoing costs over time as the number of participants and amounts saved grows. It will also save the state money in reduced social services costs for things like rental subsidies, food assistance and medical care. A university study estimates that the state will save \$32.7 million over the first 15 years of the program if workers are able to save enough money to generate \$1,000 in annual retirement income. The combined state and federal savings would be more than \$160 million.

Hawaii residents and an increasing number of retirees are on the edge of a fiscal crisis. The typical working household has only \$2,500 in retirement assets and those close to retirement have only \$14,500. About half of all workers are in danger of retiring broke. Fewer and fewer people have a pension plan and many workers – about 216,000 people private-sector workers in Hawaii -- have no access to a 401K, or other way to save for retirement at work via payroll deduction. This is critical because studies show that workers are 15 times more likely to save for their future if they can save through payroll deduction.



CARING
ACROSS
GENERATIONS

The good news is people save when it's easy, and Hawaii Saves will make it easy.

When people save for retirement, they not only help themselves, they reduce their reliance on government assistance, and that saves taxpayers money.

Hawaii and the Legislature cannot afford to wait for Hawaii Saves. This is a win-win-win. The state's role is to facilitate a public-private partnership. Workers will save their own money in accounts held by private, reputable financial services companies. Workers win, Small businesses that cannot offer workers retirement savings programs win and taxpayers win.

Our private-sector employees work hard. They need an easy way to save.

Thank you for considering my testimony in support of SB1174, SD2, HD1.

Sincerely,

Pedro Haro
Advocacy Director, Hawaii
Caring Across Generations
pedro@caringacross.org

House Committee on Finance
Friday, March 29, 2019
3:30 p.m.
Conference Room 309

LATE

Testimony in Strong Support of SB1374, HD1

Aloha Chair Luke, Vice-Chair Cullen and Members of the Committee,

It is time for solutions, not delay. This will be the fourth year the Legislature has considered Hawai'i Saves, a program to help private sector workers save for retirement. It needs to pass this year.

This program is a sustainable, revenue-neutral solution that will give all workers the choice to save for retirement at work. The program is designed to reimburse the state for its initial and ongoing costs over time as the number of participants and amounts saved grows. It will also save the state money in reduced social services costs for things like rental subsidies, food assistance and medical care. A university study estimates that the state will save \$32.7 million over the first 15 years of the program if workers are able to save enough money to generate \$1,000 in annual retirement income. The combined state and federal savings would be more than \$160 million.

Hawai'i residents and an increasing number of retirees are on the edge of a fiscal crisis. The typical working household has only \$2,500 in retirement assets and those close to retirement have only \$14,500. About half of all workers are in danger of retiring broke. Fewer and fewer people have a pension plan and many workers – about 216,000 people private-sector workers in Hawai'i -- have no access to a 401K, or other way to save for retirement at work via payroll deduction. This is critical because studies show that workers are 15 times more likely to save for their future if they can save through payroll deduction.

The good news is people save when it's easy, and Hawai'i Saves will make it easy. When people save for retirement, they not only help themselves, they reduce their reliance on government assistance which saves taxpayers money.

Hawai'i and the Legislature cannot afford to wait for Hawai'i Saves. This is a win-win-win. The state's role is to facilitate a public-private partnership. Workers will save their own money in accounts held by private, reputable financial services companies.

Workers win, Small businesses who cannot offer workers retirement savings programs win and taxpayers win..

Our private-sector employees work hard. They need a way to save easy.

Thank you for providing the opportunity to testify in support of SB1174, HD1.



O'ahu County Democrats
oahudemocrats.org



LATE

Aloha Chair Luke, Vice Chair Cullen, and Members of the Finance Committee,

RE: SB1374, SD2 HD1, Relating to the Hawai'i Retirement Savings Program.

The O'ahu County Democrats support the proposed measure, Senate Bill 1374, Senate Draft 2, House Draft 1.

We Democrats are the party of the working people on O'ahu, and we support legislation that will improve the conditions of the working class. Additionally, in accord with the 17 Sustainable Development Goals developed by the United Nations, the O'ahu County Democrats seeks to eradicate poverty.¹ Currently, 9.5% of our households are impoverished in the state, according to 2017 American Community Survey data.² Also, our low savings rate among American households is particularly troubling, given the continuing retirement of the largest generation in U.S. history.

Given these current conditions, the Hawai'i Retirement Savings Program is a step in the right direction. The proposed measure, at low risk and no cost to the taxpayer, will provide a platform for public and private employers to increase the security and freedom of our people.

I thank Senator Taniguchi for introducing this good bill. May we all commit to finding more ways of ending elder poverty, and ensure that our senior citizens will live in dignity in their golden years. Members, please vote 'aye' on Senate Bill 1374, SD2 HD1. Thank you for your consideration.

Respectfully,

DYLAN P. ARMSTRONG, VICE CHAIR

O'AHU COUNTY COMMITTEE, O'AHU COUNTY DEMOCRATS

References

1. Platform of the O'ahu County Democrats. <https://www.oahudemocrats.org/oahuplatform.htm>
2. Hawaii, Data USA. <https://datausa.io/profile/geo/hawaii/>

LATE

SB-1374-HD-1

Submitted on: 3/29/2019 2:54:11 PM

Testimony for FIN on 3/29/2019 3:30:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Karen D Carlen	Individual	Support	Yes

Comments:

As a retired Senior Citizen I can only reminisce about the lack of support there was when I first went into the full-time workforce in 1962. I wanted to save, however I didn't have the tools to use or the employer support to help me. That was 57 years ago. Today I am a grandmother and a great-grandmother. I would like to see opportunities available to them to aid in their decision making options how to save for their retirement.

That is why I SUPPORT SB 1374 and urge you, the Committee On Finance to support and unanimously vote yes, without reservations, for this legislation.

This type of workplace savings plan is a program Hawaii lawmakers can be proud to support. This program would establish a privately managed Hawaii retirement savings option.

"HAWAII SAVES" is a program based on an already successful "Oregon Saves." It is geared to help small businesses provide a means for employees to save for their future. The worker saves from their paycheck-the employer passes the information on to the worker, creates a separate line item deduction to the employee's paycheck with zero fee to the employer, no employer match, and no fiduciary responsibilities.

"HAWAII SAVES" also can help businesses compete with benefit packages of larger employers by hiring and keeping valued employees.

Remember, "HAWAII SAVES", SB 1374, is voluntary to each worker and allows the worker to decide if they want to participate AND how much to contribute to their future.

I urge each of the Members of the House Committee On Finance to vote in support of SB 1374.

Respectfully Written and Submitted by,

Karen D Carlen

LATE

Chair Sylvia Luke and Members of the House Finance Committee
3:30 p.m. Agenda
March 29, 2019
Room 308

SB 1374
HD 1
GW

Today, a secure retirement is out of reach for thousands of Hawai'i residents, especially those who work for themselves or small businesses.

Nearly half of Hawai'i's private sector workforce - 216,000 people - do not have a way to save for retirement through their job. That's important because having access to payroll deduction makes people 15 times more likely to save.

We need to act now to help people save for retirement or it will cost taxpayers a lot later on. The typical retirement savings of a working household is only \$2,500. At this rate, half of all households won't be able to afford their every day expenses and will need state help to pay for housing, food and medical costs if they are unable to work.

There is a cost to doing nothing. It's time for Hawai'i lawmakers to create a Hawai'i Saves program.

Sincerely,

Mr. Dwayne Munar
84-270 Jade St
Waianae, HI 96792-2226
(808) 224-5105
dwayne_munar@yahoo.com

LATE

Chair Sylvia Luke and
Members of the House Finance Committee
3:30 p.m. Agenda
March 29, 2019
Room 308

Please support Hawaii Saves. My wife and I were fortunate to have an employee based savings program where we worked. As a result we are not going to ever rely on social programs: medicaid, rent subsidies, or food assistance!

Thank you

Sincerely,

Mr. Dan Gardner
1599 Kalaniuka Circle
Honolulu, HI 96821
(703) 973-0237
daniel.dano.gardner@gmail.com

LATE

Chair Sylvia Luke and
Members of the House Finance Committee
3:30 p.m. Agenda
March 29, 2019
Room 308

Today, a secure retirement is out of reach for thousands of Hawai'i residents, especially those who work for themselves or small businesses.

Nearly half of Hawai'i's private sector workforce - 216,000 people - do not have a way to save for retirement through their job. That's important because having access to payroll deduction makes people 15 times more likely to save.

We need to act now to help people save for retirement or it will cost taxpayers a lot later on. The typical retirement savings of a working household is only \$2,500. At this rate, half of all households won't be able to afford their every day expenses and will need state help to pay for housing, food and medical costs if they are unable to work.

There is a cost to doing nothing. It's time for Hawai'i lawmakers to create a Hawai'i Saves program.

Sincerely,

Mrs. Anjulie Afalava
98-604 PUAILIMA ST
AIEA, HI 96701-2231
(808) 222-7140
aafalava@ymail.com

LATE

Chair Sylvia Luke and
Members of the House Finance Committee
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Sincerely,

Mrs. Baudelia Sanchez
68-1705 HALONA PL
WAIKOLOA, HI 96738-5103
(808) 990-7933
hoo4are@yahoo.com

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Sincerely,

Mr. Clifford Murakami
1290 Kika Street
Kailua, HI 96734
(808) 262-4542
cmurakami@pacarchitects.com

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Sincerely,

Mr. Jamie Nygren
161 Mahina St
Kihei, HI 96753
(808) 268-0337
nygrens@me.com

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Sincerely,

Ms. Jan Nishimura
3363 PAKANU ST
HONOLULU, HI 96822-1345
(808) 988-4628
jan.nishimura46@gmail.com

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Sincerely,

Ms. Carol Sutherland
1515 Ward Ave #1201
Honolulu, HI 96822
(808) 599-1735
casvrbo@gmail.com

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Sincerely,

Mr. Lilinoe Smith
PO Box 414
Kalaheo, HI 96741
(808) 635-0130
balihai7@hawaii.rr.com

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Sincerely,

Ms. Janice Bond
3920 Hunakai St
Lihue, HI 96766
(808) 639-9201
janbond007@me.com

SB1374

LATE

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i was fortunate to have worked for a company which had provided me with a pension and 401k. However i had retired back in 2003 but went back to working full time 2 years later and still working. As a single per parent i still need to take care of my family and i will be one of those seniors that will remain working. Our younger people will definitely need some assistance and guidance for their retirement years.

Sincerely,

Ms. Charlene Chung
2019 CITRON ST APT 4
HONOLULU, HI 96826-2812
(808) 292-2413
chungie2@hotmail.com

SB 1374

LATE

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Sincerely,

Mr. John Takayesu
94-772 Lumiauau St. #Q-3
Waipahu, HI 967975625
(808) 676-7272
johnt@iolani.org

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Sincerely,

Ms. Ellen Desruisseaux
2033 Lanihuli Dr
Honolulu, HI 96822-2112
(000) 000-0000
katsuki67@hotmail.com

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Sincerely,

Mr. Thomas Tizard
564 Uluhala St.
KAILUA, HI 96734-4415
(808) 261-6626
tizard8@hawaii.rr.com

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Sincerely,

Mrs. ROSELINE BALMORES
87-175 MANUAIHUE PLACE
WAIANAE, HI 96792-3222
(808) 366-9124
minovld@yahoo.com

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Sincerely,

Mr. Tlaloc Tokuda
73-4599 Kukuki St
Kailua Kona, HI 96740
(808) 325-0488
tlalocct@hotmail.com

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I am a Hawaii current resident because I was a part of a workplace savings program I started in my mid-thirties. I am 70 now and benefit hugely from 2 things; the savings I made with my employer match for about 30 years and learning to live a bit more frugally as a result of a slightly smaller paycheck. It was never painful, but it helped both of our kids realized that they couldn't have everything school friends had and that family fun does not need to be expensive. It as so much easier not to have to take that money each paycheck and deposit it myself, but that it came out beforehand and was earning interest over all those years.

Now we can afford to live modestly in Hawaii and love the beauty and Aloha that is our new home.

Please help our residents the easy way; payroll deduction and (I hope) an employer savings match!

Sincerely,

Ms. Kathryn Kosec
77-6469 ALII DR APT 209
KAILUA KONA, HI 96740-2401
(970) 481-2115
k.kosec@comcast.net

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Sincerely,

Ms. Karin Olson
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KIHEI, HI 96753-0975
(808) 283-8271
olson.karin@hotmail.com