An Advocacy Roadmap for Enacting Statewide Policies to Encourage Retirement Savings

Inclusive retirement savings policies build the means for a safe post-work future and the chance to pass a little more stability on to the next generation, a goal often believed to be far out of reach for low- and moderate-income families. While wages and the ability to cover day-to-day expenses are frequently cited as reasons lower-income families are unable to save for retirement, many simply have been shut out of employment opportunities that provide access to the tools needed for long-term savings. Enacting policies and programs that address these realities are an essential component of a holistic household financial security framework. Advocating for statewide policies acknowledges that economic opportunity doesn’t stop with helping families save for a rainy day; it presses forth to ensure a brighter future in the years and decades ahead.

Until the 1980s, retirement savings were accrued largely through a combination of employer-provided pensions and Social Security benefits. But more recently, the responsibility of saving for retirement has fallen largely on the shoulders of individual workers, whose largest source of savings accruals is from employer-sponsored retirement savings plans, which have become increasingly important for enabling workers to make long-term investments. Unfortunately, the percentage of wage and salary workers with access to these accounts, as well as the percentage of these workers participating in available plans, has remained flat over the last three decades, leaving nearly 58 million workers without access to employer-sponsored accounts.¹

Even more concerning is that the percentages of Black and Hispanic workers participating in employer-sponsored plans continues to lag significantly behind the participation rate of their white counterparts. The rate of Black wage and salary workers working for an employer offering a sponsored retirement plan was nine percent less than the rate for white workers in 2013, while the participation rate in these plans among Black workers was nearly 17 percent less than that of white workers. Similarly, the sponsorship rate for Hispanic wage and salary workers was 36 percent less than the sponsorship rate for white workers, but more starkly, the participation rate among Hispanic workers was an astounding 42 percent less than the participation rate for white workers. Without strong policies that address these access and participation gaps in long-term household savings, the racial wealth divide that already exists and continues to grow will perpetuate not just in the generations to come, but into perpetuity.²

To address the lack of savings and lay the groundwork for a more inclusive and broader financial security framework, advocates working to build financial stability in their communities must look to strategies that extend opportunities for long-term savings to all workers with safe, low-cost and simple investment options. Though attempts have been made to address this issue at the federal level, success has been elusive and limited. Advocates should turn their attention to where real action is fomenting: at the state level. Recently finalized rules and guidelines issued by the U.S. Department of Labor

² Ibid., 10.
are clearing the way for strong, state-sponsored solutions. As a result, now is the time to enact statewide retirement savings programs.

**The Challenge: Overcoming Barriers to Building a Financially Supportive and Politically Feasible Retirement Policy**

The real challenges facing many individuals not covered by or participating in employer-sponsored retirement savings plans limit opportunities to save and must be understood before they can be addressed. When determining the structure of a statewide retirement savings program, advocates need to be aware of whom they seek to empower to save for retirement and the unique challenges that face these specific workers. The following are fundamental challenges that need to be factored into policy design before a statewide policy can be successfully enacted.

**Accessibility.** The key challenge to accessibility is ensuring the program is open to as many workers as possible with the greatest ease of enrollment. Creating a state mandate that all workers must be enrolled in a retirement savings program would be the most inclusive option, but it could also be overly burdensome on employers. Creating a system with as many automatic features with the fewest demands on employers as possible should be a policy design goal.

**Portability.** Many workers no longer find themselves working for a single employer for an extended length of time, often moving to new jobs on a relatively frequent basis or working part-time for multiple employers. Absent long-term job stability or spending a career with a single employer, traditional pensions and employer-sponsored retirement savings plans may be difficult, if not impossible options, particularly for lower-income workers.

**Financial education.** Unlike basic savings or checking accounts, retirement savings plans require deeper knowledge of investment behaviors, risk and financial choices. Creating a statewide retirement savings program accessible to as many workers as possible means a large population of new savers will suddenly be required to make financial choices about which they have little previous knowledge. Enacting a statewide retirement savings program will require financial education on a larger scale to a broader population than many states, financial institutions or community-based organizations are prepared to undertake on their own.

**Political landscapes.** Understanding a state’s political landscape will significantly affect the choices available to advocates pursuing a statewide retirement savings policy. Building alliances and coalitions of supporters across multiple sectors and understanding who needs to be at the discussion table at which stages will have a substantial impact on programmatic design possibilities. This includes understanding and being responsive to the needs of employers and the small business community.

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The Opportunity: Using Auto-IRA Programs to Piece the Right Components together at the Right Time

Statewide policies—especially ones as expansive as extending retirement savings to workers who currently lack access to an employer-based plan—require many complicated choices within the context of the state’s policy environment. Though there are rarely one-size-fits-all options for policies of this scale, research and experience from states leading the way in this arena have demonstrated that there are several promising options available to address many of the challenges described above. Five states—California, Illinois, Oregon, Maryland and, most recently, Connecticut—have created statewide, Automatic-enrollment Individual Retirement Account (Auto-IRA) programs. Advocates should seriously consider the policy options created and tested by these states when building their new proposals. Programs in several other states offer additional alternatives to broad Auto-IRA programs that could be considered and will be discussed further below.

Automatic, opt-out enrollment ensures the widest participation in a statewide program. A statewide program that mandates automatic enrollment for workers not already covered by an employer-sponsored plan would be the most effective way to rapidly expand access to retirement savings. States should reduce the burden placed on employers by limiting their role to disseminating programmatic information and payroll deduction administration, rather than taking on active account sponsorship and fiduciary roles. This can more easily be done if automatic enrollment is also structured to enroll on an opt-out basis for employees to avoid the time and cost of active opt-in enrollment procedures, a burden that would be particularly costly for smaller businesses.

The model states mentioned above have taken varied approaches to instituting an automatic enrollment mandate among employers not already sponsoring plans of their own. The California Secure Choice Retirement Savings Program opted to institute their mandate only for employers with five or more employees (replicated by the Connecticut Retirement Security Program), limiting the effects on the smallest businesses in the states. The remaining states chose mandate rules on opposite ends of the spectrum, with Maryland and Oregon requiring all employers not currently offering a plan to participate regardless of how many employees they have, while the Illinois Secure Choice Program set the floor for its employer mandate at firms with 25 or more employees. This decision was made largely in response to political pressure.

Advocates should actively engage the business community to allay concerns related to the role they will play in the future program. All of the states with Auto-IRA programs retain the option for employers, regardless of the size of their firms, to avoid participation mandates by offering an employer-sponsored plan of their own. Outreach to small businesses could be especially fruitful by recruiting allies that may have hoped to extend retirement benefits to their employees but found the costs of administering a plan of their own too high to be feasible.

Default contribution amounts with automatic escalation simplifies savings and increases the probability of investment growth. As described above, a statewide retirement savings program would extend long-term savings to a larger population, especially among those who have had little experience with long-term savings planning and may not have experience determining what level of savings would be adequate for funding retirement objectives. Instituting default contribution amounts into accounts with simple, secure and low-fee investment options allows new savers to invest worry-free with a higher probability to see investment growth. Several auto-IRA states legislatively granted discretion to program administrative boards to determine default employee contribution levels. However, the consensus up to this point, as determined by actions taken in California, Connecticut and Illinois, has been to set the default contribution level at three percent of income. Advocates should ensure that legislative authorizing language specifies, among other key features, that the boards governing these programs have sufficient discretion to set a default contribution amount supported by research. This research should underscore the need to balance the abilities of new participants in the program to contribute an adequate amount to meet their long-term goals while still preserving enough income to meet short-term needs.
Growth in savings would be further supported by implementing a process for contributions to automatically increase on an annual basis. Known as auto-escalation, including this feature in programs eases yet another investment decision and increases the likelihood of reaching more adequate savings amounts for a well-funded retirement. However, advocates must be aware that among the low-income workers for whom many of these programs are targeted, even the minimum default contribution amounts could strain family budgets. Auto-escalation, if implemented, could unduly shock household finances. Advocates should press legislators and administrative boards to develop means for mitigating the effects of auto-escalation. Such options include ensuring a modest cap on the highest level the contribution rate could automatically reach, providing sufficient information to savers well in advance of scheduled increases to clarify the effects on take-home pay, and including instructions for how to reset contribution amounts or opt out of increases with any account balance summaries. Under scoring that savers have choices, even when structured as opt-out choices, is particularly important for lower-income households.

Portability is essential to matching the work-behavior realities of low-income savers. With many low- and moderate-income workers working multiple jobs or moving more frequently to new positions, traditional pensions or employer-sponsored plans are either inaccessible or excessively complicated to transfer and continue contributions. Auto-IRA programs maintain the portability of the employee’s retirement account with the employee rather than the employer, and simplifies the role of employers to that of paperwork administrators. The accounts travel with the employee regardless of their employer(s), ensuring workers can easily continue to contribute to their accounts without navigating traditional Individual Retirement Account rollovers or opening entirely new accounts with every new job.

Implementing a financial education policy increases the accessibility of the program. Legislation creating Auto-IRA programs opens a policy window to pursue statewide financial education policies. Adding a new requirement for financial education would increase knowledge of short- and long-term savings and investing, as well as generally promote stronger household economic behaviors, especially if it is well-targeted to populations most in need of these programs. Advocates in Oregon and California prioritized the need for financial education in their statewide programs.

Oregon’s authorization legislation ultimately resulted in a new mandate for providing financial education to the large population of consumers who will be new savers once their program is implemented in 2017. Their mandate further recognizes the need to bring together a broad network in developing educational programs—a particularly difficult challenge in a state that does not currently have a means for delivering financial education through mandated in-school curricula or testing requirements. The state has engaged a working group of stakeholders in the retirement finance sector, advocates in the asset-building field and other community-based organizations specifically focused on implementing a financial education program to support long-term and broad participation in the Oregon Retirement Savings Plan. As advocates in other states push for rapid and large-scale expansions of retirement savings, they should follow the lead of Oregon and others to prioritize financial education to further ensure successful participation.

The current political landscape of the state will ultimately determine the structural details of a program, how quickly plans can be implemented and the availability of funding for implementation. Policies as large in scope as a statewide retirement savings program depend largely on broad support from state administrations and throughout legislatures in order to be successful. To gain such support, advocates must be prepared to consider costs of the program and potential compromises to enact as wide-reaching and beneficial a program as possible. This could require structural changes. In Illinois, for example, advocates hoped to implement an enrollment mandate on employers with five or more employees but recognized a bill could not be passed without the 25 employee threshold described above—a difficult but necessary compromise.

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It is essential for advocates to know which pieces of the program puzzle are negotiable, particularly as they relate to building as much bipartisan support as possible. To learn this skill while navigating the policy landscape, advocates seeking a legislatively passed statewide program should seek the support of a strong legislative champion—one who is well-educated on matters of retirement savings and financial well-being, as well as someone dedicated to the creation and implementation of a new program.

Political landscapes could also affect the speed at which a program is implemented and whether feasibility studies are required prior to enactment. California, officially the first state to propose and enact legislation related to a statewide Auto-IRA program in 2012, mandated an extensive study by its newly created California Secure Choice Retirement Investment Board prior to the passage of implementation legislation, currently being debated in the state legislature. Conversely, the programs in Illinois and Oregon—enacted in early and mid-2015, respectively—passed with far more ambitious mandates to begin enrollments no later than mid-2017, while still conducting research and studies for their legislatures on implementation. While advocates may want to see a retirement program passed and implemented as fast as humanly possible, building support, laying groundwork and understanding what kind of timeline is feasible is necessary for building a strong coalition of support.

Advocates might also have to make choices based on the potential costs to the state of administering a new program. In the states that have already enacted statewide retirement savings program legislation, very little if any funding has been appropriated for program administration, generally relying on the programs to become self-sustaining after their initial implementation years. States have chosen to rely on funds accumulated over time as enrollments increase and the state-managed investment funds grow. Automatic, opt-out enrollment increases the likelihood of reaching sustainable operational funding in less time, especially in the absence of dedicated state appropriations. While opt-out enrollment should be a top priority for advocates to aid in funding and participant growth, advocates should continue to stress to state lawmakers the importance of providing adequate funding for the administration of the program to avoid cost-shifting onto participants through excessive fees. However, this might not be possible and may need to be a place to compromise. Advocates in Connecticut attribute much of the speed of its program’s legislative passage to their decision to avoid a fiscal note and propose a zero-cost, self-sustaining program for the Connecticut Retirement Security Program.

Policy Alternatives: When Auto-IRA Isn’t an Option

The biggest assessment advocates must understand about their programmatic needs and political landscapes is whether a mandatory, opt-out Auto-IRA program is at all achievable in their state. Three states—Massachusetts, Washington and New Jersey—have alternatively chosen to implement voluntary plans that also recognize the need to expand retirement savings access, while not imposing broad mandates. Massachusetts, like the Auto-IRA states discussed above, enacted a state-run plan that can be offered to employees. However, this plan—a state-sponsored 401(k)—is limited to nonprofit organizations with 20 or fewer employees that may opt to voluntarily participate in the plan and then choose to automatically enroll their employees on an opt-out basis. Washington and New Jersey chose an entirely different route, establishing small business retirement marketplaces that will be accessible to employers with 100 or fewer employees. These marketplaces will house multiple low-cost retirement account options through which small businesses may select a plan to be offered to their employees. Unlike Auto-IRA programs, because these three programs operate by offering employers low-cost options of plans covered by the Employee Retirement Income Security Act that they can offer to their employees, participating employers are permitted to make employer contributions to employee accounts—a feature seen as very desirable by many advocates.

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Deciding to Act: What’s Next?

Building a statewide retirement savings plan requires advocates to balance many competing interests, weigh goals against political realities, and establish alliances and coalitions of organizations and industries not previously considered to be partners. When the time comes to begin a campaign, the best way to begin is by learning from fellow advocates who have been on the frontlines of hard-fought battles to enact statewide programs. Through a series of interviews with advocates conducted in mid-2016, CFED gathered the following core tips and advice to consider.

- **Focus on who the eventual plan participants will be, and don’t lose the community’s voice in the process.** Knowing the realities facing the population you’re really trying to serve and who will benefit most from a state-sponsored program will clarify the plan features you’ll need in order to develop a successful program. Make sure those targeted by the program are heard in order to learn what they want and need out of your state’s plan.

- **Keep the long-term perspective in mind, and know on what you can and can’t negotiate.** You might not be able to achieve every plan feature you’d like in your initial legislative push. Political landscapes and administrative rules change, and you might find you’re better able to get a lower enrollment mandate threshold later or find a way to eventually offer employer contributions.

- **Find a legislative champion knowledgeable about retirement and the needs of your target population.** Enough can’t be said for finding a champion in your state legislature who is knowledgeable about both the issues and the people behind your goals to help successfully navigate the legislative process. A strong champion will also be able to help you understand what is achievable and provide better insights into the ever-changing political landscapes.

- **Build diverse allies in the business community and other community-based organizations.** When attempting to implement an extensive, statewide plan, having as much support from as diverse a pool as possible will greatly increase your chances for success. If your goal is to create an Auto-IRA program, gathering support from business groups early on and assuring them that the program will create significant benefits to their employees with minimal burden on employers is an important step to ensuring passage and smooth implementation.

- **Keep the costs low for businesses and the state.** Building a plan that places as few costs and as little burden as possible on businesses is only half the battle. A program that is low-cost and imposes few fees on participants while operating self-sustainably sounds challenging, but can be done, and in the era of tight budgets and limited resources, it’s all but necessary. Working with experts in this field and learning from states that have already designed plans with this goal in mind will lay a clear path to a program amenable to most legislators.

- **Help hold policymakers accountable for considering these elements in program design.** Even if retirement security isn’t a core focus of your work or your advocacy agenda, advocates working to build financial security more broadly can help hold program designers and decision-makers accountable by amplifying the voices of the communities targeted by these policies. Offering support where and when possible will have lasting impact well beyond these campaigns for retirement savings.

Additional Resources

As advocates begin to develop campaigns or explore options for pursuing statewide retirement savings policies, CFED is available as a resource to review potential legislative language and policy design, to facilitate connections between advocates across states and to provide technical assistance that builds your capacity to advocate effectively. If you are interested in learning more about how we can support your efforts, please contact Holden Weisman, State & Local Policy Manager, at hweisman@cfed.org.
CFED also recommends these introductory resources to new advocates:

- *Assets & Opportunity Scorecard*
- *Georgetown University McCourt School of Public Policy Center for Retirement Initiatives*
- *The Aspen Institute Financial Security Program*

**Acknowledgements**

The recommendations presented in this brief were developed from consultations with and materials provided by retirement security and savings advocates who have contributed to the development of financial security policies and programs in their respective states. In particular, CFED thanks Lewis Brown from PolicyLink; Janet Byrd, Laina Green and Jill Winsor from Neighborhood Partnerships; Robin McKinney from Maryland CASH Campaign; Lucy Mullany from Heartland Alliance and the Illinois Asset Building Group; and Roger Senserrich from the Connecticut Association for Human Services for their support in the development of this paper.

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**Source:** Employee Benefit Research Institute estimates from the 2014 March Current Population Survey

Additional info

"Sponsorship rate" equates to the percentage of wage and salary workers with access to an employer-sponsored retirement plan.

"Percentage participating" is the percentage of those with access to an employer-sponsored retirement plan who participated in the offered plan.
About With a Stroke of a Pen

*With a Stroke of a Pen* is a series of briefs that feature guidance for advocates on state and local policies that are meaningful, manageable, and moveable.

About CFED

The work of CFED makes it possible for millions of people to achieve financial security and contribute to an opportunity economy. We scale innovative practical solutions that empower low- and moderate-income people to build wealth. We drive responsive policy change at all levels of government. We support the efforts of community leaders across the country to advance economic opportunity for all.