

# Structuring an Effective State-Sponsored Retirement Savings Plan

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# US Workers Like Auto Enrollment

- Auto enrollment made saving easy: 95%
- I started retirement saving earlier: 85%
- Satisfied with process (enrolled): 97%
- Satisfied with process (opted out): 90%
- Glad my company offers (enrolled): 98%
- Glad my company offers (opted out): 79%

# Auto vs. Mandatory: Results

- UK Large Employers: 91% coverage (DWP 8/13 range 85%-95%)
- US: 92% new employees (Fidelity) 85% new and existing (numerous cites)
- New Zealand: About 75%; Only 55% Contributing (8/13 NZ Financial Services Council)
- Australia Coverage: 87% - 98% of employees (Australian Bureau of Statistics)

# Start Simply

- *When implementing a state-sponsored plan, it is better to start with a simple plan that works than with a complex plan that does not:*
- While there could be a temptation to solve every retirement savings problem at once, it is far better to start with a very simple plan that works and is understandable to both employers and employees, and then add features to it over time.

# Make it Compatible

- As most US workers have a number of jobs during their working life, state-sponsored plans should ensure that their accounts are compatible with those offered through private sector employers.
- It is extremely likely that a significant proportion of plan participants will end up transferring their money to another plan sponsored by a new employer and that other participants will transfer money into the state plan.

# Low risk for new savers?

- The United Kingdom's National Employment Savings Trust (NEST) investment platform places the contributions of new savers in a riskless stable value fund for the first two years after they join the fund. This protects savers from becoming discouraged from continuing after losing money as they start to save.
- After the initial two years, NEST moves their money to the appropriate target date fund for savers of their age and places all new contributions into that fund instead.

# Guarantees

- While guarantees are simple in concept, they are highly complex in practice.
- Someone must be prepared to cover the costs, whether it is the saver, the plan sponsor or the taxpayer.
- There are two different measures of cost that are often confused. One measures effect on a government budget, while the other reflects the actual cost to a saver, insurer or government that includes the opportunity cost of a guarantee. Using the wrong measurement can produce overly optimistic low cost estimates.

# Consumer Protections

- Explicit consumer protections will help to build confidence in the state-sponsored plan and to encourage participation.
- Appropriately structured state consumer protections could provide the same level of protection as ERISA or even greater protection.
- Policymakers do need to balance the desire for explicit protections with the need to keep the plan simple and to limit the requirements placed on employers.



# Retirement Income Illustrations

- Help savers to know how they are doing.
- Can help to encourage additional savings.
- Especially valuable if combined with a Social Security estimate.

# 2014 EBRI RCS Data

- Useful: 85% yes, 15% no.
- Amount projected: 58% as expected, 27% less, 12% more.
- Will save more: 17% (35% proj. less income)
- Increased saving: 69% by 10%; 24% by 25%+
- Age: 89% won't affect age I retire.
- Confidence: 20% lower confidence in ability to save. 40% of those to save more.

# AARP State Retirement Savings Resource Center

- Individual issue papers
- Savings facts
- National Policy
- State Policy
- Financial Literacy
- <http://www.aarp.org/ppi/state-retirement-plans/>

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