Views Toward California Secure Choice Program

Results of Six Focus Groups



Conducted for:

State of California

June 2015

Prepared by Greenwald & Associates 2015

Methodology

Low-income (<$50K)	Low-income (<$50K)	Higher income ($50K+)	Low-income (<$50K)	Higher income ($50K+)	Low-income (<$50K)
English	Spanish	English	Spanish	English	English
9 participants	10 participants	8 participants	9 participants	6 participants	6 participants

Overall Screening Requirements:

- Age 21 to 64
- Financial decision-maker for household
- Working full-time or part-time (at least 20 hours/week)
- Not self-employed
- Employer has 5+ employees
- Does not have pension or retirement plan through employer
- Mix by gender, education and marital status
- Mix by race/ethnicity in English speaking groups

Moderators:

- Brian Perlman (English speaking groups)
- Cris Bain-Borrego (Spanish speaking groups)

Key Takeaways

Current Environment

1. While many Californians feel they cannot afford to save for retirement, many are also held back by not having access to 401(k) plans. Most want to save and would do so if given the opportunity.

2. Many of these participants, especially low income ones, feel that they cannot afford to save (as expected). Many are also held back by the inertia of never getting started and a fear of where to put their money.

3. Many of these participants have a strong mistrust of financial institutions, fearing not only market loss but that they cannot trust institutions to hold their money.

4. Views on government are more mixed. Some trust government and some do not. Most are at least mildly positive about California State government.

5. On balance, most are also risk averse. Much of their fear stems from a lack of knowledge about the investment world. These consumers do not understand realities that would ease their mind – that money is protected from fraud, the risk-return trade-off, that risk is reasonable for someone holding money for years, and that mutual fund money is diversified.

6. Because of lack of exposure to defined contribution plans, surprisingly few have exposure to mutual fund investments.

Current Environment: Financial Products Owned

Bank Accounts	8	10	8	8	6	6
Credit cards	7	7	8	4	6	4
Life Insurance	5	3	5	1	1	4
Investments	3	0	4	0	1	2
Annuities	0	0	0	0	0	0
Ever had 401(k)	2	0	0	0	2	2
Ever had pension	1	0	0	0	0	1

Concept Description Reviewed in Groups

Handout 1

California Secure Choice: Proposed Program

The State of California is developing a new workplace retirement savings plan for the 6 million workers in the state who currently don't have one at work. **The Secure Choice Retirement Savings Plan (Secure Choice) will offer an easy way to save for retirement directly out of your paycheck.** Key features include:

1. **Automatic enrollment, with opt-out.**
   You would be automatically enrolled by your employer in the Secure Choice retirement plan, unless you chose not to participate in it.
2. **Automatic and flexible contributions.**
   If you are enrolled, 3% of your pay would be automatically contributed to the plan from each paycheck. You could choose to contribute a different amount, either higher or lower.

   Examples

Annual Pay	Monthly Contribution @ 3%	Annual Total
$20,000	$50	$600
$40,000	$100	$1,200
$60,000	$150	$1,800

3. **The money would be deposited in an Individual Retirement Account (IRA) in your name.**
   Your contributions, plus any investment earnings, would be held in the account until you need it when you retire. **You would fully own the money in your IRA.** If you died before you used the money, it would go to your spouse (if married) or anyone you wanted to inherit it.
4. **Your Secure Choice account would stay with you from job to job.**
   If you move out of state, or to a job that already offers a 401k or pension, contributions to Secure Choice would stop–but your account would keep earning investment returns.
5. **Your money would be automatically invested in a high-quality, low-cost fund that is managed by investment professionals.**
   This fund will be designed for growing your retirement savings over time and will include a mix of stocks and bonds. You could also choose from other low-cost investment options.
6. **When you retire, Secure Choice would let you convert your balance into lifetime monthly income.**
7. **You could access your account information at any time using a computer or smartphone.**
   A yearly statement would clearly show you the account balance, contributions, investment returns, and fees. It would also tell you how much income you can expect when you retire based on your current savings behavior.

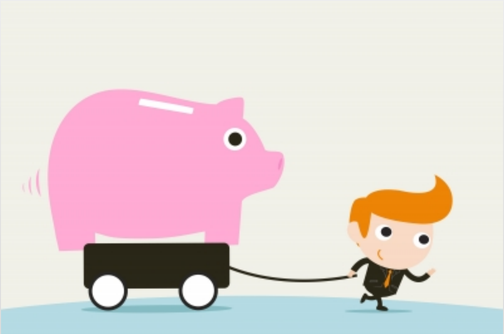
Note: Translated version used in Spanish-speaking groups.

Reaction to Concept

Concept Appeal

1. In general, respondents have a favorable reaction to the California Secure Choice program and its features.
2. Most participants like the automatic enrollment feature. Most importantly, many feel that automatic enrollment will get them to save more.
   - They are mixed on whether 3% or 5% is an appropriate contribution, although most some were fine with a 5% default if they could choose a different rate.
   - While some like automatic escalation, most are a little uncertain about committing to it and whether or not they could really do it.
3. Product portability is a key feature that is universally appealing. Participants like that they can take the plan from job to job and that the account is in their name.
4. It is important for participants that they can pass the money to their heirs. This is especially important to Hispanics who have a strong focus on their children.
5. The idea of having access to the account through a computer or smart phone is appealing, although most were not that clear on what types of information they would like to get.
6. Most like the concept of converting their savings into a guaranteed income stream, more so than we see in research with 401(k) participants.
7. Most like the illustration that shows a small amount of money coming out of their paychecks leading to a significant savings later in life and are willing to make that tradeoff.

"I like it because if I was to say I'm going to pay it on my own, it would probably always get there late because I'll think of something else I have to pay or I think about I wanted to go do this for me before paying that bill."   Low Income, English, Fresno



Reaction to Concept

Concept Challenges

1. Research suggests that the biggest challenge to the California Secure Choice program will be positioning and explaining the investment options to potential users. Those without 401(k) plans have not had great exposure to investment concepts.

   - California will have to deal with the lack of trust that many have of financial institutions.
   - Most have no idea of who holds and invests the money and that protections are in place to keep it safe.
   - Many are way too risk averse.
   - There is little understanding of the benefits of diversification and the protection it offers.

"I don't expect to become rich off of this, but I also don't want to put too much risk into it. I think that with the stocks it's going to be a little risky." – Higher-Income, English, Los Angeles

Reaction to Concept

Concept Challenges

2. While automatic enrollment is appealing, many need reassurance that they will have some say in the process – specifically, that they will be informed of the enrollment and at least have awareness of what their employer is doing and when they are doing it.

"It's probably good for people that are beginning. It would help make them get more involved and eventually have control over their own destiny when it comes to their… to save funds." Higher income, English, San Francisco

3. The importance of qualified tax benefits are questionable for this population. Illustrating them adds complexity and it is unclear how much of a benefit many lower income participants will get in their bracket.

4. While guaranteed income is appealing, there is strong opposition to a straight annuity that would provide the highest income stream. Most are unwilling to have their savings distributed if they die too soon during the payment period. Thus, income would be compromised by the need to offer some type of period certain or residual benefits guaranty.

That one sounds a lot better than if you live to be 65 and day, you only get paid for one day, versus your family getting paid the rest. Low Income, English, Fresno

Reaction to Concept

Challenges for Spanish-Speaking Population

Research suggests that there will be particular challenges for the Spanish speaking population.

1. Literacy relating to the U.S. financial system is extremely low:
   - Most barely know what IRAs are.
   - Few have ever thought about the future value of money.
2. A number of Spanish speaking participants use banks in their home country.
3. Culturally, there is a much stronger focus on one's family, especially children, than there is on retirement.
4. Some do not plan on using the U.S. retirement system.
5. Most have strong suspicion of the government.
   - Many trust government less than financial institutions.
   - Some of this is driven by anti-Hispanic political rhetoric from politicians.
6. The need for Social Security numbers is a big problem. Even if they have them, there can often be plan beneficiaries who do not.
7. These participants are more risk averse than English speaking ones.

"That is why so many people who want to invest in Mexico, like let's say they want to put up a store, because of what they are saying here, there is a lot of people in this room right here that would prefer to take their money and open up a business. Here you invest, and then if this company steals it, then it's gone. Even with a bank, it can happen. It just closes for some reason, and so where is that money? It's just lost." –Low Income, Spanish, Fresno

"I'm insecure [about investing], because you save, and then you are afraid you are going to lose it if you are investing it. Sometimes at a bank, you don't really trust them a lot of times, because you think that all of a sudden, instead of giving you money, they are going to take it away. So we have to have a certain amount of information and to be able to be sure about it. So, in other words, feeling unsure about investing it." Low Income, Spanish, Fresno

Reaction to Concept

Implications for Specific Product Features

1. Roth vs. Traditional. Participants show some preference for Roth IRAs over traditional, but clearly want both available. A majority prefer that money not be taxed when it is taken out. However, most did not strongly consider how each scenario would apply to their.
2. Target date versus balanced funds. There is a strong preference for target date funds as the default investment option. Participants grasp the idea of their accounts getting more conservative as they retire and strongly prefer this.
3. Annuitization. Unless annuity options have a period certain or refund feature, participants are reluctant to choose these options.
4. Technology. Participants want their account information accessible on both computer and smart phone. They are more interested in access than in specific statements. The plan should offer both, especially a phone app for younger participants.

"I think I would probably choose the second option (target date) because I'm young and then you said, I'll move closer to a safer, once I've built a certain amount of money." Higher Income, English, Los Angeles

1. Withdrawal and loan options. A significant minority see the importance of not having access to their money if they want to achieve long-term growth. Thus, while a minority want full access, most are willing to accept limits such as hardship withdrawals.
   - Most prefer a broader definition of qualifying hardship withdrawals – for job loss as well as medical.
   - Most want a loan option.

"Self-discipline. It keeps you on some kind of track but also helps you when you need it financially if you do have some kind of medical emergency or you do lose your job." –Higher Income, English, San Francisco

Things participants need to know

1. That participants will have control of their contributions and have the option to stop and start them.
2. That some risk is needed to achieve a higher return, and relying on low risk investments increases the risk of not having enough money in retirement.
3. The importance of time horizon in taking risk.
4. That investments will be protected from fraud.
5. That the state does not hold the money in its own coffers and cannot use it for other purposes the way the Federal government can with Social Security.
6. That money is invested in diversified accounts and cannot be seriously affected by the failure of one company.
7. That those who have accumulated money in 401(k)s and IRAs rely on the same mechanisms and financial institutions that this plan does.
8. That the plan uses top investment managers to manage money and can do so because of the accumulated assets gathered.
9. That the State does not directly manage the investments.
10. That while they cannot contribute if no longer eligible, they can keep their accounts and their investments can continue to grow.

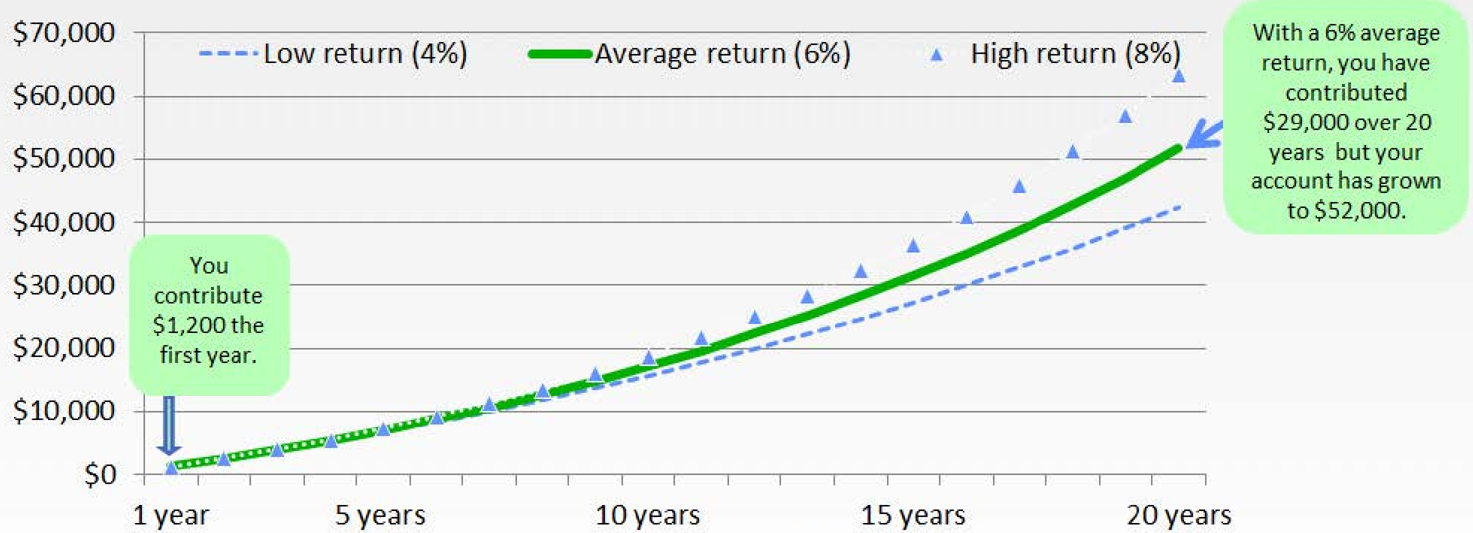
Illustration of Concept Reviewed in All Groups

Impact of Contribution on Paycheck

Take home pay twice a month **$1,000** – Contribution to the savings Plan **$50** + Estimated tax benefit **$10** = Adjusted take home pay **$960**

$50 twice a month = $1,200/year

How Savings Grow in Retirement Plan



Assumes 2% inflation and an investment portfolio of stocks and bonds.

Note: Translated version used in Spanish-speaking groups.

Illustration of Concept Used in Fresno Only

Expected Retirement Income With Average Investment Returns

Assume you work until age 67, retire after at least 20 years of contributing to the plan, and are eligible to collect Social Security at retirement. Here are some estimates of what you would be getting in retirement income from work savings and Social Security, assuming your retirement plan savings earned an average investment return of 6% and $24,000 current annual pay.

Number of years you contribute	Retirement Plan Contribution (2x a month) first year	Yearly income from Retirement Plan if you take annuity option		Expected Social Security benefit		Total Expected Retirement Income
20 years (currently age 46)	$50	$1,910	+	$13,000	=	$14,910
30 years (currently age 36)	$50	$3,575	+	$13,000	=	$16,575
40 years (currently age 26)	$50	$6,020	+	$13,000	=	$19,020

Note: Amounts are in today's dollars (same purchasing power as today).

Note: Translated version used in Spanish-speaking groups.

Illustrating Concept

Impact of Contribution on Paycheck Exhibit

1. Very well-received by English speaking participants:
    - Trade-off seen as worth it.
    - Most believe it is affordable – some can afford $1,200; most believe they can afford $2,400.
    - Most believe that they would not notice it coming out of their paychecks.
    - Little objection to investment return levels set, although most did not have a frame of reference by which to judge.
2. Reaction to tax benefits mixed.
    - Some really appreciate the savings.
    - Others feel it makes the illustration more complicated.
        - Also harder to grasp that a W-2 would have to be adjusted to realize the pay check savings.
    - A few feel they would prefer a Roth IRA in which case the immediate tax break does not apply.
3. Some would like to see a principal line as well crossing the graph.
4. Illustration needs to be online and interactive so parameters can be adjusted.
5. Spanish speaking more mixed – some like it but some don't understand or want to think that far out into the future.

Impact of Contribution on Expected Retirement Income

1. Most find this exhibit to be too complicated – dropped after Fresno groups.
    - Hard to discern what each column means and follow how it fits together
    - "Money bags" illustration not consistent with column format
    - Far too many assumptions to read

Messages Tested in Groups

I

Messaging Statements

A. Invest to make sure you have a secure stream of income when you retire

B. Be able to supplement what you get from Social Security

C. Growth of your retirement nest egg

D. A straightforward and simple way to save for retirement

E. Payroll deduction makes saving for retirement easy and convenient

F. A savings plan designed to help all workers achieve financial security in retirement

G. This program will reduce future elder poverty and need for social assistance.

H. It's your money, your account, and you can take it from job to job

I. Get on the path to being self-sufficient in retirement

J. You won't need to think about doing the right thing for your future – you will automatically be saving for retirement with every paycheck you get

Impact of Communication

D A D F C I, G

No clear winner among messages, however, some phrases better than others.

Positives:

1. "Straightforward and simple" liked by most
2. "You can take it from job to job"
3. "Automatically saving for retirement with every pay check"
4. "It's your money"
5. "Grow your retirement nest egg" – not "growth of" as written for groups

More mixed responses:

1. "Reduce future elder poverty" – too idealistic, overpromising and "not about me"
2. "You won't need to think about doing the right thing" – some see as condescending
3. "Supplement what you get from Social Security" – for some, it is to far away and not sure it will be there

Potential Survey Questions

Overall Planning and Financial Awareness and Attitudes

- Importance of building net worth
- Ability to contribute to a plan if encouraged to do so
- Importance of taking responsibility to save
- Role of inertia in stopping them from contributing
- Familiarity with and appeal of financial planning – dollar cost averaging, time value of money, diversification
- Awareness of tax qualified plans – 401(k)s, IRAs, Roth IRAs
- Views toward qualified plans and the value those participating in them get – regret at not having one
- Trust of corporations and institutions
- Risk tolerance
- Level of comfort if putting money in the market
- Level of comfort in losing access to money in exchange for long-term growth

Potential Survey Questions

Views Toward Proposed Plan

- Interest in the plan
- Views towards State sponsorship
- Appropriate deferral amount – acceptable contribution level
- Intent to not cash out the plan some day
- Preferences for plan options
  - Roth IRA vs. traditional IRAs
  - Balanced vs. target date
  - Availability of low risk, low return options
- Importance of loans, cash out vs. different types of hardship withdrawal
  - Life events for which they would insist on access
- Views toward automatic enrollment
- Views towards automatic increases; appropriate amounts
- Importance of personal accounts and portability
- Views toward guaranteed retirement income and annuity options

Potential Survey Questions (continued)

Message Testing

- Message testing
- Type of communication
  - Quarterly statements, etc.
  - Account information, financial planning information, etc.

Demographics to identify differences in preferences by:

- Race/ethnicity and language
- Education level
- Income
- Location
- Marital status