Responding to a Growing Retirement Savings Crisis: *A Promising Proposal in Illinois*

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Introduction

All workers deserve to retire with dignity. However, in a troubling and mounting trend over recent years, more American workers are reaching retirement age and finding themselves unable to retire or are retiring into poverty because they lack sufficient savings to support themselves. Forty-five percent of all working-age households in the United Sates, or over 38 million households, have no retirement savings at all. According to a report from the National Institute on Retirement Security, the median amount of retirement savings across all working-age adults is only $3,000; for workers nearing retirement, the figure is only slightly better at $12,000.[1]

Without enough savings, workers over-rely on Social Security, which was never intended to be the sole source of someone's retirement income. The aim of Social Security was rather to provide an important supplement to other sources, like individual savings and pensions. However, 60 percent of retirees depend on Social Security for at least three-quarters of their retirement income, 40 percent of retirees rely on it for almost 90 percent of their retirement income, and 22 percent rely on it for the entirety of their income after retirement. With an average monthly Social Security payment of $1,294, over-reliance on this source means that many of our seniors aren't able to cover their basic needs.

A major reason for inadequate retirement savings is the growing lack of access to an employment-based retirement savings account. Nationally, 32.5 million Americans work full-time for private-sector employers that do not offer employment-based retirement plans.[2] Lower-wage workers and workers at smaller businesses are less likely to have access than higher-wage workers and those employed at businesses with more than 100 employees.

Nationally, 32.5 million Americans work full-time for private-sector employers that do not offer employment-based retirement plans.

Workers need access to easy and convenient tools to build retirement savings. Without them, more people will experience a drastically reduced quality of life in retirement. Many will fall into poverty, creating an increased burden on families, communities, and support services.

The Illinois Secure Choice Savings Program

The retirement savings statistics for Illinois provide a state-level example of how acute the problem has become, but the state has also proposed a program solution that speaks to the current barriers many workers face in saving for retirement. According to a report from the Woodstock Institute, more than 2.5 million private-sector workers across the state do not have access to a retirement savings account through their employers. The report found the issue to be most prominent for the lowest-wage workers, of whom 60 percent lack access, but even for workers earning more mid-range annual incomes of $40,000 or more, 49 percent do not have access to an employment-based retirement savings plan.[3]

In response to this gap in access to a vital savings tool, the Illinois General Assembly is currently considering the Illinois Secure Choice Savings Program (Senate Bill 2758), co-sponsored by Senator Daniel Biss and Representative Barbara Flynn Currie. If enacted, the bill would give millions of private sector workers the opportunity to save their own money for retirement by expanding access to employment-based retirement savings accounts.

The Program would automatically enroll certain workers without access to an employment-based retirement plan. Participants would need to be employed at companies that have been in business for at least 2 years and employ over 25 workers, but that do not currently offer retirement savings options. While workers can opt-out of the program, those that do participate would be able to build savings in a Roth Individual Retirement Account (IRA) through a payroll deduction.

The Program is modeled on lessons learned from behavioral economics and private employer examples that demonstrate automatically enrolling workers encourages participation. Employers offering 401(k)s for example, have flocked to the opt-out model in the last decade, dramatically increasing employee participation rates. These rising rates are highest among lower-income and minority workers.

The Illinois Secure Choice Savings Program would provide a default investment fund (a target date fund which ensures that the investments become more bond based the closer you get to retirement) and a default investment amount (3% of a worker's salary) for workers who do not want to choose their fund type or amount. Workers will generally be invested in more appropriate and diversified funds through automatic enrollment than if they invest on their own. However, workers would be able to change the amount they are saving and the type of savings at any time.

Because employers are not allowed to contribute to the retirement accounts, the cost to businesses is minimal. Employers would only need to cover the cost of administering a payroll deduction to the retirement account. Most businesses, especially those with 25 or more employees, use electronic payroll systems that easily allow for payroll deductions and direct deposits. Since employers merely serve as pass-through entities – facilitating the required payroll deductions to the approved Secure Choice account – they bear no other financial burden.[4]

The Secure Choice Savings Program could help small business owners retain workers, and would allow them to compete more evenly with larger companies that already offer retirement benefits. Almost all larger companies administer retirement plans for their workers. By establishing a retirement account that Illinois businesses can successfully offer to their employees, the Program would provide small employers with a competitive benefit at little to no cost.

The Program would be administered by a board consisting of the State Treasurer, the Illinois Comptroller, the Director of the Governor's Office of Management and Budget (GOMB), two individuals with financial investment and/or retirement savings expertise, an individual representing employers, and an individual representing enrollees. These last four members would be appointed by the Governor and would be subject to the approval of both the Illinois Senate and the State Treasurer. The Board would issue a Request for Proposal to choose an investment firm to manage the funds.

What's Next?

While no state has implemented a program identical to this, more than a dozen states are working to implement similar programs or have pending legislation. Massachusetts, California, Connecticut and Oregon have all enacted legislation and are in the process of forming and implementing programs while Washington, Illinois, Indiana, Maryland, Minnesota, Nebraska, West Virginia, and Wisconsin had legislation-introduced proposals in 2013 and 2014.

Without convenient and accessible options to build retirement savings, today's employees may experience a drastically reduced quality of life after they leave their jobs. Some may even fall into poverty, imposing an increased financial burden on families, communities, and states. As an increasing number of Americans approach their retirement years, therefore, offering a diverse range of retirement savings tools can help workers maintain their financial security. CI

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