Minnesota Secure Choice Retirement Savings Act

Overview

We are facing a crisis of retirement insecurity in our state and country, with nearly one million Minnesota workers having no retirement savings options through their employer, and of these, barely one in twenty save for retirement outside of work. As a result, hundreds of thousands of Minnesota households nearing or at retirement age (55+) have no retirement savings to speak of, and face the prospect of living in or near poverty on nothing but Social Security, or continuing to work indefinitely into their retirement years. Minnesota must do better for our workers who have spent a lifetime working hard and playing by the rules in the hopes that they might to be able to enjoy their retirement years.

Minnesota can create the Secure Choice Retirement Savings Plan to give workers without a retirement savings plan through their employer, access to a convenient, low-cost, portable, state-managed retirement plan, without adding any new liabilities to state coffers, making it easier for these workers to save their own money for their own retirement.

Problem

Approximately one million Minnesota workers are not currently saving for retirement at their place of work, largely because they have no access to a workplace retirement savings plan, and of these, only six per cent save for retirement outside of work. As a result, approximately 168,000 Minnesota households nearing retirement age (55-64) have no retirement savings, and face the prospect of living in poverty on Social Security alone, or continuing to work well into their "retirement" years.

- 38% of Minnesota private-sector workers have no access to any retirement savings plan through their employer, and this has been trending upward over the last dozen years
- The 6% of these workers who access private retirement savings vehicles outside of their place of work are highly related to income, and this low penetration rate is compounded by factors like minimum starting balances, convenience, confidence to manage an investment portfolio, etc.
- As a result of this low participation outside of work and incomplete participation in the workplace in retirement savings plans, nearly half of working-age households in the U.S. have no dedicated retirement savings
- 44% of U.S. workers 40-65 years old will not have enough retirement income for basic expenses in retirement
- Combined with Minnesota's aging population, this lack of retirement income will create additional strain on safety net programs within the state, for example, the largest growth in homeless center populations nationwide is over 50

Solution

Rep. Patti Fritz and Sen. Sandy Pappas have introduced the Minnesota Secure Choice Retirement Savings Act (HF 2419/SF 2078) to make it easier for workers who have no access to an employer-sponsored retirement savings plan to save their own money for their own retirement by:

1) Minimizing barriers to saving,
2) Providing for portability across employers, and
3) Leveraging a large pool of investment assets under the professional management of the State Board of Investment to achieve low fees and access to financial products, like insurance against loss and group annuities, which are cost prohibitive for individuals to access.

Through this plan, more of Minnesota's workers will be able to achieve stable income throughout retirement, while avoiding any state liability after opening the plan for enrollment, including for the costs of administering the plan, managing the investments, and the payment of benefits beyond the plan startup, and even reducing state costs for social safety net programs used by seniors.

To begin this process, the Minnesota Secure Choice Retirement Savings Act studies a series of questions while establishing the infrastructure and systems needed to create a state-managed individual retirement account, or IRA, for workers who have no retirement savings options through their employer. However, this bill does not open the plan for enrollment. This will need to happen in subsequent legislation once the study in this bill is complete.

Minnesota Secure Choice Retirement Myths and Facts

Myth: Government doesn't need to offer a retirement savings option. The private sector offers plenty of accessible, low-cost retirement savings options already, and this would just be unfair competition by the state.

Fact: We have a retirement crisis in our state, with hundreds of thousands of workers having no pension or personal savings for retirement. Of the workers who could be served by this bill – those without access to a retirement savings plan at their work - only 6% currently use existing retirement savings products. This market is virtually unserved by the private market, meaning that this bill will result in almost no direct competition with the private sector. In addition, the state has a strong interest in ensuring that seniors need not live in poverty because they have no retirement savings, and as a result, must rely upon the state's social services, putting taxpayers on the hook to provide a safety net. Finally, when more people need to stay longer in the job market, because they have no savings on which to retire, the result is increased health concerns among working seniors and worsening employment prospects for younger workers.

Myth: The sole focus of state action to address retirement insecurity should be to improve financial literacy.

Fact: We, as a nation, are actually more financially literate than we were 30 years ago, when fewer people were at risk of a diminished standard of living when they retired. The important difference between now and then is that increased job mobility, wage stagnation, and market volatility have resulted in a more than 70% increase over the same period in the population at risk of suffering a reduced standard of living in retirement. This isn't a problem of financial literacy, it's a problem of convenient access (and behavioral economics, in which payroll deduction and reinforcing peer behavior are more of an incentive than almost anything else). Even if improved financial literacy could double the private market penetration into those workers served by this bill, nearly 90% still would not be saving for retirement.

Myth: The plan in the bill has potential problems with ERISA.

Fact: This plan is a state-managed IRA, and ERISA (the federal Employee Retirement Income Security Act) does not regulate IRAs, regardless of who manages them or whether the assets are pooled or participant-directed.

Myth: If the plan is not regulated by ERISA, plan participants will be at risk for lack of required financial advice.

Fact: First, ERISA does not require financial advice, only that any financial advice be in the best interest of the participant. More importantly, the investments in this plan are not participant-directed; if they were, such financial advice would be vital, though it is also often insufficient. The assets in this plan are pooled and managed by the professionals at the State Board of Investment, not by the participant, obviating the need for such advice. These are the same professionals, who with the advice of an Investment Advisory Council, made up largely of representatives from our state's corporate investment community, are responsible for investing all of the state's monies and pension funds.

Myth: This bill moves too fast and will open the plan for enrollment before all of the important questions are answered.

Fact: Nothing in this bill authorizes employees to contribute to the plan. This is intentional, as the purpose of this bill is only to establish the necessary systems and infrastructure, while studying a series of questions about how best to structure the plan. Once those questions are answered and systems are in place, a subsequent bill in a future session will be needed to open the plan to enrollment.

Myth: The defined-contribution plan created in this bill is sufficient to solve the retirement security crisis in our state.

Fact: There are three legs to the retirement security stool: Social Security; employer-supported pensions; and personal savings. This bill is only intended to address the third of those legs – personal savings. If we are to fully address the retirement security crisis in our nation, we must protect and strengthen the other two legs as well. This bill, however, is an important step that the state can take to help make it easier for hundreds of thousands of workers in Minnesota with no access to retirement savings options through their employer to save their own money for their own retirement.

Myth: A state-managed IRA has no advantages over products offered in the private retirement savings market.

Fact: This state-managed IRA plan has several advantages over comparable private retirement savings options, namely *simple, convenient participation* in a *pooled* and *diversified investment portfolio* managed by *professional investment managers*. *Simple and convenient participation* means that workers need not have the knowledge or confidence to select their own financial advisor or manage an investment portfolio in order to participate in a plan that specifically minimizes barriers to participation by requiring no minimum opening balances and, depending on the outcomes of the study, can choose to adopt industry best practices of payroll deduction and auto-enrollment with a simple opt-out. *Pooled investment* makes possible lower total fees (investment and administrative) for low- to middle-income workers as a percentage of investment, through economies of scale and the ability to co-invest (not comingle) assets with the same money managers as the state's pensions. Those same economies of scale provide access for private individuals to (private) group financial insurance products including insurance against loss, insurance guaranteeing a minimum return, as well as group annuities to provide stable retirement income and allow for the pooling of "longevity risk," or the risk that a beneficiary outlives their savings. Individuals without access to such products have to over-save to achieve the same level of retirement security, so that participants in a pooled option with access to group annuities need to save less, on average, to achieve the same level of lifetime retirement income. Finally, the *diversified investment portfolio* of stocks, bonds, real estate, etc., *professionally managed* by the State Board of Investment, will generally generate a higher risk-adjusted long-term rate of return than any low-cost private retirement option, while, on average, outperforming individual investors by 1% or more per annum. Professionally-managed investment pools benefit from better investment decision-making during market swings, and unlike private retirement products such as mutual funds that often match long-term investment goals with unnecessarily liquid investment options, the investment portfolio of the State Board of Investment is and can be targeted to the appropriate time horizon for the mix of participants.

Myth: This plan is not suitable for low-wage earners who cannot benefit from the tax advantages of a traditional IRA and who need to prioritize saving for emergencies, not retirement.

Fact: First, depending on the outcome of the study, this plan could certainly offer both traditional and Roth IRA options for participants, based on their need, income, and ability to benefit from tax-deductible contributions. In the case of a Roth IRA option, which would be the likely choice for low-wage earners, this is also a viable emergency savings option, since the contributions are not tax-deductible, the principal can be withdrawn for emergencies without penalty. It's also important to note that both retirement savings and personal savings are important and should both be supported, though this bill is only attempting to address the former. Finally, retirement savings is a valid priority for low-wage earners, whose low wages guarantee that their Social Security benefit will force them deeper into poverty in retirement, at which time they will be truly unable to weather financial emergencies, whereas workers currently earning income tend to have more capacity to handle such emergencies, whether through their earned income that can grant access to bank loans, or through larger support networks in younger years as compared to our networks in retirement.

Myth: No private insurers would be willing to guarantee participant accounts against loss, let alone guarantee a minimum return.

Fact: The full principal does not need to be protected on a short-term, year-to-year basis, but rather on a cumulative basis, such that a given minimum return (which could be 0%, or in other words, no loss of principal) can be achieved upon the withdrawal of assets by a participant reaching retirement age. This can be accomplished through a number of mechanisms, including the use of safer investments like Treasuries for a portion of the assets, insurance or traditional annuities like those offered by TIAA-CREF, or even through the purchase of products that underwrite the investments.

Myth: The MyRA proposal advanced by President Obama will accomplish the goals of this bill.

Fact: MyRA is a small step that the President can take in the absence of legislation. However, unlike this bill, MyRA account balances could not exceed $15,000, contributions are not tax deductible, and the investment is in low-interest US Treasury Bonds, unlike the diverse and professionally-managed portfolio of the State Board of Investment. Minnesota must do more to address the retirement security crisis facing our state.