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AGENDA ITEM 5
INFORMATION ITEM

SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

Legislative Update

Presenter

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Background

The purpose of the legislative update agenda item is to provide the Board with a summary of state and federal legislation relevant to the California Secure Choice Retirement Savings Program as well as legislative proposals in other states aimed at addressing retirement security.

State Legislation

AB 166 (Hernandez) – Financial Literacy

AB 166 would require the next revision of curriculum frameworks for social science, health and mathematics to include financial literacy, including budgeting, managing credit, student loans, consumer debt, and identity theft security.

Because this bill would have no impact on Secure Choice, staff is not recommending the Board take a position on it. A summary is included here only because the goal of increasing financial literacy in California is consistent with the mission and purpose of Secure Choice.

Federal Legislation

Although there seems to be significant interest and support for the use of automatic IRAs as a means of addressing the retirement savings crisis, there does not appear to be significant movement on the issue at the federal level. In July 2012, U.S. Senator Tom Harkin (D-Iowa), as Chairman of the U.S. Senate Committee on Health, Education, Labor, & Pensions released a report advocating for an automatic IRA program to ameliorate the impact of the looming retirement security crisis.

In both 2010 and 2011, U.S. Senators Jeff Bingaman (D-NM) and John Kerry (D-MA) introduced automatic IRA legislation similar to Secure Choice before they both ultimately died in committee. Once again in 2012, U.S. Congressman Richard Neal (D-MA) introduced similar legislation, which also died in committee. For both proposals, employees lacking access to

employer-sponsored retirement plans would have been automatically enrolled in a retirement savings program where they could have chosen from three simple investment options. Both bills would have required a joint study by the Secretary of the Treasury and the Secretary of Labor on the feasibility and demand of various aspects of the retirement savings plans proposed in the bills.

Automatic IRA legislation has been included in previous Obama administration budget proposals, including the 2014 fiscal year budget proposal. However, we haven't seen any indication about the likelihood that those proposals will be pursued.

In late July, AARP and the U.S. Chamber of Commerce convened a forum in Washington D.C. to examine solutions for increasing retirement savings. Both organizations jointly call for action to expand access to tax-deferred payroll deduction savings plans, to keep and enhance incentives to save for individuals at all income levels, and to increase education efforts regarding the need for workers to save sufficiently and how to do so effectively.

Retirement savings legislation in other states: Proposals that have passed

Massachusetts

In March 2012, Massachusetts enacted a bill allowing nonprofit organizations with fewer than 20 employees to enter into a contributory retirement plan administered by the State Treasurer. Many small non-profits lack the financial resources to provide a retirement plan for their employees. No state money will be needed to fund the plan, which will be overseen by the State Treasurer. A five-member committee will oversee the program.

Oregon

In August 2013, the Oregon Legislature enacted HB 3436, a bill that establishes a taskforce to oversee the creation of the Oregon Secure Retirement Plan. The plan was originally envisioned as an automatic IRA program similar to Secure Choice, but was amended to delete the requirement that employers offer the plan through voluntary payroll deduction, to drop "investment" from the board's name, and remove references to a statewide plan. Instead, the task force will study how to increase retirement savings and make it easier for employers to offer savings plans.

Specifically, the taskforce will study the types of employer-sponsored plans and individual plans available in the state, the average savings of Oregon residents upon retirement, the average savings needed by Oregon residents upon retirement, tax incentives available for retirement savings and the efficacy of those incentives, possible plans structures or products that could be offered or facilitated by the state, and the potential costs and feasibility of offering those products.

Rhode Island

In 2010, joint resolution 8235 created a special legislative commission to study the establishment of universal voluntary retirement accounts.

Retirement savings legislation in other states: Pending proposals

Connecticut

The Connecticut Legislature is currently considering SB 885, which was introduced in February 2013 and would establish a taskforce to evaluate the need for a public retirement plan for private sector employees.

Illinois

For several years, the Illinois Legislature has considered a proposal allowing employees not offered a qualified retirement by their employer the option to set aside a percentage of wages to be deposited in an IRA trust administered by the State Treasurer's Office. The bill (SB 2400/HB 2461) would create a seven-member board to invest those moneys, choose permitted retirement program investment options, and make other programmatic decisions. Eligible employees would be automatically enrolled in the program, with the option to opt out if they do not wish to participate. Enrollees would have the opportunity to select one of three investment options, retaining the option to change at any time. Investment options would include a conservative principal protection fund, a default target-date fund, and an equity/growth fund.

The board would select fund managers via an open bid process, allowing the State Treasurer to invest or reinvest funds. The board could also purchase insurance on investments in order to maintain a guaranteed rate of return. The board would oversee a market feasibility study considering all investment costs and fees and the costs and feasibility of insuring a guaranteed rate of return.

SB 2400/HB 2461 has support from the Shriver Center, AARP, SEIU and other organizations. Proponents are hopeful the bill will pass in 2014 if not this year.

Retirement savings legislation in other states: Unsuccessful proposals

Maryland

HB 1318, the Maryland Secure Choice Retirement Savings Program and Maryland Secure Choice Retirement Savings Trust Act, was introduced in 2013. The language of the bill is almost identical to that of SB 1234 in California. The bill failed to make it out of its committee of origin.

In both 2006 and 2008, the State of Maryland attempted to pass bills allowing private sector employees access to retirement accounts within the already existing Maryland Supplemental Retirement Plans, a program offering deferred compensation plans for public employees. Neither bill passed the Legislature.

Michigan

In 2007, HB 4135, which would have created a retirement system for the purpose of increasing access to retirement plans for small business employees, did not pass.

Pennsylvania

A 2007 legislative proposal that did not pass would have established the Pennsylvania Voluntary Accounts Program aimed at providing access to retirement accounts to persons not provided retirement access through their employer.

Vermont

In 2006, the Vermont Treasurer proposed a voluntary retirement savings plan option for employers and employees, or self-employed Vermonters, sponsored by the State of Vermont at no cost to taxpayers. The proposal was intended to address the problem of the large percentage of Vermonters not adequately saving for retirement. The proposal was not adopted.

Virginia

In 2009, HB 2026 would have created the Virginia Employee Voluntary Accounts Program. Under the program, private employers with less than 50 employees that have not offered a payroll savings deduction plan to employees in the preceding year could enroll their employees in a tax-deferred retirement plan. The bill did not pass.

Washington

In the 2007-2008 and 2009-2010 legislative sessions, there were unsuccessful proposals to create Washington Voluntary Retirement Account Program, requiring private employers to provide employees the opportunity to enroll in the program's individual retirement accounts. The plans would have been administered by the Department of Retirement Systems.

West Virginia

In 2012, HB 2423 would have established a retirement plan for persons not already covered by their employer to be administered by the State Treasurer. The bill did not pass.