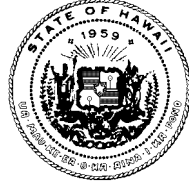


DAVID Y. IGE  
GOVERNOR



CATHY BETTS  
DIRECTOR

JOSEPH CAMPOS II  
DEPUTY DIRECTOR

STATE OF HAWAII  
**DEPARTMENT OF HUMAN SERVICES**

P. O. Box 339  
Honolulu, Hawaii 96809-0339

February 20, 2022

TO: The Honorable Senator Donovan M. Dela Cruz, Chair  
Senate Committee on Ways & Means

FROM: Cathy Betts, Director

SUBJECT: **SB 3289 SD1 – RELATING TO HAWAII RETIREMENT SAVINGS.**

Hearing: February 23, 2022, 10:05 a.m.  
Via Videoconference, State Capitol

**DEPARTMENT'S POSITION:** The Department of Human Services (DHS) supports the intent of this measure, provides comments, and defers to the Department of Budget and Finance (BUF), Department of Labor and Industrial Relation, and Department of Business, Economic Development, and Tourism (DBEDT), and the Executive Office on Aging. The Department respectfully requests that any appropriation not replace or reduce priorities identified in the executive budget.

**PURPOSE:** The purpose of the bill is to establish the Hawaii Retirement Savings Program, administered by the Hawaii Retirement Savings Board, in consultation with the Department of Budget and Finance and Department of Labor and Industrial Relations, to provide a state-facilitated payroll-deduction automatic enrollment individual retirement plan to private sector employees who do not have access to employer-sponsored retirement savings plans beginning 7/1/2024. Appropriates funds. (SD1) The SD1 amended the measure by:

- (1) Allowing the Hawaii Retirement Savings Board to enter into interstate agreements to collaborate with other governmental entities, including other states, that maintain or are establishing retirement savings programs compatible with the Hawaii Retirement Savings Program, to the extent necessary or desirable for the

- effective and efficient design, administration, and implementation of Hawaii's program;
- (2) Clarifying that the funds appropriated out of the general revenues of the State of Hawaii pursuant to this measure for the implementation and operation of the Hawaii Retirements Savings Program include funds for the hiring of necessary staff; and
  - (3) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.<sup>1</sup>

The Department supports the concept of a retirement program for private-sector employees who do not have access to employer-sponsored retirement savings plans. Other than paying regular contributions to Social Security, Hawaii's low-income and low-skilled residents who work at small businesses or multiple part-time jobs do not have the same opportunities to begin retirement savings that build wealth over time. In addition, given Hawaii's high cost of housing, where pre-pandemic reports indicate that Hawaii renters paid nearly 30% to 49% of their income to rent, incremental savings is the most reliable way for people to begin saving.

The Department of Business, Economic Development, and Tourism conducted a study of Hawaii's economy to understand how changes in the population and its aggregate income, spending, and aging might affect economic projections for Hawaii. Hawaii's Generational Economy: Economic Impacts of Aging<sup>[1]</sup> found Hawaii's elderly may face substantial challenges in meeting their needs; Federal programs, such as Medicare and Social Security, will be difficult to sustain; State and County governments may find it increasingly difficult to assist, and the impact on seniors may rebound on younger generations who depend on seniors and provide care and support as family members and taxpayers.

The research also shows that Hawaii's population is aging and that many are not financially prepared to retire. Elderly residents are expected to represent 24% of Hawaii's population by 2040. Those unprepared for retirement often end up needing public support. Hawaii's demographics are changing, and the combined impact of more seniors and a relatively

---

<sup>1</sup> The Department notes that its testimony in support submitted for the February 9, 2022 hearing was not noted in the STAND. COM. REP. NO. 2557.

low-growth workforce are likely to "produce a \$7.7 billion hole in our economy" and that "in the absence of major reform, large deficits would persist for the indefinite future." [ii]

Attached is a summary of how different DHS programs count retirement savings as assets for the Legislature's information.

Thank you for the opportunity to provide comments on this measure.

[i] [https://files.hawaii.gov/dbedt/economic/reports/Hawaii\\_Generational\\_Economy\\_Oct2020.pdf](https://files.hawaii.gov/dbedt/economic/reports/Hawaii_Generational_Economy_Oct2020.pdf)

[ii] Ibid, pg. 9

## FAQ: Are retirement savings counted as assets?

DHS ver. 2/8/22

Program	Type of Benefit	Asset Counts?	Disregard?	Exceptions	Can State Leg exempt?
<b>Aid for Aged Blind &amp; Disabled (AABD)</b>	Financial	Yes	Yes	If the recipient draws from the account, the withdrawal will count as income.	Yes
<b>General Assistance (GA)</b>	Financial	Yes	Yes	Same as above.	Yes
<b>Temporary Assistance to Needy Families (TANF)/Temporary Assistance for Other Need Families (TAONF)</b>	Financial	No	Yes	Same as above.	Yes, Act 18, SLH 2013
<b>Supplemental Nutrition Assistance Program (SNAP)</b>	Food Assistance	Yes	Yes, if regularly categorically eligible (RCE) or provide broad-based categorical eligibility (BBCE)	<ul style="list-style-type: none"> <li>• special household whose gross income is greater than 200% FPL and at least one member is either elderly or disabled (asset limit is \$3,750 per household),</li> <li>• regular household, did not qualify as RCE or BCE (asset limit is \$2,500).</li> <li>• HAR 17-675-29, Special provisions for the food stamp program - other excluded assets : (18) Retirement funds in a plan, contract, or account, described in</li> </ul>	No

Program	Type of Benefit	Asset Counts?	Disregard?	Exceptions	Can State Leg exempt?
				<p>sections 401(a), 403(a), 403(b), 408, 408A, 457(b), and 501(c)(18) of the Internal Revenue Code of 1986, and the value of funds in a Federal Thrift Savings Plan count as provided in section 8439 of title 5, United States Code;</p> <p>(19) Any successor retirement programs or accounts that are exempt from tax under the Internal Revenue Code of 1986;</p>	
<b>Medicaid</b>	Healthcare Coverage	Yes	Depends	<p>§17-1725.1-26 Exempt assets. The following assets shall be exempted from consideration in the personal reserve of an individual or household, which shall include, but are not limited to:</p> <p>***</p> <p>(12) Funds used to purchase an annuity that is irrevocable and not assignable.</p> <p>(A) An annuity is irrevocable when the annuitant cannot void the contract and</p> <p>obtain the cash value of the annuity less early withdrawals and surrender fees; and</p>	No. However, a request can be made for an exemption through MQD. MQD would work with CMS for approval and must abide by CMS's decision to allow or not.

Program	Type of Benefit	Asset Counts?	Disregard?	Exceptions	Can State Leg exempt?
				<p>(B) An annuity is not assignable when the annuitant cannot sell the annuity on the open market; ***</p> <p>(20) Value of stocks or equity in protected retirement accounts which include, but are not limited to profit-sharing plans, IRAs, annuities, or other retirement accounts, if an individual continues to be employed by the firm which controls the profit-sharing distributions;</p> <p>§17-1725.1-17 Assets to be considered. The following assets shall be considered in the personal reserve of a MAGI-excepted individual or household and include, but are not limited to: ***</p> <p>(3) Value of stocks and bonds verified by a stock brokerage firm;</p> <p>(4) Value of time deposits and savings certificates verified by the financial institution where the funds are deposited;</p> <p>(5) State tax refunds, including state excise tax credits and state income tax credits;</p>	

Program	Type of Benefit	Asset Counts?	Disregard?	Exceptions	Can State Leg exempt?
				<p>(6) Cash surrender value of a life insurance policy after the subtraction of outstanding loans or encumbrances from the cash value of the policy verified by the insurance company;</p> <p>(7) Value of governmental debenture bonds, such as U.S. savings bonds, treasury notes, or municipal bonds verified by the financial institutions or stock brokerage firms or issuers;</p> <p>(8) Value of mutual fund shares be verified by the stock brokerage firm;</p> <p style="text-align: center;">***</p> <p>(14) Payments made from protected retirement plans or annuities to include, but not be limited to, profit sharing plans, IRAs, or other retirement accounts, shall be considered an available asset if an individual has access to the distribution of funds;</p> <p style="text-align: center;">***</p> <p>(20) Cash dividends from stocks, life insurance, or other sources;</p> <p style="text-align: center;">***</p>	

Program	Type of Benefit	Asset Counts?	Disregard?	Exceptions	Can State Leg exempt?
				<p>(22) Funds used to purchase an annuity that:</p> <p>(A) Is revocable and allows the annuitant access to the cash value of the annuity less early withdrawals and surrender fees;</p> <p>(B) Is assignable to allow the sale of the annuity on the open market; or</p> <p>(C) Does not address issues of revocability or assignability;</p> <p>Of Note: Not a retirement account, but ABLÉ accounts are also exempt as an asset. We will be amending the HAR to include this. However, to be eligible for an ABLÉ account, you or the beneficiary must:</p> <ul style="list-style-type: none"> <li>• Have a disability or blindness that developed before the age of 26 that will last, or has lasted at least a year;</li> <li>• Be a U.S. citizen; and confirm one of the following: <ul style="list-style-type: none"> <li>• Are eligible for Supplemental Security Income (SSI) or Social Security Disability Insurance (SSDI) because of a disability;</li> </ul> </li> </ul>	



Program	Type of Benefit	Asset Counts?	Disregard?	Exceptions	Can State Leg exempt?
				<ul style="list-style-type: none"> <li>• Experience blindness as determined by the Social Security Act; or</li> <li>• Can produce a signed diagnosis from a licensed physician if requested.</li> </ul>	



STATE OF HAWAII  
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS  
[www.labor.hawaii.gov](http://www.labor.hawaii.gov)

February 23, 2022

To: The Honorable Donovan M. Dela Cruz, Chair  
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair, and  
Members of the Senate Committee on Ways and Means

Date: Wednesday, February 23, 2022  
Time: 10:05 a.m.  
Place: Conference Room 211, State Capitol and via Videoconference

From: Anne Perreira-Eustaquio, Director  
Department of Labor and Industrial Relations (DLIR)

**Re: S.B. 3289 SD1 RELATING TO HAWAII RETIREMENT SAVINGS**

Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee:

My name is Anne Perreira-Eustaquio, and I am the Director of the Department of Labor and Industrial Relations (DLIR). I am testifying to support the intent of SB3289 SD1, which establishes the Hawaii Retirement Savings Program.

Hawaii's workforce faces a myriad of challenges, including the ability of private sector workers to build their savings for retirement. Many workers currently do not have access to employer-sponsored retirement savings plans and risk failing to have sufficient income in retirement to achieve financial security. It is well-known that Hawaii has the nation's highest cost of living, which results in many workers working beyond normal retirement age, and many of those workers work more than one job.<sup>1</sup>

Establishing a Hawaii Retirement Savings Program would provide an option for workers that currently do not have access to an employer-sponsored retirement plan. This would help enable workers to save enough to retire with financial security and avoid working further into their old age. Moreover, this would help relieve pressure on the state and taxpayers in providing social assistance to those private sector workers that are unable to sufficiently build savings for retirement.

As outlined in the report of the Hawaii Retirement Savings Task Force Report,<sup>2</sup> 85% of employers would likely participate or offer their employees a state-facilitated retirement program that would be easy and low cost for them. The Task Force recommended the automatic IRA model for Hawaii, which is an automatic payroll deduction model that is also offered in Oregon, California, and Illinois. Automatic retirement savings is a best practice that offers workers an important long-term benefit and helps employers attract

and retain workers.

The U.S. Department of Labor (U.S. DOL) has been working with a number of partners to educate small business owners and workers about various simple retirement plan options and maintains on number of websites on the topic at:

<https://www.dol.gov/general/topic/retirement/retirementsavings>

It is for these reasons the department supports the intent of this measure but defers to the Department of Budget and Finance regarding the fiscal and administrative impacts of the measure.

<sup>1</sup> [https://s3.amazonaws.com/cfsi-innovation-files-2018/wp-content/uploads/2020/02/03230029/Hawaii\\_Financial\\_Health\\_Pulse.pdf](https://s3.amazonaws.com/cfsi-innovation-files-2018/wp-content/uploads/2020/02/03230029/Hawaii_Financial_Health_Pulse.pdf)

<sup>2</sup> [https://www.capitol.hawaii.gov/session2022/bills/DC188\\_.pdf](https://www.capitol.hawaii.gov/session2022/bills/DC188_.pdf)

DAVID Y. IGE  
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DIRECTOR

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**STATE OF HAWAII**  
**DEPARTMENT OF BUDGET AND FINANCE**  
P.O. BOX 150  
HONOLULU, HAWAII 96810-0150

EMPLOYEES' RETIREMENT SYSTEM  
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
OFFICE OF THE PUBLIC DEFENDER

ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND  
MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**WRITTEN ONLY**  
TESTIMONY BY CRAIG K. HIRAI  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE SENATE COMMITTEE ON WAYS AND MEANS  
ON  
SENATE BILL NO. 3289, S.D. 1

**February 23, 2022**  
**10:05 a.m.**  
**Room 211 and Videoconference**

**RELATING TO HAWAII RETIREMENT SAVINGS**

The Department of Budget and Finance (B&F) appreciates the intent of Senate Bill (S.B.) No. 3289, S.D. 1, but offers comments with concerns.

S.B. No. 3289, S.D. 1, establishes the Hawai'i Retirement Savings Program (Program) for private sector employees who do not have access to an employer-sponsored retirement program, sets operating and reporting requirements for the Program, and sets an implementation start date of July 1, 2024, for covered employers. The bill also establishes the Hawai'i Retirement Savings Special Fund and appropriates \$813,600 in general funds for FY 23 for implementation and operation of the Program, including the hiring of necessary staff.

With a program of this importance and magnitude, B&F believes that it would be prudent to approach implementation in three phases:

- The first phase would be to have the Hawai'i Retirement Savings Board (Board) conduct an implementation/feasibility study and perform other necessary due diligence tasks to ensure that: a) program parameters established in the bill are realistic and workable; and b) sufficient resources and time are provided to

implement a successful program. B&F strongly believes that this phase is critical because of the complexities and practicalities involved. Provisions should be made in the bill to have the Board report prior to the 2023 and 2024 Legislative Sessions on its progress; any issues/concerns that it may have; and, if necessary, proposed statutory amendments and/or funding requirements to implement the Program.

- The second phase would be to plan and prepare for program implementation by:
  - a) hiring additional program staff; b) procuring a financial/program advisor/consultant, a third-party administrator, and investment product provider(s);
  - c) drafting and adopting program rules and developing systems, procedures, forms, etc.; d) developing a program implementation strategy and timetable; and
  - e) conducting outreach efforts for affected covered employers and employees. B&F notes that these activities always take longer than one would anticipate (more so if the Board does not have dedicated staff to assist). Consequently, B&F strongly recommends that, at a minimum, one full year be allowed for implementation preparations after completion of the first phase.
- The third phase would be implementing the Program based on an implementation strategy and timetable approved by the Board. B&F highly recommends that the Board be statutorily given flexibility to stagger implementation of covered employers, for example, based on business size and/or geographic area.

B&F believes this phased approach will better inform statutory program parameters and design of the Program and allow sufficient time for preparation, greatly improving chances for a smooth implementation and, ultimately, a successful program.

With regard to the appropriation in Section 4 of the bill, B&F does not know how the amount was determined and what costs it provides for. B&F notes that the hiring of dedicated program staff will be critical to implementing the Program because the

statewide financial management system replacement project will be starting in March, and B&F staff will be fully engaged and committed to working on the project while also managing its regular work.

B&F also notes that, with respect to the general fund appropriation in this bill, the federal Coronavirus Response and Relief Supplemental Appropriations Act requires that states receiving Elementary and Secondary School Emergency Relief (ESSER) II funds and Governor's Emergency Education Relief II funds must maintain state support for:

- Elementary and secondary education in FY 22 at least at the proportional level of the state's support for elementary and secondary education relative to the state's overall spending, averaged over FYs 17, 18 and 19; and
- Higher education in FY 22 at least at the proportional level of the state's support for higher education relative to the state's overall spending, averaged over FYs 17, 18 and 19.

Further, the federal American Rescue Plan (ARP) Act requires that states receiving ARP ESSER funds must maintain state support for:

- Elementary and secondary education in FY 22 and FY 23 at least at the proportional level of the state's support for elementary and secondary education relative to the state's overall spending, averaged over FYs 17, 18 and 19; and
- Higher education in FY 22 and FY 23 at least at the proportional level of the state's support for higher education relative to the state's overall spending, averaged over FYs 17, 18 and 19.

The U.S. Department of Education has issued rules governing how these maintenance of effort (MOE) requirements are to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawai'i complies with these ESSER MOE requirements.

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 Board's efforts.

Thank you for your consideration of our comments.

Attachments

CENTER *for*  
RETIREMENT  
RESEARCH  
*at* BOSTON COLLEGE

# Feasibility Study: Illinois Secure Choice

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March 2017



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at BOSTON COLLEGE

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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.

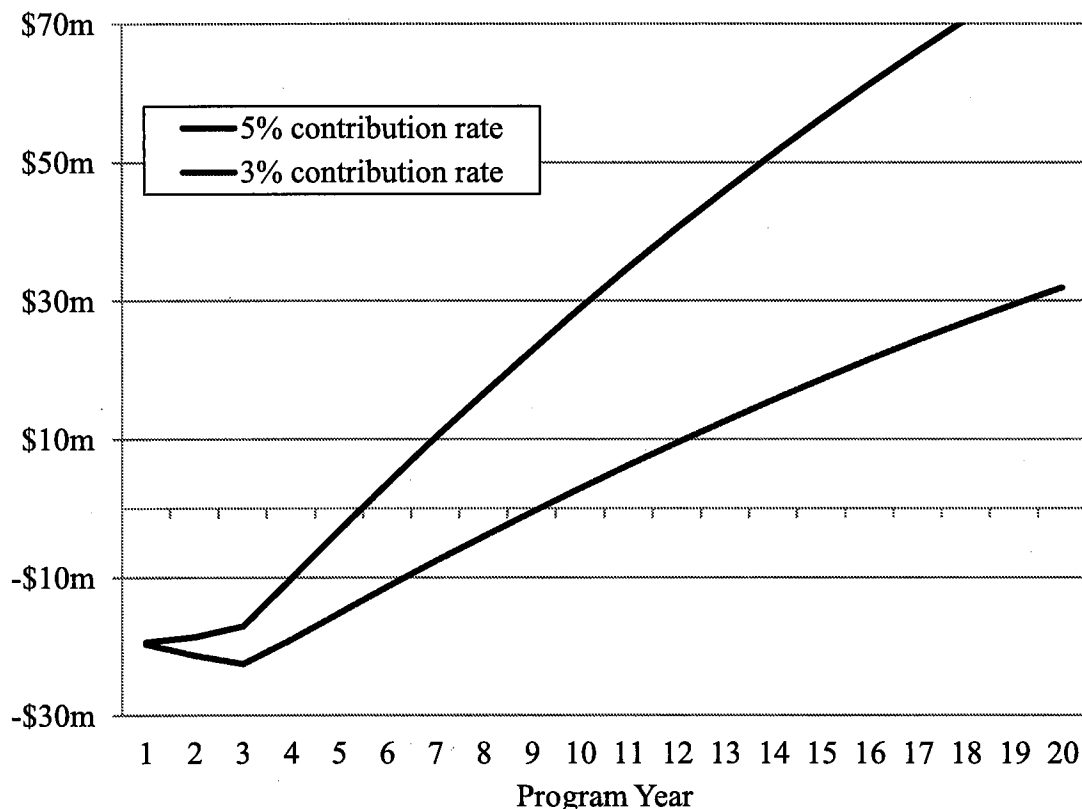
Secure Choice – which will be administered by private sector companies with state oversight – faces one significant challenge: the program must pay for itself. Addressing this challenge is difficult because, in the beginning, program costs will rise more rapidly than revenues. Costs are driven by the 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.<sup>1</sup>

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



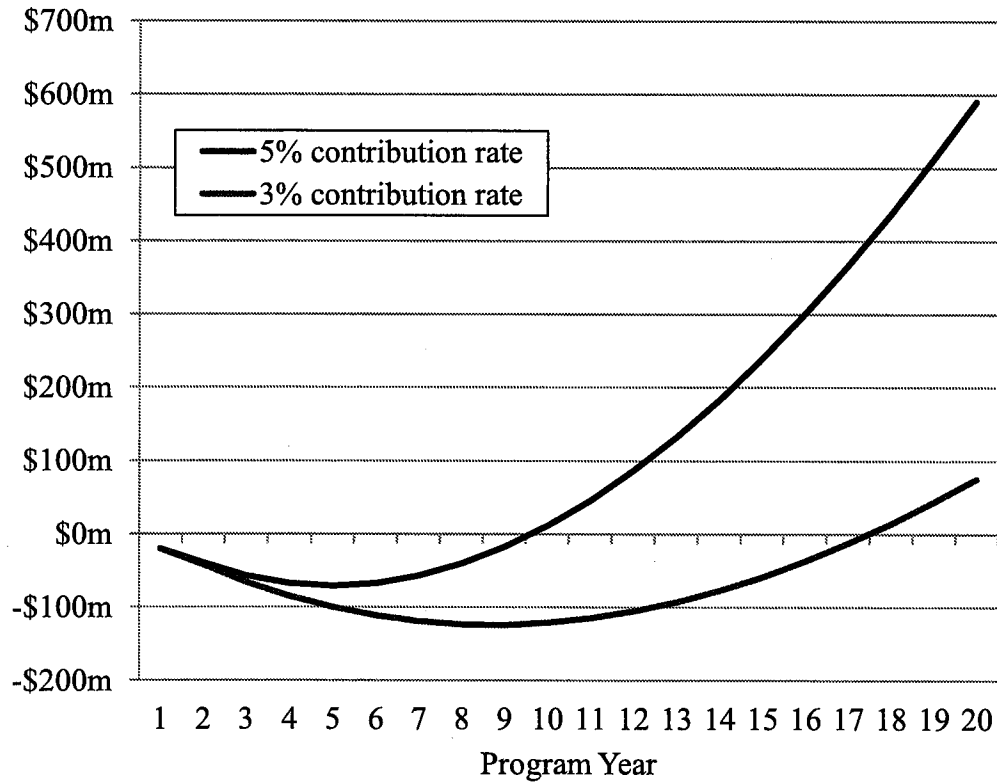
Source: Center for Retirement Research at Boston College (CRR) calculations.

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

<sup>1</sup> 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.<sup>2</sup>

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.

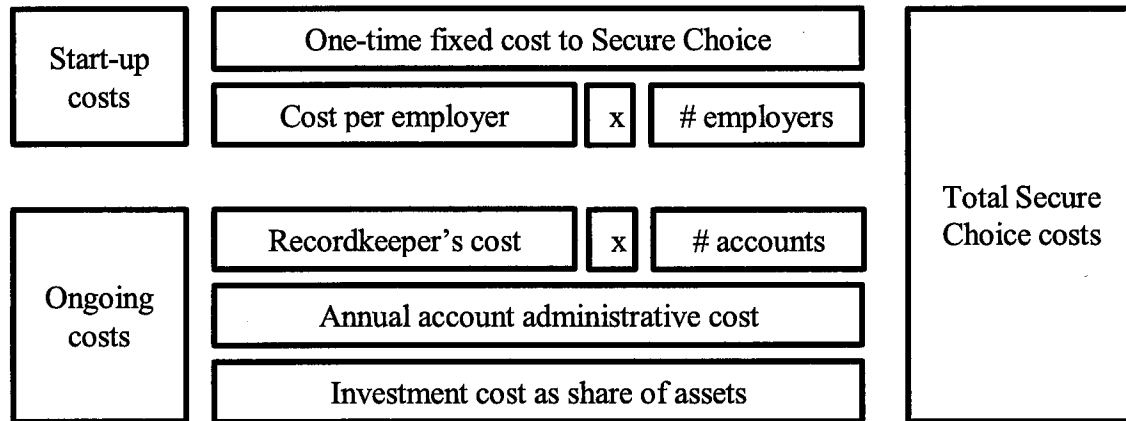
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<sup>2</sup> Secure Choice may be rolled out in a slightly shorter amount of time than indicated here (two years instead of three). This change will not significantly affect the numbers presented in this report.

**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*



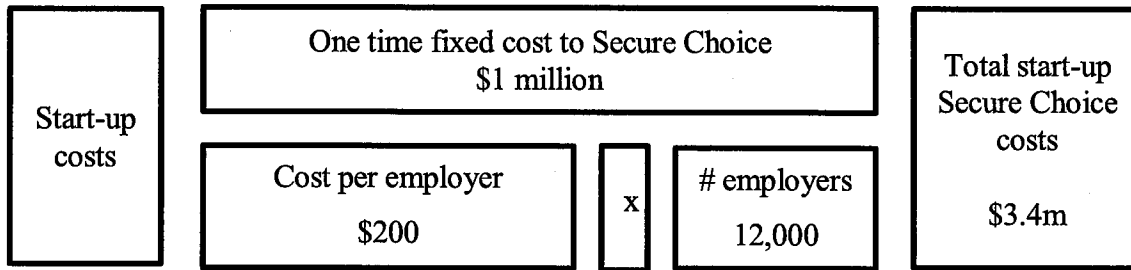
*Start-up Costs*

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.<sup>3</sup> 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

<sup>3</sup> 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.<sup>4</sup> 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.<sup>5</sup>

<sup>4</sup> 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.

<sup>5</sup> 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
<b>Total</b>	<b>883,000</b>	<b>892,000</b>	<b>914,000</b>	<b>938,000</b>	<b>961,000</b>

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.<sup>6</sup> 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
<b>Total</b>	<b>103,000</b>	<b>175,000</b>	<b>271,000</b>	<b>318,000</b>	<b>343,000</b>

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.<sup>7</sup>

<sup>6</sup> 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.

<sup>7</sup> 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
<b>Total accounts</b>	<b>886,000</b>	<b>1,067,000</b>	<b>1,185,000</b>	<b>1,256,000</b>	<b>1,304,000</b>
x cost per	\$30	\$30	\$30	\$30	\$30
<b>Account admin. costs</b>	<b>\$26.9m</b>	<b>\$32.0m</b>	<b>\$35.6m</b>	<b>\$37.7m</b>	<b>\$39.1m</b>

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.<sup>8</sup> 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.

<sup>8</sup> 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.

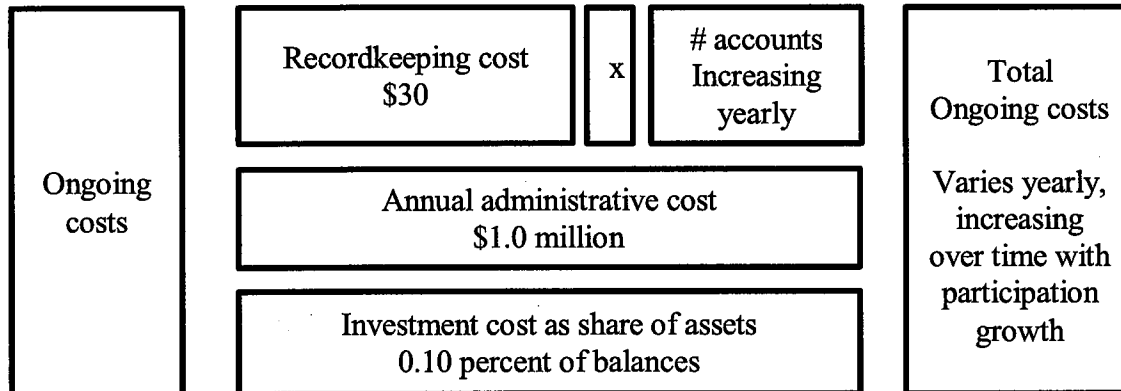
Table 4. *Yearly Program Administrative Costs*

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

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.<sup>9</sup> 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.

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<sup>9</sup> 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
<b>Total</b>	<b>879.7</b>	<b>888.4</b>	<b>910.8</b>	<b>933.9</b>	<b>957.4</b>
<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
<b>Total</b>	<b>1,447.4</b>	<b>1,461.9</b>	<b>1,498.9</b>	<b>1,536.7</b>	<b>1,565.5</b>

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.<sup>10</sup> 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.<sup>11</sup>

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.<sup>12</sup> Figure 2 shows how assets are estimated to accumulate over time in Secure Choice

<sup>10</sup> Sensitivity to this assumption is tested later in the study.

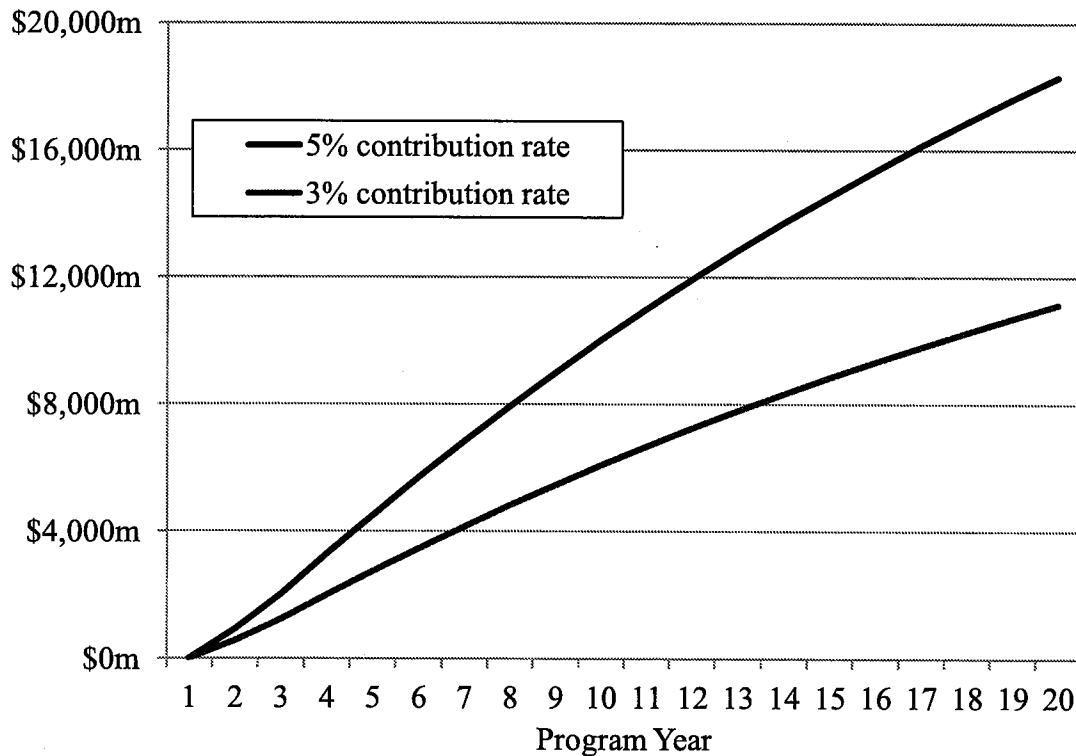
<sup>11</sup> The study assumes that accounts that close have balances equal to the average of all accounts. Because larger accounts are less likely to close than smaller ones, this assumption likely overstates losses due to closures.

<sup>12</sup> 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.<sup>13</sup> 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.

<sup>13</sup> See State of Connecticut Retirement Security Board (2016), available here: [http://www.osc.ct.gov/crsb/docs/finalreport/CRSB\\_January\\_1\\_Report.pdf](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.

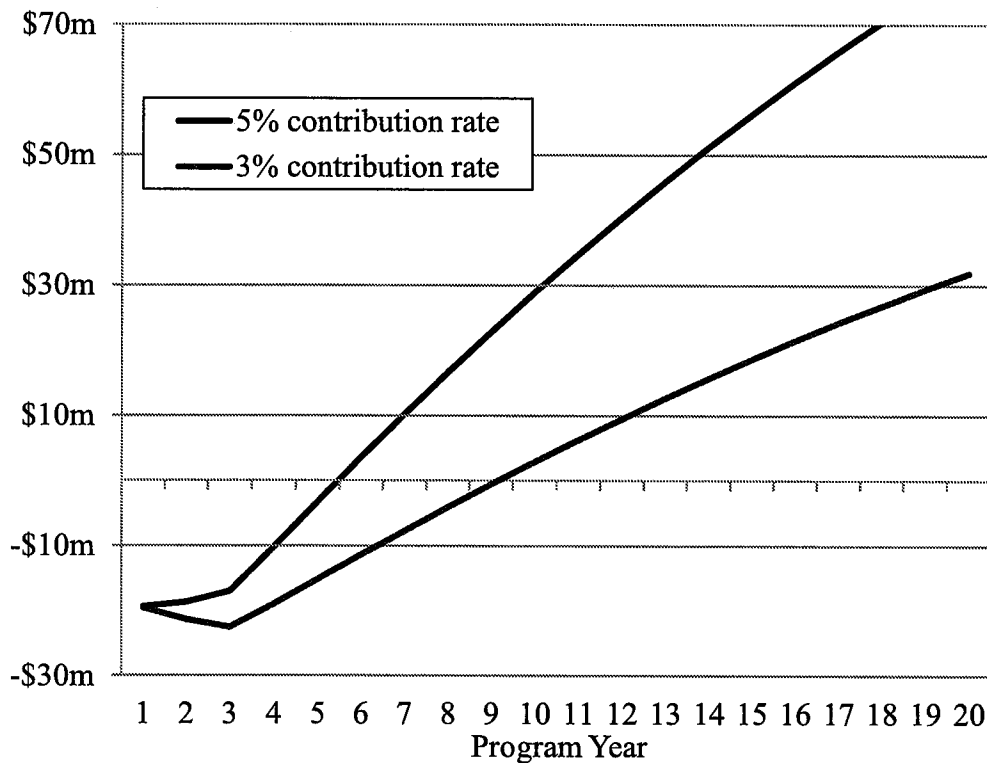
### **Secure Choice Finances**

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*

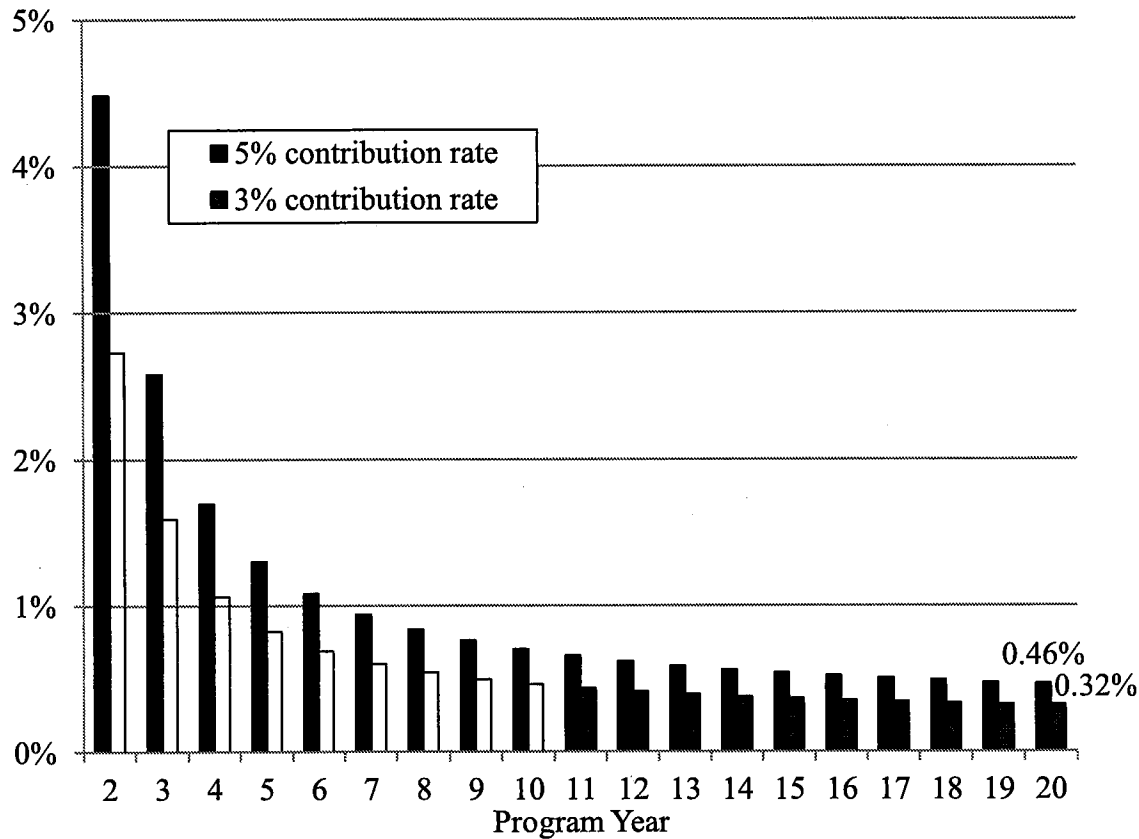


Source: CRR calculations.

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.

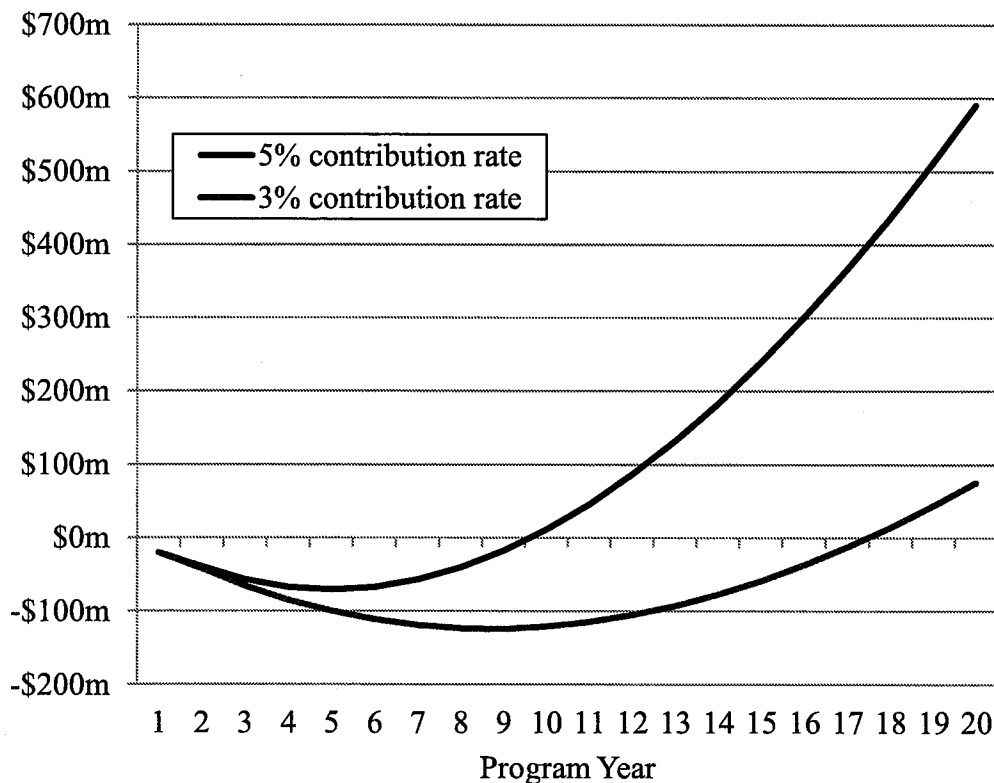
Given the initial assumed participation and account closure rates, quadrupling leakages to 4 percent increases the breakeven time to 12 years under a default contribution of 3 percent and it remains at 6 years for a default contribution of 5 percent. Reducing stock returns to 1 percent does not change 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.<sup>14</sup> 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](#).

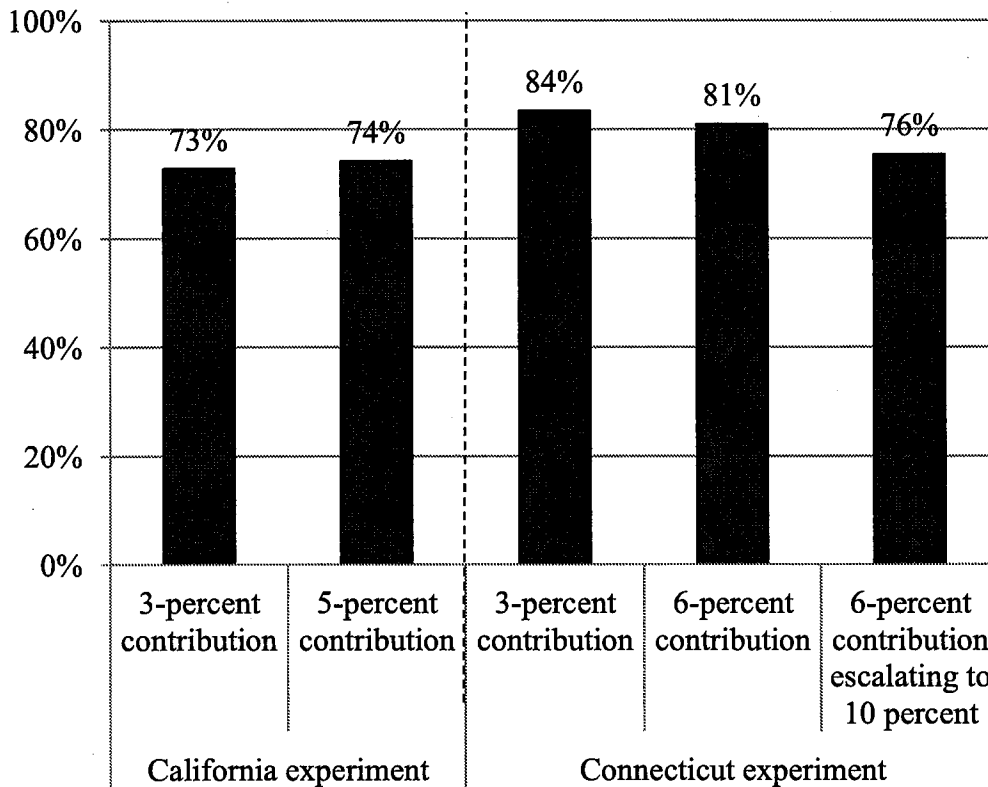
*Source:* State of Connecticut Retirement Security Board (2016).

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.<sup>15</sup>

<sup>14</sup> 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.

<sup>15</sup> 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

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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).<sup>16</sup> 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%
<b>25+ employees, 2+ years in business</b>	<b>1,226,000</b>	<b>21.3%</b>
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.

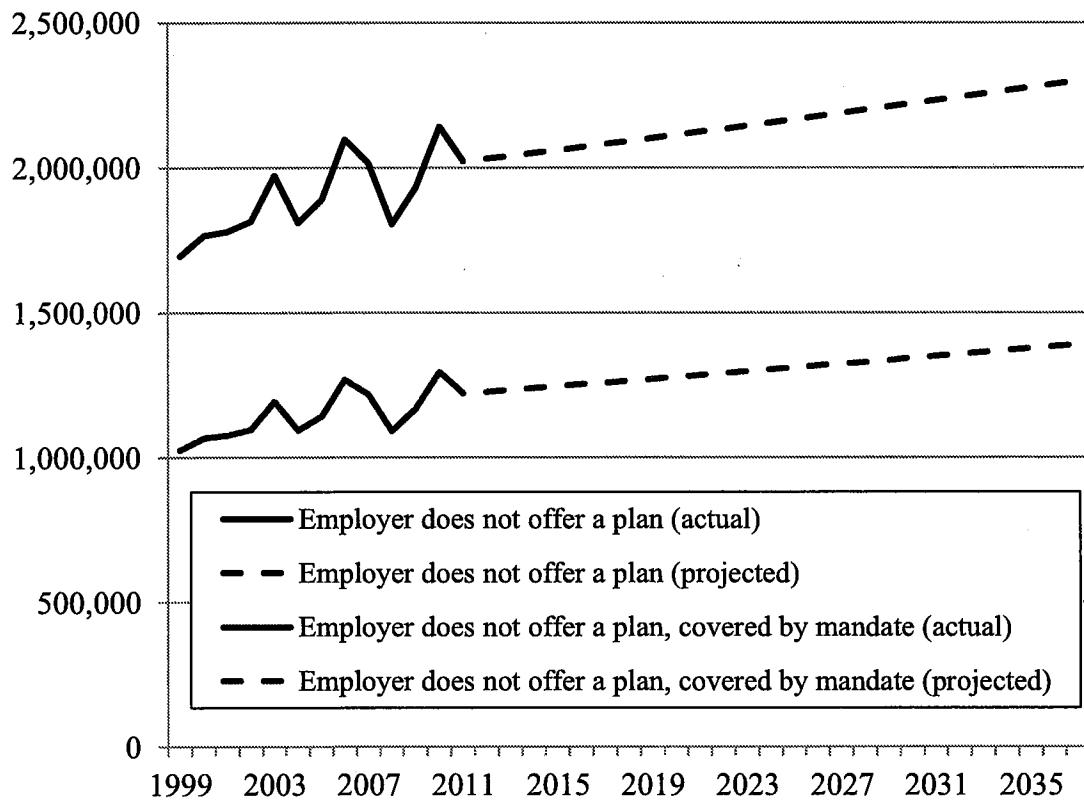
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<sup>16</sup> The base year was 2012 in the population calculations, because a change in sample design and weighting of the *Current Population Survey* used in this analysis may result in an artificially inflated number of uncovered workers. See Copeland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

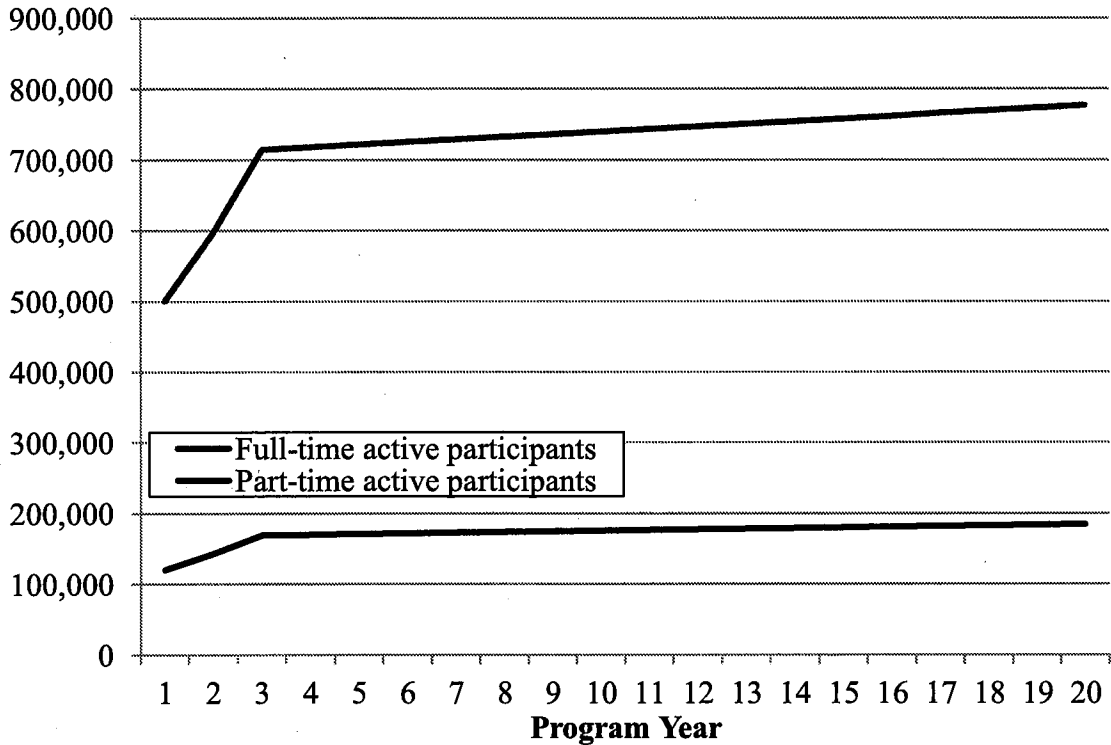
Of course, not all of eligible full-time and part-time workers will participate in the plan. For one, employers currently without a plan may decide they would rather offer their own in-house alternative to Secure Choice. Until the program is actually rolled out, it is unclear how often this will occur. 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.

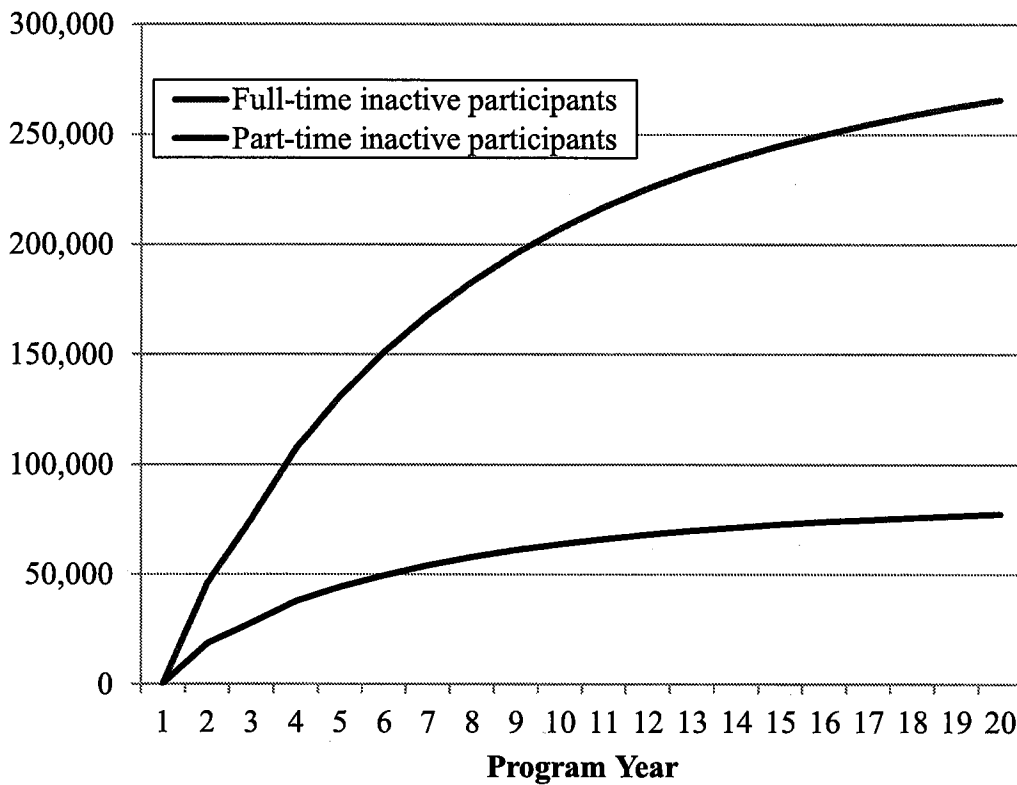
These numbers can be used to estimate the rate at which workers either remain covered by Secure Choice or transition out of the program. Because 68 percent of eligible workers remain at the same job and another 17 percent ( $0.23 \times 0.74$ ) switch jobs but remain eligible for Secure Choice, the study assumes 85 percent of active accounts remain active.<sup>17</sup> 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.<sup>18</sup> The end result is shown in Figure A3.

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<sup>17</sup> 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.

<sup>18</sup> 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 ( $0.06 \times 0.20$ ) 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 ( $0.080 \times 0.30$ ) and 2 percent due to moving out of Illinois. On the whole, about 6 percent of active accounts are assumed to close each year.<sup>19</sup>

<sup>19</sup> 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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August 2016



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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.

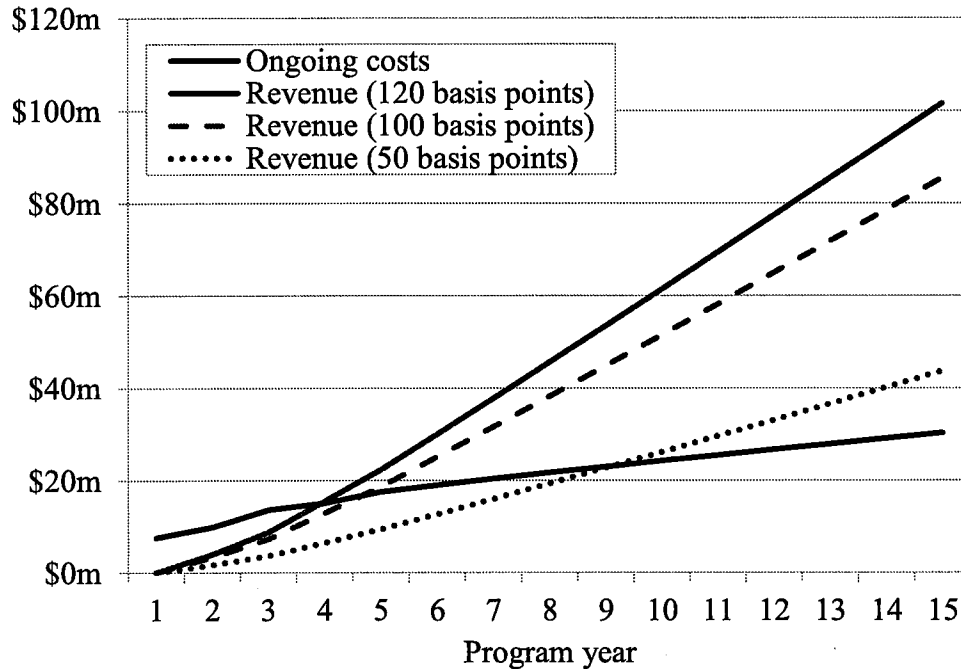
The initial assumptions regarding program design are threefold. First, the default contribution rate is 5 percent, with auto-escalation to 10 percent. Second, contributions are invested in a blended target date fund. Third, employers without a plan are enrolled in a staggered manner: Year 1, employers 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.

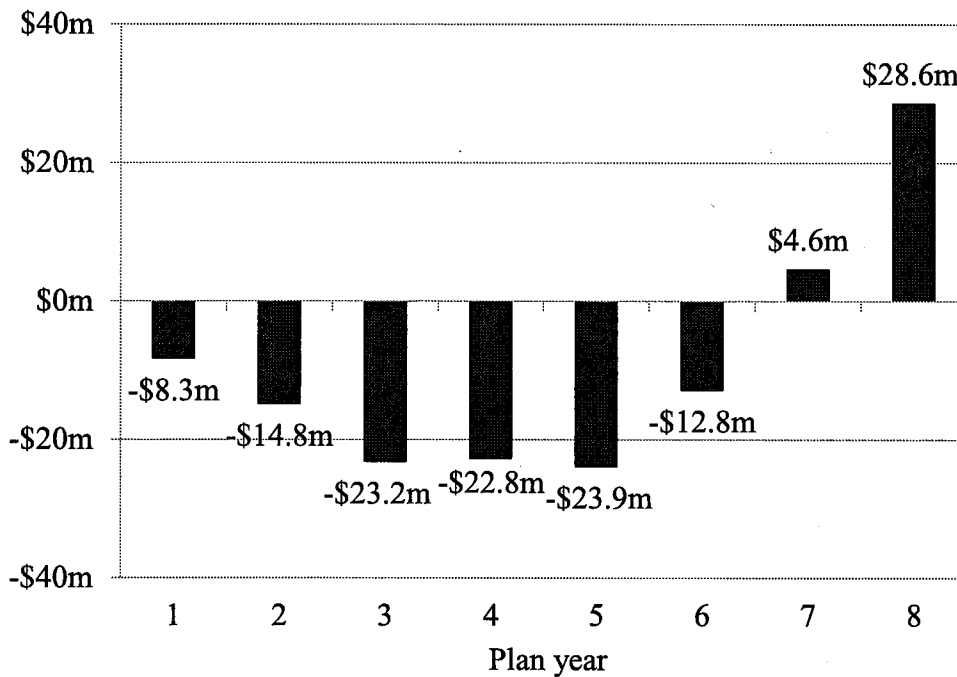
Figure 1. *Estimated Ongoing Revenue and Costs of ORSP Under Initial Scenario, in Millions*



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.

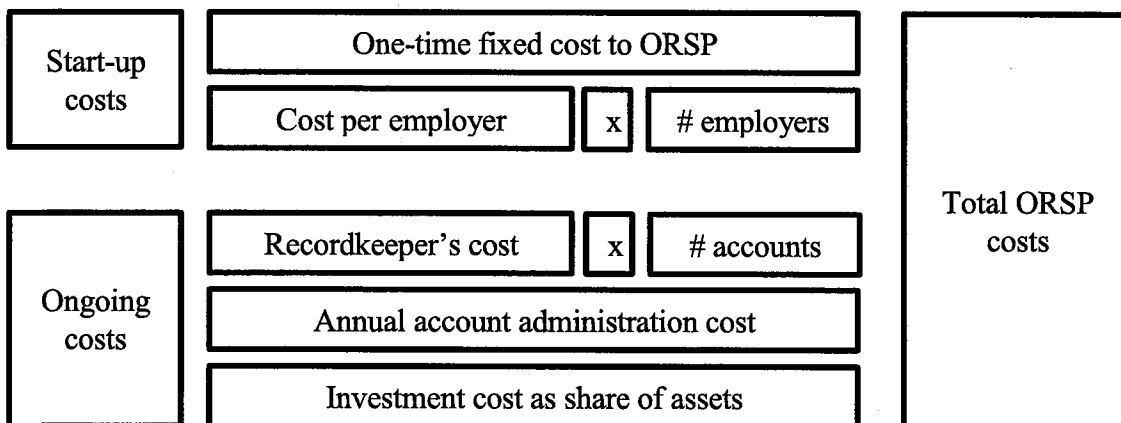
The study makes several other assumptions, including population growth, worker participation, worker mobility, and withdrawals. Perhaps the most important of these is that the majority of workers participate in the program – our Market Research Report suggests 79 percent of full-time and 76 percent of 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.

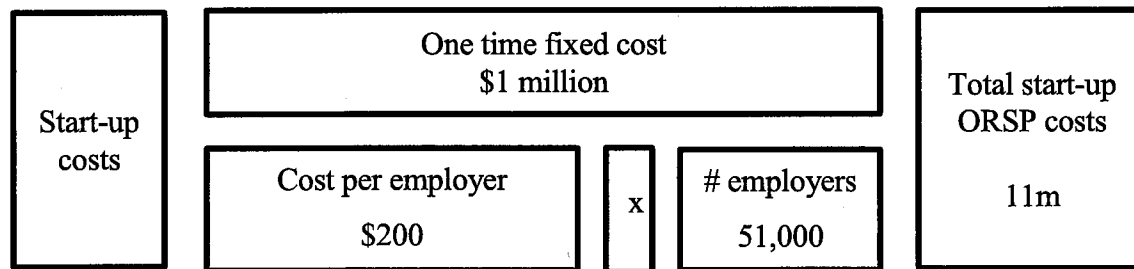
Figure 1. *ORSP Costs*



### 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.<sup>1</sup> 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.<sup>2</sup> 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

<sup>1</sup> 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.

<sup>2</sup> 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.<sup>3</sup>

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
<b>Total</b>	<b>349,000</b>	<b>380,000</b>	<b>389,000</b>	<b>399,000</b>

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.<sup>4</sup> The number of inactive full- and part-time accounts is shown in Table 2.

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

<sup>4</sup> 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
<b>Total</b>	<b>34,000</b>	<b>66,000</b>	<b>113,000</b>	<b>135,000</b>

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
<b>Total accounts</b>	<b>383,000</b>	<b>446,000</b>	<b>502,000</b>	<b>534,000</b>
x cost per	\$30	\$30	\$30	\$30
<b>Account admin. costs</b>	<b>\$11.5m</b>	<b>\$13.4m</b>	<b>\$15.1m</b>	<b>\$16.0m</b>

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.<sup>5</sup> 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.

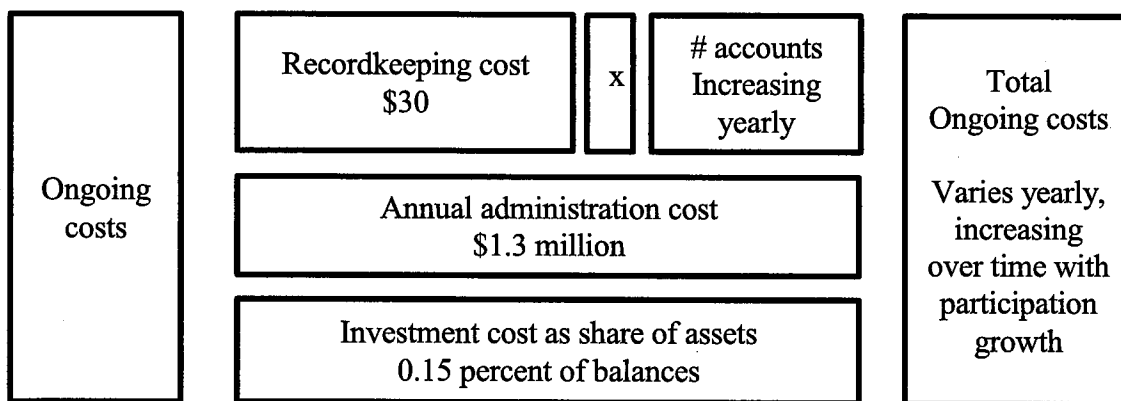
Table 4. *Yearly Program Administration Costs*

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

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

<sup>5</sup> 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.<sup>6</sup> 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.<sup>7</sup> 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.

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<sup>6</sup> 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.

<sup>7</sup> 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
<b>Total</b>	<b>638.9m</b>	<b>782.3m</b>	<b>969.1m</b>	<b>1,164.8m</b>

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.<sup>8</sup> 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.<sup>9</sup>

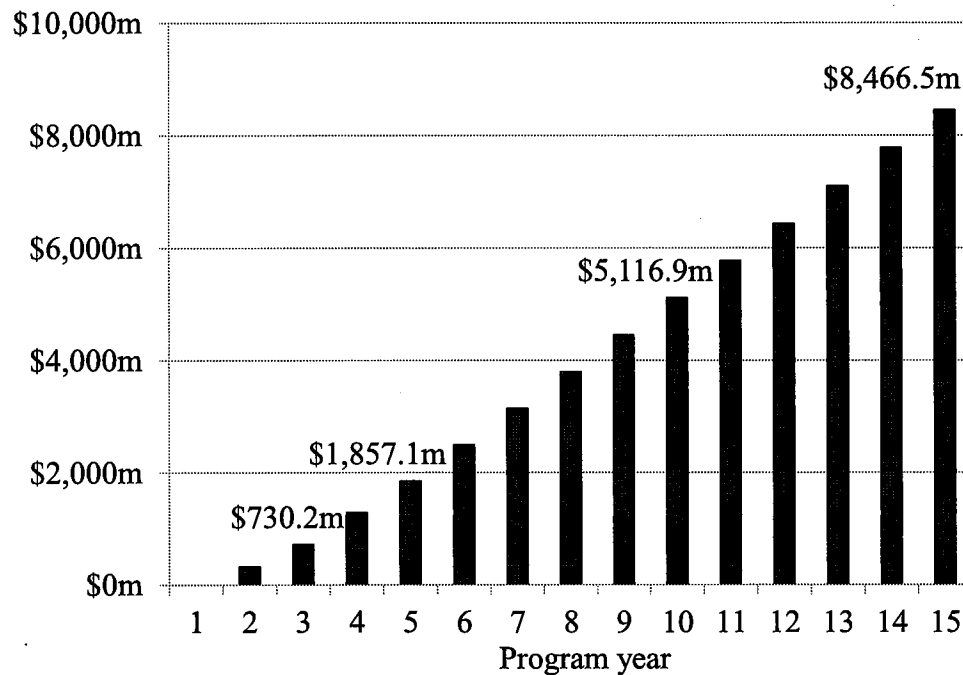
Regarding investment returns, the study initially assumes that money in the plan is invested in a blended fund with an average rate of return of 5 percent annually. The study also assumes an initial fee level of 120 basis points, so that the net-of-fees return is 3.8 percent.<sup>10</sup> Figure 2 shows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

<sup>8</sup> Sensitivity to this assumption is tested later in the study.

<sup>9</sup> 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.

<sup>10</sup> 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.<sup>11</sup>

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*

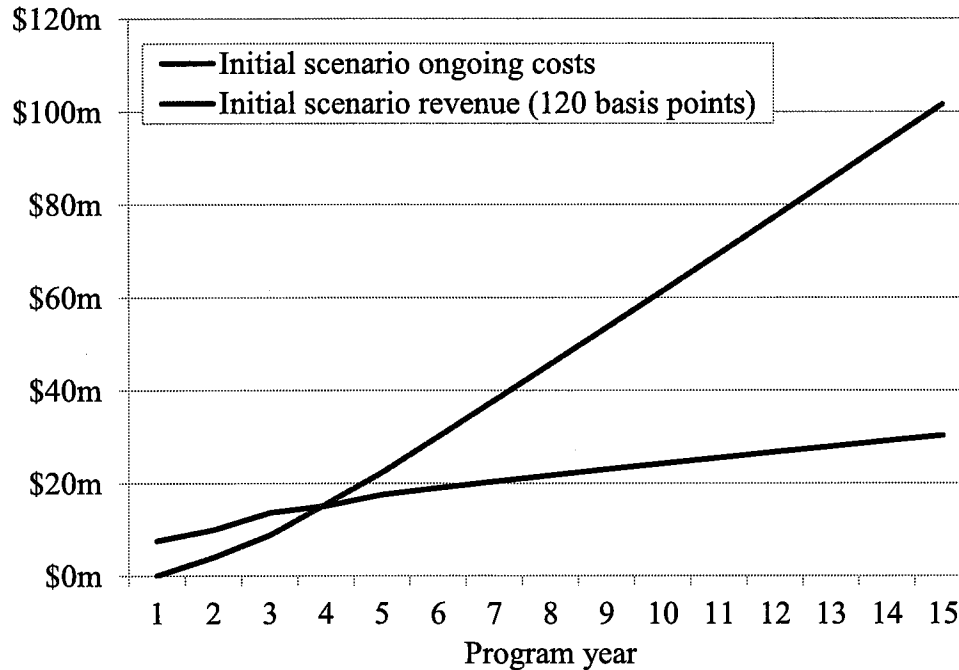
Ignoring fixed costs, a key driver of the program’s financial status is the length of time before revenue exceeds the ongoing costs of account and program maintenance (summarized in Figure 1B). If the ORSP goes on too long with an operating deficit then, when combined with fixed costs, the program will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

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<sup>11</sup> 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.

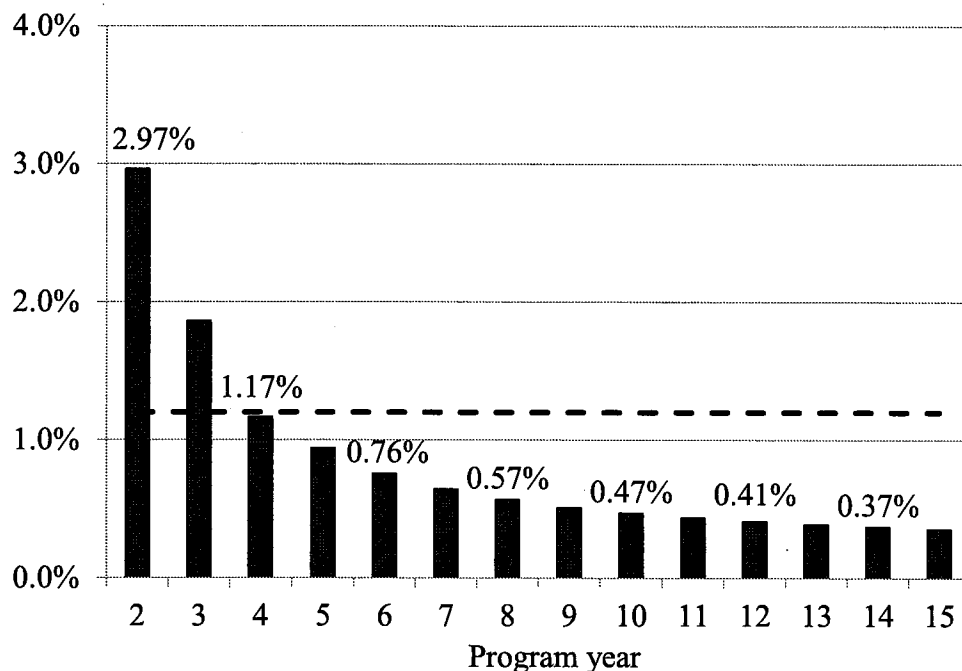
Box 3. *ORSP Time to Break Even Under Alternative Program and Economic Assumptions*

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.

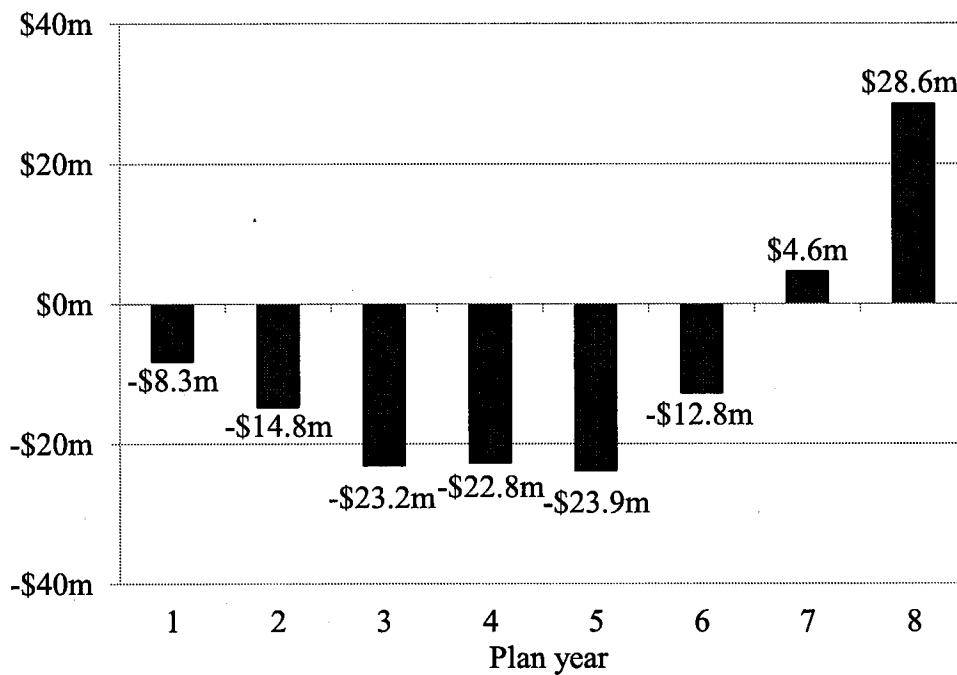
*Paying Off Initial Losses*

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
<b>Inputs</b>								
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
<b>Outputs</b>								
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
<b>Inputs</b>			
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
<b>Outputs</b>			
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
<b>All Oregon workers</b>	<b>1,746,000</b>	<b>100 %</b>
<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).

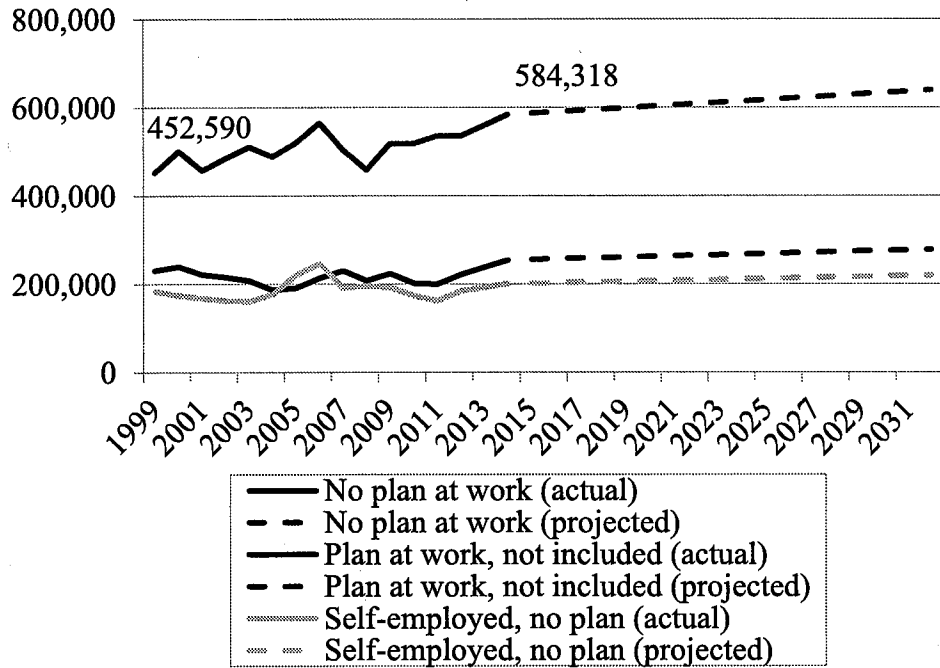
The initial assumption of the feasibility study is that only workers who do not have a plan at work will be automatically enrolled in the ORSP and that other workers will not be given the opportunity to opt in. It is also assumed that workers under the age of 18 are not eligible for the program – this 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.

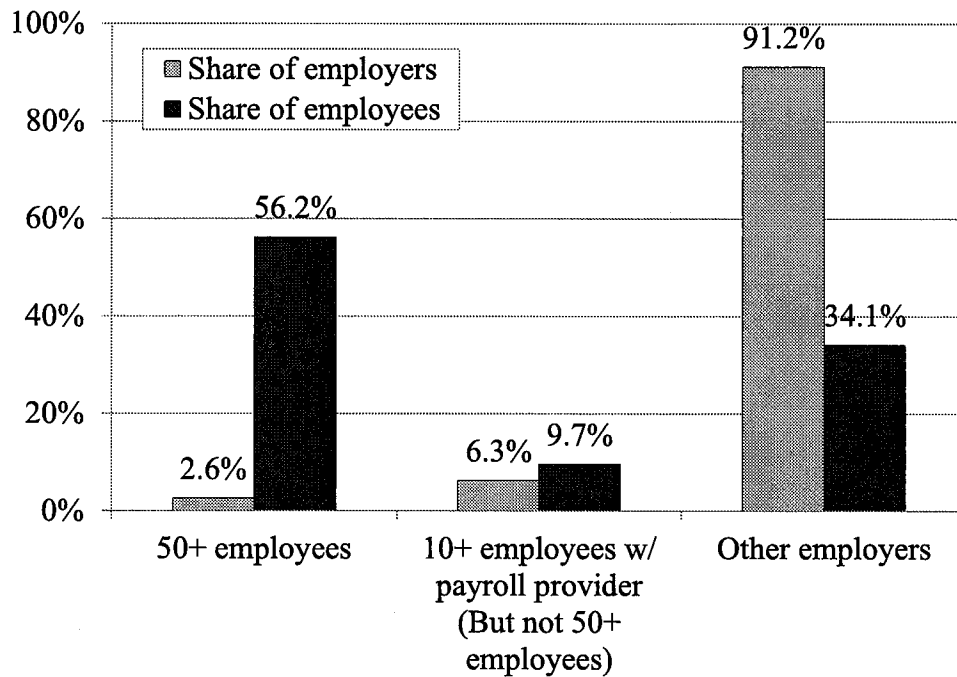
Figure B1. *Actual and Projected Number of Uncovered Workers Over 18, 2000-2032*



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.

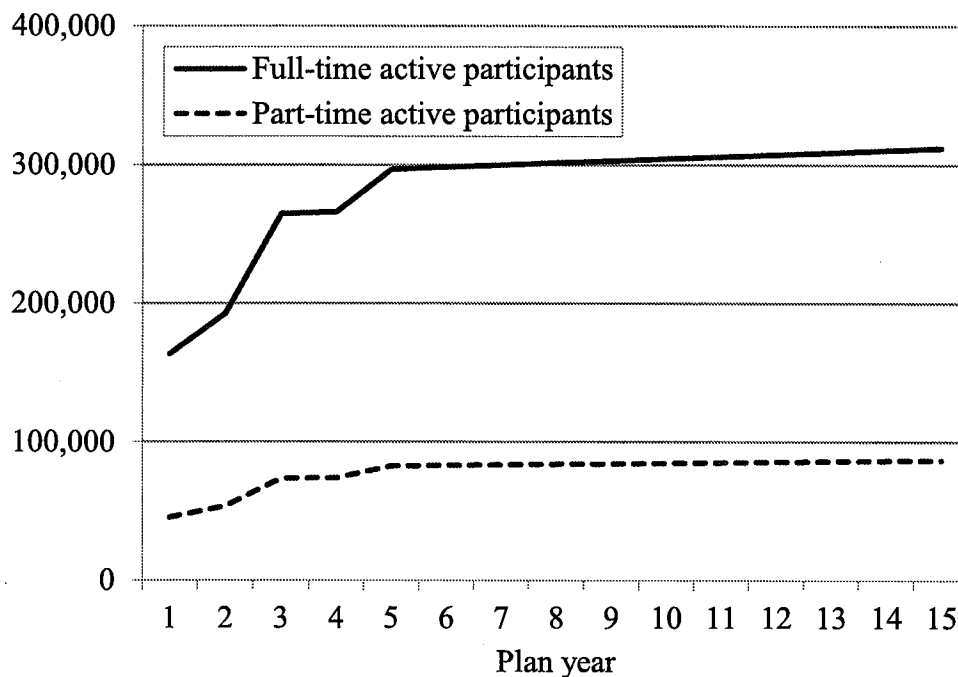
Next, some workers who are eligible for the plan and whose employer chooses the ORSP will opt out. Under the plan design currently being considered – a Roth IRA with a default contribution of 5 percent, auto-escalating to 10 percent – the Center for Retirement Research (CRR) estimates that roughly 79 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.<sup>12</sup> 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.

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<sup>12</sup> 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
<b>I. Oregon</b>						
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
<b>II. Rest of U.S.</b>						
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.

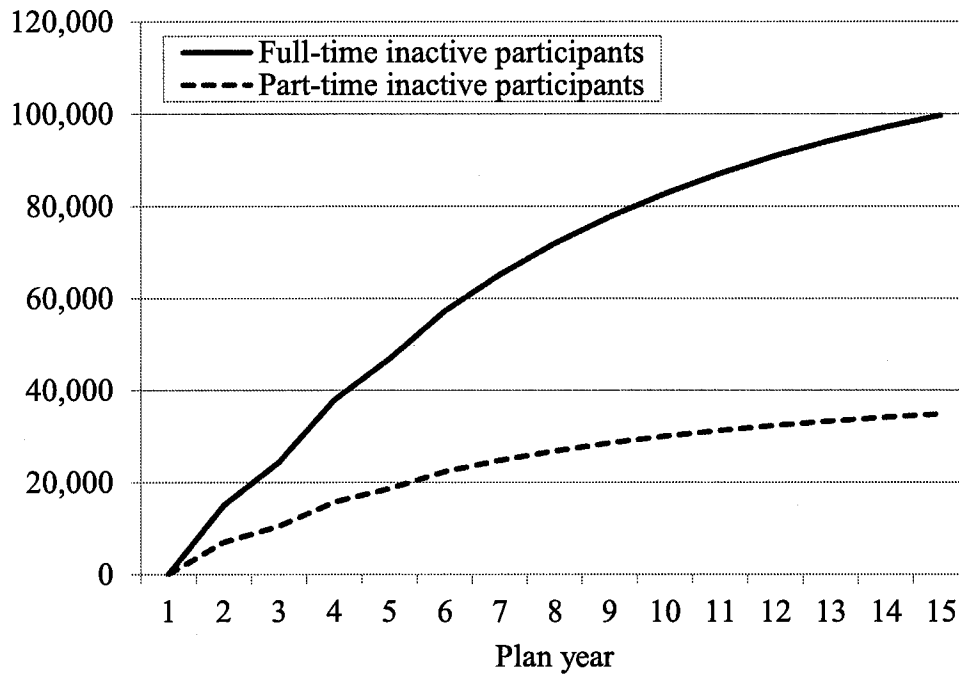
These numbers can be used to estimate the rate at which workers either remain covered by ORSP or transition out of the program. Because 68 percent of eligible workers remain at the same job and another 17 percent ( $0.23 \times 0.74$ ) switch jobs but remain eligible for ORSP, the study assumes 85 percent of active accounts remain active.<sup>13</sup> 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.<sup>14</sup> The end result is shown in Figure B4.

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<sup>13</sup> 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.

<sup>14</sup> 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 ( $0.06 \times 0.20$ ) 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 ( $0.080 \times 0.30$ ) and 2 percent due to moving out of Oregon. On the whole, about 6 percent of active accounts are assumed to close each year.<sup>15</sup>

<sup>15</sup> 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.

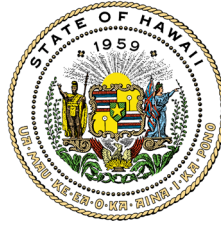
### *Inactive Accounts Returning to Active*

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.



DAVID Y. IGE  
GOVERNOR OF HAWAII

ELIZABETH A. CHAR, M.D.  
DIRECTOR OF HEALTH



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STATE OF HAWAII  
EXECUTIVE OFFICE ON AGING  
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250 SOUTH HOTEL STREET, SUITE 406  
HONOLULU, HAWAII 96813-2831

**Testimony COMMENTING on SB3289 SD1  
Relating to Hawaii Retirement Savings**

COMMITTEE ON WAYS AND MEANS  
SENATOR DONOVAN M. DELA CRUZ, CHAIR  
SENATOR GILBERT S.C. AGARAN, VICE CHAIR

Testimony of Caroline Cadirao  
Director, Executive Office on Aging  
Attached Agency to the Department of Health

Hearing Date: February 23, 2022  
10:05 AM

Room Number: 211  
Via Videoconference

1 **EOA's Position:** The Executive Office on Aging (EOA), an attached agency to the Department  
2 of Health, supports the intent of SB3289 SD1, relating to Hawaii Retirement Savings and offers  
3 comments.

4 **Fiscal Implications:** This measure appropriates \$813,600 for SFY 2022-23 for the  
5 implementation and operation of the Hawaii retirement savings program.

6 **Purpose and Justification:** The purpose of this bill is to establish a state-facilitated payroll-  
7 deduction retirement savings plan for private sector employees in Hawaii who do not have access  
8 to employer-sponsored retirement plans. It also establishes a Board within Budget and Finance  
9 (for administrative purposes) to implement and administer the retirement savings program.

10 EOA recognizes that Hawaii's aging population is growing. In October 2020, Dr. Andrew Mason  
11 from the East-West Center and Michael Abrigo from the Philippine Institute for Development  
12 Studies published a report for the Department of Business, Economic Development and Tourism

1 entitled "Hawaii's Generational Economy". The goal of the study was to "establish a framework  
 2 for quantifying the generational economy at the state level, documenting how people at every  
 3 age acquire and use resources to meet their own needs, to support others, and to provide for the  
 4 future". Some of the key conclusions of the report include:

- 5 • *Rapid population aging began in Hawaii in 2010 and will continue until 2035.*  
 6 *After 2035 the percentage at older ages will grow more slowly.*
- 7 • *As compared with the rest of the United States, the population aged 85 and older*  
 8 *will grow very rapidly.*
- 9 • *Aging will lead to slower economic growth. All other things equal growth of per*  
 10 *capita consumption will be lower by about 0.5 percent per year due to population*  
 11 *aging between 2010 and 2030. An effect of that magnitude is substantial when it*  
 12 *persists for twenty years.*
- 13 • *The shortfall in resources, the lifecycle deficit, will be severe for seniors. Hence,*  
 14 *their economic status will depend most heavily on steps taken over the coming*  
 15 *decades.*

16 *(A. Mason, M. Abrigo, 2020. "Hawaii's Generational Economy", pg. 20, for the Hawaii Department of Business, Economic*  
 17 *Development and Tourism)*

18 Some of us are fortunate enough to be working and earning enough money to invest in long-term  
 19 care insurance, or we may have an employer who invests in a retirement program for us.  
 20 However, there are some individuals who are not as fortunate and do not have access to  
 21 employer-sponsored retirement plans. This bill is for those individuals. Without a retirement  
 22 plan, these individuals will be faced with enormous costs for long-term care. Hawaii has the one  
 23 of the highest costs for nursing home care. According to Genworth Cost of Care Survey 2020,  
 24 the monthly average cost of nursing home care in Hawaii is \$12,015 a month or \$144,180 a year.  
 25 Another option may be to hire a caregiver to come to the home to provide long-term care,

1 however, Hawaii is facing a shortage of qualified staff who provide in-home care. We must plan  
2 to address these long-term care issues.

3 Recommendation: While we defer to the Budget and Finance regarding the implementation of  
4 this retirement savings program, we support the intent for this saving program to provide all  
5 workers the opportunity to prepare for the future. So that they can live with peace of mind in  
6 their retirement years.

7 Thank you for the opportunity to provide comments on this measure.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Hawaii Retirement Savings Program

BILL NUMBER: SB 3289 SD1

INTRODUCED BY: Senate Committee on Labor, Culture and the Arts

EXECUTIVE SUMMARY: Establishes the Hawaii Retirement Savings Program, administered by the Hawaii Retirement Savings Board, in consultation with the Department of Budget and Finance and Department of Labor and Industrial Relations, to provide a state-facilitated payroll-deduction automatic enrollment individual retirement plan to private sector employees who do not have access to employer-sponsored retirement savings plans beginning 7/1/2024.

Appropriates funds.

SYNOPSIS: Adds a new chapter to the HRS to establish a retirement savings board that would create a Hawaii retirement savings program for private sector employees, not currently covered by an existing employer-sponsored retirement plan.

EFFECTIVE DATE: July 1, 2022.

STAFF COMMENTS: The State needs to remember that it doesn't have either the resources or the expertise to be all things to all people. The governmental activity proposed by this bill is not a core function of government. The private sector offers various kinds of retirement plans including IRAs for those who either can't or don't want to participate in an employer-sponsored retirement plan. The bill does not venture to explain how or why government would be able to offer retirement plans that are superior to those now on the market.

The State has tried savings encouragement before, by providing Individual Development Accounts sweetened with a state tax credit. The market uptake of this program was dismal, as shown in this table of IDA contribution credits claimed.

Year	Number of Taxpayers	Aggregate Credit Claimed
2000	0	0
2001	0	0
2002	0	0
2003	0	0
2004	9	\$3,000
2015	0	0

2016	Suppressed to prevent disclosure of taxpayer return information	
2017	0	0

Source: Department of Taxation, [Tax Credits Claimed by Hawaii Taxpayers](#) 23 (2017); Department of Taxation, Tax Credits Claimed by Hawaii Individuals and Corporations (2000, 2001, 2002, 2003, 2004). If the State program proposed has a similar market uptake, we will have wasted lots of resources and time.

With many folks here in Hawaii living from paycheck to paycheck, people simply don't have excess cash to put away for their retirement. Unless we address our cost of living, we think it will be difficult for this proposed program to have much more market traction than the IDA program.

We also remind lawmakers that financial controls are necessary to keep a program like this from becoming a financial black hole and a magnet for fraud.

Digested: 2/19/2022



**TESTIMONY OF TINA YAMAKI  
PRESIDENT  
RETAIL MERCHANTS OF HAWAII  
FEBRUARY 23, 2022**

**RE: SB 3289 SD1 RELATING TO HAWAII RETIREMENT SAVINGS**

Good morning, Chairperson Dela Cruz and members of the Senate Committee on Ways and Means. I am Tina Yamaki, President of the Retail Merchants of Hawaii.

The Retail Merchants of Hawaii was founded in 1901, RMH is a statewide, not for profit trade organization committed to the growth and development of the retail industry in Hawaii. Our membership includes small mom & pop stores, large box stores, resellers, luxury retail, department stores, shopping malls, local, national, and international retailers, chains, and everyone in between.

We support the intent of SB 3289 SD1 Relating to Hawaii Retirement Savings. This measure establishes the Hawaii Retirement Savings Program, administered by the Hawaii Retirement Savings Board, in consultation with the Department of Budget and Finance and Department of Labor and Industrial Relations, to provide a state-facilitated payroll-deduction automatic enrollment individual retirement plan to private sector employees who do not have access to employer-sponsored retirement savings plans beginning 7/1/2024. Appropriates funds

Businesses like everyone want to see our kupuna enjoy retirement and not having to rely on public assistance programs and this bill would help to accomplish this. Currently many companies in Hawaii, especially smaller local businesses are unable to afford to administer retirement or even 401K plans. It is our understanding that a Hawaii retirement savings plan could help to lessen the fiduciary burdens and would help many businesses provided an added benefit to their employees by offering a retirement savings plan through a payroll deduction program. This may be the incentive that many employees need to begin saving for retirement that may be years down the line.

However, businesses still have concerns on the true costs to employers to administer this program and if smaller locally owned businesses can actually afford it at this at this time. We realize that additional employee hours will be used as we are industry where turnover is great. Many have not recovered from the pandemic with soft sales, high debt and the international visitor not returning. The legislature is also considering raising the minimum wage and in the past 2 years we have seen an increase in materials and products, the consumer price index climbed 7% in 2021, the largest 12-month gain since June 1982 (according to US Bureau of Labor Statistics), and shipping costs from 300% to 1000%.

Mahalo for the opportunity to testify.

Statement Before The  
**SENATE COMMITTEE ON WAYS AND MEANS**  
Wednesday, February 23, 2022  
10:05 AM  
Conference Room 211 and Videoconference

in consideration of  
**SB 3289, SD1**  
**RELATING TO HAWAII RETIREMENT SAVINGS.**

Chair DELA CRUZ, Vice Chair KEITH-AGARAN, and Members of the Senate Ways and Means Committee

Common Cause Hawaii provides comments in support of SB 3289, SD1 which (1) establishes the Hawaii Retirement Savings Program, administered by the Hawaii Retirement Savings Board, in consultation with the Department of Budget and Finance and Department of Labor and Industrial Relations, to provide a state-facilitated payroll-deduction automatic enrollment individual retirement plan to private sector employees who do not have access to employer-sponsored retirement savings plans beginning 7/1/2024 and (2) appropriates funds.

Common Cause Hawaii is a nonprofit, nonpartisan, grassroots organization dedicated to reforming government and strengthening democracy - one that works for everyone.

Common Cause Hawaii understands that when everyone is paid a living wage and is able to save for retirement, the benefits flow to families, communities, and our state as a whole, uplifting our democracy. SB 3289, SD1 establishes a state-facilitated pay-roll deduction retirement savings program to help Hawaii's workers save for their retirement. SB 3289, SD1's retirement savings program is a much needed common-sense approach to help Hawaii's hard-working people save for the future.

Thank you for the opportunity to comment in support of SB 3289, SD1. If you have further questions of me, please contact me at [sma@commoncause.org](mailto:sma@commoncause.org).

Very respectfully yours,

Sandy Ma  
Executive Director, Common Cause Hawaii



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[facebook.com/AARPHawaii](https://facebook.com/AARPHawaii)

The State Legislature  
The Senate  
Committee on Ways and Means  
Wednesday, February 23, 2022  
10:05 a.m.

To: Senator Donovan Dela Cruz, Chair  
Re: Support for SB 3289 SD1 - Relating to Hawaii Retirement Savings

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee,

My name is Keali'i Lopez and I am the State Director for AARP Hawai'i. AARP is a nonpartisan, social mission organization that advocates for individuals age 50 and older. We have a membership of nearly 38 million nationwide and over 140,000 in Hawai'i. We advocate for the issues that matter to Hawai'i families including financial security, access to affordable, quality health care for all generations; and serve as a reliable information source on issues critical to people over the age of fifty.

AARP Hawai'i **strongly supports SB 3289 SD1** which establishes a state-facilitated retirement savings program for private sector employees to have an easy way to save and contribute toward their future through an automatic payroll deduction. This program has been recommended by the Hawaii Retirement Savings Task Force (established by SR 97, 2021) in their final report to the legislature submitted in December 2021.

Based on concerns raised in a prior hearing, AARP respectfully recommends the following amendment:

- 1) On page 24, Section 14: Penalties. (d) Any covered employer who otherwise violates or fails to comply with any provision of this chapter or rules adopted pursuant to this chapter shall be liable for a penalty of not less than \$500 for each violation or failure, **provided the penalties are capped at \$5,000 per calendar year.**

**SB3289 SD1** creates a board to establish and oversee a state-facilitated automatic IRA program and appropriates funds for marketing and to hire an administrator and support staff to start the program up over the next two years. The program would be a public-private partnership, like the college 529 savings program. The state would partner with the private sector to manage the automatic IRA program and invest the money, and funds would be held in individual worker accounts. Local businesses would offer access to the payroll-deduction retirement savings program to workers with zero employer fees.



AARP strongly supports a state-facilitated retirement savings program for the following reasons:

**A. Need for a state-facilitated retirement savings program for private-sector workers**

The pandemic has shown us how vital it is for Americans to have savings to depend on. While Social Security is a critical piece of the puzzle, it is not enough to depend on for a secure financial future. Today, the typical working household has only \$2,500 in retirement assets and those close to retirement have only \$14,500. The average Social Security benefit for an older family household (age 65+) in Hawai'i is about \$20,000 a year, while they spend \$26,000 a year on food, utilities and health care alone. According to the Aloha United Way 2020 ALICE in Hawaii Report, the senior survival budget for a single senior would be even higher at \$34,308 per year with increasing health care costs. ALICE families – an acronym for Asset Limited, Income Constrained, Employed – have income above the Federal Poverty Level (FPL), but not high enough to afford a basic household budget that includes housing, childcare, food, transportation, and health care. These ALICE families include households of all ages that are struggling to make ends meet in Hawai'i. With the growing number of aging baby boomers in the state, more seniors will struggle financially despite public programs and policies such as Social Security, property tax deductions and exemptions. The AUW report states that the rising housing costs will make it even more difficult for seniors to make ends meet and many will fall below the ALICE threshold and become impoverished.

We know that fewer and fewer people have a pension plan and many workers – about 216,000 people in Hawai'i, or 50% of Hawai'i's private sector employees -- currently have no easy access to a 401K, or other ways to save for retirement at work. Without an easy way to save at work, a secure retirement is out of reach for about half of Hawai'i's private-sector workers, especially those who work for small businesses.

While individuals can establish and contribute to a retirement savings program on their own; the vast majority do not. The fact is only 1 in 20 people will go out on their own to do the research and complete the process to set up IRAs (Individual Retirement Account) for themselves. Studies show that workers are 15 times more likely to save for their future if they can save through payroll deduction at work, and 20 times more likely if that savings is automatic.

Certain groups of people are disproportionately impacted by a lack of access to retirement plans. The higher rate of part-time employment among women is a large factor in their low eligibility rates for employer-sponsored retirement plans, as they may not work enough hours to be covered by their employer's plans. The contingent workforce, including gig workers, tend to also lack this critical access to employer-sponsored retirement plans.

As businesses recover from this COVID-19 pandemic, many recognize the importance of having adequate savings for unexpected circumstances which can result in job layoffs or early retirement. Furthermore, being able to offer access to an easy way for their employees to save for retirement could be extremely beneficial to small businesses – it can help them attract and retain high-quality employees and do so in a way that is free to the employer and low-cost to workers.

Many small businesses often are unable to offer retirement programs to their workers due to the costs, complexity, and burden to manage this benefit. Establishing a state-facilitated program would help small businesses offer access to this savings option to their employees. A recent survey found four in five small businesses in Hawai'i would offer retirement savings to their workers if a state-facilitated retirement savings program was available and think the Legislature should support the creation of a state retirement savings program.

#### **B. Cost-savings and benefits to taxpayers if more workers begin to save for their retirement**

When people save for retirement, they are less likely to rely on public assistance programs later in life. Recent studies show that small amounts of additional savings can make a significant difference in the retirement readiness of low-and moderate-income workers. OregonSaves is the first-in-the-nation with an automatic IRA program, and they are proof that lower-income workers will participate. The average income for savers in the program is just \$29,000. California and Illinois are showing similar success with low-income working households when they have access to an automatic payroll contribution.

The task force report cited a 2020 Department of Business, Economic Development and Tourism Report that looked at Hawai'i's Generational Economy. The report, by East West Center and University of Hawai'i researcher Andrew Mason, found that changing demographics, fewer working-age households, and increased costs for older households will "produce a \$7.7 billion hole in our economy by the year 2035." The task force report also estimates that the state will see more than \$1 billion in increased social spending needs because of a lack of retirement savings. This is a cost that will be borne by Hawai'i's taxpayers if the State does nothing to help people save.

#### **C. Other states are addressing this national crisis for future retirees**

Fourteen states have already passed legislation that improves workers' access to a retirement program, and more are in progress to help their future retirees. Three automatic IRA programs are open (CalSavers, Illinois Secure Choice, and OregonSaves) and have nearly 429,000 funded accounts and \$408 million in assets as of December. Over 30 states recently acted to study program options or consider legislation. Hawai'i must join in this nationwide effort to help our working families be retirement ready, and AARP Hawai'i stands ready to work with the Legislature to do this through a state-facilitated retirement savings program.

#### **D. Federal Legislation– SECURE Act and Others**

Congress passed the Setting Every Community up for Retirement Act of 2019 (SECURE Act) which expands access to retirement savings to part-time workers in the U.S. The bill also made it easier for smaller employers to join to offer a retirement program to their workers and expands the selection of lifetime income options for retirees. However, it does not create a plug and play retirement program that small businesses can use without having to run or pay for it. Employers still are burdened to set up the program and serve as a fiduciary, while the proposed automatic IRA model does not. The SECURE Act and other federal tax credit initiatives are welcome additions but has created little meaningful change to participation in retirement savings. In contrast, Oregon, California, and Illinois demonstrate a 68% participation rate which shows why the automatic IRA model remains the preferred model for many states. It has the biggest impact and widest reach to engage savers.

#### **E. Commonly Raised Questions and Issues**

The Employee Retirement Income Security Act of 1974 (ERISA) has been voiced as a barrier to establishing a state-facilitated retirement program. ERISA is a federal law that sets minimum standards for most voluntarily established retirement and health plans in private industry to provide protection for individuals in these programs. However, state-facilitated retirement programs are not the same as an employer-sponsored plan which falls under ERISA. Instead, the state-facilitated programs would fall under the 1975 safe harbor regulation providing that these programs will not be treated as ERISA plans as they are merely facilitated by employers and not directly sponsored. (Source: 29 CFR 2510.3-2(d); 40 FR 34526 (Aug. 15, 1975). These programs also come within longstanding Department of Labor guidance: (1999 DOL guidance issued by Interpretative Bulletin 99-1). Oregon’s program has been live for more than 4 years, and there is no active challenge to ERISA. The CalSavers lawsuit, brought by the Howard Jarvis Taxpayers Association, was dismissed by the lower court and the Ninth Circuit Court of Appeals in California upheld that decision in 2021, stated that it was not pre-empted by ERISA. As these are not established and maintained by the employer, and any action on the part of the employer, such as providing information packets to their employees and running payroll deductions, is purely ministerial – therefore, these programs fall outside the scope of ERISA.

Hawai’i has the benefit of the experiences of Oregon, Illinois, and California regarding this ERISA question. ERISA concerns have not stopped them from helping their residents save for retirement.

As previously mentioned, a common misconception is that lower-income workers are unable to contribute to a retirement savings program because they don’t have any extra money once they pay for their basic household necessities. State programs are designed to put the worker in the driver’s seat. The worker always decides if they want to save, how much they want to save

and what they want their investments to be. They may opt out because of income concerns, but most are likely to stay in once enrolled.

AARP Hawai'i appreciates the work and due diligence completed by the Hawaii Retirement Savings Task Force in determining the feasibility and need for a state-facilitated program for Hawaii's private sector workforce. The Task Force examined the different retirement savings models, efficacy of financial literacy education, the costs and projections for program startup/break-even, and fiscal impact to the state if it remains status quo and do nothing. The Task Force's report concludes that the Hawai'i Retirement Savings Program is vital and will help Hawai'i workers save so they can live with dignity as they age.

Thank you for the opportunity to testify in strong support of SB3289 SD1.

Sincerely,

A handwritten signature in black ink that reads "Keali'i S. López". The signature is written in a cursive style with a large, stylized initial "K".

Keali'i S. López  
State Director

The Senate Committee on Ways and Means  
The Honorable Donovan Dela Cruz Chair and Members of the Committee  
February 23, 2022

SUBJECT: SB 3289 S.D.1 – Relating to Hawaii Retirement Savings

Dear Senator Dela Cruz,

I had the honor of participating in a State of Hawaii “talk and give feedback” session in 2021. Many of the things discussed then are in the State’s excellent report, Retirement Security in Hawai’i.

As a senior, I am supportive of SB 3289 S.D.1, Helping Working People Save for Retirement. The drivers for better saving for retirement are obvious: the state with the nation’s highest cost of living (96% above the US average), a senior population poverty rate of 9% ( but within Hawai’i 10.6 for whites, 10.1 for Hawaiian/Pacific, and 7.8 for Asians), and where to live comfortably \$122,000 yearly is needed, yet 60% of the State’s seniors have incomes under \$75,000.

My point is a request to think not only about the present, but the future. The study says by 2040 the senior population will increase from the present 21% to 24%, one in four residents. Another study estimates 27% by 2030! With these senior growth predictions, the inevitable social and health cost pressures on state and local governments will be unsustainable.

The alarm bells were ringing last year and the Legislature in its wisdom requested a study. Those findings and pathways forward are encased in SB 3289. The bill’s goal to make it easier for low and moderate income workers to save for retirement is practical; the goal to assist employers who want to step up voluntarily with retirement plans is worthy.

In closing Senator and Distinguished Committee, passage of SB 3289 would be a major positive for Hawaii, but especially for those currently working, who someday will be retired with hopefully fewer financial worries than what our senior population faces today.

Lastly, I wish to commend AARP and their partners in being a key advocate for SB 3289 S.D.1.

Bill Schilling  
Co-President  
Rotary Club of Hanalei Bay

Senate Committee on Ways and Means

February 23, 2022

10:05 a.m.

SUBJECT: SB 3289 S.D. 1

To: The Honorable Donovan Dela Cruz, Chair, and Members of the Committee

I fully support the intention of the bill to create an easy to use IRA that requires participants to opt out. Many low-income workers never even think about taking advantage of an IRA plan. By making them opt out in order to avoid deductions from their salary, it will require them to consider the option. This will start a discussion that will increase their chances of seeing the advantages of participating in the program.

As a financial advisor for over 40 years, I know that most people will elect to start an IRA, if they understand the benefits and appreciate how little it will affect their actual current income.

Jonathan McRoberts

4141 Lei O Papa Rd. #23

Princeville, HI 96722

Retired Financial Advisor

The Senate Committee on Ways and Means

Date: February 23, 2022, 10:05 a.m.

Attention: The Honorable Donovan Dela Cruz, Chair

RE: SB 3289 S.D.1 Related to Retirement Savings – TESTIMONY IN SUPPORT

Dear Chair Dela Cruz and Members of the Committee

My name is Waynette Gaylord and I am the President and Owner of four care homes on Oahu. As a small business owner with 12 employees, we pride ourselves is providing quality services to our customers. My employees are hard working and I want to help my employees by being a good employer and offer benefits that reward their hard work and loyalty. Being able to offer a retirement savings plan would be one of those benefits. I want them to save for retirement.

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 my business.

I support having a public-facilitated retirement program that will help small businesses an easier way to offer a retirement savings program to my employees. 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 similar benefits.

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 younger women and they will benefit most from starting retirement savings early.

I strongly support SB 3289 S.D.1 which establishes a state-facilitated retirement savings for small businesses and their employees.. Thank you for allowing me to testify in support.

Waynette Gaylord, President/Owner

Gaylord's I, II, III and IV

1723 Malanai Street, Hon 96826 -- 808.227.7173

wannetteg@aol.com

The Senate Committee on Ways and Means  
Wednesday, Feb 23, 2022 10:05 a.m.  
RE: Testimony in Support of SB 3289 S.D.1

To: Chair Donovan Dela Cruz and Members of the Committee:

Thank you for the opportunity to express my strong support of Senate Bill 3289 S.D. 1 to establish a retirement savings program for private-sector employees. I am a co-owner of Loco Moco Drive Inn in Ewa Beach and Wiki Wiki Drive In at Waterfront Plaza. Our small business has about 15 employees. We like to think of ourselves as a family and I would like to offer my workers a way to save for their future through payroll deduction, but have no idea how to do it and I don't have the time to research it myself or the money to pay for lawyers and a financial consultant to set it up.

We get approached all the time by insurance companies hoping to provide my workers with health insurance. But no insurance company or financial institution has ever come to my small business to help me set up a savings program. I think we're too small and they wouldn't make a profit with low-income workers. As someone who worked for big companies before I started my own business, I have saved money on my own and through payroll deduction and it's definitely easier to save money when it comes out of your paycheck before you get a chance to spend it.

At my first job at a major hotel, my co-workers – many of them first-generation immigrants who didn't make that much money – taught me about saving and I am so grateful for their counsel. I don't think my workers are saving on their own. But I think they would if they were given the chance to do so at work through payroll deduction. Even if they just save a little bit of money, it becomes a habit and will benefit them throughout their life. Other states like Oregon, California and Illinois are able to help small businesses and their workers by providing an automatic IRA savings program, similar to college 529 savings programs, that businesses can offer to workers at no charge to the business.

If I can offer my workers a savings program, it would be a benefit to my workers and my business. It could keep my workers out of poverty as they age. In addition, as a taxpayer I am aware of the retirement savings crisis and the tax burden that is coming if workers without adequate savings retire broke. Taxpayers will have to pick up the bill to pay for their healthcare, rent and food.

My understanding is this bill would set up a savings program which is working in other states that could also work in Hawai'i. That makes sense. Please pass SB 3289 S.D.1 and do something to help small business, to help taxpayers and to help workers.

Eric Wong  
Owner, Loco-Moco and Wiki Wiki Drive Ins  
Email: locomocoewa@gmail.com  
The Senate Committee on Labor, Culture and the Arts  
Wednesday, Feb 9, 2022 3:00 p.m.  
RE: Testimony in Support of SB 3289



To: Chair Donovan Dela Cruz and Members of the Senate Ways and Means  
**Re: SB 3289 S.D.1 -Relating to Hawaii Retirement Savings**  
10:05 am, Wednesday, February 23,2022

### **Testimony in Support of Senate Bill 3289 S.D.1**

We need to create a Hawaii Retirement Savings program and I am in strong support of Senate Bill 3289 S.D.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 the Hawaii Retirement Savings Program 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 Retirement Savings 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 \$14,000. 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 SB 3289 S.D. 1.

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

**Senate Committee on Ways and Means**

**February 23, 2022**

**10:05 a.m.**

**Testimony in Support of Senate Bill 3289 S.D.1**

Dear Senator Donovan Dela Cruz, Chair, and Committee Members:

My name is Jon Iha and I am the chef/owner of the Gochi Grill on Bishop Street. I love cooking and I love to have been able to open my own restaurant. It's a lot of work to open your own business and unfortunately there's not enough time or energy left over to figure out how to offer your workers a savings plan.

I am in strong support of **SB 3289 S.D.1**.

I want to help my workers and I want to be competitive and be able to offer them retirement savings. But it's not easy. It's complicated, expensive and time consuming, especially when you are starting up a new small business.

If the state were to offer an easy, no cost way for small businesses like mine to offer a retirement savings program, I would take it. I understand the OregonSaves program is working and helping small businesses and workers there. Why can't we have a similar program here?

The lack of retirement savings means many Hawai'i workers will retire into poverty. What will happen to them? Will they become homeless? It will be difficult, if not impossible for them to survive on Social Security alone without some kind of help from the government for housing, food and medical assistance.

Saving through payroll deduction is the most effective way to get people to save.

Let's take a step in the right direction now to help people help themselves and start saving. Waiting means less time for people to save and more workers will be in danger of retiring poor.

Thank you for the opportunity to testify.

Jon Iha

Gochi Grill

1111 Bishop Street Suite #112

Honolulu, HI 96813

(808) 585-8558

Senate Committee on Ways and Means

Senator Donovan Dela Cruz, Chair

February 23, 2022, 10:05 a.m.

RE: Support for SB 3289 S.D. 1

Good afternoon Chair Dela Cruz 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 3289 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. The Hawaii Retirement Savings Program 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 Retirement Savings 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.

Sincerely,

A handwritten signature in cursive script that reads "Joanna Amberger".

Joanna Amberger

1371 Kina Street  
Kailua, Hawaii 96734  
February 23, 2022

**Testimony in Support:** SB 3289 S.D.1 Help Working Poor Save for Retirement  
Hearing Scheduled for Wed., Feb 9th at 3:00pm

This is to express my strong support for approval of SB3289 S.D.1 which will help those that need it the most save for their retirement. Hawaii is among very few states who do not have an auto-IRA program. This is especially critical now as the ALICE population has grown in Hawaii during the pandemic. In fact, half of our state's workforce does not have access to a retirement savings account at work.

There have been numerous studies showing this is an effective measure (costing the state nothing) while addressing the problem of insufficient retirement savings among our marginalized populations. As a native Hawaiian, we know that Hawaiian and Pacific Islanders are disproportionately represented in this population.

Enabling the auto-IRA to go forward will actually benefit the state and if we consider the cost of not moving forward with this, including an additional projected \$1 billion in social assistance programs -- that is simply not acceptable.

Please approve this bill and do the right thing for Hawaii.

Sincerely,

A handwritten signature in black ink, appearing to read "Diane Peters-Nguyen". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Diane Peters-Nguyen

**Written Testimony before the Hawaii Senate  
Committee on Ways and Means**

by Hank Kim, Esq.  
Executive Director and Counsel  
National Conference on Public Employee Retirement Systems (NCPERS)

February 23, 2022

Introduction

Good afternoon. My name is Hank Kim and I am the Executive Director and Counsel of the National Conference on Public Employee Retirement Systems (NCPERS). I want to thank Chair Dela Cruz, Vice-Chair Keith-Agaran and Members of this Committee for the opportunity to submit written testimony in support of **S.B. 3289 S.D. 1** Hawai'i Retirement Savings Program.

NCPERS is the largest trade association for public sector pension funds, representing 500 plans, plan sponsors, and employee groups, including the Fire & Police Pension Association of Colorado, throughout the United States and Canada. It is a unique non-profit network of public trustees, administrators, public officials, and investment, actuarial and legal professionals who collectively manage more than \$4 trillion in pension assets. Founded in 1941, NCPERS is the principal trade association working to promote and protect pensions by focusing on advocacy, research and education for the benefit of public sector pension stakeholders. Further, NCPERS promotes retirement security for *all* workers by advocating for state-facilitated retirement savings programs and plans to those who do not have access to an employer plan.

In addition to serving as Executive Director and Counsel for NCPERS, I currently serve as on the Board of Trustees for the Fairfax County Uniform Retirement System, a \$1.8 billion public employee retirement system providing pension coverage for the Fire & Rescue Department, Sheriff's Department, and certain other sworn employees of Fairfax, Virginia. Additionally, I serve as Treasurer of the National Institute on Retirement Security, a Washington, D.C. based think tank focusing on retirement security.

I am also an Editorial Advisory Panel member of the *Benefits Law Journal*, a quarterly law journal that for over 20 years has featured the most respected and accomplished employee benefits professionals who have shared their expertise. Each quarterly issue offers in-depth analysis of new legislation, regulations, case law, and current trends governing employee benefits: pension plans, welfare benefits, executive compensation, and tax and ERISA issues.

Hawai'i Retirement Savings

This is the seventh year in a row that the Hawaii State Legislature has considered bills to help private-sector

workers save for retirement. Hawaii's interest in the topic reflects a trend that is playing out across the nation. Cities and states can see that millions of workers are inadequately prepared for retirement. They are concerned that if they fail to intervene, unprepared retirees will place added stress on social welfare programs and reduce the tax base.

Other speakers today have or will address the scope of the very real retirement crisis in America. I won't dwell on this, except to say that Americans have good reason to be worried about their ability to achieve financial security and make it last through retirement.

I will note, however, that Hawaii's numbers underscore the need to prompt action: Half of the state's private sector workers lack access to a workplace retirement savings plan, and the situation is worse for employees of companies with fewer than 100 employees.

As I noted, Hawaii is far from the only state concerned with its citizens' retirement security. Policymakers and stakeholders from across the political spectrum have been considering for years how to give Americans greater confidence in their financial future. Payroll deduction is widely considered to be the most effective savings method. And the starting point is small businesses, which drive local economies and power innovation but often lack the scale to provide robust benefits.

In September 2011, NCPERS laid out the rationale for a state- and city-facilitated approach in a white paper, "The Secure Choice Pension: A Way Forward for Retirement Security in the Private Sector." Like the plans currently under consideration in Hawaii, the Secure Choice idea gives workers a way to build a retirement nest egg through automatic enrollment in an individual retirement account or similar offering. States and cities would leverage their existing expertise and savings mechanisms in the form of pooled investment vehicles.

Since 2011, we have seen tremendous progress in the Secure Choice movement. Nearly two years ago, Oregon became the first state in the nation to implement such a program, launching OregonSaves in July 2017. California followed suit in July 2019. Numerous other programs have launched or are in the pipeline.

Based on the 2021 findings and recommendations from the Hawaii Retirement Savings Task Force, Hawaii is now moving forward with SB 3289 S.D. 1 which will establish an automatic IRA program that fits the needs and requirements of Hawaii's workforce.

### Conclusion

NCPERS wishes to thank the Committee for this opportunity to testify in support of **SB 3289 S.D. 1** Hawai'i Retirement Savings Program. We congratulate members of this committee and other legislative sponsors for their leadership in this area. We believe that through this hearing Hawaii is providing leadership in addressing the retirement crisis our nation faces. NCPERS stands ready to assist you with facts, research, and expertise as you delve into policy discussions on retirement security. We invite this body to contact us should you need additional information. Thank you.



Senate Committee on Ways and Means  
Hearing Date: February 23, 2022  
Time: 10:05 am

**RE: SB 3289, SD1 -- Relating to Hawaii Retirement Savings**

Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the Committee, Cynthia Takenaka representing the National Association of Insurance and Financial Advisors (“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.

We are opposed to SB 3289, SD1.

SB 3289, SD1 is enabling legislation for a “state facilitated payroll deduction retirement savings plan for private sector employees in Hawaii” without access to employer sponsored retirement plans. In the 2021 session, SR 76, SD1, was adopted by the Senate which called for a retirement savings task force to assess the feasibility of establishing the program. The task force was formed and met from August to November 2021. **A copy of “Retirement Security in Hawaii – Findings and Recommendations of the Hawaii Retirement Savings Task Force (“HRSTF”) was submitted to the Legislature in December 2021.**

SB 3289, SD1 is the product of the “HRSTF” recommendations. The “HRSTF” found that a “promising option is a **state-facilitated automatic IRA program**”. This auto-IRA option allows employees to contribute to their own IRA account **via payroll deduction if their employer does not offer a retirement savings plan at the workplace**. The employer has to enroll the employees but **employees can opt out**.

Covered employers have limited responsibilities according to the “HRSTF” report. They are not responsible for the employee accounts, do not contribute to employee accounts and not liable or bear responsibility as noted on pages 17-18 of the bill. **We do note that the employer will be responsible for calculating withholdings, transmitting the withholdings, provide program education, reporting employee status changes, additional wages to in-house staff or external payroll firms that amounts to out-of-pocket expenses with setting up and maintaining the plan.**

The penalty for an employer who fails to enroll covered employees is the contribution amount and interest rate of 6% per year beginning on the date that contribution would have been made (beginning on page 22). **Along with civil penalties, this seems harsh**. Additionally, the employer is not a fiduciary in relation to this program. Those employers who have retirement plans in place will not be subject to the Hawaii Retirement Savings Program and will not have to enroll their employees.

The Hawaii Retirement Savings Board will also be established to implement and administer the program.

There are lots of data in the “HRSTF” report that leads to their recommendation for the auto-IRA option. As policymakers please review the report keeping in mind the cost for the program that will take at least two years before the first dollar is collected; enrollment will be in “waves” as determined by the rules implemented; will cost \$800,000 in start up and \$650,000 per year to operate; Pew found that the program to be cash flow positive in year 7 and net positive in year 11. Implementation cost will probably be a loan from the state’s general fund with repayments that could fall back on taxpayers if low participation rates and lower than expected fee collection takes place. There probably will be reduced costs if Hawaii joins in an interstate alliance rather than a stand alone program, that has been included in the SD1, on pages 21-22, item (c).

Rather than delving into the specifics of SB 3289, SD1 and the “HRSTF” report that will be covered by the other testifiers, we want to focus our concerns by asking that you, as policymakers consider the various issues that we have asked ourselves.

We always advocated for financial education on the need to save for retirement and 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. Employers and employees can easily access low-cost IRAs through local financial advisors and financial institutions. **We believe that Hawaii would be better served by using state resources for education and outreach efforts to educate our citizens rather than implementing a costly state run plan.**

43 states have considered and rejected legislation establishing a state run retirement program. Only 3 states – Oregon, California and Illinois have implemented their program. Connecticut and Maryland will roll out their program this year. Colorado, New Jersey and Virginia have passed legislation but have not implemented it due to numerous legal and cost concerns. Only Washington and New Jersey have enacted legislation that sets up voluntary retirement marketplaces designed to bring employers and private market plan providers together. There are currently active proposals in Delaware, Missouri, Mississippi and Rhode Island.

In late 2020 the Oregon Retirement Savings Board entered into termination negotiations due to its program not meeting asset and account holders thresholds resulting in the withdrawal of plan administrator Ascensus. The migration to their new service provider, Sumday Administration LLC has been completed.

#### [CalSavers Retirement Savings Program Snapshot as of 12/31/2021](#)

For the next 12 years, every single day 10,000 people will reach age 65. We are not adequately prepared for retirement especially when considering current longevity and as noted above some states have moved ahead instead of waiting for Congress. Congress did pass the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) that was enacted



in December 2019 to improve retirement readiness and has many advantages over the state auto-IRA plan.

**Some of the highlights of the SECURE Act:** 1) Multiple Employer Plans -- allow unrelated employers in the same industry and pooled employers in unrelated industries to secure “safe harbor” retirement plans to save on administrative costs along with a tax credit up to \$500 to \$5,000 to help offset the costs of starting a plan; 2) provides for long-term part-time employees to participate; 3) push back the required minimum distributions from retirement plans from age 70 ½ to 72; 4) expands Section 529 accounts (a tax advantaged savings plan to pay for education) for qualified student loan repayments and apprenticeship programs; 5) participants will receive an annual illustration of their yearly benefit statement that shows the estimated monthly retirement income; 6) removes the savings limitations by repealing the age limitation of 70½ and allow for contributions for a traditional IRAs.

Multiple employer plans (“MEP” since the passage of the SECURE Act are more accessible for employers to adopt. Multiple employer plans will have all the benefits, features, and provisions of more traditional single-employer retirement plans, but with significant relief to employers regarding cost, administrative responsibilities, and fiduciary duties. The advantages of MEP plans over state auto-IRA plans are numerous. For example, MEP Plans include employer matching of participant contributions, a more extensive diversity of investment options, less cost to employee-participants, significantly higher annual contribution limits, the ability to select either or both ROTH or Traditional tax treatment of plan assets, and consumer protections under ERISA.

There are new proposals from both chambers of Congress known as SECURE 2.0 going on but its fate is tied to the BBB initiative. Once the BBB reconciliation bill issues are settled, we may see movement. **These federal changes will create more options and help to increase retirement savings across the country.**

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 benefits, and housing subsidies could be in jeopardy since asset and income tests may be triggered and disqualify workers. **We did not see any language in the bill addressing asset tests for the safety net programs.** We do not know how to “get around” federal asset and incomes tests since retirement savings are assets.

We understand the importance of retirement security and acknowledge that many Americans are not saving enough for retirement. Additionally, the existence of a state-run retirement plan could result in employers with strong existing 401(k) and other types of plans dropping them and allowing the state-run program to take the place of the existing plan. This would lead to more plans with lower contribution limits and a loss of matching contributions by employers. **We request that language be included to not allow switching to the state plan for a minimum number of years.**

In 2016, the U.S. Department of Labor adopted a rule that would facilitate the enactment of state-run retirement plan legislation by **exempting such plans from coverage under ERISA**. However, in early 2017, Congress with Trump's approval, utilized the Congressional Review Act (CRA) to override the DOL action and nullify the rule. The litigation surrounding the CalSavers program (*Howard Jarvis Taxpayers Association, et al., Petitioners v. The California Secure Choice Retirement Savings Program, et al.*) is still ongoing, and the **United States Supreme Court could accept hearing the case in 2022**.

California's federal district court dismissed the suit but the plaintiff was allowed to revise its complaint and the suit was dismissed by the appellate court and again by the Ninth Circuit. As a result, the question still remains whether CalSavers is exempt from ERISA. There are many open questions relating to state-run plans and if they will be subject to duties, responsibilities, and potential liability under the federal ERISA law. **ERISA sets minimum federal standards for retirement plans, provides fiduciary requirements and allows for participants to sue for benefits and breaches of fiduciary duty.**

If the state and Hawaii employers are exempt from ERISA, who has the responsibility for any failures in the program? Will it be the investment firm or plan administrator that is selected by the Hawaii Retirement Savings Board? Where will that leave the employees when safeguards & consumer protection are questionable or not available?

With the SECURE Act of 2019 in place with higher contribution limits, clear worker protections, cost effective administration, and optional employer match, let's give Hawaii's employers and employees the chance to start their retirement savings rather than implementing a new state program for retirement savings.

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



**Testimony to the Senate Committee on Ways and Means  
Wednesday, February 23, 2022; 10:05 a.m.  
State Capitol, Conference Room 211  
Via Videoconference**

**RE: SENATE BILL NO. 3289, SENATE DRAFT 1, RELATING TO HAWAII RETIREMENT SAVINGS.**

Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee:

The Hawaii Primary Care Association (HPCA) is a 501(c)(3) organization established to advocate for, expand access to, and sustain high quality care through the statewide network of Community Health Centers throughout the State of Hawaii. The HPCA **SUPPORTS** Senate Bill No. 3289, Senate Draft 1, RELATING TO HAWAII RETIREMENT SAVINGS.

By way of background, the HPCA represents Hawaii's Federally Qualified Health Centers (FQHCs). FQHCs provide desperately needed medical services at the frontlines in rural and underserved communities. Long considered champions for creating a more sustainable, integrated, and wellness-oriented system of health, FQHCs provide a more efficient, more effective and more comprehensive system of healthcare.

This bill, as received by your Committee, would establish a state-facilitated payroll-deduction retirement savings plan for private sector employees in Hawaii who do not have access to employer-sponsored retirement plans. This bill also appropriates \$813,600 in general funds for fiscal year 2022-2023, to implement and operate the Hawaii Retirement Savings Program.

A hallmark of the HPCA is our steadfast belief that the social determinants of health -- more than any other factor -- contributes to the overall wellbeing of our people. Person who experience homelessness, language barriers, and poverty are more likely to suffer persistent, chronic health issues and have shorter life expectations than those who do not. Seventy-three percent of the patients seen by FQHCs live below one hundred percent of the federal poverty limit.

Our patients ARE the ALICE population. As seen through the fine work of the Aloha United Way in their groundbreaking research on the Asset Limited, Income Constrained Employed, there are 148,771 ALICE households in Hawaii, with 41,619 households that live below the poverty line. Because of the COVID-19 pandemic, another 35,000 will have fallen into ALICE status or below by the end of the year.

**Testimony on Senate Bill No. 3289, Senate Draft 1**  
**Wednesday, February 23, 2022; 10:05 a.m.**  
**Page 2**

This bill is intended to help ALICE families protect themselves from future economic shock. It would give families the financial tools to plan for the future and to ensure that they will have the resources to adjust to changing demands that will be placed on them as they progress through life.

The HPCA wishes to thank AARP for shepherding this concept throughout the community for nearly the past decade and not giving up our most vulnerable populations. We commend them and stand ready to assist them in this worthy cause.

**For these reasons, the HPCA urges your favorable consideration of this measure.**

Thank you for the opportunity to testify. Should you have any questions, please do not hesitate to contact Public Affairs and Policy Director Erik K. Abe at 536-8442, or [eabe@hawaiiipca.net](mailto:eabe@hawaiiipca.net).

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## *Policy Advisory Board for Elder Affairs*

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Testimony to the Senate Committee on Ways and Means  
Wednesday, February 23, 2022; 10:05 a. m.  
State Capitol Conference Room 225 and via videoconference

Regarding: SB 3289 SD 1, RELATING TO HAWAII RETIREMENT SAVINGS

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and Honorable Members of the Senate Committee on Ways and Means:

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

**PABEA strongly supports SB 3289 SD 1, RELATING TO HAWAII RETIREMENT SAVINGS**, which would establish the Hawaii Retirement Savings Program, administered by the Hawaii Retirement Savings Board, in consultation with the Department of Budget and Finance and the Department of Labor and Industrial Relations, to provide a state-facilitated payroll-deduction automatic enrollment individual retirement plan to private sector employees who do not have access to employer-sponsored retirement savings plans. The bill also appropriates \$813,600 out of general revenues for Fiscal Year 2022 - 2023 for the implementation and operation of the Hawaii Retirement Savings Program, including funds for the hiring of necessary staff.

PABEA is dedicated to enhancing the quality of life for our kupuna. The Hawaii Retirement Savings Program will increase the financial stability of many of our kupuna in the future and will empower them to choose how they live and age and rely less on government and public social assistance.

Some opponents of the bill argue that a financial literacy and education program is enough to increase retirement savings. However, research by The Pew Charitable Trusts in its work with many states over the years has found that financial education on its own has not consistently shown the ability to increase savings or financial well-being.

Employees are fifteen 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 can 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 3289 SD 1, and we urge you to recommend its passage.

On behalf of PABEA, I thank you for seriously considering the Bill.

Very sincerely,

A handwritten signature in black ink that reads "Gary Simon". The signature is written in a cursive style.

Gary Simon  
Chairperson  
Policy Advisory Board for Elder Affairs  
No. 1 Capitol District  
250 South Hotel Street, Suite 406  
Honolulu, Hawaii 96813  
Email [garysimon@hawaii.rr.com](mailto:garysimon@hawaii.rr.com)



February 22, 2022

**RE: SB3289, SD1 – STRONG SUPPORT**

Aloha Committee Chair, Vice Chair, and Members,

I am writing on behalf of Hawaiian Community Assets (HCA) and Hawaii Community Lending (HCL) to submit testimony in **STRONG SUPPORT** for the establishment of a Hawaii Retirement Savings Program that would provide a state-facilitated payroll-deduction automatic enrollment individual retirement plan to private sector employees who do not have access to employer-sponsored retirement savings plans beginning 7/1/2024.

I served on the task force responsible for drafting the recommendations for a Hawaii Retirement Savings Program. I encourage your leadership in passing this important legislation to move us forward in ensuring everyone who lives and works in the State of Hawaii has a way to save for retirement and be secure financially when they become kupuna.

HCA is a 501c3 nonprofit that runs the State of Hawaii's largest Department of Housing and Urban Development certified counseling agency, while HCL is a 501c3 nonprofit certified by the US Department of the Treasury as a community development financial institution. HCA and HCL work together at Financial Opportunity Centers across the state to serve approximately 3000 local residents annually with free financial counseling, income supports, and career coaching with the goal of increasing their income, building assets, and reducing housing cost burdens. 95% of our clients are Asset Limited, Income Constrained, Employed or below poverty, often living one paycheck away from financial ruin and struggling to make ends meet every month.

Despite the financial hardship our clients face, they have demonstrated an ability to save toward long-term financial stability. Under an Office of Hawaiian Affairs funded project from October 1, 2019 to present, the average annual household income of clients served is at \$44,500. **Even with extremely high living costs and low pay, 36% of ALICE and below households served with financial counseling have increased their savings by an average of \$1,050 every 12 months.** This equates to \$87.50 per month, which could easily go toward a state-facilitated payroll-deduction automatic enrollment individual retirement plan. Unfortunately, not all of the local people who come through our doors have an employer offering a retirement savings account for a myriad of reasons.

**Still, our data is clear: low-income workers can and will save toward long-term financial goals if provided the right support and the right tools.**

The work of the task force provides a substantial amount of evidence that now is the time for the state to step forward to provide the right support and right tools to our hard-working local people so they can be assured savings when they retire. The cost of making this opening this opportunity to your



constituents is negligible, especially when compared to the financial hardship our kupuna will endure if a public retirement savings option is not provided to them.

Please help pass this important legislation to move us forward in ensuring everyone who lives and works in the State of Hawaii has a way to save for retirement and be secure financially when they become kupuna.

Mahalo for your leadership and consideration.

Sincerely

A handwritten signature in black ink that reads "Jeff Gilbreath". The signature is written in a cursive style.

Jeff Gilbreath  
Executive Director  
Hawaii Community Lending



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## HIPHI Initiatives

Coalition for a  
Tobacco-Free Hawai'i

Community Health  
Worker Initiative

COVID-19 Response

Hawai'i Drug & Alcohol Free  
Coalitions

Hawai'i Farm to School Hui

Hawai'i Oral Health Coalition

Hawai'i Public Health Training Hui

Healthy Eating + Active Living

Kūpuna Food Security Coalition

Date: February 22, 2022

To: Senator Donovan M. Dela Cruz, Chair  
Senator Gilbert S.C. Keith-Agaran, Vice Chair  
Members of the Committee on Ways and Means

Re: Support for SB 3289, SD1, Relating to Hawaii Retirement  
Savings

Hrg: February 23, 2022 at 10:05 AM via Videoconference

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Hawai'i Public Health Institute<sup>i</sup> is in **support of SB 3289, SD1**, which establishes the Hawai'i Retirement Savings Program, a state-facilitated pay-roll deduction retirement savings program to make it easier for Hawai'i's workers save for their retirement.

The pandemic has shown us how vital it is for Americans to have adequate savings, especially when on a fixed income, to weather the increasing cost of food, health care, housing and household needs. Social Security is not enough to depend on for a secure financial future. According to AARP, in Hawai'i, over 200,000 workers lack access to a work-based retirement plan. Without an easy way to save, a secure retirement is out of reach for about half of our private sector workers, especially those who work for small businesses<sup>ii</sup>.

A state-facilitated retirement program changes that by giving businesses access to an easy, no-cost retirement option and helping workers grow the savings they need<sup>iii</sup>. In 2017, Aloha United Way's ALICE Report (Asset Limited, income Constrained, Employed) there is concern for the financial stability of aging Baby Boomers as well as the wider economy as the population ages. Some findings<sup>iv</sup>:

- 39% of workers nationally give little or no thought to financial planning for retirement.
- 31% have no retirement savings or pension.
- 75% of Americans nearing retirement have less than \$30,000 in savings.

The proposed retirement savings program would provide an easy pathway for workers to start saving out of their regular paycheck and grow the additional savings they need to take control of their future.

Thank you for the opportunity to provide testimony.

Mahalo,

A handwritten signature in black ink, appearing to read "Amanda Fernandes". The signature is fluid and cursive, with a long horizontal stroke at the end.

Amanda Fernandes, JD  
Policy and Advocacy Director

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<sup>i</sup> Hawai'i Public Health Institute is a hub for building healthy communities, providing issue-based advocacy, education, and technical assistance through partnerships with government, academia, foundations, business, and community-based organizations.

<sup>ii</sup> AARP Fact Sheet: Hawaii "Workplace Retirement Plans Will Help Workers Build Economic Security", August 2015. <https://www.aarp.org/content/dam/aarp/ppi/2015-08/aarp-hawaii-fact-sheet.pdf>

<sup>iii</sup> AARP Fact Sheet: Hawaii "Hawaii Could Save \$32.7 Million by Helping People Save for Their Own Retirement, May 2017. [https://www.aarp.org/content/dam/aarp/ppi/2017/04/AARP1150\\_FS463\\_Hawaii\\_May1v2.pdf](https://www.aarp.org/content/dam/aarp/ppi/2017/04/AARP1150_FS463_Hawaii_May1v2.pdf)

<sup>iv</sup> Aloha United Way ALICE Report, 2017. [https://www.auw.org/sites/default/files/pictures/AlohaUnitedWayALICE%20Report\\_HIFINAL.pdf](https://www.auw.org/sites/default/files/pictures/AlohaUnitedWayALICE%20Report_HIFINAL.pdf)



## Testimony to the Senate Committee on Ways and Means

Senator Donovan M. Dela Cruz, Chair  
Senator Gilbert S.C. Keith-Agaran, Vice Chair

DATE: Wednesday, February 23, 2022  
TIME: 10:05 A.M.

### **BILL SB3289 SD1 Relating to Hawaii Retirement Savings**

#### **POSITION: SUPPORT**

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee:

Aloha United Way respectfully submits this **testimony in support of SB 3289 SD1**, to establish a state-facilitated retirement savings program for private sector employees and provide an easy way to save for their retirement through an automatic payroll deduction. About half of private sector workers in Hawaii, including a majority who work for small or local businesses, do not have access to a retirement savings plan at their jobs. This translates to about 216,000 workers in Hawaii who right now have few options to save for retirement.

This situation was never ideal, but during the pandemic Aloha United Way witnessed two realities that make a widely available retirement savings option for lower-income, working or ALICE households a true necessity. (ALICE stands for Asset Limited, Income Constrained, Employed, and refers to households who are employed but whose income is not sufficient to meet their basic costs and now accounts for over 50% of Hawaii's population.)

First, in the pandemic, we know that the number of households making under the ALICE threshold increased, as working families were deeply impacted by job loss, reduced income, and increases in household and child-care costs during COVID. Second, from our experience in rental assistance programs, we saw many working families used most or all of their savings to weather the pandemic and keep a roof over their head. Even as COVID fades, the long-term reality of having little savings for future needs or retirement will linger for decades. Last, the pandemic showed how essential additional savings are for those on a fixed income to weather rising costs or unexpected events.

This is why Aloha United Way believes a Hawaii Retirement Savings program can be a long-term benefit to families who do not have access to a 401k or retirement plan and will make it easier for Hawaii's 216,000 private sector workers to save for retirement via workplace deductions. We support the Hawaii Retirement Savings Task Force's recommendation of the automatic IRA model this bill would provide for Hawaii. It has been successfully offered in other states and has proven that lower income households will save if given the chance. Families on average save \$100 a month, and we believe ALICE households will utilize this new option to deduct small contributions from their pay, though support the opt-out option this bill offers too. Many Hawaii small businesses do not offer retirement saving plans to workers because it is costly and complicated. The Task force poll showed 85% of employers would likely participate if a state-facilitated program was low cost and easy to offer to their workers.

This bill creates an alternative that has little employer cost and requires no contributions or fiduciary duties. On behalf of AUW, thank you for supporting SB3289 and for seeking effective and doable solutions to help thousands of workers and ALICE households begin to build retirement savings.

Thank you for considering this testimony and for your action to support and pass SB 3289 SD1.

Sincerely,

A handwritten signature in blue ink that reads "Suzanne Skjold". The signature is written in a cursive style.

Suzanne Skjold  
Chief Operating Officer  
Aloha United Way

**LATE**

TESTIMONY OF THE AMERICAN COUNCIL OF LIFE INSURERS  
IN OPPOSITION TO SB 3289, SD 1, RELATING TO  
HAWAII RETIREMENT SAVINGS

February 23, 2022

Honorable Senator Donovan Dela Cruz, Chair  
Honorable Senator Gilbert S. C. Keith-Agaran, Vice Chair  
Committee on Ways and Means  
State Senate  
Conference Room 211 and Via Videoconference  
415 South Beretania Street  
Honolulu, Hawaii 96813

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee:

Thank you for the opportunity to testify in opposition to SB 3289, SD 1, relating to the establishment of the Hawaii Retirement Savings Program administered by the Hawaii Savings Board in consultation with the State's Department of Budget and Finance and Department of Labor and Industrial Relations.

Our firm represents the American Council of Life Insurers ("ACLI"). ACLI is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States. Two hundred seventeen (217) ACLI member companies currently do business in the State of Hawaii; and they represent 94% of the life insurance premiums and 97% of the annuity considerations in this State.

In the 2021 legislative session, SR 76, SD1, was passed by the Senate which established a retirement savings task force to prepare a report to the legislature assessing the feasibility of establishing a state sponsored retirement savings program for private sector employees. The retirement savings task force report (the "Report") was submitted to the Legislature in December 2021.

SB 3289, SD 1, enacts the Report's proposed legislation for the creation of a State sponsored Hawaii Retirement Savings Program.

THE RETIREMENT SAVINGS PROGRAM IS UNNECESSARY

The premise of SB 3289, SD 1, is that (1) employers do not have access to affordable retirement plans; and (2) employees do not have the opportunity to participate in their employer's retirement plan either because their employer does not offer a retirement plan or they are ineligible to participate in the plan offered.

ACLI disagrees.

Employers have access to affordable retirement plans.

- Affordable Retirement Vehicles Already Exist.
  - Many inexpensive and accessible retirement vehicles are already available to small employers:
    - IRAs
    - SEPs
    - SIMPLE IRA plans
    - 401(k) and 403(b) plans are available as part of an association pooled employer plans
  - The passage of the SECURE Act and Other Law Changes have created more access to affordable retirement savings plans for employers
    - On 12/20/19, Congress passed into law the Setting Every Community Up for Retirement Enhancement Act (the SECURE Act). This Act dramatically increased the number of small employers adopting retirement plans and the participation of their employees.
    - New Laws Allow for More Multiple Employer Plans (MEPs)
      - On 7/29/19 DOL promulgated its Association Retirement Plan (ARP) Regulation. Employers in the same trade, industry, line of business or profession or in the same geographic area can now establish an ARP.
      - The SECURE Act now supplements the DOL's ARP Regulation by authorizing unrelated employers to band together to create a multiple employer plan (a "MEP") which will reduce an employer's cost to establish and administer a retirement plan for its employees.
    - New Employer Tax Incentives
      - To reduce the costs of starting a retirement plan the Act gives new tax incentives to small businesses to establish retirement plans for their employees.
        - Small business employers are given a tax credit of up to \$5,000 each year for 3 years.
          - The amount of an employer's tax credit is the greater of (a) \$500, or (b) the lesser of (1) \$250 credit for each non-highly compensated employee eligible to participate, or (2) \$5,000.
          - Thus, a small employer having only 1 employee is entitled to a \$500 tax credit; and an employer having 20 or more employees gets a \$5,000 tax credit.
          - Credit applies to small employers having no more than 100 employees over a 3 year period.
          - Credit applies to SEP, SIMPLE, 401(k) and P/S plans

- If the plan has auto enrollment, employer gets additional \$500 tax credit per year – up to 3 years. Thus, small employer having auto enrollment plan and 20 employees get a tax credit of \$5,500

- THE SECURE Act Enables Many More Employees to Participate in Their Employer’s Retirement Plan.

- Part-time employees can now join their employers’ 401(k) plans

- The Act now REQUIRES employers to offer any employee working more than 1,000 hours a year or 500 hours each year for 3 consecutive years to participate in their 401(k) plan.

- Thus, a part-time employee working at least a 20 hour week each year, for example, or at least a 10 hour week each year over 3 consecutive years can now participate in their employer’s 401(k) plan.

- New 401k plan options geared to small employers are now proliferating nationwide as a result of these new incentives created by the federal SECURE Act. Association plans and new pooled employer plan (PEP) 401ks now authorized under the SECURE Act are now widely available to local chambers, associations of employers and even to small business clients of large payroll providers like ADP and Paychex.

- One good example is the robust new 401k plan available to small employers through the Las Vegas Chamber, the first Chamber in the country to offer such a program. Enrollment is easy, the administration is simplified and the costs are lower for small employers than in a standalone 401k. The Las Vegas Chamber Association plan is a fully regulated 401k plan with employer matching and all the worker protections of federal ERISA law. And the private plan offers significant tax credits for the employers who enroll.

- Another example is the Greater Akron, Ohio, which has now launched a similar plan for small employers in NE Ohio. Many others are following suit.

- The risk management firm AON predicts that “***half of U.S. employers will join pooled employer plans in a decade; creating higher performing, more efficient 401(k) plans for millions of Americans.***”

#### HAWAII’S ADOPTION OF SB 3289, SD 1’S, PROPOSED RETIREMENT SAVINGS PROGRAM IS PREMATURE

A bill introduced in November 2020, “SECURE 2.0” builds on the SECURE Act to improve retirement savings opportunities for workers which will include new and inexpensive auto enrollment plans. There is strong bipartisan support and momentum for passage of this pending legislation.

The wisdom of passing SB 3289, SD 1, now ahead of this pending legislation may, therefore, be questioned.

## THE STATE SPONSORED RETIREMENT SAVINGS PROGRAM MAY POTENTIALLY CONFLICT WITH FEDERAL LAW.

While the dismissal of the November 2018 lawsuit filed by the Howard Jarvis Taxpayers Association (the “Taxpayers Association”) and others against the State of California’s Secure Choice Retirement Savings Program (“CalSavers’ Retirement Plan”) in a Federal District Court in California<sup>1</sup> was upheld by the 9<sup>th</sup> Circuit Court of Appeals<sup>2</sup>, the Taxpayers Association has requested the US Supreme Court to review the appellate court’s decision. The Supreme Court’s decision is expected at any time. As the retirement savings program established by SB 3289, SD 1, and others is patterned after the CalSavers’ Retirement Plan, if the Supreme Court over-rules the appellate court’s decision dismissing the Tax Payers’ Association’s lawsuit, it would undermine the premise of Hawaii’s state sponsored retirement plan.

One of the central questions to be determined in the CalSavers case is whether the CalSavers’ Retirement Plan is exempt from the ERISA. As the Taxpayers Association states in its pleadings filed with the Supreme Court:

The state [of California] disclaims any fiduciary responsibility for guarding these funds or paying them back to the employees who earned them. And unless this Court reverses the Ninth Circuit’s declaration that CalSavers is exempt from ERISA, employees will have no federal cause of action if their funds are lost in the next California government scandal . . . .

The bill that created CalSavers was passed in reliance by California lawmakers upon a US Department of Labor regulation exempting state-run retirement savings plans from ERISA which was later revoked by Congress.<sup>3</sup>

If the protections afforded employees under ERISA do not apply to the retirement plans patterned after the CalSavers’ Retirement plan:

- Employees’ contributions to the Plan will not have the protections dictated by ERISA to safeguard and secure their money.
- It will not be protected by any fiduciary duty or contractual liability, but will be at risk under a statute that expressly disclaims any responsibility for loss.

Accordingly, considering a state sponsored retirement saving program such as that proposed by SB 3289, SD 1, at this time may be ill advised. Prudence would dictate that Hawaii should await the outcome of the current litigation.

For the foregoing reasons ACLI must respectfully oppose SB 3289, SD 1, and urges this Committee to defer passage of this measure.

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<sup>1</sup> 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.

<sup>2</sup> Howard Jarvis Taxpayers Association, et al. vs. The California Secure Choice Retirement Savings Program, et al., No. 20-15591 (9<sup>th</sup> Cir. 2020).

<sup>3</sup> While the DOL proposed a payroll deduction IRA safe harbor for State-run IRA programs in 2016, it was revoked pursuant to a disapproval resolution issued pursuant to the Congressional Review Act.



Again, thank you for the opportunity to testify in opposition to SB 3289, SD 1.

LAW OFFICES OF  
OREN T. CHIKAMOTO  
A Limited Liability Law Company

Oren T. Chikamoto  
P. O. Box 4277  
Honolulu, Hawaii 96812  
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E mail: [otc@chikamotolaw.com](mailto:otc@chikamotolaw.com)

**SB-3289-SD-1**

Submitted on: 2/19/2022 8:55:04 AM

Testimony for WAM on 2/23/2022 10:05:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Remote Testimony Requested</b>
Mark A. Koppel	Individual	Support	No

Comments:

Aloha Honorable Legislators,

My name is Mark Koppel, POB283, Hakalau, testifying in Strongest Support for SB3289 SD1.

We all know the problem here. A certain House member is Literally Repeating the nonsensical testimony of the Insurance Industry to kill this vital bill.

You know the facts. Very few Hawaiians can afford to retire because they have no savings.

Why is this? Because they were not educated in finance, even though the Insurance Industry falsely says they are. Their employers would love to set up a savings plan, but can't afford to do it on their own. This is where Hawaii Savings comes in. It helps employers to do this for their valued employees.

Remember, this is OPTIONAL for employers and employees.

It is opt-out to encourage savings.

Many states already have this, in contradiction to the false statements of the Insurance Industry testimony.

Without savings, people will be forced to go on public assistance and Medicaid, which will cost You and Me and all Hawaii taxpayers a Billion Dollars.

This bill Benefits Financial Planners, Investment Companies and, Yes, the Insurance Industry.

As people accumulate money, they will seek out professional advice. They will Gain money from customers who never had any to save.

Please use your common sense, your caring for Hawaii workers and Ignore the Misstatements and Foolishness of the Insurance Industry.

This is a win-win for employers, workers and the Financial Service Industry.

Don't let one House member stop progress.

Mahalo!!!

Mark Koppel

**Senate Ways and Means Committee**  
**Chair: The Honorable Donovan Dela Cruz**  
**Date: February 23, 2022 10:05 a.m.**  
**Bill: S.B. 3829 S.D. 1**

RE: Strong Support for **S.B. 3829 S.D. 1**

Aloha Chair Donovan Dela Cruz and Members of the Committee,

My name is Dolores Foley and I thank you for the opportunity to submit my written testimony in SUPPORT of SB 3829 S.D.1 Related to Hawaii Retirement Savings. I strongly urge the legislature to establish a state-facilitated retirement savings program for Hawaii's private sector workers.

I was fortunate to have a retirement plan. Having an automatic deduction from my paycheck made it easy for me to save. I am President of a small non-profit. We would like to grow and having this system. Would help us. However, about 216,000 private sector workers in Hawaii do not have a way to save at work via payroll deduction – which is the easiest way to save. Many of these workers are employed by small businesses who cannot afford to offer a retirement savings option. I fear for the future of these workers and for taxpayers.

The average working household does not have adequate savings. Without an easy way to save at work, these working families will retire broke, creating a burden for their families and for taxpayers. Over the next twenty years, we will see fewer people working and more people of retirement age. If we cannot increase the savings rate, those working will face higher taxes to pay for those who cannot support themselves as they age, and retiree benefits and pension can potentially be cut.

I believe SB 3289 SD1 will help taxpayers, workers and small businesses. It will also save the State over \$1 billion on public assistance programs over the long run. Everybody wins – the workers, small businesses and taxpayers. Please pass SB 3289.

Dolores Foley  
Email: dolores@hawaii.edu

Senate Ways and Means Committee

To: The Honorable Donovan Dela Cruz, Chair and Members of the Committee

My name is Fred Burian. My wife Chalintorn and I are retirees and have lived in Paauilo Mauka on the Big Island for many years.

We are supporting the Bill Relating to Hawaii Retirement Savings (S.B. No. 3829 S.D.1) which is being introduced during the 2022 legislative session.

As you know, the economic downturn has amplified the importance of having adequate savings especially when retired and on fixed income to survive the increasing cost of food and emergency supplies.

About half of all private sector workers who work for small businesses in Hawaii do not have 401Ks and even simple IRA's on their own. That is about 216,000 workers in Hawaii.

Also, most small businesses here on the Big Island do not offer retirement saving plans to workers because it is too expensive, complicated and time consuming. This Bill is a public-private partnership and will address these problems.

As taxpayers, helping people save for their retirement will save the State money in the long run. Future retirees won't have to rely on public-assistance programs to make their ends meet.

Please support this legislation. Hawaii workers deserve the same opportunity, and small businesses want to help their workers.

Fred & Chalintorn Burian

44-4766 Waikaalulu Rd., Paauilo, HI 96776

Phone: (808)775-1064

February 23, 2022

TO: Senator Donovan Dela Cruz, Chair  
and Members of the Senate Committee on Ways and Means

FROM: Carl Takamura

RE: SB 3289,SD1 Relating to Retirement Savings

I am strongly in support of SR 3289,SD1 to establish a retirement savings program for private sector employees who do not have access to an automatic payroll savings plan.

The COVID 19 pandemic has revealed and exacerbated the deep and growing economic divide within our country and particularly in Hawaii where 69% of the people have daily challenges due to the high cost of living. In addition, recent studies have shown that 75% of Americans nearing retirement have less than \$30,000 in savings which means that when they retire, they will need assistance for food, housing and medical care.

Enabling more people to save for their retirement through automatic payroll deductions is a no-brainer and has been proven to work in other states. Oregon established their successful Oregon Saves program in 2017 and has about 113,000 workers enrolled of which the average income of new savers is \$29,000 and the average amount saved is \$160/month.

While it is true that the financial industry already provides fairly-priced retirement saving options such as 401(k) and IRAs, the fact is only 1 in 20 people will go out on their own to do the research and complete the process to set up IRAs for themselves. More significantly, studies show that workers are 15 times more likely to save for their future if they can save through payroll deduction at work.

In addition, states that have established similar work and save programs, have incorporated provisions which do not allow employees with retirement plans to terminate their plan and participate in a state-facilitated plan. Thus, these state-facilitated programs pose no threat to the private financial service industry, and actually, there has been growth in new accounts as some employers have opted to establish their own retirement savings program for their workers instead of the state-facilitated option.

The COVID pandemic has highlighted how critical it is for Americans to have a retirement savings program in order to avoid relying on public assistance later in life. We must make it easier for all workers to save for their future.

Thank you and I urge you to pass this important measure.

**SB-3289-SD-1**

Submitted on: 2/20/2022 10:38:06 AM

Testimony for WAM on 2/23/2022 10:05:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Remote Testimony Requested</b>
VICTORIA FAN	Individual	Support	No

Comments:

**PERSONAL TESTIMONY - VICTORIA FAN, SCD**

Bill: SB3289

2/20/2022

I greatly support this measure in my personal capacity with my professional expertise as a health economist and data scientist.

**OPT-OUT IS CRUCIAL**

There is extensive research on the benefits of opt-out compared to opt-in retirement savings programs. Opt-out greatly increases enrollment and participation compared to opt-in programs (and this is true for a variety of programs including organ donation, health insurance, etc). The research indicates that individuals are greatly influenced by the norms and expectations created by an opt-out mechanism/device compared to opt-in.

**LONG-TERM COST SAVINGS TO THE STATE**

In the long run, this should be cost saving to the state and enhances overall well-being of the people of Hawaii. Poverty among the elderly is not uncommon. This program could increase resources available to individuals for long-term care and reduce demand for Medicaid long-term care benefits (ie nursing home residence). Medicaid long-term care costs are significant to the state, and thus this program has the potential in the long-run to reduce Medicaid costs.

**NEGOTIATE DOWN THE BASIS POINTS**

The 75 basis points cap/limit is very critical because these fees are the main determinant of consumer benefit and earnings in the long run. Thus it must be pushed down as much as possible, while contractors will wish to lift the cap.

State should ask for bids based on the basis points - the lower, the better. The state's 457 program has a 75 basis points cap (I believe), but this enrollment size of private employees will be much larger than the pool of state employees. There should be adequate economies of scale to push this down further.

To illustrate, consider the savings of \$20K (or whatever the annual federal threshold is), of which the fee comes out to \$150 per year per enrollee that the contractor makes off of each enrollee. As total savings accumulate each year, this fee also increases. Thus the basis points is a major windfall for the contractor, and hence this basis points should be negotiable between state and the contractor. Alternatively, one could consider a basis points up to a total max dollar amount fee eg \$200 per person per year. If even 250K people enroll (as an illustration), the total profits could be \$50 million to the contractor. Again these are illustrative estimates. Profits to the contractor should also be considered in terms of a cost report as the state negotiates the basis points cap.

## **DATA SECURITY CONCERNS**

With any financial data, it is sensitive and confidential, and thus the contracted provider should also be required to follow security standards to protect confidential data. Any breaches of data security should be reported and should be subject to penalty, not unlike how health care organizations which experience a breach in data security.



**SB-3289-SD-1**

Submitted on: 2/20/2022 10:51:27 AM

Testimony for WAM on 2/23/2022 10:05:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Remote Testimony Requested</b>
Dan Gardner	Individual	Support	No

Comments:

The Senate enacted Retirement Savings Task Force completed its feasibility study "Retirement Security in Hawaii" this past Fall. They identified a serious growing "Life Cycle" deficit based on Hawaii's rapidly growing elderly population and a relatively slow-growth work force. Without significant action being taken to reduce this deficit, they estimated the costs to taxpayers of increased social assistance together with economic activity loss in the next 15 years at well over 1 Billion dollars. Noting a worker is 15 times more likely to save when able to do so at work, the Task Force recommended Hawaii establish a state facilitated Retirement Savings Program for the estimated over 200,000 workers (50% of our private sector workforce) whose employers don't offer an employment-based savings plan.

To that end, SB3289 would establish a Hawaii Retirement Savings Program (HRSP): a state-facilitated pay-roll deduction retirement savings (auto IRA) system to help more residents of Hawaii prepare for retirement and to reduce the resultant increased stress impact on both them and our state finances. It is modelled after auto-IRA programs already offered and working successfully in Oregon, California, and Illinois. At least 10 other States have started or are working toward having this ability for their citizens.

Passage of SB3289 will clearly reduce the number of workers forced to work more years, lower the numbers of retirees in need, limit the increase of Hawaii public assistance costs, and help keep our tax burden manageable.

My wife and I now are reaping the benefits of having had access to established savings programs. The Hawaii Retirement Savings Program will help enable our children and grandchildren tiving here to pursue a more positive and secure financial future retirement. Please make this savings program available for their and all future Hawaii workers use. We truly need your long-view leadership to pass this legislation. Thank you.

**Senate Ways and Means Committee  
Chair: Senator Donovan Dela Cruz  
Vice Chair: Senator Gilbert S.C. Keith-Agaran  
Hearing Date: February 23, 2022, 10:05am**

**Re: SB3289 SD-1 RELATING TO RETIREMENT SAVINGS**

**Aloha Chair Dela Cruz and Committee Members. My name is Linda Dorset, a resident of Wailuku, Maui. I thank you for the opportunity to submit written testimony regarding the above referenced legislation. I strongly support SB3289 that will establish a state-facilitated pay-roll deduction retirement savings program and make it easier for Hawaii's workers save for their retirement. The Hawaii Retirement Savings Task Force recommended the automatic payroll deduction model that is also offered in Oregon, California and Illinois, and other states. This program will make it easier for Hawaii's 216,000 private sector workers to save for their retirement through their workplace.**

**Employers would identify eligible workers to open an account to have their contributions automatically deducted from their paycheck, but employees could opt-out if they so choose. The Employers would make no contributions and have no fiduciary responsibilities. Many of Hawaii's small businesses do not offer retirement saving plans to workers because they can't afford it. However, 85% of employers indicated they would likely offer their employees a state-facilitated retirement program that would be easy and low cost. Hawaii workers deserve the opportunity, and small businesses want to help their workers.**

**I strongly disagree with testimony that the state only needs to provide financial education. First, who is going to pay for that? Secondly, in my experience, I was well aware not only of the benefits of saving for retirement but also of the existence of IRA's that my bank advertised but did not take the time to take advantage. I was fortunate that my last employer had an exceptionally good retirement plan, but it was so late in my work life that it will still be a bit of a juggling act to stay solvent for the next 15 years. Also, I worry about my son whose employer has opened an account for him with a \$2,000 starting balance; but from there he is on his own to keep contributing and he worries more about having enough money in hand to buy what he wants now. I believe that if that money does not even appear in his payroll check he will not miss it; so I hope this option opens for him and other young people of Hawaii.**

**As a taxpayer, I believe that helping people save for their retirement will save the State money in the long run. Future retirees won't have to rely on public-assistance programs to make ends meet.**

**Thank you for your consideration**

**SB-3289-SD-1**

Submitted on: 2/21/2022 10:10:50 AM

Testimony for WAM on 2/23/2022 10:05:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Remote Testimony Requested</b>
Barbara Krieg	Individual	Support	No

Comments:

Hawaii Senate Ways and Means Committee  
Senator Donovan Dela Cruz, Chair  
February 23, 2022, 10:05 a.m.

RE: Strong Support for SB 3289 S.D. 1, Relating to Hawaii Retirement Savings

Aloha Chair Dela Cruz and Members of the Committee,

My name is Barbara Krieg and I thank you for the opportunity to submit my written testimony in STRONG SUPPORT of SB 3289 S.D. 1 Relating to Hawaii Retirement Savings.

I strongly urge the legislature to establish a state-facilitated retirement savings program for Hawaii's private sector workers. Such a program is a critically important benefit to the eligible workers, their employers and the State's taxpayers.

The Hawaii Retirement Savings program is an important investment in the future of our State's residents, small businesses and taxpayers. Although it requires initial funding, there should be no doubt that the program will become self-supporting within a relatively short period of time, allowing the funds to be repaid to the State. The self-supporting nature of the Hawaii Retirement Savings program is proven by the success of the similarly-structured Deferred Compensation Plan for public employees, as created by Hawaii Revised Statutes Chapter 88E. That Plan has been fully self-supporting for years, even funding the State employees who support the Plan's administration. The success of the Deferred Compensation Plan also demonstrates that when a workplace savings plan is available, the eligible employees will take advantage of the opportunity to increase their retirement savings — even if they are not the highest-paid workers and even when there are other available savings programs.

The workers who are eligible for the proposed Hawaii Retirement Savings Program will have easy access to a retirement savings plan with automatic deductions. As proposed, this program will allow such individuals to determine their desired savings amounts and retain complete control of their savings. There is no question that social security benefits alone do not provide sufficient funds for retirement, especially given our State's high cost of living. Therefore, a payroll-based savings program is a necessity for all workers.

For the affected employers, most of which are small businesses, the Hawaii Retirement Savings program would provide a no cost or minimal cost benefit for their employees. This will make the employers more competitive for and attractive to skilled workers who would otherwise be lured away to the larger employers who already provide retirement savings benefits in the form of 401(K), pension or related programs. If we cannot increase the retirement savings rate, we will all face higher taxes to pay for those who cannot support themselves as they age.

I believe SB 3289 S.D. 1 will help taxpayers, workers and small businesses. It will also save the State over \$1 billion on public assistance programs over the long run. Everybody wins – the workers, small businesses and taxpayers. Please pass SB 3289 S.D. 1.

Barbara Krieg  
Tel. (808) 284-6161  
Email [barbkrieg808@gmail.com](mailto:barbkrieg808@gmail.com)

**SB-3289-SD-1**

Submitted on: 2/21/2022 11:24:39 AM

Testimony for WAM on 2/23/2022 10:05:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Remote Testimony Requested</b>
Linda Muralidharan	Individual	Support	No

Comments:

I respectfully submit to the legislators my strong belief that this bill about retirement savings will benefit present and future residents of Hawaii, both taxpayers and thousands of present and future employees of small businesses in this state.

I believe it is a necessary piece of legislation because it is well known that people in this whole country save too little. People without a savings plan that is easy to use will too often be left in retirement with little more than Social Security to live on. It is also well known that Social Security in most places will not cover the costs of a secure retirement and here in Hawaii we know that the state will subsidize low income seniors. That means tax payers, of course.

If more small business employees have the option of an automatic payroll deduction plan (as in the case of most large companies), it has been proven that they are very likely to build savings through modest, regular deductions.

Please think of future retirees' well being and also that the state will save millions of dollars in the future if we have more retirees who are not all but indigent. Please support this bill.

Linda Muralidharan, Aiea

**SB-3289-SD-1**

Submitted on: 2/21/2022 1:28:59 PM

Testimony for WAM on 2/23/2022 10:05:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Remote Testimony Requested</b>
Beth Giesting	Individual	Support	No

Comments:

**In strong support of SB3289, SD1**

Many of Hawaii's workers are employed by small businesses that cannot or do not offer plans to help them easily build tax-deferred retirement savings. As a result, these workers may have little income besides Social Security earnings when they retire.

Social Security payments to retirees are based on lifetime contributions through earnings. Consequently, lower-paid workers, who often work for small companies without retirement plans, will have only modest Social Security benefits. Women are especially vulnerable to an impoverished retirement because they earn less than men, on average, and are more likely to have periods of unemployment due to family care responsibilities and childbirth. In high-cost Hawaii, Social Security is unlikely to cover all living expenses, leaving more retirees to depend on public benefits to make ends meet.

Please pass SB3289, SD1, in order to create a program to help many more Hawaii workers achieve financial independence when they leave the work force.

To: The Senate Committee on Ways and Means  
Date: Wednesday, February 23, 2022  
Time: 10:05 a.m.  
Location: Conference Room 211 & Videoconference

Re: S.B. 3289 SD1 RELATING TO HAWAII RETIREMENT SAVINGS

Chair Senator Donovan M. Dela Cruz, Vice-Chair Senator Gilbert S.C. Keith-Agaran, and Members of the Committee:

My name is Esther Ueda, and I am writing in SUPPORT of Senate Bill 3289, S.D.1 which establishes a State facilitated retirement savings plan for private sector employees.

I have been retired for over 20 years, and I recognize the need for a good savings plan to meet all the expenses that come in retirement. There are always unexpected expenses which require dipping into your savings not to mention inflation for everyday expenses. Unfortunately many people today are not saving enough money for retirement. I've heard people say don't worry, I'll just keep on working. The sad fact is that many times for various reasons, we may not be able to work as long as we would like.

I believe that a State facilitated automatic savings program as proposed in this measure would greatly encourage and facilitate people to save more. The State, and many large organizations already have similar type savings programs in place, and this proposal would help those smaller businesses who do not have, or are unable to offer such programs to their employees.

Please support Senate Bill 3289 S.D.1.

Thank you for the opportunity to submit this testimony.

Sincerely,

Esther Ueda  
Pearl City, Hawaii

**SB-3289-SD-1**

Submitted on: 2/21/2022 5:01:00 PM

Testimony for WAM on 2/23/2022 10:05:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Remote Testimony Requested</b>
Barbara L Franklin	Individual	Support	No

Comments:

I support SB3829. It makes sense in the long run to empower people to make effortless retirement decisions and not relay totally on Social Security. Let provide for retirement savings to augment other private and government support so that the elderly do not become burdens on taxpayers. I realize that it will cost to set up the program, but it wil make sense to provide an alternative for those who need an effortless way to save. Small business is not generally in a position to provide retirement programs, this would fill the gap for a lot of workers who work for small business.



**The State Legislature  
The Senate  
Committee on Ways and Means  
Wednesday, February 23, 2022  
10:05 a.m.**

To: The Honorable Donovan Dela Cruz, Chair  
Re: Support for SB 3289 S.D.1 - Relating to Hawaii Retirement Savings

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee,

My name is Audrey Suga-Nakagawa and submitting this testimony in strong support of **SB 3289 S.D. 1** which establishes a state-facilitated retirement savings program for private sector employees to have an easy way to save and contribute toward their future through an automatic payroll deduction. I am appreciative of the Hawaii Retirement Savings Task Force's hard work in addressing the financial crisis facing Hawaii's future retirees and performing its due diligence in selecting the best savings model to help people save.

**Easy Enrollment For Employers and Workers:**

The Automatic Individual Retirement Account (IRA) model recommended for Hawaii, is an automatic payroll deduction model that is successfully being implemented in Oregon, California, and Illinois. 10 other states and one city (Seattle) are moving forward in establishing an auto-IRA program too. This program is simple to join, and there is little or no cost to the employers – they just need to sign up their employees, set up the payroll deduction process and remit the employees contribution. Employers make no contributions and has no fiduciary responsibilities. According to a 2020 survey conducted by Pew Charitable Trusts, three quarters of participating Oregon employers have expressed satisfaction and have had positive experience with OregonSaves. It is important to note 79% have not experienced any related out of pocket costs. Among those that had faced additional costs said office supplies and payroll processing time were the most common and costs were minimal. Eligible workers can sign up through their employers to open an account and have their contributions automatically deducted from their payroll. They can opt-out if chooses not to participate.

**Program Enrollment with Big Impact:**

As of December 2021, the accumulative metrics for the 3 leading states (Oregon, Illinois, and California) show over 430,000 new accounts have been opened, with total assets valued at \$408 million and continue to grow rapidly.

Metric	Oregon Saves Start up in 2017	Illinois Secure Choice Start up in 2018	CalSavers Start up in 2019
Funded Accounts	113,000	99,000	218,000
Total Assets (\$M)	\$150. Million	\$84.9 million	\$173. million

Average Monthly Contribution	\$166	\$118	\$150
Average Annualized Contribution	\$1,990	\$1,420	\$1,800

**Federal Secure Act and other federal savers Programs**

Congress had attempted to address the retirement savings crisis by passing the Setting Every Community up for Retirement Act of 2019 (SECURE Act) in 2020 with help from AARP. This was in part of a larger effort to improve retirement security around the country. The SECURE Act complements state that are establishing their own retirement savings programs. While there are 55 million American workers without access to workplace savings plans, the SECURE Act only has the potential to cover around 700,000.

Like the Secure Act, tax credits for retirement are not as impactful and far reaching as the auto IRA programs. A tax credit would help jump-start savings if credited directly to a retirement account. To permanently improve the retirement savings gap, however, it would still require people to supplement this by saving through their paychecks, otherwise this is simply creating a one-time bump. Furthermore, the cost of such a credit is likely higher than the cost of starting up an Auto IRA program for the state. The bottom line: While well-intended, these tax credits and similar federal initiatives to date are significant financial commitment that benefit a very small percentage of the eligible population. Therefore, the auto IRA remains as the model of choice for 14 states and growing.

We must enact the Hawai'i Retirement Savings Program now to make it easier for workers to build a safety net and grow the savings they need for a more secure future.

Thank you for the opportunity to testify in support of SB 3289 S.D.1.

Sincerely

Audrey Suga-Nakagawa  
Honolulu, Hawaii  
(808) 722-8885

Senate Ways and Means Committee

Chair: The Honorable Senator Donovan Dela Cruz

Date: Wednesday, February 23, 2022, 10:05 a.m.

Bill: S.B. 3289 S.D. 1

RE: Strong Support for S.B. 3289 S.D. 1, Hawaii Retirement Savings

Aloha Senator Dela Cruz and Members of the Ways and Means Committee. My name is Carol Wakayama. This written testimony is in SUPPORT of S.B. 3289 S.D. 1 (Hawaii Retirement Savings). I strongly urge the legislature to consider S.B. 3289 S.D. 1 and establish a state-facilitated payroll deduction retirement savings program for Hawaii's private sector workers.

Because I'm a retired Federal employee, I am very lucky to receive a monthly pension. However, because I started my employment, in the Federal government, much later than my former colleagues, I must budget and follow my personal spending very carefully.

As a taxpayer, I strongly believe that this bill will also save the State taxpayer monies. This is because - if the method used to save for retirement is easy and less cumbersome - future retirees may have more choices in how they're able to plan their lives. It would be devastating if more people or retirees are forced into public-assistance programs to make ends meet and survive.

I humbly request that you pass S.B. 3289 S.D. 1. Thank you for the opportunity to express my support.

Carol Wakayama  
1011 Prospect Street #804  
ckwakayama@gmail.com

**SB-3289-SD-1**

Submitted on: 2/22/2022 9:54:56 AM

Testimony for WAM on 2/23/2022 10:05:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Remote Testimony Requested</b>
Kathy Jaycox	Individual	Support	No

Comments:

Aloha, Chair Dela Cruz and Committee Members --

Thank you for the opportunity to provide testimony IN SUPPORT of SB3289.

We know that small businesses are the source of employment for thousands of people in Hawaii. Yet pensions are out of the question for them, and even 401K opportunities are offered to relatively few. At the same time, we know how important it is for workers to start saving as early as possible in order to have funds available in their later years.

This bill would make the process of saving easy for employees while not requiring matches from employers. Comparable programs already exist in several other states. This is definitely a consumer-friendly effort which your constituents deserve.

**SB-3289-SD-1**

Submitted on: 2/22/2022 10:05:09 AM

Testimony for WAM on 2/23/2022 10:05:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Remote Testimony Requested</b>
Barbara J. Service	Individual	Support	No

Comments:

Aloha Chair Dela Cruz, Vice Chair Keith-Agaran and committee members!

I reside in Senate District 8 and House District 19 and I am urging you to pass SB3289 regarding Retirement /Savings. More than 200,000 Hawaii small business employees do not have easy access to save for their retirement. Small business employers do not have the resources to set up such programs on their own. This bill would give approval for the state to set up such a savings program (i.e. auto-IRA); over time, that money would, be reimbursed. Please consider the needs of small business employees, which. are the backbone of our workforce.

Thank you for the opportunity to provide testimony.

Barbara J. Service MSW (ret)

Kupuna advocate

**LATE**

**SB-3289-SD-1**

Submitted on: 2/22/2022 10:07:13 AM  
Testimony for WAM on 2/23/2022 10:05:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Remote Testimony Requested</b>
Kathleen Wyatt	Individual	Support	No

Comments:

As a small business owner, I am very excited about this opportunity to offer an important benefit to my small staff. At this time, I am unable to offer them a retirement plan, due to cost and complexity. I value my employees, who are all angels, and they deserve a little help with their future financial security. I urge you to approve this bill for the benefit of all employees who work in small businesses. Let's save the State of Hawai`i millions in the future by keeping citizens from having to rely on state funding to live.

2.22.2023



TO: Senator Donovan Dela Cruz, Chair  
Senator Gilbert S.C. Keith-Agaran, Vice-Chair  
Members of the Senate Committee on Ways and Means

RE: SB3289 SD1  
Relating to Retirement Savings  
Hearing Date: 2.23.2022, 10:05 am

POSITION: SUPPORT

Honorable Senator Donovan Dela Cruz, Vice-Chair Keith-Agaran and Committee Members:

Let's get real about Retirement Savings options in Hawaii.

A large majority of 16-30 year olds in Hawaii bounce from employer to employer and many work 2-3 jobs at a time. Currently there is no easy way for this segment of society to easily form a 'savings habit' and carry it through adulthood.

SB3289 SD1 (The Hawaii Retirement Savings Program) would facilitate a way for the younger generation to become responsible savers. Their personal ROTH IRA fund would follow them effortlessly from job to job. It is efficient, low cost and could be easily accessed by the owner of the fund with a mobile-friendly app.

Please support this bill for the younger generation and for all the workers in Hawaii whose employers are not able to offer an in-house payroll savings plan.

Sincerely,

Christine Olah  
Honolulu  
Hawaii Resident