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## Focus On... State-Facilitated Retirement Savings Programs

BY DAVID PRATT

*In recent years, more than 40 states and several cities have considered requiring employers that do not maintain a retirement plan to offer a retirement savings program to their employees. Because of their automatic enrollment feature, these plans are often structured as automatic, or auto, IRAs.*

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Eight states (Colorado, Hawaii, Maine, Maryland, New Jersey, New Mexico, New York, and Virginia) and two cities (Seattle and New York City) have enacted but have not yet implemented retirement savings programs. Four states have actually implemented auto IRAs (California, Connecticut, Oregon, and Illinois). New Mexico and Washington have enacted retirement marketplaces. Massachusetts and Vermont have enacted multiple employer plans. New Mexico enacted a combination of approaches. In November 2021, New Mexico and Colorado signed an agreement to operate a joint IRA program.

In some state programs, participation is mandatory for covered employers (with some exceptions). In other programs, employer participation is voluntary. Typically, eligible employees of participating employers are automatically enrolled in a program but can opt out at any time.

## The Apparently Intractable Access Problem

The US retirement system is huge. According to the Investment Company Institute, total US retirement assets (excluding Social Security) were \$39.4 trillion as of December 31, 2021. The US is the largest retirement plan market among 22 countries analyzed in Willis Towers Watson's Thinking Ahead Institute's Global Pension Assets Study, which showed that total US retirement assets were then 61.5 percent of the global retirement plan market. The second largest was Japan, at 7.7 percent.

Social Security income replacement rates will decline significantly over the next 20-30 years, primarily because of

- The increase in the full retirement age from 65 to 67;
- Increased income taxation of benefits, because the income thresholds at which benefits are taxed are not indexed for inflation; and
- Increasing out of pocket costs for beneficiaries under Medicare.

"The combined impact of these factors will reduce Social Security replacement rates for the average worker retiring at 65 by nearly a quarter—from a net 40 percent in 1985 to 31 percent by 2030. And these reductions are happening without any changes in current law. If benefits are cut back further to address Social Security's long-term financial shortfall, replacement rates will drop even more." [Munnell *et. al*, "Falling Short: The Coming Retirement Crisis and What To Do About It," Center for Retirement Research at Boston College, April, 2014]

The 2022 Social Security Trustees' report projects that the trust funds will be depleted by 2034.

Among the half of workers who do not participate in a plan at their current job, 84 percent are with an employer that does not offer a plan, while the remaining 16 percent work for an employer that offers a plan but either choose not to participate or are not eligible to participate.

Additionally, an increasing number of workers — such as, contractors or temporary workers — do not have a traditional employer-employee relationship, so they are also part of the group that lacks coverage from an employer.

[Munnell *et. al*, "An Analysis of Retirement Models To Improve Portability and Coverage," Center for Retirement Research at Boston College (2018)]

One 2014 study noted that "Legal reforms now offer employers tax credits for sponsoring a plan, special plans with little or no discrimination tests like the auto-enrollment safe harbor 401(k) plan, and reduced fiduciary liability through participant investment discretion and the use of Qualified Default Investment Alternatives as investment options. Yet there has been no appreciable increase in the percentage of employers, particularly small to mid-size employers, willing to offer plans." [Steuerle *et. al*, "Entitlement Reform and the Future of Pensions," Pension Research Council (2014)]

According to another 2014 study, "the low participation rates of lower-income respondents are driven primarily by weak labor force attachment and working for a firm without a pension. Only about half of the lower-income individuals are working and, among those who are working, only about 60 percent work for firms that offer a pension. These figures indicate serious trouble spots for participation. Eligibility and take-up rates among the lower income also help to explain their low participation, but these factors are considerably less important as both are between 85-90 percent. Of course, providing universal pension coverage in the workplace would still leave a large fraction of lower-income individuals without coverage due to their low employment rates. Thus, the only way to further expand participation would be through measures to boost employment." [Wu *et. al*, "Why Don't Lower Income Individuals Have Pensions?," Center for Retirement Research at Boston College (2014)]

Like many other advocates, the Pension Rights Center has called for the savers' credit to be expanded and made refundable. "[T]he credit is quickly phased out, and many low and moderate income taxpayers who do not pay income tax fail to qualify for the credit. Others qualify for a credit that is far too small to be much of an incentive to save for people living near the poverty line." Pending legislation, which may not be enacted despite strong bipartisan support, would significantly improve the savers' credit. These bills include the Securing a Strong Retirement Act of 2022 (SECURE 2.0, HR 2954), the Retirement Improvement and Savings Enhancement to Supplement Health Investments for the Nest Egg (RISE and SHINE, S. 4354) Act, and the Enhancing American Retirement Now (EARN) Act- the Senate counterpart to the House-passed SECURE 2.0.

As Daniel Halperin pointed out in 1993, "If, as a matter of public policy, it is important for people

to be able to maintain their standard of living upon retirement, or at least maintain a minimum standard beyond what is provided by Social Security, rather than trying to encourage employer plans or individual savings, it would be more straightforward either to enhance Social Security benefits or to require employers to contribute to private plans for their employees.” [Halperin, “Special Tax Treatment for Employer-Based Retirement Programs: Is It Still “Viable” as a Means of Increasing Retirement Income? Should It Continue?,” 49 *Tax Law Rev.* 1 (1993)]

According to Phyllis Borzi, former head of the US Department of Labor’s Employee Benefit Security Administration (EBSA), “It’s no accident that most countries have gone to a mandatory DC system. You can’t have sharp enough sticks or plump enough carrots to get to the goal of universal coverage. But in the United States we’re not close to a mandatory system.” [As quoted in Kerry Pechter, “Mind the Coverage Gap,” *Retirement Income Journal* (July 26, 2018).]

As long ago as 1981, a Presidential Commission recommended a mandatory universal pension system, with a required employer contribution of 3% of pay. [The President’s Commission on Pension Policy, *Coming of Age: Toward a National Retirement Income Policy*] This proposal was not enacted. Any attempt to mandate employer contributions in the US would undoubtedly be resisted strongly by employers, and they would argue that they are already contributing 6.2 percent of wages (up to the taxable wage base) under Social Security. But this is really a tax, not a pension contribution: these payments by an employer do not provide retirement savings for its own employees. Indeed, approximately 75 percent of all current Social Security taxes is used to pay benefits to current retirees.

“Today, there are an estimated 57 million private sector workers (46 percent) who do not have access to a plan through the workplace. These access gaps are inequitably distributed, more small businesses, and with larger gaps among lower-income workers, younger workers, minorities, and women.” [Georgetown University, Center for Retirement Initiatives, “What are the Potential Benefits of Universal Access to Retirement Savings?,” Dec. 2020]

## History and Background

The US Department of Labor (DOL) has issued regulations addressing the Employee Retirement Income Security Act (ERISA) of 1974 applicability to private-sector payroll deduction IRAs. A 1975 regulation (29

C.F.R. §2510.3-2(d)) outlined four conditions for a payroll deduction IRA to not be considered an ERISA plan:

1. the employer makes no contributions,
2. employee participation is completely voluntary. The DOL interpreted this requirement as precluding the use of an automatic enrollment feature, even if the employee can affirmatively opt out of the program. [See 80 Fed. Reg. 72,006, 72008, 2015]
3. the employer does not endorse the program and merely facilitates it, and
4. the employer receives no consideration except for its own expenses.

On November 18, 2015, DOL issued a final Interpretive Bulletin Relating to State Savings Programs that Sponsor or Facilitate Plans Covered by ERISA. The Bulletin outlines those state-facilitated retirement savings programs that would include ERISA-covered retirement plans. These options include a marketplace, prototype plans, and state-facilitated “open” multiple employer plans (MEPs).

The following state plans are covered by the Interpretive Bulletin:

- Massachusetts Defined Contribution CORE Plan (voluntary and only for nonprofits with 20 or fewer employees);
- Vermont Green Mountain Secure Retirement Plan (voluntary multiemployer 401(k) plan for the self-employed and employers with 50 or fewer employees); and
- Washington Small Business Retirement Marketplace and New Mexico Retirement Plan Marketplace (ERISA cannot apply to the state operating the Marketplace, but ERISA plans are allowed in the Marketplace with ERISA requirements applying to participating employers).

In August 2016, DOL issued a safe harbor regulation that established criteria for designing state-administered payroll deduction IRAs “so as to reduce the risk of ERISA preemption” (29 C.F.R. §2510.3-2(h)). Under this regulation, state programs were required to be:

1. authorized by state law and
2. administered by the state that established the program.

Employer participation must be required by state law and the employer's role must be limited to ministerial activities such as collecting payroll deductions and distributing program information. In December 2016, DOL issued another rule that expanded the safe harbor to qualified state political subdivisions, including cities.

In 2017, Congress used the Congressional Review Act to nullify DOL's 2016 regulations (P.L. 115-24 and P.L. 115-35). Senator Mitch McConnell argued that state-administered auto IRA programs would free states and cities from federal consumer protections and would create a competitive advantage for the programs, compared to private-sector plans.

In *Howard Jarvis Taxpayers Ass'n v. Cal. Secure Choice Ret. Sav. Program* [997 F. 3d 848 (2021)], the federal Court of Appeals for the Ninth Circuit held that ERISA does not preempt CalSavers. The Court held that "the preemption challenge fails. CalSavers is not an ERISA plan because it is established and maintained by the State, not employers; it does not require employers to operate their own ERISA plans; and it does not have an impermissible reference to or connection with ERISA." The Court pointed out that participation by non-exempt eligible employers is mandatory, not optional, and that employers' responsibilities are purely ministerial.

In February 2022, the US Supreme Court declined to review the decision. [142 S. Ct. 1204]. [See Edward A. Zelinsky, "The Ninth Circuit's Jarvis Opinion: A Correct Application of Retrenched ERISA Preemption," in David Pratt (ed.), *New York University Review of Employee Benefits and Executive Compensation* (2021)].

### Should Any Mandate Be State or Federal?

Some critics of the state programs point to the lack of uniformity and lack of explicit ERISA protections. "We love ERISA because we can operate in all 50 states and our employees know what to expect and we know what to expect," said Lynne Dudley, senior vice president for global retirement and compensation policy at the American Benefits Council (ABC). "If different states have different rules, it's hard to know how to treat people." [as quoted in Austin R. Ramsey, "U.S. Retirement Savings Plan Push Amplified by Court Move," *Bloomberg Law News* (March 2, 2022), [https://www.bloomberglaw.com/bloomberglawnews/daily-labor-report/X5U23L50000000?bna\\_news\\_filter=daily-labor-report#jcite](https://www.bloomberglaw.com/bloomberglawnews/daily-labor-report/X5U23L50000000?bna_news_filter=daily-labor-report#jcite)] That may be true for the large

employers who are members of the ABC, but the vast majority of the employers subject to the state mandates do not operate in numerous states. Congress dropped an earlier version of President Biden's Build Back Better plan that would have required almost all US businesses to enroll new hires into a low-cost 401(k) plan or IRA. Given the current polarized situation in Washington, the numerous intractable issues facing the Administration and the likelihood that the Republicans will win back control of Congress in November 2022, a federal solution appears highly unlikely in the near term.

Professor Ed Zelinsky suggests that:

For now, Congress should eschew any mandate that private employers adopt IRAs or other retirement programs for their employees. The states should continue to experiment in this area rather than the federal government imposing a single national pattern. Different states will pursue different courses, thereby testing alternative possibilities. Experimentation by the states will provide information about diverse approaches. To facilitate experimentation by the states, the federal government should clarify two legal issues concerning state-run retirement programs for the private sector. First, employers covered by state-administered IRA programs should be permitted to make supplemental contributions to their employees' IRAs without such employer contributions converting the state IRA program into an ERISA-governed arrangement. Second, employers not required by state law to participate in a state retirement plan for private sector employers should be allowed to voluntarily elect participation without such voluntary participation triggering ERISA coverage for the state plan.

[Zelinsky, "How Should Congress Respond to Jarvis? The Case for Letting States Experiment With Private Sector Retirement Savings Plans," <https://papers.ssrn.com/sol3/results.cfm?RequestTimeout=50000000>]

### Other Potential Drawbacks of Auto IRAs

We do not yet have much empirical evidence of how these programs will operate in practice. However, there are some obvious issues. First, the contribution limits are far lower for IRAs than for qualified plans. This could easily be fixed by enacting a special, higher limit for these auto IRAs, but that seems unlikely in the near future.

Second, almost all of the state programs prohibit employer contributions, thus further limiting the potential accumulations.

Third, all administrative fees are paid by the participating employees. Although low fees are often cited as a major advantage of the auto IRAs, we do not yet know whether the fees will in fact be lower than for other types of plan that could be sponsored by the employer.

Fourth, the investment choices will be more limited than under a typical 401(k) plan. Most of the state programs rely exclusively or primarily on a suite of target date funds. Will the people charged with selecting the funds have the necessary expertise?

Fifth, will these state programs continue to be a political football, subject to being undermined by a hostile future Administration?

Sixth, will the programs impose significant additional paperwork burdens, not only on those employers who are subject to them but also on larger employers who must establish that they are exempt?

Seventh, will the existence of these programs discourage employers from adopting a potentially more beneficial retirement plan, such as a SIMPLE plan or a SEP, or reducing its fiduciary liability by joining a multiple employer plan or a PEP?

### Early Research Findings

One study found as follows: “Overall, we conclude that OregonSaves has meaningfully increased employee savings by reducing search costs. The 34.3% of workers with positive account balances in April 2020 is comparable to the marginal increase in participation at larger firms in the private sector. Employees opting out of OregonSaves are often doing so for rational reasons.” [“Auto-Enrollment Retirement Plans for the People: Choices and Outcomes in OregonSaves,” John Chalmers, Olivia S. Mitchell, Jonathan Reuter & Mingli Zhong; <https://www.nber.org/papers/w28469>]

According to a recent report, “Research by The Pew Charitable Trusts on individual retirement accounts (IRAs) with automatic enrollment, known as auto-IRAs or Secure Choice accounts, illustrates how retirees could use their auto-IRA accounts to delay claiming Social Security benefits, thereby boosting their monthly and annual payment amounts for life. Pew found that workers who invested 6 percent of their wages in auto-IRAs could delay claiming Social Security benefits for a year or longer. This deferral has the potential to increase their monthly and annual benefits by 7 percent-8 percent a year for life.” [Pew Charitable Trusts, “How Auto-IRAs Help Retirees Delay Claiming Social Security: An Update,” March

2021, <https://www.pewtrusts.org/-/media/assets/2021/03/how-auto-iras-help-retirees-delay-claiming-social-security.pdf>]

And, again according to Pew, “Consider Pennsylvania. A 2018 study found that employees’ insufficient retirement savings has led to every county in the Keystone State experiencing increased public assistance costs, reduced tax revenue, decreased household spending, and lower employment. The price tag for Pennsylvania taxpayers of these savings deficiencies? An estimated \$15.7 billion over 15 years.” [“State-Facilitated Retirement Savings Programs Are a Necessary Lifeline for Private Sector Workers,” March 23, 2022 <https://www.pewtrusts.org/en/about/news-room/opinion/2022/03/23/state-facilitated-retirement-savings-programs-are-a-necessary-lifeline-for-private-sector-workers>]

### The Racial Wealth Gap

“No discussion of retirement security in America can ignore the racial disparities in wealth and savings. One concern expressed in the session is that relying solely on states to be the means of increased access will not adequately address the racial wealth gap. That’s because states least likely to introduce retirement savings mandates are also those with large Black populations. Case in point: the uneven expansion of Medicaid eligibility realized by the Affordable Care Act. Seven of the 12 states that have not yet adopted Medicaid expansion are Southern states with sizable Black populations.” [<https://www.aspeninstitute.org/wp-content/uploads/2021/11/Expanding-Worker-Access-to-Automatic-Enrollment-into-Retirement-Savings-April-27-Session-1.pdf>]

### Selected Features of State Programs

A primary source of information on individual state programs is State-Facilitated Retirement Savings Programs: A Snapshot of Program Design Features, State Brief 21-02. [<https://cri.georgetown.edu/wp-content/uploads/2021/11/CRI-State-Brief-Snapshot-of-Plan-Design.pdf>, October 31, 2021 Update; see also Mercer, Resources for Tracking State and City Retirement Initiatives, last updated June 8, 2022]

Most but not all of the programs are mandatory only for employers that have a minimum number of employees. Oregon and Maryland’s programs do not. The minima are 5 (California, Colorado, Connecticut, Illinois, Maine), 10 (New York), and 25 (Virginia, New Jersey). Coverage is phased in in waves, the smallest employers being required to register last.

Some programs include a two-year deferral for new businesses (Illinois, Maryland, Virginia).

Most programs specifically prohibit employer contributions, but some allow them, at least in certain circumstances (California, Massachusetts, Vermont, New Mexico, Washington).

Some programs allow voluntary participation (sometimes only if the State so decides in the future) by the self-employed, employees of employers that do not offer a program, and/or employers that are not required to offer savings programs (Illinois, Oregon, Maryland, Connecticut, New Jersey, California, Colorado, Maine).

Some state programs are entirely voluntary (Massachusetts, Vermont, Washington, New Mexico).

It is important to note that any eligible employer can register to participate in a state program at any time and does not have to wait for their enrollment wave or phase to do so. The deadline serves as a comply by date.

Websites are as follows:

- **Illinois Secure Choice**, [www.illinoistreasurer.gov/individuals/Secure\\_Choice](http://www.illinoistreasurer.gov/individuals/Secure_Choice).
- **OregonSaves**, [www.oregonsaves.com](http://www.oregonsaves.com).
- **MarylandSaves**, [www.marylandsaves.org](http://www.marylandsaves.org).
- **Connecticut Retirement Security Authority**, <https://myctsa.org>.
- **CalSavers**, [www.calsavers.com](http://www.calsavers.com).
- **New Jersey Secure Choice Retirement Savings Program**, <https://nj.gov/treasury/securechoiceprogram>.
- **Colorado Secure Savings Program**, <https://treasury.colorado.gov/colorado-secure-savings-program>.
- **Virginia IRA Savings Program**, website in development.
- **Maine Retirement Savings Program**, website to be determined.
- **New York Secure Choice Savings Program**, <https://www.tax.ny.gov/about/scsp/>.
- **Massachusetts Defined Contribution CORE Plan**, <https://www.mass.gov/core-plan-for-nonprofits>.
- **Vermont Green Mountain Secure Retirement Plan**, <https://www.vermonttreasurer.gov/content/green-mountain-save-retirement-plan>.
- **Washington Small Business Retirement Marketplace**, <https://retirement-marketplace.com>.
- **New Mexico Work and Save Program**, <https://nmsto.gov/special-programs/work-and-save/>.

The Seattle program is on hold indefinitely pending state legislative action. New York City's program is expected to merge into the New York state program.

In May, 2022, The Hawaii legislature approved a State-run IRA, but without auto-enrollment. Employers with five or more employees and the self-employed are covered. Hawaii Gov. David Y. Ige signed the bill into law on July 12, 2022. ["Hawaii to Establish Unique Retirement Program," July 19, 2022, <https://www.asppa.org/news/hawaii-establish-unique-retirement-program>]

### Should Employers Continue to Be Involved in Providing Retirement Benefits?

In 2007, one of the proposals made by the Conversation on Coverage was the establishment of a national clearinghouse structure to administer portable individual retirement accounts. [Pension Rights Center: Covering the Uncovered: Final Report of the Conversation on Coverage] In the same year, the ERISA Industry Committee (ERIC) issued a comprehensive reform proposal, a new structure that would provide benefits through independent Benefit Administrators, who would compete based on quality, use of information technology, plan design and cost. [A New Benefit Platform for Life Security]

Susan Stabile has argued that the failures of the employer-based retirement system cannot be rectified by incremental changes and that "there are really only two possible models. The first is to jettison the employer-based system entirely and provide a government pension [providing a livable pension for all elderly Americans] for everyone. The second is to retain the employment-based system but move to a mandatory system with more stringent regulation of defined contribution plans than currently exists." ["Is It Time to Admit the Failure of an Employer-Based Pension System?," 11 *Lewis & Clark Law Rev.* 305 (2007)]

According to Katherine Stone, the current system of benefits originated in the industrial era of the 20th century, when employers sought to secure a stable workforce, that this employer-centered model of benefits has largely outlived its usefulness in the new "boundaryless" workplace of the 21st century, and that it must be replaced with an alternative that is more portable and more affordable for the vast majority of workers. ["A Fatal Mismatch: Employer-Centric Benefits in a Boundaryless World," 11 *Lewis & Clark Law Rev.* 451 (2007)]

More recently, Eugene Steuerle, Benjamin Harris and Pamela Perun have argued that “In a DC plan system where the majority of the risks and responsibilities for saving fall on workers, where independent financial services companies provide investments, and where professional administrators manage the plan, it is self-defeating to continue to insist that employers as plan sponsors remain the ultimate guarantors of the plan and all its functions. There is increasing recognition that the next bold move in the evolution of the 401(k) plan system could be to transform employers into facilitators of their employees’ saving. This merely requires activating an employer’s payroll system to transfer employee contributions to a saving plan run by an external entity. Such a system has been in place for decades in the 403(b) plan universe where employers typically make supplemental savings plans available to their employees. In such plans, employers are not fiduciaries, and their primary responsibility is to transfer elective contributions, limited in amount as in the 401(k) world, to the plan chosen by the employee.” [Pension Research Council, *Entitlement Reform and the Future of Pensions* (2018)]

The gig economy and the increasing number of Americans who do not have a single traditional employer-employee relationship have led to a focus on portable benefits. [See, for example, David Rolf *et. al*, “Portable Benefits in the 21st Century,” June 16, 2016, <https://www.aspeninstitute.org/publications/portable-benefits-21st-century/>.

### Why Are Small Firms Less Likely to Offer a Retirement Plan

The size of the firm is not the only factor. “Not surprisingly, workers in industries that typically require a college degree, such as finance/professional or health care/education have higher coverage rates, the study notes. College-educated workers account for 43 percent of workers with retirement coverage compared with 27 percent of those without. Similarly, industries with unions, such as manufacturing, utilities and construction also have higher coverage rates, while the retail and hospitality industry have some of the lowest coverage rates. Among the smaller firms that do and don’t provide coverage, firm size does not appear to be very different, with the firms with coverage having only slightly more employees, CRR notes. Earnings, however, are an important differentiator—with those with coverage averaging almost \$70,000 compared to \$39,000 for those without coverage. Similarly, hourly

workers constitute a much smaller share of covered employees than those who are not covered.” [“Why Small Firms Are Less Likely to Offer a Retirement Plan,” Ted Godbout, June 1, 2022]

In EBRI, Pew and Transamerica employer surveys, smaller firms consistently cited three main barriers:

1. the cost of establishing and administering a plan;
2. uncertain revenues that make it hard for a firm to commit; and
3. employee preferences for wages and other benefits.

“The EBRI and Pew surveys, however, both found that many employers were unaware of low-cost options, such as the simplified employee pension (SEP) or the Savings Incentive Match Plan for Employees (SIMPLE), for example. Moreover, the EBRI survey found that many did not realize that an employer match was not mandatory in 401(k) plans. Thus, a lack of accurate information may be a significant obstacle, CRR notes.” [Godbout, above, referring to Center for Retirement Research at Boston College, “Why Do Some Small Businesses Offer Retirement Plans?,” Special Report, May 2022] The CRR report suggests that “educating the small business community with simple numerical examples about the cost of plan options might be helpful. This approach may be particularly salient given the advent of open MEPs, which allow unrelated employers that do not share a common industry or location to participate in a single retirement plan, reducing costs and eliminating most fiduciary liability. Also high on the list is the need for employers to believe that their employees would value a retirement plan. Here the evidence from the auto-IRA initiatives in Oregon, California, and Illinois may be informative. Even though lower-paid workers may not have thought that they wanted a retirement plan, only about one-third of them opt out and testimonials suggest that many are grateful to have some money in reserve that they can either accumulate for retirement or withdraw in case of emergency.”

According to data from the Georgetown University Center for Retirement Initiatives,

- CalSavers had total assets of \$204.5 million as of April 30, 2022, with 251,671 funded accounts. The average deferral was 5.11 percent, the average funded balance was \$813, and the opt-out rate was 31.83 percent.

- Illinois Secure Choice had total assets of \$83.6 million as of April 30, 2022, with 103,626 funded accounts. The average deferral was 5.58 percent, the average funded balance was \$807, and the opt-out rate was 32.9 percent.
- OregonSaves had total assets of \$147.8 million as of April 30, 2022, with 114,428 funded accounts. The average deferral was 6.2 percent, the average funded balance was \$1,292, and the opt-out rate was 25.7 percent.

These figures are not dramatically different from data published by Vanguard and referred to in the CRR Report:

The participation rate for the smallest firms administered by Vanguard is 59 percent, 78 percent for all firms. CRR suggests that “One reason for this large difference is likely due to plan design. Specifically, auto-enrollment has proven very successful in boosting participation rates. The lower participation rates at the smallest plans likely reflect differences in the

use of auto-enrollment: just 16 percent of the smallest firms have this feature compared to half of all plans. The low adoption rate of auto-enrollment by small plans could potentially be related to their concerns about cost: auto-enrollment yields higher participation, which means—for those firms that provide a match—higher costs in terms of matching contributions.”

**Savings Levels:** Participants in the smallest Vanguard plans have a median employee contribution rate of 5.2 percent compared to 6.0 percent in all Vanguard plans.

## Conclusion

State-facilitated retirement savings programs are clearly not the entire solution to closing the coverage gap and increasing the adequacy of retirement savings in the United States. However, they may be part of the solution for some employers. We should continue to monitor their progress while continuing to consider other possible solutions.

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