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AGENDA ITEM 05
INFORMATION ITEM

CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

Update on Retirement Security Initiatives and Proposals

Presenter

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Background

The purpose of this agenda item is to provide the Board with a summary of relevant legislation and regulations relevant to the issue of retirement security.

Illinois

The departing Governor of Illinois, Pat Quinn, signed the Illinois Secure Choice Savings Program Act earlier this month. The bill would establish the Illinois Secure Choice Savings Board to develop and eventually administer the Illinois Secure Choice Savings Program (Program). The bill states that the plan must open for enrollment within two years, however the Illinois Secure Choice Savings Board must first obtain favorable determinations from the Department of Labor that the plan is not subject to Employee Retirement Income Security Act (ERISA) and that the accounts offered under the plan receive the same tax treatment ordinarily afforded to Individual Retirement Accounts (IRAs).

Under the bill, employers of twenty five or more employees that do not already offer employees access to a retirement savings plan would be required to provide its employees access to the Program. The bill that established the California Secure Choice Retirement Savings Investment Board would require employers of *five* or more employees provide its employees access to the program. Employees would be automatically enrolled into the program unless they decide to opt out of participation. Employers of less than 25 employees may participate in the program, but are not mandated to do so even if they do not provide their employees access to a retirement savings plan.

The Board may engage with an investment manager or mangers to invest the Fund or any other assets of the Program, or the Fund may be invested or reinvested by the State Treasurer's Office, by the State Board of Investment, private investment managers, or a combination of the above.

The plan would use a life-cycle fund with a target date based upon the age of the enrollee as the default investment option. The bill identifies three additional investment options, including a conservative principal protection fund, a growth fund, and a secure return fund, which would serve to protect the principal investment and provide a low-risk rate of return. If their board decides to include the secure return fund as an investment option, it would then have to determine whether it would serve as the default investment option instead of the life-cycle fund. The board would retain the authority to make such a determination at any time. Administrative fees may not exceed 0.75% of the total trust balance.

Maryland
In 2014, Maryland Governor Martin O'Malley established the Governor's Task Force to Ensure Retirement Security for All Marylanders through executive order. The purpose of the task force was to issue recommendations of policies to achieve the goal of retirement security for all in Maryland, including retirement plan design features to be incorporated in a state-run retirement savings plan. The Governor appointed as Chair Kathleen Kennedy-Townsend, who founded the Center for Retirement Initiatives at Georgetown University.

The Baltimore Sun has reported that newly-elected Governor Larry Hogan will disband the task force.

myRA
In his 2014 State of the Union Speech, President Obama announced the creation of the myRA, a voluntary retirement savings plan for employees who don't currently have access to a retirement savings plan through their employer. The plan opened for enrollment late in 2014. The plan is administered by the U.S. Department of the Treasury. The plan is limited to individuals with an annual income less than $129,000 or married couples filing jointly that make less than $191,000. Participation is currently available for any employees working for employers able to make a payroll deduction. Eventually, any individual under the specified income levels may enroll in a myRA account.

The plan receives the same tax treatment as Roth IRAs and is subjected to the same contribution limits. Individuals may rollover their accounts to a private sector account at any time; however the means of doing so are not yet defined. While individuals can withdraw the principal deposits to their myRA account tax-free and without penalty at any time, the withdrawal of earned interest is subject to a 10% tax penalty unless they are older than 59 ½ or meet certain conditions, such as buying a home. Once an account balance reaches $15,000 it must be rolled over to a private-sector retirement savings account.

The plan invests in a new U.S. Treasury security that is safe and stable, averaging a 3.39% return. There are no fees for individuals and participation is free for employers as long as they have a payroll deduction mechanism already in place.

USA Retirement Funds
A bill formerly carried by retired U.S. Senator Tom Harkin, the USA Retirement Funds Act will be carried again this year by U.S. Senator Sherrod Brown. The bill, in addition to defined contribution and defined benefit plan reform, would establish USA Retirement Funds, a retirement plan for private-sector workers who lack access to employer-sponsored retirement savings plans. The bill would require employers with more than ten employees to participate in

the plan. Employees would be enrolled automatically, with the option of opting out of participation. Employers would have the option of making contributions to employee accounts.

SAFE Retirement Act

The bill, carried by Senate Finance Committee Chairman, U.S. Senator Orrin Hatch, would create a “Starter 401(k) plan” for private-sector employers in addition to reforms of multiple employer plans and public defined benefit plans.

The “Starter 401(k) plan” would be voluntary for employers that do not already provide a retirement savings plan for their employees. The plan would allow participants to save up to $8,000 a year, more than currently allowed for a traditional IRA. It would also eliminate the 10% limit on automatic-escalation. Senator Hatch has also proposed that regulations related to fiduciary standards for providers of retirement investment advice be regulated by the U.S. Department of the Treasury instead of the U.S. Department of Labor (DOL). The plan was introduced in 2014 and is expected to be reintroduced this year.

Department of Labor Fiduciary Rule

The DOL is considering amending its rules to revise the definition of the term “fiduciary” to include persons who render investment advice for employee benefit plans and individual retirement accounts.

The rule was expected to be introduced late in the summer of 2014, but has been delayed. It is expected that the DOL will reintroduce the rule in the coming weeks.