REPORT OF THE
VIRGINIA COLLEGE SAVINGS PLAN

Report on State-Facilitated Private Retirement Plan Programs: Encouraging Citizens to Save for Retirement (Chapter 506, 2020)

TO THE GENERAL ASSEMBLY OF VIRGINIA

HOUSE DOCUMENT NO. 12

COMMONWEALTH OF VIRGINIA
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Dream Save Achieve

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December 10, 2020

The Honorable Ralph S. Northam
Governor of Virginia
P.O. Box 1475
Richmond, Virginia 23218

Subject: Report on State-Facilitated Private Retirement Plan Programs: Encouraging Citizens to Save for Retirement.

Attached is the report of the Virginia College Savings Plan (Virginia529) on the findings and recommendations concerning: (i) potential retirement savings options for self-employed individuals, part-time employees, and full-time employees whose employers do not offer a retirement savings plan; (ii) the level of interest by Virginia employers in participating in a voluntary state-sponsored private retirement option; (iii) the likely costs to start up such a plan and an estimate of time to reach self-sufficiency and potential funding options; (iv) the experience of other states that have implemented or are implementing a state-sponsored private retirement solution for employers and employees; and (v) the appropriate state agency and structure to implement the solution. This report is pursuant to Chapter 506 of the 2020 Acts of the Assembly.

Should you have questions about this report, please feel free to contact Sonia Valadez, Government Relations Director at svaladez@virginia529.com or Leslie Crudele, Associate Counsel at lcrudele@virginia529.com.

Sincerely,

Mary G. Morris

Preface: Legislative History & Study Methodology

Why We Did This Study.
Chapter 506 of the 2020 Virginia Acts of Assembly directs the Virginia College Savings Plan (Virginia529) to analyze current state and federal programs that encourage citizens to save for retirement by participating in retirement savings plans and to submit a report of its findings and recommendations to the General Assembly on or before December 15, 2020. In undertaking the analysis, Virginia529 was directed to convene a group of stakeholders to assist with the study and provide insight into the feasibility and preferred structure of such a plan. This report (the Virginia529 Report) includes the research, data, findings and recommendations of Virginia529 pursuant to Chapter 506.

The scope of the analysis includes:

- An examination of potential retirement savings options for self-employed individuals, part-time employees, and full-time employees whose employers do not offer a retirement savings plan;
- The level of interest by Virginia employers in participating in a voluntary state-sponsored private retirement option;
- The likely costs to start up such a plan and an estimate of time to reach self-sufficiency and potential funding options;
- The experience of other states that have implemented or are implementing a state-sponsored private retirement solution for employers and employees; and
- The appropriate state agency and structure to implement the solution.

Legislative History

2016: Virginia Retirement System Work Group published HB 1998 – *Saving for Retirement* (the VRS Report). The work group found that more than 1.2 million employees in Virginia lack access to a workplace retirement plan. Without quantifying the size of a savings shortfall in Virginia, the report recognized that this is a significant challenge for the Commonwealth, as it is for the United States, and provided information on states' responses to the savings gaps. The report highlighted a number of additional considerations for the Virginia General Assembly to consider moving forward.

- HB 1049 was introduced proposing a statewide voluntary MEP. The legislation ultimately was tabled.

2019: Christopher Newport University (CNU) published HJR 103 – *Feasibility Study of Retirement Savings Programs for Virginia* (the CNU Report). The report found that either a MEP or an auto-IRA program would be feasible in Virginia over time, and that the auto-IRA program likely would achieve greater coverage and similar or higher assets than an MEP.

- HB 2431 was introduced proposing a statewide voluntary MEP. The legislation was tabled.

Study Methodology.
In undertaking this Report, Virginia529 sought to provide well-researched, factual, and comprehensive information suitable for decision making. As such, Virginia529 partnered with industry experts, state agencies and independent research firms to embark on a deliberative research and study process. Virginia529 also sought input from interested and relevant industry experts, financial organizations, business groups, employers, and employees through a series of outreach meetings, webinars, and public listening sessions. Virginia529 also established a website (Virginia529.com/retirement-study) with relevant statutes, webinars, media videos on the topic, prior studies, and a comment form for interested parties to communicate directly with Virginia529. As of the date of this Report, no written public comments were received.

A summary of key partners providing input to the Virginia529 Report is outlined below:

The Pew Charitable Trusts (Pew) is an independent non-profit, non-governmental organization, founded in 1948. Pew was selected to provide technical assistance on this study because of the center's empirically-driven research, and ability to serve as a neutral source of data and analysis by taking a nonpartisan and non-advocacy approach in their work. Virginia529 established a technical assistance agreement with Pew for several study components, including: marketplace analysis of the feasibility of various state-facilitated retirement savings options in Virginia; compilation of data pertaining to the current state of retirement savings options and participation in Virginia and around the country; and, insights into the state of financial education in the Commonwealth.

Alan Newman Research (ANR), a Richmond-based research and consultancy firm, assisted with a quantitative employer market survey. For the survey, ANR employed a hybrid phone and online survey approach to conduct a 15-minute survey targeting Virginia employers who were (i) currently in business in the Commonwealth (including sole proprietors); and (ii) not currently offering a retirement savings option for their employees.

Econsult Solutions, Inc. (ESI), a Philadelphia-based consulting firm specializing in the intersection of economics and public policy, drafted a report titled *The Cost of Doing Nothing: Potential Impacts of Insufficient Retirement Savings in Virginia, 2020-2035* (the Cost of Doing Nothing Report) for inclusion in this study. The Cost of Doing Nothing Report analyzes the impact of insufficient retirement savings on the Commonwealth's fiscal and economic health and on its residents. ESI conducted similar reports for government task forces studying the issue of insufficient retirement savings in Colorado and Pennsylvania.[1]

Massena Associates, LLC, with experience working on similar studies for Colorado and Oregon, served as a third-party consultant to Virginia529 and facilitated the project plan with general consulting, stakeholder engagement and development of the final report in concert with Virginia529.

[1] *See generally* Pennsylvania Retirement Security Task Force, *Report on the Proceedings of the Pennsylvania Treasury Department Private Sector Retirement Security Task Force* (2018), https://patreasury.gov/pdf/retirement/Retirement-Hearings-Report.pdf; Colorado Secure Savings Plan Board, *Recommendations to Increase Retirement Savings in Colorado* (Feb. 2020), https://www.colorado.gov/pacific/sites/default/files/atoms/files/Second%20Revision_Retirement%20Security%20in%20Colorado.pdf.

In compiling this study, Virginia529 also worked closely with public and private entities in the Commonwealth to fulfill data needs, ensure that information was current and stakeholders' perspectives were presented accurately. Virginia529 recognizes and thanks the following Virginia state agencies for their assistance in this study:

- **The Virginia Department of Aging and Rehabilitative Services (DARS).** DARS' mission is to improve the employment, quality of life, security, and independence of older Virginians, Virginians with disabilities, and their families. DARS assisted with providing information on Virginia's social benefits programs, including expenditures and participation rates.
- **The Virginia Department of Medical Assistance Services (DMAS).** DMAS' mission is to improve the health and well-being of Virginians through access to high-quality health care coverage. DMAS assisted with the compilation of data for expenditure and participation rates in health services provided by the Commonwealth.
- **The Virginia Employment Commission (VEC).** VEC promotes economic growth and stability by delivering and coordinating workforce services. Services include providing career assistance for job seekers, employment services for veterans, and employer services for businesses of all sizes, as well as unemployment benefits and other programs designed to assist with employment. VEC assisted with employer outreach and survey completion.

Virginia529. Members of the Virginia529 Policy and Executive Divisions, led by Government Relations Director Sonia Valadez and Associate Counsel Leslie Crudele, collaborated on the Virginia529 Report and conducted outreach to employers, industry experts, and other stakeholders. The Virginia529 Marketing Division conducted the employee survey and analysis, assisted on the employer survey, and created the Private Retirement web landing page at Virginia529.com.

Virginia529 would like to thank the following individuals and entities for taking the time to provide their perspectives and insights on the current state of retirement in Virginia:

- Joint Legislative Audit & Review Commission (JLARC)
- AARP
- The American Council of Life Insurers
- Independent Insurance Agents of Virginia
- National Association of Insurance and Financial Advisors
- Department of Taxation
- Deputy Secretary of Commerce and Trade
- Chief Workforce Advisor to the Governor
- Northern Virginia Chamber of Commerce
- Small Business Majority
- The Society of Professional Asset-Managers and Record Keepers (SPARK Institute)
- State Corporation Commission
- Virginia Chamber of Commerce
- Virginia Hispanic Chamber of Commerce
- Virginia Retirement System

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Executive Summary

This final report (Virginia529 Report) represents a collection of findings and recommendations based on nine months of study, research, coordination and collaboration among the Virginia College Savings Plan (Virginia529) team, key subject matter expert partners, public and private sector stakeholders, employer associations, employers and employees across the Commonwealth, academic institutions and retirement savings program directors from across the United States. The Virginia529 Report provides a summary of the landscape relating to efforts to increase participation in retirement savings programs nationwide, including existing federal tax-advantaged retirement savings options as well as the various state-facilitated models examined and adopted by states across the country over the last dozen years.

The scope of the study includes each of the components outlined in Chapter 506 of the 2020 Virginia Acts of Assembly, adopted March 27, 2020, which fall into three major lines of effort: (i) a market survey; (ii) a financial feasibility and cost analysis; and (iii) program structure and implementation options. Virginia529's intent in delivering this report is to provide a well-researched, actionable document that builds upon the outstanding work of prior studies conducted for the Virginia General Assembly by the Virginia Retirement System Work Group (the VRS Report) and by Christopher Newport University (the CNU Report). This comprehensive and holistic approach also includes data and research to inform the legislature on the trajectory of retirement insecurity in Virginia and the implications for the economic health of the Commonwealth and Virginians now and in the future. If it is the will of the legislature to move forward with a state-facilitated private retirement program in Virginia, this Report may serve as a foundation to a successful launch.

The Virginia529 Report, as well as the VRS Report and the CNU Report, arise out of the legislature's recognition that many employed Virginians lack sufficient retirement savings. Although most Americans access retirement savings options through their employers, approximately 45% of the Commonwealth's workforce--approximately1.2 million employees--does not have access to a retirement savings plan at work. This lack of access disproportionately affects Hispanic, Black, and Asian employees who experience lower rates of access to, and participation in, retirement plans than white employees generally do. Women generally have lower overall access and participation rates than men when looking at all employees.

Many factors help explain both why employers do not offer retirement plans to employees and why employees too often approach retirement age with no retirement plan or savings. The single largest impediment to employees saving for retirement appears to be lack of access to a plan at work. Other factors, as discussed in Chapter 3 of this Report, include perceived affordability, complexity of the retirement planning process for both employers and employees and a lack of financial education and understanding sufficient to allow individuals to be successful in planning and preparing for retirement.

Private market solutions exist which individuals may pursue without going through their employer; however, the fact of the matter is that without access to a retirement savings plan at work, most employees do not save for retirement on their own. In fact, fewer than 15% of employed Americans save for retirement outside of work. Even though financial education and improved financial outcomes do appear to be linked, financial education alone does not appear to drive meaningful changes in savings levels.

The lack of sufficient retirement savings has a clear negative impact not only on individual households ill-equipped to maintain their standard of living into retirement, but also on the Commonwealth and its fiscal and economic health. With a significant portion of the retired population having insufficient retirement savings, social benefits programs will continue to expand to meet increased need.

The fiscal impact of under-saving is significant and estimated at an additional cost of $11.8 billion to Virginia taxpayers over the next 15 years. While these downstream impacts are concerning, proactively addressing the issue of insufficient retirement savings may go a long way towards reducing that extra spending burden on the Commonwealth. Chapter 4 provides an analysis conducted by Econsult Solutions, Inc. which concludes that the average Virginia household with less than $75,000 in annual income could close the retirement savings gap anticipated by 2035 by contributing an additional $1,930 annually over each working year.

Although the high level of retirement insecurity in Virginia is troubling, there are ways to help ameliorate the problem. In analyzing the issue, the VRS Report stated at page 28 that "[i]n order to change retirement insecurity, industry experts contend that stakeholders must meet potential savers where they are by using the tools learned through behavioral economics. This includes access to payroll deduction plans, automatic enrollment and escalation, easy to understand plans and choices, and the ability to convert funds into lifetime income streams."[2] Facilitating access to retirement savings options in the Commonwealth is key to addressing the retirement savings gap and securing the Commonwealth's fiscal position as well as enhancing the quality of life for individual citizens in their retirement years.

Many states have found that state-facilitated retirement savings programs appear to offer the best opportunity to expand retirement coverage and savings. Typical savings levels in today's existing programs align with the level of annual retirement savings required to significantly improve retirement outcomes for employees and the Commonwealth's fiscal outlook. A state-facilitated private retirement program could provide a viable mitigation strategy to address the issue of inadequate retirement savings.

The following five pages present key takeaways and recommendations of Virginia529 with respect to each line of effort. Detailed analysis and key findings for each of the five study components is provided in the following chapters and underpins the recommendations outlined below.

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[2] Virginia Retirement System Work Group, *HB 1998 Saving for Retirement*, 46 (2016), https://rga.lis.virginia.gov/Published/2016/HD16/PDF [hereinafter VRS Report].

Line of Effort #1 - Market Survey and Analysis

The market survey examined the level of interest of Virginia employers in participating in a state-sponsored private retirement option. In addition, more than 950 employees across the Commonwealth participated in a survey to render a comprehensive and holistic perspective of sentiments towards retirement savings options.

Key Takeaways.

1. Small business employers and employees across the Commonwealth strongly support the concept of a private retirement savings program facilitated by the state, which they view as a trusted entity.

2. In Virginia, the general profile of employers who do not offer employer-sponsored retirement plans generally consists of small business owners with fewer than 10 employees and, generally speaking, employers who are more likely to be members of the construction, retail, healthcare and non-retail services industries across Virginia.

3. In Virginia, the profile of surveyed employees not covered by a retirement plan generally consists of employees between 18 and 54 years of age, nearly a third represent minority populations including Black, Asian and Hispanic employees and 53.5% of employees are likely to be members of the construction, healthcare, retail, hospitality and food service and other non-retail services industries.

4. Employer barriers to offering a retirement plan include: (i) lack of resources to administer a retirement plan (especially among businesses with fewer than 10 full-time employees); (ii) relative high cost to establish plans; and (iii) choosing to focus on other employee benefits.

5. In both the Commonwealth and nationally, employees generally like the concept of an auto-IRA program with automatic enrollment (including the choice to opt-out) and automatic escalation of contributions.

6. Virginians generally trust the state to perform responsibly, particularly as it relates to fiduciary responsibilities and investment management.

7. Based on market survey and experiential data, the participation rate of a state-facilitated auto-IRA plan is anticipated at 60-75%.

Recommendations and Policy Considerations.

1. A state-facilitated, auto-IRA program is the model which has shown itself to be significantly more effective than the alternatives in driving saving behaviors. The auto-IRA model minimizes barriers to employers while maximizing program features to best serve employees. An auto-IRA program is the recommended model for Virginia should the General Assembly consider authorizing creation of a state-facilitated private

retirement program. **(Key Findings 2-2; 2-3; 2-4; 2-5; 2-6; 3-3; 3-4; 3-5; 3-6; 3-7; 3-8; 3-11; 4-5; 4-7; 7-1)**

2. Program features should include: (i) emergency savings set-aside option for employees; (ii) auto-enrollment of all eligible employees with ability to opt-out; (iii) auto-escalation of contributions with the ability to change contribution levels at any time; and (iv) required participation for employers with five employees or greater and voluntary participation for individuals who wish to participate. **(Key Findings 3-3;3-4; 3-6; 3-7; 3-8; 3-9; 5-2; 5-4; 5-5; 5-7; 7-1; 7-2)**

Line of Effort #2 - Financial Feasibility and Cost Analysis

This component of the study examined the likely costs to start up different types of state-facilitated private retirement programs, an estimate of time to reach self-sufficiency for each model and potential funding options. In addition to the mandated scope, the Virginia529 Report includes an analysis of the impact of insufficient retirement savings on the Commonwealth.

Key Takeaways.

1. The CNU Report estimated startup costs for both an auto-IRA and MEP at $2 million. All-in operating costs for an auto-IRA were estimated between $6.5 million and $18 million; this estimate increased to between $17 million and $36 million for a MEP. It should be noted that all-in operating costs are over a period of years not specified in the CNU Report. Estimates for time until the program is cash-flow positive ranged from 6-7 years for an auto-IRA and 5-10 years for a MEP, depending on economic conditions in Virginia.

2. More current estimates based on data from other states, with similar size and scope, approximate a cost to the Commonwealth of $1,290,000 for startup and approximately $1,240,000 for annual operating costs with a Virginia auto-IRA model. Revenue from program fees over time are expected to will cover these costs for the state.

3. A larger portion of program responsibilities may be outsourced in a MEP program than in an auto-IRA plan and the startup costs may be lower with a MEP. However, given the insufficiency of current data available to appropriately refresh the CNU Report estimates, Virginia29 has assumed startup costs for a MEP to be similar to an auto-IRA: $1,290,000 for startup and approximate annual operating costs of $895,000. The lower annual operating cost model estimates the reality that MEP programs are generally cheaper for a state to administer since employers will likely pay a portion of the operating costs. Revenue from program fees over time are expected cover these costs for the state.

4. Based on slower-than-projected implementation and participation rates than initially modeled in states with active programs, Virginia529 estimates financial feasibility of an auto-IRA to be achieved within 10 years. With only one active MEP program, scant

market data and generally low participation rates, it is difficult to predict with certainty, financial feasibility of a MEP.

5. Auto-enrollment plays a key role in encouraging a habit of saving and driving program asset accumulation. As a MEP program option is voluntary for employers, it is unlikely that employee participation will achieve critical mass to achieve a self-sustaining program within a reasonable timeframe.

6. Under an auto-IRA program, employers perform a light ministerial function during initial registration after which the program administrator manages communication with the employee. Under a MEP, employers are typically responsible for a number of costs, including: (i) startup costs; (ii) annual recordkeeping and administrative costs; (iii) annual audit costs for employers with more than 120 eligible employees; and (iv) costs to perform administrative and fiduciary duties internally.

Recommendations and Policy Considerations.

1. A mandatory auto-IRA model with broad access to employers of all sizes which do not offer a retirement option for employees is the most financially feasible model to encourage Virginians to save for retirement. **(Key Findings 2-3; 2-6; 3-9; 3-11; 5-2; 5-3; 5-4; 5-5; 5-7; 6-2; 7-1)**

2. Certain features should be included in a program, and the table below summarizes key recommendations for program adoption. **(Key Findings 2-3; 2-6; 2-7; 3-3; 3-6; 3-7; 3-8; 3-9; 7-1; 7-2)**

Program Features	Recommendations
Model	Auto-IRA
IRA Type	Roth as standard; Traditional as option
Auto-Enrollment	Yes
Default Contribution Rate	5%
Auto-escalation Levels	Implement in 1% increments up to 10%
Default Investment Vehicle	Age-based funds, first $1,000 to a capital preservation fund
Employer Size	Mandatory participation for employers with five or more employees, in business two or more years (consider discretionary participation for employers with fewer than five employees or sole proprietors)
IRS Contribution Limits	$6,000 per year ($7,000 if the employee is aged 50 or older)
Age Eligibility	18 years of age (minimum)
Opt-Out	Allowed any time

3. If the General Assembly authorizes a state-facilitated private retirement program, this Report recommends that the General Assembly consider authorizing an interest-free

Treasury loan to resource program startup and operating costs with the goal of achieving cash-flow positivity within 10 years. **(Key Findings 2-3; 5-2; 5-3; 5-4; 5-5; 5-6; 5-7; 7-3)**

Line of Effort #3 – Program Structure and Implementation Options

In looking at optimum program structure and implementation options, the Virginia529 Report examined the experience of other states that have implemented or are implementing a state-sponsored private retirement solution for employers and employees and the state agency and structures used to implement the solution.

Key Takeaways.

1. States which have implemented a state-facilitated retirement savings program have generally contracted with a program manager and recordkeeper to run the day-to-day operations of the program with the state serving as sponsor. A state sponsor can enhance outreach and marketing efforts which are critical to ensuring the success of a program. A state sponsor can also leverage relationships with other state agencies to facilitate program administration and oversight.

2. Potential Virginia state sponsors evaluated in this analysis include the Virginia Retirement System (VRS), Department of the Treasury, Virginia College Savings Plan (Virginia529), Department of Accounts, and Virginia Employment Commission. All agencies have varying degrees of marketing and outreach capacity, customer service and support functions, in-house auditing, legal, and compliance support, and interface with the public. Some have more robust existing capabilities than others but, generally speaking, each of the five entities examined could oversee a state-facilitated retirement savings program provided they receive sufficient funding and time to implement.

3. Key discriminators in evaluating a state sponsor include: (i) experience providing a defined benefit and/or defined contribution savings plan to private and/or public savers; (ii) experience working with program administrators, payroll deduction transactions, and recordkeepers; (iii) experience in outreach and marketing to the general public; and (iv) in-house investment management expertise.

4. Except for the significant impediments described immediately below, based on functional requirements and an analysis of alternatives, VRS is the agency best-suited to develop and implement a state-facilitated private retirement program in Virginia, should the Executive branch and General Assembly decide to authorize such a program. Significant impediments may exist, however, and would need to be addressed should the legislature decide to move forward with VRS as the state sponsor. VRS is governed, in part, by a Virginia constitutional provision and the IRS exclusive benefit rule, limiting the population it can serve. Absent significant institutional changes or a constitutional amendment, this limitation likely precludes its selection as a program sponsor.

5. Should the General Assembly wish to consider another potential state sponsor, given that many other state-facilitated programs mirror the institutional setup of those states' 529 plans, it may be worth examining Virginia529 as a state sponsor. Virginia529 has experience with both defined benefit and defined contribution plans (which includes target date funds) for individual savers and currently offers qualified tuition and savings programs under IRC § 529 and IRC § 529A. Virginia529 also has experience with outreach and marketing to the general public and has established relationships with the other states implementing these programs as well as the Virginia agencies likely to be involved in outreach to Virginia employers.

Recommendations and Policy Considerations

1. If the General Assembly authorizes a state-facilitated private retirement program, this Report recommends the legislature leverage an existing state agency board, or authorize the creation of a new board, to provide program management and oversight of a program. **(Key Findings 2-10; 6-1; 6-3; 7-4)**

2. If the General Assembly authorizes a state-facilitated private retirement program, a state sponsor to implement a program will need to be designated. VRS and Virginia529 maintain the most experience in this market though there may be utility to establishing a new agency. **(Key Findings 2-10; 3-6; 3-7; 3-8; 3-9; 3-11; 5-4; 5-5; 6-1; 6-2; 6-3; 6-4; 6-5; 6-6; 6-7; 6-8; 7-5)**

3. If the General Assembly authorizes the launch of an auto-IRA program, this Report recommends bringing various employer groups into the program in phases. One approach would be based on employer size, starting with the largest employers and working towards the smallest at the end of the rollout period. Chapter 7 proposes a phased implementation approach to facilitate a smooth transition while affording training of program staff and employers as needed. **(Key Findings 2-7; 6-3; 6-4; 7-6)**

4. Financial literacy and education are key components to begin closing the retirement savings gap. If the General Assembly authorizes the launch of an auto-IRA program, a financial education component should be included to provide financial education to private citizens and support in retirement planning. Enabling legislation should provide flexibility and discretion to determine how to best deliver these financial education services and make other implementation decisions. **(Key Findings 1-4; 2-2; 2-7; 2-10; 2-12; 6-8; 7-7)**

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Chapter 1: Retirement Security in Virginia

Summary: Retirement trends in the United States and Virginia have been an area of interest for policy makers and legislators alike for many years. In spite of ongoing interest, a retirement savings gap persists, with many Americans ill-equipped financially for retirement. Addressing the savings gap not only is important for individual savers but for the Commonwealth as a whole. The negative consequences of income insecurity have been highlighted during 2020 with the impact of the ongoing COVID-19 pandemic.

Scope: This section examines the profile of Virginia employees not currently covered by an employer-sponsored private retirement plan. The profile was developed using data and information from the VRS Report and the CNU Report and current research and analysis conducted by Virginia529. The employee profile informs a current analysis of the retirement savings gap in Virginia.

Methodology: Virginia529 started with prior publications and refreshed key data elements to provide an updated assessment of retirement security in Virginia.

Key Findings:

1. The main cause of the retirement savings gap is lack of access to retirement savings options at work.

2. Forty-five percent of Virginia's private sector workforce, or 1.2 million workers, do not have access to a retirement savings plan at work.

3. In Virginia, employers who do not offer employer-sponsored retirement plans are often small businesses, although some larger employers also do not provide a retirement plan for employees – often when they have a large cohort of lower compensated or part-time employees or are in a high turnover industry In addition, businesses without retirement plans are more prevalent in the construction, retail, healthcare and non-retail services industries across Virginia – industries which historically have not received benefits.
4. In general, employees with lower educational attainment levels have lower rates of access and participation than those with higher educational attainment levels.

5. Hispanic, Black, and Asian employees have lower rates of access to, and participation in, retirement plans than white employees generally. Women have lower overall access and participation rates than men when looking at all employees.

Background.
In directing Virginia529 to complete this study, the General Assembly was building on previous work that looked at the state of retirement access in Virginia. The first effort was the 2016 VRS Report which provided a detailed analysis of retirement savings and access in Virginia and across the United States.[3]

The VRS Report found that 31% of non-retired respondents had no retirement savings or pension, including 27% of individuals aged 60 or older.[4] Focusing on the Commonwealth's four million person labor force, the study also found that of the 2.8 million wage and salary employees in the state, about 55% had access to a retirement savings plan at work, while 44% -- approximately 1.2 million employees -- did not.[5]

Several years after the completion of the VRS Report, the General Assembly again reviewed retirement savings options in the Commonwealth through the 2019 CNU Report.[6] The CNU Report found that approximately half of all employees in Virginia did not have a retirement plan and, of that number, 84% of those employees did not have a retirement plan because their employer did not offer one.[7]

Many factors help explain both why employers do not offer retirement plans to employees and why employees too often approach retirement age with no retirement plan or savings. The single largest impediment to employees saving for retirement appears to be lack of access to a plan at work. Other factors, as discussed in Chapter 3 of this Report, based on responses to the 2020 employer and employee statewide surveys conducted by Virginia529, include perceived affordability, complexity of the retirement planning process for both employers and employees and a lack of financial education and understanding sufficient to allow individuals to be successful in planning and preparing for retirement.

A state-facilitated private retirement program could provide a viable mitigation strategy to address the issue of inadequate retirement savings. Chapter 4 of this Report provides insight into the cost of a retirement savings gap, not just to individuals but to the economic health of the Commonwealth as well. The discussion in Chapter 4 also highlights that the annual individual savings needed to close the gap is within reach for many if not most employed Virginians if the tools for that saving are available. Analysis conducted by ESI concludes that the average Virginia household with less than $75,000 in annual income could close the retirement savings gap anticipated by 2035 by contributing an additional $1,930 annually over each working year.[8]

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[3] *See generally,* VRS Report.
[4] VRS Report at 18.
[5] *Id*. at 91.
[6] *See generally*, Christopher Newport University, *HJR 103 Feasibility Study of Retirement Savings Programs for Virginia* (2018), https://rga.lis.virginia.gov/Published/2019/HD7/PDF [hereinafter CNU Report].
[7] *See* CNU Report at 2.
[8] Econsult Solutions Inc., *The Cost of Doing Nothing: Potential Impacts of Insufficient Retirement Savings in Virginia, 2020-2035*, 12 (2020) [hereinafter ESI Report]. The entire ESI Report is available at Appendix C of this Report.

As noted above, addressing the retirement savings gap is important for individual savers and for the Commonwealth. Data from several studies shows a direct correlation between the retirement savings gap and corresponding demand on state and federal resources and benefit programs for low-income seniors.[9] In fact, the ESI Cost of Doing Nothing Report for Virginia concluded that, absent attention and changes in behavior, state, local and federal program expenditures related to insufficient retirement savings will grow from an annual rate of $1 billion in 2020 to $1.7 billion by 2035, a cumulative total of $21.6 billion in additional expenses over the 15-year period (see Figure 4-3).[10] The Commonwealth's cumulative state and local government portion of this expenditure totals $11.8 billion.[11] As Virginia's elderly population grows, the continued lack of financial capacity to maintain a desired living standard during retirement has negative implications both for the quality of life enjoyed by Virginia residents and for the fiscal position of the Commonwealth.

Although the high level of retirement insecurity in Virginia is troubling, there are ways to help ameliorate the problem. In analyzing the issue, the VRS Report stated that **"[i]n order to change retirement insecurity, industry experts contend that stakeholders must meet potential savers where they are by using the tools learned through behavioral economics. This includes access to payroll deduction plans, automatic enrollment and escalation, easy to understand plans and choices, and the ability to convert funds into lifetime income streams"** (emphasis added).[12] As discussed in this Report, facilitating access to retirement savings options in the Commonwealth is key to addressing the retirement savings gap and securing the Commonwealth's fiscal position as well as enhancing the quality of life for individual citizens in their retirement years.

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[9] *See e.g.* VRS Report at 28 (noting that inadequate retirement preparedness can have a significant impact on social services programs); ESI Report at 7-8 (noting that savings shortfalls add to public benefit program demand).
[10] ESI Report at 37.
[11] *Id*. at 38.
[12] VRS Report at 46.

Chapter 2: Federal and State-based Retirement Models and the Experience of Other States

Summary: When it comes to saving for retirement, Americans have a range of options, whether through employers or as individual investors. Defined benefit options like pension plans and defined contribution options like 401(k) plans typically are offered as part of an employment benefits package; individuals also may save on their own through options such as individual retirement accounts (IRAs). All of these retirement savings options are authorized by federal law and offer tax advantages to participants to encourage retirement savings. This Chapter briefly addresses the individual options available but focuses most attention on the retirement plan models and features available to private sector employers for themselves and their employees, including defined benefit and defined contribution retirement plans. New state-facilitated models designed to address the gap in retirement savings when employers do not offer an option also are evaluated.

Scope: As outlined in Chapter 506 of the 2020 Virginia Acts of Assembly, the Virginia529 Report's analysis is to include (i) an examination of existing retirement savings options for self-employed individuals, part-time employees, and full-time employees whose employers do not offer a retirement savings plan; and (ii) the experience of other states that have implemented or are implementing state-sponsored private retirement solutions for employers and employees.

Methodology: For purposes of the study mandate, this Chapter focuses on an evaluation of defined contribution plans existing in the market as the availability of defined benefit programs has decreased over the last several decades. This Chapter also examines the three state-facilitated retirement savings models: (i) online retirement plan marketplaces (marketplace); (ii) multiple-employer plans (MEPs); and (iii) automatic enrollment IRAs (auto-IRAs). In-depth analysis of each of the three models is available in Appendices A and B of this Report.

Key Findings:

1. Less than 15% of employed Americans save for retirement outside of work.

2. The potential of state-facilitated retirement programs is that they may fill a need for employers and employees: the ability to vet available solutions or to provide cost-effective, easy to implement and understand work-based access to existing types of retirement programs and take advantage of behavioral economics to increase the likelihood of successfully addressing the retirement savings gap.

3. For a variety of reasons discussed herein, the auto-IRA model is the most widely-adopted state-facilitated program model and offers the greatest likelihood of increasing participation in retirement savings and reaching financial sustainability in a reasonable timeframe.

4. Massachusetts, the only state with a launched MEP, has seen low take-up and limited employer participation; to date this option is available only to employers in the nonprofit sector however the state is considering an expansion of coverage. Vermont is in the process of implementing a MEP option.

5. Several years ago Washington State adopted the marketplace model and has since had very low take-up and limited financial services industry participation. Washington and other states which initially approved a marketplace approach are now attempting to move to the auto-IRA model.

6. Nationwide, the percentage of employers offering a retirement plan to employees has not moved significantly over the last 40 years despite the introduction of low-cost retirement savings arrangements to encourage employer participation. In 2019 Congress enacted the Setting Every Community Up for Retirement Security Enhancement (SECURE) Act which relaxed the rules for participation in a private market MEP; however, industry experts do not anticipate a large influx of new employers to MEPs based on those changes. Past experience suggests that only a small percentage of employers are likely to participate in any state-facilitated retirement program in the absence of an employer mandate, which weighs against the effectiveness of the voluntary MEP model.

7. Several states with active state-facilitated retirement programs have modified original implementing language to address perceived opportunities related to their program operations, information which informs the recommendations in this Report on a variety of program characteristics including the model to select, the employer and employee coverage of the program, and the need for cooperation and data sharing among relevant state agencies. In addition, some states have specific provisions authorizing interstate compacts to facilitate expansion of auto-IRA plans to additional states which may not have sufficient resources or employers and employees to establish a sustainable program on their own.

Types of Retirement Plans

Defined Benefit: Defined benefit plans provide a fixed, pre-established benefit for employees at retirement. Employees often value the fixed benefit provided by this type of plan. On the employer side, businesses can generally contribute (and therefore deduct) more each year than in defined contribution plans. However, defined benefit plans are often more complex and, thus, more costly to establish and maintain than other types of plans. The number of employers offering defined benefit programs has steadily decreased in recent decades.

Defined Contribution: Defined contribution plans allow the employee and/or the employer to contribute to the employee's individual account under the plan. The amount in the account at distribution includes the contributions and investment gains or losses, minus any investment and administrative fees and the risk of performance remains with the employee. Generally, the contributions and earnings are not taxed until distribution. Examples of defined contribution plans include 401(k) plans, 403(b) plans, employee stock ownership plans and profit-sharing plans.

Source: IRS, *Types of Retirement Plans* (Nov. 2020), https://www.irs.gov/retirement-plans/plan-participant-employee/definitions

Background.

When it comes to saving for retirement, Americans have a range of options. Retirement options like defined benefit and defined contribution plans typically are offered as part of an employment benefits package. These offerings depend on the employer choosing to offer the plan as an option for their employees.

When employers do not offer retirement plans, it is up to employees to recognize the need to save, to identify a preferred retirement savings account, to select a provider and investments, and to consistently fund the account.

While consumers have many options for self-directed savings including brokerage accounts, tax-deferred annuities, or real estate investments, an IRA is the most commonly-used form of tax-advantaged retirement savings account and generally any person can set up an IRA through a financial institution. However, the reality is that in spite of the many options and tax incentives to encourage a culture of saving, less than 15% of Americans save for retirement outside of work.[13]

Employer-Sponsored Plans.

Several reasons explain why employer-provided retirement plans are the main vehicle for savings:

- When employers offer retirement savings at work on a defined benefit or defined contribution basis, onboarding is simplified and accomplished by direct deposit and the employer, a trusted source for most employees, assumes responsibility for product and feature selection, including automatic enrollment and auto-escalation when offered.
- With defined benefit plans, workers receive an "automatic" commitment of a level of replacement income once employees have achieved tenure with that employer. The commitment belongs to the employer; the worker's role is to stay in a covered position to earn the benefit.
- Although individuals can save for retirement outside of work, the individual must take affirmative steps to select and establish a retirement account, select investment options, establish periodic funding for the account, often on a post-paycheck basis, proactively change contribution levels as income and opportunity change and monitor the cost, effectiveness and appropriateness of the investments they choose against a wide range of alternatives, generally with limited financial or investment experience and tools.

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[13] The Pew Charitable Trusts Comments on the Report Pursuant to HB 775 on State and Federal Programs to Encourage Private Sector Retirement Savings*, Overview of Retirement Models*, 1 (Dec. 2020) [hereinafter Pew Comments Memo]. The entire Pew Comments Memo can be found at Appendix A of this Report. *See also* Investment Company Institute *Research Perspective: The Role of IRAs in US Households' Saving for Retirement 2018*, 19 (2018), https://www.lexissecuritiesmosaic.com/gateway/FedReg/pdf_per24-10.pdf.

The main drawback of employer-provided plans is that the system is voluntary: employers are not required to offer a retirement plan to their employees. At least 30-45% of employees in the United States do not have a retirement plan at their place of work.[14] In Virginia, that percentage is on the high end, with 45% of employees without access to a retirement savings plan at work.[15]

Costs, Reporting, and Administrative Roles for Employers. Retirement plans can be costly for the employers that sponsor them. Costs can include fees paid to service providers as well as the costs of complying with federal rules governing retirement plans. The following is a list of some of the sources of costs for employers sponsoring a plan:

- **Startup:** Many service providers have fixed costs to get a plan started for an employer. For example, accounts must be created for the employees who will be part of the plan and employee data must be inputted into the administrative recordkeeping system. Plan documents must be created that often must be approved by governmental authorities. Service providers usually charge a separate setup fee to cover these tasks.

- **Recordkeeping:** Once a plan is operational, the plan administrator performs a variety of tasks such as tracking contributions and withdrawals, processing new hires or terminations, and providing assistance when participants have questions. The recordkeeper also provides statements and other reports to participating employees.

- **Investments:** Usually, asset management fees related to investments in a plan are charged to the participants as a small percentage of the assets in a participant's account. Larger employers may use an investment advisory firm to assist with investment menu selections, at an expense to the employer.

- **Administrative and Fiduciary:** Federal law requires many compliance activities that an employer must complete to develop and maintain an employer-sponsored plan. For example, most large retirement plans must audit the accounts and plan assets, and the employer must ensure that the plan's benefits do not unduly favor highly paid employees. Compliance tasks may be outsourced to accounting firms and recordkeepers, adding to the cost to maintain an employer plan. In some cases, employers also may need to take out insurance or a fidelity bond to protect against claims of negligence in performing their fiduciary responsibilities.

Employer Considerations

- According to a survey of businesses conducted by Pew, employers cite the cost of setting up a plan as the main reason why they do not sponsor a retirement plan.

- Virginia employers cited lack of resources and expensive startup costs as the two primary reasons for not sponsoring a plan. Other considerations included wanting to provide other benefits first, lack of employee interest, and due diligence concerns.

Sources: Pew, *Business Owners' Perspectives on Workplace Retirement Plans and State Proposals to Boost Savings*, 2 (2016); ANR Presentation at 21.

[14] Pew Comments Memo at 11.
[15] VRS Report at 43.

Retirement Models Employed by State-facilitated Programs:
In the absence of national solutions to the retirement savings gaps illustrated earlier, state-level solutions have been developed to encourage additional access and saving. Current state-facilitated programs are rooted in existing retirement plan models. In each model the state fills what has been missing for many: assumption of a fiduciary role to evaluate available structures and investment options and to provide work-based access to the selected solution on an automated basis at a reasonable cost to employers and employees. The three most commonly-used state-facilitated models are summarized below.

Auto-IRA. The most popular state-facilitated model is the auto-IRA, which combines the features of a payroll deduction IRA—in which the employee has part of their wages deducted and contributed to their IRA—with the automatic enrollment of all eligible employees that is often used in employer sponsored 401(k) plans. Other than enrolling workers and facilitating contributions through payroll deduction, the employer has no role or fiduciary responsibilities in an auto-IRA plan and is not allowed to make contributions to the employee's account. Auto-IRA employers meeting certain eligibility criteria set by the state to register and facilitate payroll contributions, and employees are automatically enrolled in the plan but have the option to opt-out if so desired. An auto-IRA may use either a traditional or Roth IRA account as its standard. In practice all state programs currently use a Roth IRA, funded with employee post-tax contributions. Investment options usually include a Capital Protection default portfolio, a Target Date Fund family of portfolios and other mutual fund options professionally managed by an outside investment firm. Roth IRAs are an attractive option for savers because they allow money to grow tax-free, permit the account owner to use their contributions at any time without penalty, do not impose age limitations, and do not set required minimum distributions.[16]

Multiple Employer Plan (MEP). A MEP is a common or group retirement savings plan adopted by two or more unrelated employers and a third-party provider sponsors and administers the MEP. In theory, any kind of retirement plan, including a defined benefit plan, may be used in a MEP but in practice a 401(k)-style plan is most often used.

Until recently, employers participating in the same MEP had to share a common nexus or interest with other employers or a common physical presence in a geographic area. States were provided with the ability to serve as the nexus for unrelated employers in 2015.[17] With the passage in 2019 of the SECURE Act, effective in 2021 employers with no common nexus may participate in a single MEP and allow a plan administrator or sponsor to manage administration of and liability for the plan thereby allowing the MEP to achieve scale and reduce both

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[16] Fidelity Viewpoints, *9 Compelling Reasons to Consider a Roth IRA* (Dec. 5, 2019), https://www.fidelity.com/learning-center/personal-finance/retirement/nine-reasons-roth.
[17] 29 C.F.R. § 2509.2015-02 (2015).

investment and administrative costs so that the MEP is more attractive to small employers.[18] In the case of state-facilitated MEPs, the state sponsors the MEP and provides oversight and outsources the administrative and investment functions to private sector service providers. Whether the changes in the SECURE Act will result in more employers offering a retirement option to their employees remains an open question.

Online Retirement Marketplace. A retirement marketplace is not a plan but a state-facilitated website for retirement plan service providers to offer products to small businesses without a plan. The state creates the website, evaluates potential service providers, and encourages employers to use the website to shop for products meeting the state's criteria. The marketplace is not a retirement program like the programs discussed above but is a vehicle to assist small businesses looking for retirement plans and to provide some basic financial education. In the limited number of states that have attempted to create a retirement marketplace model, a limited number of service providers have opted to participate and typically offer 401(k) plans and IRA plans. The impediments to employers adopting a retirement plan for employees – time, resources, cost – remain with a marketplace model.

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[18] The SECURE Act of 2019 provided for group plans by unrelated employers known as "pooled employer plans" or "PEPs." Setting Every Community Up for Retirement Enhancement Act of 2019, Pub. L No. 116-94, 133 Stat. 2534 (2019) [hereinafter SECURE Act]. The U.S. Department of Labor is finalizing regulations regarding PEPs. Employee Benefits Security Administration, *Notice of Proposed Rulemaking on Pooled Plan Provider Registration* (Aug. 2020) https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/pooled-plan-provider-registration. It has been noted that the expansion of retirement plan access in the private market brought about by the SECURE Act may help encourage retirement savings. For a more detailed explanation of this perspective, please see the December 14, 2020 Comment Letter from Judi Carsrud of the National Association of Insurance and Financial Advisors (NAIFA) to Virginia529, included in this Report as Appendix I.

Table 2-1: Summary of Features of State-Facilitated Retirement Models			
	Auto-IRA	**MEP**	**Marketplace**
Description	State-sponsored program for businesses without a retirement plan to facilitate employee payroll contributions to an IRA. Administration and recordkeeping outsourced to a third-party provider.	State-sponsored program, voluntary to eligible employers without an employee retirement plan which multiple unrelated employers can join. A qualified financial firm manages the plan.	Website managed by the state, designed to set basic standards and simplify the process of finding and comparing retirement arrangements for businesses and individual savers. Plans are offered by qualified financial firms identified by the sponsoring state.
Participation	Mandatory for employers meeting time in business and number of employee criteria; employees are auto-enrolled but may opt out of participation at any time.	Voluntary for eligible employers; employees are auto-enrolled but may opt-out of participation at any time.	Not applicable.
Contributions	Contributions are made by employees only by direct deposit facilitated by employers; employers may not contribute. IRA limits set annually by the IRS.	Depending on plan features, contributions may be made by both employers and employees. Basic elective deferral limits set annually by the IRS – contribution limits generally higher than in an IRA plan.	Marketplace may offer both defined benefit and defined contribution plans; contributions may be made by both employers and employees. Depending on the vehicle, IRA or basic elective deferral limits set annually by the IRS apply.
Tax Treatment	Most use post-tax (Roth) contributions; pre-tax accounts are also possible.	Contributions are pre-tax.	Depending on the vehicle, contributions can be either pre- or post-tax.
Fiduciary Responsibility	The state's fiduciary responsibility is limited, but the state provides program oversight. Participating employers are not fiduciaries.	The state or a designated body is the named fiduciary, but participating employers share some responsibility.	The adopting employer has fiduciary responsibility.
Administrative Responsibilities	Most administrative responsibilities are assumed by the selected program administrator, including employee and employer communications. Employers facilitate enrolling employees and payroll contributions.	The state/program administrator and participating employers share responsibilities for coordinating and managing the plan.	The adopting employer is responsible for coordinating and managing the plan within the organization.
Administrative Costs	Startup costs and some program management costs are incurred by the sponsoring state; administrative and investment management costs are paid by participating employees as negotiated and monitored by the state.	Startup costs and some program management costs are incurred by the sponsoring state. The state and participating employers pay administrative fees. Participating employees pay investment fees.	The state faces nominal fees to manage the website. Adopting employers may pay administrative fees which vary by employer size or marketplace rules. Participating employees pay investment fees.

National Landscape.

As of the publication of this Report, 45 states have introduced legislation related to, and 12 states have enacted and are in the process of implementing, retirement savings programs for private-sector workers who do not have a retirement plan available through their employer. Figure 2-1 illustrates the interest in public policy solutions to the national issue in America - the need to close the retirement savings gap.

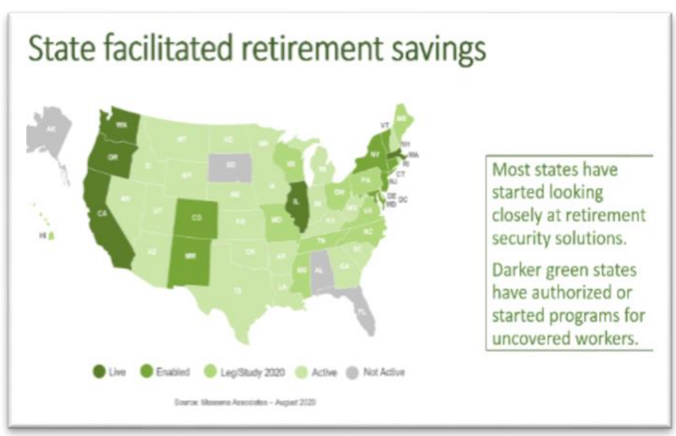

Figure 2-1: National Landscape

As previously noted, states whose legislatures have authorized adoption of a state retirement savings program vary in their approach. Table 2-2, below, provides a visual summary of the specific programs adopted as of the date of this Report. As is readily apparent, there is a preference for auto-IRA programs in states which have adopted plans. This is due largely to the simplicity and ease of access afforded by the auto-IRA model and the fact that participation by eligible employers is mandatory.

Table 2-2: State Programs as of December 2020

Auto-IRA Programs	Multiple Employer Plans	Marketplace
Oregon	Massachusetts	Washington State
Illinois	*Vermont	*New Mexico
California		
*Maryland		
*Connecticut		
*New Jersey		
*New Mexico		
*New York		
*Colorado		

Enabled but the program has not accepted first contributions yet

Although the auto-IRA continues to be the most popular state-facilitated retirement savings model, this Report analyzes each of the three state-facilitated plan models to compare implementation and operating experiences of the states.

Nearly all states with active or enabled programs began their journey with at least one legislated study. Using state-specific and national level data, states have generally confirmed that significant portions of their workforce are not covered by retirement plans at work and are not saving for retirement outside of work. The national and state-specific research often cited by state retirement studies shows that somewhere between 30-45% of private sector workers lack a workplace savings arrangement.[19] As was found by Virginia's Cost of Doing Nothing Report, discussed in Chapter 4 of this Report, states are identifying growing state-level fiscal impacts associated with the lack of retirement saving by their populations.[20] The following describes some of the significant state experiences and results to date across the three program types, starting with the popular auto-IRA model.

[19] Pew Comments Memo at 11.
[20] ESI Report at 7-8.

State Private Retirement Savings Programs.

Auto-IRA Implementation History.

Illinois and Oregon were the first states to adopt auto-IRA legislation in 2015. Oregon's program, branded as OregonSaves, launched with a pilot in 2017 and applies to all employers in the state without a qualified workplace plan. It has rolled out in phases and is currently enrolling those in its last wave—employers with fewer than five employees—which pre-pandemic was targeted for January 2021.

The Pew Charitable Trusts recently conducted a survey of participating OregonSaves employers and found, despite mandatory participation, approximately three quarters had a positive or neutral experience with the program.[21] The same survey found eight in ten employers experienced no out-of-pocket costs while those that did cited increased spending on office supplies and payroll processing time.[22] Explicitly designed as an individual, not an employer plan, businesses should not field questions from participating employees and Pew's survey found this to be broadly the case with 80% of respondents hearing only "a little" or "no questions at all" from their employees about the program.[23]

Illinois' program, Illinois Secure Choice, was the second to launch, in 2018, and covers employers with 25 or more employees and no retirement plan. As in Oregon, the program used a phased rollout, but over a shorter timeframe. The program's enrollment deadline for the final wave of employers was in November 2019.

Three additional states authorized programs in 2016: Maryland with its Maryland$aves program, Connecticut with its Retirement Savings Authority, and California with CalSavers. Of these efforts, only CalSavers has launched its program, covering employers with five or more employees that do not offer a retirement plan. After a pilot initiated in late 2018, the program is rolling out in three large waves with a September 2020 deadline for the first wave covering those with more than 100 employees. The two successive waves covering employers with more than 50 workers and those with five or more workers have employer deadlines in June 2021 and 2022, respectively.

[21] The Pew Charitable Trusts, *Employers Express Satisfaction with New Oregon Retirement Savings Program* (July 2020), https://www.pewtrusts.org/en/research-and-analysis/articles/2020/07/30/employers-express-satisfaction-with-new-oregon-retirement-savings-program.
[22] *Id*.
[23] *Id*.

Auto-IRA Program Experience.

Auto-IRAs have become the most widely adopted model and show the greatest hope for expanding retirement account coverage and use relatively quickly.

Despite the fact that programs are very new, and awareness is still evolving, programs are growing across all key metrics month by month.

Auto-IRA Metrics

As of November 2020, the three currently operating programs, OregonSaves, Illinois Secure Choice, and CalSavers have amassed more than $134 million in savings, with 219,419 funded accounts and 26,408 employers registered. The average monthly contribution is $106.00 across the 3 programs.

***Source**: [Georgetown Center for Retirement Initiatives](#)* (Nov. 2020)

CalSavers reports a participation rate of approximately 70% of initially enrolled employees, in line with projections made in the initial market and feasibility studies.[24] This is similar to the participation rate of 67% the Boston College Center for Retirement Research (CRR) estimated for the OregonSaves program in 2019.[25]

As the auto-IRA model matures and expands to other states, legislatures are adopting best practices and lessons learned from the first wave of state-facilitated savings programs.[26]

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[24] CalSavers Retirement Savings Program, *Participation & Funding Snapshot Data as of 6/30/20*, Chart 4 (June 2020), https://www.treasurer.ca.gov/calsavers/meeting/2020/20200727/staff/2.1.pdf.

[25] Laura D. Quinby *et al.*, *Participation and Leakages in Oregon's Auto-IRA*, CRR WP 2019-15, 5 (Nov. 2019), https://crr.bc.edu/wp-content/uploads/2019/11/wp_2019-15_.pdf.

[26] Though the auto-IRA plan model is gaining in popularity, it has been the target of several lawsuits unsuccessfully challenging the model's legality. The most prominant case against a state auto-IRA plan was brought by lobbying firm Howard Jarvis Taxpayers Association against California's CalSavers plan. The crux of the plaintiff's argument in that case was that the CalSavers program was subject to the Employee Retirement Income Security Act (ERISA) and, therefore, was preempted under the Supremacy Clause of the United States Constitution. *Howard Jarvis Taxpayers Ass'n v. Calif. Secure Choice Ret. Sav. Program*, No. 2:18-cv-01584-MCE-KJN (U.S. Dist. Ct., E.D. Calif.). This argument was based, in part, on the United States Department of Labor's issuance and subsequent revocation of a safe harbor rule. In 2016, the Department of Labor promulgated a safe harbor rule for auto-IRAs which would allow political subdivisions to establish a state-facilitated auto-IRA without being considered an employee benefit plan under ERISA. See, T. Katuri Kaye, *California to Move Forward with Auto-IRA Despite Loss of ERISA Safe* Harbor (June 2017), https://www.truckerhuss.com/2017/06/california-to-move-forward-with-auto-ira-despite-loss-of-erisa-safe-harbor/. In 2017, however, the new administration nullified the safe harbor meaning that while state auto-IRA programs were not prohibited, the sponsoring states no longer had assurance that the programs would not be considered employee benefit programs subject to ERISA. *Id*. However, this safe harbor was not the deciding factor in the *Howard Jarvis* case. In rejecting the plaintiff's claim both the trial and appellate courts held that CalSavers was not preempted by federal law because the plan was structured such that it was not an "employee benefit plan" subject to ERISA. 2019 U.S. Dist LEXIS 54657 at *19 (E.D. Cal. March 29, 2019). Essentially, the courts found that because the programs were not governed by ERISA, there could be no preemption issue. The plaintiff filed a notice of appeal on April 6, 2020 and that litigation is pending. *See generally*, Law360, *Ore., Ill. Back CalSavers in 9th Cir. ERISA Battle* (Oct. 21, 2020), https://www.law360.com/benefits/articles/1321463/ore-ill-back-calsavers-in-9th-circ-erisa-battle.

MEP Implementation History.

Until recently, MEPs could only be used by employers with a common nexus. For this reason, MEPs historically were sponsored by membership organizations, trade groups, and other instances where employer commonality brought businesses together but had limited broader potential. In 2015, the U.S. Department of Labor Employee Benefits Security Administration expanded the universe of MEPs when it issued an Interpretive Bulletin which laid out a safe harbor in which a state could serve as a common nexus for local employers, thereby opening the door for a state to sponsor a statewide MEP.[27] Several states moved forward with exploring state MEPs as a solution to the coverage gap and Massachusetts and Vermont passed legislation authorizing state-sponsored MEPs in 2015 and 2017, respectively, although the coverage of the Massachusetts program is limited.

Massachusetts was the first state to launch a MEP, making the Massachusetts Connecting Organizations to Retirement (CORE) Plan available to small non-profits in the state in 2017. The CORE plan is offered to non-profits with 20 or fewer employees. As recently as the 2020 legislative session, Massachusetts has considered bills to expand the program by making the plan available to for-profit employers and other attempts have been made to lift the employee cap. So far, no efforts have moved forward and participation in CORE remains limited.[28]

Vermont's MEP authorization originated out of a series of reports produced by the Public Retirement Study Committee, a group created by H885 2014 (VT). The Committee was charged with completing an interim study of the feasibility of establishing a public retirement plan and produced four reports between 2014 and 2017, ultimately recommending the implementation of a state MEP. The legislature adopted that recommendation by creating the Green Mountain Secure Retirement Plan in 2017.

The plan's governing board initially solicited bids in 2018 for a third-party financial firm to provide administrative services to the plan. Unable to come to terms with the submitting firms, the board worked with the legislature to modify the implementing legislation to allow for a more flexible plan structure that included the option to structure the Green Mountain Secure Retirement Plan as an aggregated single-employer prototype plan. While structurally different from a MEP in that each employer technically adopts an individual plan, a prototype plan approach seeks to reduce administrative burden and compliance costs by providing uniformity across plans. The modified legislation was adopted in 2019 and the board reissued its call for third-party administrative services in June of that year. Vermont ultimately decided to offer a MEP and not a prototype plan, has reached agreement with a plan provider and the plan is currently scheduled to launch in 2021.

[27] 29 C.F.R. § 2509.2015-02 (2015).
[28] Pew Comments Memo at 36.

MEP Experience.

So far, state MEPs have seen low employer acceptance and limited financial services industry participation. In its favor, a state MEP allows for high contribution limits, employer matches, and potentially lower costs and responsibility to employers than a standalone 401(k) plan.

MEP Metrics

As of October 2020, the one currently operating state MEP program, Massachusetts, has amassed approximately $6.75 million in assets under management across fewer than 600 participants from 80 participating employers.

Source: *Georgetown Center for Retirement Initiatives Massachusetts CORE Implementation Update (Oct. 2020)*

However, state MEPs have failed to gain traction to address the retirement savings gap. As of December 31, 2019, after approximately two years in operation, the Massachusetts CORE plan had $4.4 million in assets across 74 employers and fewer than 500 employee participants, or less than 1% of Massachusetts employees working in small non-profits.[29] Those numbers had not risen significantly by August 2020, by which point an additional six employers had joined the plan and assets under management increased by only $2,350,000.[30] Indicative of these coverage struggles, although Vermont has secured a provider and will launch their MEP in 2021, they experienced difficulty attracting a financial services firm to manage the administration of their proposed MEP.

State MEPs rely on employers actively identifying and adopting the plan which is not dissimilar from the status quo which, Boston College's Center for Retirement Research (CRR) notes, has not led to significant changes in employer adoption or employee coverage over the last 40 years.[31]

As noted, the SECURE Act makes private sector MEPs available more broadly to employers with no common nexus beginning as soon as January 2021. Generally, the wider availability of MEPs is not expected to expand employer usage and employee coverage significantly. According to Mark Iwry, senior fellow at the Brookings Institution and former US Treasury Department Deputy Assistant Secretary for Retirement and Health Policy, budget estimates

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[29] Massachusetts Defined Contribution CORE Plan, *Minutes of the Commonwealth of Massachusetts CORE Investment Committee*, 2 (Mar. 2020), https://www.mass.gov/doc/core-plan-investment-committee-meeting-minutes-march-10-2020/download. *See also* Center for Retirement Research at Boston College, *Study B: Colorado Small Business Marketplace Final Report*, 19 (Feb. 2020), https://www.colorado.gov/pacific/sites/default/files/atoms/files/CRR%20-%20Study%20B%20-%20Final%20Report%20%281%29.pdf.

[30] Deborah Goldberg, *The First State-Facilitated MEP in the Nation: How the MA CORE Plan is Helping Nonprofit Workers Save for a Financially Secure Retirement* (Oct. 2020), https://cri.georgetown.edu/the-first-state-facilitated-mep-in-the-nation-how-the-ma-core-plan-is-helping-nonprofit-workers-save-for-a-financially-secure-retirement/.

[31] Center for Retirement Research at Boston College, *Study B: Colorado Small Business Marketplace Final* Report, 1 (Feb. 2020), https://www.colorado.gov/pacific/sites/default/files/atoms/files/CRR%20-%20Study%20B%20-%20Final%20Report%20%281%29.pdf.

from the Joint Committee on Taxation on the impact of SECURE Act MEPs imply they will account for 600,000 to 700,000 new savers over the next 10 years which represents approximately 1% of the current coverage gap.[32]

Retirement Plan Marketplace Implementation History.

In 2015, Washington passed legislation enacting the first retirement plan marketplace in the country. Since then, New Jersey, New Mexico, and Vermont have all adopted legislation which includes a marketplace component; however, to date, only Washington's marketplace has launched.

Washington's statute directed the State Department of Commerce and Department of Financial Institutions to establish a program that listed retirement products which complied with certain requirements including offering low investment fees and no costs to sponsoring employers. To encourage competition, the legislation required at least two providers join before the program could launch. Unfortunately, interest among financial providers in joining the marketplace website was so limited the marketplace was unable to launch until March of 2018, with two certified options, one offering IRAs and the other offering 401(k)s.[33] A third provider, also offering IRAs, joined the marketplace in 2020.[34]

New Jersey followed Washington in adopting marketplace legislation in 2016. Although the legislature passed an auto-IRA bill, Governor Chris Christie vetoed the legislation and recommended a retirement plan marketplace be adopted in its place which the legislature agreed to. However, since enactment, few efforts have been made to implement the program and in 2018 the legislature again passed an auto-IRA bill which was signed into law by Governor Phil Murphy. New Jersey began appointing members to its Secure Choice Savings Board in January of 2020. As of the date of this Report, the fate of the New Jersey marketplace is uncertain.

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[32] Adam Grainger, *Roundtable Dispatch – How Does the SECURE Act Impact You, the Plan Sponsor?* (Feb. 2020), https://www.iimemberships.com/content/Roundtable-Dispatch-%E2%80%93-How-Does-SECURE-Act-Impact-You-Plan-Sponsor. *See also* Joint Comm. on Tax., JCX-23-19, *Estimated Budget Effects of H.R. 1994, the "Setting Every Community Up for Retirement Enhancement ("SECURE") Act of 2019"* (May 2019), https://www.jct.gov/publications.html?func=startdown&id=5189.

[33] The Washington State Small Business Retirement Marketplace launched with financial services firms Finhabits and Saturna offering IRAs and 401(k)s respectively. In 2020 a third provider, Aspire, began offering IRAs as well. *See generally* Washington Department of Commerce, *The Small Business Retirement Marketplace: Available Plans* (last visited Dec. 1, 2020) http://retirement-marketplace.com/available-plans/.

[34] *Id*.

Highlighting the fact that these programs need not be mutually exclusive, New Mexico and Vermont each have statutory language that creates marketplaces alongside other retirement efforts. In its 2017 legislation enabling a MEP, Vermont also authorized a marketplace to operate alongside the MEP, to be implemented no earlier than the second year of the MEP's operation. As described above, Vermont ran into delays implementing its broader MEP and the marketplace remains on hold. New Mexico also calls for a marketplace in conjunction with the state's auto-IRA program passed in February of 2020. The legislation calls for the marketplace to be implemented no later than July of 2021 with an auto-IRA program to follow in the beginning of 2022.

Retirement Plan Marketplace Experience.

The retirement plan marketplace offers a limited state role and low costs, but has seen very low take-up and limited financial services industry participation. Although the Washington Retirement Marketplace has been operating since 2018, as of early 2020 preliminary outcomes from Washington indicate that employers currently participating account for less than 1% of the pool of eligible employees.[35] As previously noted, in spite of being in operation for several years, only three providers currently are participating in the Washington plan.

Marketplace Metrics

As of December 2020, the one currently operating marketplace program, Washington State, has amassed less than $1.3 million in savings across fewer than 200 savers.

Source: *Program Manager - Office of Economic Development and Competitiveness, Washington State Department of Commerce.*

Additionally, the marketplace approach is only intended to offer savings arrangements already available in the private market. Analysis by CRR notes that nationwide the percentage of employers offering a retirement plan has not moved significantly over the last 40 years despite the introduction of low-cost retirement savings arrangements developed at the state and federal level including Washington's marketplace, simplified employee pensions (SEPs), Savings Incentive Match Plan for Employees (SIMPLEs), and the U.S. Treasury's My Retirement Account (MyRA).[36] CRR argues, "these results suggest that few employers are likely to participate in the absence of an employer mandate."[37]

The lack of employer and employee participation in the Washington Retirement Marketplace led the sponsor of the original implementing legislation, State Senator Mark Mullet, to revisit the concept and propose an auto-IRA program to replace the Marketplace. The proposal passed the Washington State Senate in 2020, but not the House. New Jersey also has turned its attention away from the Marketplace and towards an auto-IRA solution.

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[35] Center for Retirement Research at Boston College, *Study B: Colorado Small Business Marketplace Final Report*, 1 (Feb. 2020), https://www.colorado.gov/pacific/sites/default/files/atoms/files/CRR%20-%20Study%20B%20-%20Final%20Report%20%281%29.pdf.

[36] *Id*.

[37] *Id*.

Programs in Progress.

Both Maryland and Connecticut's auto-IRA programs were placed within newly created quasi-governmental agencies and the States have spent the four years since passage organizing the agencies, designing the programs, and soliciting bids for financial service partners.

Maryland will operate under a somewhat unique approach in that the program incentivizes employer participation by waiving an existing annual state corporate filing fee and only requires participation by employers utilizing payroll systems or service providers. Additionally, the enabling legislation imposed an aggressive fee cap which could hinder its ability to attract any interested program administrators, which did not see a path to sustainability. The agency has received interpretive relief to allow higher fees until it operates at closer to breakeven and they recently closed a request for proposals and received interest from potential providers. Maryland$aves now expects to launch a pilot in early 2021 with a full launch later that year.

The Connecticut Retirement Savings Authority (CRSA) initially struggled with a limited appropriation which hampered efforts to launch a program. In early 2020, Connecticut Governor Ned Lamont reorganized CRSA under the jurisdiction of the Connecticut Office of the State Comptroller and in April 2020 CRSA announced it had selected a program administrator and, at last update, plans to launch in early 2021, covering employers which do not offer a retirement plan and employ five or more employees.

The legislatures in New Jersey in 2019 and Colorado in mid-2020 authorized the creation of auto-IRA programs in those states. Additionally, several cities and counties have expressed an interest in their own auto-IRA programs. The City of Seattle, Washington became the first sub-state political subdivision to enable a program in 2017 after Washington authorized a marketplace program instead of an auto-IRA program.

Seattle's program applies to all employers without a plan but the city postponed implementation in 2019 pending possible action by Washington to authorize an auto-IRA plan. New Jersey's program, which applies to employers without a plan and 25 or more workers, will begin enrolling participants in 2021 or 2022. Colorado's program applies to businesses without a plan and five or more workers, and has an appropriation for startup costs of just under $1.2 million for fiscal year 2020-21; Colorado's Secure Savings Plan Board's appointments were confirmed in September 2020 and the Board has begun regular meetings.[38]

New York (2018) and New Mexico (2020) adopted unique auto-IRA programs that do not require employer participation. What the voluntary nature of participation means for coverage and program adoption remains to be seen. New York's program is intended to be implemented no later than 2021 and New Mexico's by 2022. Note, New York has not launched their program or in fact begun to establish their governing board. They have proposed language that would make their program mandatory for employers, but this change has not yet been adopted.

[38] S.B. 20-200, 71st Gen. Assemb., Reg. Sess. (Co. 2020).

Chapter 3: Virginia Market Survey

Summary: Many Americans are not saving enough for retirement, and potential overreliance on federal programs—such as Social Security and Medicare—to ease income insecurity among aging populations is likely to strain government budgets. A national survey by Pew found that about a third of employees surveyed did not have access to a retirement savings plan at work.[39] Though employers generally recognize the importance of offering a retirement savings option to employees, countervailing concerns of cost, perceived legal and administrative burdens, and the difficulty of plan selection still prevent many employers from setting up a workplace plan. It is clear that though insufficient employee savings have an impact on both individual households and the financial health of the Commonwealth as a whole, employers may not always be positioned to offer a retirement savings option to their employees even if they agree that it is the right thing to do.

Scope: As outlined in Chapter 506 of the 2020 Virginia Acts of Assembly, this analysis includes an examination of the level of interest by Virginia employers in participating in a state-sponsored private retirement option. Virginia529 also conducted an employee-focused survey which provided additional insights and is fundamental to understanding employee perspectives across the Commonwealth.

Methodology: The employer-focused portion of this Report includes a two-pronged approach to ascertaining employer perspectives: (i) a quantitative survey of 301 Virginia employers who currently do not offer retirement savings benefits to employees (full- or part-time) and (ii) qualitative in-depth interviews with individual employers who do not currently offer retirement savings benefits to employees. For the quantitative survey, engagements occurred both online and by phone and were representative of a wide range of employers by size, industry, and location throughout the Commonwealth. For the employer qualitative interviews, Pew conducted one-on-one telephonic interviews lasting approximately 30 minutes per employer.

The employee portion of this study was conducted as a quantitative online survey of 968 employees throughout the Commonwealth. As with the employer survey, the employee survey is representative of employees by geographic location, industry, race and gender. It is worth noting that both surveys were conducted during a period of time where both employers and employees were under unique pressures due to the impact of the ongoing COVID-19 pandemic on businesses and workers. This created some challenges in contacting employers to gain their input and was reflected in some of their candid responses.

[39] John Scott, *et al.*, *Survey Highlights: Worker Perspectives on Barriers to Retirement Saving,* 3 (Sept. 2017), https://www.pewtrusts.org/-/media/assets/2017/09/barriers_to_worker_savings_report_draft.pdf.

Key Findings:

1. In Virginia, employers who do not offer employer-sponsored retirement plans are often small businesses, although some larger employers also do not provide a retirement plan for employees – often when they have a large cohort of lower compensated or part-time employees or are in a high turnover industry. In addition, businesses without retirement plans are more prevalent in the construction, retail, healthcare and non-retail services industries across Virginia – industries which historically have not received benefits.

2. In Virginia, the profile of surveyed employees not covered by a retirement plan generally consists of workers of all ages, although workers 45 and older are more likely to have access to retirement savings options. More than half of respondents are white, nearly a third represent minority populations including Black, Asian and Hispanic employees and 53.5% of respondents work in construction, healthcare, retail, hospitality and food service and other non-retail services industries.

3. **Virtually all employers surveyed believe saving for retirement is important**.

4. Barriers to offering a retirement plan include: (i) lack of resources to administer a retirement plan (especially among businesses with fewer than 10 full-time employees); (ii) relative high cost to establish plans; (iii) lack of knowledge about options; and (iv) choosing to focus on other employee benefits first.

5. The majority of employers believe that all working Virginians should have access to a retirement savings option through their employer and that providing a retirement savings plan to employees is the right thing to do.

6. When asked about the importance of potential plan features, employers placed features of convenience in their top three preferred features: (i) the ability for employees to have online and phone access to their accounts; (ii) employers having direct access to program representatives to provide support and assistance with key functions; and (iii) account portability for employees.

7. Employers also favorably ranked features such as automatic enrollment, a flexible 5% default contribution level, and the ability for employees to have access to an emergency fund.

8. The majority of Virginia employers would forego more services and plan options in favor of having no legal responsibility for running the plan (82%) or a program with no fees to employers (78%).

9. In both the Commonwealth and nationally, employees generally like the concept of an auto-IRA, automatic enrollment (with the choice to opt-out) and automatic escalation of contributions.

10. Virginians generally trust the state to perform responsibly, particularly as it relates to fiduciary responsibilities and investment management.

11. Across the more than 950 employees surveyed, interest in, support for, and intent to use a retirement savings program if offered through an employer was very strong.

12. Although financial literacy and education play a role in shaping consumer behaviors, there is still a significant shortfall in the level of retirement savings and financial preparedness for retirement.

Background – Employers in Virginia.

For this study, Richmond-based research analytics firm Alan Newman Research (ANR) was contracted to conduct a study to:

- Understand employer attitudes toward retirement savings in general and at the workplace among employers who do not offer retirement benefits to employees;
- Identify barriers to offering a retirement savings plan to employees;
- Identify factors of importance when considering offering a retirement savings program to employees; and
- Assess overall appeal of the retirement savings program being considered.[40]

The ANR survey of Virginia-based employers who do not currently offer retirement savings benefits yielded 301 respondents. It is important to note that while the survey was fielded between August 17th, 2020 and October 15, 2020, contact rates during data collection were extremely low compared to ANR's historical trends due to the ongoing COVID-19 pandemic and associated shutdowns, employees working remotely and other related factors.[41] This impact also was reflected in the survey results, with three-fourths of survey respondents stating that their company had been negatively impacted by COVID-19, most commonly in the form of lost revenue.[42]

Because of the pandemic it is difficult to obtain a baseline of the number and type of employers currently and still operating in the Commonwealth, making comparison to historical trends difficult. At the same time, this survey sought to be as representative as possible by attracting employers through a range of methods and sources, and by diversifying across key characteristics such as business size (the number of full time and part time employees, the

[40] Alan Newman Research, *Saving for Retirement: Virginia Employer Survey Presented to Virginia529*, 3 (Nov. 5, 2020) [hereinafter ANR Presentation]. The entire ANR Presentation can be found at Appendix D of this Report.
[41] *Id*. at 5.
[42] *Id*.

number of business locations), company classification (all, woman-owned, minority-owned, veteran-owned), industry, geography, and urban density.[43] Respondents were diverse by role (owner/partner or other), age, political views, gender, race and ethnicity, and education.[44]

Employer Demographics.

In Virginia, there are approximately 98,404 total employers and 65% of them do not offer their employees a retirement plan.[45] Those 64,196 businesses not offering a plan account for 84% of all uncovered workers in the Commonwealth.[46] Table 3-1 shows the breakdown of the number of businesses by region and the estimated share of the firms by region that do not offer a retirement plan. Though data shown reflects Census Bureau Current Population Survey data from 2016, it conveys the coverage gaps across the Commonwealth in employer-sponsored retirement plans for Virginians.

Table 3-1: Businesses not Offering Plans, by Metro Area[47]

Metro Area	Number of Businesses	Number of Businesses not Offering a Plan	Share of Affected Businesses
Northern Virginia	20,357	13,280	21%
Hampton Roads	19,531	12,741	20%
Richmond	15,456	10,083	16%
Roanoke	3,548	2,315	4%
Lynchburg	2,957	1,929	3%
Charlottesville	2,620	1,709	3%
Blacksburg, Radford	2,028	1,323	2%
Winchester, VA-WV	1,544	1,007	2%
Harrisonburg	1,529	998	2%
Others	28,830	18,810	29.3%
Total	**98,404**	**64,196**	**100%**

Source: CNU Report at 9.

[43] *See* ANR Presentation at 30-34.
[44] *Id.*
[45] CNU Report at 9.
[46] *Id.*
[47] CNU Report at 9. The CNU Report calculated the “share of affected businesses” by dividing the number of businesses by the number of businesses not offering a plan. This provides an overall percentage of businesses without a plan within the broader population of all businesses in each metro area listed.

In order to understand the barriers employers face to offering a retirement plan, an examination of the profile of employers is fundamental.

Generally speaking, the Virginia529 employer quantitative survey was fairly balanced in terms of representation across the Commonwealth and achieved a 95% confidence level with a margin of error rate of ± 5.7%.[48] Criteria used to screen respondents included the following:

- Employed or self-employed in Virginia in 2020 at a company with at least two employees;
- Involvement in decision-making regarding employee benefits; and
- Company does not offer retirement savings benefits to any employees.[49]

Approximately 74% of respondents had fewer than 10 full-time employees and 80% reported fewer than 10 part-time employees.[50] Of the total respondents, 65% were women, minority or veteran business owners.[51] Figures 3-1 and 3-2 illustrate a balanced representation of male and female respondents with the majority of respondents falling into the 35 to 64 age category.[52]

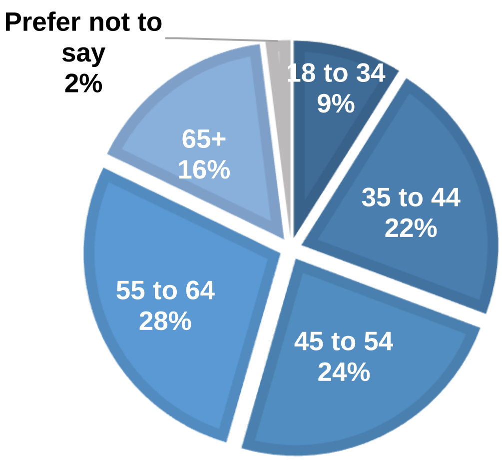

Figure 3-1: Employer Age Demographics

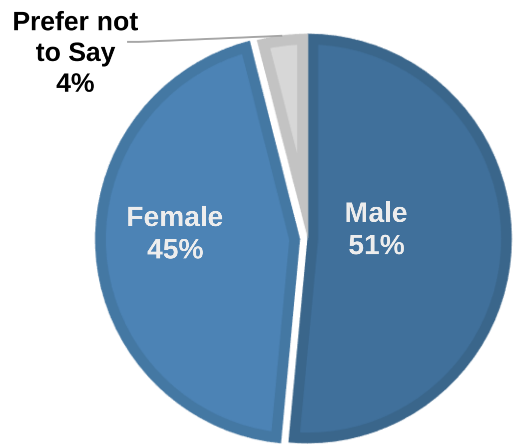

Figure 3-2: Employer Gender Demographics

According to the CNU Report, over half of employers in Virginia who do not offer a retirement plan for employees fall into five categories:

- Healthcare and social assistance (14%)
- Accommodations and food service (12%)
- Retail trade (12%)

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[48] ANR Presentation at 4.
[49] *Id*.
[50] *Id*. at 9.
[51] *Id*. at 10.
[52] *Id*. at 33.

- Professional, scientific and technical (10%)
- Construction (9%)[53]

The current Virginia529 employer market survey captured a diverse set of answers from similar industries; 61% of respondents reported their work industries using the following categories:

- Other services which included childcare, education, consulting, non-profit, entertainment, landscaping, and photography (26%)
- Retail trade (13%)
- Construction (11%)
- Restaurant (6%)
- Healthcare and social assistance (5%)[54]

Virginia-based Employer Perspectives.

The VRS Report recommended consideration of potential impacts of a state-facilitated retirement savings program on key stakeholders including employers and employees. Such considerations included program structure, participation threshold, responsibility and liabilities.[55]

Key Findings - Employer Attitudes:

Virginia529 crafted the employer survey to capture broad employer attitudes towards the provision of retirement savings options to their employees. The survey began with a general assessment of employer attitudes towards saving, seeking insights on employers' reasons for not offering a retirement plan and perception of desirability of offering a plan. Notable trends are highlighted below:

- **98%** - Percentage of employers, regardless of company size, location, or political views, who think saving for retirement is an important issue.[56]

- **77%** - Percentage of employers who agree that the onus of saving for retirement is the employee's responsibility.[57]

- **91%** - Percentage of employers who think it is important for employees to save money for retirement while employed at their company or business.[58]
    - Companies with 10 or more full-time employees were more likely than those with fewer employees to agree that providing a retirement savings plan to employees

[53] CNU Report at 2, 11.
[54] ANR Presentation at 10.
[55] VRS Report at 11.
[56] ANR Presentation at 14.
[57] *Id*. at 15.
[58] *Id*. at 14.

is the right thing to do and that all working Virginians should have access to a retirement savings option through their employer.[59]

- This contrast between companies with less than 10 full-time employees and those with greater than 10 full-time employees underscores the need for simple and cost-effective methods for employers to provide retirement plan options to their workforce to better accommodate employers with fewer resources.

Though the employer quantitative survey was Commonwealth-specific, respondent attitudes generally track with the sentiment of employers across the country. For context, in 2016 Pew conducted focus groups in Philadelphia, Chicago, Dallas, and Los Angeles that included 63 representatives of small (5-49 employees) and medium-size (50-249 employees) employers.[60] The intent of the focus groups was to elicit thoughts on the motivations for and challenges in offering a plan, their perspectives on new state-level policies, and their views on specific plan features to encourage savings.[61]

The conclusions from the focus groups are consistent with the trends in Virginia, most notably:

- Most employers who offer a retirement savings plan said a plan helps attract and retain talent, and several said they see offering workers a way to save for a secure retirement as a fundamental responsibility that reflects company values.[62]

- Employers without retirement plans said they saw multiple challenges with the prospect of offering one, including beliefs that their workers value higher salaries over increased benefits and that low-wage workers would have difficulty affording regular contributions.[63] These employers also cited worries about their own financial costs and difficulties setting up plans.[64]

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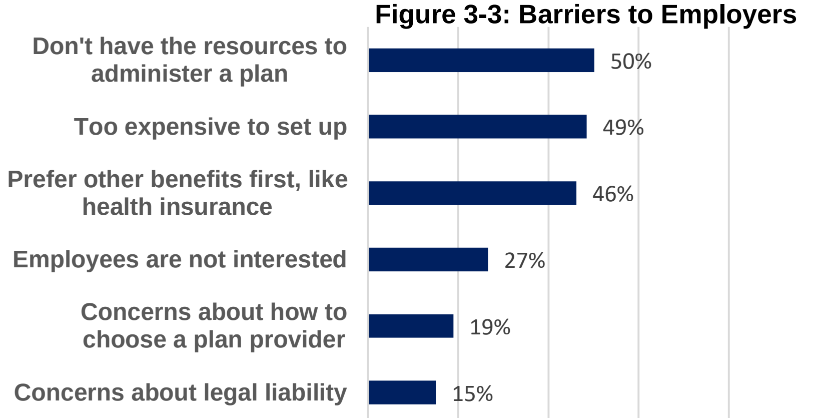
[59] *Id*. at 16.
[60] The Pew Charitable Trusts, *Business Owners' Perspectives on Workplace Retirement Plans and State Proposals to Boost Savings* (Sept. 7, 2016), https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/09/business-owners-perspectives-on-workplace-retirement-plans-and-state-proposals-to-boost-savings.
[61] *Id*.
[62] The Pew Charitable Trusts, *Brief: Business Owners' Perspectives on Workplace Retirement Plans and State Proposals to Boost Savings*, 2 (Aug. 2016), https://www.pewtrusts.org/-/media/assets/2016/09/business_owners_workplace_retirement_plans.pdf.
[63] *Id*.
[64] *Id*.

Key Findings – Employer Barriers:

A 2017 national survey of over 1,600 small- and medium-sized business owners or managers found that key changes that could lead employers to offer a plan include greater profitability, financial incentives, and increased demand from employees.[65] Within the Commonwealth, 59% of employers agree that all working Virginians should have access to a retirement savings option through their employer and 84% agree that providing a retirement savings plan helps attract workers.[66] In spite of that, many employers do not offer plans. Therefore, to analyze potential solutions to the retirement savings gap, it is critical to examine barriers to employers offering a retirement plan to their employees.

Figure 3-3 illustrates several key plan implementation barriers for employers in Virginia. These include: lack of resources to administer a plan, cost to set up a plan, and employee preferences for benefits other than retirement savings.[67]

Figure 3-3: Barriers to Employers



Generally speaking, though costs vary based on employer size, fee structure, and plan model, average administrative costs for an employer with more than two employees can range from as low as $1,250 to over $3,000 a year for an employer who is small enough not to require an audit.[68] The employer may also have implicit costs associated with plan management functions that cannot be outsourced, such as oversight of the plan provider, employee engagement, and general compliance.[69] Plan participants also pay asset management fees on their account

[65] The Pew Charitable Trusts, *Chartbook: Small Business Views on Retirement Savings Plans*, 1 (Jan. 2017), https://www.pewtrusts.org/~/media/assets/2017/01/small-business-survey-retirement-savings_f.pdf.

[66] ANR Presentation at 15.

[67] ANR Presentation at 21.

[68] *See e.g.* Sharebuilder401(k), *What Will a 401(k) Cost?* (last viewed Dec. 10, 2020), https://www.sharebuilder401k.com/help/understanding-401k-costs/; John Stebbins, *How Much Does Offering a 401(k) Cost an Employer? Pricing and Fees* (Oct. 5, 2020), https://www.completepayrollsolutions.com/401k-cost/; Liz Sheffield, *How Much Does a 401(k) Cost Employers?* (May 15, 2020), https://humaninterest.com/blog/how-much-does-a-401k-cost-employers/.

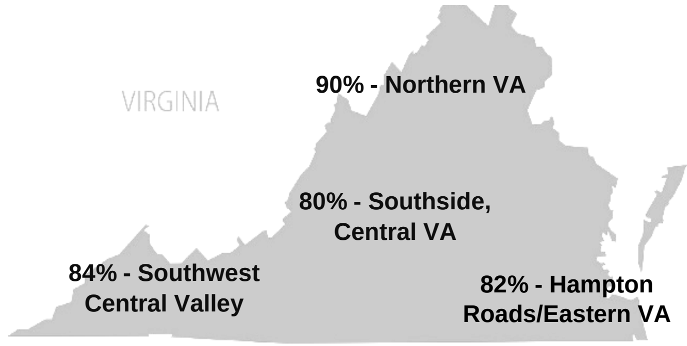
[69] *See generally,* Liz Sheffield, *How Much Does a 401(k) Cost Employers?* (May 15, 2020), https://humaninterest.com/blog/how-much-does-a-401k-cost-employers/.

balances, and sometimes activity-based fees for certain transactions.[70] The smaller the plan is, the greater the average cost to plan participants.[71]

Key Findings – Program Appeal:

Figure 3-4: Program Appeal by Region

Source: *ANR Presentation at 23.*



As is clear from both the results of the Commonwealth-specific employer quantitative survey and previous work conducted across the country, there are certain fundamental barriers to employers offering a retirement savings plan to their employees. However, when asked about a potential retirement savings program operated as a public-private partnership where the Commonwealth oversees the program but engages professional financial managers and recordkeepers to run the day-to–day program operations, a significant majority of respondents said such a program is appealing as shown in Figure 3-4 above.

Survey of Plan Features.

Given the wide appeal of a state-run program among Virginia employers, this section examines employer perspectives on features of the three models discussed in Chapter 2. Key findings indicate that the features of an auto-IRA program were most appealing to employers; a finding consistent with the model most states have adopted so far. This sentiment is apparent in other states as well; three of five launched programs (California, Illinois, Oregon) and seven of nine programs in development are using an auto-IRA program model.[72] Appendix A provides an overview of program features.

Key Findings – Retirement Plan Preferred Features:

The employer quantitative survey sought to broadly incorporate questions encompassing features from multiple program models, including the MEP, auto-IRA, and online retirement marketplace with the goal of determining which program features were appealing to employers. Notable trends are highlighted below:

> *"Very glad to see this program! It will help small business[es] to provide valuable benefits to their employees."*
>
> *"Please don't put additional burdens on small businesses right now. It's already a lot this year."*
>
> ***Source****: ANR Presentation at 25*

[70] *See generally,* Sharebuilder401(k), *What Will a 401(k) Cost?* (last viewed Dec. 10, 2020), https://www.sharebuilder401k.com/help/understanding-401k-costs/.

[71] *See* Liz Sheffield, *How Much Does a 401(k) Cost Employers?* (May 15, 2020), https://humaninterest.com/blog/how-much-does-a-401k-cost-employers/.

[72] AKF Consulting, *State-run Retirement Programs: Insights for Success*, 3 (Oct. 2020), https://akfconsulting.com/wp-content/uploads/SRRP-Market-Report-FINAL-as-of-2020-10-1.pdf [hereinafter AKF Report].

- When asked about the importance of potential plan features, employers placed convenience in their top three preferred features: (i) the ability for employees to have online and phone access to their accounts; (ii) employers having direct access to program representatives to provide support and assistance with key functions; and (iii) account portability for employees.[73]

- Employers also favorably ranked features such as automatic enrollment, a flexible 5% default contribution level, and the ability for employees to have access to an emergency fund.[74]

- The majority of Virginia employers would forego more services and plan options in favor of having no legal responsibility for running the plan (82%) or a program with no fees to employers (78%).[75]

Employer Qualitative Survey.

Pew conducted five in-depth interviews with five employers who agreed, during the quantitative survey, to be re-contacted for an in-depth survey; no compensation was provided. All five respondents owned or managed a small business that does not currently offer employees retirement savings options to their employees.

"I like the idea of a government-sponsored retirement option. I like the option of the business being able to either contribute or not contribute. And I like the idea of it being something the employee automatically gets enrolled in as opposed to it being like, you hire somebody, and then ask them, oh, do you want to participate in this program?"

--Small Business Owner with Less than 10 Employees

Source: *Individual Interview Transcripts, Appendix F.*

The interviews convey several common themes among small business owners: a shared commitment to their employees, reliance on payroll providers to manage routine transactions for employees, a sense of trust and confidence in state government and concern for availability of retirement savings options, particularly for young workers.[76] While all had some awareness of retirement options, responses varied in terms of ease of access to cost effective and simple methods to offer retirement options to employees.

Below is a general profile of the five respondents; interview transcripts are at Appendix F:

- **Employer #1:** Small business owner with less than 10 full-time employees in the Richmond area; food industry.[77]

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[73] ANR Presentation at 28.
[74] *Id*.
[75] *Id*. at 26-27.
[76] *See generally*, Virginia529 Report, *Individual Interview Transcripts* (2020). The entire compilation of interview transcripts can be found at Appendix F of this Report.
[77] *Id*. at 2.

- **Employer #2:** Small business owner with two full-time and two part-time employees in the Richmond area; cleaning company.[78]
- **Employer #3:** Small business owner with six employees in Northern Virginia; window tinting.[79]
- **Employer #4:** Small business owner with “a few” employees in Southside Virginia; small bail bond agency.[80]
- **Employer #5:** Small business owner with two full-time employees and one part-time employee in Roanoke; bookstore.[81]

Key Highlights and Employer Impressions.

- Access is important, particularly for younger employees, and access should be managed through a state program.[82]
- There is some skepticism regarding an employer mandate due largely to concern that a mandate will be burdensome for employers in terms of management and resources.[83]
- If not offered by an employer, retirement savings vehicles are not something employees, particularly younger ones, seek out.[84]
- Automatic enrollment and retirement plans not specifically tied to an employer are both important features; in other words, portability of benefits was by and large viewed as essential.[85]
- The complexity and responsibility of managing retirement savings plans for employees is a key reason for not offering employees retirement savings options.[86]
- There is a general lack of awareness of retirement plan options, particularly for employers with less than two years in business.[87]
- Resources often cited as sources to seek advice on starting a retirement saving plan included friends, the internet, and online networks.[88] Other sources employers look to and trust include local business chambers, small business associations, and the Commonwealth.[89]

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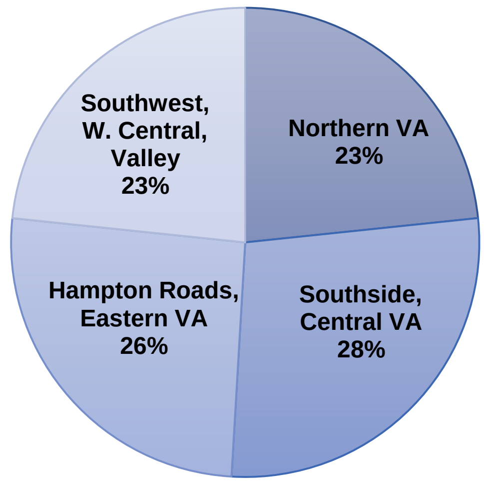
[78] *Id*. at 7.
[79] *Id*. at 11.
[80] *Id*. at 14.
[81] *Id*. at 18.
[82] *See generally, id*.
[83] *Id*.
[84] *Id*.
[85] *Id*.
[86] *Id*.
[87] *Id*.
[88] *Id*.
[89] *Id*.

- Features most commonly sought included ease of use, limited obligations and responsibility for plan management, and portability for employees.[90]
- There was a consistent theme of trust and confidence in the Commonwealth's ability to oversee and manage a retirement savings program.[91]
- Simplicity of communication is vital, particularly in terms of outreach.[92]

Background - Employees in Virginia.

Figure 3-5: Respondents by Region
Source: *Virginia529 Employee Survey at 2.*



Now that we have explored employer attitudes toward a state-facilitated private retirement plan, Virginia529 turned to look at the concept from the employee perspective. For this study, Virginia529 developed an employee survey and contracted with research analytics firm Centiment LLC to field a survey to:

- Understand employee attitudes toward retirement savings in general and among employees whose employer does not offer retirement benefits to employees;
- Identify barriers to participating in a retirement savings plan; and
- Identify factors of importance when considering offering a retirement savings program to employees.

Ultimately, 968 Virginia-based employees whose primary employer does not offer a retirement savings plan responded to the survey, providing a diverse cross-section of employees across the Commonwealth.

Employee Demographics.

According to the CNU Report, the vast majority of uncovered employees are in the three big metro areas of Virginia: Northern Virginia, Hampton Roads, and Richmond.[93] This data point is consistent with the geographic locations of employees surveyed in the Virginia529 survey (Figure 3-5).[94]

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[90] *Id*.
[91] *Id*.
[92] *Id*.
[93] CNU Report at 2.
[94] Virginia529 Report *Employee Survey*, 18 (2020) [hereinafter Virginia529 Employee Survey]. The entire Virginia529 Report Employee Survey summary response data and charts can be found at Appendix E of this Report.

Table 3-2 compares the profile of workers surveyed in 2020 against the profile of uncovered workers in the Commonwealth as cited in the CNU Report. The CNU report cited women and men lack coverage at about equal rates, less than half of uncovered employees are white, and over one third represent communities of color.[95] It should be noted that Table 3-2 below is provided for comparison purposes only as the 2020 Virginia529 Report survey results were based on survey response rates of a non-targeted sampling of Commonwealth employees while the CNU Report was based on the 2016 Current Population Survey (CPS).[96] Though the sample size was necessarily different, it is important to note that the demographic trends identified by the Virginia529 Report were similar to those noted in the CNU Report.

	Table 3-2: Employees Not Covered by an Employer Retirement Plan	**CNU Report 2019**		**Virginia529 Market Survey 2020** 968 Respondents	
	GENDER	**Male: 50.9%**	**Female: 49.1%**	**Male: 44.6%**	**Female: 51.8%**
AGE	Under 18	3.1%		0%	
	18-24	11.7%		17.6%	
	25-34	22.0%		27.8%	
	35-44	22.9%		27.7%	
	45-54	20.3%		14.9%	
	55-65	14.0%		8.1%	
	65-74	5.8%		3.8%	
RACE	White	54.9%		68.5%	
	Black	19.1%		18.5%	
	Asian	16.5%		4.2%	
	Hispanic	8.7%		10.8%	
	Other	0.8%		2.1%	

Looking to industry representation, Table 3-4 demonstrates several key findings. First, there are consistencies in both employer and employee surveys as they relate to industries represented. Generally, the majority of uncovered employees are working in the healthcare, retail, construction, hospitality and food service and other non-retail services industries.[97]

[95] CNU Report at 5.
[96] CNU Report at 6.
[97] *See* CNU Report at 10-11; Virginia529 Employee Survey at 19.

Table 3-4: Industry Comparison: CNU Report and Virginia529 Market Survey 2020

Industry Sector	CNU Report 2018	Virginia529 Market Survey 2020
Healthcare & Social Assistance	14%	9%
Retail Trade	12%	13%
Accommodations & Food Service	12%	11%
Construction	9%	7%
Admin Support & Waste Management	7%	6%
Other non-retail services (except private households)	7%	13%
Other Services (specified by respondents: media production, barber, childcare, piano teacher, boat sales, church, salon & spa, graphic design, custodian services, freelance.		

Virginia-based Employee Perspectives.

A 2016 Pew report concluded that access was one of the key factors influencing employee participation in an employer-sponsored retirement savings plan.[98] In fact, several key findings of note are as follows:

- Only 22% of workers at firms with fewer than 10 employees report having access to a workplace savings plan or pension, compared with 74% at firms with 500 or more employees.[99] Certain industries, such as leisure and hospitality or construction, have much lower levels of access and participation than others.[100]
- Among Hispanic workers, access to a plan is around 25% below that for white non-Hispanic workers.[101] Black and Asian workers also report lower rates of access than white workers.[102] This variation, Pew posits, is likely due to underlying economic differences such as age, job type, and income.[103] Other factors, such as a lack of comfort with financial institutions, may also play a role in decreasing the likelihood of these workers funding retirement outside of work.[104]

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[98] John Scott *et al.*, *Who's In, Who's Out*, 1 (Jan. 2016), https://www.pewtrusts.org/-/media/assets/2016/01/retirement_savings_report_jan16.pdf.
[99] *Id*. at 9.
[100] *Id*. at 12.
[101] *Id*. at 20.
[102] *Id*. at 2.
[103] *Id*.
[104] *Id*.

- Younger workers also are less likely to participate even if they have the option.[105] For some of these workers, other priorities may compete with retirement savings.[106]

While an employee survey was not specifically mandated by the General Assembly as part of the Virginia529 Report, the perspective of constituents throughout the Commonwealth are critical to understanding how best to approach the issue, particularly in light of Pew's national findings in 2016.

Key Findings – Employee Attitudes.

> *"Please make it a reality…it would help a lot of young Virginians for the future."*
>
> ***Source**: Virginia529 Market Survey – See Appendix E*

- **89%** - Percentage of respondents who agree that all working Virginians should have access to a retirement savings option through their employer.[107]
- **93%** - Percentage of employees who agree that providing a retirement savings plan helps attract new workers.[108]
- **82%** - Percentage of employees who agree that the onus of saving for retirement is their responsibility.[109]

Employee Barriers.

In addition to traditional barriers to access to retirement savings, the impact of COVID-19 cannot be overstated. Of the population surveyed, 56% of respondents had been negatively impacted by COVID-19 with 55% reporting a cut in pay or hours and 36% reporting they had been furloughed or permanently laid off.[110] In one case, the employee commented that their household income was reduced by 80% while others were forced to leave employment due to lack of childcare resources.[111] Clearly, the impact of the pandemic has been profound and even those individuals who are typically able to save money have reported saving less since the pandemic began. This is significantly higher for lower-income adults (51%), Black adults (46%), Hispanic adults (48%), and younger adults age 18-29 (47%).[112]

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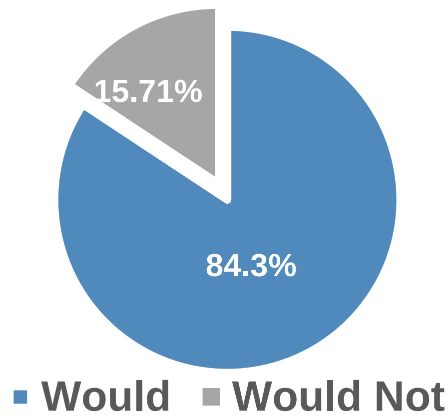
[105] *Id*.
[106] *Id*.
[107] Virginia529 Employee Survey at 6.
[108] *Id*.
[109] *Id*. at 6-7.
[110] *Id*. at 24-25.
[111] *Id*. at 26.
[112] *See generally*, Kim Parker *et al.*, *Economic Fallout From COVID-19 Continues to Hit Lower-Income Americans the Hardest* (Sept. 24, 2020), https://www.pewsocialtrends.org/wp-content/uploads/sites/3/2020/09/SDT_2020.09.24_COVID-19-Personal-Finances_FINAL.update2.pdf.

Despite the magnitude of the pandemic's impact, slightly more than half of respondents indicated they were saving for retirement, even though their current primary employer does not offer a retirement savings plan.[113] Those Virginians who are saving are more likely to be older, more educated, to live in a larger city, to work for a for-profit company, to be male, and to identify as Caucasian.[114] Those with an annual household income under $50,000 were less likely to currently be saving.[115]

Figure 3-5: Participation in a Plan if Offered

Source: *Virginia529 Employee Survey at 17.*



Employees who do choose to save on their own face a broad array of individual savings options on the private market. As such, it is not surprising the overwhelming percentage of respondents who if offered, would elect to participate in an employer sponsored plan as illustrated in Figure 3-5.

However, as previously noted in Chapter 2, these options require a certain amount of financial savvy in order to find, fund and manage their account over time. This is a relevant and important data point as some may argue that a more robust financial literacy approach can easily close the gap for many non-savers. While financial literacy is fundamental to creating a culture of savers, it does not address overarching issues of access and affordability.

Employee Survey of Plan Features.

Despite barriers to retirement savings, the majority of employees surveyed indicated that if access was not an issue, they would participate in a retirement savings plan.[116] As part of the employee survey, employees were asked about their preferred features for a retirement account offered at their place of employment. Portability was a strong favorite, along with an emergency savings feature, and online or phone access to accounts.[117] Nearly 90% of respondents liked the concept of automatic enrollment with an option to opt-out of participating in the plan.[118]

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[113] Virginia529 Employee Survey at 9.
[114] *Id*. at 30-33.
[115] *Id*. at 34.
[116] *Id*. at 17.
[117] *Id*. at 15.
[118] *Id*. at 14.

Key Findings – Retirement Plan Preferred Features

- **92%** - Percentage who favored a retirement account that moved with job changes.[119]
- **92%** - Percentage who liked a plan where the first $1,000 of contributions would be placed in an emergency savings fund.[120]
- **91%** - Percentage who found online or phone account access appealing.[121]
- **89%** - Percentage who liked an auto-enrollment feature with ability to opt-out at any time.[122]
- **89%** - Percentage who liked automatic payroll deduction (after taxes) with the flexibility to withdraw contributions at any time.[123]
- **86%** - Percentage who liked preset contribution minimums with the flexibility to change at any time.[124]

> *"It would be helpful to have access to state supported plans."*
>
> ***Source**: Virginia529 Employee Survey at 43*

Employees throughout the Commonwealth reacted more favorably to certain model features as illustrated in Table 3-4 below. Based on these indicators, the auto-IRA program model trends more favorably among both employees and employers alike. Under a state-facilitated scenario, auto-IRAs are attractive to employers as they require minimal oversight and the employer's role is relatively minor rather than the more significant responsibilities associated with offering a MEP. Moreover, the employer is not subject to filing requirements (e.g., a Form 5500) and is not a fiduciary to or for its employees.

Table 3-4: Reactions to Certain Model Features[125]	**Employee**	**Employer**
Retirement account remains with employee through job changes	92%	90%
First $1,000 in contributions could be placed in an emergency fund	92%	81%
Online or phone access to retirement account	91%	94%
Automatically enrolled but could opt-out at any time	89%	70%
Automatically contribute a set amount of pay but can change at any time	86%	70%

[119] *Id*. at 15.
[120] *Id*.
[121] *Id*.
[122] *Id*.
[123] *Id*.
[124] *Id*.
[125] *Id*.; ANR Presentation at 29.

The Role of Financial Education in Retirement Savings Behaviors.

As noted in the section above, when the question of how to encourage more individuals to save for retirement arises, many turn to financial education tools to help bridge the gap. In the United States, we generally believe a financially knowledgeable person makes decisions that improve their personal economic health and resilience. When states consider action around financial preparedness for retirement, they are often encouraged to increase their investment in financial education as a way to promote more retirement savings. However, focusing on financial literacy initiatives—while useful in creating a more financially-savvy population—does not fully bridge gaps created by lack of access to retirement plans, and the potentially high costs of, individual retirement savings accounts.

In addition, increased emphasis on financial literacy does not fully explain why gaps in financial education persist. According to a Pew Research Center analysis of U.S. Census Bureau data, millennials currently comprise the largest share of the U.S. labor force at 35%; a major share of our country's economy.[126] Despite how accessible personal financial information and educational materials are made available through technology and online resources, a recent report from TIAA Institute and the Global Financial Literacy Excellence Center (GFLEC) at the George Washington University School of Business shows that millennials have lower levels of financial literacy than older adults.[127] Assuming TIAA's report is accurate, it is important to evaluate what role financial literacy has in changing consumer behaviors and what role financial literacy has in public policy considerations to encourage saving, such as a state-facilitated private retirement program.

In Virginia, a number of other organizations are actively focused on financial literacy:

- The Jump$tart Coalition for Personal Financial Literacy identifies high-quality personal finance materials, curriculums and resources for educational use and makes them available through an online Clearinghouse. [128] Resources serve financial institutions, educators, policy makers, and parents.[129]

- The Virginia Community Action Partnership, composed of 28 local area agencies and 3 statewide agencies.[130] Together these 31 agencies provide various services throughout

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[126] Richard Fry, *Millenials are the Largest Generation in the U.S. Labor Force* (Apr. 11, 2018), https://www.pewresearch.org/fact-tank/2018/04/11/millennials-largest-generation-us-labor-force/.

[127] Andrew Martinez, *Improving Financial Literacy Among Students of Color, Especially Millennials* (Sept. 21, 2018). https://diverseeducation.com/article/127137/.

[128] *See generally,* The Virginia Jump$tart Coalition for Personal Financial Literacy, *Who we Are* (last viewed Dec. 1, 2020), https://www.jumpstart.org/who-we-are/states/virginia/.

[129] *Id*.

[130] *See generally*, The Virginia Community Action Partnership, *About* (last viewed Dec. 1, 2020), http://www.vacap.org/page.cfm/about-1.

the Commonwealth. Focus areas include the Earned Income Tax Credit/CASH and advocacy related to Social Security.[131]

- Virginia Cooperative Extension brings the resources of Virginia's land-grant universities, Virginia Tech and Virginia State University, to the people of the Commonwealth.[132] This includes programs and resources for Family Financial Management and the Master Financial Education Volunteer Program.[133]

- The Virginia Council on Economic Education (VCEE) is a 501(c)(3) nonprofit organization operating in Virginia since 1970.[134] Its mission: to provide Virginia's K-12 students with the economic knowledge and financial skills needed to thrive in the Commonwealth's dynamic economy.[135] VCEE's activities include advocacy and resources for: required high school course in economics and personal finance; inclusion of key economic concepts at each grade level K-12; Teachers, school divisions, local and state governments.[136] VCEE also provides teacher training and resources and programs such as the Stock Market Game and remote learning lessons.[137]

Several private sector organizations are also active in providing financial literacy resources for the Commonwealth. These include the Virginia Credit Union League, and the Virginia Society of CPAs.[138] The National Endowment for Financial Education (NEFE) provides a comprehensive personal finance curriculum.[139] Described as a practical and objective program, this curriculum is available at no cost to all high schools throughout the country.[140]

Based on the emphasis on and availability of resources dedicated to increasing financial wellness, a key question worth pondering is: ***Are these resources and activities effective in***

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131 *See generally,* The Virginia Community Action Partnership, *Programs* (last viewed Dec. 1, 2020), http://www.vacap.org/page.cfm/programs.
132 *See generally*, The Virginia Cooperative Extension, *About* (last viewed Dec. 1, 2020), https://ext.vt.edu/about.html.
133 *See generally*, The Virginia Cooperative Extension, *Family Financial Management* (last viewed Dec. 1, 2020), https://ext.vt.edu/family/financial-management.html; The Virginia Cooperative Extension, *Master Financial Education Volunteer Program* (last viewed Dec. 1, 2020), https://ext.vt.edu/family/mfev.html.
134 *See generally,* The Virginia Council on Economic Education, *About* (last viewed Dec. 1, 2020), https://vcee.org/.
135 *Id*.
136 *Id*.
137 *Id*.
138 *See generally*, Virginia Credit Union League (last viewed Dec. 1, 2020), https://www.vacul.org/; Virginia Society of CPAs, *Financial Literacy Links* (last viewed Dec. 1, 2020), https://www.vscpa.com/financial-literacy-links.
139 *See generally*, The National Endowment for Financial Education, *About* (last viewed Dec. 1, 2020), https://www.nefe.org/about/default.aspx.
140 *See generally,* The High School Financial Planning Program, *Personal Finance Curriculum for Teens* (last viewed Dec. 1, 2020), https://www.hsfpp.org/about/program-overview.aspx.

***increasing financial literacy, and increasing actual savings for both short term and long term needs, like retirement income*?**

Pew examined this question and conducted an analysis of the correlation between financial education and financial literacy and concluded that: (i) there is no consensus or definitive evaluation about the best approach to measuring financial literacy; and (ii) while a relationship may exist between financial literacy and financial outcomes, it's not necessarily clear whether literacy affects outcomes or outcomes affect literacy.[141] The full report is at Appendix A.

Having taken these considerations into account, there is one certainty: with all of the care, coordination and resources directed to financial literacy and education nationally and in the Commonwealth, there is still a significant shortfall in the level of retirement savings and financial preparedness for retirement.

While we believe a continued focus on financial education is very much in the interest of the Commonwealth, it does not appear that financial literacy by itself will be effective at raising savings broadly and to widely impactful levels.

[141] Pew Comments Memo at 2.

Chapter 4: Fiscal Impact of the Current Retirement Trajectory in Virginia

Summary: Econsult Solutions, Inc. (ESI) completed a "Cost of Doing Nothing" analysis (Cost of Doing Nothing Report). Although not part of the legislative mandate by the Virginia General Assembly, the analysis provided by ESI succinctly summarizes the fiscal impact on the Commonwealth and its citizens of insufficient retirement savings in Virginia. The insights in the Cost of Doing Nothing Report assist in evaluating the potential rewards of a state-facilitated retirement savings program in Virginia and potential policy changes now and in the future.

Scope: ESI worked with Virginia529 to analyze the impact of insufficient retirement savings on the Commonwealth and its residents. The Pew Charitable Trusts (Pew) provided this study to VA529 as an in-kind contribution to help better inform Virginia529's analysis of the current state of retirement savings in the Commonwealth. This Chapter summarizes ESI's quantification of the potential magnitude of Virginia's retirement savings shortfall over the fifteen year period from 2020-2035, assuming current trends continue. The Cost of Doing Nothing Report defines the costs of potential shortfalls to the Commonwealth and its residents, and discusses the potential benefits of addressing the savings gap and helping future retirees enhance their financial resiliency. The complete Cost of Doing Nothing Report can be found at Appendix C of this Report.

Methodology: ESI evaluated data on key senior assistance programs such as Medicaid offered through Virginia's Department of Medicaid Services and Department of Aging and Rehabilitative Services. The programs analyzed included but were not limited to: long-term care, hospice, community-based services, Program of All-inclusive Care for the Elderly (PACE), adult services, adult protective services, and area agencies on aging. ESI also evaluated detailed Department of Taxation data on state revenues by source (income level and county breakdowns), in addition to state forecasts derived from Demographics Research projections by the University of Virginia's Weldon Cooper Center.

Key Findings:

1. Virginia is in the midst of a significant increase in its elderly population due to the ongoing transition of the "baby boomer" cohort into retirement age and this trend will impact the state's fiscal position, increasing the number of retiree households per each working age household.

2. Analysis of income patterns shows that Virginia's current retirees have fallen well short of recommended income replacement standards.

3. Based on the current retirement savings trajectory, government expenditures on select benefits programs are anticipated to grow to $3.6 billion by 2035; fiscal year 2020 expenditures on elderly residents are currently estimated at $2.25 billion.

4. The state, local and federal gap in program expenditures caused by insufficient savings grows from an annual rate of $1 billion in 2020 to $1.7 billion by 2035, and totals $21.6 billion cumulatively over the fifteen-year period. The Commonwealth's cumulative state and local government portion of this expenditure from 2021-2035 totals $11.8 billion.

5. Analysis shows that by the year 2035, the average Virginia household with less than $75,000 in annual income would need to contribute an additional $1,930 annually or $161 monthly over their working years, to close the savings gap. Normal "working years" is defined using the Social Security Administration's benefits entitlement computation of up to 35 years of a worker's earnings adjusted for inflation.

6. The annual range of contributions required to close the savings gap is consistent with savings levels beginning to be achieved in state-facilitated retirement savings programs offered around the country to previously uncovered workers.

7. Deploying assets accumulated in a state-facilitated retirement program as a "bridge" to Social Security is a strategy that participants might consider when planning the best age to claim benefits. This, coupled with delayed Social Security benefits claims, could provide a more substantial monthly benefit to future retirees and significantly boost retirement security.

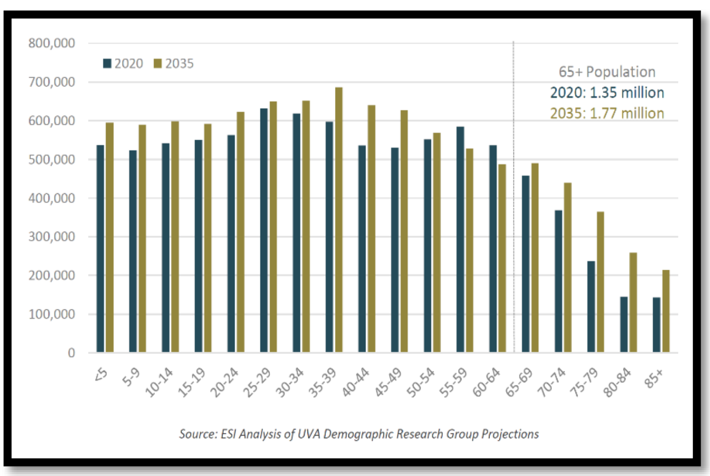

Figure 4-1: Projected Virginia Population by Age Group, 2020-2035

Background.

Figure 4-1, at left, shows Virginia's 2020 and 2035 (projected) population by age group. The over-65 age group is growing faster than any other.[142] By 2035, the population aged 65 and older is projected to grow from 1.35 million to 1.77 million people.[143] Analysis of income patterns over time show that Virginia's current retirees have fallen well short of

[142] ESI Report at 3.
[143] *Id*. at 14.

recommended income replacement standards.[144]

Retirement savings goals typically are defined by the ability of households to accrue the resources needed to maintain their standard of living in retirement. These targets are often quantified through an income replacement framework, where savings goals are targeted to achieve the availability of a portion of working age income levels (such as 75%) as savings are drawn down during retirement years.

Key Assumptions.

Building from University of Virginia demographic projections and analysis of federal data sets on income patterns by age over time, ESI developed two scenarios for population and income change for Virginia's elderly residents from 2020-2035:

- A "baseline" scenario in which retirement savings levels remains consistent with current trends; and

- A "sufficient savings" scenario in which Virginia's current and future retiree households achieve recommended savings levels to maintain their standard of living.[145]

The differential between income scenarios represents the resource gap that the state can anticipate if current trends continue without intervention. This gap is analyzed statewide and at a localized level to identify the magnitude of the retirement income shortfall for representative households. Financial modeling was also undertaken to understand the level of annual savings during working years that would be required for households across Virginia to address this gap and achieve retirement sufficiency.

A few key estimates underpin this modeling:

1. Population projections from the University of Virginia show that the state's elderly (65+) population is expected to increase by 31% from 2020-2035, nearly three times as fast as the overall population growth of 11%.[146]

2. The growth in senior households is expected to increase the state's dependency ratio from the current ratio of nearly three working age households for each elderly household closer to a ratio of two to one.[147]

[144] *Id*. at 17.
[145] *Id*. at 4.
[146] *Id*. at 3.
[147] *Id*.

3. The average annual income gap for elderly Virginians with less than $75,000 in annual household income is estimated at around $7,100, and under the continuation of current trends this gap is expected to grow to more than $8,000 annually by 2035.[148]

Benefit Program Spending.

Virginia administers a range of benefit programs that provide services to elderly residents ranging from medical care to housing to nutritional support. These programs rely on a mix of state, local and federal funds, and many are means-tested for either eligibility or benefit levels. This design means that shortfalls in retirement savings and income impact the level of expenditures on these programs.

Among the broad range of government programs, ESI's study focused on those that are administered by the Commonwealth (excluding federal-only programs like Social Security, Supplemental Security Income, and most components of Medicare) and relate specifically to the needs and means of the elderly population (excluding generalized programs like infrastructure and public safety that cover all residents regardless of age).[149]

Two categories of programs are reviewed here:

- **Means-tested programs** for which eligibility and benefit levels are impacted by the level of savings and annual income available to elderly households.[150]

- **Senior-targeted programs** which do not require means-testing, but for which demand and outlays are impacted by the size of Virginia's elderly population and the retirement income levels of elderly residents.[151]

Budget analysis was undertaken to establish the current magnitude of these programs. Isolating the portion of total program funds attributable to seniors, fiscal year 2020 expenditures on elderly residents are estimated at $2.25 billion as shown in Figure 4-2.[152]

	Total Expenditures FY 2020 ($M)	State Expenditures FY2020 ($M)	Federal Expenditures FY2020 ($M)	Local Expenditures FY2020 ($M)	Est. Total Expenditures on Elderly Residents FY 2020 ($M)
Means-Tested					
Medicaid	$12,657.1	$6,477.7	$6,179.4	-	$2,160.6
Auxiliary Grant	$21.3	$17.0	-	$4.26	$8.9
Public Guardianship & Conservator	$5.2	$4.7	$0.5	-	$1.5
Senior-Targeted					
Adult Services	$9.1	-	$4.2	$5.2	$7.4
Adult Protective Services	$2.8	-	$2.6	$0.3	$1.9
Nutrition & Home-Delivered Meals	$23.7	$6.3	$15.7	$1.7	$14.8
Aging Services	$49.8	$11.5	$25.4	$12.9	$49.8
Total	**$12.77 billion**	**$5.43 billion**	**$7.31 billion**	**$24.3 million**	**$2.25 billion**

Source: Virginia 2018-2020 Biennium Operating Details (HB/SB 30 Introduced); DMAS Claims Data; Program Data from Administering Departments

Figure 4-2: Virginia Program Expenditures on Elderly Residents

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[148] *Id*. 33-34.
[149] *Id*. at 31.
[150] *Id*.
[151] *Id*.
[152] *Id*. at 29.

Expenditure Growth from Insufficient Saving.

The level of financial resources of Virginia's current and future retiree households impacts the degree to which they will rely on government benefit programs to provide essential services. Understanding the relationship between elderly household incomes and program expenditures allows for estimates of the savings the state would experience from increased retiree household incomes. Measurements analyze both the baseline scenario and a sufficient savings scenario. If current retirement savings trends continue (as represented in the baseline scenario), government expenditures on the selected programs are anticipated to grow to $3.60 billion by 2035.[153] The growth in costs in the baseline scenario is driven by anticipated growth in the state's elderly population and excess medical inflation. Under the sufficient savings scenario with enhanced retiree incomes, expenditures in 2035 are estimated at $1.88 billion, a savings of $1.72 billion as noted in Figure 4-3.[154]

	Baseline		Sufficient Savings		Net Difference		
Program	2020	2035	2020	2035	2020	2035	Cumulative (15 Year)
Medicaid							
Long-Term Care	$1,259	$2,018	$817	$1,249	$442	$769	$9,591
General Medicaid	$561	$951	$197	$315	$364	$637	$7,944
Medicare Part A/B	$192	$290	$107	$154	$86	$136	$1,748
Medicare Part D	$148	$233	$52	$77	$96	$156	$1,993
Non-Medical							
Aging Services	$50	$65	$39	$51	$10	$14	$192
Auxiliary Grant	$9	$11	$7	$8	$2	$3	$35
Adult Services Home-Based Care	$7	$9	$6	$7	$1	$2	$23
Public Guardian & Conservator	$1	$2	$1	$1	$1	$1	$15
Nutrition & Home Delivered Meals	$15	$18	$13	$17	$1	$2	$24
Adult Protective Services	$3	$0	$3	$0	$2	$0	$1
Total	**$2,246**	**$3,597**	**$1,242**	**$1,879**	**$1,005**	**$1,719**	**$21,566**

Figure 4-3: Growth in Program Expenditures from Insufficient Retirement Savings, 2020-2035

The state, local and federal level of program expenditures due to insufficient savings grows from an annual rate of $1 billion in 2020 to $1.7 billion by 2035, and totals $21.6 billion cumulatively over the fifteen-year period (see Figure 4-3).[155] The Commonwealth's cumulative state and local government portion of this expenditure totals $11.8 billion:

- The annual gap between baseline and sufficient savings spend for state and local government expenditures grows from $551 million to $939 million.[156]

- This spend aggregates to over $11.8 billion for the 15 year period from 2020 to 2035.[157]

- Federal spending of over $9.8 billion makes up the balance of the $21.6 billion gap identified.[158]

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153 *Id*. at 37.
154 *Id*.
155 *Id*.
156 *Id*. at 38.
157 *Id*.
158 *Id*.

Closing the Gap.

Savings gap calculations use financial modeling to translate the difference between anticipated and targeted retiree household incomes to the level of annual savings that a household would need during its working years to achieve income targets and maintain their established standard of living. **Analysis shows that the average Virginia household with less than $75,000 in annual income would need to contribute an additional $1,930 annually over their working years to close the savings gap anticipated by 2035.**[159]

The disparate impact of projected income shortfalls across the Commonwealth is pictured in Figure 4-4 which shows the average level of additional annual savings needed across different areas of the Commonwealth to address the retirement sufficiency gap anticipated as of 2035.

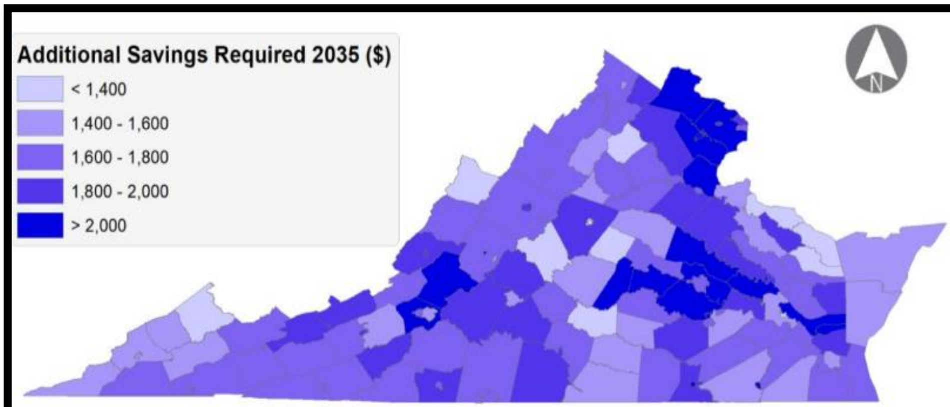

Figure 4-4: Annual Savings Required to Address Retirement Income Shortfall, 2035

Source: ESI Analysis of Current Population Survey Data and American Community Survey Data

Due to the nature of the income replacement target, areas of the Commonwealth with lower average incomes often have lower savings targets to address retirement insufficiency. In many areas of the Commonwealth, benchmark annual savings levels from $1,200 - $1,700 would set workers on a path to addressing retirement shortfalls.[160] In higher-income areas of the Commonwealth, savings targets are higher, in some cases topping $2,000, but these levels may be more achievable due to higher average incomes in these areas.[161]

The range of levels required to close the gap are consistent with savings levels beginning to be achieved in new retirement savings programs offered around the country to previously uncovered workers.[162]

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159 *Id*. at 23.
160 *Id*.
161 *Id*.
162 *Id*.

Household Financial Security in Virginia.
Not all savings program participants would be able to accumulate a level of assets sufficient to close the "savings gap," but even modest levels of accumulated savings can deliver surplus value for savers. Households that lack economic security face a variety of challenging circumstances that can erode their financial standing and assets, and strategic use of savings can help prepare these households to address unexpected costs.[163]

Data from the Social Security Administration shows that more than a third of retirees choose to begin their benefits at age 62, and half by the age of 65, locking in lower benefit levels for the remainder of their eligibility.[164]

Table 4-1: Scenario – Current Earnings are $30,000 and the participant turns 62 in 2020.[165]

Retirement Age	Monthly Benefit Amount
62 and 1 month in 2020	$787
66 and 8 months in 2025	$1,151

According to a state-facilitated private retirement plan market report published in October 2020, deploying assets accumulated in a state-facilitated retirement program as a "bridge" to Social Security can increase long-term savings.[166] This, coupled with delayed Social Security benefits claims, could provide a more substantial monthly benefit to future retirees. Table 4-1 illustrates the impact of delaying collection of Social Security on lifelong income stream.

The long-term financial security of households in Virginia depends on many factors, but as ESI's analysis has shown, insufficient retirement savings have an outsized impact not only on individual household finances, but also on the fiscal position of the Commonwealth as a whole. Reduced retirement savings levels tend to increase the use of—and dependence on—government benefits programs in order to maintain current standards of living into retirement years. This increased benefits demand is projected to cost the Commonwealth billions in extra program expenditures through 2035.

The negative impact of insufficient retirement savings is not a problem unique to the Commonwealth. Recognizing the magnitude of the issue explains the steps described in this Report by states across the country to address the retirement savings gap through the implementation of state-facilitated retirement savings options to supplement coverage gaps in the private market.

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[163] *Id*. at 5.
[164] *Id*
[165] AKF Report at 7.
[166] *Id*.

Chapter 5: Financial Feasibility

Summary: The VRS Report recognized the importance of a feasibility assessment, stating, "the financial viability of state-run retirement programs depends on several factors, such as participation rates, contribution rates, withdrawal and turnover activity, and variable administrative costs" and recommended a comprehensive financial feasibility study be completed before moving forward with any state-facilitated retirement program.[167] Other states have conducted similar feasibility studies prior to implementing plans.

Scope: As outlined in Chapter 506 of the 2020 Virginia Acts of Assembly, this Report's analysis includes an estimate of the likely costs to start up both an auto-IRA and MEP, an estimate of time to reach self-sufficiency for each, and potential funding options.

Methodology: This section evaluates both historical information and current data provided by states with both launched programs and active programs. Cost estimates are based on an established set of assumptions derived from various scenarios comparing the most widely adopted models which include auto-IRA and MEP. The marketplace model was not evaluated as its usage and impact have, so far, been shown to be extremely limited.

Key Findings:

1. The CNU Report estimated startup costs for both an auto-IRA and MEP at $2 million. All-in operating costs for an auto-IRA were estimated between $6.5 million to $18 million (the time period was not specifically identified) with a cash-flow positive point of 6-7 years. The all-in operating costs for a MEP were estimated between $17 million and $36 million with a cash-flow positive point of between 5-10 years depending on the population covered and economic conditions in Virginia.

2. More current estimates based on data from other states with similar size and scope, approximates costs to the Commonwealth of $1,290,000 (startup) and approximately $1,240,000 (annual operating costs) for an auto-IRA model in Virginia. Program revenue over time from program fees are expected cover these costs.

3. Unfortunately, there is insufficient data to confidently compare actual annual operating costs of a MEP to the estimates in the CNU Report. Based on available data and the fact that the employer will absorb more of the administration costs, this report approximates annual operating costs of $895,000 for a MEP. Program revenue over time from program fees are expected cover these costs.

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[167] VRS Report at 71.

4. As for financial feasibility of an auto-IRA, a conservative estimate of 10 years for cash-flow positivity with an auto-IRA is based on slower-than-projected implementation and participation rates than initially modeled in states with active programs. As with any new program, time is required for outreach and education of employers and employees about the benefits of the program and how to participate.

5. To the extent program participation is a key criteria in evaluating feasibility, an auto-IRA program would expand both retirement account coverage and usage in the Commonwealth significantly, and over a relatively short period of time, compared with the MEP model.

6. Based on refreshed analysis of the one state with an active program, financial feasibility for an MEP estimates at least 10 years until cash-flow positivity given the very low anticipated participation rates.

7. Since the MEP option is voluntary for employers, and given that implementation costs are a significant barrier for employers to adopt a retirement plan, it is unlikely that participation will achieve critical mass to achieve a self-sustaining program within a reasonable timeframe.

Program Design.

Program design and features influence program cost. As Virginia examines the feasibility of establishing a retirement savings program for the Commonwealth, design components including program structure, administration, and investment offerings are factors to consider.

As previously noted, the employer and employee market surveys found the majority of respondents support the concept of a state-facilitated private retirement program. Highlights of program features most appealing to employers and employees alike, all of which are present in an auto-IRA program, include:

- Online access and availability of customer support
- Automatic enrollment with a choice to opt-out
- Portability
- Auto-escalation of contribution amounts
- Default contribution rates
- No fiduciary responsibility for employers
- Zero or minimal cost to employers

If the Commonwealth decides to move forward with authorizing a state-facilitated private retirement program, the enabling legislation will establish broad policy goals and the specific program design and funding strategy for startup and administration until self-sufficiency is achieved. The following analysis presents key assumptions and planning factors to apply in evaluating financial feasibility.

Terms of Reference

Startup: Startup is defined as the period from the incurrence of the first cost to the receipt of the first program contribution.

Operating Costs: Operating costs include the cost of administration, recordkeeping, investment management, legal, compliance, licensing, procurement, marketing and communications, technology and infrastructure, incurred by either the state or the program administrator.

Cash-flow Positive: The point at which program revenue is sufficient to cover operating costs.

Net Positive: The point at which program revenue is sufficient to recover initial operating losses and pay off startup costs.

Fee Structure: The level of investment management fees, program administration fees and state administrative fees, expressed as basis points and/or a monthly set fee.

Fiduciary: As defined by the IRS, a fiduciary is "anyone who exercises discretionary authority or discretionary control over management or administration of the plan, exercises any authority or control over management or disposition of plan assets, or gives investment advice for a fee or other compensation with respect to assets of the plan."

Sources: *Report to Governor Polis and the General Assembly: Recommendations to Increase Retirement Savings in Colorado Report (Feb. 2020); IRS.gov Definitions for Retirement Plans*

Chapters 2-4 provided an overview of various state-facilitated private retirement program models, the experiences of other states in implementing both MEP and auto-IRA programs and the implications to Virginia's fiscal health if the current and growing retirement savings gap is not addressed. This Chapter analyzes likely program costs by comparing the assumptions in the CNU Report to the assumptions in other studies around the country and, perhaps most importantly, to the actual experience of states with operating programs.

Keys to Program Financial Feasibility.

1. **Self-sustainability**: The program achieves self-funding (covering ongoing operating costs) without an ongoing appropriation from the state;

2. **Participation**: The program design and fee structure are sufficiently appealing to the target audience to achieve critical mass in participation. Participation informs the number of active accounts and account balances, both of which directly impact revenue; and

3. **Third-party Service Provider**: Program design (automatic enrollment with the opportunity to opt out, default contribution rates, auto-escalation) and fee structure flexibility must appeal to qualified investment managers and program administrators who will serve as third-party partners, with oversight by the program sponsor – the state or state entity charged with responsibility for the program.

Program Administration.

In a state-facilitated program, the state is responsible for selecting and monitoring the program administrator and investment manager(s). A program administrator is a third-party service provider with requisite knowledge, skills, experience and abilities, to manage the day-to-day operations of a retirement fund including recordkeeping, employer outreach and employee onboarding. The investment managers advise on and oversee program investments.

Building Financial Feasibility.

The previous Chapter examined elements of program design most appealing to survey respondents, and key factors essential to program financial feasibility.

This Chapter presents the building blocks necessary for a successful and financially sound state-facilitated private retirement program. Discussed in this Chapter are optimal program design elements for either an auto-IRA program or MEP, estimated startup and ongoing operating costs, and projected time to cash-flow positivity and net positivity for the Commonwealth. This Chapter revisits the CNU Report to establish a baseline for Virginia and provides a snapshot of currently-open state programs for a comparison of cost projections against actual costs for programs in operation. Finally, the Chapter concludes with a proposed program model and key features, anticipated startup and ongoing operating costs, and policy considerations for the Commonwealth in moving forward with any program.

Program Resourcing.

Funding of program startup and operating costs in states which have tackled the implementation of a state-facilitated private retirement program has been provided through a legislative appropriation, typically in the form of a treasury loan.

Achieving self-sufficiency and a net positive position with respect to repayment of any treasury loans depends on the ability to reach a point at which program operating revenues outpace operating costs. Accordingly, program design, fee structure and employer and employee participation rates are critical components to any successful program. Program costs likely will be higher in the early days as the program ramps up, with an ability to reduce fees as the program grows in accounts and assets under management.

Recovery of initial costs can be accomplished through various types of fee structures, discussed herein. A typical structure calls for program managers to absorb some of the costs of plan and investment management as part of a long-term contract, charging higher asset-based fees in early years. A program also may provide for monthly account-based fees, similar to those assessed in the Commonwealth's 457(b) plan for state employees or the state's tax-advantaged medical and childcare reimbursement programs, to cover recordkeeping costs. State appropriations also may cover program startup costs to help defray costs in early years, thereby keeping participant costs lower. State program funding generally comes in the form of a legislatively-approved loan that is repaid as the program becomes net positive.

Program Costs.

The cost of a state-facilitated private retirement program to the state is a function of two components: (i) **startup costs** and (ii) **ongoing operating costs**. As briefly discussed above, an initial state appropriation covers these costs until the program becomes cash-flow positive.

Cost modeling employs planning factors and assumptions to render an approximate cost of the program over time. While participation rates, investment returns and ongoing operating costs will fluctuate over time, certain variables can be controlled by the state sponsor:

- **Default contribution rates**: the higher the default contribution rate (typically starting at 5% with annual 1% increases up to 10% - at each juncture, the participant may reduce the contribution rate or opt-out), the faster account asset growth is realized which increases revenue growth derived from asset management fees.

- **Financial arrangements and revenue-sharing**: the division of operating costs and revenue between the program manager, state administering entity, recordkeeper and investment manager(s) impacts costs to the state and the time to net positivity.

- **Fee structure**: operating revenues may be derived from fees (generally expressed as basis points or a percentage) on assets under management and/or monthly set fees per account.

The next section examines both auto-IRA and MEP models and provides (i) an overview of model requirements; (ii) an estimation of startup costs, operating costs and employer costs; (iii) an evaluation of financial feasibility and; (iv) a comparison of the two models.

Auto-IRA Programs.

With an auto-IRA program the state contracts with a qualified provider to deliver a program, platform and services to be made available to participating employers and their employees. Elements of the program include its design characteristics (covered population, account type(s), standard contribution levels and a standard investment pathway) and its investment options. The state is responsible for all program oversight and for the selection, contracting and monitoring of the program administrator and any other contractual relationships related to the program. The program administrator generally is responsible for providing program services, including engaging and enrolling employers, onboarding employees and creating individual accounts, performing recordkeeping and reporting functions, and providing online and call center support for employers and employees.

Because auto-IRA programs are made available to a wide range of covered employees through their covered employers, the state sponsor is responsible for providing employer data to its agent, the program administrator, which will enable direct engagement with covered employers about their responsibilities, related deadlines, and available support and assistance to the employer and its employees. An important note from states operating programs is to ensure enabling legislation provides for information and data sharing among relevant state agencies to facilitate the smooth operation of the program.

Employer responsibilities are designed to be as light as possible, and are significantly fewer in an auto-IRA than under other types of plans including MEPs and other defined contribution plans available in the private market. State-facilitated programs typically have a state-level compliance function to support employers in making the program available to workers. Compliance and due diligence may be performed by the state agency managing the program, or outsourced to an agency that normally performs that sort of function with employers, such as a state employment commission.

Auto-IRA - Startup Costs.

The CNU Report estimated startup costs for six similar state-facilitated programs as a general guide and annual costs ranged from $500,000 to $4.5 million.[168] By averaging the six estimated startup costs, CNU arrived at $2 million in total startup expenses as an estimate for a Virginia program.[169] However, Table 5-1 represents actual startup costs for both MEP and auto-IRA models based on a current survey of states with open programs.[170]

Table 5-1: Survey of Actual State-Facilitated Retirement Program Startup Costs (auto-IRA and MEP)

Activity	Approximate Startup Cost
Agency staffing including administrative services (staff sizes range from 2-7)	$350,000 to $865,000
Consulting and contracted services (program and investment consulting, marketing and communications, legal, audit and insurance)	$400,000 to $980,000
Other expenditures, uncategorized	$50,000 to $100,000
Total Range of Startup Costs	**$800,000 to $1,945,000**

Note: The above range of actual costs assumes 12 – 18 month startup period. Delays in startup will result in increased costs.

168 CNU Report at 18.
169 *Id*. at 19.
170 This information was compiled from publicly available information and multiple sources from states with enabled programs; Massena LLC provided analysis of that information for this Report, including the information in this table.

Auto-IRA – Annual Operating Costs.

Figure 5-1: CNU Report Auto-IRA Assumptions

- 1.12 million eligible for enrollment
- Employer Participation Rate: 100%
- Employee Participation Rate: 80%
- Default Contribution Rate: 5%
- Average Annual Contribution*: $2,165
- Rate of Return: 5%
- Ongoing Operating Costs: 1%

*Based on average annual income of $43,314

The CNU Report estimated all-in operating costs for an auto-IRA program in a range between $6.5 million to $18 million (the time period was not specifically identified) with a cash-flow positive point of 6-7 years from startup.[171] Note that this range of costs does not break out a split of expenses covered by the state and those to be covered or absorbed by the program administrator; those overall assumptions are provided in Figure 5-1. This Report neither validates nor contradicts the CNU Report findings, but uses actual program costs in other states in developing cost estimates for and evaluating the financial feasibility of a Virginia program.

States used various resources and methods to assess financial feasibility when developing their respective programs. Obviously, the circumstances of other states are different from Virginia in terms of population size, average wages, types of industries and employment sectors and therefore the number, size and type of employer likely to participate in a state-facilitated retirement program. However, the experience of those states can be instructive with respect to cost estimates and likely participation rates.

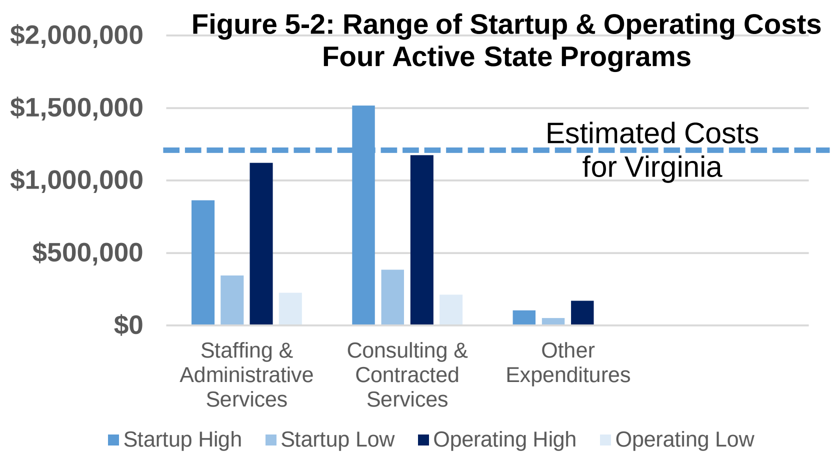
Boston College's Center for Retirement Research (CRR) developed the financial models for several states, including Colorado and Oregon. Other states, including Connecticut, used industry consultants to model estimated operating costs. Prior modeling has been used to develop cost estimates for emerging program states. For instance, Colorado's projected startup and ongoing operating costs were based on the OregonSaves CRR model, adjusted to the size of Colorado's workforce, to allow modelers to arrive at estimates for startup and ongoing costs.[172]

Virginia529 did not develop a tailored model, relying instead on the work previously completed by CNU and using actual data from operating states. If the legislature authorizes a program for the Commonwealth, the state sponsor may want to engage a consultant to provide a customized financial model to better project the amounts of treasury loans needed for startup and operating costs until net profitability is reached.

[171] CNU Report at 28-29.

[172] Colorado Secure Savings Plan Board, *Report to Governor Polis and the General Assembly: Recommendations to Increase Retirement Savings in Colorado*, 29 (Feb. 2020), https://www.colorado.gov/pacific/sites/default/files/atoms/files/Second%20Revision_Retirement%20Security%20in%20Colorado.pdf.

Figure 5-2 illustrates the range of costs among four active state auto-IRA programs.[173] As shown in the figure at right, operating costs range from $780,000 and $2.48 million among currently enabled programs. Various factors influence cost differences including geography, staff size, anticipated enrollment population, and marketing and communication efforts.



Startup and operating cost estimates for Virginia—developed by the Virginia529 team—are outlined in Table 5-2, below. Although there are variances in size of population and presumably the number of uncovered employees in each state, cost estimates are conservative and representative of what the Commonwealth could anticipate for an auto-IRA model.

Table 5-2: Estimated auto-IRA Startup and Annual Operating Costs in Virginia

Activity	Startup Cost	Annual Operating Costs
Staffing & Administrative Services	$450,000	$550,000
Consulting & Contracted Services	$790,000	$550,000
Other Expenditures	$50,000	$50,000
Total	**$1,290,000**	**$1,150,000**

Note: The staffing & administrative services cost estimates 2 FTEs in startup and 3 FTEs as program matures.

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[173] *See* State of Oregon, *Legislatively Adopted Budget: Detailed Analysis* (Oct. 2017), https://www.oregonlegislature.gov/lfo/Documents/2017-19%20LAB%20Detailed%20Analysis.pdf#page=501; Oregon Retirement Savings Board Meeting, *Exhibit Book: Director's Update*, 3 (Mar. 13, 2018), https://www.oregon.gov/treasury/financial-empowerment/Documents/ors-board-meeting-minutes/2018/Books/MarchORSBExhibitBook03-13-18.pdf. *See* also, State of Illinois, *FY20 Final and FY21 Enacted Appropriations,* Fund Number 0384 (last viewed Dec. 4, 2020), https://www2.illinois.gov/sites/budget/Pages/BudgetBooks.aspx. *See also*, Maryland$aves, *Maryland Small Business Retirement Savings Program Board Meeting*, 4 (Nov. 20, 2018), http://www.marylandsaves.org/wp-content/uploads/2018/12/MSBRSB-Presentation-11-20-2018.pdf. *See also*, State of California, *2019-20 Governor's Budget 0984 California Secure Choice Retirement Savings Investment Board* (Jan. 10, 2019), http://www.ebudget.ca.gov/budget/2019-20/#/ExpendituresPosistions/0984.

Auto-IRA - Employer Costs.

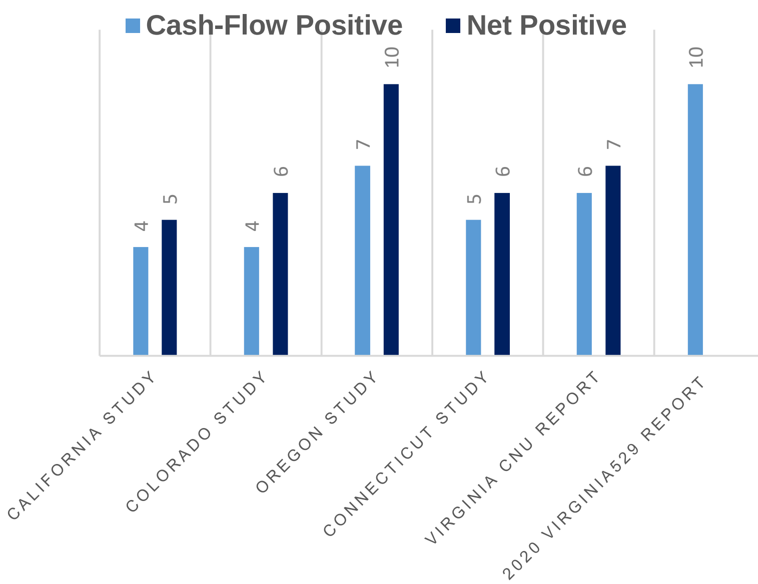
Under an auto-IRA program, costs to employers are minimal. Employers are not plan sponsors and are not responsible for startup, plan administration, or audit costs. Employers also do not contribute any matching funds to the employee accounts. Employers perform a very light ministerial function of providing employee information to the program administrator for purposes of communication with employees and automatic enrollment. Employers also execute and forward direct deposits of payroll deductions for employees who choose to save.

This experience has borne out in existing state programs. **Based on a 2019-2020 survey of over 2,500 private sector businesses currently participating in the OregonSaves program, nearly 80% of employers did not report any out-of-pocket costs associated with the program**.[174] Among the roughly 20% that did report out-of-pocket costs, some employers cited fees for outsourcing program contributions to external payroll firms or bookkeepers, wages for additional staff, or time spent registering employees with OregonSaves.[175]

Auto-IRA - Financial Feasibility.

The final component to evaluating financial feasibility is assessing the estimated time to becoming cash-flow positive and, ultimately, to becoming net positive. This analysis is based on prior state studies including the CNU Report. Projections are estimates only and, in all cases of operating programs, the financial feasibility models did not accurately account for program phasing timeframes and employer enrollment rates, both of which impact participant retention and revenue calculations.

Figure 5-2: State Modeled Self-sustainment Trajectories (in years)



In the absence of a tailored feasibility model, Figure 5-2 is provided to visualize the range of cost modeling for several programs currently enabled.[176] Generally speaking, states are experiencing slower-than-

[174] John Scott & Mark Hines, *Employers Express Satisfaction with New Oregon Retirement Savings Program* (July 30, 2020), https://www.pewtrusts.org/en/research-and-analysis/articles/2020/07/30/employers-express-satisfaction-with-new-oregon-retirement-savings-program.

[175] *Id*.

[176] *See* Overture Financial, *Final Report to the California Secure Choice Retirement Savings Investment Board,* 114 (Mar. 17, 2016), https://www.treasurer.ca.gov/calsavers/report.pdf; Colorado Secure Savings Plan Board, *Report to Governor Polis and the General Assembly: Recommendations to Increase Retirement Savings in Colorado*, 30 (Feb. 2020),

projected implementation and participation rates than initially modeled. Based on the actual experience of states, although modeling indicates a range of 4-7 years to achieve cash-flow positivity and 5-10 years to achieve net positivity, a more realistic expectation is 10 years to cash-flow and net positivity will be based on actual state experience which is based on various factors including participation, fee structure, etcetera. As such, this report does not offer a modeled estimation for net positive.

Nonetheless, the cost of not providing a savings option for the more than 1.2 million uncovered workers should be considered when quantifying short term costs to the Commonwealth. As previously noted in Chapter 4, if the retirement savings gap is not addressed, downstream impacts of insufficient savings are forecast to impose an additional burden of over $11 billion on the Commonwealth's social assistance programs by 2035. When quantifying the cost of a retirement savings program to the state, the legislature may want to consider the long-term additional costs the Commonwealth may incur as a result of having a population less-equipped to go into retirement with sufficient savings levels.

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https://www.colorado.gov/pacific/sites/default/files/atoms/files/ACFrOgA_m5ifWAlgUgaGC28jaZ287vwymUenEmMInRyT2BUfY4KJlcblNYejyEMB2ZZXH1fqoXnp72hbBPer_vJ7AUFgGAD7rNT_9cP9ILNRPxrban4JzWHEob39nyp6sjKUWIDfto7tUoc57Jro_0.pdf; Center for Retirement Research at Boston College, *Feasibility Study: Oregon Retirement Savings Plan*, 2 (Aug. 2016), https://www.oregon.gov/treasury/financial-empowerment/Documents/ors-board-meeting-minutes/Undated/ORSP-Feasibility-Study-8-11-2016.pdf; State of Connecticut Retirement Security Board, *Report to Legislature*, 5 (Jan. 1, 2016), https://www.osc.ct.gov/crsb/docs/finalreport/CRSB_January_1_Report.pdf; CNU Report at 3.

Multiple Employer Plans (MEPs).

With a MEP, the state generally contracts with a provider to establish a single plan, platform and services that will be made available to any employer who voluntarily chooses to join the plan. The state establishes the basic plan design and features, sets an investment menu and is responsible for oversight of the plan and provider. The provider is responsible for engaging employers and employees, enrolling employers as plan sponsors, ensuring the plan is compliant with governing standards, and for providing all of the services associated with the plan.

As stated in Chapter 2, unlike the auto-IRA model, state MEPs have not been widely adopted. In fact, Massachusetts is the only active MEP program as of the date of this Report and the employer coverage in that plan is limited. As of October 1, 2020, the Massachusetts CORE plan, which launched in 2017 reports the following:

- More than 80 Massachusetts-based nonprofits have committed to joining;
- More than 600 eligible employees are covered by the plan;
- Of the eligible employees, 550 are active participants; and
- Total assets under management now exceed $6.75 million.[177]

Vermont, the only other state with an authorized MEP, approved its MEP in 2017 but experienced difficulty attracting a financial services firm to manage the administration of their proposed MEP.[178] Though the plan was initially slated to launch by January 2019, given the difficulty of sourcing a service provider within initial program constraints and concern over conflicting Department of Labor guidance, the Vermont Green Mountain Secure Retirement Plan now anticipates a launch in early 2021.[179] Although limited data is available on performance of state MEPs, particularly given that only one such program is currently active, an examination of cost and financial feasibility of the MEP model is fundamental to a balanced and informed analysis on potential program design for the Commonwealth. However, certainty about the projections and time to cash-flow positivity and net positivity are lower than with our analysis of auto-IRA programs.

[177] Deborah Goldberg, *The First State-Facilitated MEP in the Nation: How the MA CORE Plan is Helping Nonprofit Workers Save for a Financially Secure Retirement* (Oct. 2020),https://cri.georgetown.edu/the-first-state-facilitated-mep-in-the-nation-how-the-ma-core-plan-is-helping-nonprofit-workers-save-for-a-financially-secure-retirement/.

[178] Rob Kozlowski, *Green Mountain Secure Retirement Plan Reissues RFP for Administrator for New DC Plan* (June 10, 2019), https://www.pionline.com/article/20190610/ONLINE/190619961/green-mountain-secure-retirement-plan-reissues-rfp-for-administrator-for-new-dc-plan.

[179] State of Vermont Office of the State Treasurer, *Green Mountain Secure Retirement Plan* (last viewed Dec. 4, 2020), https://www.vermonttreasurer.gov/content/green-mountain-secure-retirement-plan. *See also,* Georgetown Center for Retirement Initiatives, *State-Facilitated Retirement Savings Programs: A Snapshot of Program Design Features: State Brief* 20-02 (Aug. 31, 2020), https://cri.georgetown.edu/wp-content/uploads/2018/12/CRI-State-Brief-20-02.pdf.

MEP - Startup Costs.

As referenced earlier in this chapter, the CNU Report based startup costs on the average of the estimated range of costs at the time the study was conducted and estimated startup costs for Virginia to be approximately $2 million regardless of the program model selected. Because a larger portion of program responsibilities may be outsourced in a MEP program than in an auto-IRA program, the startup costs may be lower with an MEP. However, given the insufficiency of current data available to appropriately refresh the CNU Report estimates, Virginia29 will assume startup costs to be similar to an auto-IRA.

MEP – Annual Operating Costs.

The CNU Report provides cost and self-sufficiency estimates based on two different scenarios and sets of economic conditions, stable and poor. A comparison of the two scenarios is provided in Table 5-3:

Table 5-3: CNU Report 2018 MEP Cost Estimates[180]

	Economic Conditions	
Assumption	**Stable**	**Poor**
Number of Employees per Firm	30	26
Opt-out Rate	20%	30%
Average Annual Income	$68,714	$11,492
Average Contribution Rate	5%	5%
Annual Economy Growth Rate	2%	1.26%
Average Rate of Return	5%	2%
Expense Ratio	1%	1%
Job Mobility Rate	10%	20%
One-time Fixed Startup Cost	$2,071,592	$2,071,592
Cost Per Employer	$120	$120
Estimated Time to Cash-Flow Positive	5-6 years	9-10 years
All-In Cost	**$17M - $36M**	**$17M - $36M**

Note that this range of costs does not break out the state-specific portion of expenses and therefore does not show the percentage of the expense anticipated to be absorbed by the plan administrator. This Report neither validates nor contradicts the CNU Report findings, however, for the purposes of consistency, this Report will assume a cost reduction of 50% for consulting and contracted services as much of that cost will be borne by the employer and program administrator. Table 5-4 below provides this Report's cost estimates for both startup and annual operating costs for a MEP.

[180] CNU Report at 19-25.

Table 5-4: Estimated MEP Startup and Annual Operating Costs in Virginia

Activity	Startup Cost	Annual Operating Costs
Staffing & Administrative Services	$450,000	$450,000
Consulting & Contracted Services	$790,000	$395,000
Other Expenditures	$50,000	$50,000
Total	**$1,290,000**	**$895,000**

Note: The staffing & administrative services cost estimates 2 FTEs from startup and through program maturity.

For the MEP model, the only state-based open MEP program with any cost data is Massachusetts and that program serves only a small subset of employers in the state (non-profit employers with 20 employers or fewer). Adoption of the program has been slow and limited due to several key factors. First, participation is voluntary for employers, which will always reduce the participating percentage and, second, employers evaluating a MEP continue to face the same barriers which have proven prohibitive to taking action in the private sector, including cost to establish and maintain the program, administrative overhead costs, shared fiduciary responsibility, and complexity of plan management.[181] In addition, with a MEP there likely will be an expectation of matching employer contributions to individual accounts.

MEP - Employer Costs: Under a MEP, employers typically are responsible for a number of costs, including:

- Startup costs;
- Annual recordkeeping and administrative costs;
- Annual audit cost, for employers with more than 120 eligible employees; and
- Cost to perform administrative and fiduciary duties internally.

MEP - Financial Feasibility: The CNU Report estimated MEP cash-flow positivity between years five and six under a stable economy scenario, and between years nine and ten under poor economic conditions (Table 5-3).[182] Given the limited experience with the MEP model and the expected slower take rate for participating employers, our assessment is that the CNU cost estimates likely are low and the assumed time to cost positivity are overstated.

In addition, the range of average annual incomes in the CNU Report is incongruent with the wage/salary available data for the population of uncovered workers. Based on data from The Pew Charitable Trusts, the mean and median salary for a private sector employee without

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[181] *See e.g.* BlackRock, *Increasing Access to Open Multiple Employer Plans* (Jan. 2018), https://www.blackrock.com/corporate/literature/whitepaper/viewpoint-increasing-access-open-multiple-employer-plans-january-2018.pdf (discussing administrative and logistical burdens on employers associated with traditional MEP structures).

[182] CNU Report at 19-25.

access to an employer-sponsored retirement plan is $32,391 and $22,206 respectively.[183] The CNU Report posited that employees earning less than $25,000 annually were among the Commonwealth's lowest earners and calculated participation rates in a MEP based on an assumption that employees earning over $25,000 were more likely to participate in the program.[184] Therefore, the CNU Report's analysis likely over-estimated the number of employees who would participate in the plan based on the lower salary threshold. Second, the estimate assumed a participation rate of 70-80% for both MEP and auto-IRA plans.[185] Since the MEP is voluntary for employers, even with an automatic enrollment of employees with an opt-out election, reaching even a modest 50% participation rate is unlikely.

Revisiting the three key factors for financial feasibility: (i) self-sustainability; (ii) participation; and (iii) third-party administrator, it is difficult to envision a scenario in which a MEP would be the vehicle of choice to close the retirement savings gap in Virginia, especially based on the experience in Massachusetts and Vermont.

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[183] This information was calculated by Pew as part of working papers provided to the Virginia529 team and Massena LLC. Documentation available upon request.
[184] CNU Report at 21.
[185] *Id*. at 16.

Program Comparison.

As discussed in Chapter 2, the auto-IRA and MEP models each have pros and cons depending on what factors are being evaluated. Previous sections examined cost and financial feasibility. However, there are other facets to consider when evaluating the efficacy of each model. A snapshot of the advantages and disadvantages of each model is shown in Tables 5-6 and 5-7, below.

Table 5-6: Auto-IRA Model Advantages and Disadvantages

Advantages	Disadvantages
• Provides employees who do not currently have an employer-sponsored plan access to a retirement savings vehicle • Limited employer involvement and little to no burden on employers to administer the program • Easy to understand program for employees • and employers • Investments are pooled and economies of scale can be achieved, thus lowering administrative fees over time • Wide coverage of employers provides larger pool of participants • Automatic enrollment of employees will reach the largest population of eligible individuals	• IRS annual contribution limits potentially reduce the amount that could be saved • Employers cannot make contributions • Employers may face additional costs if they do not have a payroll system • Places more responsibility and time on the state • Requires development of state administration infrastructure • Higher startup costs for the state than if a third-party fully administered the program • Participation assumption percentage is not guaranteed, which means recovery of implementation costs remains a risk to the sponsoring state

Table 5-7: MEP Model Advantages and Disadvantages

Advantages	Disadvantages
• Provides employees who do not currently have an employer-sponsored plan access to a retirement savings vehicle • Employer contributions are allowed (not required) which might increase employee savings • Potentially lower startup and operating costs to the state • Less responsibility on the state as more functions are managed through employers	• Low adoption and participation rates • Increased financial, fiduciary and administrative burden on the employer • Low adoption rates may increase costs for employers and employees over time • Lower ability to reduce the negative fiscal impact of insufficient savings for the Commonwealth • Breakeven period for the Commonwealth may be longer than 15 years

Conclusion

Tables 5-6 and 5-7 above assess benefits and drawbacks of both programs as they relate to all stakeholders. Consideration of the pros and cons of each model, in conjunction with the market survey and analysis of costs, will serve to inform the General Assembly as it determines which program may best serve the Commonwealth and *"encourage citizens to save for retirement by participating in retirement savings plans."*[186]

As the legislature examines the efficacy of a state-facilitated private retirement program, it is important to evaluate public policy initiatives holistically. There are many factors to consider in evaluating such a program, including perspectives of employers and employees alike, financial feasibility and cost to the Commonwealth.

While cost is a significant consideration in this analysis, equally weighty is the gravity of the retirement savings crisis in Virginia. Simply stated, providing a cost effective and administratively efficient vehicle to empower the 1.2 million Virginians who do not have access to an employer sponsored plan, will serve to close the retirement savings gap while building a stronger Virginia for generations to follow.

[186] 2020 Va. Acts 506, https://lis.virginia.gov/cgi-bin/legp604.exe?201+ful+CHAP0506+pdf.

Chapter 6: Program Structure & Capability Assessment

Summary: To better assess resources necessary to implement a state-facilitated private retirement savings program, this Chapter summarizes anticipated program needs, as well as examines where certain efficiencies may be found within existing entities in the Commonwealth. Using data from the experience of other states, employer and employee sentiment, existing modeling completed as part of the CNU Report, and current capabilities of existing Commonwealth entities, this section recommends a model structure for a state-facilitated private retirement program.

Scope: As outlined in Chapter 506 of the 2020 Virginia Acts of Assembly, this Report includes an examination of the appropriate state agency and structure to implement a retirement savings program solution. The analysis authorizes recommendations for statutory changes or amendments to the general appropriation act. Virginia529, in undertaking its analysis, was directed to convene a group of stakeholders to assist and provide insight into the feasibility and preferred structure of such a plan.

Methodology: This section evaluates program requirements to implement, operate and oversee a state-facilitated private retirement savings program. The Report focuses on functional requirements, existing capacities within the Commonwealth, and key findings from previous Chapters in this study. For purposes of this analysis, Virginia529 focused on developing baseline resource needs modeled after the existing state programs which have begun employer onboarding. This study examined three potential models for a state-facilitated program; however, the marketplace model requires little to no infrastructure and, based on key findings, is the model with the lowest take-up rate and least impact on the target group of citizens. As such, the following discussion assesses the potential of either the auto-IRA or MEP models to successfully address the retirement savings gap in Virginia. As appropriate, this section provides policy considerations for program implementation.

Key Findings:

1. Existing state auto-IRA program administrators generally offer:
    - A recordkeeping and administrative platform to support automated saving into individual retirement accounts;
    - Marketing and outreach to employers and employees;
    - Technical assistance to employers to support them in enrolling the organization and its employees, providing workforce information, and facilitating payroll

deductions as well as further assistance as needed to help employers avoid enforcement issues (online, call center, and in person);

- Access to account information and support for program-related questions, inquiries and issue resolution (online and call center);
- Regular account statements for participating savers, along with tools to help them understand their progress toward retirement income replacement and other financial education information; and
- A range of services to support program and savings compliance with federal and state law.

2. In Virginia529's market surveys of employers and employees, commonly-desired plan features include:
    - Online and/or telephonic account customer service support;
    - Employer onboarding services;
    - Automatic enrollment of employees;
    - Automatic payroll deduction; and
    - Portability.

3. Currently, no single government entity in the Commonwealth is equipped to serve as a plan administrator without additional capacity and technology building, financial investment, or legislative revisions. However, building upon existing expertise can decrease the time to implementation of a plan and the implementing entity would leverage existing expertise to provide greater oversight for outsourced plan functions.

4. Key competencies for the state sponsor of a state-facilitated private retirement program include (i) experience providing a defined benefit and/or defined contribution savings plan to private and public savers; (ii) experience working with program administrators and recordkeepers; experience in developing investment portfolio options for savers; familiarity with direct deposit payroll and other kinds of contributions; and (iii) in-house investment management experience. Even though much of the program implementation and operation will be outsourced to a third-party administrator, experience and expertise of the state sponsor in relevant areas will reduce the time to effective implementation and enhance the monitoring and due diligence provided by the state sponsor with respect to the private retirement program.

5. Except for the significant impediments described in paragraph six immediately below, based on functional requirements and an analysis of alternatives and relevant

experience, and absent any impediments, the Virginia Retirement System (VRS) is the agency best-suited to develop and implement a state-facilitated private retirement program in Virginia, should the General Assembly authorize such a program and receive support from the Governor.

6. However, impediments to VRS assuming this role do exist. VRS is governed, in part, by Virginia constitutional provision and by the IRS exclusive benefit rule, both of which require the VRS Trust Fund to be administered solely in the best interest of VRS members, retirees, and beneficiaries. As a state-facilitated private retirement program is designed for a population not made up of VRS members and beneficiaries, a dedicated funding source other than the VRS Trust Fund would be required and substantial legislative revisions may need to be made before VRS could become the state sponsor.

7. Assuming VRS remains statutorily and constitutionally limited to administering a program for public employees, the next most appropriate state sponsor is Virginia529.

8. Virginia529 has experience with both defined benefit and defined contribution plans for education savers and, more recently, with a largely outsourced platform for disability savings.

9. Virginia529 currently offers qualified tuition and savings programs under IRC § 529 and IRC § 529A. Virginia529's offerings are similar to retirement program offerings in that they provide a range of investment options, including target date funds, and depend on outreach and marketing efforts to onboard new participants.

10. Virginia529 incorporates elements of financial education into its strategic plan and could extend those concepts to a retirement program and environment.

Program Capability Requirements: General.

For states that have implemented a state-facilitated retirement savings program, key functions generally are expected to be part of the program structure. Generally, programs provide:

- **Program Platform:** The program should establish a recordkeeping and administrative platform that supports individual retirement accounts in the context of automated employer-based payroll contributions, automatic employee enrollment, automatic escalation, the use of an investment menu, and program reporting, among other key requirements;
- **Employer Support:** The program should provide some form of technical assistance for employers to support them in enrolling, providing workforce information, and facilitating payroll deductions as well as further assistance as needed to help employers avoid enforcement issues (online, call center, and in person);

- **Customer Service:** The program should provide access to account information and support for program-related questions, inquiries and issue resolution (online and call center); and
- **Marketing and Outreach:** The program should develop marketing and outreach functionality to communicate enrollment deadlines, plan documents, and financial literacy initiatives to employers and employees, as necessary.

Many of these functions can be—and indeed usually are—outsourced to the program administrator. Although the state sponsor remains responsible for the overall administration and oversight of the program, several qualified auto-IRA program providers in the state-facilitated retirement program arena have developed or are developing turnkey program support infrastructure, thereby lessening the cost and administrative burden on any entity standing up a program. Leveraging existing state agency expertise in the various functional elements should lead to reduced time to implement a program, greater efficiency in program administration, increased program public awareness, and greater oversight capacity.

In the following section, functional requirements are examined and existing infrastructure within the Commonwealth is measured to evaluate cost-effective and operationally efficient options to implementation. Virginia529 examined the experience of other states (Appendix B) as well as recommendations in prior studies in assessing which existing state capacities could be leveraged and identify where there are gaps which could be addressed through policy or fiscal considerations.

Functional Requirement #1: Program Platform.

In the survey of Virginia employees discussed in Chapter 3, over 90% of respondents stated that they strongly like or somewhat like portability as a feature of any state-facilitated program.[187] Similarly, approximately 90% of employers felt that portability for employees was an important consideration for plan (program) design.[188] States which have adopted state-facilitated models generally require portability as a feature when developing program structures (California and Illinois include the requirement in their enabling legislation).[189] IRA account portability does not restrict savers from taking their accounts with them if they change employers or otherwise leave the program.

This portability is key as many private market options do not offer portability, making it difficult for employees to transfer plan-to-plan when changing jobs.[190] This lack of easy portability means that, often, employees spend weeks or months completing a transfer of their retirement

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[187] Virginia529 Employee Survey at 15.
[188] ANR Presentation at 27.
[189] CA Gov't. Code § 100004(a) (2018); 820 ILCS 80/30 Sec. 30(a)(5).
[190] Alicia H. Munnell *et al.*, *An Analysis of Retirement Models to Improve Portability and Coverage*, 2 (Mar. 2018), https://crr.bc.edu/wp-content/uploads/2018/03/Portability-and-coverage_Special-report.pdf.

account assets.[191] Additionally, some plans do not accept rollovers from other plans, meaning that employees may be left with multiple small retirement accounts which make it difficult for the employee to keep track of their retirement savings levels and may lead to leakage.[192]

Given the importance of portability as both a desired program feature and a tool to encourage ongoing savings for employees regardless of employers, any entity administering a state-facilitated program for the Commonwealth should facilitate a program platform which permits portability. This portability should not simply be applicable to employees when they change jobs but remain in the program, but should also extend to rollovers into private market plans such as 401(k)s and 403(b)s. This portability would ensure that even if employees leave the state-facilitated plan, they will not face the weeks or months long delay which, as noted above, often hampers continued employee saving and may result in the employee having several small accounts across multiple plans. To ensure portability, the entity administering the program will likely need to work closely with payroll providers to start, stop, or transfer ongoing employee contributions with minimal delay to the employee or burden to the employer. The entity will also need to work with financial industry firms managing private market retirement savings plans to ensure that any rollovers between the state-facilitated program and private market programs are not unduly delayed.

Functional Requirement #2: Employer Support.

As noted previously in Chapter 3 many employers do not have the capacity to handle employee onboarding or the ongoing administration of retirement savings plans for their employees. Validating this perspective, it has been observed that the ability of employers to enroll in a plan is a success factor in plan providers meeting their applicable program participation goals.[193] A key part of this is ensuring that employers have the tools they need to onboard current and future employees in a way that is minimally burdensome. As a result, program states have developed comprehensive compliance programs to ensure that employers participate in the plan if required to do so and eligible employees participate in the plan should they so desire.[194] These compliance programs typically work with individual employers to ensure that the goal of being minimally burdensome is met while ensuring that employers falling within the mandate

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[191] *Id*.

[192] *Id*. at 2-3. Leakage is generally defined as early withdrawals from a retirement savings account for non-retirement purposes. *Id*. at 18. Leakage can take three different general forms: in-service withdrawals (hardship withdrawals and withdrawals after age 59.5), cashing out the account due to a job change, and loans from the account. *Id*. Leakage serves to reduce retirement savings levels by diverting retirement funds for other purposes, thereby making them unavailable in retirement. *Id*.

[193] Alex Mazer *et al., Portable Non-Employer Retirement Benefits: An Approach to Expanding Coverage for a 21st Century Workforce*, 22 (Feb. 2019), https://assets.aspeninstitute.org/content/uploads/2019/02/Portable-nonemployer-retirement-benefits-1.pdf.

[194] *See e.g.* OregonSaves, *Employer Resources* (last viewed Dec. 1, 2020), https://employer.oregonsaves.com/home/employers/resources.html (containing detailed resources to assist employers with enrollment, account setup, submitting contributions, and participating in the program).

meet their enrollment deadlines.[195] Individual attention to employers has paid off in program states, with a survey of the OregonSaves program noting that 76% of employers felt satisfied or neutral about the time it took to register their business with the program.[196]

Ideally, the state sponsor will facilitate key employer onboarding functions in concert with the program administrator. The program administrator should have the statutory authority, as the agent of the state sponsor, to contact Virginia employers, work with them to implement the program for eligible employees, support payroll-based deduction activity, and provide ongoing technical support as necessary. The entity should be able to work with employers on a one-on-one basis to address outstanding issues and adapt as needed to ensure that employers are compliant with program participation requirements. The entity will likely need to work closely with agencies managing employer tax and payroll reporting to ensure that compliance deadlines are met and to maintain accurate enrollment records. Coordination of these relationships by and among the state sponsor, program administrator and other relevant state agencies is key to the successful operation of any program.

Functional Requirement #3: Customer Service Support.

The majority of program states examined have dedicated customer service support. CalSavers, OregonSaves and Illinois Secure Choice each has dedicated customer service phone lines for employers, a secondary phone line for employees, and all allow savers to access their account details either online, via phone, or via an app designed for the program.[197] As previously noted, online and telephonic accessibility are key features both employees and employers in the Commonwealth would seek in a state-facilitated plan.[198]

Assuming these services would not be outsourced, the state entity best-suited to manage a program like this would have existing customer service infrastructure and capacity and could pivot to retirement savings support, either through the re-training of existing personnel or hiring of new personnel. The existing infrastructure may manifest as either specific retirement plan management experience or investment experience broadly. Ideally, the entity would be able to

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[195] *Id*. *See also e.g.* CalSavers, *Employer Resources* (last viewed Dec. 1, 2020), https://employer.calsavers.com/home/employers/resources.html?language=en# (containing resources for employers to begin and maintain participation in the program, communicate the program to employees, and troubleshoot issues).

[196] John Scott & Mark Hines, *Employers Express Satisfaction with New Oregon Retirement Savings Program* (July 30, 2020), https://www.pewtrusts.org/en/research-and-analysis/articles/2020/07/30/employers-express-satisfaction-with-new-oregon-retirement-savings-program.

[197] *See generally,* CalSavers, *Contact Us* (last viewed Dec. 1, 2020), https://www.calsavers.com/home/contact-us.html; CalSavers, *Mobile App* (last viewed Dec. 1, 2020), https://saver.calsavers.com/home/savers/mobile-app.html?language=en#. *See generally also,* OregonSaves, *Homepage* (last viewed Dec. 1, 2020),https://www.oregonsaves.com/; Illinois Secure Choice, *Homepage* (last viewed Dec. 1, 2020), https://saver.ilsecurechoice.com/,

[198] ANR Presentation at 27; Virginia529 Employee Survey at 15.

service savers in not only the public sector, but also the private sector. Finally, the entity would need to have the ability to provide account support either via an online portal, via telephone, or both.

Realistically, these features are best outsourced to existing providers with the requisite infrastructure and trained personnel. The state sponsor would assume little of the day-to-day customer support functionality. However, it may be beneficial for the implementing entity to have experience providing customer support in order to enhance its oversight of the program administrator's customer support functions, reporting and program metrics and potentially tailor those functions to employers and employees in the Commonwealth.

Functional Requirement #4: Marketing and Outreach Services.
An important function of existing state-facilitated retirement programs is the ability to conduct marketing and outreach services both to employers and employees. These services assist with the socialization of the program among both target groups and generally increase awareness of retirement savings across employee populations generally considered to be "on the financial fringes."[199] Indeed, one analysis of the use of marketing tactics as a tool to encourage retirement savings found that strategic marketing can influence a person's belief in their ability to meet (or not meet) savings goals.[200] In addition to the potential positive impact on employee savers, marketing and outreach tools can serve a notice function for employers who may be under compliance deadlines to participate in the program. Finally, such efforts may reduce the burden on employers to provide program information to employees. As noted in a 2016 Pew study, "effective outreach campaigns and ongoing communications by the [plan administrator] would address worker questions and probably reduce the number opting out, as well as the burden on employers."[201] States with existing programs recognize the importance of outreach and marketing, with California, Illinois, and Oregon each including provisions requiring the program to develop an outreach strategy, often in conjunction with other state agencies and community-based organizations.[202]

Ideally, the state sponsor and the program administrator will jointly develop and implement a marketing and outreach strategy, with each partner leveraging their strengths to complement the overall strategy – presumably, the state sponsor would rely on their knowledge of the Commonwealth and its demographics to assist the effectiveness of outreach efforts of the

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[199] National Conference of State Legislatures, *State-Facilitated Retirement Savings Programs for Private Sector Workers* (Sept. 26 2018), https://www.ncsl.org/research/fiscal-policy/state-facilitated-retirement-savings-programs-for-private-sector-workers.aspx.
[200] Josh Wiener & Tabitha Doescher, *A Framework for Promoting Retirement Savings*, 144 (2008), https://onlinelibrary.wiley.com/doi/pdf/10.1111/j.1745-6606.2008.00102.x.
[201] Greg Mennis *et al.*, *How States are Working to Address the Retirement Savings Challenge*, 22 (June 2016), https://www.pewtrusts.org/-/media/assets/2016/06/howstatesareworkingtoaddresstheretirementsavingschallenge.pdf.
[202] *See* CA Govt Code § 100046(c)-(f) (2018). *See also* ORS 178.245 (2015); 820 ILCS 80/30 Sec. 30(p).

program administrator. Marketing and outreach will also be coordinated and conducted in partnership with other state agencies or organizations. The marketing and outreach efforts should include comprehensive resources for employees and employers, either via online or print materials, to assist with socialization of the program, facilitate onboarding and include informational materials—such as pamphlets, how-to guides, and FAQs—for employer dissemination to minimize or eliminate the need for the employer to independently develop materials for their employees.

Existing Capacities.

As previously noted, many of the key day-to-day functions of a state-facilitated program will be managed by the plan administrator. If the state sponsor has familiarity with all or some of those responsibilities, they will enhance the program offering and better tailor the program to the needs of the Commonwealth and its citizens. Positioning within a well-known and respected state agency may allow a program to build on existing resources and goodwill among the public to establish the program as a trusted and legitimate offering. Developing a program within an existing entity may also allow for cost savings by leveraging institutional expertise—such as investment advising or marketing services—and human capital already housed within that entity.

State-facilitated retirement programs implemented or in development in other states generally leverage existing capabilities within existing government entities such as their state treasury departments – most often in treasury offices with existing responsibility for other types of savings programs such as 529 education savings programs or ABLE disability savings programs (this is the case in all three of the operating auto-IRA programs). Table 6-1 provides a summary of the Virginia state agencies which Virginia529 identified as possessing some or all of the core mission and functions suited to successfully implementing a state-facilitated private retirement program within a realistic timeframe. The analysis to follow was informed by multiple publicly-available sources and prior reports.

While the benefits to developing a state-facilitated retirement savings program within an existing government entity or structure are clear, there may be reasons to consider establishing a new entity to serve as the state sponsor to develop and implement such a program. At least one state, Maryland, created a new independent state agency to administer its auto-IRA program, however, they currently are in the contracting and development stage for their program.[203]

A new entity may be more flexible than an existing entity and free from policy associations which may be already established within existing government offices. Given that standing up a new government entity will necessarily involve developing program capacities and expertise from the ground up—without existing infrastructure to leverage—the bulk of this analysis focuses on capacity building within existing government entities in the Commonwealth. Below is

[203] Md. Code, Lab. & Empl. § 12-201(a)(2).

an assessment of the potential strengths and limitations of several Virginia state agencies which possess some or all of the qualities and expertise needed for success. In addition, an attempt is made to identify areas where additional capacity building may need to occur to administer a state-facilitated retirement program.

1. ***Virginia Retirement System***. The Virginia Retirement System (VRS) is an independent state agency that delivers retirement and other benefits to covered Virginia public sector employees.[204] VRS ranks as the 18th largest public or private pension fund in the U.S. and the 41st largest in the world, serving more than 723,000 active and inactive members, retirees and beneficiaries.[205] Members include public school teachers, political subdivision employees, state agency employees, public college and university personnel, state police, Virginia law officers and the judiciary.[206] VRS currently administers retirement and other benefits programs (life insurance, short term disability, etc.) to covered Virginia public sector employees.[207] VRS also offers "MyVRS" financial wellness programming to help participants better plan their financial futures, not just in the retirement space but also with mortgage planning, general budgeting, auto, and student loan calculators.[208] VRS provides customer service support to its members both online and via a call center.[209] VRS has extensive recordkeeping, investment management, legal, and compliance resources to help with the administration of its programs.[210]

   Based on the above, VRS is uniquely positioned among state entities to support a state-facilitated private retirement program. However, absent significant legislative and state constitutional changes, VRS currently is precluded from managing accounts for private employees. Though there may be other compliance considerations not touched on in this analysis, two primary obstacles exist to VRS administering a private retirement program. VRS is governed, in part, by a Virginia constitutional provision and the IRS exclusive benefit rule, both of which require the VRS Trust Fund to be administered solely in the best interest of VRS members, retirees, and beneficiaries. Though not creating a specific prohibition on managing accounts for private sector employees, the Virginia Constitution provides that the retirement system shall be maintained for "state employees and employees of political subdivisions and school divisions."[211] To do this,

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[204] Virginia.gov, *Agencies: Virginia Retirement System* (last viewed Dec. 1, 2020), https://www.virginia.gov/agencies/virginia-retirement-system/.
[205] Virginia Retirement System, *About VRS* (last viewed Dec. 1, 2020), https://www.varetire.org/about/index.asp.
[206] *Id*.
[207] Virginia Retirement System, *VRS 101: An Introduction to the Virginia Retirement System*, 4 (Jan. 2020), https://www.varetire.org/pdf/publications/intro-to-vrs-brochure.pdf.
[208] *Id*. at 3.
[209] *Id*. at 4
[210] *See generally, id*.
[211] Va. Const. Art. X, § 11.

the VRS Trust Fund was created as the vehicle in which program funds are held in order to insure that the funds are used "solely for the benefit of members and beneficiaries and to administer the retirement [system]."[212] As state-facilitated private retirement programs address a population not made up of VRS members and beneficiaries, a dedicated funding source other than the VRS Trust Fund would be required to implement a program. Therefore, in addition to legislative—and potentially constitutional—changes, VRS would require a general fund appropriation or other a source of funding and a separation of duties and resources that may be difficult to ensure to administer a plan for private savers.

Currently, no state governmental retirement plan is administering a private retirement program. It is unclear if VRS' current support staff would also be able to support a state-facilitated retirement program for private sector workers.

2. ***Department of the Treasury***. The Department of the Treasury (Treasury) provides statewide financial services for agencies and institutions of the Commonwealth.[213] The State Treasurer reports directly to the Secretary of Finance, which is a cabinet position reporting directly to the Governor.[214] Treasury is responsible for the investment and disbursement of the Commonwealth General Fund monies, the issuance and management of the short and long-term financing needs of the Commonwealth, administration of the state's unclaimed property and escheat laws (which involves interaction with the general public), administration of insurance and risk management programs, management of the state's banking network, development of cash management programs, and check issuance services.[215] Treasury's work is generally focused on the public sector as, per its enabling statute, Treasury is responsible for public funds which "belong to or [are] for the use of the Commonwealth, or for the use of any state agency."[216]

   While it does not have retirement plan management experience, Treasury has extensive infrastructure supporting its bond finance, cash management and investments work.[217] Treasury also is involved in many boards and commissions across the Commonwealth, including the Virginia Housing Development Authority, the Virginia Port Authority, the Debt Capacity Advisory Committee, the Virginia Small Business Financing Authority, and

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[212] Va. Code § 51.1-124.4.
[213] Virginia.gov, *Agencies: Virginia Department of the Treasury* (last viewed Dec. 1, 2020), https://www.virginia.gov/agencies/department-of-the-treasury/.
[214] *Id*.
[215] *Id*.
[216] Va. Code § 2.2-1802 (2020).
[217] Virginia Treasury, *Contact Us* (last viewed Dec. 1, 2020), https://www.trs.virginia.gov/About-Us/Contact-Us.

the Virginia College Savings Plan.[218] Treasury has some marketing and public relations communications functions within its unclaimed property and escheat division but does not appear to have a robust public customer service function.[219] Given its focus on providing financial services to state entities, Treasury does offer some customer service support to its state government customers.[220]

As with VRS, though Treasury undoubtedly has expertise in the financial and investment industries, the work that the Treasury currently does is not wholly suitable to the management of a retirement program. Treasury does not manage accounts for public or private savers and there would likely need to be significant investment in customer service functions and alteration of the Treasury's enabling statute in order to permit the management of private funds. In addition, given its focus on serving public entities, Treasury would need to develop familiarity with private employer payroll services or otherwise increase its expertise in working directly with private employers to administer a retirement savings program.

Even assuming many of the program functions are outsourced it would likely need a general fund appropriation to fund an initiative to stand up a program. Though significant infrastructure development would likely be required in Virginia, as previously noted other states which have implemented a state-facilitated retirement savings option have housed the plan within the applicable state treasury and added staff as necessary, although those treasury offices already have responsibility for their 529 and 529A platforms.

3. ***Virginia College Savings Plan (Virginia529)***. Virginia529 is an independent state agency with a statutory mission to enhance the accessibility and affordability of higher education for citizens of the Commonwealth; in 2015, its mission was expanded by statute to include assisting families and individuals to save for qualified disability expenses.[221] As part of its mission, Virginia529 provides nationwide qualified tuition programs under IRC § 529— Prepaid529℠, Invest529℠, and CollegeAmerica®—and qualified ABLE programs under IRC § 529A—ABLEnow® and ABLEAmerica®.[222] The CollegeAmerica and ABLEAmerica programs are offered through Virginia529's partnership with Capital Group®, home of the American Funds®, one of the largest

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[218] Virginia Treasury, *Organizational Chart*: *Rev. 10.25.17* (last viewed Dec. 1, 2020), https://www.trs.virginia.gov/media/a95bdfb1-9f30-426e-ac05-2d97f3f0097d/MzQWjQ/GM/High%20Level%20Organization%20Chart.pdf.
[219] Virginia.gov, *Agencies: Virginia Department of the Treasury* (last viewed Dec. 1, 2020), https://www.virginia.gov/agencies/department-of-the-treasury/.
[220] Virginia Treasury, *Contact Us* (last viewed Dec. 1, 2020), https://www.trs.virginia.gov/About-Us/Contact-Us.
[221] Va. Code § 23.1-701(A) (2020).
[222] Virginia.gov, *Agencies: Virginia529 College Savings Plan* (last viewed Dec. 1, 2020), https://www.virginia.gov/agencies/virginia529-college-savings-plan/.

mutual fund companies in the country.[223] In addition to its savings programs, Virginia529 also administers scholarship and financial education programs including SOAR Virginia® and Reading Makes Cents.[224]

Although Virginia529 does not have retirement plan administration experience, Virginia529's current savings options are similar to retirement program offerings in that they provide a range of investment options with a "Do It For Me" approach (target date funds), a "Guide Me" approach and a "Let Me Do It" approach similar to offerings in retirement programs. Virginia529 savers can choose their savings levels and change investments subject to certain restrictions, and there are regulatory requirements that must be met before funds can be withdrawn without incurring a tax penalty.[225] Virginia529 has experience providing both defined benefit and defined contribution plans for savers through its Prepaid529 and Invest529 programs, respectively.[226] Virginia529 has a range of key support functions currently operating in-house, including a marketing team, a customer service team and contact center, program recordkeeping functions, and in-house legal and compliance support.[227] Like VRS, Virginia529 has an Investment Division and Investment Director responsible for the day-to-day management of the agency's education and disability investments. The Investment Division is supported by the services of its investment consultant, Mercer Investment Consulting, one of the largest investment advisers in the world with a robust business in retirement plan administration and advising, and by its nine member Investment Advisory Committee.

Despite Virginia529's robust agency staff and investment management support, the staff's expertise is not wholly applicable to retirement savings programs. Virginia529 has legal and compliance departments within the agency, but those departments do not specialize in legal and compliance requirements for retirement programs. Similarly, its customer service team is not trained in retirement savings and likely would not be considered to support a state-facilitated retirement savings program without training or applicable certification.

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[223] Virginia529.com, *CollegeAmerica* (last viewed Dec. 1, 2020), https://www.virginia529.com/invest/collegeamerica/.

[224] Virginia529.com, *Reading Makes Cents Program Available Free for Families* (Apr. 2020), https://www.virginia529.com/newsroom/reading-makes-cents-program-available-free-for-families/.

[225] Virginia529.com, *Invest529* (last viewed Dec. 1, 2020), https://www.virginia529.com/invest/invest529/.

[226] Virginia529.com, *Smart Savers Blog: What's Next in Virginia529 Savings Options?* (Oct. 2020), https://www.virginia529.com/blog/whats-next-in-virginia529-savings-options/.

[227] *See generally,* Data Point, *Virginia College Savings Plan Expense Report* (last viewed Dec. 1, 2020), https://www.datapoint.apa.virginia.gov/dashboard.php?Page=Expenditures&FiscalYear=2021&Branch=INB&Name=Administrative%20%26%20Support%20Svcs&Agency=17400&Program=799 (disclosing expenses associated with management of the Virginia College Savings Plan agency).

Even assuming many of the program functions are outsourced, for Virginia529 to administer a state-facilitated retirement savings program, the General Assembly would need to authorize an interest-free Treasury loan (similar to the structure used at the formation of the agency in 1994) or a general fund appropriation. As with all other existing agencies and entities, Virginia529's enabling statute would need to be changed to broaden the scope of its authority to include the administration of a private market retirement savings program.

4. ***Department of Accounts***. Under the direction of the State Comptroller, the Department of Accounts is responsible for functions including: providing a unified financial accounting and control system for state funds; developing a comprehensive system of checks and balances between state agencies entrusted with the collection, receipt and disbursement of state revenues; and maintaining a central accounting system for all state agencies and institutions.[228] As part of its operations, the Department manages both the Payline and Cardinal systems which manage state employee payroll accounts—including managing deposits into state employee retirement accounts—and agency financial management processes, respectively.[229] The Department provides direct support to the agencies it services, including offering online self-service functionality.[230] Per its enabling legislation, the Department of Accounts is responsible for maintaining "a complete system of general accounting to comprehend the financial transactions of every state department, division, officer, board, commission, institution or other agency owned or controlled by the Commonwealth, whether at the seat of government or not."[231] Therefore, the Department is primarily geared towards public sector entities and it is unclear whether it has the statutory authority to provide services to private sector individuals and entities. The Department does not appear to have experience working directly with either employers or private savers.

   Based on current Department functionality, it is likely that there would need to be considerable overhaul of the Department's functions and capabilities in order to administer a state-facilitated retirement savings program for private savers. This would need to be funded either by a Treasury loan or a general fund appropriation. Even if outsourcing many of the program functions, the Department does not appear to have robust marketing, customer service, or in-house legal or compliance capabilities. The scope of the Department's enabling statute would need to be enlarged in order to broaden their oversight to include non-Commonwealth entities and employees.

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[228] Virginia Department of Accounts, *About Department of Accounts* (last viewed Dec. 1, 2020), https://www.doa.virginia.gov/AboutUs.shtml.
[229] Virginia Department of Accounts, *Functional Organizational Chart for the Virginia Department of Accounts* (last viewed Dec. 1, 2020), https://www.doa.virginia.gov/general/Functional_Chart.pdf.
[230] Virginia Department of Accounts, *Online Services* (last viewed Dec. 1, 2020), https://www.doa.virginia.gov/onlineservices.shtml.
[231] Va. Code § 2.2-802 (2020).

5. ***Virginia Employment Commission****.* The Virginia Employment Commission (VEC) is an agency under the Secretary of Commerce and Trade. The function of VEC is to provide the Commonwealth's workforce with services that promote maximum employment, unemployment benefits and labor market information to enhance the economic stability of Virginia.[232] VEC is overseen by a Commissioner with two Deputy Commissioners, an Internal Audit and Information Security Officer, and a Confidential Assistant/Policy/Administration Director.[233] Functions the four divisions oversee include: communications; general services; workforce services; workforce programs; workforce operations; finance; human resources; information technology; purchasing; administrative law; economic information and analytics; customer service and customer contact center operations; and program grants.[234] Under the VEC enabling statute the Commission is responsible for administration of the unemployment compensation program and has the power to broadly determine its organizational structure and oversight functions.[235] However, those powers are granted solely in the context of administering the state unemployment program.[236]

   While it does not have any support for retirement savings options, VEC does appear to have limited marketing support and robust customer service/call center capacity.[237] As previously noted, VEC also runs the Virginia unemployment compensation system, but is focused more heavily on claims management rather than technical administration.[238] VEC does have in-house legal support, though that support is focused generally on administrative law as VEC operates within the Virginia Administrative Code and is subject to the Virginia Administrative Process Act.[239]

   VEC has several existing capacities it could leverage. As previously noted, VEC appears to have a fairly robust customer service arm to assist with the adjudication of unemployment claims and payments. In addition, VEC has a network of field offices which may be useful in administering a state-wide retirement savings program, though those offices are currently focused on workforce operations. Even then, the existing payroll taxation structure implies that it would not be significantly difficult for VEC to facilitate payroll contributions to a state-facilitated retirement plan in addition to the

232 Virginia.gov, *Agencies: Virginia Employment Commission* (last viewed Dec. 1, 2020), https://www.virginia.gov/agencies/virginia-employment-commission/.
233 Virginia Employment Commission, *Organizational Chart – VEC Divisions: Eff. 05-25-18,* https://www.vec.virginia.gov/sites/default/files/documents/Org-Chart-2018.pdf.
234 *Id*.
235 Va. Code Title 60.2 (2020).
236 *Id*.
237 Virginia Employment Commission, *About VEC* (last viewed Dec. 1, 2020), https://www.vec.virginia.gov/about.
238 *Id*.
239 Va. Code § 60.2-111(A) (2020).

current payroll tax. VEC is also familiar to employers and could potentially ease the onboarding process by leveraging existing relationships.

Even if outsourcing many of the program functions, VEC would need to develop retirement program administration and investment expertise in order to have effective oversight of the plan recordkeeper. To do this, VEC would need either a Treasury loan or a general fund appropriation to invest in the support functions needed to administer a state-facilitated retirement savings program. In addition, both the VEC enabling statute and the applicable provisions in the Virginia Administrative Code would need to be amended to broaden the scope of the Commission's powers to expand its authority to include a retirement savings plan.

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Table 6-1: Analysis of Agency to Implement

	Provides a savings and/or retirement program to private savers, public savers (both, or neither).	Provides or procures functions such as key contracting or consulting functions for retirement plans.	Entity has a prohibition or restriction that would eliminate consideration as an agency to implement and operate a SFPRP program.	Public or employer- and employee-facing functions suitable to implement and operate a SFPRP program.	Resource (fiscal, human capital, etc.) requirements or authorities needed to implement a SFPRP program in Virginia.
Virginia Retirement System (VRS)	**Yes.** VRS currently administers retirement and other benefits programs (life insurance, short term disability, etc.) to covered Virginia public sector employees.	**Yes.** VRS has customer service functionality, including call center support and maintains strong market presence. VRS does have extensive recordkeeping, investment management, legal, and compliance resources to help with the administration of the plan.	**Yes.** VRS is governed, in part, by a Virginia constitutional provision and the IRS exclusive benefit rule, both of which require the VRS Trust Fund to be administered solely in the best interest of VRS members, retirees, and beneficiaries. A dedicated funding source other than the VRS Trust Fund would be required.	**Yes.** VRS administers a retirement savings program and is well-equipped to manage thousands of retirement accounts; it is currently the 19th largest plan among public and private pension systems in the US.	Amend enabling statute to remove or alter exclusive benefit rule limitations. Treasury loan or GF appropriation to augment existing capabilities and resource FTEs as needed.
Department of Treasury (Treasury)	**No.** The Treasury provides several financial services to state entities, including managing a local government investment pool for government entities and managing merchant card accounts for state agencies and local governments.	**Yes.** Treasury has some marketing, customer service/call center and recordkeeping functionality. However, the types of investments managed by the Treasury different from a retirement savings plan for private sector employees.	**No**. The Department's enabling statute--Va. Code § 2.2-1802--states that the Treasury is responsible for public funds which "belong to or [are] for the use of the Commonwealth, or for the use of any state agency."	**No.** Currently, the Treasury does not have any such functions.	Change to enabling statute to permit management of private funds. Treasury loan or GF appropriation to augment existing capabilities and resource FTEs as needed
Virginia College Savings Plan (Virginia529)	**Yes.** Virginia529 currently offers qualified tuition and ABLE programs under IRC § 529 and IRC § 529A. These are nationwide programs available to private and public savers. Virginia529's offers a range of investment options, including target date funds. Virginia529 has offered both defined benefit and defined contribution plans for savers.	**Yes.** Virginia529has a range of key support functions in-house, including marketing, customer service and call center, program recordkeeping functions, internal investment managers and in-house legal and compliance support. However, Virginia529 does not have any experience providing support for retirement plans or extensive employer experience	**No**. Va. Code § 231.-700 does not specifically prohibit Virginia529 from providing a retirement program, but the enabling statute is currently limited to higher education and saving for qualified disability expenses.	**No.** Virginia529 has direct experience facilitating payroll deduction for its program contributions, but does not have employer- or employee-facing functionsVirginia529may be able to leverage its brand reputation and associated goodwill in the Commonwealth as part of the employer enrollment process.	Change to enabling statute to expand scope of mission. Treasury loan or GF appropriation to augment existing capabilities and resource FTEs as needed.
Department of Accounts	**No.** The Department provides financial reporting and auditing services for all state agencies and institutions.	**No.** The Department does not appear to provide customer service or call center functions, though it does provide direct support to the agencies that use Department services and has online functionality for self-service.	**No.** The Department's enabling statute--Va. Code § 2.2-802--does not specifically include a prohibition.	**Yes.** The Department maintains payroll systems for Commonwealth employees. However, this payroll system is currently limited to Commonwealth employees.	Change to enabling statute to permit management of private funds. Treasury loan or general fund (GF) appropriation to augment existing capabilities and resource FTEs as needed. Resources to onboard non-Commonwealth employees.
Virginia Employment Commission (VEC)	**No.** VEC does not currently provide a savings or retirement program. However, it does maintain the Virginia unemployment compensation system and collects unemployment payroll taxes from employers.	**Yes.** VEC has marketing support and robust customer service/call center capacity. VEC also runs the Virginia unemployment compensation system and has in-house legal support and an internal audit function.	**No**. Va. Code Title 60.2 does not specifically prohibit VEC from providing a retirement program, but the powers provided by the enabling statue are currently limited to administration of the state unemployment program.	**Yes.** VEC appears to have a fairly robust customer service arm, a network of field offices which may be useful in administering a state-wide retirement savings program. VEC is also very familiar to employers and could potentially ease the onboarding process by leveraging existing relationships.	Change to enabling statute to expand scope of mission. Treasury loan or GF appropriation to augment existing capabilities and resource FTEs as needed.

Chapter 7: Recommendations & Policy Considerations

A key objective of this Report was to analyze current state and federal programs that encourage citizens to save for retirement by participating in retirement savings plans. To increase retirement savings and reduce senior poverty and state expenditure, Virginia should establish a state-facilitated retirement savings program. To achieve scale by broad adoption and acceptance, this program should be structured to be easy to use, and provide the features and functions employers and employees need most. Chapters 2-6 provide a foundation to inform key policy recommendations should the General Assembly decide to establish a state-facilitated private retirement program.

Below are recommendations for the General Assembly based on key findings in this Report.

Recommendation 1: If the General Assembly decides to launch a state-facilitated private retirement program, the auto-IRA is the most feasible model for Virginia based on the below factors:

- ✓ Design features appeal to the majority of employers and employees surveyed
- ✓ Low cost to employers
- ✓ Program viability projected within 10 years
- ✓ High probability of participation rates greater than 60%
- ✓ Will increase access of retirement savings options for socioeconomically disadvantaged Virginians

Recommendation 2: If the General Assembly decides to adopt an auto-IRA model, the following program features are recommended based on (i) time to self-sufficiency; (ii) state experience; (iii) features most important per the market survey:

Table 7-1: Auto-IRA Model

Program Features	Recommendations
Model	Auto-IRA
IRA Type	Roth as standard; Traditional as option
Auto-Enrollment	Yes
Default Contribution Rate	5%
Auto-escalation Levels	Implement in 1% increments up to 10%
Default Investment Vehicle	Age-based funds, first $1,000 to a capital preservation fund
Employer Size	Mandatory participation for employers with five or more employees, in business two or more years (consider discretionary participation for employers with fewer than five employees or sole proprietors)
IRS Contribution Limits	$6,000 per year ($7,000 if the employee is aged 50 or older)
Age Eligibility	18 years of age (minimum)
Opt-Out	Allowed any time

Recommendation 3: If the General Assembly authorizes a state-facilitated private retirement program, this Report recommends that the General Assembly consider authorizing an interest-free Treasury loan to resource program startup and operating costs with the goal of achieving cash-flow positivity within 10 years. As noted in the CNU Report, similar to Virginia's successful 529 college savings plan, a retirement savings program is expected to be well-received by Virginians as demonstrated in the market surveys. The ESI "cost of doing nothing" and long-term impacts on the Commonwealth's fiscal position are undoubtedly far more looming concerns that a program such as this could mitigate.

Recommendation 4: If the General Assembly authorizes a state-facilitated private retirement program, this Report recommends the legislature leverage an existing state agency board or authorize the creation of a new board, to provide program management and oversight of a program.

Recommendation 5: If the General Assembly authorizes a state-facilitated private retirement program, a state sponsor to implement a program will need to be designated. Based on Table 7-2, VRS and Virginia529 maintain the most experience in this market though there may be utility to establishing a new agency or entity under an existing agency. Table 7-3 illustrates some benefits and drawbacks for each of the entities examined. These factors should be considered in evaluating agency to implement as they directly impact financial feasibility.

Table 7-2: Comparison – Potential Administrative Entity

	VRS	Treasury	VA529	New Agency
Experience providing a defined benefit and/or defined contribution savings plan to private or public savers	✓		✓	
Experience working with program administrators, payroll deduction transactions, and recordkeepers	✓		✓	
In-house investment management capacity	✓	✓	✓	
Marketing and outreach resources	✓	✓	✓	
Experience with public or private savers	✓		✓	
Experience working with private employers			✓	

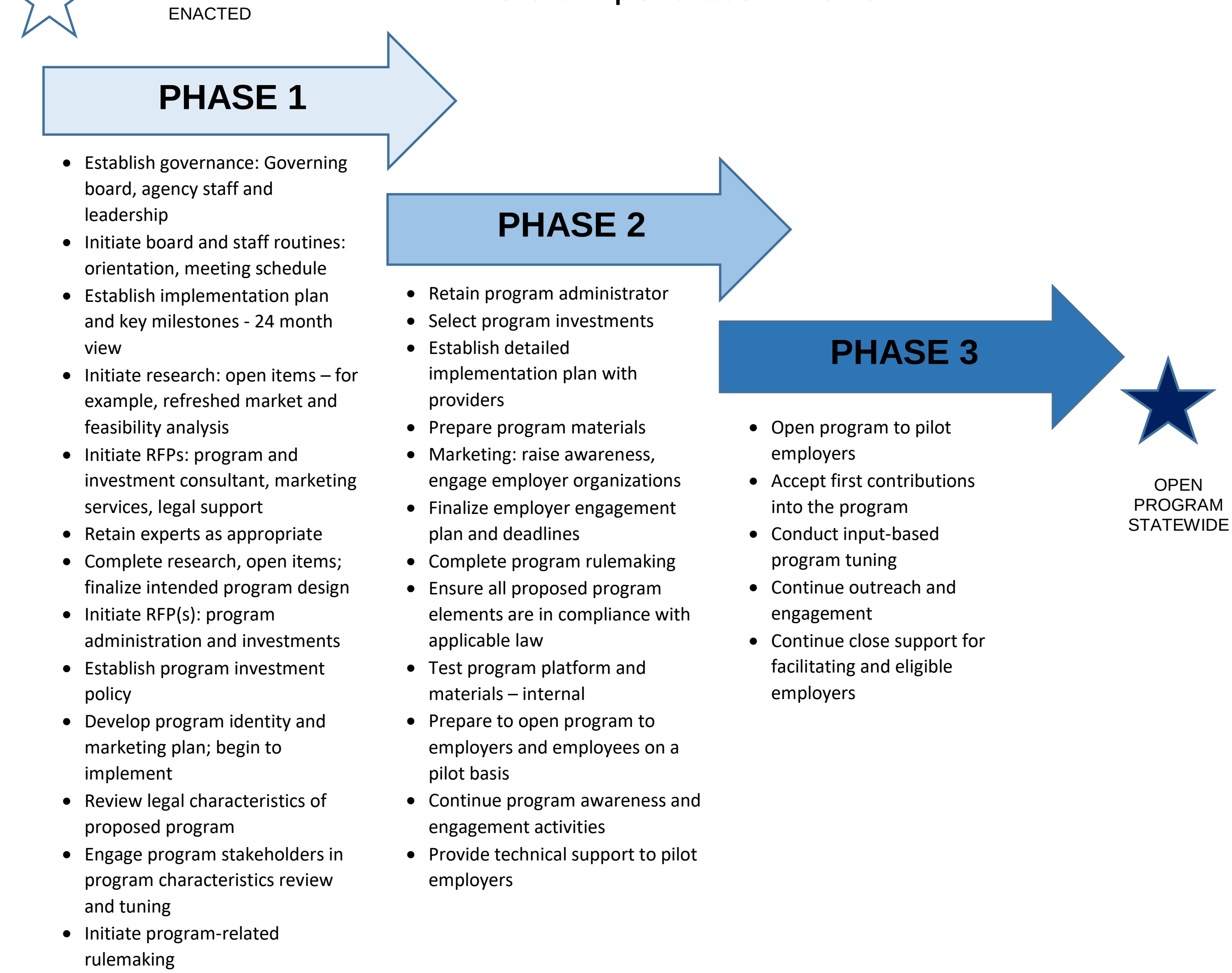
Table 7-3: Comparison – Benefits and Drawbacks

	VRS	Treasury	VA529	New Agency
Reduced implementation timeline*	✓		✓	
Will require new statutory authority	✓	✓	✓	✓
Reduced costs due to economies of scale	✓		✓	
Retirement savings program is primary mission	✓			✓

**Note: Informed by experience of other states, legislative or legal impediments may extend implementation timelines regardless of the administrative entity selected to implement the program.*

Recommendation 6: If the General Assembly authorizes the launch of an auto-IRA program, this Report recommends bringing various employer groups into the program in phases. One approach would be based on employer size, starting with the largest employers and working towards the smallest at the end of the rollout period. As illustrated in Figure 7-1 below, this phased approach would facilitate a smooth transition while affording training of program staff and employers as needed.

Figure 7-1: State-facilitated Private Retirement Program Notional Implementation Timeline



Recommendation 7: Financial literacy and education are key components to begin closing the retirement savings gap. If the General Assembly authorizes the launch of an auto-IRA program, there should be a mandate to provide financial education to private citizens and support in retirement planning. Enabling legislation should provide flexibility and discretion to determine how to best deliver these financial education services and make other implementation decisions.

General Policy Considerations: Should the General Assembly decide to implement a state-facilitated private retirement program, the following considerations will require further examination by the administrative entity and its board for each of the below:

- **Governance:** The governance structure is fundamental to the development of a program administrative structure that will enable the entity to work with the recordkeeper to implement the program. Careful consideration should be given in establishing a board structure.

- **Enforcement Entity:** If the General Assembly authorizes the launch of an auto-IRA program, which will necessarily include an enrollment mandate, the Commonwealth will need to establish a mechanism to enforce participation in the program or certify exemptions. This function could exist within the administrative entity or be a task of an existing agency, such as the Departments of Commerce or Labor.

- **Investment Entity:** Management of program funds, development of investment guidelines, and contracting with third-parties for investment management or other services in connection with the accounts are functions both VRS and Virginia529 have experience in. Consideration should be given to this particular function.

- **Recordkeeping Platform:** The administrative entity will need to establish a recordkeeping platform that will handle all of the tasks previously discussed in Chapter 5. The platform likely represents the largest component of operating costs to the Commonwealth.

- **Communication:** Given that it will be a new requirement for employers within the Commonwealth, the administrating entity will need to undertake a large communication effort for the program. This component will be key to creating excitement and interest in the program long–term as well as managing enrollment expectations. In addition, the administering entity will need to create communications that will be used on a day-to-day basis throughout the life of the program. This communications plan should include a robust website that will be easy for plan participants to understand and will clearly communicate the key aspects of the program.

- **Inter-agency Cooperation and Data Sharing:** The General Assembly should permit the board to enter into intergovernmental agreements to provide outreach, technical assistance, or compliance services as needed to develop and operate the program. For example, VEC has information on employers in the Commonwealth which will be critically important to any entity selected to serve as program administrator or state sponsor.

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Appendix A: The Pew Charitable Trusts Comments on the Report Pursuant to HB 775 on State and Federal Programs to Encourage Private Sector Retirement Savings

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December 17, 2020

Mary Morris
Chief Executive Officer
Virginia 529 College Savings Program
9001 Arboretum Parkway
North Chesterfield, VA 23236

Re: Comments on the Report Pursuant to HB 775 on State and Federal Programs to Encourage Private Sector Retirement Savings

Dear Ms. Morris,

The Pew Charitable Trusts' retirement savings team studies the challenges that American workers are facing in saving for retirement, the barriers that employers experience in trying to offer retirement savings plans for their workers, and the public policy initiatives that would address these challenges and barriers. The Pew Charitable Trusts is a nonprofit, nonpartisan research and public policy organization that uses an evidence-based approach to improve policy.

We appreciate the opportunity to comment on the Virginia College Savings Plan's study, pursuant to HB 775, of retirement savings options for private sector workers in the Commonwealth of Virginia.

In these comments we will address the following topics:

I. A review of the research regarding financial literacy, education and outcomes
II. Models of retirement programs in the private sector
III. The experience of other states in improving retirement security for private sector workers
IV. Retirement plan access in Virginia

I. Literature review: financial literacy, education, and outcomes

Overview

Financial literacy is important because we, as a society, believe that a financially knowledgeable person is more able to make decisions that improve their personal economic health and resilience than a person who is less knowledgeable. Financial literacy matters because individuals have a lot of responsibility for their financial situation, particularly about their retirement security in which workers are in a 'do-it-yourself' situation. But financial literacy matters not just for the individual's own financial well-being, but a financial literate population is the foundation for a fair and free economy by encouraging competition and efficient markets.

This section reviews the academic research on financial literacy, and covers the following topics:

- Definition: financial literacy is the ability to use knowledge and skills to manage one's financial resources effectively for lifetime financial security.
- In terms of measurement, most academic researchers have coalesced around a set of three questions, known as the 'Big 3,' that cover the topics of compound interest, real rates of return, risk diversification. However, results from a wide variety of surveys show that the vast majority of respondents do not get all of the Big 3 questions right. However, there is no consensus or definitive evaluation about the best approach to measuring financial literacy.
- Broad financial education is typically and consistently offered at the state level through primary and secondary public schools. Almost all states require some proficiency in financial literacy or economics and offer courses.
- As to whether financial education improves financial literacy, the research evidence is limited and not consistent, which points to the need for more comprehensive studies.
- Research has found connections between financial literacy and better financial outcome. While a relationship may exist between financial literacy and financial outcomes, it's not necessarily clear whether literacy affects outcomes or outcomes affects literacy. That is, does financial literacy lead to better outcomes, or does engaging in personal finance activities and decisions increase financial literacy?
- The research connecting education to improved financial outcomes is also somewhat mixed, but an important insight that needs additional study is that the way financial education is delivered may be more important to better outcomes than the substance of the education.
- The issue of the effectiveness of financial education cannot be divorced from the cost of providing education, and here again, there is little evidence.

Introduction

This section reviews what research has learned about financial literacy and education, specifically in terms of outcomes. The discussion will cover what is meant by financial literacy and how it is measured, the forms of financial education, and then how financial education and literacy lead, if at all, to improved financial outcomes.

Before covering these topics, it's helpful to ask why financial literacy matters, that is, why do we care? First, financial literacy matters at the societal level: Much like an informed citizenry is necessary for democracy, a financial literate population supports a fair and free market economy by encouraging competition and efficient markets.[240]

At the individual level, financial literacy also matters because individual Americans must make a lot of difficult decisions that affect their financial security: "We believe that the sense of public urgency over the level of financial literacy in the population is a reaction to a changing economic climate in which individuals now shoulder greater personal financial responsibility in the face of increasingly complicated financial products."[241]

This statement is particularly true in the area of retirement security as workers are largely in a 'do-it-yourself' situation in which they make decisions on participating in a plan, how much to contribute, where to invest savings, and when and how to withdraw funds at retirement. According to standard economic models, workers must make decisions that are future-oriented versus wants or needs that are very much in the present: Saving for a future retirement competes with daily expenses, paying off credit card or student debt, or saving for a home purchase. Without some level of financial literacy or ability to make numerical calculations, individuals may not be able to reach a desired or even acceptable level of retirement security.

<u>Definitions and measurement</u>

What is financial literacy, and how do we know that we do or don't have it? According to a national financial literacy program, Jump$tart, which is a source for national standards for K through 12 financial education programs, financial literacy is the ability to use knowledge and skills to manage one's financial resources effectively for lifetime financial security.[242] The academic research literature has many other definitions of financial literacy that variously cover knowledge of financial products, financial concepts, and numeracy or mathematical skills. Two particularly influential researchers, for example, define financial literacy as the "ability to process economic information and make informed decisions about financial planning, wealth accumulation, debt, and pensions."[243]

In terms of measurement, most academic researchers have coalesced around a set of three questions, known as the 'Big 3,' that cover the topics of compound interest, real rates of return, risk diversification.[244] Specifically, these three questions are (with correct answers in **bold**):

[240] Hastings et al. 2013.
[241] Hastings, J.S., Madrian, B.C. and Skimmyhorn, W.L., 2013. Financial literacy, financial education, and economic outcomes. *Annu. Rev. Econ*. 2013. 5:347–73.
[242] Jump$tart, 2020, https://www.jumpstart.org/.
[243] Lusardi, A. and Mitchell, O.S., 2014. The economic importance of financial literacy: Theory and evidence. *Journal of economic literature*, *52*(1), 5-44, at p. 6.
[244] Lusardi, A. and Mitchell, O.S., 2006. Financial literacy and planning: implications for retirement wellbeing", Pension Research Council Working Paper no. 1. *Philadelphia, PA: The Wharton School, University of Pennsylvania*.

- Suppose you had $100 in a savings account and the interest rate was 2 percent per year. After 5 years, how much do you think you would have in the account if you left the money to grow [answers: **more than $102**; exactly $102; less than $102; do not know; refuse to answer]
- Imagine that the interest rate on your savings account was 1 percent per year and inflation was 2 percent per year. After 1 year, would you be able to buy: [more than; exactly the same as; or **less than today** with the money in this account; do not know; refuse to answer.]
- Do you think that the following statement is true or false? "Buying a single company stock usually provides a safer return than a stock mutual fund." [true; **false**; do not know; refuse to answer.]

Other measures have supplemented the Big 3 questions. For example, the Financial Industry Regulatory Authority, a nonprofit private entity that regulates the securities industry, created the National Financial Capability Survey (NFCS).[245] The survey uses the Big 3 questions but also adds two more questions on mortgage interest and bond prices.

Other approaches go beyond the Big 3 or the NFCS: The Jump$tart financial literacy surveys use more than 30 questions. Alternative measures in the academic research literature include a self-assessment of financial knowledge or the level of confidence in one's financial ability, but this measure might reflect bias in one's self-assessment such as overconfidence in one's own abilities.[246]

Despite the different measures and approaches, there is no consensus or definitive evaluation about the best approach to measuring financial literacy. As one group of researchers noted:

> No study has provided incentives for giving correct answers as a mechanism to encourage thoughtful answers that reflect actual knowledge, nor has any study allowed individuals to access other sources of information (e.g., the Internet or friends and family) in completing a performance test to assess whether individuals understand their limitations and can compensate for them by engaging other sources of expertise. If individuals have effective compensatory mechanisms, we may see discrepancies between performance test results and actual outcomes and behaviors in the field."[247]

Modes of financial education

Financial education can be provided in different ways and at different points in one's life or career. Many large employers offer financial education programs through human resource and benefits programs. These programs are offered usually in context of enrolling in the company's retirement savings plan. Broad financial literacy programs are not usually offered by employers. According to a Bank of America survey, for example, just over half of employers who offer a 401(k) retirement plan provide

[245] The NFCS can be found at https://www.usfinancialcapability.org/.
[246] Hastings et al., 2013.
[247] Hastings et al, 2013, p. 357.

any financial wellness program to their employees.[248] Of course, individuals can engage in their own self-study whether as part of a degree-granting institution like a community college or through online tutorials or a professional society.

Broad financial education is typically offered at the state level through primary and secondary public schools. Almost all states require some proficiency in financial literacy or economics and offer courses. In some states, standardized testing is used to measure comprehension. According to a survey by the Council for Economic Education (CEE):[249]

- 45 states include personal finance in their K-12 standards, 21 states require high school coursework in personal finance, and only 5 use standardized testing of personal finance.
- All 50 states and the District of Columbia include economics in their K-12 instruction, 25 states require economics high school coursework, and only 10 states have standardized testing in economics.

Like many states, the Commonwealth of Virginia has developed standards and objectives for required coursework on economics and personal finance. According to the Virginia Department of Education's Economic and Personal Finance Standards of Learning:

> The topics of economics and personal finance teach that resources are limited; thus, people must make choices that may include substitutions or alternatives. Students practice using a set of tools for analyzing choices of all types, including those related to personal finance. Students learn the benefits of compound interest over time and that poor money management can lead to difficulty in obtaining credit. Students practice weighing costs and benefits of options when making choices about such things as careers, insurance, housing, investments, savings, automobiles and health care.[250]

According to the same CEE report, Virginia requires economic education and personal finance to be included in K-12 standards, which must be implemented by school districts in the Commonwealth, and a high school course in economics and personal finance must be offered and taken.

<u>Findings on financial literacy</u>

A critical question in the research literature is whether, and how, financial education and literacy affect financial outcomes. This question on the connection to outcomes covers measures of literacy, how financial education might affect literacy, and then on the connection between financial literacy and financial decision making.

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[248] Bank of America, 2019, *Workplace Benefits Report*, available at https://benefitplans.baml.com/IR/pages/workplace-benefits-report.aspx.

[249] Council for Economic Education, 2020, *Survey of the States, Economic and Personal Finance Education in Our Nation's Schools*, available at https://www.councilforeconed.org/survey-of-the-states-2020/.

[250] Commonwealth of Virginia, Department of Education, "Standards of Economics and Personal Finance," 2009, http://www.doe.virginia.gov/testing/sol/standards_docs/economics_personal_finance/index.shtml.

Measures of financial literacy are usually evaluated by testing. As discussed above, there are different approaches to measuring financial literacy, but the main approach is to see how people respond in surveys that contain questions like the Big 3 questions. The general takeaway is that the general population is not financially literate, and this is broadly true at the state, national, and international levels. Some examples from important surveys include the following:

- Generally, results from a variety of surveys show that the vast majority of respondents do not get all of the Big 3 questions right.[251]
- The Health and Retirement Study is a longitudinal study that surveys older Americans (ages 50 and above) every two years since 1992. In 2004, the HRS tested financial knowledge using the Big 3 questions. Three-quarters of respondents got the inflation question correct, 67 percent gave the correct answer to the compound interest question, and 52 percent picked the right response to the stock risk question. Overall, only 34 percent of older Americans got all 3 questions right.[252]
- FINRA's National Financial Capability Study uses the Big 3 plus two more questions, and its survey results can be disaggregated down to the state level. In the U.S., only a third of individuals can answer four or five questions correctly. Among Millennials, only 24 percent can answer at least 4 of the 5 questions.[253] In Virginia, 31 percent of respondents answered at least four questions correctly.
- According to a 2012 National Assessment of Educational Progress (NAEP) economics assessment, only 43 percent of students tested at a level representing competency. The report noted differences in scores based on race, gender, and family characteristics with white students, males, and students from households with higher reported parental levels of education scoring higher than their counterparts.[254]
- The Programme for International Student Assessment (PISA) tests students around the globe in literacy and math but also several other subjects. According to PISA's first financial literacy assessment, American teenagers fall in the middle of the pack globally, performing around the average of the 18 countries that participated but also failing to meet the baseline level of proficiency.[255]

[251] Lusardi & Mitchell 2014; Hastings et al., 2013.
[252] Lusardi and Mitchell 2014.
[253] Mottolla, G.R. "The Financial Capability of Young Adults—A Generational View," FINRA Investor Education Foundation, March 2014, http://www.usfinancialcapability.org/downloads/FinancialCapabilityofYoungAdults.pdf.
[254] U.S. Department of Education, National Center for Education Statistics, *The Nation's Report Card on the State of 12th-Graders' Economic Literacy, The Nation's Report Card: Economics 2012*, April 2013, http://nces.ed.gov/nationsreportcard/pubs/main2012/2013453.aspx.
[255] OECD, "Country Note – United States," *PISA 2012 Results: Students and Money: Financial Literacy Skills for the 21st Century (Volume VI),* Programme for International Student Assessment (PISA), July 2014, http://www.oecd.org/unitedstates/PISA-2012-results-finlit-usa.pdf.

Does financial education improve financial literacy?

The evidence is limited and contradictory. For example, somewhat dated research from the Jump$tart Coalition for Personal Financial Literacy shows surprisingly little correlation between measures of high school students' financial knowledge and whether they have completed a financial education class. However, that same research found that weaker high school scores may be a function of younger high school students – freshmen and sophomores – taking these tests. Older high school students and college students tend to do better, possibly as a result of greater exposure to financial situations.[256]

But education may improve some types of financial literacy and not others. For example, in a relatively large randomized financial education intervention in India, researchers found that although financial education does not improve financial decisions that require numeracy, study subjects became more aware of financial product as a result of education.[257]

Does financial literacy affect financial behaviors and outcomes?

Some research does find an association between the literacy and behavior. In general, financial knowledge is associated with an increase in engaging in various financial activities such as paying bills on time, budgeting, paying off credit cards, and setting financial goals.[258] Other studies have found a correlation between financial literacy and planning for retirement, savings and wealth accumulation.[259] More specifically, financial literacy is predictive of investment behaviors, including stock market participation,[260] choice of a low-fee investment portfolio,[261] and better diversification and more frequent stock trading.[262] Conversely, low financial literacy is associated with higher debt accumulation and high-cost borrowing, making poor mortgage choices, and a greater chance of mortgage delinquency and home foreclosure.

[256] Mandell, L., 2008. The financial literacy of young American adults. *The Jumpstart Coalition for Personal Financial Literacy*.

[257] Carpena F, Cole S, Shapiro J, Zia B. 2011. Unpacking the casual chain of financial literacy. Work. Pap. 5798, World Bank, Washington, DC

[258] Hilgert MA, Hogarth JM, Beverly SG. 2003. Household financial management: the connection between knowledge and behavior. *Fed. Reserve Bull*. 89(7):309–22

[259] Ameriks, John, Andrew Caplin, and John Leahy. 2003. "Wealth Accumulation and the Propensity to Plan." *Quarterly Journal of Economics* 118 (3): 1007–47.; Lusardi & Mitchell 2006; Hung, Angela, Andrew Parker, and Joanne Yoong. 2009. "Defining and Measuring Financial Literacy." RAND Working Paper 708; van Rooij, Maarten, Annamaria Lusardi, and Rob Alessie. 2012. "Financial Literacy, Retirement Planning and Household Wealth." *Economic Journal* 122 (560): 449–78.

[260] van Rooij, Maarten, Annamaria Lusardi, and Rob Alessie. 2011. "Financial Literacy and Stock Market Participation." *Journal of Financial Economics* 101 (2): 449–72.

[261] Choi J, Laibson D, Madrian BC. 2011. $100 bills on the sidewalk: suboptimal investment in 401(k) plans. *Rev. Econ. Stat*. 93:748–63

[262] Graham J, Harvey C, Huang H. 2009. Investor competence, trading frequency, and home bias. *Manag. Sci.* 55:1094–106

While a relationship may exist between financial literacy and financial outcomes, it's not clear whether literacy affects outcomes or outcomes affects literacy. That is, does financial literacy lead to better outcomes, or does engaging in personal finance activities and decisions increase financial literacy?

Some research has shown that financial knowledge increases through personal experience: A study of credit card markets in India, for example, found that the fees paid by new card holders fall by 75% during the first three years after an account is opened owing to negative feedback from having to pay fees and interest: By paying a fee, consumers learn how to avoid fees with future purchases.[263] Survey findings seem to confirm the importance of experience as a way to boost financial literacy: In the Health and Retirement Study, the biennial survey of older Americans, when asked how they learned about personal finance, half of respondents said that the most important way was through personal experience as opposed to learning from friends and family or through formal instruction or education.[264]

> To give a more concrete example, individuals with higher levels of financial literacy might better recognize the financial benefits of, and be more inclined to enroll in, a savings plan offered by their employers. Conversely, if an employer automatically enrolls employees in the firm's saving plan, the employees may acquire some level of financial literacy simply by virtue of their savings plan participation.[265]

Alternatively, does some other, unrelated factor, like greater numeracy or increased interest in financial concepts, lead to greater financial literacy? Perhaps patience or a forward-looking attitude contributes to both financial literacy and better financial outcomes? Research has not delved deeply into these questions.

Evidence on whether financial education improves financial outcomes is mixed. For example, a study evaluated the effects of a mandatory eight-hour financial literacy course rolled out by the US Army for all new enlisted personnel. The outcome was participation in and contributions to the retirement savings program for federal workers. The soldiers who joined the Army just after the implementation of the financial education course had participation rates in the plan and average monthly contributions that were roughly double those of soldiers who did not receive the course.[266]

In a different study, researchers used a natural experiment based on the expansion over time and across states in high school financial education mandates. The researchers could compare literacy and outcomes between states with and those without mandates and found some impact on wealth and savings.[267] But a different set of researchers re-examined the same data and suggested that the state

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[263] Agarwal S, Driscoll J, Gabaix X, Laibson D. 2011. Learning in the credit card market. Work. Pap., Fed. Reserve Bank Chicago.

[264] Hilgert et al. 2003.
[265] Hastings et al., 2013, p 358.
[266] Skimmyhorn, W., 2013. Assessing financial education: Evidence from a personal financial management course. *Work. Pap., West Point*.
[267] Bernheim BD, Garrett DM, Maki DM. 2001. Education and saving: the long-term effect of high school financial curriculum mandates. *J. Public Econ*. 80:435–65.

adoption of these mandates was correlated with economic growth, which could have had an independent effect on savings and wealth accumulation.[268]

The effects of financial education also may depend on how it is delivered. An experiment tested the impact of two different financial education programs targeted at microentrepreneurs.[269] One treatment group participated in traditional, principles-based financial education; members of another treatment group participated in several sessions of financial education oriented around simple financial rules of thumb. The financial behaviors of the treatment group who received the principles-based financial education were no different from a control group of entrepreneurs who did not receive any education. But, the financial behavior of the treatment group who participated in the rules-of-thumb oriented course was significantly improved from the control group. This study suggests that how financial education is delivered, and not just providing financial education, could matter in whether it has meaningful effects and might help explain why other studies have found much weaker links between financial education and economic outcomes. A more recent review of 126 studies made the statement that financial education "success depends crucially on increasing education intensity and offering financial education at a 'teachable moment.'"[270]

Finally, the issue of the effectiveness of financial education cannot be divorced from the cost of providing education, and here again, there is little evidence: "Of the few studies that exploit randomization or natural experiments, there is at best mixed evidence that financial education improves financial outcomes. There is even less evidence on whether financial education is cost-effective; indeed there are almost no studies detailing the costs of financial education programs on small or large scales."[271]

Conclusion

Financial literacy is important to individual well-being and to the functioning of our free market economy. But the research summarized above points to several areas of either additional research or improvement in our financial education programs, such as:

- While financial education is concentrated in our K-12 education system, education after secondary school is inconsistent. As the number and complexity of financial decisions increases after high school, employers and governments should examine 'life-long learning' approaches to boosting financial knowledge.

[268] Cole, S., Paulson, A. and Shastry, G.K., 2014. Smart money? The effect of education on financial outcomes. *The Review of Financial Studies*, *27*(7), pp.2022-2051.
[269] Drexler, A., Fischer, G. and Schoar, A., 2014. Keeping it simple: Financial literacy and rules of thumb. *American Economic Journal: Applied Economics*, *6*(2), pp.1-31.
[270] Kaiser, T. and Menkhoff, L., 2019. Financial education in schools: A meta-analysis of experimental studies. *Economics of Education Review*, p.101930.; see also Fernandes, D., Lynch Jr, J.G. and Netemeyer, R.G., 2014. Financial literacy, financial education, and downstream financial behaviors. *Management Science*, *60*(8), pp.1861-1883.: Financial education as typically implemented does not lead to substantial behavior change.
[271] Coussens, MD.2006. Toward financial literacy: Program leaders comment on evaluation and impact. *Consum. Interests Annu*. 52:315–26.

- More research needs to establish the linkages, if any, between education, knowledge, and outcomes.
- Financial education programs also should consider how content is delivered. For example, would more experiential programs or programs that combine experience and information have more impact on people's financial situation? Should we strive for broad knowledge or deliver specific information at the time of a specific financial decision?
- Finally, state and federal governments should do more evaluation of the cost effectiveness of financial education programs.

II. Overview of Retirement Models

Introduction

When it comes to saving for retirement, Americans have a range of options. Retirement programs like pension and 401(k) plans are offered as part of an employment benefits package, and outside of work individual can save on their own such as through individual retirement accounts (IRAs). But most savings occur through employer-provided retirement plans – less than 15% of Americans save for retirement outside of work.

There are several reasons why employer-provided retirement plans are the main vehicle for savings:

- Employers may automatically enroll workers into a plan at hire, so it takes no effort to start saving. Conversely, an individual must take some initial steps to establish an IRA.
- As part of the automatic enrollment process, contributions can be set up automatically and on a regular basis through payroll deduction. While individuals can ask employers to deduct IRA contributions from paychecks, not all employers will agree to do that, and the individual must still take some initial steps to set up IRA contributions.
- In the case of a defined benefit program – automatic commitment of a level of replacement income once employees have achieved a level of tenure with that employer.
- Most employers contribute to a retirement plan either with matching or discretionary contributions, which greatly increases an employee's assets.
- Employer-provided plans give some consumer protections to participating employees – the employer must prudently select service providers and investment funds for the plan, taking on the due diligence burden – while the individual must review and select these and other features in their IRA.
- Given that employers are offering a pool of savers to retirement plan providers, participants in employer provided plans usually are receiving better pricing and services than they would get by themselves, and employers usually subsidize the cost of a plan. Services offered through employer-sponsored plans often include financial education and retirement planning tools that help workers make good decisions.

The main drawback of employer-sponsored plans is that the system is voluntary: employers do not have to offer a retirement plan to their workers. Between 30% and 45% of workers do not have a retirement plan at their job.[272] The lack of access to retirement benefits is chiefly concentrated among smaller employers and firms within certain industries like leisure and hospitality or construction.

The following discussion summarizes retirement plan models and features available to private sector employers. Given that employer-sponsored plans leave coverage gaps, we also discuss the use of individual retirement savings accounts like IRAs, and the development of expanded coverage through state facilitated retirement savings programs. At the end of the discussion there is a chart that provides a side-by-side comparison of the major retirement plan types.

Two approaches to retirement security: DB and DC plans

There are two models of retirement plans: defined benefit (DB) and defined contribution (DC), but within each are many variations.

<u>DB model</u>: The major feature of DB plans is that the retirement benefit payable at a person's retirement is determined by a formula, that is, the benefit is 'defined.' For example, an illustrative formula might be that a person's benefit is equal to 2% of [the person's average salary] multiplied by [the person's total years of service]. If a worker has 30 years of service and their average salary over that period was $50,000, then using the illustrative formula, their annual benefit during retirement is equal to $30,000:

2% x 30 x $50,000 = $30,000

Typically, DB benefits are pre-funded by employer contributions. Each year, an employer will work with a financial adviser or an actuary to determine, based on several factors such as the age profile of the workforce, what the payable benefits will be in the future and then work out how much should be contributed to the plan to fund those future benefits.

- *Pros/Cons:* DB plans have several advantages. Because the retirement benefit is 'defined,' participants can plan and have certainty about what their retirement income will be. Similarly, employers can tailor their benefits formula to address the characteristics of their workforce by, for example, providing incentives to long-service workers to stay with the company. But DB plans are costly because of the requirement that the employer fund the future benefits and the cost to calculate funding each year. DB plan benefits are generally subject to vesting schedules that can mean no retirement benefit is earned if a worker doesn't stay with an employer for a minimum number of years. For workers with typically shorter tenures, little retirement income would be earned if only DB plans were available.
- *Data point:* DB plans have declined as a source of retirement benefits over the past 30 years: In 1975, DB plans covered 44% of private sector active workers but by 2017, the proportion covered shrank to 11% (Figure 1 overviews these trends).[273]

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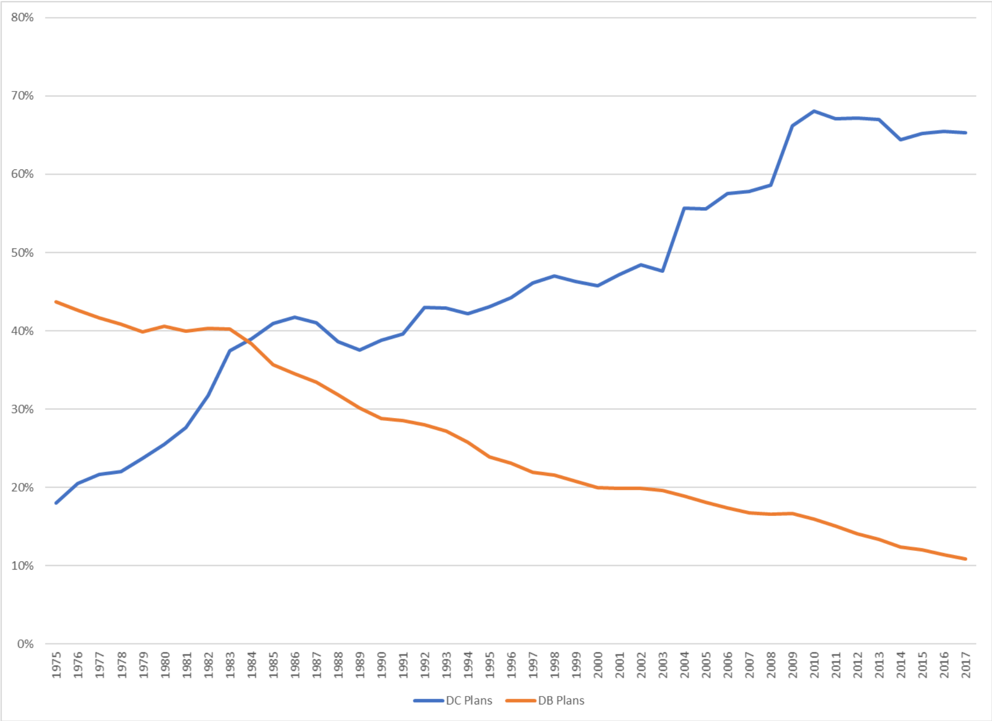
[272] Dushi, I., Iams, H.M. and Lichtenstein, J., 2015. Retirement plan coverage by firm size: An update. *Soc. Sec. Bull.*, *75*, p.41, https://www.ssa.gov/policy/docs/ssb/v75n2/v75n2p41.html;

[273] U.S. Department of Labor, *Private Pension Plan Bulletin Historical Tables and Graphs, 1975-2017,* September 2019, Table E7; Federal Rerserve Bank of St. Louis, Current Employment Statistics, Table B1, for June 2017, https://fred.stlouisfed.org/release/tables?rid=50&eid=4881&od=2017-06-01#.

- *Data point:* Job tenure at the median is just over 4 years for all wage-and-salary workers, but tenure tends to be lowest among younger workers aged 25 to 34 at 2.8 years per job as compared to 9.9 years for workers aged 55 to 64.[274]

Figure 1: Coverage of the workforce by type of plan, 1975-2017 (percent of total private sector workforce)



Source: U.S. Department of Labor, *Private Pension Plan Bulletin Historical Tables and Graphs, 1975-2017,* September 2019, Table E7; Federal Rerserve Bank of St. Louis, Current Employment Statistics, Table B1, for June 2017, https://fred.stlouisfed.org/release/tables?rid=50&eid=4881&od=2017-06-01#.

DC model: The other retirement plan model is the defined contribution or DC plan. As the name suggests, the retirement benefit is a function of contributions and investment gains – there is no promised or guaranteed benefit at retirement. Employers can make contributions to the plan, but they are not ordinarily required to do so (certain types of DC plans do require employer contributions – see below).

- *Pros/Cons:* In terms of advantages, DC plans are easy to understand by participants, they have lower costs for the employer than DB models, they allow regular saving via payroll deduction, and they are flexible for employers. DC benefits are also portable, that is, employees can move their account balances to a new plan or an IRA as they change jobs. The disadvantages include

[274] U.S. Department of Labor, Bureau of Labor Statistics, "Employee job tenure," September 2020, https://www.bls.gov/news.release/tenure.nr0.htm#:~:text=Median%20employee%20tenure%20was%20generally,34%20years%20(2.8%20years).

the fact that there is no promised benefit at retirement, so it is harder for employees to plan. Participants also find it difficult to figure out how much to save to achieve a secure retirement.

- *Data point:* DC plans are the predominant vehicle for amassing retirement funds – DC plans in 2017 covered 65% of the private sector workforce and held nearly $16 trillion in assets.[275]

Basic features and rules governing retirement plans

Because employer-provided retirement plans hold workers' savings in trust, they are subject to a set of complex federal laws and regulations.[276] This section focuses on those rules that apply to employer-provided retirement plans with a focus on DC plans as opposed to DB plans and IRAs.

Participation and enrollment: Retirement plans generally cover the employees of the sponsoring employer; those workers that are not legally considered to be employees of an employer – such as independent contractors, contingent workers, temps, day laborers, self-employed persons – can be excluded from an employer's retirement plan. Employers, within limits, also can exclude certain kinds of employees from the plan. For example, a plan might exclude workers until they have completed 3 months of service.

In addition, plans can have different rules about enrolling workers. Under a *voluntary or opt-in* program, the employee must take certain affirmative steps, like fill out a form, to join the plan. But plans can also use *opt-out or automatic enrollment* in which the employee joins the plan automatically, such as at the hire date, and must take active steps to opt out or indicate that they do not want to participate.

- *Data point:* According to Vanguard, the investment company, in an analysis of its retirement plan client data, 50 percent of all retirement plans automatically enroll workers, but this practice is more common among larger plans.[277]

Contributions: Both employers and employees can make contributions to most types of retirement plans. In DB plans, the employer usually funds all benefits. In DC plans usually have a mix of employee and employer contributions. *Employee* contributions can be characterized by their taxability. *Pre-tax* contributions mean that contributions from employee wages or salary are made before any withholding for taxes; taxes on these contributions and any investment gains are deferred until the employee withdraws the money from the retirement plan. *Post-tax* contributions are contributions that are made after withholding taxes have been taken from wages or salary. When post-tax contributions are withdrawn from the plan, they are not subject to taxation – although any investment gains are taxable.

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[275] U.S. Department of Labor, *Private Pension Plan Bulletin Historical Tables and Graphs, 1975-2017,* September 2019, Table E7; Federal Rerserve Bank of St. Louis, Current Employment Statistics, Table B1, for June 2017, https://fred.stlouisfed.org/release/tables?rid=50&eid=4881&od=2017-06-01#. Assets are combined using plan data from Table E10 of the *Private Pension Plan Bulletin* and IRA data from the Investment Company Institute, *What are IRAs?* https://www.ici.org/policy/retirement/plan/ira/faqs_iras.

[276] The source for retirement plan regulation is the Employee Retirement Income Security Act of 1975 (ERISA), 29 U.S.C. Sec. 18. In general, ERISA does not cover plans established or maintained by governmental entities, churches for their employees, or plans which are maintained solely to comply with applicable workers compensation, unemployment or disability laws.

[277] Vanguard, 2020, How America Saves, p. 24, https://institutional.vanguard.com/web/c1/how-america-saves-research/access-insights.

- *Pros/Cons:* Pre-tax contributions reduce the amount of current income subject to income tax and may have lower taxes if the participant is in a lower tax bracket in retirement than when working. Conversely, post-tax contributions may be advantageous if you expect to be in a higher tax bracket at retirement than when you are making contributions.

Employee DC contributions can also be characterized by how they are made. Most contributions to retirement plans are made automatically by payroll deduction, which is convenient for those that want to make regular contributions without any effort. However, individuals can make period or episodic contributions on their own to certain kinds of retirement accounts, chiefly IRAs.

- *Pros/Cons:* Nonpayroll contributions allow for more control by the individual who decides when and how much to contribute. But the 'set it and forget it' aspect of automatic payroll deductions usually enables larger accumulations of retirement assets and takes of advantage of dollar cost averaging of investment purchases, which allows an investor spread out the amount to be invested across periodic purchases of an investment in an effort to reduce the volatility of the asset price on the overall purchase.

For most DC plans, *employer contributions* are voluntary, that is, employers can decide from year to year whether to provide a contribution. However, certain 'safe harbor' plans require an employer contribution for the employer to receive relief from certain regulatory requirements. Employer contributions can come in two forms, matching and discretionary. With a *matching contribution*, the employer contribution is conditional on the employee's contribution and serves as an incentive to employees to contribute. A common example of a matching contribution is the employer matching 50 cents of every employee contribution up to 6% of pay. In other words, if the employee contributes 6% of their pay, the employer contributes another 3% for a total 9% of pay going into the participant's account.

- *Data point:* Approximately 89% of small to medium sized businesses that sponsor a DC retirement plan contribute and 82% of those that contribute match employees' contributions.[278]

Discretionary contributions, such as profit-sharing contributions discussed below, are just employer contributions that are not conditioned on the employee's contribution. In other words, all eligible employees would receive a contribution.

- *Pros/Cons:* Matching contributions encourage participants to join the plan and start contributing – research shows that participation and contribution rates are higher in plans with matching contributions than without them. However, discretionary contributions can go to all participants in the plan including those who are not contributing perhaps due to financial necessity.

[278] Pew Charitable Trusts, 2017, "Employer Barriers to and Motivations for Offering Retirement Benefits," https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/06/employer-barriers-to-and-motivations-for-offering-retirement-benefits.

Discretionary contributions also give the employer some flexibility to vary the amount of contributions on a year-to-year basis depending on the financial situation of the firm.

Withdrawals: A retirement plan is intended to provide income in old age, but there are many options for withdrawing money out of the plan while working. When workers are eligible to withdraw money from their retirement plan at retirement – and retirement may be defined differently by different retirement plans – they often have a choice of how to receive the withdrawal. All DC plans offer a lump sum payout of the total account balance, but they will often offer other choices like a partial lump sum, periodic payments such as equal amounts each month over a 10 year period, or less commonly an annuity in which the individual receives a monthly payment for life. DB plans will provide an annuity and in some case some of the options found in DC plans.

Withdrawals before age 59 and ½ are subject to a penalty, but there are exceptions in DC plans for penalty-free withdrawals for certain hardships like a medical expense. DC plans also may allow the participant to take a loan from their account balance that is paid back with interest. Withdrawals from the participant's account, including investment earnings, are taxable except for distributions of post-tax contributions.

Finally, retirement plans offer some portability features when workers leave the employer. In many cases workers can leave their savings in a prior employer's plan although there is a risk that the participant may lose track of their savings over time. Many plans also will transfer accounts to a new employer plan or roll over the amount to an IRA established by the participant.

Investments: Employer and employee contributions are invested in order to grow the savings over time, and this investment growth is tax deferred. That is, the employee is not taxed on any investment gains in her retirement account until the time at which the employee receives the money in the form of a withdrawal.

The investment choices can be quite broad: mutual funds and collective investment trusts, money market funds, individual securities, insurance contracts and annuities, just to name the major forms.

Table 1 below provides an overview. In DB plans, employers usually decide with the help of investment advisers on how to invest the retirement assets while many DC plans allow the participant to decide how to invest their contributions from a menu of investment options selected by the employer. Many 401(k) plan investment menus use target date funds (TDF) in which the mix of securities – stocks and bonds – changes over time as the participant ages. The goal of a TDF is to access typically higher returns of equities when a participant is younger and can withstand market volatility but then gradually shift to 'safer' investments like bonds and money market funds as the participant approaches retirement.

- *Data point:* According to Vanguard client data, TDFs make up 35% of the investment assets in Vanguard's DC plans.[279]

[279] Vanguard, 2020, *How America Saves*, figure 55.

- *Data point:* According to the Investment Company Institute, the average large 401(k) plan offered 27 funds to participants in 2016.[280]

Table 1: Types of investment options offered in DC plans, 2019

Cash	98%
Bond funds	98%
Balanced funds	99%
Domestic equity funds	99%
International equity funds	97%
Global equity funds	17%
Sector equity funds	36%
Company stock	8%
Self-directed brokerage	19%
Managed account program	37%

Source: Vanguard, *How America Saves,* 2020.

Legal protections for participating workers: Because assets are held in trust for workers and because of the large tax breaks provided to retirement plans, federal law requires many protections for participating workers. Retirement plans are required to file an annual return with the government that reports on plan assets and participants. Participants also must receive certain annual notices and statements about the plan and their savings if it is a DC plan.

In addition, employers are generally treated as a fiduciary if they are sponsoring the retirement plan. Being a fiduciary means that the employer – and the advisers they hire – must act only in the interest of the participant and cannot engage, for example, in any transaction that might benefit themselves unless explicitly permitted to do so by federal rules.

Finally, federal law requires that retirement plans should not unduly favor highly paid employees or owners or managers of a sponsoring employer. That is, the plan should be operated for the benefit of all eligible employees. In many plans, the employer each year must perform several calculations that demonstrate that the accumulation of benefits in a plan does not unduly favor its top employees.

Costs, reporting, and administrative roles for employers

Retirement plans can be costly for the employers that sponsor them. These costs can include the fees paid to service providers as well as the costs of complying with federal rules that govern retirement plans. The following is a list, but not a complete one, of sources of costs for employers:

- Startup: Many service providers have fixed costs to get a plan started for an employer. For example, accounts must be created for the employees who will be part of the plan and employee data must be inputted into the administrative recordkeeping system. Plan documents

[280] The Investment Company Institute, *The Investment Company Fact Book,* "US Retirement and Education Savings," 2020, https://www.icifactbook.org/ch8/20_fb_ch8#dcplans.

must be created that often must be approved by the government. Service providers will usually charge a separate setup fee to cover these tasks.

- Recordkeeping: Once the plan is operational, the plan administrator performs a variety of tasks such as tracking contributions and withdrawals, process new hires or people that have quit, or providing help and assistance when participants have questions. The recordkeeper will also provide statements and other reports.
- Investments: Usually, the fees related to investments are charged to the participants as a small percentage of the assets in a participants account. But larger employers often use an investment advisory firm to help with investment menu selections.
- Administrative and fiduciary tasks – As noted above, federal law requires many compliance activities that the employer do. For example, most large retirement plans must audit the accounts and plan assets, and the employer must ensure that the plan's benefits do not unduly favor highly paid employees. Often these compliance tasks are outsourced to accounting firms and recordkeepers that charge for these services. In some cases, employers also may need to take out insurance or a fidelity bond as part of their fiduciary responsibility.

    - *Data point:* According to Pew's small business survey, employers cite the cost of setting up a plan as the main reason why they do not sponsor a retirement plan.[281]
    - *Data point:* Plan costs are higher for small employer plans than larger corporate plans: On average, 401(k) plans with less than $1 million in assets have a total cost of 1.24% of plan assets while plans with more than $1 billion have an average total cost of 0.25%.[282]

Types of DC plans

DB and DC plans have many variations, but because of the prevalence of DC plans, this section provides a short overview of the key subtypes of DC plans. The DC world can be divided into IRA-based plans, employer-sponsored DC plans, and DC programs for nonprofits and governmental organizations. Table 2 below compares major types of DC and IRA-based plans.

Employer-sponsored retirement DC plans for private sector workers come in two main forms, the 401(k) and the profit-sharing plan.

Profit sharing plans are savings plans in which the employer makes discretionary contributions to accounts that are set aside for each employee in the plan. It used to be that contributions would only be made if the employer had profits to share, hence the name, but today an employer can make contributions regardless of whether it had profits for the year. Employers must use a formula for determining how the contributions are divided. One common formula is the "comp-to-comp" method. According to the IRS, to determine each employee's share, the employee's compensation is divided by the total compensation paid to all employees. The resulting employee's fraction is then

[281] Pew Charitable Trusts, 2017, "Employer Barriers to and Motivations for Offering Retirement Benefits," Figure 6.
[282] Investment Company Institute, 2020, *The BrightScope/ICI Defined Contribution Plan Profile: A Closer Look at 401(k) Data, 2017,* exhibit 4.2, https://www.ici.org/pdf/20_ppr_dcplan_profile_401k.pdf.

multiplied by the amount of the employer's contribution. Profit sharing plans can be standalone or combined with a 401(k) plan.

401(k) plans allow employees to contribute a portion of their wages to individual accounts. Those contributions can be pre-tax, that is, they are excluded from the employee's taxable income, or they can be after-tax like the contributions made to Roth IRAs discussed above. In addition, employers can – but are not required to – contribute to employees' accounts either as a profit-sharing contribution or as a matching contribution.

While the above is a basic description of 401(k) plans, federal law has created specific types of 401(k) plan in order to address different employer needs. Retirement plans are highly regulated, particularly when it comes to providing contributions in order to ensure that high income workers like managers do not receive a disproportionate tax benefit. These regulations can be onerous for some employers that do not have a large HR or benefits staff, so federal law created *safe harbor 401(k) plans* to help smaller employers offer a 401(k) in a cost-effective way and that satisfy federal rules. Generally, in a safe harbor plan an employer makes a certain level of contributions to all employees that are 100% vested when made regardless of whether the employees make any contributions. A safe harbor 401(k) plan must meet other standards of plan administration such as providing specific notices to participants. If these requirements are met, the employer can avoid many complex reporting and compliance requirements.

Other special 401(k) plans include *solo 401(k) plans* for one person firms without any employees and *SIMPLE 401(k) plans* for small businesses with less than 100 employees – these and other 401(k) plan variations have somewhat different rules but are largely like the 401(k) plans described above.

- *Pros/Cons*: Even this summary shows that there are many types of retirement plans, and there are even more variants not discussed here for purposes of brevity. Business owners have a lot of choices when it comes to DC plans and can usually select or customize the plan type to address specific business characteristics like cash flow, workforce size, or the labor market for talent. But more customization comes with more cost for the business owner, so the choice of plan type is often a balance between the goals for offering retirement benefits, costs, and the ease of administering the plan.

Finally, and just for comparison and clarification, there are DC programs for nonprofits and governmental organizations. 403(b) plans are typically for education workers and nonprofit organizations and operate much like a 401(k). 457(b) are also savings programs for governmental workers.

IRAs are for individual investors and generally any person can set up an IRA through a financial institution. The two types of IRAs are *Roth IRAs* and *traditional IRAs*. Roth IRAs are funded with after-tax contributions, while contributions to traditional IRAs are tax deductible. These two vehicles provide tax advantages depending on the individual's financial situation. For example, because Roth IRA contributions have been taxed, withdrawals are tax free so if a taxpayer believes that she will be in a higher tax bracket at retirement, a Roth IRA might make more sense than a traditional IRA.

IRAs are used as the basis for two types of plans that have been designed for small business – *Simplified Employer Pension (SEP) and SIMPLE IRA plan*. SEPs only allow employer contributions into IRAs that are set up for each employee. The SIMPLE (Savings Incentive Match Plan for Employees) allows employees and employers to contribute to traditional IRAs set up for employees.

One other IRA-based program is the *payroll deduction IRA*. This is not an employer-sponsored plan but simply an IRA that is funded by employee contributions deducted from the paycheck. Typically, a worker will ask the employer to withhold a set amount and forward that amount to an IRA provider, but the employer is not under any obligation to perform the withholding.

Table 2: Comparison Chart of Major Program Types (source: Internal Revenue Service[283])

IRAs and IRA-based plans				
	IRAs	***Payroll Deduction IRA***	**SEP**	**SIMPLE IRA Plan**
Advantage		*Easy to set up and maintain.*	Easy to set up and maintain.	Salary reduction plan with little administrative paperwork.
Employer Eligibility	Employers do not set up IRAs – individuals set up their own IRAs	Any employer with one or more employees.	Any employer with one or more employees.	Any employer with 100 or fewer employees that does not currently maintain another retirement plan.
Employer's Role	None	Arrange for employees to make payroll deduction contributions. Transmit contributions for employees to IRA. No annual filing requirement for employer.	May use IRS Form 5305-SEP to set up the plan. No annual filing requirement for employer.	May use IRS Form 5304-SIMPLE or 5305-SIMPLE to set up the plan. No annual filing requirement for employer. Bank or financial institution handles most of the paperwork.
Contributors To The Plan	Employee contributions only	Employee contributions remitted through payroll deduction.	Employer contributions only.	Employee salary reduction contributions and employer contributions.
Maximum Annual Contribution (per participant) Contributor's Options	$6,000 for 2019 and for 2020. Participants age 50 or over can make additional contributions up to $1,000. Employee can decide how much to contribute at any time. Contributions can be tax deductible (traditional IRA) or made with after-tax amounts (Roth IRA).	$6,000 for 2019 and for 2020. Participants age 50 or over can make additional contributions up to $1,000. Employee can decide how much to contribute at any time. Contributions can be tax deductible (traditional IRA) or made with after-tax amounts (Roth IRA).	Up to 25% of compensation1 but no more than $56,000 for 2019 and $57,000 for 2020. Employer can decide whether to make contributions year-to-year.	**Employee:** $13,000 in 2019 and $13,500 in 2020. Participants age 50 or over can make additional contributions up to $3,000 in 2019 and in 2020. **Employer:** Either match employee contributions 100% of first 3% of compensation (can be reduced to as low as 1% in any 2 out of 5 yrs.); or contribute 2% of each eligible employee's compensation2. Employee can decide how much to contribute. Employer must make matching contributions or contribute 2% of each employee's compensation.
Minimum Employee Coverage Requirements	Not applicable	There is no requirement. Can be made available to any employee.	Must be offered to all employees who are at least 21 years old, employed by the employer for 3 of the last 5 years and had compensation of $600 for 2019 and for 2020.	Must be offered to all employees who have compensation of at least $5,000 in any prior 2 years, and are reasonably expected to earn at least $5,000 in the current year.
Withdrawals, Loans & Payments	Withdrawals permitted anytime subject to federal income taxes; early withdrawals subject to an additional tax (special rules apply to Roth IRAs). Participant loans are not permitted.	Withdrawals permitted anytime subject to federal income taxes; early withdrawals subject to an additional tax (special rules apply to Roth IRAs). Participant loans are not permitted.	Withdrawals permitted anytime subject to federal income taxes; early withdrawals subject to an additional tax. Participants cannot take loans from their SEP–IRAs.	Withdrawals permitted anytime subject to federal income taxes; early withdrawals subject to an additional tax. Participants cannot take loans from their SIMPLE IRAs.
Vesting	Contributions are immediately 100% vested.	Contributions are immediately 100% vested.	Contributions are immediately 100% vested.	All contributions are immediately 100% vested.

[283] Internal Revenue Service Publication 3998, "Choosing a Retirement Solution for Your Small Business," November 2019, https://www.irs.gov/pub/irs-pdf/p3998.pdf.

Table 2: Defined Contribution (DC) Plans

	Profit Sharing Plan	Safe Harbor 401(k)	Automatic Enrollment 401(k)	Traditional 401(k)
Advantage	Permits employer to make large contributions for employees.	Permits high level of salary deferrals by employees without annual nondiscrimination testing.	Provides high level of participation and permits high level of salary deferrals by employees. Affords safe harbor relief for default investments.	Permits high level of salary deferrals by employees.
Employer Eligibility	Any employer with one or more employees.	Any employer with one or more employees.	Any employer with one or more employees.	Any employer with one or more employees.
Employer's Role	No model form to establish this plan. May need advice from a financial institution or employee benefit adviser. Must file annual Form 5500.	No model form to establish this plan. May need advice from a financial institution or employee benefit adviser. A minimum amount of employer contributions is required. Must file annual Form 5500.	No model form to establish this plan. May need advice from a financial institution or employee benefit adviser. May require annual nondiscrimination testing to ensure that plan does not discriminate in favor of highly compensated employees. Must file annual Form 5500.	No model form to establish this plan. May need advice from a financial institution or employee benefit adviser. Requires annual nondiscrimination testing to ensure that plan does not discriminate in favor of highly compensated employees. Must file annual Form 5500.
Contributors To The Plan	Annual employer contribution is discretionary.	Employee salary reduction contributions and employer contributions.	Employee salary reduction contributions and maybe employer contributions.	Employee salary reduction contributions and maybe employer contributions.
Maximum Annual Contribution (per participant)	Up to the lesser of 100% of compensation1 or $56,000 for 2019 and $57,000 for 2020. Employer can deduct amounts that do not exceed 25% of aggregate compensation for all participants.	**Employee:** $19,000 in 2019 and $19,500 in 2020. Participants age 50 or over can make additional contributions up to $6,000 in 2019 and $6,500 in 2020. **Employer/Employee Combined:** Up to the lesser of 100% of compensation1 or $56,000 for 2019 and $57,000 for 2020. Employer can deduct (1) amounts that do not exceed 25% of aggregate compensation for all participants and (2) all salary reduction contributions.	**Employee:** $19,000 in 2019 and $19,500 in 2020. Participants age 50 or over can make additional contributions up to $6,000 in 2019 and $6,500 in 2020. **Employer/Employee Combined:** Up to the lesser of 100% of compensation1 or $56,000 for 2019 and $57,000 for 2020. Employer can deduct (1) amounts that do not exceed 25% of aggregate compensation for all participants and (2) all salary reduction contributions.	**Employee:** $19,000 in 2019 and $19,500 in 2020. Participants age 50 or over can make additional contributions up to $6,000 in 2019 and $6,500 in 2020. **Employer/Employee Combined:** Up to the lesser of 100% of compensation1 or $56,000 for 2019 and $57,000 for 2020. Employer can deduct (1) amounts that do not exceed 25% of aggregate compensation for all participants and (2) all salary reduction contributions.
Contributor's Options	Employer makes contribution as set by plan terms.	Employee can decide how much to contribute based on a salary reduction agreement. The employer must make either specified matching contributions or a 3% contribution to all participants.	Employees, unless they opt otherwise, must make salary reduction contributions specified by the employer. The employer can make additional contributions, including matching contributions as set by plan terms.	Employee can decide how much to contribute based on a salary reduction agreement. The employer can make additional contributions, including matching contributions as set by plan terms.

DC Plans continued:

	Profit Sharing Plan	Safe Harbor 401(k)	Automatic Enrollment 401(k)	Traditional 401(k)
Minimum Employee Coverage Requirements	Generally, must be offered to all employees at least 21 years old who worked at least 1,000 hours in a previous year.	Generally, must be offered to all employees at least 21 years old who worked at least 1,000 hours in a previous year.	Generally, must be offered to all employees at least 21 years old who worked at least 1,000 hours in a previous year.	Generally, must be offered to all employees at least 21 years old who worked at least 1,000 hours in a previous year.
Withdrawals, Loans & Payments	Withdrawals permitted after a specified event occurs (retirement, plan termination, etc.) subject to federal income taxes. Plan may permit loans and hardship withdrawals; early withdrawals subject to an additional tax.	Withdrawals permitted after a specified event occurs (retirement, plan termination, etc.) subject to federal income taxes. Plan may permit loans and hardship withdrawals; early withdrawals subject to an additional tax.	Withdrawals permitted after a specified event occurs (retirement, plan termination, etc.) subject to federal income taxes. Plan may permit loans and hardship withdrawals; early withdrawals subject to an additional tax.	Withdrawals permitted after a specified event occurs (retirement, plan termination, etc.) subject to federal income taxes. Plan may permit loans and hardship withdrawals; early withdrawals subject to an additional tax.
Vesting	May vest over time according to plan terms.	Employee salary reduction contributions and all safe harbor employer contributions are immediately 100% vested. Some employer contributions may vest over time according to plan terms.	Employee salary reduction contributions are immediately 100% vested. Employer contributions may vest over time according to plan terms.	Employee salary reduction contributions are immediately 100% vested. Employer contributions may vest over time according to plan terms.

Table 2: Defined Benefit (DB) Plan	
Advantage	Provides a fixed, pre-established benefit for employees.
Employer Eligibility	Any employer with one or more employees.
Employer's Role	No model form to establish this plan. Advice from a financial institution or employee benefit adviser would be necessary. Must file annual Form 5500. An actuary must determine annual contributions.
Contributors To The Plan	Primarily funded by employer.
Maximum Annual Contribution (per participant)	Annually determined contribution.
Contributor's Options	Employer generally required to make contribution as set by plan terms.
Minimum Employee Coverage Requirements	Generally, must be offered to all employees at least 21 years old who worked at least 1,000 hours in a previous year.
Withdrawals, Loans & Payments	Payment of benefits after a specified event occurs (retirement, plan termination, etc.). Plan may permit loans; early withdrawals subject to an additional tax.
Vesting	May vest over time according to plan terms.

State-based retirement programs

How do different state-facilitated proposals fit into this landscape of different retirement models? More on current developments across the states will be discussed elsewhere in this report, but the point here is to show that the state-facilitated programs are rooted in existing retirement plan models.

- Online marketplace – A marketplace is a state-facilitated online platform for retirement plan service providers to offer products to small businesses without a plan. The state sets up the website, vets service providers, and encourages employers to use the website to shop for products. The marketplace is not technically a retirement program like the plans discussed above but is just a vehicle for small businesses to look for retirement plans. In the states that have used marketplaces, service providers typically offer 401(k) plans and IRA plans.
- Multiple Employer Plans (MEPs) – A MEP is a plan that a group of employers can adopt. The plan offered through a MEP can be, in theory, any kind of retirement plan including DB plans, but in practice the plan is usually a 401(k)-style plan. Because 'multiple' employers can adopt the same plan that is run by a service provider, the argument is that MEPs can achieve scale and reduce both investment and administrative costs so that the MEP is more attractive to small employers that cannot afford to offer a plan of their own. MEPs are not common in the private sector because historically federal rules require employers to be related such as through a common industry group. For example, certain trade associations like the American Bar Association offer MEPs to their members. However, recent federal legislation has relaxed that requirement so unrelated employers can form group plans.[284] In the case of state-facilitated MEPs, the state would sponsor and oversee the MEP and outsource the administrative and investment functions to private sector service providers.
- Auto-IRA – The most popular state-facilitated program is the auto-IRA, which combines the payroll deduction IRA, where the employee has part of his or her wages deducted and sent to their own IRA, with automatic enrollment that is often used in 401(k) plans. In practice, the state requires that private sector employees without a plan at their job be enrolled – with the ability to opt out – and have contributions sent to an IRA. Other than enrolling workers and facilitating contributions through payroll deduction, the employer has no role in the auto-IRA program and is not allowed to make contributions. While an auto-IRA can use either a traditional or Roth IRA, in practice all states use a Roth IRA, which are funded with post-tax contributions. Investments usually include a TDF as well as other mutual fund options that are managed by an outside investment firm.

These program initiatives are in the process of implementation around the country. Table 3 provides a summary of existing state-facilitated programs (more details is provided in the next section, The Experience of the States).

[284] The SECURE Act of 2019 provided for group plans by unrelated employers known as pooled employer plans or PEPs. The U.S. Department of Labor is finalizing regulations regarding PEPs. https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/pooled-plan-provider-registration.

Table 3: Summary of Existing State-facilitated Programs

State	Program Type	Coverage/Participation/Assets
Washington	Marketplace	Covers <1% of those eligible • > 100 accounts • > $750 thousand in assets[285]
Massachusetts	MEP	Covers <0.5% of those eligible • 74 employers • >500 accounts • $4 million in assets[286]
California	Auto-IRA	69% participation rate • 1,622 employers • 67,409 funded accounts • >$19.9 million in assets[287]
Illinois	Auto-IRA	64% participation rate • 2,621 employers • 77,091 funded accounts • >$42.8 million in assets[288]
Oregon	Auto-IRA	67% participation rate • 6,152 employers • 75,919 funded accounts • $71.3 million in assets[289]

[285] As of June 2019
[286] As of November 2019, https://www.colorado.gov/pacific/sites/default/files/atoms/files/CRR%20-%20Study%20B%20-%20Final%20Report%20%281%29.pdf
[287] As of November 2020, https://www.treasurer.ca.gov/calsavers/reports/participation/calSavers-participation-and-funding-snapshot-20201130.pdf
[288] As of November 2020, https://www.illinoistreasurer.gov/TWOCMS/media/doc/secure%20choice%20monthly%20dashboard_november%202020.pdf
[289] As of November 2020, https://www.oregon.gov/treasury/financial-empowerment/Documents/ors-board-meeting-minutes/2020/2020-10-Program-Report-OregonSaves-Monthly.pdf

III. Experience of Other States

Virginia is not alone in considering the impacts of insufficient retirement savings on its residents and budgets. According to the Pew Charitable Trusts, in the eight years since the enactment of a state sponsored plan in Massachusetts in 2012 all but five states have introduced legislation which would study retirement savings or implement a retirement savings program of some kind. In total, at least 170 bills have been introduced over this period with more than 25 passed into law, 15 of which created a state program to address retirement inadequacy. These enacted state efforts generally fall into three categories: a state-facilitated retirement plan marketplace for employers and employees to shop for plans or accounts, a single large plan sponsored by the state available to all interested employers and their workers referred to as a multiple employer plan or MEP, or a program that facilitates access to investment accounts for individual employees referred to as an automatic individual retirement account or auto-IRA.

State Studies on Coverage and Participation

The specific focus and level of detail of the state studies varies, but many seek to characterize the retirement landscape by citing readily available national numbers. Some of the most salient and often cited findings include a 2015 Government Accountability Office report titled *Retirement Security: Most Households Approaching Retirement Have Low Savings* which found that "about half of households age 55 and older have no retirement savings (such as in a 401(k) plan or an IRA)."[290] Additionally, these state reports often include an analysis of US Census Current Population Survey (CPS) data to provide national and state estimates of workplace retirement plan access. According to a 2016 analysis from the Pew Charitable Trusts, nationally, 58% of workers had access to a workplace plan.[291] In 2015, AARP produced a set of state factsheets analyzing the CPS data and found "about 44% of Virginia's private sector employees—roughly 1,247,000—work for an employer that does not offer a retirement plan."[292] Plan participation rates in the state and nationally are also commonly cited. Again, Pew's analysis of the CPS data found 49% of all full-time, full-year, private sector workers were participating nationally with 55% participating in Virginia.[293]

Due to the diverse nature of survey data, there are other estimates worth highlighting as well. While participation rates as measured by the CPS have fallen since the data in the 2016 Pew analysis was collected to a new low of 36%, other research puts an upper bound on participation with an analysis of

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290 United States Government Accountability Office, "Retirement Security: Most Households Approaching Retirement Have Low Savings" (2015), https://www.gao.gov/assets/680/670153.pdf.

291 The Pew Charitable Trusts, "Employer-Based Retirement Plan Access and Participation across the 50 States: Who's in, Who's Out" (2016), https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2016/employer-based-retirement-plan-access-and-participation-across-the-50-states.

292 David John and Gary Koenig, "Fact Sheet: Virginia; Workplace Retirement Plans Will Help Workers Build Economic Security" (AARP, 2015), https://www.aarp.org/content/dam/aarp/ppi/2015-08/aarp-virginia-fact-sheet.pdf.

293 The Pew Charitable Trusts, "Who's in, Who's Out."; The Pew Charitable Trusts, "A Fact Sheet from the Pew Charitable Trusts: Virginia" (2016), https://www.pewtrusts.org/-/media/data-visualizations/interactives/2015/retirementsavings/pdf/pewemployerbasedretirementplanaccessandparticipationvirginia.pdf.

the Survey of Income and Program Participation linked with administrative tax records which found a plan participation rate of 61% in 2012 for private-sector wage and salary workers aged 21 to 64.[294] Regardless of the specific data source or analysis, the national and state specific research often cited by state retirement studies shows that somewhere between 40 and 50% of private sector workers lack a workplace savings arrangement.

State Financial and Fiscal Impact Studies

In the case of states that have more deeply studied the financial impact of the plan coverage gap and impact of program structure, a few reports stand out. California, Pennsylvania, Colorado, and Idaho have all conducted detailed financial or fiscal analysis of insufficient retirement savings.

California

With the passage of SB1234 2012 (CA), California's legislature created both a study and a board to oversee it. The *Final Report to the California Secure Choice Retirement Savings Investment Board* was published in 2016 and produced by Overture Financial, a consultancy, and several sub-contractors. The report consisted of three parts: a market analysis, an analysis of program design features, and a financial feasibility analysis. The market and financial feasibility analyses found a California automatic IRA program could potentially reach around 6.8 million workers; that surveyed workers were comfortable with a 5% default contribution rate as well as pro savings features like automatic escalation; and, that the participation rate would likely be at least 70% resulting in the program's financial sustainability.[295] The feasibility report included a sensitivity analysis that found even with an extreme 80% opt-out rate the program would become self-financing in the fourth year, and pay off the setup costs in the fifth year.[296]

The analysis also estimated employer costs and burden and found that employers were not likely to face significant direct out of pocket costs but that employers would face a small administrative burden in terms of labor devoted to registering for the program and making regular payroll contributions on behalf of their employees. Additionally, the report went on to note that employers who outsourced their payroll tasks would not face these labor costs but might face an incremental fee from payroll partners for facilitating employees' payroll contributions. Specifically, the report estimated micro-businesses of 5-9 employees may face a onetime setup burden of 6-8 hours to register employees and approximately half an hour per month thereafter if not outsourcing payroll. Small businesses of 10-49 employees could expect 7-10 hours to register and half to one hour a month thereafter if not outsourcing payroll, and large businesses of 50+ employees may take 12 hours to register and face

[294] Irena Dushi, Howard M. Iams, and Jules Lichtenstein, "Retirement Plan Coverage by Firm Size: An Update," *Social Security Bulletin* 75, no. 2 (2015), https://www.ssa.gov/policy/docs/ssb/v75n2/v75n2p41.html.
[295] Overture Financial, "Overture Financial Final Report to the California Secure Choice Retirement Savings Investment Board: Market Analysis" (2016), https://laborcenter.berkeley.edu/pdf/2016/CA-Secure-Choice-2-MarketAnalysis.pdf.
[296] Overture Financial, "Overture Financial Final Report to the California Secure Choice Retirement Savings Investment Board: Financial Feasibility Study" (2016), https://laborcenter.berkeley.edu/pdf/2016/CA-Secure-Choice-4-FinancialFeasibility&EmployerCosts.pdf.

ongoing commitments of 1-2 hours a month if not outsourcing payroll, which the report notes would be relatively uncommon for larger businesses.[297]

Oregon

Prior to the launch of Oregon's program, the program's board commissioned a market research report and feasibility study by the Center of Retirement Research at Boston College (CRR). The market research report found that a little over 1 million Oregon workers did not have access to a retirement plan through their employer, which represented 60% of the total workforce.[298] Approximately, 590,000 Oregonians worked for an employer that did not offer a plan while another 201,000 workers were self-employed without a plan accounting for 34% and 12% of the total workforce, respectively.[299] Another 15% of the workforce was excluded from their employer's existing plan due to limited work hours or for other reasons.

The feasibility study focused on the costs and revenues of a hypothetical auto-IRA program designed to cover those 590,000 workers without a workplace plan. With an initial contribution rate of 5% and adjusting various other assumptions like the automatic escalation of contributions, default investments, program rollout, and fees ranging from 100 to 120 basis points, CRR found that the program would be cash-flow positive in four to five years and net positive in six to nine years.[300] The study estimated approximately $1 million in fixed startup costs and an onboarding cost of $200 per covered employer.[301] The study notes that once start-up costs are paid back, program fees can be reduced to 30 to 50 basis points.

Connecticut

The Connecticut Retirement Security Board (CRSB) was created through HB5591 2016 which directed the Board to conduct a market and feasibility analysis. The Board retained CRR as well as several partners to undertake the study. Like the results found in other states, the report estimated that, under a 6% contribution rate baseline scenario, the program would be self-sustaining in year two and be net positive in year five.[302]

Unique to this report, the CRSB also directed the study of the feasibility and desirability of a guaranteed rate of return for participants. Several possible guarantee mechanisms were considered including a state-funded guarantee, a third-party insurance product, or a specialized investment vehicle such as a stable value fund or money market fund. The report determined that a guarantee was feasible under

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[297] Ibid.
[298] Center for Retirement Research at Boston College, "Oregon Market Research Report" (2016), https://www.oregon.gov/treasury/financial-empowerment/Documents/ors-board-meeting-minutes/Undated/ORSP-Market-Analysis-13JULY2016.pdf.
[299] Ibid.
[300] Center for Retirement Research at Boston College, "Feasibility Study: Oregon Retirement Savings Plan" (2016), https://www.oregon.gov/treasury/financial-empowerment/Documents/ors-board-meeting-minutes/Undated/ORSP-Feasibility-Study-8-11-2016.pdf.
[301] Ibid.
[302] State of Connecticut Retirement Security Board, "Report to Legislature Connecticut Retirement Security Board" (2016), https://www.osc.ct.gov/crsb/docs/finalreport/CRSB_January_1_Report.pdf.

some of the proposed structures but would not be "desirable from either a cost-benefit perspective or the participants' perspective" due to high costs and low returns.[303]

Pennsylvania

The Impact of Insufficient Retirement Savings on the Commonwealth of Pennsylvania was published in 2018. The report was produced by Econsult Solutions (ESI), a consultancy, for the Pennsylvania Treasury Department and examined the state's current and projected demographics, revenues, and outlays to estimate the impact to the state of insufficient retirement savings. The report defined insufficient savings as households with less than 75% of their annual working age (50-64) income in retirement accounts but bounded the definition by setting a minimum income floor at the Federal Poverty Level and a maximum income ceiling at $75,000. That is, a household making the Federal Poverty Level or less would need to be able to replace 75% of the Federal Poverty Level annually—$11,770 for a one-person household and $15,930 for a two-person household in 2015—to be considered as having sufficient savings. Similarly, a household making $75,000 or more would need savings to replace 75% of $75,000 annually.

The report cites projections from the Pennsylvania Independent Fiscal Office that the population of residents age 65 and older will grow to 3.1 million by 2030 and account for 23% of the state's total population.[304] ESI calculated Pennsylvania assistance costs for elderly residents were $4.2 billion in 2015, and, coupled with the retirement sufficiency analysis, found $702 million was attributable to insufficient savings.[305] That number will grow to $1.1 billion annually by 2030.[306] Furthermore, elderly household spending was found to be $2 billion lower in 2015 than under a sufficient savings scenario, growing to $3.1 billion by 2030 resulting in $1.4 billion in foregone state revenue from 2015 to 2030.[307] Projecting these demographic trends and financial findings out 15 years, the report estimates insufficient savings will lead Pennsylvania to spend an additional $14.3 billion on state assistance for elderly residents and these households would produce $40 billion less in economic activity than they otherwise would have between 2015 and 2030.[308]

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[303] Ibid.
[304] Econsult Solutions, "The Impact of Insufficient Retirement Savings on the Commonwealth of Pennsylvania" (2018), https://patreasury.gov/pdf/Impact-Insufficient-Retirement-Savings.pdf.
[305] Ibid.
[306] Ibid.
[307] Ibid.
[308] Ibid.

Colorado

A 2019 legislative study bill—SB19-173—created the Colorado Secure Savings Plan Board (CSSPB) and tasked it with producing a report on retirement in the state. The CSSPB's 2020 report, *Recommendations to Increase Retirement Savings in Colorado*, found at least 40% of workers in the state did not have access to a retirement savings plan through their employers and more than half of small employers in the state did not offer retirement plans.[309] Similar to the Pennsylvania study, the CSSPB engaged ESI to produce a fiscal analysis which estimated the state government would spend a cumulative $10 billion and local governments a cumulative $284 million on social assistance attributable to retirement savings shortfalls between 2020 and 2035.[310] The report found that, on average, a modest level of annual retirement savings, about $100 a month—a rate of savings in line with what operational auto-IRA programs are currently achieving—would significantly increase retirement savings and improve the state's fiscal outlook.[311]

The study bill also directed the CSSPB to examine the feasibility of two approaches to increasing retirement savings by Colorado private sector workers: an automatic enrollment payroll deduction IRA (auto-IRA) program and a small business retirement plan marketplace. The CSSPB engaged the CRR to analyze these programs.

CRR noted that despite federal and state initiatives to provide employers with access to low-cost retirement plans, take-up rates by employers have been low and have not led to a significant expansion of coverage on either a nationwide or state-wide basis. According to CRR, as of 2016, only 14% of U.S. households had contributed to an IRA and that these households "tend to have a college education, additional retirement savings such as a 401(k) through an employer, and higher household earnings."[312] In the face of such low take-up, CRR found that even modest participation of 50% of eligible participants in a state-administered auto-IRA program would be a significant expansion of coverage. CRR also found that from the perspective of the state's financial outlays, under a baseline scenario, an auto-IRA program as outlined in the bill would be self-financing in the fourth year and pay off the setup costs in the sixth year.[313]

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[309] Colorado Secure Savings Plan Board, "Report to Governor Polis and the General Assembly: Recommendations to Increase Retirement Savings in Colorado" (2020), https://www.colorado.gov/pacific/sites/default/files/atoms/files/CSSP_Retirement%20Security%20in%20Colorado_02-28-2020.pdf.
[310] Ibid.
[311] Ibid.
[312] Ibid.
[313] Ibid.

Idaho

The most recent state study is Idaho's *Preparedness of Idahoans to Retire: Deciding the State's Role*. The Office of Performance Evaluations produced the report at the request of the Idaho Legislature. Similar to other state reports, the report cited analysis by the Idaho Department of Labor that 20% of Idaho's population would be aged 65+ by 2026, compared with 15% in 2016.[314] The report also found that access varied by employer size and industry. For example, approximately 22% of Idaho workers at businesses with fewer than 50 workers had access to a retirement plan through their employer and "less than 25% of workers in agriculture, accommodation and food services, arts and entertainment, and real estate have access."[315]

The report also found that many of the costs associated with a plan are relatively fixed, meaning a plan will be more expensive on a per worker basis for smaller employers than larger ones. Additionally, even the simplest plans require financial commitments on the part of the employer which may be difficult for small businesses with relatively large fluctuations in operating revenue.

As a possible solution to addressing these issues, the report analyzed the approaches taken by other states and notes that those following a marketplace or multiple employer plan approach like Massachusetts and Washington, "have done little to increase the number of businesses that offer retirement plans."[316] It goes on to highlight the fact that auto-IRA programs have expanded access but that they come with costs for the state and the registration requirements are inflexible for businesses.

Noting the auto-IRA is the most common approach among states adopting programs, the report includes a financial feasibility analysis of a state administered auto-IRA program. Similar to the conclusions of other state studies, the report finds that the program would be become self-sustaining in relatively short order. Under a baseline scenario, the program would be capable of self-financing in the fourth year and pay off the setup costs in the twelfth year.[317]

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[314] Office of Performance Evaluations Idaho Legislature, "Preparedness of Idahoans to Retire: Deciding the State's Role" (2020), https://legislature.idaho.gov/wp-content/uploads/OPE/Reports/r2005.pdf.
[315] Ibid.
[316] Ibid.
[317] Ibid.

State Approaches to Addressing Inadequate Retirement Savings

Each of the three main strategies adopted by states thus far have different features which Table 4 summarizes; however, it should be noted that these approaches are not mutually exclusive and several states could adopt two or more of them as complements to one another in a broader effort to address the retirement savings gap.

Table 4. Summary of Program Differences

	Marketplace	**MEP**	**Auto-IRA**
Description	A website managed by the state, designed to set basic standards and simplify the process of finding and comparing retirement arrangements for businesses and individual savers. Plans are offered by qualified financial firms.	A single plan sponsored by the state which multiple unrelated employers can join. A qualified financial firm manages the plan.	A program overseen by the state in which businesses without a plan facilitate workers' payroll contributions to an IRA. Qualified financial firms manage the investment and recordkeeping responsibilities.
Contributions	Can offer either DC or DB plans. Contributions can be made by both employers and employees. Depending on the vehicle, IRA or basic elective deferral limits set annually by the IRS apply.	Usually a DC plan but can be structured as a DB plan. Depending on plan features, contributions may be made by both employers and employees. Basic elective deferral limits set annually by the IRS apply.	A defined contribution arrangement. Contributions are made by employees only. IRA limits set annually by the IRS apply.
Tax-Treatment	Depending on the vehicle, contributions can be either pre- or post-tax.	Contributions are pre-tax.	Generally, contributions are envisioned as post-tax.
Fiduciary Responsibility	The adopting employer or their designee.	The state or a designated body will be named the fiduciary, but participating employers or their designee share some responsibility.	Due to the IRA structure, fiduciary responsibility is limited, but the state provides program oversight.
Administrative Responsibilities	The adopting employer or their designee are responsible for coordinating and managing the plan within the organization.	The state and the participating employer or designee share responsibilities for coordinating and managing the plan.	The state delegates recordkeeping, investing, and participant communications to a financial firm. Covered employers enroll workers and facilitate payroll contributions but have no other responsibilities.
Administrative Costs	The state incurs nominal fees to manage the website. Adopting employers may pay administrative fees which vary by employer size or marketplace rules. Participating employees pay investment fees.	The state incurs staffing costs to manage the program. The state and participating employers pay administrative fees. Participating employees pay investment fees.	The state incurs staffing costs to manage the program. Participating employees may pay administrative as well as investment fees.

State Programs: Retirement Plan Marketplace

> A **retirement plan marketplace** is not a retirement plan; it is a website managed by the state, designed to set basic standards and simplify the process of finding and comparing retirement arrangements for businesses and individual savers.

The retirement plan marketplace is not a retirement plan; it is a website managed by the state, designed to set basic standards and simplify the process of finding and comparing retirement arrangements for businesses and individual savers. The marketplace provides flexibility in that it may list plans such as 401(k)s that allow for employer contributions and large annual contribution limits as well as IRAs that can be adopted by individuals looking to save on their own. The state draws on its broad financial and regulatory experience to set basic standards for inclusion in the marketplace while avoiding any competition with the broader financial services market. The approach is intended to address the informational barriers employers often cite as a primary hurdle for not offering a retirement plan.

Retirement Plan Marketplace Implementation History

In 2015, Washington State passed legislation enacting the first retirement plan marketplace in the country. Since then, New Jersey, New Mexico, and Vermont have all adopted legislation which includes a marketplace component; however, to date, only Washington's marketplace has launched.

Washington State's statute directed the State Department of Commerce and Department of Financial Institutions to establish a program that listed retirement products which complied with certain requirements such as offering low investment fees and being costless to employers. To promote competition, the legislation required at least two providers join before the program launched. Interest among financial providers in joining the website proved limited and the marketplace was unable to launch until it was able to certify two firms in March of 2018, one offering IRAs and the other offering 401(k)s.[318] A third provider, also offering IRAs, joined in 2020.

New Jersey followed Washington State in adopting marketplace legislation in 2016. While the legislature passed an auto-IRA bill, then-Governor Chris Christie vetoed the legislation and recommended a retirement plan marketplace be adopted in its place which the legislature agreed to. However, since enactment, few efforts have been made to implement the program and in 2018 the legislature again passed an auto-IRA bill which was signed by Governor Phil Murphy. It's unclear what this means for implementation of the New Jersey marketplace.

Highlighting the fact that these programs are not exclusive, both New Mexico and Vermont have included language that creates marketplaces alongside other retirement efforts. In its 2017 legislation

[318] The Washington State Small Business Retirement Marketplace launched with financial services firms Finhabits and Saturna offering IRAs and 401(k)s respectively. In 2020 a third provider, Aspire, began offering IRAs as well.

implementing a multiple employer plan (MEP), Vermont also created a marketplace to operate alongside it but to be implemented no earlier than the second year of the MEP's operation. Vermont has run into delays implementing its broader program and the marketplace remains on hold. New Mexico also calls for a marketplace in conjunction with the state's IRA program passed in February of 2020. The legislation calls for the marketplace to be implemented no later than July of 2021 with the rest of the program to follow in the beginning of 2022.

Retirement Plan Marketplace Summary

The retirement plan marketplace offers a limited state role but has seen very low take-up and limited financial services industry participation. While the Washington State marketplace has been operating since 2018, it has had limited reach to date. Only three providers are currently participating and according to the analysis conducted by CRR for the Colorado Secure Savings Plan Board, "preliminary outcomes from Washington indicate that firms currently enrolled account for less than 1% of eligible employees."[319]

Additionally, the marketplace approach is only intended to organize savings arrangements already available in the private market. The CRR analysis notes that nationwide the percentage of employers offering a retirement plan has not moved significantly over the last 40 years despite the introduction of low-cost retirement savings arrangements developed at the state and federal level such as Washington's marketplace, simplified employee pensions (SEPs), Savings Incentive Match Plan for Employees (SIMPLEs), and the U.S. Treasury's My Retirement Account (MyRA). CRR argues, "these results suggest that few employers are likely to participate in the absence of an employer mandate."[320]

The lack of significant take-up of plans offered by the Washington State marketplace led the sponsor of the marketplace legislation, State Senator Mark Mullet, to revisit the concept and propose an auto-IRA program to replace the marketplace. The proposal passed the Washington State Senate in 2020, but not the House. New Jersey has also turned its attention away from the marketplace towards an auto-IRA. However, other states are still to come online. New Mexico and Vermont may launch marketplaces in the coming years, and it is possible they may be more popular among providers and businesses.

State Programs: State-Sponsored Multiple Employer Plan

A state-sponsored multiple employer plan (MEP) is a single plan that multiple unrelated employers can join. While MEPs can be structured in a variety of ways, states typically envision them as a 401(k) that allows for employer contributions and large annual contribution limits. The goal of the MEP is to use economies of scale to drive down

> A **multiple employer plan (MEP)** is a single plan, sponsored by the state, that multiple unrelated employers can join. It should not be confused with a multiemployer plan which is a negotiated plan between unions and management.

[319] Center for Retirement Research at Boston College, "Colorado Small Business Marketplace: Final Report" (2020), https://www.colorado.gov/pacific/sites/default/files/atoms/files/CRR%20-%20Study%20B%20-%20Final%20Report%20%281%29.pdf.
[320] Ibid.

investment costs and reduce administrative burdens with a single plan. For example, a MEP needs only one annual filing, audit, and bond, administrative requirements that apply individually to separate employer plans.[321] This approach is intended to address the cost and administrative barriers that employers often cite as preventing them from starting their own plan.

State Multiple Employer Plan Implementation History

Under previous law, MEPs in the private sector were restricted to employers with a common nexus. For this reason, MEPs have historically been sponsored by membership organizations, trade groups, and other instances where employer commonality brought businesses together but had limited broader potential. However, in 2015, the US Department of Labor Employee Benefits Security Administration expanded the universe of MEPs when it issued an Interpretive Bulletin which laid out a safe harbor in which a state could act as a common nexus for local employers and therefore sponsor a MEP.[322] This led several states to move forward with exploring state MEPs as a solution to the coverage gap.

Recently, Congress expanded the availability of MEPs in the private sector. Passage of the Setting Every Community Up for Retirement Enhancement Act of 2019, or SECURE Act, did away with the need for any commonality between plan participants and expanded the market and potential scale for private sector MEPs.[323]

Massachusetts was the first state to directly address the retirement coverage gap with the launch of its MEP, the Massachusetts Defined Contribution (CORE) Plan in 2012. The CORE plan is a MEP for non-profits in the state with 20 or fewer employees. As recently as the 2020 legislative session, Massachusetts has considered bills to expand the program by making the plan available to for-profit employers while other attempts have been made to lift the employee cap but, so far, no efforts have moved forward.

Vermont joined Massachusetts in passing MEP legislation in 2017. Vermont's MEP program originated from a series of reports produced by the Public Retirement Study Committee, a group created by H885 2014 (VT). The committee was charged with completing an interim study of the feasibility of establishing a public retirement plan and produced four reports between 2014 and 2017, ultimately recommending

[321] Small plans with fewer than 120 eligible participants may not be required to file an annual audit.
[322] Employee Benefits Security Administration, Interpretive Bulletin Relating to State Savings Programs That Sponsor or Facilitate Plans Covered by the Employee Retirement Income Security Act of 1974, 1210-AB74 (2015), https://www.federalregister.gov/documents/2015/11/18/2015-29427/interpretive-bulletin-relating-to-state-savings-programs-that-sponsor-or-facilitate-plans-covered-by.
[323] Setting Every Community up for Retirement Enhancement Act of 2019, H.R.1994, 116th Congress (2019), https://www.congress.gov/bill/116th-congress/house-bill/1994.; Further Consolidated Appropriations Act, 2020, H.R.1865, 116th Congress (2019), https://www.congress.gov/bill/116th-congress/house-bill/1865.

the implementation of a state MEP. The legislature adopted that recommendation by creating the Green Mountain Secure Retirement Plan in that year.

The Vermont plan's governing board initially solicited bids for a third-party financial firm to provide administrative services to the plan in 2018. Unable to come to terms with the submitting firms, the board worked with the legislature to modify the implementing legislation to allow for a more flexible plan structure that included the option to structure the Green Mountain Retirement Secure Plan as an aggregated single-employer prototype plan. While structurally different from a MEP in that each employer technically adopts an individual plan, a prototype plan approach seeks to reduce administrative burden and compliance costs by providing uniformity across plans. The modified legislation was adopted in 2019 and the board reissued its call for third-party administrative services in June of that year. Negotiations have continued and the plan is currently scheduled to launch in 2021.

Multiple Employer Plan Summary

The state MEP allows for employer matches and high contribution limits and potentially offers low costs. Despite recent changes at the federal level due to passage of the SECURE Act that have expanded the availability of MEPs in the private sector, state MEPs may still play a role. Analysis from the Joint Committee on Taxation on the impact of MEPs estimate that MEPs will account for 600,000 to 700,000 new savers over the next 10 years, which is approximately 1% of the current coverage gap.[324]

However, like Washington State's retirement plan marketplace, state MEPs have seen low take up and limited financial services industry participation. As of December 31, 2019, after approximately two years in operation, the program has amassed $4.4 million in assets across 74 employers which accounts for "less than one-half of 1% of Massachusetts employees working in small non-profits."[325]

Additionally, like the marketplace, the state MEP relies on employers actively identifying and adopting the plan which is not dissimilar from the status quo which, CRR notes, has not seen significant changes in coverage over the last 40 years.[326] However, a large-scale state MEP has yet to launch and, if one were to, the promise of economies of scale to drive down costs may drive adoption of the plan and make a significant impact.

[324] The Joint Committee on Taxation, Estimated Budget Effects of H.R. 1994, the Setting Every Community up for Retirement Enhancement ("Secure") Act of 2019, JCX-23-19 (2019), https://www.jct.gov/publications.html?func=startdown&id=5189.; Adam Grainger, "Roundtable Dispatch – How Does the Secure Act Impact You, the Plan Sponsor?," Instutional Investor, Defined Contribution Institute, accessed Nov. 2, 2020, Feb. 28, 2020, https://www.iimemberships.com/content/Roundtable-Dispatch-%E2%80%93-How-Does-SECURE-Act-Impact-You-Plan-Sponsor.

[325] Massachusetts Defined Contribution CORE Plan, "Minutes of the Commonwealth of Massachusetts Core Investment Committee March 10, 2020" (2020), https://www.mass.gov/doc/core-plan-investment-committee-meeting-minutes-march-10-2020/download.; Center for Retirement Research at Boston College, "Colorado Marketplace."

[326] Center for Retirement Research at Boston College, "Colorado Marketplace."

State Programs: Automatic Individual Retirement Account

> An **automatic IRA** is a program overseen by the state in which businesses without its own plan facilitate participating workers' payroll contributions to an individual retirement account.

The automatic IRA, or auto-IRA, is a program overseen by the state in which businesses without their own retirement plan facilitate participating workers' payroll contributions to an individual retirement account (IRA). Governed by federal IRA rules, employers are unable to make their own contributions to the account and annual contributions are relatively limited. Designed to directly address the coverage gap and keep costs low by rapidly reaching scale, the employer role and responsibilities are kept to a minimum—no fiduciary responsibility and no fees—as compared to an employer plan like a 401(k). This approach helps employers offer a simple savings arrangement when they are unable to adopt a more robust plan themselves and without competing with the private financial services market. Workers in turn can leverage regular payroll contributions to build significant savings. Additionally, as most contributions are envisioned as post-tax, there is limited immediate impact on state and federal revenues.

Automatic Individual Retirement Account (auto-IRA) Implementation History

Illinois and Oregon were the first states to enact auto-IRA legislation in 2015. Oregon's program, branded as OregonSaves, launched with a pilot in 2017 and applies to all employers in the state without a workplace plan. It has rolled out in phases and is currently enrolling those in its last wave—employers with fewer than 5 employees—which will be complete by January 2021.

The Pew Charitable Trusts has conducted a survey of covered OregonSaves employers and found that approximately three quarters said they had a positive or neutral experience with the program.[327] The same survey found eight in ten employers faced no out-of-pocket costs while those that did characterized the costs as increased spending on office supplies and payroll processing time.[328] Because auto-IRAs are explicitly designed to not be an employer plan, businesses should not have to field or face questions from participating employees. Pew's survey found this to be broadly the case with 80% of respondents hearing only "a little" or "no questions at all" from their employees about the program.[329]

Illinois' program, Illinois Secure Choice, launched in 2018 covering employers with 25 or more employees and no retirement plan, follows a phased rollout like Oregon's. The final wave of employers with 25 or more employees will be complete by the end of 2020.

2016 saw three additional states adopt programs: Maryland with Maryland$aves, Connecticut with its Retirement Savings Authority, and California with CalSavers. Of these efforts, only CalSavers has

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[327] John Scott and Mark Hines, "Employers Express Satisfaction with New Oregon Retirement Savings Program: Many in Survey Say Oregonsaves Creates Minimal Added Burden" (The Pew Charitable Trusts, 2020), https://www.pewtrusts.org/en/research-and-analysis/articles/2020/07/30/employers-express-satisfaction-with-new-oregon-retirement-savings-program.

[328] Ibid.

[329] Ibid.

launched covering employers with five or more employees that do not offer a retirement plan. After a pilot in 2018, the program is rolling out in three large waves with the first covering those with more than 100 employees completed in September 2020. The two successive waves covering employers with more than 50 workers and those with 5 or more workers will be completed in June 2021 and 2022 respectively.

Both Maryland and Connecticut's programs were placed within newly created quasi-governmental agencies and are in the process standing these agencies up, designing the programs, and soliciting bids for financial partners.

Maryland is operating under a somewhat unique structure in that the program incentivizes participation by waiving an existing annual employer fee levied by the state and only applies to employers utilizing payroll service providers. Additionally, the program is operating under a very aggressive legislatively mandated fee cap limiting participant costs to 50 basis points annually at launch. Other state's fee caps range from 100 to 75 basis points at launch and may fall in later years as assets grow. Maryland has delayed the implementation of a pilot which is now expected in early 2021 with a launch later that year.

The Connecticut Retirement Savings Authority (CRSA) struggled with a limited appropriation which hampered initial efforts to launch the program. In early 2020, Connecticut Governor Ned Lamont reorganized CRSA under the jurisdiction of the Connecticut Office of the State Comptroller. In April of 2020 CRSA announced it had selected a plan administrator and, at last update, had planned to launch in early 2021 covering employers with five or more employees that do not sponsor a plan.

Since 2016, New Jersey (2019) and Colorado (2020) have also adopted auto-IRA programs. Additionally, several cities and counties have expressed an interest in their own auto-IRA programs and the City of Seattle became the first substate political subdivision to adopt a program in 2017.

New Jersey's program, which applies to employers without a plan and 25 or more workers, will begin enrolling participants in 2021 or 2022. Colorado's program applies to businesses without a plan and five or more workers but does not have a public implementation timeline. Seattle's program applies to all employers without a plan but the city postponed implementation in 2019 pending possible action by Washington State itself. The program was to begin enrolling participants in 2021.

New York (2018) and New Mexico (2020) have adopted programs that are similar to the other auto-IRA programs. New York and New Mexico's programs are unique in that they require no employer participation, but what this means for coverage and program adoption remains to be seen. New York's program will be implemented no later than 2021 and New Mexico's by 2022. However, there are questions about whether these programs would be governed under the federal pension law known as the Employee Retirement Income Security Act of 1974 or ERISA, which would trigger a host of compliance responsibilities.[330]

[330] New York has not launched their program or in fact begun to establish their governing board. They have proposed language that would make their program mandatory for employers, but this change has not yet been adopted.

As the auto-IRA model has matured and expanded to other states, legislatures are beginning to apply learnings from other state-facilitated savings programs. In a prominent example, to lower costs through economies of scale, many states participate in interstate compacts for joint services around their Achieving a Better Life Experience (ABLE) account offerings. ABLE accounts are tax-advantaged vehicles designed to help individuals with disabilities save for qualified disability expenses and are not dissimilar from Roth IRAs in the retirement context. Both Colorado and New Mexico included language explicitly allowing for interstate compacts in recently passed retirement legislation and the Oregon legislature modified the state's original implementing auto-IRA language to allow for interstate compacts as well. While no state has yet to sign an interstate agreement, the cost advantages in doing so may act as a catalyst to further expand auto-IRA programs to additional states.

Automatic Individual Retirement Account Summary

Auto-IRAs allow employees at employers without workplace plans to take advantage of payroll contributions to save for retirement. The regular and automatic nature of payroll contributions has a dramatic impact on the retirement savings coverage gap as only 14% of US households save for retirement outside of work.[331] Additionally, while not a feature unique to auto-IRAs, automatic enrollment of program participants has been shown to dramatically increase plan participation. Vanguard, a financial services firm, finds that automatic enrollment doubles the participation rates in plans compared to plans without automatic enrollment.[332]

However, the increase in participation and coverage comes by requiring employers to register their employees for the program, which involves a one-time effort of an estimated 6 to 12 hours depending on employer size.[333] Additionally, for businesses not utilizing a payroll service, facilitating payroll contributions for participating employees may take approximately one half hour to two hours per month depending on employer size with larger employers facing longer commitments.[334]

The IRA used in state-facilitated auto-IRA programs is also governed by contribution rules that prohibit employer contributions and limit employee contributions to $6,000 annually in 2020 with the option for an additional $1,000 catchup contribution for those 50 years old or over. This pales in comparison to the contribution limits of a 401(k) where, in 2020, employees can contribute up to $19,500 annually ($26,000 for those aged 50+) and employers can contribute up to a combined $57,000 annually ($63,500 for those aged 50+). While few participants are likely to be bothered by the individual limits (most programs set a default contribution rate of 5% meaning a worker would have to make $120,000 after tax to face the limit) the impossibility of an employer contribution leaves the burden of saving for retirement entirely on the worker while a 401(k) or other employer-sponsored program typically shares that burden between the employer and the employee.

[331] Colorado Secure Savings Plan Board, "Colorado Retirement Savings Recommendations."
[332] Jeffrey W. Clark and Jean A. Young, "Automatic Enrollment: The Power of the Default" (Vanguard Research, 2018), https://institutional.vanguard.com/iam/pdf/CIRAE.pdf.
[333] Overture Financial, "California Secure Choice: Financial Feasibility Study."
[334] Ibid.

Table 5 below provides a summary comparison of the programs that are operational. As of November 2020, the three currently operating programs, OregonSaves, Illinois Secure Choice, and CalSavers, have amassed more than $130 million in savings across more than 220,000 participants and over 10,000 employers. Another 16,000 employers are soon to come online. As detailed below, participation rates across the three active programs range from 64% to 69%, in line with projections made in initial market and feasibility studies.[335]

[335] CalSavers, "Calsavers Retirement Savings Program Participation & Funding Snapshop Data as of 6/30/20" (2020), https://www.treasurer.ca.gov/calsavers/meeting/2020/20200727/staff/2.1.pdf.

Table 5: Comparison of Launched Programs

State	**Program and Target Employers**	**Coverage/Participation**	**Fees**
Washington	Marketplace • Employers with <100 employees	<1% of those eligible • > 100 accounts • > $750 thousand[336]	0.13%-0.95% of assets investment management fee
Massachusetts	MEP • Non-Profit Employers with ≤20 employees	<0.5% of those eligible • 63 employers • 460 accounts[337]	$200 annual employer fee $65 annual participant fee 0.15%-0.45% of assets investment management fee
California	Auto-IRA • Employers without plans and ≥5 employees	69% participation rate • 1,622 employers • 67,409 funded accounts • >$19.9 million in assets[338]	0.80% of assets administration fee 0.025% – 0.15% of assets investment management fee
Illinois	Auto-IRA • Employers without plans and ≥25 employees	64% participation rate • 2,621 employers • 77,091 funded accounts • >$42.8 million in assets[339]	≈0.75% of assets administration and investment management fee
Oregon	Auto-IRA • Employers without plans	67% participation rate • 6,152 employers • 75,919 funded accounts • $71.3 million in assets[340]	0.90% of assets administration fee 0.60% – 0.13% of assets investment management fee.

[336] As of June 2019
[337] As of November 2019, Center for Retirement Research at Boston College, “Colorado Marketplace.”
[338] As of November 2020, https://www.treasurer.ca.gov/calsavers/reports/participation/calSavers-participation-and-funding-snapshot-20201130.pdf
[339] As of November 2020, https://www.illinoistreasurer.gov/TWOCMS/media/doc/secure%20choice%20monthly%20dashboard_november%202020.pdf
[340] As of November 2020, https://www.oregon.gov/treasury/financial-empowerment/Documents/ors-board-meeting-minutes/2020/2020-10-Program-Report-OregonSaves-Monthly.pdf

IV. Access to a Retirement Plan in Virginia

Below are tables that provide information on what workers have access to a retirement plan in Virginia. Table 6 addresses the population estimate requests across a number of different categories of worker (private, government, self-employed etc.) Here we use population estimates from the 2016-2020 pooled CPS file and access rate estimates from the 2010-2014 pooled CPS file. Table 7 provides a different set of estimates to address various populations of interest and pulls from Table 6 to address the various populations of interest.

Table 8 includes mean and median compensation based on personal wage and salary income. Note that this is different from both household income and total personal income in that it captures the individuals compensation from working and does not reflect the income of others in their household or from other sources not related to their job, such as investment income etc. This table includes the mean and median personal wage and salary income across employment categories for workers overall in Virginia, as well as broken down by retirement plan access. In terms of the mean compensation for those without access, this estimate includes self-employed workers and those working unpaid for their families.

Tables 9 and 10 estimate the number of private sector workers without access to a workplace retirement plan by firm size and by industry, respectively. Because Tables 9 and 10 use somewhat different data sources than tables 6 through 8, the estimates are slightly different across the tables.

Table 6: Population estimates by category of worker and access to workplace retirement plan, ages 18-64

Work status	Totals	No access	Access	# of workers without access	# of workers with access
Self-employed, not incorporated	151,920	92%	8%	140,009	11,911
Self-employed, incorporated	134,118	83%	17%	111,573	22,545
Wage/salary, private	2,941,908	45%	55%	1,319,446	1,622,462
Federal government employee	338,638	13%	87%	44,599	294,039
State government employee	211,652	20%	80%	41,886	169,766
Local government employee	283,434	15%	85%	42,402	241,032
Unpaid family worker	1,669	100%	0%	1,669	0
Total	4,063,339			1,701,584	2,361,755

Note: Population estimates are modeled based on data from two separate CPS files. Estimates for the total number of workers come from pooled 2016-2020 CPS, while access rates estimates are from the pooled 2010-2014 CPS.

Table 7: Summary of retirement plan access by aggregate worker category, ages 18-64

Total Virginia workforce	4,063,339
Number of employees with access	2,361,755
Number of employees without access*	1,699,915
Number employed by employer**	3,775,632
Number self-employed	286,038
Number employed by government	833,724
Number employed by private sector with access	1,622,462
Number employed by private sector without access	1,319,446

*Does not include unpaid family workers

**Includes both private-sector and government, but not self-employed or unpaid family workers

Table 8: Personal wage and salary income for Virginia Workers age 18-64, 2010-2014

Work status	Without access Mean	Without access Median	With Access Mean	With Access Median	Overall Mean	Overall Median
Self-employed, not incorporated	$ 1,014	$ -	$ 1,210	$ -	$ 1,030	$ -
Self-employed, incorporated	$ 81,028	$ 53,417	$ 176,296	$ 136,457	$ 97,047	$ 60,879
Wage/salary, private	$ 32,391	$ 22,206	$ 64,576	$ 48,783	$ 50,141	$ 34,748
Federal government employee	$ 59,959	$ 49,000	$ 86,384	$ 81,172	$ 82,903	$ 75,602
State government employee	$ 32,982	$ 24,491	$ 45,368	$ 41,263	$ 42,917	$ 39,355
Local government employee	$ 31,359	$ 20,493	$ 46,503	$ 43,434	$ 44,237	$ 41,426
Unpaid family worker	$ 4,057	$ 4,343	NA	NA	$ 4,057	$ 4,343
All workers	$ 32,837	$ 21,367	$ 65,680	$ 51,138	$ 40,639	$ 26,061

Note: Population estimates are modeled based on data from two separate CPS files. Estimates for worker income come from pooled 2016-2020 CPS, while access rates estimates are from the pooled 2010-2014 CPS.

Table 9: Estimates of Uncovered Workers by Firm Size

Firm size	Number	Pct
0 to 9	288,314	22%
10 to 99	445,150	35%
100 to 499	139,573	11%
500 or more	410,415	32%

Note: Population estimates are modeled based on data from separate data files. Estimates for workforce by firm size comes from the Statistics of US Businesses, while access rates estimates are from the pooled 2010-2014 CPS.

Table 10: Estimates of Uncovered Workers in Virginia by Industry

	Number	Pct
Construction	138,784	11%
Manufacturing	89,212	7%
Retail	209,199	16%
Transportation	46,570	4%
Financial Activities	67,366	5%
Professional	180,827	14%
Education & Health Services	229,279	17%
Leisure & Hospitality	218,519	17%
Other Industries	140,928	11%

Note: Population estimates are modeled based on data from separate data files. Estimates for industry workforce comes from the Virginia Employment Commission, while access rates estimates are from the pooled 2010-2014 CPS.

Methodology

To estimate the number of workers without access to workplace retirement plans in Virginia we rely on two data sources. Because estimates vary across sources and there is no one dataset that contains sufficient data to generate the desired estimates we combine data from multiple sources. Because data come from multiple sources, several of which are surveys, these estimates should be taken as rough approximations of the uncovered worker population in Virginia. Data come from the Statistics of U.S. Businesses (SUSB) and the Current Population Survey (CPS), sponsored jointly by the U.S. Census Bureau and the U.S. Bureau of Labor Statistics. The SUSB is an annual series that provides national and subnational data on the distribution of economic data by enterprise size and industry and is collected by the U.S. Census. The SUSB provides counts for the total number of employees by firm size (the number of employees per business).

The CPS is a primary source of monthly labor statistics and provides estimates on rates of access to employer sponsored retirement plans. Pew uses data from the pooled version of the 2010-2014

Minnesota Population Center's Integrated Public Use Microdata Series (IPUMS) Current Population Survey (CPS), Annual Social Economic (ASEC) Supplement.[341] Unless otherwise noted, "worker" means a private sector wage and salary worker between the ages of 18-64.[342] Pew also incorporated a new pooled version using 2016-2020 CPS data to generate estimates of the total number of workers by worker status, firm size and industry. After the CPS questionnaire was revised in 2014 there were as yet unexplained shifts in the reported rates of access to and participation in workplace retirement plans in subsequent versions of the CPS. As a result, the access rates from the 2010-2014 pooled CPS are applied to the 2016-2020 to generate estimates of uncovered workers in the Virginia.

We generate several estimates for the number of workers without plans through their employers. One challenge in the data is that different data sources categorize firm size at different levels. While the SUSB does not contain data on access to retirement plans, it does have the narrowest categories of firm sizes. At the state level, SUSB reports firm sizes in categories from 0 to 4, 5 to 9, 10 to 19, 20 to 99, 100 to 499, and 500 or more employees.

We generate an estimate using access rates from the CPS to more broadly estimate the number of uncovered workers. Because the CPS has different firm size categories that don't align with the SUSB we apply access rates from the most similar category from the CPS to the SUSB. These estimates likely overstate the number of uncovered workers because we would expect that businesses with fewer workers have lower rates of access. Applying access rates for firms with fewer employees to the broader SUSB categories will likely generate higher estimates of workers without access to retirement plans.

To estimate the number of uncovered workers by industry in Virginia, in addition to relying on both 2010-2014 and 2016-2020 CPS data, we also rely on the 2019 estimated and 2021 projected number of workers in Virginia by industry from the Virginia Employment Commission found here. In each case, access rates from the 2010-2014 CPS sample are applied to estimate the number of uncovered workers in each industry category.

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[341] Miriam King, Steven Ruggles, J. Trent Alexander, Sarah Flood, Katie Genadek, Matthew B. Schroeder, Brandon Trampe, and Rebecca Vick. Integrated Public Use Microdata Series, Current Population Survey: Version 4.0. [Machine-readable database]. Minneapolis, MN: Minnesota Population Center, 2015.

[342] The CPS ASEC Supplement is conducted jointly by the U.S. Census Bureau and the Bureau of Labor Statistics and asks questions about access to employer or union sponsored retirement and pension plans, and participation in these plans. Note that the CPS ASEC does not specifically ask respondents to identify whether or not they were eligible to participate for a plan their employer provided. For the purpose of this analysis, those who work for an employer who provides a plan are considered to have access to a retirement plan, regardless of whether or not they were eligible to participate in this plan. Also readers should be aware that the CPS ASEC data on pension access and participation is self-reported.

Conclusion

We thank the Commonwealth of Virginia for the opportunity to comment on this important study, and we look forward to next steps in this process. We are available to discuss these comments or any other aspect of our research.

Sincerely,

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Appendix B: Comparison of State-Facilitated Retirement Savings Program Types

Auto-IRA Model	Illinois	California	Oregon	Connecticut	Colorado	New Jersey	Maryland
Year Enacted	2015	2016	2015	2016	2020	2019	2016
Employer Participation	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
***Employer Affected**	> 25	>5 =	*All	>5	>5 =	>25 =	*All
Auto Enrollment	Yes	Yes	Yes	Yes		Yes	Yes
Employee Opt-Out	Yes	Yes	Yes	Yes		Yes	Yes
Employer Contribution	Not Permitted	Permitted if would not trigger ERISA	Not Permitted	Not permitted		Not Permitted	TBD
Fees	Cannot exceed .75% of total trust balance	Annual Admin Fee NTE 1% of total Program Fund	Admin Fee NTE 1.05% per annum	Annual fee NTE .75% of AUM (after 4th calendar year)		Annual fee NTE .75% (first 3 yrs). After 3 yrs, annual fee NTE .6% of Program Fund	Admin Fee NTE .5% of AUM
Default Contribution Rate	5%	5%	5%	3%			Board to set Min and Max
Auto-Escalation		1% per year capped at 8% of salary	1% per year capped at 10%				
Administrative Entity	Retirement Savings Board Chaired by Treasurer	Investment Board Chaired by Treasurer	Retirement Savings Board Chaired by Treasurer	Retirement Security Authority Chaired by Governor	Retirement Savings Board Chaired by Treasurer	Retirement Savings Board Chaired by Treasurer	Retirement Savings Board Chair Elected by Board

Multiple Employer Plan (MEP)	Massachusetts	Vermont	**Marketplace**	**Washington**
Year Enacted	2012	2017	**Year Enacted**	2015
ERISA Applicability	Yes	Yes		Cannot apply to the state to operate the Marketplace
Employer Participation	Voluntary	Voluntary	**Employer Participation**	Voluntary
***Employer Affected**	Nonprofits <20 =	<50 =	***Employer Affected**	<100
Auto Enrollment	Yes	Permissible.	**Auto Enrollment**	None
Employee Opt-Out	Yes	Yes	**Employee Opt-Out**	Voluntary
Employer Contribution	Permitted	Permitted	**Employer Contribution**	Permitted if an ERISA plan option

Fees	$65 annual fee; Each investment option has an administrative, advisory and investment management fee that varies by investment option. For the employer, there is a one-time installation fee of $2,500, a $200 plan admin fee and an annual compliance fee of $150 for employer contribution election and $750 for deferral only election..		**Fees**	No more than 1% in total annual fees to investors. Participating employers may not be charged an administrative fee.
Default Contribution Rate	6%	Not specified	**Default Contribution Rate**	
Auto-Escalation	Annually of 1% or 2% up to 12% total		**Auto-Escalation**	
Opt-Out Rate:			**Opt-Out Rate:**	
Years to Self-Sufficiency			**Years to Self-Sufficiency**	
Administrative Entity	Not-for-profit defined contribution committee, Office of the Treasurer	Retirement Board Chaired by the Treasurer	**Administrative Entity**	State Department of Commerce

Various Sources*: Information compiled from working papers provided by Massena LLC and Georgetown Center for Retirement Initiatives*

Appendix C: Econsult Solutions, Inc. Report: "The Cost of Doing Nothing: Potential Impacts of Insufficient Retirement Savings in Virginia, 2020- 2035"

The Cost of Doing Nothing

Potential Impacts of Insufficient Retirement Savings in Virginia, 2020-2035

FINAL DRAFT REPORT

Date: December 17, 2020

Submitted to: Pew Charitable Trusts

ESI ECONSULT SOLUTIONS INC.

economics | strategy | insight

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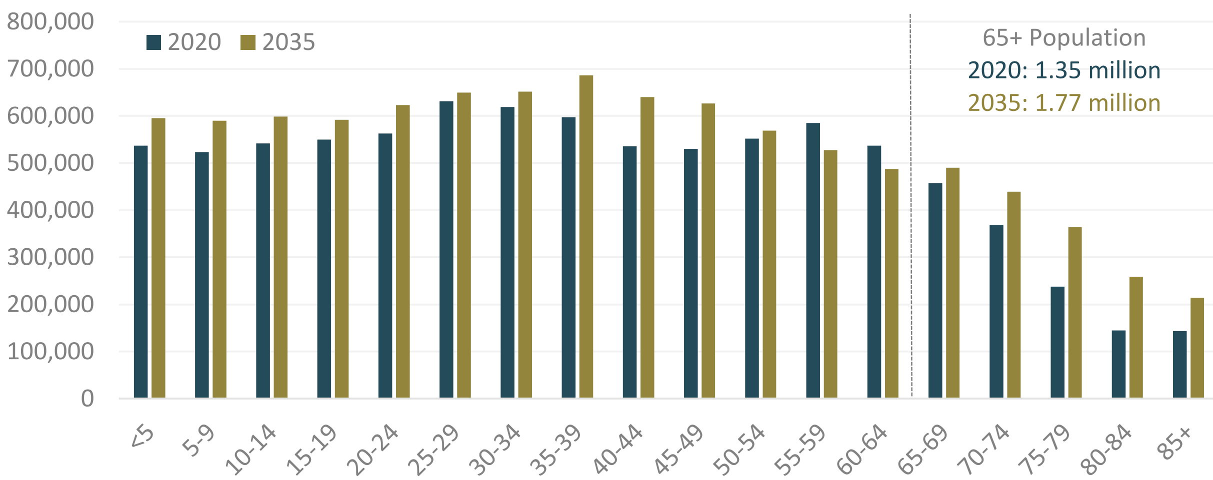
Executive Summary

As Virginia's elderly population grows, the financial capacity of households to maintain their living standards in their retirement years has implications for the quality of life enjoyed by the state's residents and the fiscal position of the Commonwealth. This study quantifies the potential magnitude of Virginia's retirement savings shortfall from 2020-2035 if current trends continue, defines the costs of these potential shortfalls to the Commonwealth and its residents, and addresses the potential benefits of addressing the savings gap and helping future retirees enhance their financial resiliency.

Demographic Change will Increase Fiscal Pressure on the Commonwealth

Population projections from the University of Virginia show **that the state's elderly (65+) population is expected to increase by 31% from 2020-2035, nearly three times as fast as the overall population growth of 11%.** Disproportionate growth is also anticipated for ages 35-49, illustrating the long-term importance of enabling Millennial and Gen Z workers to begin saving for retirement.

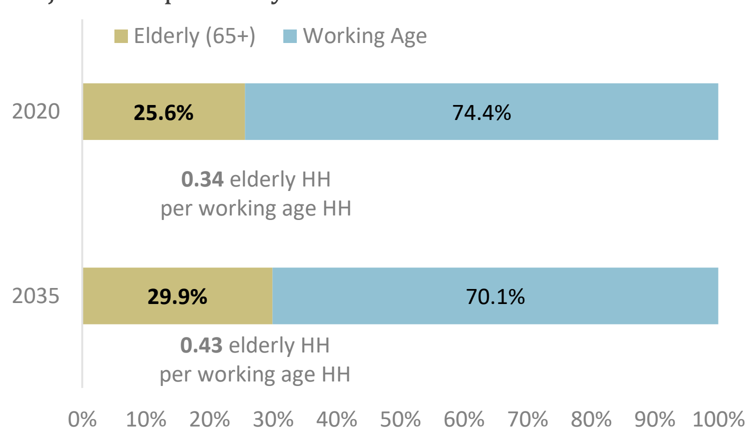
Projected Virgina Population Growth, 2020-2035



Source: UVA Weldon Cooper Center

Elderly residents are expected to represent 26 percent of households in 2020 and 30 percent of households in 2035. As a result of these changes**, the "dependency ratio" represented by the number of elderly households divided by the number of working age households (who pay the majority of taxes funding assistance programs) is projected to increase from 0.34 in 2020 to 0.43 in 2035, an increase of 24%**. This change will create additional fiscal pressure for the Commonwealth.

Projected Dependency Ratio Growth



Retirement Readiness and Savings Gaps for Virginia's Households

As additional households approach and reach retirement age, their retirement readiness becomes increasingly important to the quality of life, economy and fiscal position of the Commonwealth. Financial planners and retirement experts typically define targets for financial security in retirement years based on the maintenance of the basic living standards enjoyed by households during their working years. This concept can be translated to an "income replacement" target, which is set as a percentage of working-age income, and therefore will vary by households. Two scenarios for income replacement levels are modeled in this analysis:

A "baseline" scenario in which savings behavior remains consistent with current levels; and

A "sufficient savings" scenario in which Virginia's current and future retiree households achieve recommended savings levels to maintain their standard of living.

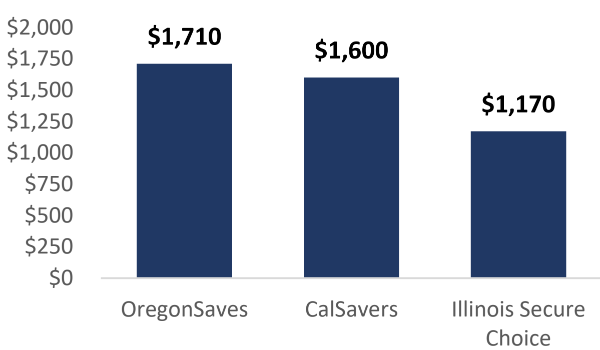
The differential between these scenarios is the expected shortfall in elderly incomes due to insufficient savings. **As of 2020, about two-thirds (66%) of Virginia's elderly households are expected to have a household income below $75,000**. Among these households, shortfalls in income relative to the sufficient savings benchmark equate to an average gap of around $7,100 per year. Under the continuation of current trends, **this savings shortfall is projected to grow to more than $8,000 by 2035.**

Financial modeling translates this retirement income gap into a "savings gap" by estimating the level of additional annual savings needed to close the gap under standard financial return assumptions. Addressing the anticipated 2035 annual income gap of around $8,000 for the average household with under $75,000 in annual income requires accumulating a lump sum savings of approximately $178,000. Over a 30-year time horizon at standard market returns, **achieving this level of assets requires an annual savings level of $1,930**.

Annual Savings to Close the Retirement Income Gap, Elderly Virginia Household <$75,000

	2035
Total Elderly Households	1,078,100
Households with <$75k Annual Income	684,600
Average Income Differential (HH <$75k)	**$8,010**
Average Lump Sum Savings Needed	$178,000
Annual Savings Needed to Fill Savings Gap	**$1,930**

Average Annualized Contribution, State Retirement Programs

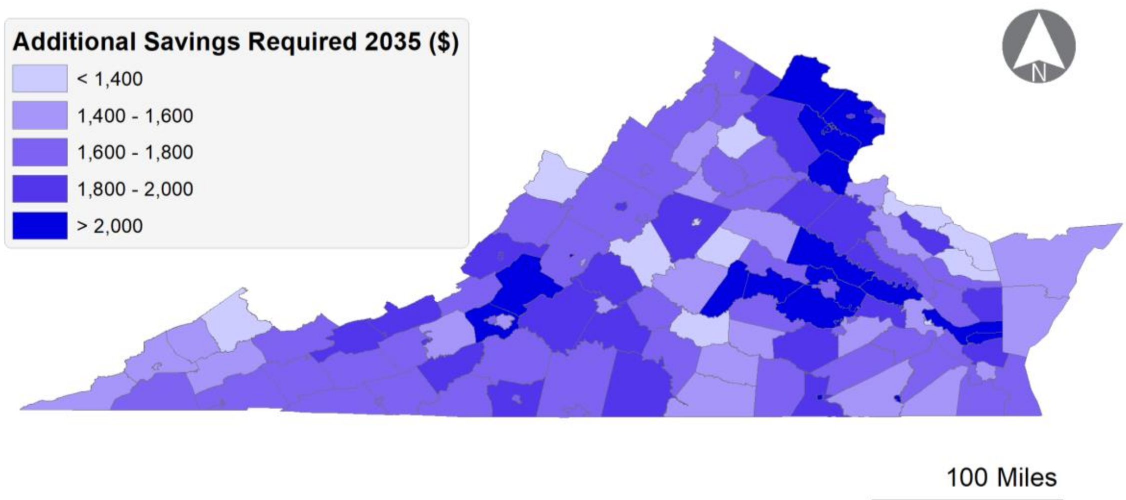


Source: Georgetown Center for Retirement Initiatives

These savings amounts needed to fill the income gaps can be benchmarked against the initial observed results in states that have initiated programs aimed at closing coverage gaps among private sector workers. Oregon, Illinois and California all have active programs following an "Auto IRA" model into which thousands of participants have begun to deposit a portion of their earnings. Average contributions levels to date in each state exceed 5% of income**, with contribution levels ranging from around $100-$150 a month and $1,200 - $1,700 annually.**

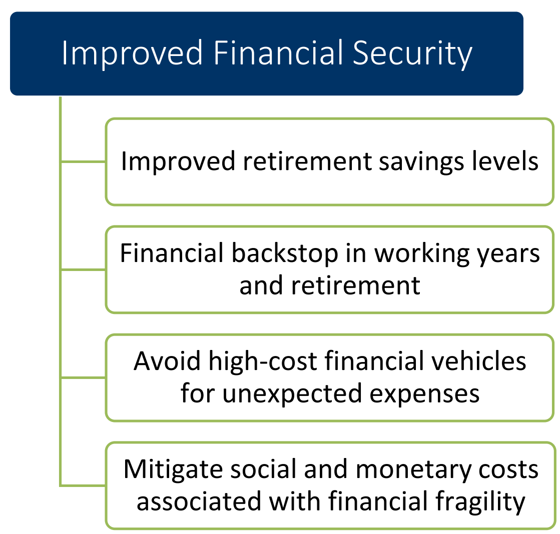
Income shortfalls and savings gaps are also estimated for counties and independent cities across Virginia. Due to the nature of the income replacement target, areas of the state with lower average incomes often have lower savings targets to address retirement insufficiency. In many areas of the state, annual savings levels consistent with the $1,200 - $1,700 benchmarks observed in state-sponsored programs would set workers on a path to addressing retirement shortfalls. In higher income areas of the state, savings targets are higher, in some cases topping $2,000, but these levels may be more achievable due to higher incomes in these areas.

Annual Savings Required to Address Retirement Income Shortfall, 2035



Household Financial Security

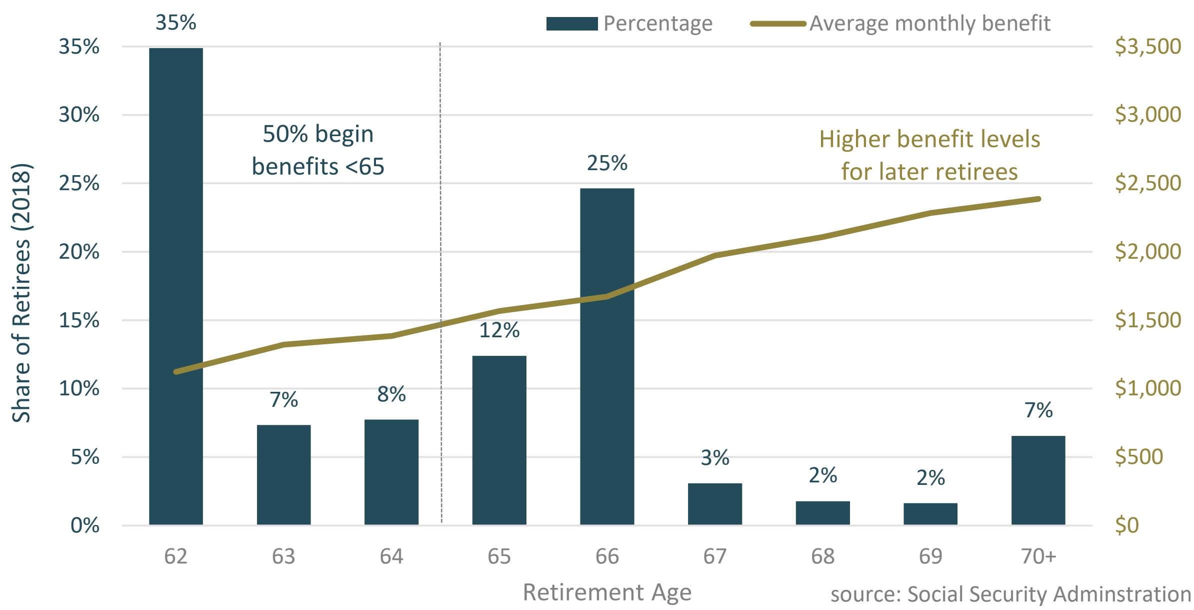
While not all savings program participants would be able to accumulate a level of assets sufficient to close the "savings gap," even modest levels of accumulated savings can deliver value and provide a safety net for savers. Households who lack financial security face a range of challenging circumstances that can erode their financial standing and have significant quality of life implications. The COVID-19 pandemic and associated economic crisis have brought renewed attention to the degree of financial resilience of American households. **Accumulated retirement savings can be used as emergency funds to help financially insecure households avoid a range of potential financial losses and social costs from unexpected expenses**.



Social Security Delay

Social Security represents a base income stream for most elderly Americans, and retirees face an important decision about when to start their entitlement. Monthly benefit levels are lower for beneficiaries starting before the "Normal Retirement Age," yet more than a third of retirees nationally choose to begin their benefits at age 62, and half by the age of 65. These decisions, which lead to lower monthly benefit levels for the remainder of eligibility and may reduce expected lifetime income, likely reflect in many cases the impacts of inadequate retirement preparedness.

Social Security Benefits by Retirment Age, 2018



Private retirement savings can interact with this decision by enabling retirees sufficient liquidity to maintain their standard of living while delaying the starting point of Social Security benefits, increasing benefit levels once payouts begin. **Financial modeling within this analysis demonstrates that even modest levels of retirement saving accumulation can yield material increases in expected lifetime income and quality of life through this mechanism**.

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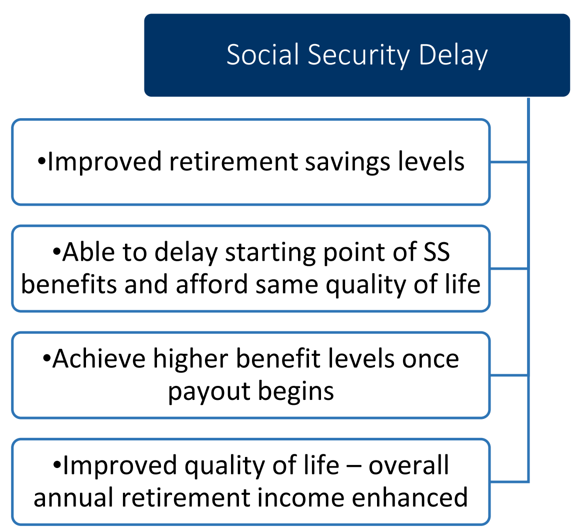


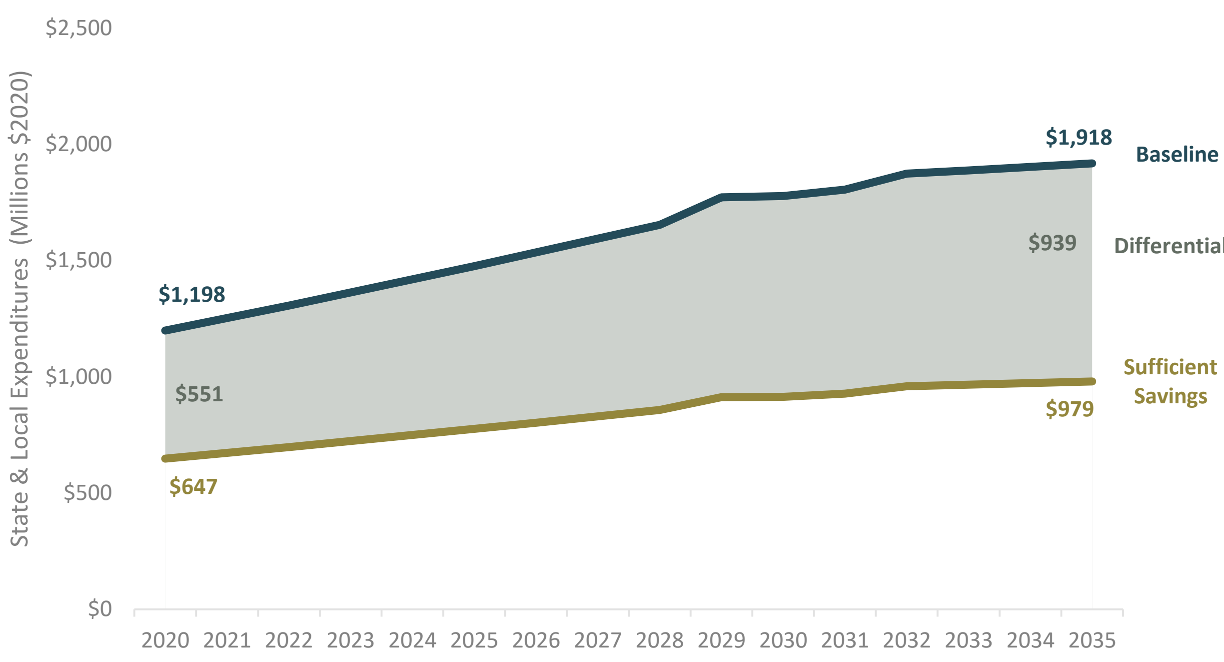
Government Expenditure Impacts

The capacity of Virginia's households to adequately prepare for retirement also has implications for public expenditures on benefit programs targeted at elderly residents. Shortfalls in retirement savings add to the demand for these programs, increasing expenditures on top of the existing fiscal pressure from the growing elderly population.

Virginia's elderly residents participate in a number of benefit programs through a mix of state, local and federal funding sources. Many senior-serving programs are means-tested, and analysis of program data shows that per capita program expenditures on senior households declines significantly as household incomes increase. State and local expenditures on selected programs including Medicaid, Nutrition and other Aging Services programs, are estimated at $1.20 billion in 2020. By 2035, this spending is anticipated to grow to $1.92 billion under the continuation of current savings trends, a fiscal challenge in the context of the growing dependency ratio. State and local expenditures on these elderly benefit programs per working age (20-64) household are projected to grow by more than 50% from around $500 in 2020 to $760 in 2035.

Increasing the financial resources available to households in their retirement years would significantly reduce government expenditures on these programs. Analysis of program spending patterns shows that if Virginia's current elderly households had achieved recommended savings levels, state and local program expenditures would be reduced by $551 million in 2020. This differential rises to $939 million by 2035.

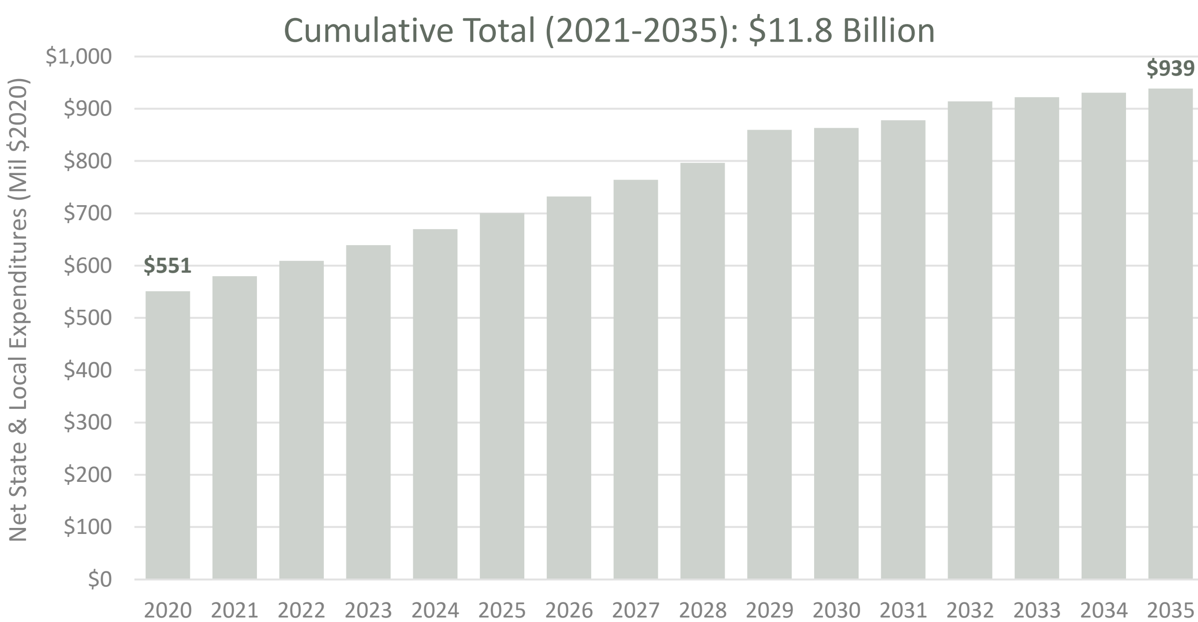
Annual State and Local Program Expenditures by Scenario ($2020M)



Additional expenditures due to insufficient savings are expected to rise over time, as the elderly population grows and the cost of medical care increases. **The cumulative cost to state and local government attributable to insufficient retirement savings levels totals $11.8 billion from 2021-2035**.

Many of these benefit programs, including Medicaid, also have a federal funding component. Federal expenditures on benefit programs in Virginia associated with insufficient retirement savings levels are estimated at $453 million in 2020, rising to $780 million in 2035. The cumulative total cost to the federal government of insufficient savings over the fifteen-year period is estimated at $9.8 billion.

State and Local Program Expenditures due to Insufficient Savings, 2021-2035 ($2020M)



These estimates illustrate the increasing importance of retirement savings to the quality of life for Virginia residents, as well as the impact to the state's fiscal position. The size of savings shortfalls, combined with the changing demographic makeup of the Commonwealth, mean that "the cost of doing nothing" by allowing current savings trends to continue is substantial and growing.

Table of Contents

About Econsult Solutions, Inc.

Econsult Solutions, Inc. provides businesses and public policy makers with consulting services in urban economics, real estate, transportation, public infrastructure, public policy and finance, community and neighborhood development, planning, thought leadership, as well as expert witness services for litigation support. Our technical expertise ranges from big data analysis to GIS based spatial analytics, sophisticated benefit-cost analysis to pro forma based project feasibility analysis.

ESI's government and public policy practice combines rigorous analytical capabilities with a depth of experience to help evaluate and design effective public policies and benchmark and recommend sound governance practices. ESI has assisted policy makers at multiple levels of government to design and evaluate programs that help citizens increase their economic security.

1. Introduction: Insufficient Savings and the Cost of Doing Nothing

1.1. Gaps in Private Sector Retirement Savings Access

Policymakers in Virginia and across the country have initiated efforts in recent years to encourage citizens to increase their level of savings and financial readiness for retirement. A focus of this effort has been developing options for the significant cohort of private sector employees (including part-time and self-employed individuals) who do not have access to a retirement savings plan through their workplace.

A 2016 analysis by the Pew Charitable Trusts indicates that 37% of Virginia's full-time, full-year private sector workers do not have access to a retirement savings plan through their employers.[343] Access gaps are largest among employees of small businesses, low-income workers, and minority workers, raising important equity concerns and expanding existing inequities in opportunities to build generational wealth.

In the absence of national solutions, state-level solutions have been developed to encourage additional access and savings. State-sponsored savings plans have been initiated in California, Illinois and Oregon and several other states have approved similar programs or efforts to study its feasibility, including Virginia. In January 2017, a working group on retirement savings facilitated by the Virginia Retirement System submitted a report of the Governor and General Assembly on the issue of retirement savings as directed by House Bill 1998.[344] Now, the Virginia Legislature has directed the Virginia College Savings Plan (Virginia 529) to "analyze current state and federal programs that encourage citizens to save for retirement by participating in retirement savings plans."[345] This study contributes to this effort by quantifying the potential impacts of the continuation of current retirement savings trends.[346]

1.2. Study Framework

As Virginia's elderly population grows, the financial capacity of households to maintain their living standards in their retirement years has implications for the quality of life enjoyed by the state's residents and the fiscal position of the Commonwealth. This study quantifies the potential magnitude of Virginia's retirement savings shortfall from 2020-2035 if current trends continue, defines the costs of allowing these potential shortfalls to the Commonwealth and its residents, and addresses the potential benefits of addressing the savings gap and helping future retirees enhance their financial resiliency.

[343] "Who's in, Who's Out: A look at access to employer-based retirement plans and participation in the states." Pew Charitable Trusts, 2016.
[344] Virginia House Bill 775, 2020 Session
[345] See: "Report of the Virginia Retirement System Work Group: HB 1998 Saving for Retirement"
[346] Econsult Solutions, Inc. (ESI) is a Philadelphia-based consulting firm specializing in the intersection of economics and public policy and has developed expertise in retirement savings analyses through similar studies as part of government task force efforts to study the issue in Pennsylvania and Colorado. See: "Report on the Proceedings of the Pennsylvania Treasury Department Private Sector Retirement Security Task Force" and Colorado Secure Plan Savings Board Recommendations to Increase Retirement Savings in Colorado"

Population and Savings Scenarios (Section 2)

Virginia is in the midst of a significant increase in its elderly population due to the ongoing transition of the outsized "baby boomer" cohort into retirement age. This demographic change will impact the state's fiscal position, increasing the number of retiree households for each working age household.

These demographic changes make it more critical than ever for Virginia's households to have the opportunity to build the resources they will need to maintain their quality of living in retirement. Retirement savings goals are typically defined by the ability of households to accrue the resources needed to maintain their standard of living in their retirement years. These targets are often quantified through an income replacement framework, where savings goals are targeted to achieve the availability of a portion of working age income levels (such as 75%) as savings are drawn down during retirement years.

Analysis in this report of income patterns over time shows that Virginia's current retirees have fallen well short of recommended income replacement standards. Building from University of Virginia demographic projections and analysis of federal data sets on income patterns by age over time, this study develops two scenarios for population and income change for Virginia's elderly residents from 2020-2035:

A "baseline" scenario in which retirement savings levels remains consistent with current trends;

A "sufficient savings" scenario in which Virginia's current and future retiree households achieve recommended savings levels to maintain their standard of living.

Household Impacts (Section 3)

The differential between income scenarios represents the resource gap that the state can anticipate if current trends continue without intervention. This gap is analyzed statewide and at a localized level to identify the magnitude of the retirement income shortfall for representative households. Financial modeling is also undertaken to understand the level of annual savings during their working years that would be required for households across Virginia to address this gap and achieve retirement sufficiency.

More broadly, financial insecurity impacts a significant proportion of households, and even relatively modest savings levels can help households to improve lifetime financial outcomes. Savings accumulations can help financially fragile households cover unexpected needs, avoiding disadvantageous alternatives, and can potentially be used to help households delay the start of Social Security benefits, increasing future benefit levels.

Government Expenditure Impacts (Section 4)

A variety of benefit programs targeting elderly residents will see demand increase as the elderly population grows. Many of these programs like Medicaid are means-tested for eligibility and/or benefit levels, meaning that government expenditures fall as the incomes of elderly Virginians rises. Building from current program data, this analysis estimates the differential in government expenditures on these programs between baseline and sufficient savings income scenarios. These calculations show the potential direct fiscal cost of the continuation of current trends in retirement insufficiency.

2. The Retirement Readiness of Virginia's Aging Population

Changing demographic conditions in Virginia and across the country create a greater emphasis on the importance of retirement preparedness. The continuation of existing trends will leave future retirees across Virginia well short of recommended levels of income needed to maintain their living standards. This section analyzes population and income trends on a statewide and localized basis.

Projected Growth in the Elderly Population (Section 2.1)

Population projections from the University of Virginia show that the state's elderly (65+) population is expected to increase by 31% from 2020-2035, nearly three times as fast as the overall population growth of 11%. The growth in senior households is expected to increase the state's dependency ratio from the current ratio of nearly three working age households for each elderly household closer to a ratio of two to one, creating pressure on the Commonwealth's tax base and fiscal position.

Income Scenarios: Retirement Readiness Gaps (Section 2.2)

Analysis of income trends over time shows that Virginia's current elderly population has fallen short of recommended income replacement benchmarks in their retirement years. The average income gap for elderly Virginians with less than $75,000 in household income is estimated at around $7,100, and under the continuation of current trends this gap is expected to grow to more than $8,000 by 2035.

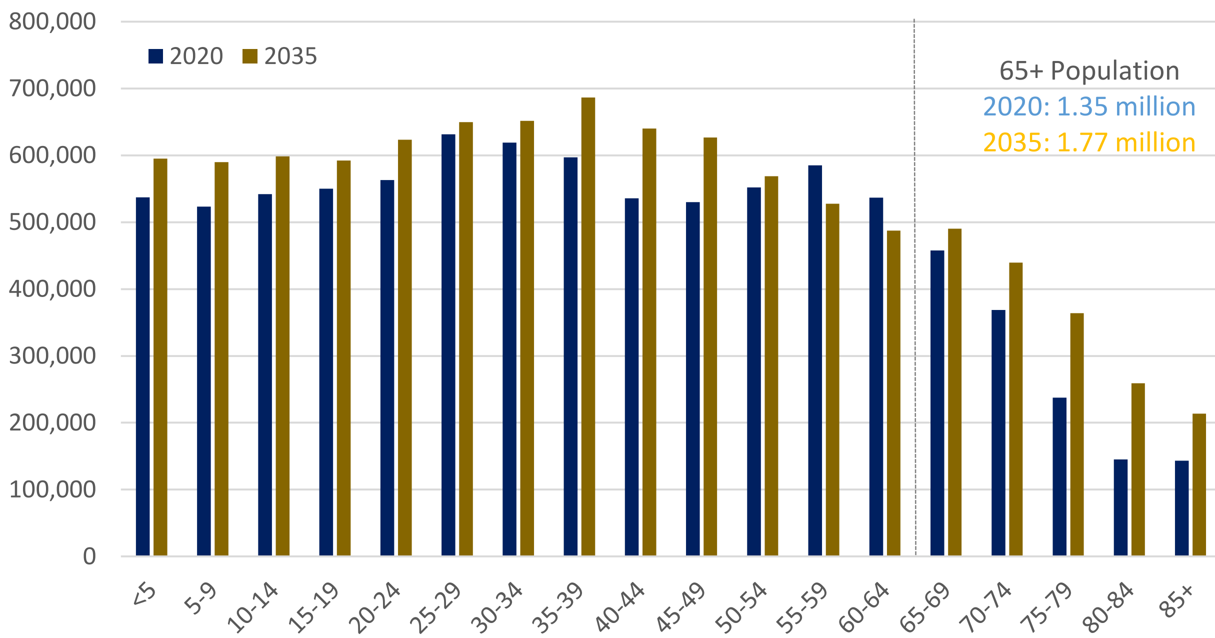
2.1. Projected Growth in the Elderly Population

The aging of the baby boomer generation creates a looming increase in the elderly population in Virginia and across the nation. Figure 2.1 below shows the forecasted Virginia population by age group in 2020 and 2035, based on forecasts from the Demographics Research Group at the University of Virginia's Weldon Cooper Center for Public Service.[347]

Virginia's population is projected to increase by 11% over this period, from 8.66 million in 2020 to 9.60 million in 2035. Over this same time frame**, the elderly (65+) population is projected to grow nearly three times as fast, increasing by 31%** (from 1.35 million in 2020 to 1.77 million in 2035)

Disproportionate growth is also anticipated in the 35-49 age group, as cohorts from the Millennial generation and Gen Z transition from early to mid-career stages. The ability of this group to begin to accumulate retirement savings assets will be crucial to the long-term picture of retirement readiness in the decades to come.

Figure 2.1: Projected Virginia Population by Age Group, 2020-2035



Source: ESI Analysis of UVA Demographic Research Group Projections

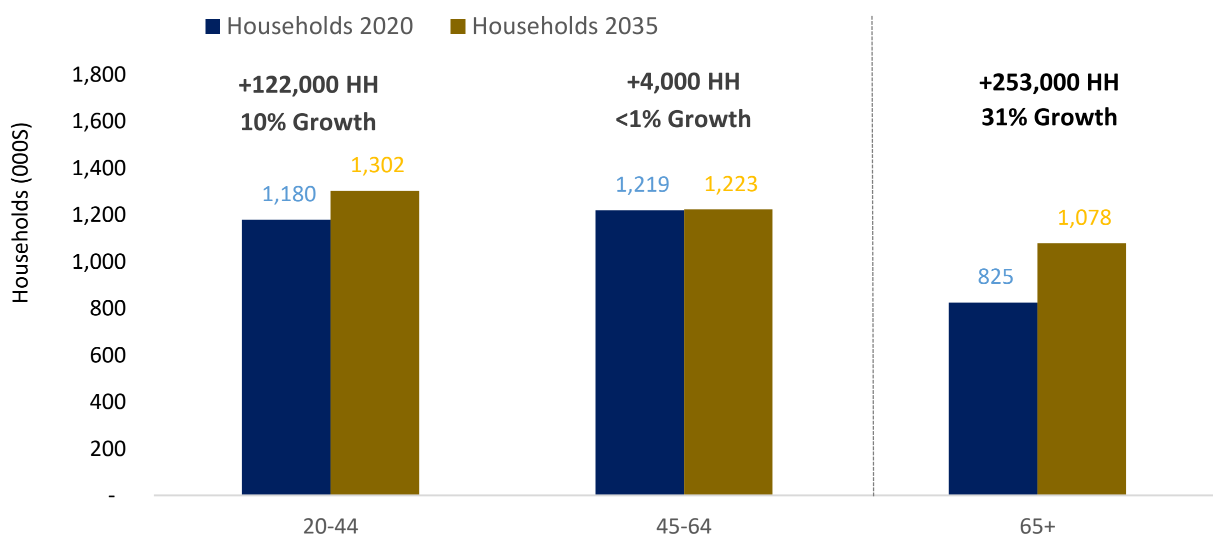
[347] University of Virginia Weldon Cooper Center, Demographics Research Group. (2019). Virginia Population Projections.
See Appendix A.1 for further discussion of these population projections and methods used to generate demographic estimates.

Demographic changes are even greater in the composition of Virginia's households. Average household sizes for elderly cohorts are far lower than for younger cohorts (due to lower rates of children in household and higher rates of widowers among elderly households). This dynamic means that elderly residents typically represent a larger share of householders than their share of the population.

Figure 2.2 below compares the projected age composition of Virginia's households in 2020 and 2035. Elderly (65+) households are projected to grow from 825,000 in 2020 to 1.08 million in 2035, an increase of 253,000 (or 31%). Additional growth is concentrated in younger (20-44) households, with little growth in the population of 45-64 year-olds that are typically in their highest earning years.

Elderly residents are expected to represent 26 percent of households in 2020 and 30 percent of households in 2035. As a result of these changes**, the "dependency ratio" represented by the number of elderly households divided by the number of working age households (who pay the majority of taxes funding assistance programs) is projected to increase from 0.34 in 2020 to 0.43 in 2035**. This increase will create additional fiscal pressure for the Commonwealth.

Figure 2.2: Projected Virginia Household Growth by Age, 2020-2035

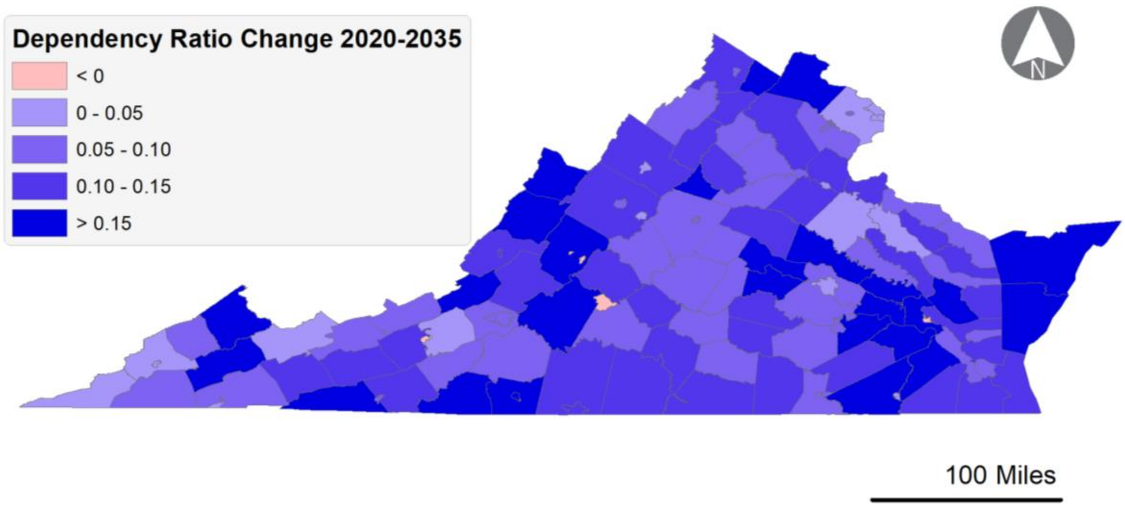


Source: ESI Analysis of UVA Demographic Research Group Projections

Population, household and dependency ratio calculations are also undertaken at the localized level, based on population forecasts from the Weldon Cooper Center for each of Virginia's 95 counties and 38 independent cities. The net change in the dependency ratio for each locality over the 2020-2035 period is shown in Figure 2.3 below.

Statewide, the dependency ratio is projected to change from 0.34 elderly households per working age household in 2020 to 0.43 in 2035, an increase of 0.09 in net terms and 24% in percentage terms. These population dynamics are present across most areas of the Commonwealth. **Among the 133 localities, 110 counties and independent cities (more than 80 percent) are projected to see a net increase of more than 0.05 in the dependency ratio of elderly households relative to working age households**.

Figure 2.3: Dependency Ratio Change, 2020 – 2035



Source: ESI Analysis of UVA Demographic Research Group Projections

2.2. Income Scenarios: Retirement Readiness Gaps

As additional households approach and reach retirement age, their degree of readiness and income available in their retirement years becomes increasingly important. Financial planners and retirement experts typically define targets for financial security in retirement years based on the maintenance of the basic living standards enjoyed by households during their working years. This concept can be translated to an "income replacement" target, which is set as a percentage of working-age income, and therefore will vary by household. This analysis develops two scenarios for income replacement levels for the purpose of quantifying the degree to which Virginia's current and future elderly residents fall short of recommended retirement income targets:

- A "baseline" scenario in which savings behavior remains consistent with current levels; and
- A "sufficient savings" scenario in which Virginia's current and future retiree households achieve recommended savings levels to maintain their standard of living.[348]

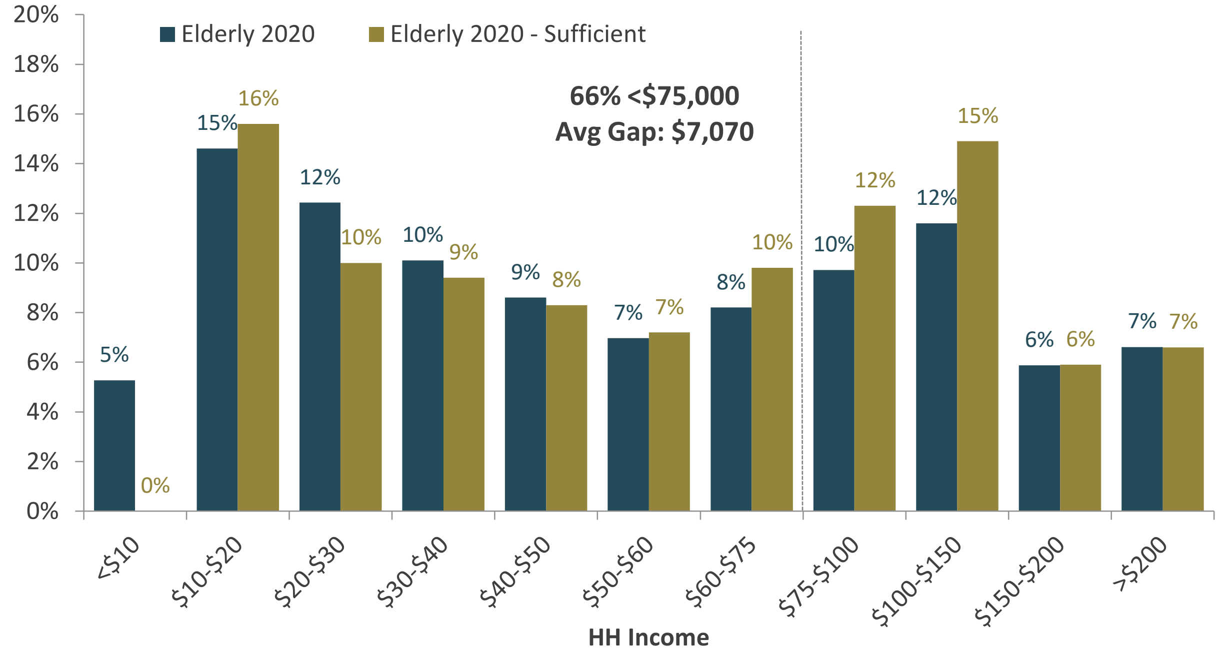
Using longitudinal analysis of income patterns, income distributions are developed for Virginia's elderly households under baseline and sufficient savings scenarios in 2020 and 2035.[349] The baseline scenario is estimated by applying the observed replacement rates of the current generation of elderly Virginians to extrapolate incomes for the state's elderly residents as of 2035. The sufficient savings scenario is defined with an income replacement target of 75% (consistent with established industry benchmarks), with adjustments at the low and high end of the income distribution.[350]

The differential between these scenarios represents the gap between the income levels that Virginia's retirees are anticipated to achieve under the current trends, and the typically recommended income replacement levels. In other words, it illustrates the expected shortfall in elderly incomes due to insufficient retirement savings.

As of 2020, about two-thirds (66%) of Virginia's elderly households are expected to have a household income below $75,000. Among these households, shortfalls in income relative to the sufficient savings benchmark equate to an average gap of around $7,100 per year. Under the continuation of current trends, **this savings shortfall is projected to grow to more than $8,000 by 2035.[351]**

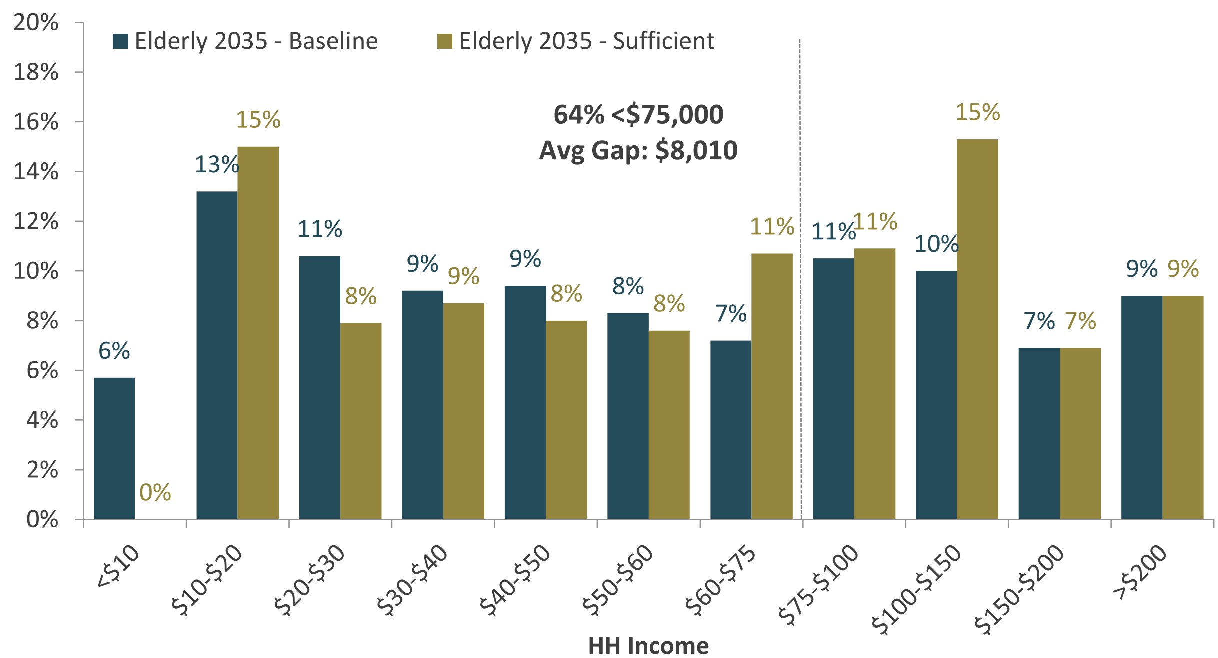
[348] Note that this report does not assume or evaluate any policy intervention or the level of additional retirement savings that it would generate. This scenario should be understood as a benchmark, rather than a projection associated with any specific policy approach.
[349] This replacement rate framework should be understood as a mathematical benchmark for the purpose of quantifying the magnitude of savings shortfalls and their impacts. ESI does not represent this benchmark as the ideal level of savings for any given household from a financial planning perspective.
[350] Adjustments are made in this scenario to apply an "income floor" by defining the Federal Poverty Level (FPL) as the minimum household income level, and an "income ceiling" by considering all households with more than $75,000 in annual retirement income to have achieved "sufficient savings" regardless of their exact income replacement level. These adjustments are discussed further in Appendix A.1.
[351] Note that all financial calculations through this report are expressed in $2020 for the purpose of appropriate comparison. Projected increases in savings gaps and government expenditures therefore represent "real growth," rather than growth driven purely by inflation. Appendix A.1 provides further information on the methodology used to develop these scenarios.

Figure 2.4: Income Distribution of Elderly Households by Scenario - 2020



Source: ESI Analysis of Current Population Survey Data

Figure 2.5: Projected Income Distribution of Elderly Households by Scenario – 2035 (in $2020)



Source: ESI Analysis of Current Population Survey Data

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Localized Analysis

The statewide saving gap is also analyzed at the city and county level to understand variations in income and savings patterns across Virginia. Census Bureau data is used to assess both the anticipated level of income for elderly households by locality, and the expected income shortfall.[352]

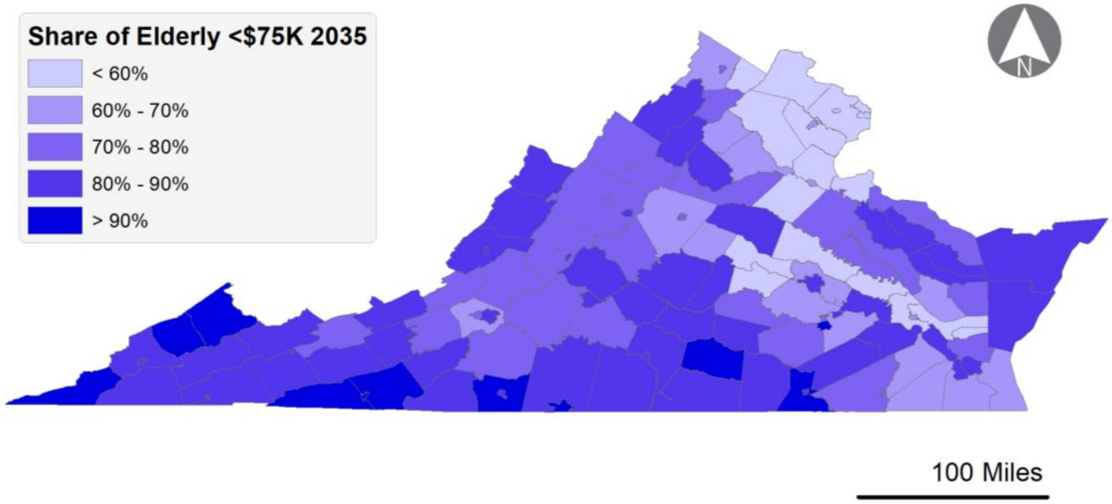
Figure 2.6 on the following page presents the projected share of elderly households with an annual income of less than $75,000 under the continuation of current trends (baseline scenario). The majority of households are expected to fall below this threshold in every locality. Appendix A.2 to this report presents detailed estimates of projected population changes, income patterns and savings gaps for each locality for 2020-2035.

Figure 2.7 on the following page illustrates the projected annual income shortfall in 2035 for the elderly residents with incomes under $75,000. **Notably, the areas of the state projected to have the lowest incomes among senior residents (in Figure 2.6) are not necessarily the areas of the state where savings gaps among those households are the greatest**. For instance, northern counties such as Loudon and Fairfax with the highest projected income levels among seniors also have among the highest savings gaps, relative to the income replacement standards used in this analysis.

Section 3 below explores the level of savings that would be needed for representative households at the state and local level to accumulate enough savings to address these income shortfalls.

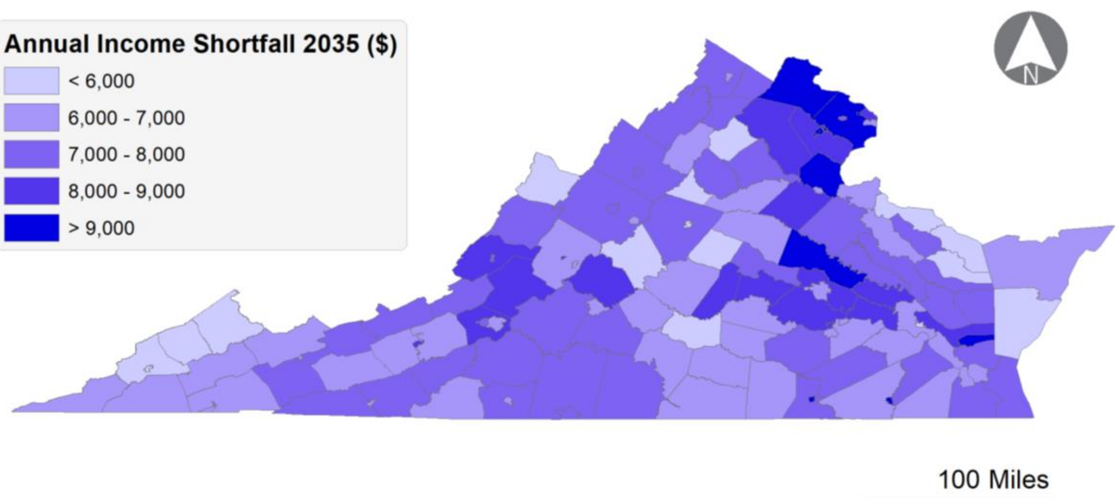
[352] Appendix A.1 provides further information on the methodology used to develop income estimates at the localized level.

Figure 2.6: Projected Share of Elderly Households <$75,000, 2035



Source: ESI Analysis of Current Population Survey Data and American Community Survey Data (in $2020)

Figure 2.7: Projected Annual Retirement Income Shortfall for HH <$75,000, 2035



Source: ESI Analysis of Current Population Survey Data and American Community Survey Data (in $2020)

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3. Household Impacts from Insufficient Savings

The population and income scenarios outlined above are composites of the unique situations faced by Virginia's residents as they plan their financial futures and approach retirement age. To better understand the implications of enhanced retirement savings access and accumulations, this section focuses on impacts on representative Virginia households through two different frameworks.

Savings Gaps (Section 3.1)

Savings gap calculations use financial modeling to translate the difference between anticipated and targeted retiree household incomes to the level of annual savings that a household would need during its working years to achieve income targets and maintain their established standard of living. Analysis shows that the average Virginia household with less than $75,000 in income would need to contribute an additional $1,930 annually over their working years to close the savings gap anticipated by 2035. Early returns from state-sponsored retirement savings programs in Oregon and California indicate that average initial contributions are approaching this level, at contribution rates that are likely to grow over time due to the auto-escalation features in the programs.

Household Financial Security (Section 3.2)

While not all savings program participants would be able to accumulate a level of assets sufficient to close the "savings gap," even modest levels of accumulated savings can deliver value and provide a safety net for savers. Households that lack economic security face a variety of challenging circumstances that can erode their financial standing and assets, and strategic use of savings can help prepare these households to address unexpected costs. In addition, modest savings levels can potentially be used to delay the dispersal of Social Security benefits, enabling savers to subsequently receive a higher benefit level for the remainder of their lives, increasing their quality of life and in many cases their expected lifetime income.

3.1 Household Savings Gaps

Financial modeling can translate the income gap between baseline and sufficient savings levels (defined in Section 2) into a "savings gap" by estimating the level of incremental annual savings needed to make this additional income available under standard financial assumptions.

Based on standard financial assumptions, addressing the anticipated 2035 annual income gap of around $8,000 for the average household with less than $75,000 in annual income requires accumulating a lump sum savings of approximately $178,000.[353] Over a 30-year time horizon at standard market returns, **achieving this level of assets requires an annual savings level of $1,930** (see Figure 3.1).

Figure 3.1: Average Annual Savings Needed to close the Savings Gap for HH <$75,000

Metric	2020	2035
Total Elderly Households	825,400	1,078,100
Households with <$75k Annual Income	546,300	684,600
Average Income Differential (HH <$75k)	$7,070	$8,010
Average Lump Sum Savings Amount to Fill Savings Gap	$157,000	$178,000
Annual Savings Needed to Fill Savings Gap	**$1,710**	**$1,930**

Source: ESI Analysis of Current Population Survey Data and Investment Data (in $2020)

These savings amounts needed to fill the income gaps can be benchmarked against the initial observed results in states that have initiated programs aimed at closing coverage gaps among private sector workers. Oregon, Illinois and California all have active programs following an "Auto IRA" model into which thousands of participants have begun to deposit a portion of their earnings. Average contributions levels to date in each state exceed 5% of income, with **contribution levels ranging from around $100-$150 a month and $1,200 - $1,700 annually** (see Figure 3.2).

Figure 3.2: Annual Savings Levels under Existing State Programs

Metric	OregonSaves	Illinois Secure Choice	CalSavers
Funded Accounts	70,000	66,000	15,000
Total Assets ($M)	$58.3 million	$26.5 million	$5.2 million
Average Contribution Rate (% of income)	5.4%	5.0%	5.0%
Average Monthly Contribution	$142	$97	$134
Average Annualized Contribution	**$1,710**	**$1,170**	**$1,604**

Source: June 2020 Program Data, via Georgetown Center for Retirement Initiatives

These contribution levels would significantly narrow the anticipated savings gaps if they were able to be achieved in Virginia. Notably, these state-facilitated auto-IRA programs contain "auto-escalation"

[353] Financial modeling assumes a 4.5% annual drawdown on lump sum assets in retirement years. Assumed market returns are 6.5% per year over a thirty-year period of contributions and returns. Appendix A.2 provides detail on the financial assumptions, as well as a "sensitivity analysis" showing variations in the income gap results under more adverse financial assumptions.

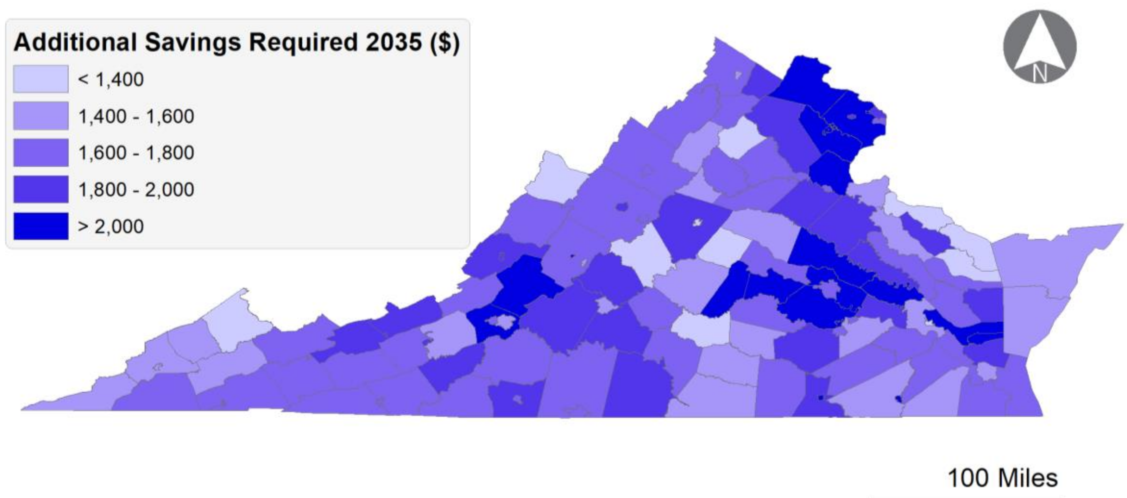
features, which increase the contribution as a share of earnings from the initial default level of 5% to higher levels in future years (with the option for savers to opt-out or choose a different percentage). This feature is likely to increase contribution levels for savers gradually over time, enhancing the ability of the programs to help typical savers generate the level of assets needed to address shortfalls in retirement adequacy.

Localized Analysis

Anticipated income shortfalls in localized areas can also be translated into an annual savings gap (following the same assumptions outlined in Figure 3.1 above). Figure 3.3 below shows the average level of additional annual savings needed across different areas of the state to address the retirement sufficiency gap anticipated as of 2035.[354]

Due to the nature of the income replacement target, areas of the state with lower average incomes often have lower savings targets to address retirement insufficiency. In many areas of the state, annual savings levels consistent with the $1,200 - $1,700 benchmarks observed in state-sponsored programs would set workers on a path to addressing retirement shortfalls. In higher income areas of the state, savings targets are higher, in some cases topping $2,000, but these levels may be more achievable due to higher incomes in these areas.

Figure 3.3: Annual Savings Required to Address Retirement Income Shortfall, 2035



Source: ESI Analysis of Current Population Survey Data and American Community Survey Data

[354] Full results for each locality are included in Appendix A.2.

3.2. Household Financial Security

Households who lack financial security face a range of challenging circumstances that can erode their financial standing and have significant quality of life implications. The COVID-19 pandemic and associated economic crisis have brought renewed attention to the degree of financial resilience of American households. **Accumulated retirement savings can be used as emergency funds to help financially insecure households avoid a range of potential financial losses and social costs from unexpected expenses.**

Social and Monetary Costs of Financial Fragility

A substantial share of Americans lack the financial reserves to cover a moderate unexpected expense and an even larger share would be unable to endure a larger economic disruption. When faced with a hypothetical unexpected expense of $400, 37 percent of American adults report that they would not be able to cover it using cash or its equivalent.[355]

This financial insecurity is associated with a variety of economic and quality of life costs for households. Financially fragile households face a range of potential social costs that may result from a lack of available savings to address a financial emergency. **Many of the strategies utilized by financially fragile individuals to cope with an unexpected expense come at a high cost, both financial and otherwise**.[356]

High-Interest Financial Products

The most frequently cited strategy among Americans who cannot cover an emergency expense is to use a credit card. While this strategy may be effective in addressing the short-term needs, it can generate significant additional overall costs through interest payments over time, since the same dynamics that make it difficult to cover an unexpected expense also make it difficult to repay credit card debt immediately, with interest rates even for households with “good credit” approaching 20%.[357]

In addition, one in four American households is considered unbanked or underbanked, meaning they either do not have a bank account or had to turn to an alternative financial service in the last year.[358] As such, many households do not have access to credit cards, and must turn to short-term alternatives, such as payday loans, or risky alternatives, like title pawn loans.

Recognizing the issues created by these products, the Legislature recently passed the “Virginia Fairness in Lending Act,”[359] which will significantly reduce payment amounts faced by primarily low-income households for short-term lending products. Still, households using these loans due to their inability to cover an unexpected cost from their own savings will continue to see additional losses in wealth due to interest charges above and beyond the initial unexpected cost. Further, existing indebtedness is a

[355] The Federal Reserve Bank’s “Report on the Economic Well-Being of U.S. Households in 2019”
[356] Institute for Research on Poverty at the University of Wisconsin, “Emergency Savings for Low-Income Consumers
[357] Alina Comoreanu “Credit Card Landscape Report – Terms, Trends & More

[358] FDIC National Survey of Unbanked and Underbanked Households

[359] NBC29.com, “Northam Signs the Virginia Fairness in Lending Act.” August 3, 2020.

significant predictor of future financial fragility and many households report that one financial shock leads to long-term effects to their financial health and quality of life.[360]

Quality of Life Impacts

Households that use other mechanisms to cover unexpected expenses often suffer a degraded quality of life in a variety of ways. Borrowing from family and friends, a commonly cited strategy, has an associated social cost and is often disproportionately challenging for low- and middle-income households. Another cited financial coping strategy is taking on longer hours at work or picking up additional part-time jobs. Leveraging household assets like cars for Pawn or Auto Title Pawn financing to cover an expense can lead to severe long-term costs if households are unable to repay. The loss of a vehicle due to an Auto Title Pawn loan, for example, can lead to the loss of transport to work and related job insecurity and additional financial challenges.

To avoid indebtedness from high-cost financial services, many Americans defer household expenses such as food or medical expenses, which has obvious health and well-being implications. In 2019, one in four Americans went without some form of medical care due to an inability to pay and a significant share (18 percent) have accrued debt due to medical expenses they were unable to cover.[361] Skipping or delaying household or utility payments is likely to result in additional fees and may lead to service shut offs or housing instability.

Retirement Savings and Household Financial Security

Increasing retirement savings access in the workforce, particularly among the lower-income workers where access is currently most lacking, could strengthen the financial security of Virginia's households. Assets built through compounding savings would have particular implications for the financial resilience of retiree households who are particularly vulnerable to health-related expense spikes or income shocks associated with being widowed.[362] **Retirees have a limited ability to increase their income once retired, and thus their level of savings accumulation heading into retirement is critical to maintaining their quality of life and buffering them against financial shocks**.

Accumulated retirement savings can potentially be used as emergency funds by a household to prevent the significant financial losses and social costs from unexpected expenses detailed above. However, early withdrawals come at a cost to households due to diminished future returns and possible penalties. Most state-facilitated retirement savings models that have been implemented elsewhere have been structured as Roth IRA accounts.[363] Withdrawals of contributions from Roth IRA accounts can be made penalty-free because contributions were made after tax, though withdrawing earnings from Roth IRA

[360] Global Financial Literacy Excellence Center, "Financial Fragility In the US: Evidence and Implications"
[361] The Federal Reserve Bank's "Report on the Economic Well-Being of U.S. Households in 2019"
[362] Center for Retirement Research at Boston College, "Will the Financial Fragility of Retirees Increase?"
[363] Center for Retirement Initiatives at Georgetown University, "State-Facilitated Retirement Savings Programs: A Snapshot of Program Design Features"

accounts may be taxable and associated with penalties depending on a person's age, the tenure of the account and the amount they are looking to withdraw.[364]

In addition, a household faces a cost associated with diminished future returns if it chooses to withdraw early from a retirement savings account to cover an unanticipated expense. This tradeoff is important for a household to consider in preserving its long-term economic security. For example, if a household withdraws $400 to cover an unexpected expense 10 years prior to retirement and does not replace it, it will lose approximately $750 in assets due to the loss of future earnings (at a 6.5% rate of return). These costs could be compared to the expected financing cost, along with quality of life considerations, to understand the tradeoffs for a given household of an early withdrawal.

Ideally, households would have access to emergency savings vehicles alongside retirement savings accounts to avoid impacting their long-term wealth by drawing down early from retirement savings. However, in the absence of liquid savings options and in the face of a high-cost borrowing alternative, this option may fill a critical gap for a vulnerable household dealing with a financial emergency.

Social Security Delay

Social Security represents an important base income stream for elderly Americans, and retirees face a decision about when to start their benefits. Private retirement savings can interact with this decision by enabling retirees sufficient liquidity to maintain their standard of living while delaying the starting point of Social Security benefits, increasing benefit levels once payouts begin. Financial modeling below demonstrates that even modest levels of retirement saving accumulation can yield material increases in expected lifetime income and quality of life through this mechanism.

Social Security Benefits by Starting Age

The level of monthly and annual benefits an individual receives through Social Security is dependent on the retiree's earnings level during working years as well as the age that they choose to start entitlement. Individual Social Security benefits are computed using up to 35 years of a worker's earnings adjusted for inflation.[365] Recipients that choose to start their benefits prior to the "Normal Retirement Age" of 67 (for individuals born in 1960 or later) see their monthly benefits reduced, and conversely, those that delay benefits see an increase in monthly payouts over the remainder of their lifetime.[366] Importantly, these lower or higher benefit levels last for the remainder of the benefit period, which includes the remainder of the recipient's life and in some cases eligible survivors, such as widows.

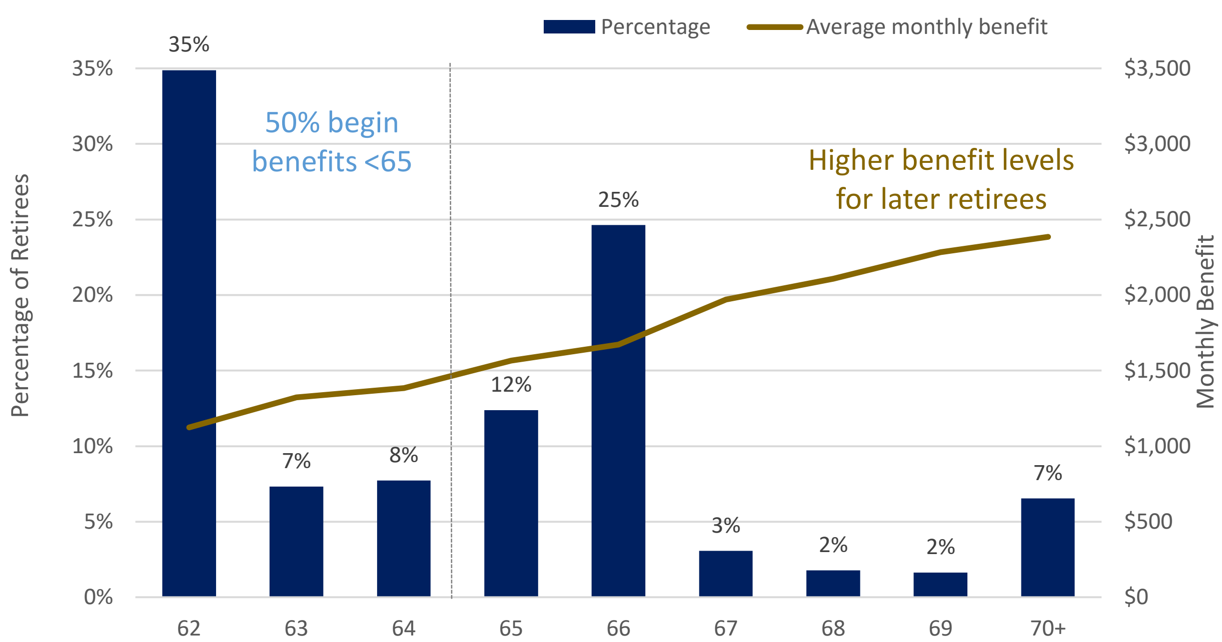
Lifetime Social Security benefits are a function of the benefit amount, the starting date, and the length for which benefits are received. As a result, optimal financial strategies will vary by individual recipients.

[364] According to IRS rules, Qualified distributions, which are exempted from penalties, are those for which the account has been open for five years, and either the account holder is age 59 ½ or older, taken due to a permanent disability, taken by a beneficiary or estate, or falls under a first-time homebuyer exception. Non-qualified distributions that do not meet these standards face taxes at the ordinary income tax rate plus a 10% penalty.
[365] Social Security Benefits Amounts, Social Security Administration
[366] Appendix A.2 contains additional detail as to the Normal Retirement Age and calculation of the Primary Insurance Amount (PIA) to which a retiree is entitled as part of the methodology for financial modeling shown below.

In general, however, a variety of research suggests that there are lifetime financial advantages to delaying benefits if possible, in order to receive increased benefit levels.[367]

However, data from the Social Security Administration shows that more than a third of retirees choose to begin their benefits at age 62, and half by the age of 65, enduring lower benefit levels for the remainder of their eligibility (see Figure 3.4).[368] These decisions likely reflect in many cases the impacts of inadequate retirement preparedness, necessitating the early receipt of benefits to the detriment of expected lifetime income levels.

Figure 3.4: Percentage and Average Monthly Benefit for Retired Workers, 2018



Source: Social Security Administration (2018)

Delaying Benefits through Retirement Savings

While some savers may not be able to accumulate lump sum amounts that fully address the savings gaps discussed in Section 3.1 (due to the age at which they start savings, their ability to contribute, market conditions, etc.), **supplemental retirement savings vehicles could provide additional options for future retirees in managing their Social Security benefits.** Even modest savings accumulations could be used as a replacement source of income for anticipated Social Security benefits in the initial years of eligibility. This approach can maintain the same income levels in the short-term (with savings drawdown directly replacing Social Security) and enable higher Social Security benefit levels ongoing.

[367] Gila Bronshtein, Jason Scott, John B. Shoven, and Sita N. Slavov. (2020). "*Leaving Big Money on the Table: Arbitrage Opportunities in Delaying Social Security.*" The Quarterly Review of Economics and Finance, Available online 3 June 2020.
[368] Note that the normal retirement age in 2018 was 66 years old.

While expected lifetime value varies by individual situation, it is possible to understand the implications for representative households. Figure 3.5 below shows the decision faced by a 62-year-old with a Primary Insurance Amount (based on their working-age income) of $1,000 a month, or $12,000 a year.[369]

Retirees receive permanent reductions in monthly and annual payments for collecting benefits prior to the Normal Retirement Age. By delaying the start of entitlement, Social Security payments increase over time from $700 per month if benefits start at age 62 to $1,000 per month if benefits start at age 67, an increase of 43%.

Adjusted payment amounts dictate the lump sum of savings needed to replace potential Social Security income while delaying benefits for a given number of years.

The table then computes the net difference in lifetime benefits that the individual would realize from this delay relative to starting benefits at age 62 based on the number of years that the retiree receives benefits.

The "breakeven" represents the number of years of benefits needed to replicate the benefit levels that would be received by starting at age 62, with the higher benefit levels beyond that year translating into additional lifetime income.[370]

Figure 3.5: Total Social Security Benefits by Starting Year and Duration ($1,000 monthly PRI)

	No Delay	1 Year	2 Years	3 Years	4 Years	5 Years
Starting Age for Benefits	62	63	64	65	66	67
Monthly Benefit Amount	$700	$750	$800	$867	$933	$1,000
Net Monthly Benefit from Delay		$50	$100	$167	$233	$300
Lump Sum Needed to Delay	--	$9,000	$19,200	$31,200	$44,800	$60,000
Benefit Years	**Lifetime Benefits**	**Net Additional**	**Net Additional**	**Net Additional**	**Net Additional**	**Net Additional**
15	$126,000	$0	($1,200)	($1,200)	($2,800)	($6,000)
20	$168,000	$3,000	$4,800	$8,800	$11,200	$12,000
25	$210,000	$6,000	$10,800	$18,800	$25,200	$30,000
30	$252,000	$9,000	$16,800	$28,800	$39,200	$48,000
Breakeven Benefit Years	--	15	16	16	16	17

Source: ESI Analysis of data from Social Security Administration

[369] See Appendix A.2 for further detail on the modeling assumptions associated with this scenario.
[370] Note that while life expectancy at birth is close to 80 years, life expectancy for an individual that has reached 62 is somewhat higher, at more than 20 years for men and close to 25 years for women, according to a recent analysis by the Urban Institute. This expected average lifespan serves a helpful benchmark for understanding and modeling the potential trade-offs in Social Security benefits.

These calculations show that individuals realizing the average expected lifespan of 20-25 years from age 62 can realize material gains in lifetime income through this approach. For example, under the 2-year delay scenario presented above:

If a retiree with a monthly PRI of $1,000 ($12,000 annually) is able to save a lump sum amount of around $20,000, they can delay the start of Social Security by two years from age 62 to age 64 while fully replacing the income they would have received from this source.

Starting at age 64, they will receive a benefit level of an additional $100 a month ($800 rather than $700) for the remainder of their benefit period.

If they receive benefits over a period of 20-25 years, this will translate into a net increase of $4,800 - $10,800 in total benefits received from Social Security.

Through this means, the savings of around $20,000 will yield a "return" of an additional 25-50%, and savings will equate to an increase in total income (inclusive of the original savings) of $25,000 - $30,000.[371]

While this trade-off can be expressed in terms of lifetime value, as in the breakeven analysis above, it can also be thought of in terms of the quality of life implications that households receive from increased benefit levels. An achievable monthly increase of $50 or $100 can help elderly households better maintain their standard of living or provide a buffer to manage unexpected costs. This extra income can help cushion more elderly households against the challenges of financial fragility discussed throughout this section.

[371] These impacts grow more significant as lump sums get larger, allowing for longer delays in benefit start dates. Notably, examples with larger benefit levels feature the same "breakeven points" in terms of the number of years at which delaying benefits will result in higher lifetime incomes, but larger gains in dollar value terms from the delay for those that continue to receive benefits beyond this breakeven point.

4. Government Expenditure Impacts from Insufficient Savings

The capacity of Virginia's households to adequately prepare for retirement also has implications for public expenditures on benefit programs targeted at elderly residents. Shortfalls in retirement savings add to the demand for these programs, increasing expenditures on top of the existing fiscal pressure from the growing elderly population.

Benefit Programs for Elderly Virginians (Section 4.1)

Virginia's elderly residents participate in a number of benefit programs through a mix of state, local and federal funding sources. Many senior-serving programs are means-tested, and analysis of program data shows that per capita program expenditures on senior households declines significantly as household incomes increase. Annual spending on selected programs totals $2.25 billion as of 2020, and is expected to grow materially in the coming decades due to the structural pressures of the growing elderly population and increasing medical costs.

Expenditure Growth from Insufficient Savings (Section 4.2)

Increasing the financial resources available to households in their retirement years would significantly reduce government expenditures on these programs. Analysis of program spending patterns shows that if Virginia's current elderly households had achieved recommended savings levels, state and local program expenditures would be reduced by $550 million in 2020. As the elderly population grows and the cost of medical care increases, the additional expenditures due to insufficient savings rise to $940 million by 2035, and total $11.8 billion over the 15-year period from 2021-2035.

4.1. Benefit Programs for Elderly Virginians

Virginia administers several benefit programs that provide services to elderly residents ranging from medical care to housing to nutritional support. These programs rely on a mix of state, local and federal funds, and many are means-tested for either eligibility or benefit levels. This design means that shortfalls in retirement savings and income impact the level of expenditures on these programs.

Among the broad range of government programs, this analysis focuses on those that are administered by the Commonwealth (excluding federal-only programs like Social Security, Supplemental Security Income, and most components of Medicare) and relate specifically to the needs and means of the elderly population (excluding generalized programs like infrastructure and public safety that cover all residents). Two categories of programs are reviewed below:

- **Means-tested programs** for which eligibility and benefit levels are impacted by the level of savings and annual income available to elderly households.
- **Senior-targeted programs** which do not require means-testing, but for which demand and outlays are impacted by the size of Virginia's elderly population and the retirement income levels of elderly residents.

Means-Tested Programs

Many programs serving elderly residents are means-tested to determine program eligibility and/or program benefit levels. The inverse correlation between income level and state assistance costs means that insufficient retiree savings have a significant impact on state expenditures for these programs.

Medicaid: Medicaid is a jointly funded federal/state program to provide medical services to eligible low-income populations. There are two cohorts of aged populations in Virginia served by Medicaid:

- "Full Dual Eligible" adults 65 who are enrolled in Medicare but meet the resource guidelines to qualify for full Medicaid benefits, including long term care and prescription drug coverage.
- "Partial Dual Eligible" beneficiaries 65 and older who qualify to have Medicaid pay certain expenses they incur under Medicare, generally through cost sharing or coverage of Medicare premiums.

In aggregate, Medicaid expenditures for elderly Virginians are estimated at approximately 20 percent of the state's overall Medicaid spending, or $2.2 billion in FY 2019, of which just over 50 percent is attributed to the General Fund.[372] Component programs of Medicaid have different eligibility and coverage rules. Therefore, estimates are produced uniquely for component programs, which are then summed to aggregate results.[373]

[372] Based on analysis of 2019 DMAS Medicaid claims expenditures data and the Virginia 2018-2020 Biennium Detailed Operating Budget as set forth in HB/SB 30 Introduced.

[373] The Medicaid service categories / sub-programs modeled based on their distinct eligibility requirements and funding dynamics are Long-Term Care (including fee-for-service LTC and an estimated proportion of MCO expenditures on Long Term Care services offered to Commonwealth Coordinated Care Plus beneficiaries, General Medicaid Services, Payments for Medicare Part A & B Premiums, and Medicare Part D Clawback payments.

Administering Department: Department of Medical Assistance Services (DMAS)

Auxiliary Grant Program: The Auxiliary Grant (AG) Program provides an income supplement to meet an adequate standard of living for individuals with Supplementary Security Income (SSI) and certain aged, blind, or disabled individuals living in long-term care settings. Eligibility requirements for the AG program are complex and cover eligibility criteria related to age, residency, functional ability, and financial resources.

Income eligibility requirements for the Auxiliary Grant program are less restrictive than those for SSI. To be eligible for AG, individuals must have a countable income less than the combined AG rate and personal needs allowance and have non-exempted resources less than $2,000 for a single person and $3,000 for a couple.[374] In 2019, the maximum AG amount was $1,374 which includes a personal needs allowance of $82. The AG Program is funded by a mix of state and local funds, with an approximate breakdown of 80 percent state funds and 20 percent local or municipal funds.

Administering Department: Department of Social Services (DSS)

Virginia Public Guardianship and Conservator Program: The Virginia Public Guardianship and Conservator Program provides guardianship for individuals who are incapacitated, indigent and without another option for a suitable guardian. Public guardians oversee medical care, residential care, benefits oversight and financial management depending on the needs of the participant.

Administering Department: Department of Aging and Rehabilitative Service (DARS)

Additional Senior-Targeted Programs

In addition to means-tested programs outlined above, several programs serve Virginia seniors directly and will be impacted by the size of the elderly population and the level of retiree savings. The Department of Aging and Rehabilitative Service (DARS) serves as the administrator or coordinator for each of these efforts. Note that the focus of this analysis excludes general state services used by both the senior and non-senior populations (such as programs related to corrections, public transportation, housing, etc.) which are not materially impacted by senior income levels, as well as programs that are fully federally funded.

Adult Services: The Virginia Adult Services (AS) Program is an assistance-based program to provide adequate home-based services and case management for adults with impairments.[375] The program aims to decrease or delay the need for institutional placement, reduce costs, and ensure appropriate support for those in need. Home-based services include companion services for assistance in daily living activities, homemaker services to support household management, and chores services that help with non-routine home maintenance. While the Adult Services program does not publish financial eligibility guidelines, the program is designed to serve low-income households.

Administering Department: DSS with oversight/coordination by DARS

[374] Countable resources include cash, stock, mutual funds, savings/checking accounts, and bonds.

[375] Impairment is defined as a mental or physical capacity diminishment that necessitates counseling, supervisory assistance, or assistance with daily living activities.

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Adult Protective Services: Adult Protective Services (APS) investigates reports of abuse, neglect or exploitation to assess the need for and arrange the provision of appropriate protective services. For a report to be eligible for APS intervention, the adult must be age 60 or older or 18 or older and incapacitated.

Administering Department: DSS with oversight/coordination by DARS

Older Americans Act Congregate Nutrition & Home-Delivered Nutrition Programs: The Older Americans Act Congregate Nutrition Program and the Home-Delivered Nutrition Program provide meals, nutritional services, and important socialization opportunities. The Congregate Nutrition Program provides meals in group settings and the Home-Delivered Nutrition Services Program delivers to homebound individuals. The program targets individuals age 60 and older, specifically those who are classified as low-income, minority, living in rural communities, having limited English proficiency, and/or are at risk of institutional care.

Administering Department: DARS

Aging Services: The Department of Aging and Rehabilitative Services offers a range of 'Aging Services' through a network of local Area Agencies on Aging (AAA) and other partner organizations. These services seek to support older Virginians to live independently and include programs like transportation, homemaker services, care coordination, and adult day care. For most programs, participants must be age 60 or older, disabled, or in poor physical health and at risk of institutional placement. Priority is given to those with the greatest economic or social need.

Administering Department: DARS

Benefit Program Spending

Budget analysis was undertaken to establish the current magnitude of these programs. Figure 4.1 below shows anticipated program expenditures for State Fiscal Year (SFY) 2020 in the following categories:[376]

Total Expenditures for each program inclusive of all funding sources;

Expenditures by Funding Source, disaggregates total program expenditures by state, local, and federal funding sources; and

*Expenditures on Elderly Residents***,** isolating the portion of total program funds attributable to seniors. **FY 2020 expenditures on elderly residents are estimated at $2.25 billion**.

[376] Estimates are derived from budget documents, with publicly available demographic program data and/or anonymized participant data from the relevant state administering departments was used to estimate the proportion of total funding for each program attributable to elderly households. Additional detail on these calculations and on expenditures for sub-programs within the Medicaid program and the Aging Services programs is included in Appendix A.3.

Figure 4.1: Virginia Program Expenditures on Elderly Residents

	Total Expenditures FY 2020 ($M)	State Expenditures FY2020 ($M)	Federal Expenditures FY2020 ($M)	Local Expenditures FY2020 ($M)	Est. Total Expenditures on Elderly Residents FY 2020 ($M)
Means-Tested					
Medicaid	$12,657.1	$6,477.7	$6,179.4	-	$2,160.6
Auxiliary Grant	$21.3	$17.0	-	$4.26	$8.9
Public Guardianship & Conservator	$5.2	$4.7	$0.5	-	$1.5
Senior-Targeted					
Adult Services	$9.1	-	$4.2	$5.2	$7.4
Adult Protective Services	$2.8	-	$2.6	$0.3	$1.9
Nutrition & Home-Delivered Meals	$23.7	$6.3	$15.7	$1.7	$14.8
Aging Services	$49.8	$11.5	$25.4	$12.9	$49.8
Total	**$12.77 billion**	**$5.43 billion**	**$7.31 billion**	**$24.3 million**	**$2.25 billion**

Source: Virginia 2018-2020 Biennium Operating Details (HB/SB 30 Introduced); DMAS Claims Data; Program Data from Administering Departments

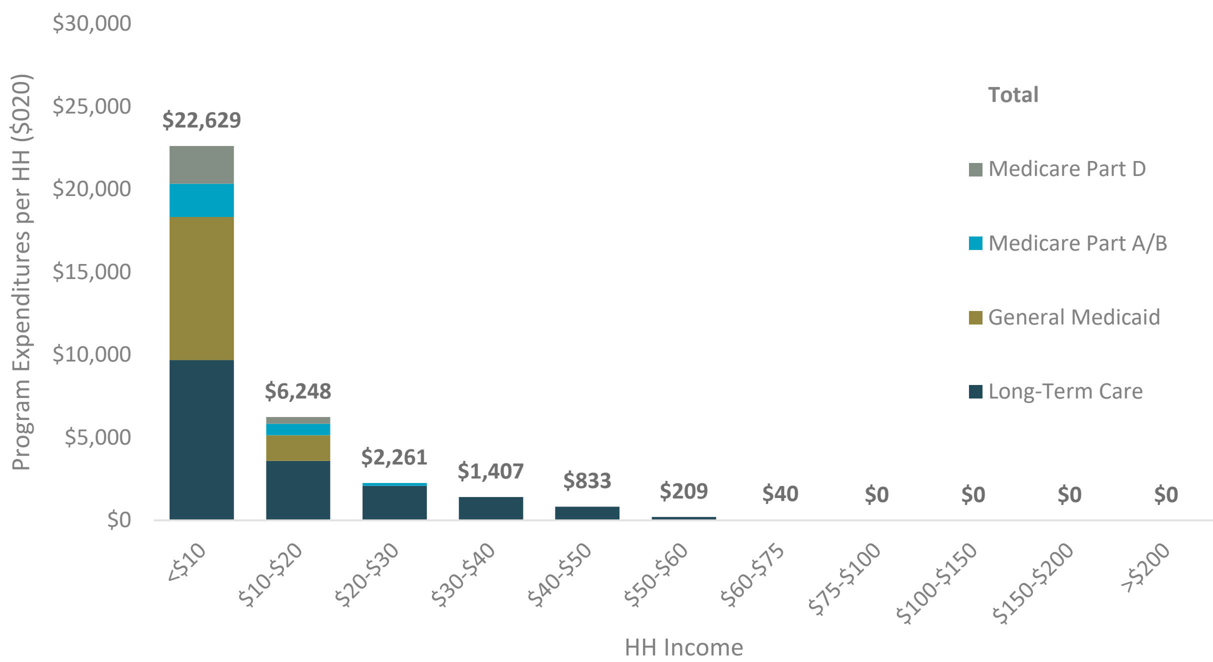
Program Spending by Income Level

Participation and spending within these benefit programs varies significantly by income level. Estimates of per capita program expenditures were developed for Virginia's current elderly population based on a mix of administrative data and program rules.[377] Figures 4.2 shows the breakdown of per capita Medicaid expenditures on elderly Virginians of different income levels. Per capita costs fall rapidly from more than $22,000 in the lowest income band ($0-$10,000) to around $6,200 in the next income band ($10,000 - $20,000) and are minimal for households above the median income.

In Figure 4.3, per household government expenditures on non-Medicaid programs are shown, which are around $400 in the lowest income band, with the majority of costs coming from aging services. From this lower base, declines in per household spending are more gradual, as programs are not as strictly reliant on income for means-testing.

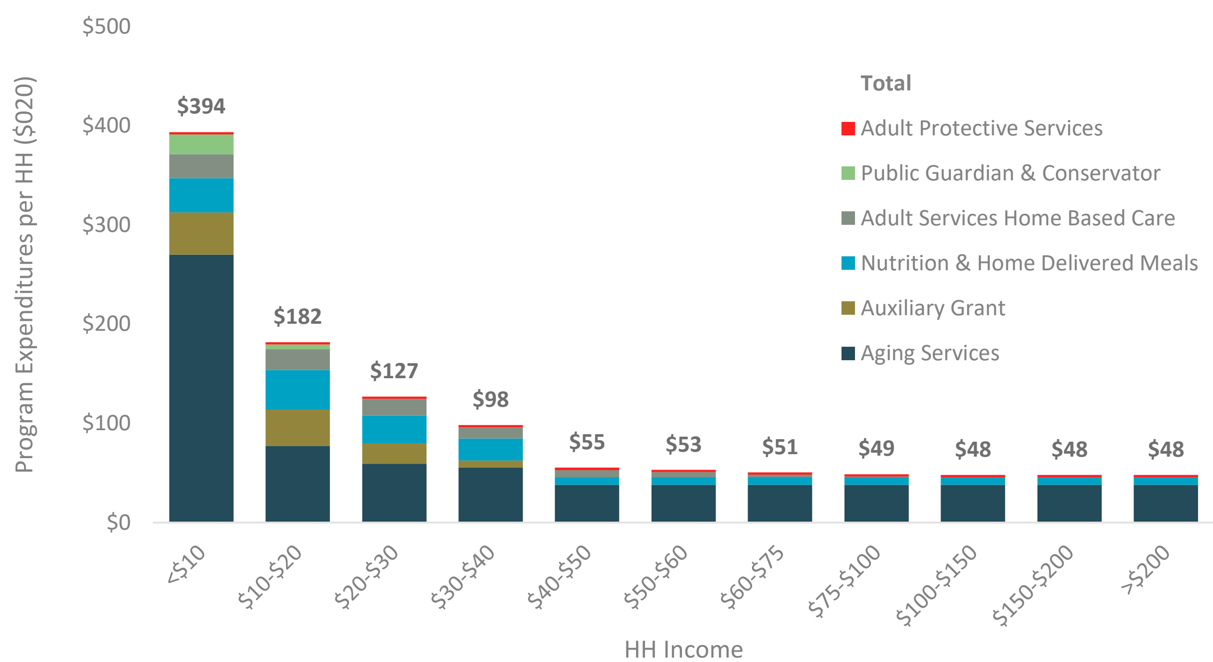
[377] Appendix A.3 provides detail on the methodology used to estimate state expenditures by income band. Importantly, statewide expenditures are allocated to income bands using a "top down" approach that ensures that total expenditures on the elderly reconcile to budget estimates for each program.

Figure 4.2: Medicaid Program Expenditures per Elderly Household by Income Band, 2020



Source: ESI analysis of budget and program data

Figure 4.3: Non-Medical Program Expenditures per Elderly Household by Income Band, 2020

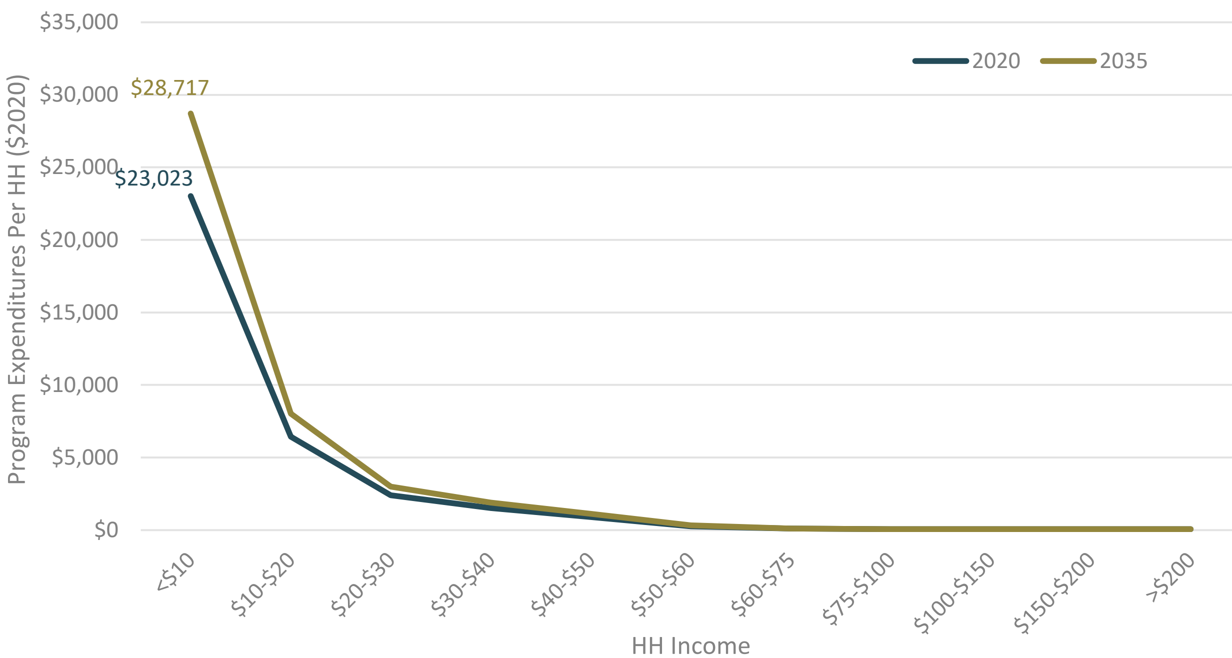


Source: ESI analysis of budget and program data

In the decades to come, benefit program expenditures are expected to increase due to excess medical cost growth. Over the last several decades, medical costs have consistently grown faster than inflation. This differential has diminished but is expected to continue into the future, with program costs for Medicaid and Medicare expected to grow 1.1% and 1.6% faster per year than inflation as projected by the Congressional Budget Office (CBO). This means that the cost to provide a consistent level of service is increasing over time, in real terms.

The growth rates anticipated by CBO are applied to the Medicaid and Medicare program components reviewed above in order to estimate per household program expenditures by income band in 2035. Expenditures per household for non-medical programs are assumed to grow with inflation and are therefore unchanged in real terms. **Excess medical cost growth is anticipated to drive medical costs higher across all income bands**, with a particular impact on the lowest income band, where per capita costs grow by more than $5,700 to $28,700 per household.

Figure 4.4: Est. Total Expenditures per Elderly Household by Income Band, 2020 and 2035



Source: ESI analysis of budget and program data (in $2020)

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4.2. Expenditure Growth from Insufficient Savings

The level of financial resources of Virginia's current and future retiree households impacts the degree to which they will rely on government benefit programs to provide essential services. Understanding the relationship between elderly household incomes and program expenditures allows for estimates of the savings the state would experience from increased retiree household incomes.

Per household benefit program expenditures outlined in Section 4.1 above are applied to the established baseline and sufficient savings income scenarios to estimate state expenditure levels in each scenario. If retirement savings levels were enhanced to recommended levels across all elderly Virginia households (as represented in the sufficient savings scenario), government expenditures on the selected programs would total an estimated $1.24 billion, a savings of more than $1 billion relative to the $2.25 billion anticipated to be spent on these programs in 2020 (see Figure 4.5).

If current retirement savings trends continue (as represented in the baseline scenario), government expenditures on the selected programs are anticipated to grow to $3.60 billion by 2035. The growth in costs in the baseline scenario is driven by anticipated growth in the state's elderly population and excess medical inflation. Under the sufficient savings scenario with enhanced retiree incomes, expenditures in 2035 are estimated at $1.88 billion, a savings of $1.72 billion.

Thus, **the gap in program expenditures from insufficient savings grows from $1 billion in 2020 to $1.7 billion in 2035, and totals $21.6 billion cumulatively over the fifteen-year period**.

Figure 4.5: Growth in Program Expenditures from Insufficient Savings, 2020-2035 ($2020M)

	Baseline		Sufficient Savings		Net Difference		
Program	**2020**	**2035**	**2020**	**2035**	**2020**	**2035**	**Cumulative (15 Year)**
Medicaid							
Long-Term Care	$1,259	$2,018	$817	$1,249	$442	$769	$9,591
General Medicaid	$561	$951	$197	$315	$364	$637	$7,944
Medicare Part A/B	$192	$290	$107	$154	$86	$136	$1,748
Medicare Part D	$148	$233	$52	$77	$96	$156	$1,993
Non-Medical							
Aging Services	$50	$65	$39	$51	$10	$14	$192
Auxiliary Grant	$9	$11	$7	$8	$2	$3	$35
Adult Services Home-Based Care	$7	$9	$6	$7	$1	$2	$23
Public Guardian & Conservator	$1	$2	$1	$1	$1	$1	$15
Nutrition & Home Delivered Meals	$15	$18	$13	$17	$1	$2	$24
Adult Protective Services	$3	$0	$3	$0	$2	$0	$1
Total	**$2,246**	**$3,597**	**$1,242**	**$1,879**	**$1,005**	**$1,719**	**$21,566**

Expenditures by Funding Source

Total benefit program expenditures in the baseline and sufficient savings scenarios are then shared down to the state, local, and federal level. This allocation is based on the relative contribution of each funding source to each program (as outlined in Figure 4.1).[378]

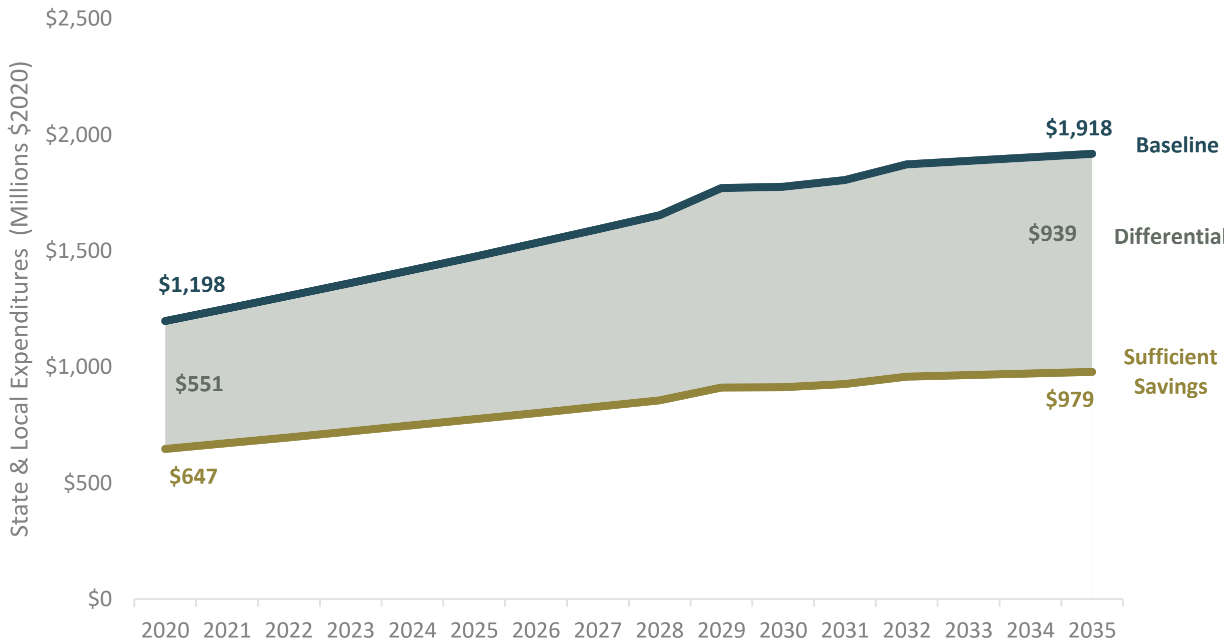
As shown in Figure 4.6, state and local expenditures on the selected programs are estimated at $1.20 billion in 2020, and are estimated to grow to $1.92 billion under the continuation of current savings trends. This increase creates a particular fiscal challenge in the context of the state's changing demographics, with working age households anticipated to grow far slower than elderly households. **State and local expenditures on these elderly benefit programs per working age (20-64) household are projected to grow by more than 50% from around $500 in 2020 to $760 in 2035.**

Increasing the resource levels of Virginia's senior households would significantly reduce these costs. The net difference in state and local government expenditures in Virginia between the baseline and sufficient savings scenarios is estimated at $551 million in 2020, and rises to $939 million by 2035 (see Figure 4.6). **The cumulative cost to state and local government attributable to insufficient retirement savings levels totals $11.8 billion from 2021-2035** (see Figure 4.7).

At the federal level, expenditures on benefit programs in Virginia associated with insufficient retirement savings levels are estimated at $453 million in 2020, rising to $780 million in 2035 (see Figure 4.8). The cumulative total cost to the federal government of insufficient savings over the fifteen-year period is estimated at $9.8 billion (see Figure 4.9).

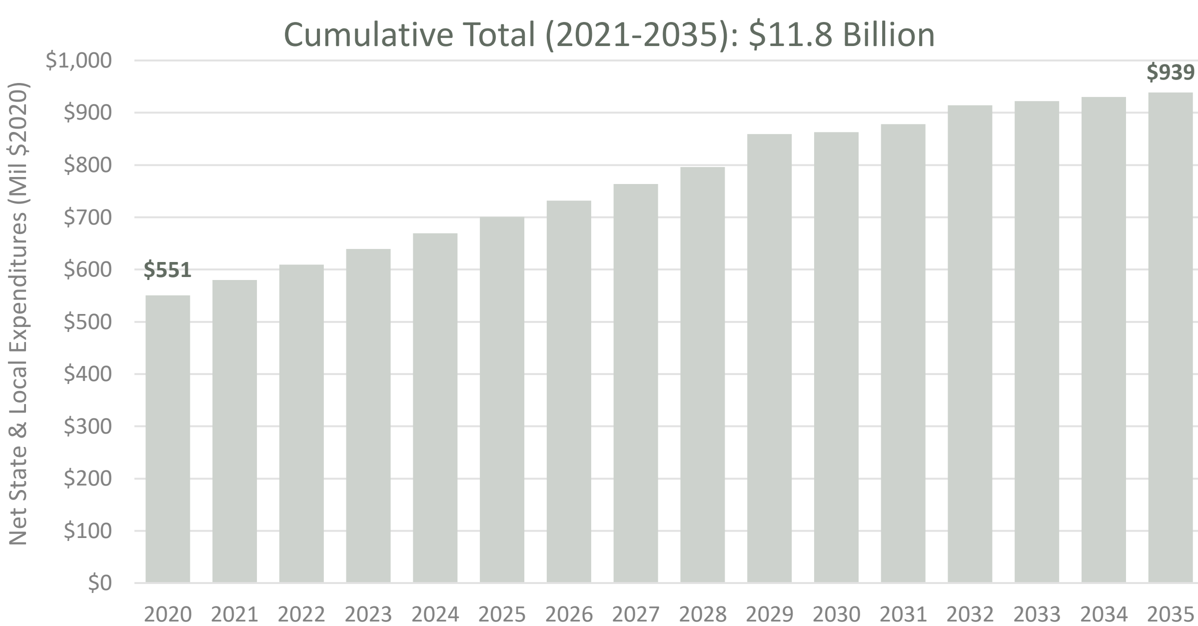
[378] Additional detail on this sharedown methodology is provided in Appendix A.3.

Figure 4.6: Annual State and Local Program Expenditures by Scenario ($2020M)



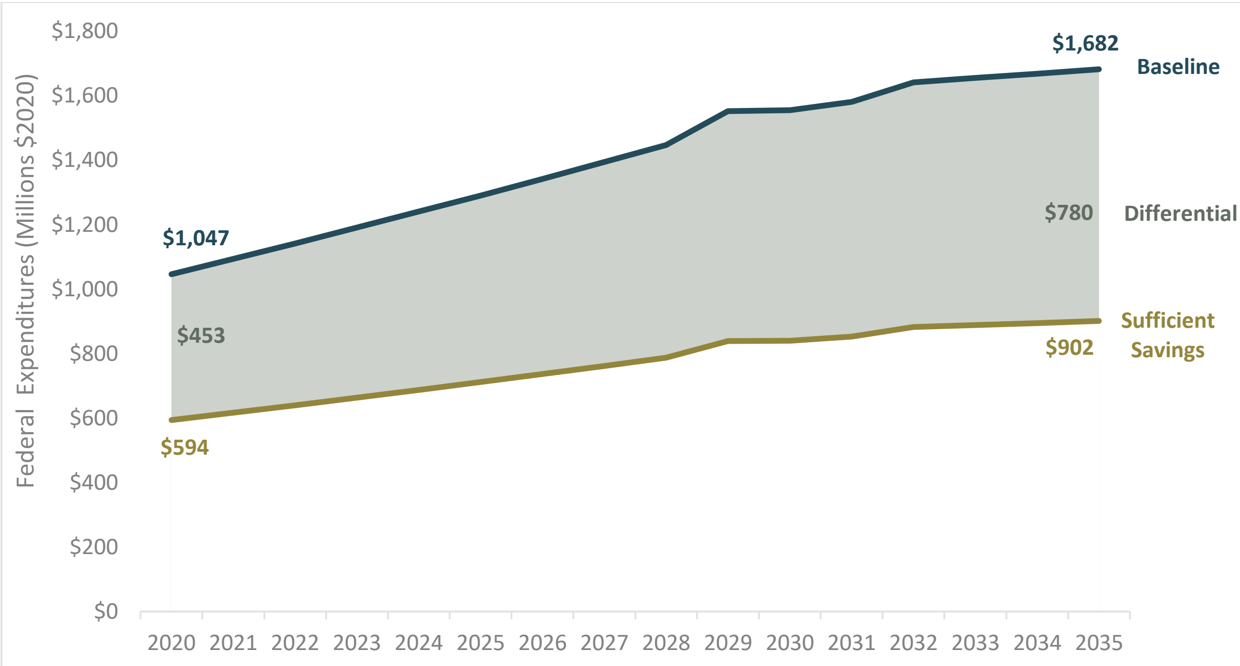
Source: ESI analysis of budget and program data (in $2020)

Figure 4.7: State and Local Program Expenditures due to Insufficient Savings, 2021-2035 ($2020M)



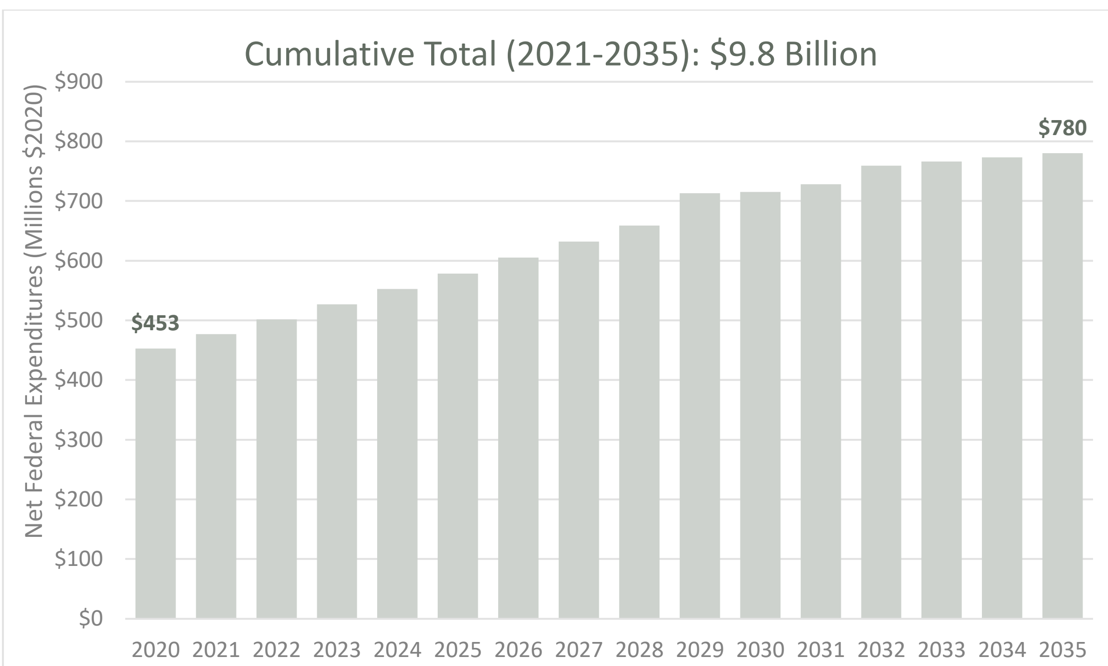
Source: ESI analysis of budget and program data (in $2020)

Figure 4.8: Annual Federal Program Expenditures by Scenario ($2020M)



Source: ESI analysis of budget and program data (in $2020)

Figure 4.9: Federal Program Expenditures due to Insufficient Savings, 2021-2035 ($2020M)



Source: ESI analysis of budget and program data (in $2020)

Technical Appendix

This technical appendix details the methodology used to model the impacts of insufficient savings on the Commonwealth of Virginia and its localities. This appendix is intended as a supplement to the results presented within the body of the report, providing additional detail on the study framework, inputs and calculations presented within. Results for many calculations are presented with greater granularity than is shown within the report, including measures calculated at the localized level.

A.1 Demographic and Income Modeling describes the technical methodology supporting projections of household growth and retirement readiness gaps reviewed in Section 2 of the report.

A.2 Household Impact Modeling describes the calculations and research supporting calculations of household savings gaps and household-level impacts on financial security reviewed in Section 3 of the report.

A.3 Government Expenditure Modeling describes the framework and calculations supporting the analysis of benefit program spending on elderly households and the government expenditure impacts from insufficient savings reviewed in Section 4 of the report.

A.1. Demographic and Income Modeling

Demographic scenarios of projected population and income patterns form the foundation of the analysis of the potential impact of the continuation of current savings trends.

- First, population and household estimates for the 2020-2035 period are developed based on projections from the University of Virginia.
- Next, federal income data sets are used to define income scenarios for Virginia's elderly households under current trends ("baseline") and under an alternative in which households achieve recommended income-replacement levels ("sufficient savings").

The differential between these scenarios, which are defined at both the statewide and localized levels, provide the basis for household and state expenditure impact modeling that follow.

Population and Household Growth

Population

Population projections for the Commonwealth of Virginia and its 133 localities—95 counties and 38 independent cities—have been generated by the Demographics Research Group at the University of Virginia's Weldon Cooper Center for Public Service.[379] These forecasts provide estimates of the population in 5-year age bands as of 2020, 2030 and 2040. Estimates for 2035 at the state and local levels are derived by averaging the 2030 and 2040 projections for each age band and in aggregate.

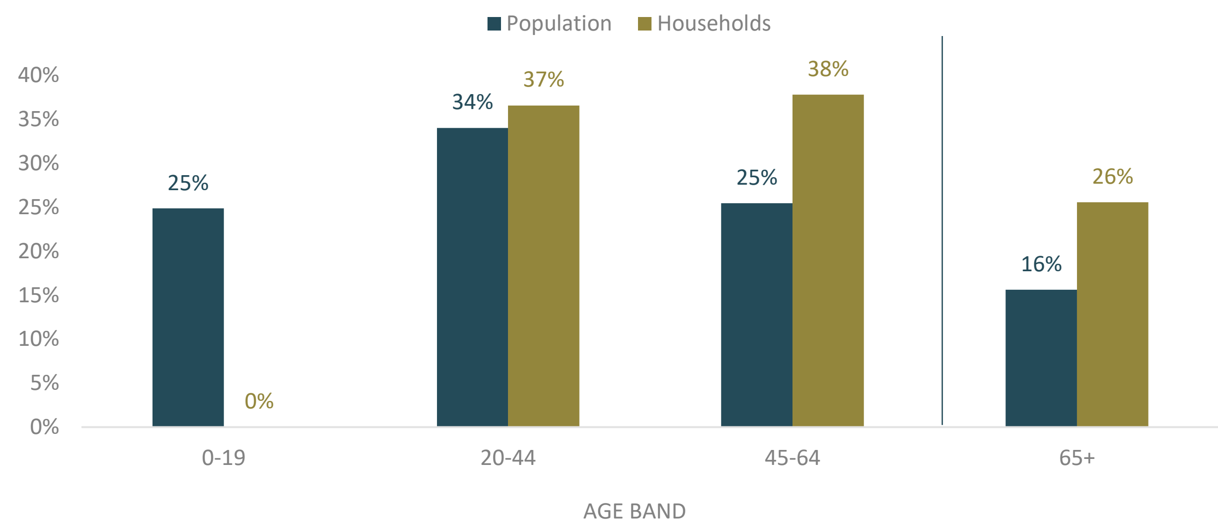
Households

Next, population forecasts are converted to projections of households, which form the base unit of analysis for benefit program eligibility and expenditures and income modeling undertaken throughout this report. This translation is undertaken by age band. American Community Survey (ACS) data is used to calculate the average household size for each age cohort by dividing the population by the number of "householders" in each age bracket. This ratio (also known as the "headship rate") is held constant for each age cohort across the analysis period in order to translate population estimates to household estimates for 2020 and 2035.

Figure A.1 and Figure A.2 below show the Virginia population and households by age group in 2020, and projected households by age group for 2035. Typically, average household sizes for the elderly cohort are far lower than for younger cohorts, due to lower rates of children in household and higher rates of widowers among elderly households. This dynamic means that elderly residents typically represent a larger share of householders than their share of the population. While elderly residents are projected to represent 16 percent of the statewide population in 2020 and 18 percent in 2035, they are expected to represent 26 percent of households in 2020 and 30 percent of households in 2035.

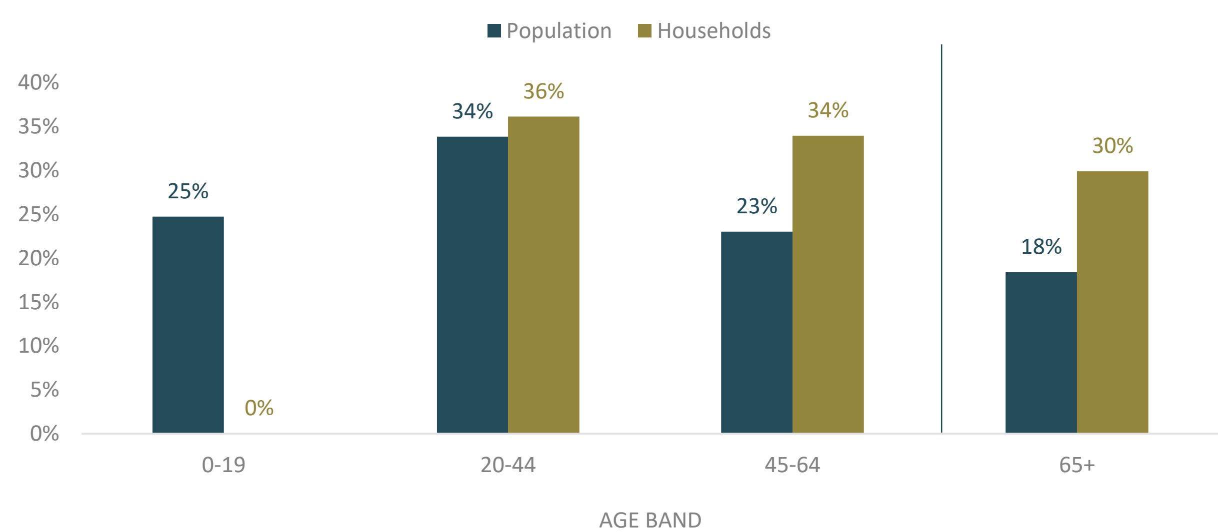
[379] University of Virginia Weldon Cooper Center, Demographics Research Group. (2019). Virginia Population Projections. Note that these projections have been used for other government analyses, such as the "Community Profiles" issued by the Virginia Employment Commission.

Figure A.1: Projected Virginia Population and Household Distribution by Age Group, 2020



Source: ESI Analysis of UVA Demographic Research Group Projections

Figure A.2: Projected Virginia Population and Households Distribution by Age Group, 2035



Source: ESI Analysis of UVA Demographic Research Group Projections

Population projections at the localized level are converted into households using the statewide headship rates.[380] Localized household forecasts are used to estimate local dependency ratios, and serve as an input into localized income and savings gap modeling below.

[380] Note that statewide headship rates are applied across all locations, because headship rates by age bands at a localized level are not considered sufficiently reliable due to sample size / margins of error.

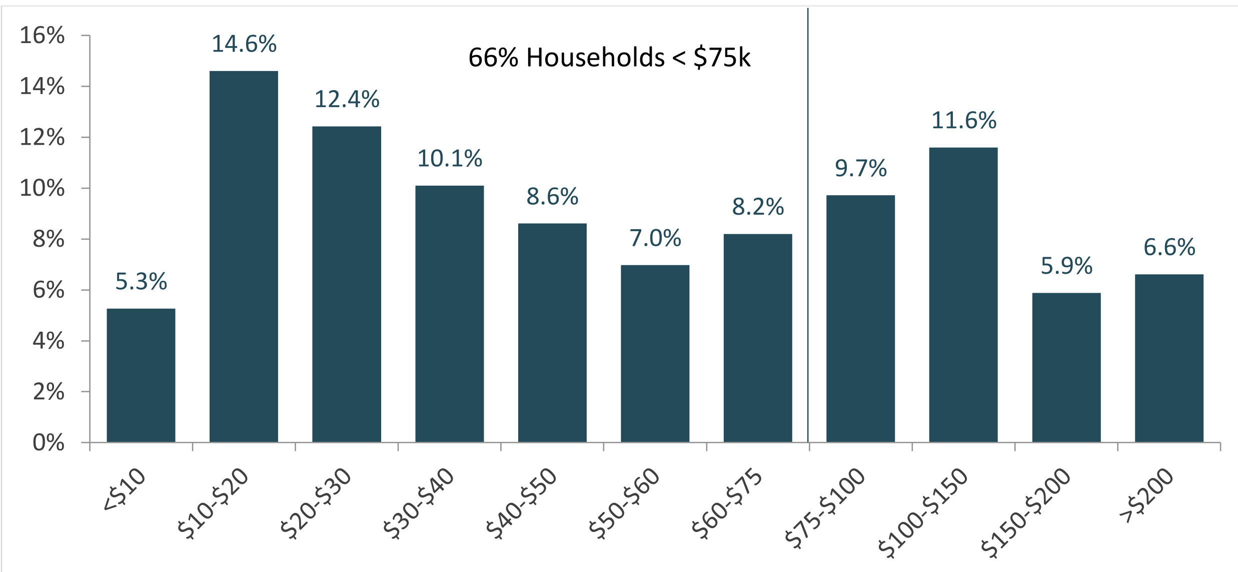
Income Scenarios

Statewide Analysis

Incomes for Virginia's elderly households are estimated using data from the U.S. Census Bureau's Current Population Survey (CPS). Survey responses from several years are aggregated, and adjustments for inflation and growth are undertaken to estimate the income distribution of Virginia's elderly households as of 2020.

Figure A.3 below shows the estimated income distribution of Virginia's elderly households as of 2020 under the baseline scenario. The majority of Virginia's elderly households (66%) have household incomes of less than $75,000, with the median elderly household income falling between $45,000 - $50,000.

Figure A.3: Household Income Distribution for Virginia's Elderly (65+) Population, 2020



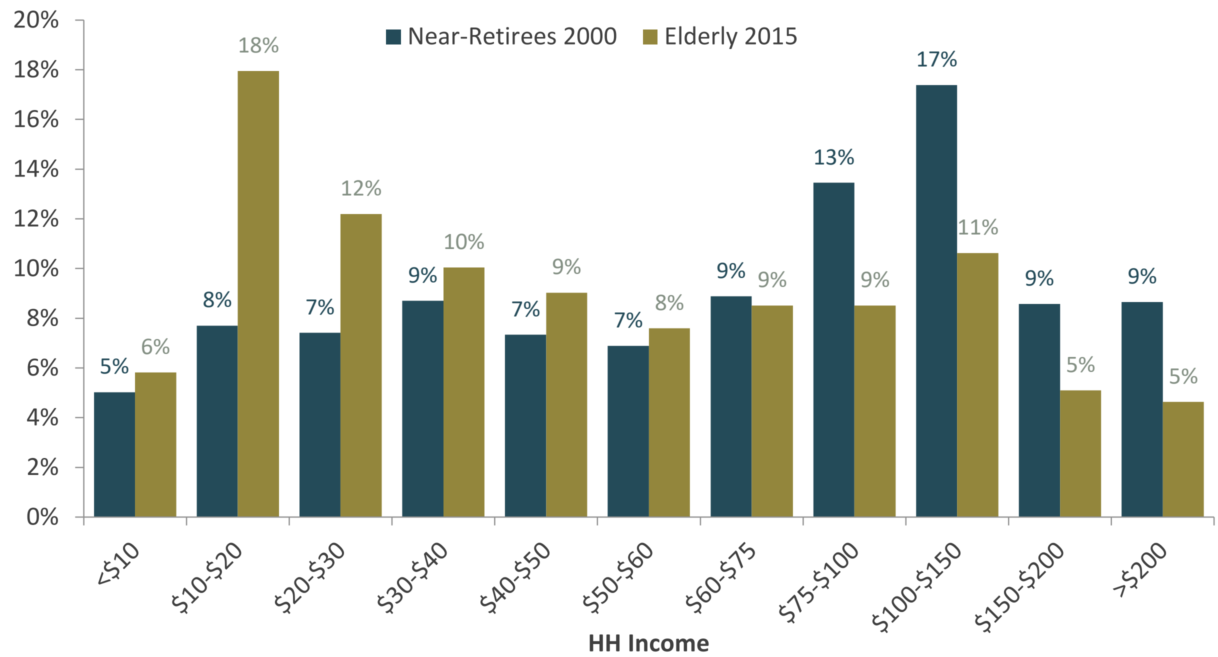
Source: ESI Analysis of Current Population Survey Data

Next, additional income scenarios are developed for Virginia's elderly households as a means of understanding the impact of retirement savings on the state's economy and its fiscal position. First, elderly household incomes are projected to 2035 under a "baseline" scenario in which retirement savings behavior remains consistent.

This baseline scenario is developed by observing income replacement levels (using CPS data) for Virginia's near-retirees (ages 50-64) in 2000 and its elderly residents (65+) in 2015 (see Figure A.4). The changes in income observed for this cohort over the fifteen-year period are then applied to the incomes of the current cohort of near retirees (50-64) as of 2020 to project the income distribution of the state's elderly population as of 2035 (see Figure A.5). All results are expressed in consistent dollar terms ($2020), meaning that differentials reflect changes in real purchasing power.

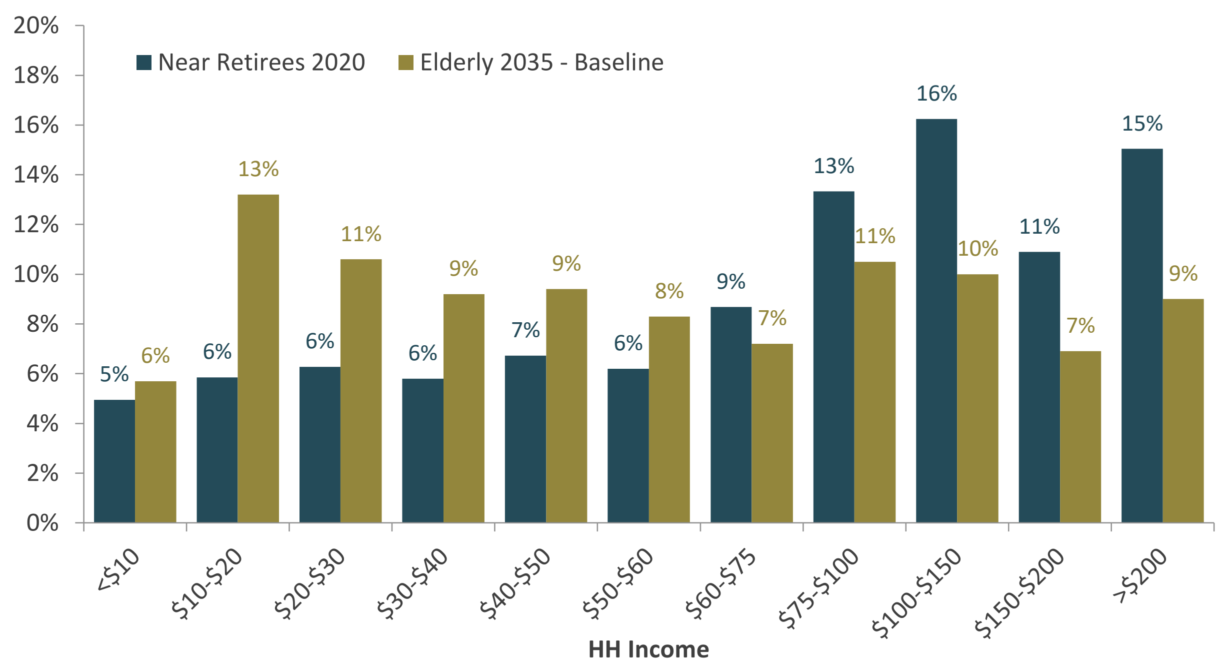
Notably, this approach to developing the baseline scenario does not assume that elderly incomes remain constant over the 2020-2035 period, but rather that the relationship between working-age and retirement income remains constant from the prior generation of retirees. Since Virginia's near-retiree households in 2020 are projected to have somewhat higher incomes (in inflation-adjusted terms) than the near-retiree households in 2000, this cohort is projected to have a higher level of income in retirement when holding savings behavior constant.

Figure A.4: Income Distribution of Near-Retiree (50-64) Households in 2000 and Elderly Households (65+) in 2015 (in $2020)



Source: ESI Analysis of Current Population Survey Data

Figure A.5: Projected Income Distribution of Virginia Near-Retiree (50-64) Households in 2020 and Elderly Households (65+) in 2035 (in $2020)



Source: ESI Analysis of Current Population Survey Data

Next, alternative scenarios are developed in which Virginia's elderly households meet the generally recommended levels of retirement savings as reflected by "income replacement" standards. This analysis adopts an income replacement target of 75% of working age (age 50-64) income in order to define a "sufficient savings" scenario for Virginia's households. Further adjustments are made in this scenario to apply an "income floor" by defining the Federal Poverty Level (FPL) as the minimum household income level, and an "income ceiling" by considering all households with $75,000 or more in annual retirement income to have achieved "sufficient savings" regardless of their exact income replacement level.

This approach is used to model an alternative income distribution for Virginia's elderly households in 2020 (based on near-retiree incomes in 2005) and to project forward incomes for Virginia's elderly households in 2035, based on near-retiree incomes in 2020.

Baseline and sufficient savings income scenarios and the associated gaps in household income for elderly Virginians are shown in Section 2 of the report. From an analytical standpoint, this gap represents the degree of savings shortfall that is used to define the impacts of insufficient savings on households and on state expenditures in this study.

Localized Analysis

Additional analysis is undertaken to apportion statewide income scenarios to the localized level. While statewide analysis is drawn from Current Population Survey (CPS) data, this source is not available with sufficient sample size at the localized level. Therefore, the local analysis relies on income information drawn from the American Community Survey (ACS) and decennial Census. This local level data is utilized to model local variations in elderly income levels as of 2020, which in aggregate are consistent with the statewide patterns derived from CPS data.

Longitudinal analysis is then undertaken at the local level to understand changes in income patterns over time, parallel to the statewide approach. County level data from Census 2000 on the income of near-retiree (45-64) households are compared to current income levels for elderly households to understand the relative replacement rates. These income indicators are combined with localized household estimates to define the baseline elderly incomes as of 2035, and to project forward under current trends at the local level to 2035.

The statewide saving gap is proportioned to counties and independent cities by comparing two temporal factors statewide and locally:

Changes in the share of households with annual income under $75,000 between near-retirees 15 years ago and the current elderly population; an increasing share leads to higher localized saving gap.

Changes in average household income for households with annual income under $75,000 between near-retirees 15 years ago and the current elderly population.

These estimates are calculated at the localized level as proportional differentials from the statewide gap between baseline and sufficient scenarios. These localized gaps are calculated, aggregated, and then rescaled in a linear fashion to ensure that the weighted sum of localized results equates to the statewide estimates.

Detailed estimates of population, income and savings gaps by localized area are presented in Appendix A.2 below.

A.2 Household Impact Modeling

Savings and income scenarios are expressed in terms of their impacts on current and future retiree households.

Savings gap calculations are undertaken to translate the anticipated shortfalls in retirement income into the level of annual savings that would be required during working years to address these shortfalls.

Household savings are considered through the lens of financial insecurity and financial management, including the ability of household to use private savings to improve their outcomes through Social Security.

Savings Gaps

Savings gap modeling draws on the shortfalls in retiree income calculated in the section above, and uses financial modeling to understand the level of savings that would be needed to address these gaps.

Figure A.6 below shows the sequence of steps and inputs that are used to translate the income differential to the savings gap for the average elderly Virginia household under $75,000 in income in 2020 and 2035.

Annual drawdown: An annual drawdown of 4.5% of lump sum savings is used to model the relationship between asset amounts and the annual income they support. This percentage aligns with typical financial guidance for managing lifetime income over an expected lifespan of 20-25.[381]

Lump Sum Savings: The drawdown percentage is divided by the income differential to arrive at a calculation of the lump sum asset that would be needed at retirement to address the retirement income gap for the average household.

Savings Period: A contribution and savings period of 30 years is assumed across the span of the working years of a household. Annual contributions are assumed to be consistent during this period in real terms, and no early withdrawals of assets are included.

Annual Return: An annual investment return of 6.5% is assumed over the course of the savings and accumulation period, consistent with long-term performance benchmarks for the stock market.[382]

These inputs are combined in a compounding growth calculation to determine the annual level of savings that would yield the targeted lump sum amount, if contributed annually for 30 years at market rate of return.

[381] There are many financial strategies and financial products designed for the management of lifetime income, and optimal strategies will vary based on the financial situation of each household. This benchmark is used as a representation of the generalized relationship between savings and assets and annual income, and should not be interpreted as a recommendation of a specific financial strategy.

[382] This return is calculated in real terms, consistent with the real dollar approach used throughout the analysis. More adverse assumptions regarding returns and the drawdown period are included in the sensitivity analysis below.

Figure A.6: Average Annual Savings to Close the Savings Gap for HH <$75,000 - Calculation

	2020	2035	Basis
Average Income Differential (HH <$75k)	$7,070	$8,010	Income Modeling (see above)
Assumed Annual Drawdown Share	4.5%	4.5%	Recommended annual level (20-25 year avg retirement period)
Average Lump Sum Saving	$157,000	$178,000	Calculation: (Income Differential) / (Drawdown Share)
Assumed Years of Savings	30	30	Assumption based on standard lifetime income benchmarks
Assumed Annual Market Return	6.5%	6.5%	Assumption based on historical market performance benchmarks
Annual Savings Needed	**$1,710**	**$1,930**	

Figure A.7 below shows the results of a sensitivity analysis of the implications of more adverse assumptions on the savings required to address the income gaps.

Investment returns are modeled at 5.0% (in addition to the baseline rate of 6.5%). Lower returns imply a lower growth rate on assets, necessitating a higher annual contribution to reach the same lump sum target.

Annual drawdowns are modeled at 3.5% of assets (in addition to the baseline rate of 4.5%). Lower drawdown rates imply a larger lump sum amount would be required to yield the additional annual income needed in retirement to close the income gap. This higher lump sum asset target in turn necessitates higher annual contribution levels.

Scenarios shown below include each potential combination of the baseline and more adverse assumptions for these parameters.

Figure A.7: Average Annual Savings to close the Savings Gap for HH <$75,000: Sensitivity Analysis

Scenarios	Assumptions		Annual Savings Required	
	Investment Return	Annual Drawdown	2020	2035
Scenario 1 (Baseline)	**6.5%**	**4.5%**	**$1,707**	**$1,934**
Scenario 2	5.0%	4.5%	$2,251	$2,550
Scenario 3	6.5%	3.5%	$2,195	$2,487
Scenario 4	5.0%	3.5%	$2,895	$3,279

Localized Analysis

The financial modeling approach shown above (using the Baseline assumptions outlined in Figure A.6) is then replicated to calculate the annual savings required to address the income differential estimated for each of Virginia's 133 localities.

Figure A.8 and Figure A.9 below show detailed metrics by localities for 2020 and 2035, respectively

- Projected elderly households, elderly households with incomes <$75,000, and the share of elderly households with incomes under $75,000, and the average income gaps and average income gaps among those households are drawn from the demographic and income modeling methods described in Report Section 2 and Appendix A.1 above.
- Annual savings required over a thirty-year period to address the average income gap is calculated for each municipality using the methodology outlined in Report Section 3 and in this appendix.

Figure A.8: Localized Elderly Population, Income and Savings Gap Estimates, 2020

				Among HH <$75,000		
Location	**Projected Elderly HH 2020**	**Elderly HH w/Income <$75,000**	**Share of Elderly HH <$75,000**	**Average Income**	**Average Income Gap**	**Annual Savings Required (30 Year)**
Statewide	**825,385**	**546,316**	**66.2%**	**$33,650**	**$7,070**	**$1,710**
Accomack County	4,160	3,443	80.9%	$30,710	$5,810	$1,400
Albemarle County	13,070	7,789	59.7%	$36,270	$6,800	$1,640
Alexandria city	10,594	4,873	46.1%	$35,730	$6,000	$1,450
Alleghany County	2,300	1,954	83.0%	$30,450	$7,600	$1,840
Amelia County	1,658	1,248	75.6%	$33,780	$6,300	$1,520
Amherst County	3,999	3,456	84.6%	$31,360	$7,510	$1,810
Appomattox County	2,019	1,573	77.5%	$32,840	$6,410	$1,550
Arlington County	13,741	6,170	45.0%	$32,360	$7,220	$1,740
Augusta County	10,184	7,701	75.6%	$34,170	$6,550	$1,580
Bath County	712	607	85.6%	$33,790	$7,010	$1,690
Bedford County	10,848	8,382	77.1%	$34,090	$6,970	$1,680
Bland County	912	832	89.4%	$32,340	$7,270	$1,760
Botetourt County	4,626	3,413	73.5%	$32,850	$8,070	$1,950
Bristol city	2,173	2,037	90.4%	$29,490	$6,490	$1,570
Brunswick County	2,052	1,805	86.3%	$29,920	$6,310	$1,530
Buchanan County	2,809	2,715	91.8%	$27,190	$5,570	$1,350
Buckingham County	2,023	1,751	85.8%	$32,450	$6,160	$1,490
Buena Vista city	734	638	82.7%	$31,950	$6,110	$1,480
Campbell County	6,665	5,635	83.8%	$31,450	$7,340	$1,770
Caroline County	3,277	2,478	76.7%	$34,940	$6,700	$1,620
Carroll County	4,396	4,017	88.8%	$30,170	$6,670	$1,610
Charles City County	1,082	798	72.9%	$29,040	$7,550	$1,820
Charlotte County	1,623	1,486	90.3%	$29,340	$6,560	$1,580

Location	Projected Elderly HH 2020	Elderly HH w/Income <$75,000	Share of Elderly HH <$75,000	Among HH <$75,000 Average Income	Average Income Gap	Annual Savings Required (30 Year)
Charlottesville city	2,875	1,817	63.3%	$34,390	$5,110	$1,230
Chesapeake city	20,407	12,991	64.6%	$37,420	$6,560	$1,580
Chesterfield County	33,747	20,588	61.9%	$36,950	$7,880	$1,900
Clarke County	1,847	1,156	63.3%	$32,190	$7,470	$1,800
Colonial Heights city	2,306	1,758	75.7%	$34,060	$8,220	$1,990
Covington city	678	578	82.9%	$26,780	$7,030	$1,700
Craig County	714	587	81.4%	$31,970	$6,580	$1,590
Culpeper County	5,463	3,731	68.1%	$34,460	$6,600	$1,600
Cumberland County	1,307	1,133	84.8%	$25,820	$7,600	$1,840
Danville city	5,115	4,535	86.4%	$28,790	$6,750	$1,630
Dickenson County	1,962	1,977	94.7%	$26,640	$5,800	$1,400
Dinwiddie County	3,053	2,508	80.2%	$30,690	$7,340	$1,770
Emporia city	646	661	94.4%	$17,460	$12,370	$2,990
Essex County	1,579	1,211	76.1%	$31,990	$6,090	$1,470
Fairfax city	2,291	1,043	45.5%	$39,260	$6,780	$1,640
Fairfax County	92,511	36,203	39.4%	$36,720	$8,670	$2,090
Falls Church city	1,164	496	42.4%	$37,110	$8,380	$2,020
Fauquier County	7,509	4,066	55.0%	$36,450	$7,180	$1,740
Floyd County	2,187	1,894	84.2%	$27,090	$7,280	$1,760
Fluvanna County	3,539	2,360	67.8%	$38,480	$5,300	$1,280
Franklin city	1,015	895	84.8%	$23,150	$9,450	$2,280
Franklin County	8,871	6,927	77.8%	$32,880	$6,690	$1,620
Frederick County	9,534	6,653	70.3%	$35,890	$6,480	$1,570
Fredericksburg city	1,798	1,203	66.1%	$32,540	$6,180	$1,490
Galax city	976	919	90.5%	$27,490	$6,790	$1,640
Giles County	2,299	2,033	87.0%	$33,120	$6,870	$1,660
Gloucester County	4,552	3,155	70.2%	$36,410	$6,640	$1,600
Goochland County	3,308	1,812	55.2%	$35,450	$6,410	$1,550
Grayson County	2,217	2,095	90.3%	$27,150	$7,160	$1,730
Greene County	2,341	1,646	72.3%	$40,330	$5,490	$1,330
Greensville County	1,281	1,203	88.1%	$27,200	$7,380	$1,780
Halifax County	5,107	4,748	90.3%	$27,800	$7,270	$1,760
Hampton city	12,468	9,378	75.0%	$32,610	$6,930	$1,670
Hanover County	12,088	7,836	66.0%	$37,340	$8,100	$1,960
Harrisonburg city	3,001	2,385	79.1%	$32,900	$7,010	$1,690
Henrico County	32,501	22,248	68.9%	$34,730	$7,700	$1,860
Henry County	7,339	6,658	87.6%	$28,930	$7,130	$1,720
Highland County	421	306	73.3%	$35,160	$4,730	$1,140

Location	Projected Elderly HH 2020	Elderly HH w/Income <$75,000	Share of Elderly HH <$75,000	Among HH <$75,000 Average Income	Average Income Gap	Annual Savings Required (30 Year)
Hopewell city	2,267	2,020	86.8%	$30,510	$6,630	$1,600
Isle of Wight County	4,735	3,340	70.4%	$34,420	$6,610	$1,600
James City County	14,212	6,587	47.4%	$38,410	$5,720	$1,380
King and Queen County	924	784	82.6%	$30,090	$6,560	$1,580
King George County	2,362	1,344	58.3%	$39,990	$5,480	$1,320
King William County	1,708	1,241	72.5%	$36,110	$6,910	$1,670
Lancaster County	2,418	1,536	63.8%	$33,550	$4,520	$1,090
Lee County	3,119	2,939	90.8%	$27,110	$5,940	$1,430
Lexington city	664	590	86.1%	$29,450	$8,480	$2,050
Loudoun County	27,655	12,784	46.6%	$36,130	$8,950	$2,160
Louisa County	4,776	3,635	76.7%	$33,970	$6,050	$1,460
Lunenburg County	1,671	1,477	87.8%	$30,470	$6,140	$1,480
Lynchburg city	7,422	5,838	78.0%	$31,420	$6,010	$1,450
Madison County	1,890	1,509	78.6%	$33,360	$6,510	$1,570
Manassas city	2,399	1,453	61.1%	$35,570	$8,650	$2,090
Manassas Park city	870	558	64.8%	$35,270	$7,580	$1,830
Martinsville city	1,592	1,412	85.5%	$27,600	$6,800	$1,640
Mathews County	1,551	1,035	65.7%	$30,240	$6,860	$1,660
Mecklenburg County	5,009	4,224	83.2%	$30,780	$6,290	$1,520
Middlesex County	2,111	1,627	77.6%	$33,350	$6,820	$1,650
Montgomery County	7,722	5,001	64.9%	$34,900	$5,760	$1,390
Nelson County	2,517	1,516	60.3%	$31,130	$5,400	$1,300
New Kent County	2,626	1,764	68.2%	$36,250	$7,710	$1,860
Newport News city	14,020	10,514	74.7%	$31,870	$6,400	$1,550
Norfolk city	16,486	12,723	76.3%	$30,250	$6,090	$1,470
Northampton County	1,959	1,605	81.0%	$31,100	$5,460	$1,320
Northumberland County	2,414	1,512	62.9%	$33,710	$4,700	$1,140
Norton city	409	398	91.6%	$26,250	$6,350	$1,530
Nottoway County	1,884	1,595	83.0%	$31,500	$6,120	$1,480
Orange County	5,128	3,521	68.1%	$33,980	$6,170	$1,490
Page County	3,136	2,705	84.9%	$33,230	$6,160	$1,490
Patrick County	2,891	2,640	88.3%	$29,930	$6,250	$1,510
Petersburg city	3,250	2,691	81.1%	$27,710	$6,610	$1,600
Pittsylvania County	8,617	7,355	83.9%	$31,650	$6,680	$1,610
Poquoson city	1,496	917	62.1%	$37,450	$8,930	$2,160
Portsmouth city	8,681	6,761	77.1%	$30,190	$6,350	$1,530
Powhatan County	3,687	2,288	62.9%	$36,500	$7,310	$1,770
Prince Edward County	2,668	1,936	72.3%	$33,130	$4,540	$1,100

				Among HH <$75,000		
Location	Projected Elderly HH 2020	Elderly HH w/Income <$75,000	Share of Elderly HH <$75,000	Average Income	Average Income Gap	Annual Savings Required (30 Year)
Prince George County	3,634	2,184	61.7%	$43,060	$5,820	$1,400
Prince William County	32,161	14,770	46.7%	$37,700	$7,540	$1,820
Pulaski County	4,716	3,951	83.5%	$33,440	$6,230	$1,500
Radford city	861	699	79.2%	$30,750	$8,120	$1,960
Rappahannock County	1,200	710	59.5%	$38,180	$5,000	$1,210
Richmond city	16,082	12,884	78.3%	$28,570	$6,590	$1,590
Richmond County	1,193	1,027	84.1%	$30,250	$7,140	$1,730
Roanoke city	9,905	8,452	83.7%	$31,180	$6,190	$1,500
Roanoke County	12,685	9,476	75.4%	$35,220	$8,000	$1,930
Rockbridge County	3,884	2,951	74.9%	$31,340	$6,120	$1,480
Rockingham County	9,874	7,541	76.9%	$34,400	$6,710	$1,620
Russell County	3,530	3,350	91.5%	$27,620	$6,440	$1,560
Salem city	2,926	2,329	79.7%	$35,370	$6,780	$1,640
Scott County	3,172	2,958	89.6%	$26,770	$6,610	$1,600
Shenandoah County	6,224	4,866	78.4%	$33,130	$6,610	$1,600
Smyth County	4,023	3,671	88.3%	$29,730	$6,990	$1,690
Southampton County	2,239	1,831	82.0%	$33,910	$6,040	$1,460
Spotsylvania County	12,871	7,761	61.3%	$37,670	$7,070	$1,710
Stafford County	10,584	5,485	52.8%	$38,840	$8,160	$1,970
Staunton city	3,372	2,852	82.4%	$29,700	$7,380	$1,780
Suffolk city	8,944	6,358	71.2%	$33,380	$5,950	$1,440
Surry County	865	697	80.6%	$34,040	$6,290	$1,520
Sussex County	1,303	1,074	81.4%	$28,830	$6,870	$1,660
Tazewell County	5,813	5,280	88.3%	$29,250	$6,280	$1,520
Virginia Beach city	39,954	23,684	60.2%	$36,500	$6,500	$1,570
Warren County	4,025	2,880	71.5%	$34,040	$6,410	$1,550
Washington County	7,661	6,411	83.0%	$32,390	$6,390	$1,540
Waynesboro city	2,414	2,127	86.9%	$31,280	$6,650	$1,610
Westmoreland County	2,653	1,941	72.6%	$33,510	$5,410	$1,310
Williamsburg city	1,597	917	58.5%	$39,430	$5,320	$1,290
Winchester city	2,754	2,050	73.9%	$34,530	$5,670	$1,370
Wise County	4,429	3,954	86.5%	$29,670	$5,630	$1,360
Wythe County	4,058	3,525	85.0%	$31,090	$6,460	$1,560
York County	7,154	4,099	58.0%	$38,160	$7,500	$1,810

Figure A.9: Localized Elderly Population, Income and Savings Gap Estimates, 2035

Location	Projected Elderly HH 2035	Elderly HH w/Income <$75,000	Share of Elderly HH <$75,000	Among HH <$75,000 Average Income	Average Income Gap	Annual Savings Required (30 Year)
Statewide	**1,078,128**	**684,611**	**63.5%**	**$34,290**	**$8,010**	**$1,930**
Accomack County	4,533	3,980	87.8%	$29,160	$6,260	$1,510
Albemarle County	16,557	10,014	60.5%	$35,270	$7,590	$1,830
Alexandria city	14,679	7,794	53.1%	$36,440	$6,800	$1,640
Alleghany County	2,282	1,947	85.3%	$30,950	$8,120	$1,960
Amelia County	2,157	1,693	78.5%	$32,690	$6,840	$1,650
Amherst County	4,561	3,779	82.8%	$32,540	$8,100	$1,960
Appomattox County	2,547	2,136	83.9%	$32,000	$6,900	$1,670
Arlington County	17,301	6,990	40.4%	$38,440	$8,280	$2,000
Augusta County	12,480	9,614	77.0%	$34,690	$7,160	$1,730
Bath County	737	656	89.1%	$27,150	$7,210	$1,740
Bedford County	14,144	10,740	75.9%	$35,150	$7,670	$1,850
Bland County	927	720	77.7%	$32,370	$7,570	$1,830
Botetourt County	5,459	3,884	71.2%	$35,620	$8,840	$2,140
Bristol city	2,079	1,762	84.8%	$25,290	$6,820	$1,650
Brunswick County	2,076	1,853	89.3%	$28,950	$6,800	$1,640
Buchanan County	2,676	2,489	93.0%	$24,470	$5,730	$1,380
Buckingham County	2,461	2,161	87.8%	$29,040	$6,520	$1,580
Buena Vista city	671	604	89.9%	$26,870	$6,330	$1,530
Campbell County	7,691	6,129	79.7%	$32,530	$7,850	$1,900
Caroline County	4,217	3,164	75.0%	$36,810	$7,480	$1,810
Carroll County	4,824	4,376	90.7%	$29,200	$7,160	$1,730
Charles City County	1,299	1,042	80.2%	$34,840	$8,240	$1,990
Charlotte County	1,795	1,586	88.3%	$28,590	$7,000	$1,690
Charlottesville city	3,974	2,821	71.0%	$30,540	$5,460	$1,320
Chesapeake city	29,744	18,464	62.1%	$37,920	$7,400	$1,790
Chesterfield County	45,628	29,067	63.7%	$38,740	$8,990	$2,170
Clarke County	2,400	1,379	57.4%	$33,140	$7,850	$1,900
Colonial Heights city	2,523	1,990	78.9%	$32,270	$8,820	$2,130
Covington city	725	652	90.0%	$28,800	$7,570	$1,830
Craig County	845	661	78.3%	$35,440	$7,120	$1,720
Culpeper County	7,952	5,214	65.6%	$34,670	$7,190	$1,740
Cumberland County	1,453	1,182	81.3%	$35,720	$8,400	$2,030
Danville city	4,827	4,356	90.2%	$25,760	$7,040	$1,700
Dickenson County	1,885	1,739	92.3%	$20,140	$5,860	$1,420
Dinwiddie County	3,602	2,752	76.4%	$32,530	$7,980	$1,930

Location	Projected Elderly HH 2035	Elderly HH w/Income <$75,000	Share of Elderly HH <$75,000	Among HH <$75,000 Average Income	Average Income Gap	Annual Savings Required (30 Year)
Emporia city	656	571	87.1%	$26,450	$13,400	$3,240
Essex County	1,690	1,400	82.8%	$30,330	$6,480	$1,560
Fairfax city	2,848	1,250	43.9%	$38,870	$7,790	$1,880
Fairfax County	113,988	44,636	39.2%	$39,590	$10,130	$2,450
Falls Church city	1,418	494	34.8%	$43,850	$10,330	$2,500
Fauquier County	10,436	5,038	48.3%	$38,110	$8,210	$1,980
Floyd County	2,567	2,077	80.9%	$34,580	$7,920	$1,910
Fluvanna County	4,683	3,030	64.7%	$35,370	$5,810	$1,400
Franklin city	1,029	747	72.6%	$30,240	$9,870	$2,380
Franklin County	10,575	8,318	78.7%	$30,090	$7,140	$1,720
Frederick County	14,046	8,968	63.8%	$38,560	$7,350	$1,780
Fredericksburg city	2,364	1,489	63.0%	$31,510	$6,660	$1,610
Galax city	1,001	913	91.2%	$25,630	$6,740	$1,630
Giles County	2,528	2,113	83.6%	$33,080	$7,490	$1,810
Gloucester County	5,926	4,082	68.9%	$36,190	$7,320	$1,770
Goochland County	4,762	2,541	53.4%	$36,750	$7,170	$1,730
Grayson County	2,436	2,248	92.3%	$25,770	$7,380	$1,780
Greene County	3,501	2,451	70.0%	$34,780	$5,900	$1,420
Greensville County	1,439	1,314	91.3%	$30,780	$7,840	$1,890
Halifax County	5,232	4,503	86.1%	$29,820	$7,640	$1,850
Hampton city	14,614	11,331	77.5%	$32,800	$7,530	$1,820
Hanover County	17,421	9,545	54.8%	$39,740	$9,390	$2,270
Harrisonburg city	3,720	2,968	79.8%	$30,360	$7,430	$1,790
Henrico County	42,714	28,489	66.7%	$35,850	$8,570	$2,070
Henry County	7,858	7,197	91.6%	$26,270	$7,530	$1,820
Highland County	448	403	89.8%	$29,810	$4,860	$1,170
Hopewell city	2,592	2,196	84.7%	$26,610	$6,860	$1,660
Isle of Wight County	6,813	4,232	62.1%	$34,200	$7,130	$1,720
James City County	20,439	12,219	59.8%	$33,850	$6,250	$1,510
King and Queen County	1,075	844	78.6%	$35,070	$7,120	$1,720
King George County	3,642	1,969	54.1%	$38,330	$6,220	$1,500
King William County	2,267	1,634	72.1%	$37,980	$7,750	$1,870
Lancaster County	2,383	1,937	81.3%	$28,400	$4,710	$1,140
Lee County	3,182	2,938	92.3%	$24,650	$6,110	$1,480
Lexington city	611	475	77.7%	$29,680	$8,510	$2,060
Loudoun County	62,182	20,839	33.5%	$41,700	$10,820	$2,610
Louisa County	6,673	5,361	80.3%	$34,450	$6,590	$1,590
Lunenburg County	1,709	1,608	94.0%	$29,450	$6,600	$1,600

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Location	Projected Elderly HH 2035	Elderly HH w/Income <$75,000	Share of Elderly HH <$75,000	Among HH <$75,000 Average Income	Average Income Gap	Annual Savings Required (30 Year)
Lynchburg city	8,080	6,600	81.7%	$29,180	$6,350	$1,530
Madison County	2,180	1,745	80.0%	$31,680	$7,090	$1,710
Manassas city	3,390	2,047	60.4%	$37,410	$9,720	$2,350
Manassas Park city	1,555	879	56.6%	$42,860	$9,130	$2,200
Martinsville city	1,637	1,408	86.0%	$25,790	$6,970	$1,680
Mathews County	1,580	1,116	70.7%	$33,930	$7,530	$1,820
Mecklenburg County	5,281	4,596	87.0%	$28,890	$6,610	$1,600
Middlesex County	2,322	1,883	81.1%	$31,050	$7,240	$1,750
Montgomery County	9,724	7,072	72.7%	$32,420	$6,260	$1,510
Nelson County	2,617	2,055	78.5%	$32,580	$5,780	$1,400
New Kent County	4,348	2,344	53.9%	$38,980	$8,840	$2,130
Newport News city	16,909	13,623	80.6%	$31,390	$6,830	$1,650
Norfolk city	20,315	16,394	80.7%	$29,420	$6,470	$1,560
Northampton County	2,038	1,755	86.1%	$28,180	$5,840	$1,410
Northumberland County	2,389	1,761	73.7%	$33,050	$5,080	$1,230
Norton city	423	343	81.1%	$23,180	$5,980	$1,440
Nottoway County	2,193	1,963	89.5%	$27,700	$6,530	$1,580
Orange County	6,598	4,744	71.9%	$36,470	$6,760	$1,630
Page County	3,661	3,131	85.5%	$31,810	$6,550	$1,580
Patrick County	3,273	2,910	88.9%	$29,080	$6,750	$1,630
Petersburg city	3,628	3,338	92.0%	$26,580	$6,930	$1,670
Pittsylvania County	9,735	8,623	88.6%	$29,710	$7,150	$1,730
Poquoson city	1,748	779	44.6%	$41,210	$10,500	$2,540
Portsmouth city	9,872	8,321	84.3%	$30,400	$6,770	$1,630
Powhatan County	5,591	3,293	58.9%	$40,750	$8,500	$2,050
Prince Edward County	3,248	2,826	87.0%	$29,800	$4,920	$1,190
Prince George County	5,732	3,959	69.1%	$33,550	$6,230	$1,510
Prince William County	55,064	25,425	46.2%	$41,270	$8,900	$2,150
Pulaski County	5,097	4,252	83.4%	$32,170	$6,720	$1,620
Radford city	909	757	83.3%	$27,320	$8,170	$1,970
Rappahannock County	1,257	779	62.0%	$30,590	$5,200	$1,260
Richmond city	19,012	15,286	80.4%	$26,960	$6,930	$1,670
Richmond County	1,432	1,185	82.8%	$31,350	$7,550	$1,820
Roanoke city	11,332	9,799	86.5%	$27,780	$6,580	$1,590
Roanoke County	14,234	9,765	68.6%	$37,250	$8,920	$2,150
Rockbridge County	4,725	3,722	78.8%	$33,330	$6,730	$1,630
Rockingham County	12,940	10,279	79.4%	$34,720	$7,380	$1,780
Russell County	3,740	3,337	89.2%	$26,160	$6,610	$1,600

				Among HH <$75,000		
Location	Projected Elderly HH 2035	Elderly HH w/Income <$75,000	Share of Elderly HH <$75,000	Average Income	Average Income Gap	Annual Savings Required (30 Year)
Salem city	3,277	2,497	76.2%	$34,400	$7,460	$1,800
Scott County	3,303	2,970	89.9%	$27,010	$6,970	$1,680
Shenandoah County	7,319	5,948	81.3%	$31,990	$7,160	$1,730
Smyth County	4,124	3,656	88.7%	$26,720	$7,240	$1,750
Southampton County	2,954	2,344	79.3%	$32,740	$6,540	$1,580
Spotsylvania County	19,643	10,989	55.9%	$39,630	$8,170	$1,970
Stafford County	18,344	7,692	41.9%	$40,490	$9,580	$2,320
Staunton city	3,756	2,965	78.9%	$32,860	$7,920	$1,910
Suffolk city	13,460	9,278	68.9%	$35,060	$6,490	$1,570
Surry County	1,032	839	81.3%	$35,770	$6,840	$1,650
Sussex County	1,410	1,234	87.5%	$31,210	$7,220	$1,750
Tazewell County	5,607	4,847	86.4%	$27,860	$6,710	$1,620
Virginia Beach city	53,414	34,423	64.4%	$37,510	$7,310	$1,770
Warren County	5,511	3,988	72.4%	$35,470	$7,050	$1,700
Washington County	8,613	7,217	83.8%	$29,890	$6,790	$1,640
Waynesboro city	2,751	2,292	83.3%	$27,580	$6,910	$1,670
Westmoreland County	2,921	2,120	72.6%	$30,480	$5,660	$1,370
Williamsburg city	1,796	1,129	62.9%	$32,330	$5,780	$1,400
Winchester city	3,369	2,570	76.3%	$30,760	$6,170	$1,490
Wise County	4,299	3,837	89.3%	$25,460	$5,820	$1,410
Wythe County	4,641	4,018	86.6%	$31,690	$6,970	$1,680
York County	9,594	4,773	49.8%	$41,530	$8,850	$2,140

Social Security Delay

Social Security Benefits by Starting Age

The level of monthly and annual benefits an individual receives through Social Security is dependent on the retiree's earnings level during working years as well as the age that they choose to start entitlement. Recipients that choose to start their benefits prior to the Normal Retirement Age see their monthly benefits reduced, and conversely those that delay benefits see an increase in monthly payouts over the remainder of their lifetime.

Social Security benefits are calculated based on average earnings over a thirty-five year period, with adjustments for inflation. This formula is used to determine the "Primary Insurance Amount" (PIA), or monthly benefit to which the retiree is entitled.

Individuals can choose to begin their Social Security benefits at any age between 62 and 70. The "Normal Retirement Age"(NRA) is defined as 67 years old for individuals born in 1960 or later,[383] and those retiring at this age receive 100% of the PIA. Individuals who choose to begin their benefits prior to the NRA see a discount to their

[383] For people born before 1960, NRA is defined between 66 and 67. NRA for people born 1943-1954 is 66. For people born between 1955 and 1959, each additional year after 1954 is equivalent to two months in NRA delay.

benefit level, while individuals beginning benefits after the NRA see an increase in their benefit levels (see Figure A.10). Importantly, these lower or higher benefit levels last for the remainder of the benefit period, which includes the remainder of the recipient's life and in some cases eligible survivors, such as widows.[384]

Figure A.10: Social Security Benefits as Percentage of PIA by Starting Age[385]

Starting Age for Benefits	62	63	64	65	66	67	68	69	70
Benefit as Percentage of PIA	70%	75%	80%	87%	93%	100%	108%	116%	124%

Source: Social Security Administration

Lifetime Social Security benefits are a function of the level of PIA, the starting date, and the length for which benefits are received. While expected lifetime value varies by individual situation, it is possible to understand the implications for representative Virginia households under various assumptions.

One important dimension is life expectancy. Life expectancy at birth in Virginia is reported at nearly 80 years, slightly above the national average.[386] However, the remaining life expectancy for an individual who has reached age 62 is somewhat higher than this overall average.

A recent analysis by the Urban Institute of actuarial assumptions from the Social Security Administration shows that remaining life expectancy nationally for both women and men who have reached 62 has grown to more than 20 years as of 2020, and is expected to grow to 25 years for women by the year 2050.[387] Expectancies in Virginia are likely somewhat higher than the national average, and the collective expectancies for a couple, which form the benefits period in those cases, are in excess of the expectancies for an individual. This expected average lifespan serves as a helpful benchmark for understanding and modeling the potential trade-offs in Social Security benefits.

Figure 3.5 in this report models the potential lifetime income trade-offs faced by a potential retiree at age 62 with a Primary Insurance Amount (based on their working-age income) of $1,000 a month, or $12,000 a year. The PRI is estimated from the earning at the year of eligibility, the year in which a worker attains age 62. Assuming a worker turns 62 in 2020, he/she could get the PRI of $1,000 if he/she has a monthly earning of $1,385, equivalent to annual earnings of $16,620.[388]

The modeled scenario assumes that this retiree will be relying on Social Security as a key ongoing income source during retirement, and has also accumulated a degree of "lump sum" assets through a retirement savings account. Typically, this retirement account would be drawn down slowly throughout retirement years, to provide a supplement to Social Security ongoing. The modeled scenarios, by contrast, assume that the full amount of lump sum retirement assets are tapped in the initial years. This strategy allows the retiree to delay the start of Social Security benefits, by providing an equivalent income stream through the drawdown of private savings, enabling higher benefit levels once Social Security benefits are started.

Financial calculations are undertaken of the benefit amounts foregone in each potential starting year, and the equivalent lump sum assets needed to replace Social Security income for that duration. Resulting increases in

[384] Social Security survivors benefits are paid to widows, widowers, and dependents of eligible workers. The eligibility depends on the age at which the deceased died and number of years the deceased contributing to Social Security. The survivor benefits depend on the deceased person's average lifetime earnings. The more the deceased person paid into Social Security, the greater the benefits will be.
[385] Percentages shown are for retirees born in 1960 or later, with a "Normal Retirement Age" of 67.
[386] See for example, a Kaiser Family Foundation analysis of Life Expectancy by State
[387] Richard W. Johnson. (2018). "*Is It Time to Raise the Social Security Retirement Age*?" Fig 2 page 7.
[388] Based on the online calculator provided by the Social Security Administration.

future annual benefits from this delay are then calculated over time, and the financial trade-off from this strategy is calculated over different lengths of time.

In the initial years, the financial trade-off is net negative, because foregone income (replaced by retirement savings) from the initial years of delay exceeds the additional gains from higher annual benefit levels. Over time, these increases in annual benefit levels will outweigh the initial foregone income. The length of time at which these values are equivalent is calculated as the “breakeven” point, with further years beyond this breakeven representing a net positive in lifetime income from delaying Social Security through this strategy.

A.3 Government Expenditure Modeling

The following analyses are undertaken to quantify the impact of insufficient retirement savings levels on program expenditures:

- **Quantifying Expenditures on Elderly Residents** – Budget documents and program data are used to isolate the portion of total program expenditures flowing to elderly Virginians and the source of these funds (state, federal, and local).
- **Allocating Per Capita Expenditures by Income Level** – Total program expenditures on elderly residents are allocated across the baseline income distribution of elderly households using program budget and demographic data as well as program eligibility guidelines. From this allocation, per household expenditures by income level are derived.
- **Expenditure Impacts Between Scenarios** – Per household program costs are matched to the population and income scenarios to produce estimates of assistance program costs from 2020 to 2035 under the "baseline" and "sufficient savings" income scenarios (holding benefit levels constant for each household at a given income level). The net difference in program costs between scenarios represents the incremental spending associated with insufficient retirement savings levels.

These expenditure impacts are then shared down by program to establish the mix of state, local and federal funding sources, and aggregated to total expenditures and differentials by funding source.

Analysis is based on a combination of publicly available program data and eligibility rules, and data provided to ESI by administering departments in the Commonwealth.

Expenditures on Elderly Residents

Budget analysis of Virginia's 2018-2020 Biennium Operating Details (HB/SB 30 Introduced) is undertaken to establish the total expenditures on each of the identified programs and the proportions of state, federal and local funding used to finance these programs. Publicly available demographic program data and/or anonymized participant data from the relevant state administering departments was used to estimate the proportion of total funding for each program attributable to elderly households.

Medicaid Program Detail

For modeling Medicaid expenditures, distinct approaches were taken for each of the four Medicaid service categories outlined below based on their unique eligibility requirements and/or funding dynamics. Medicaid participation and expenditure data available from the Virginia Department of Medical Assistance Services (DMAS) was used to determine the proportion of expenditures attributable to elderly residents for each of these service categories.

Virginia is currently transitioning to Commonwealth Coordinated Care Plus (CCC Plus), a model under which Medicaid services are increasingly provided through a capitated care model. Within this program, eligibility standards are still distinct between program components, including Long-Term Care and General Medicaid Services, which were previously provided under a fee for service model. Historical data from fiscal years 2015-2017 (prior to this transition) was used in some instances to estimate cost and participation shares by program type.

- **Long-Term Care:** Medicaid covers long-term care (LTC) services in nursing facilities (Institutional Services) and in the community (Community-Based Services) for qualified individuals. The eligibility standards for individuals in need of LTC services are a countable income limit of 300% of the Supplemental Security

Income (SSI) amount and an asset (resource) limit of $2,000 for a single individual.[389] However, some individuals whose income exceeds this level may be eligible for LTC services through the Medically Needy Program in which individuals with significant medical expenses "spend down" their income each month on medical costs and qualify for Medicaid.[390] Historical data on the relationship between LTC expenditures and General Medicaid services from prior to the beginning of the CCC Plus transition is extrapolated forward to estimate total Long-Term Care costs on elderly residents under both the fee-for-service model (currently being phased out) and the capitated care model.[391]

- **General Medicaid Services**: General Medicaid Services are available to elderly Virginians who qualify under the Aged, Blind, or Disabled (ABD) eligibility standards. To qualify, individuals must be 65 and older, blind, or disabled; have an income less than or equal to 80 percent of the Federal Poverty Level; and have countable assets of less than $2,000 (for an individual). Expenditures on this group fall primarily under the categories of General Medical Services and Mental Health Services.
- **Medicare Part A & B Premiums**: For qualifying dual eligible (Medicaid-Medicare) beneficiaries, Medicaid pays for individuals' Medicare Part A and/or B premiums through the Medicare Savings Program. Dual eligible enrollees who meet the standards of the following groups may qualify for Medicaid coverage of certain Medicare costs:
    - *Qualified Medicare Beneficiary (QMB)* – To qualify as a QMB, an individual must have an income between 120 percent and 135 percent of the Federal Poverty Level (FPL) and countable resources of no more than $7,860 (for an individual). Medicaid covers Medicare premiums, coinsurance, and deductibles for qualifying QMBs.[392]
    - *Special Low-Income Medicare Beneficiary (SLMB)* – To qualify as a SLMB, an individual's income must be between 100 and 120 percent of the FPL and their countable assets cannot exceed $7,860 (for an individual). For qualifying SLMBs, Medicaid covers Medicare Part B premiums. [393]
    - *Qualified Individual (QI)* – To qualify as a QI, an individual's income must be between 120 and 135 percent of the FPL and their assets may not exceed $7,860 (for an individual). Medicaid covers Medicare Part B premiums for eligible QIs.[394]
    - This cost of covering Medicare Part A and B premiums for these groups is shared between the state and federal government at Virginia's Federal Medical Assistance Percentage (FMAP) rate.[395]
- **Medicaid Modernization Payments (Medicare Part D Clawback)**: This expenditure is a payment made by Virginia to the federal government at a fixed per capita rate based on the number of its dual-eligible

[389] Virginia Department of Social Services: Medicaid Covered Long-term Care Services
[390] Virginia Poverty Law Center, "When Does Medicaid Pay For Long-Term Care?"
[391] For additional detail on VA's Medicaid transition to CCC Plus, see: DMAS Update, Health And Human Resources Oversight Committee, October 2019.
[392] Virginia Department of Social Services Medicaid Fact Sheet #11: Qualified Medicare Beneficiary
[393] Virginia Department of Social Services Medicaid Fact Sheet #12: Special Low-Income Medicare Beneficiary
[394] Virginia Department of Social Services Medicaid Fact Sheet #13: Qualified Individual (QI)
[395] Funding background for the Medicare Savings Program available from: Department of Health and Human Services, Office of the Inspector General, "Review Of Virginia's Buy-In of Medicare Part B Premiums for Medicaid Beneficiaries,"

(Medicare and Medicaid) enrollees to reimburse the federal government for a portion of prescription drug costs. Due to intergovernmental nature of this payment, the cost falls entirely on the state government.

Aging Services Program Detail

The Department of Aging and Rehabilitative Services offers a range of ‘Aging Services’ programs which seek to support older Virginians to live independently. Data released to ESI from the Department of Aging and Rehabilitative Services provided the basis for isolating government expenditures on elderly residents (and the funding source mix of these expenditures) for each of these unique sub-programs which included:

- Care Coordination (federal) and Care Coordination for Elderly Virginians (state)
- Adult Day Care
- Transportation
- Home Delivered Meals (data used to extrapolate to Congregate Nutrition program expenditures)
- Homemaker
- Personal Care
- Other Aging Services (a roll-up of remaining smaller sub-programs)

Figure A.11: Virginia Program Expenditures on Elderly Residents

	Total Expenditures FY 2020 ($M)	State Expenditures FY2020 ($M)	Federal Expenditures FY2020 ($M)	Local Expenditures FY2020 ($M)	Est. Total Expenditures on Elderly Residents FY 2020 ($M)
Means-Tested					
Medicaid	$12,657.1	$6477.7	$6,179.4	-	$2,160.6
Long-Term Care	*$3,689.2*	*$1,844.6*	*$1,844.6*	-	*$1,259.3*
General Medicaid	*$8,281.9*	*$4,138.1*	*$4,143.7*	-	*$561.0*
Medicare Part A/B	*$381.9*	*$190.8*	*$191.1*	-	*$192.2*
Medicare Part D	*$304.2*	*$304.2*	*$0.0*	-	*$148.1*
Auxiliary Grant	$21.3	$17.0	-	$4.26	$8.9
Public Guardianship & Conservator	$5.2	$4.7	$0.5	-	$1.5
Senior-Targeted					
Adult Services	$9.1	-	$4.2	$5.2	$7.4
Adult Protective Services	$2.8	-	$2.6	$0.3	$1.9
Nutrition & Home-Delivered Meals	$23.7	$6.3	$15.7	$1.7	$14.8
Aging Services	$49.8	$11.5	$25.4	$12.9	$49.8
Transportation	*$7.3*	*$2.4*	*$2.6*	*$2.3*	*$7.3*
Homemaker	*$2.2*	*$1.1*	*$0.8*	*$0.4*	*$2.2*
Personal Care	*$2.4*	*$1.2*	*$0.6*	*$0.7*	*$2.4*
Care Coordination	*$2.1*	*$1.3*	*$0.2*	*$0.6*	*$2.1*
Adult Day Care	*$1.2*	*$0.4*	*$0.2*	*$0.7*	*$1.2*
Other Aging Services	*$34.4*	*$5.1*	*$21.0*	*$8.3*	*$34.4*
Total	**$12,769.1**	**$6,517.2**	**$6,227.8**	**$24.3**	**$2,244.8**

Source: Virginia 2018-2020 Biennium Operating Details (HB/SB 30 Introduced); DMAS Claims Data; Program Data from Administering Departments

Program Expenditures by Income Band

The estimated expenditures on elderly residents are then allocated across the income distribution of Virginia's elderly households. Program data from the relevant state departments is used to allocate funds across income bands and where complete program data was unavailable, program eligibility guidelines are matched with available program data to estimate the proportion of spending on senior households in each income band. From these figures, the per capita (per household) spend in each income band is then calculated for each program. This "top down" approach ensures that total program expenditures on the elderly reconcile to budget estimates for each program.

Non-Medicaid Programs

For the following programs, the proportion of program expenditures on seniors in each income band is based on analysis of demographic data of program beneficiaries released to ESI by Virginia's Department of Social Services and Department of Aging and Rehabilitative Services:

- Auxiliary Grant
- Adult Services – Home Based Care
- Nutrition & Home-Delivered Meals
- Aging Services, including distinct demographic data for the following services: Transportation, Homemaker, Personal Care, Care Coordination, and Adult Day Care

Adult Protective Services are available to seniors of universal income levels and income data on beneficiaries is not collected by service providers. The proportion of expenditures on seniors in each income band is therefore assumed to be distributed evenly. For the Public Guardian and Conservator program, available demographic data is matched with program eligibility guidelines to estimate the proportion of expenditures on seniors in each income band.

The resulting estimates of per household government expenditures for the identified non-medical programs in each income band are shown in Figure A.12 below.

Figure A.12: Non-Medical Program Expenditures per Elderly Household by Income Band, 2020

	Income Band										
Program	**<$10**	**$10-$20**	**$20-$30**	**$30-$40**	**$40-$50**	**$50-$60**	**$60-$75**	**$75-$100**	**$100-$150**	**$150-$200**	**>$200**
Public Guardian & Conservator	$20	$5	$0	$0	$0	$0	$0	$0	$0	$0	$0
Auxiliary Grant	$43	$36	$20	$7	$0	$0	$0	$0	$0	$0	$0
Adult Services Home-Based Care	$24	$21	$17	$11	$7	$5	$3	$1	$0	$0	$0
Adult Protective Services	$2	$2	$2	$2	$2	$2	$2	$2	$2	$2	$2
Care Coordination	$7	$5	$4	$3	$1	$1	$1	$1	$1	$1	$1
Nutrition & Home Delivered Meals	$35	$40	$28	$22	$8	$8	$8	$8	$8	$8	$8
Adult Day Care	$2	$2	$2	$1	$1	$1	$1	$1	$1	$1	$1
Transportation	$78	$14	$9	$6	$2	$2	$2	$2	$2	$2	$2
Homemaker	$6	$6	$4	$3	$1	$1	$1	$1	$1	$1	$1
Personal Care	$5	$6	$5	$4	$1	$1	$1	$1	$1	$1	$1
Other Aging Services	$172	$44	$36	$37	$31	$31	$31	$31	$31	$31	$31
Total	**$394**	**$182**	**$127**	**$98**	**$55**	**$53**	**$51**	**$49**	**$48**	**$48**	**$48**

Medicaid

Medicaid sub-program expenditures are allocated across income bands by matching income eligibility guidelines and DMAS claims data on enrollment and expenditures by service category.[396] Analysis of claims data yields an estimate of expenditures, enrollment and the implied expenditure per enrollee for elderly beneficiaries in each program. As noted previously, historic ratios between Long Term Care and General Medicaid enrollment and expenditures prior to the capitated care transition are extrapolated forward to estimate the per enrollee expenditure on LTC services.

Using varying Federal Poverty Level eligibility guidelines for each of these sub-programs, enrollment, expenditures, and the expenditure per enrollee are allocated across FPL groups. In the absence of specific income data on enrollees, participants were assigned to income bands based on program eligibility standards. This process is undertaken by matching income thresholds relative to the FPL to income bands (accounting for the distribution of household sizes, which are a factor in the FPL income thresholds) and assigns households within eligible income bands proportional to their share of the eligible population.

Given the transition to a capitated care financing model for Virginia's elderly Medicaid beneficiaries (through CCC Plus), expenditures per enrollee are held constant across income bands.[397] These proportions are used to allocate the total expenditures in each program to the associated income bands, ensuring that the estimates sum to the known budget totals.

[396] Eligibility details for the populations served by these sub-programs available from Virginia's Department of Social Services (VDSS): https://www.dss.virginia.gov/benefit/medical_assistance/;
[397] The determination of capitated rates per enrollee does not directly consider the income of participants, and provider payments are consistent on a per enrollee basis. In practice, capitated rates are determined relative to program utilization and costs in prior years. If lower income households utilize medical care at a higher rate over time, they may be contributing to a disproportionate share of cost growth over time, though this dynamic is not associated with the payment to the provider for each enrollee.

The resulting distribution of Medicaid sub-program expenditures per elderly household in 2020 is shown in Figure A.13. Total per capita expenditures are highest in the lowest income band at $22,629 in the lowest income band, dropping to $6,248 in the next income band, and tailing off as incomes rise in subsequent bands.

Figure A.13: Medical Program Expenditures per Elderly Household by Income Band, 2020

	Income Band										
Program	**<$10**	**$10-$20**	**$20-$30**	**$30-$40**	**$40-$50**	**$50-$60**	**$60-$75**	**$75-$100**	**$100-$150**	**$150-$200**	**>$200**
Long-Term Care	$9,679	$3,599	$2,079	$1,407	$833	$209	$40	$0	$0	$0	$0
General Medicaid	$8,648	$1,534	$0	$0	$0	$0	$0	$0	$0	$0	$0
Medicare Part A/B	$2,019	$711	$182	$0	$0	$0	$0	$0	$0	$0	$0
Medicare Part D	$2,283	$405	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total	**$22,629**	**$6,248**	**$2,261**	**$1,407**	**$833**	**$209**	**$40**	**$0**	**$0**	**$0**	**$0**

This analysis holds constant the level of demand and the level of benefits received on a per household basis over the study period. This means that per capita spending by income band will be held steady over time as all results are expressed in common $2020. However, an adjustment must be made for excess medical cost growth above and beyond inflation. In its latest long-term federal budget outlook The Congressional Budget Office projects a growth in excess medical costs of 1.6% per year for the Medicaid program of 1.1% per year for the Medicare program over the period from 2019-2049.[398] This increase is applied to the estimated per household spending for assistance programs providing medical services to model program expenditures out to 2035. The resulting distribution of per capita medical program expenditures by income band in 2035 is shown in Figure A.14.

Figure A.14: Medical Program Expenditures per Elderly Household by Income Band, 2035 ($2020)

	Income Band										
Program	**<$10**	**$10-$20**	**$20-$30**	**$30-$40**	**$40-$50**	**$50-$60**	**$60-$75**	**$75-$100**	**$100-$150**	**$150-$200**	**>$200**
Long-Term Care	$12,281	$4,567	$2,638	$1,785	$1,057	$265	$51	$0	$0	$0	$0
General Medicaid	$10,973	$1,946	$0	$0	$0	$0	$0	$0	$0	$0	$0
Medicare Part A/B	$2,379	$837	$215	$0	$0	$0	$0	$0	$0	$0	$0
Medicare Part D	$2,691	$477	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total	$28,323	$7,827	$2,853	$1,785	$1,057	$265	$51	$0	$0	$0	$0

[398] Congressional Budget Office 2019 Long-Term Budget Outlook. June 2019.

Expenditures Growth from Insufficient Savings

Program expenditures per household by income level for 2020 and 2035 are then applied to the population and income scenarios:

- The "baseline scenario" in which retirement savings behavior remains consistent with current levels, as reflected by a continuation of observed replacement rates of working-age income in retirement
- The "sufficient savings scenario" in which current and future retiree households achieve recommended levels of retiree savings (as a function of their working age incomes).

The resulting total government expenditure levels on elderly residents over the 2020-2035 timeframe in the baseline and sufficient savings scenarios are summarized in Figure A.15. The net differential in government expenditures between scenarios represents the incremental spending attributable to insufficient savings, when holding constant the level of services or benefits provided to each household at a given income level.

Figure A.15: Annual Government Expenditure Costs from Insufficient Savings

Year	Baseline Scenario ($M 2020)	Sufficient Savings Scenario ($M 2020	Net Differential ($M 2020)	Cumulative Differential ($2020 M)
2020	$2,245	$1,241	$1,003	
2021	$2,346	$1,289	$1,057	$1,057
2022	$2,449	$1,338	$1,111	$2,168
2023	$2,553	$1,387	$1,166	$3,334
2024	$2,659	$1,437	$1,222	$4,556
2025	$2,767	$1,488	$1,279	$5,835
2026	$2,876	$1,539	$1,337	$7,172
2027	$2,988	$1,592	$1,396	$8,568
2028	$3,101	$1,645	$1,456	$10,023
2029	$3,323	$1,751	$1,573	$11,596
2030	$3,332	$1,754	$1,578	$13,174
2031	$3,386	$1,780	$1,606	$14,780
2032	$3,515	$1,841	$1,674	$16,454
2033	$3,543	$1,854	$1,689	$18,143
2034	$3,571	$1,868	$1,704	$19,846
2035	$3,600	$1,881	$1,719	$21,565
15 Year (2021-2035)	**$46,008**	**$24,443**	**$21,565**	

Expenditures by Funding Source

While Figure A.15 summarizes government costs across programs under both scenarios, expenditure levels in each scenario were calculated on a per-program basis. These program-level expenditure results for each scenario were then shared down to 'federal' or 'state and local' expenditures based on the funding source shares by program outlined in Figure A.16.

Figure A.16: Program Shares by Funding Source

	Est. Total Expenditures on Elderly Residents FY 2020 ($M)	State & Local Share (%)	Federal Share (%)
Medicaid			
Long-Term Care	$1,259.3	50%	50%
General Medicaid	$561.0	50%	50%
Medicare Part A/B	$192.2	50%	50%
Medicare Part D	$148.1	100%	--
Aging Services			
Transportation	$7.3	64%	36%
Homemaker	$2.2	66%	34%
Personal Care	$2.4	75%	25%
Care Coordination	$2.1	91%	9%
Adult Day Care	$1.2	85%	15%
Other Aging Services	$34.4	39%	61%
Auxiliary Grant	$8.9	100%	--
Public Guardianship & Conservator	$1.5	91%	9%
Adult Services	$7.4	57%	43%
Adult Protective Services	$1.9	9%	91%
Nutrition & Home-Delivered Meals	$14.8	34%	66%
Total	**$2,244.8**	**53%**	**47%**

The resulting expenditures from state and local funds are shown for each program in the baseline and sufficient savings scenarios in Figure A.17.

Expenditures from federal funds in both scenarios are shown by program in Figure A.18 on the following page.

Figure A.17: Annual Costs from Insufficient Savings, State and Local Government

Year	Baseline Scenario ($M 2020)	Sufficient Savings Scenario ($M 2020)	Net Differential ($M 2020)	Cumulative Differential ($2020 M)
2020	$1,198	$647	$551	
2021	$1,252	$672	$580	$580
2022	$1,307	$697	$609	$1,189
2023	$1,362	$723	$639	$1,828
2024	$1,418	$749	$670	$2,498
2025	$1,476	$775	$701	$3,198
2026	$1,534	$802	$732	$3,930
2027	$1,593	$829	$764	$4,694
2028	$1,654	$857	$796	$5,491
2029	$1,771	$912	$860	$6,350
2030	$1,777	$914	$863	$7,213
2031	$1,805	$927	$878	$8,092
2032	$1,873	$959	$914	$9,006
2033	$1,888	$966	$922	$9,928
2034	$1,903	$972	$930	$10,859
2035	$1,918	$979	$939	$11,797
15 Year (2021-2035)	**$24,531**	**$12,734**	**$11,797**	

Figure A.18: Annual Costs from Insufficient Savings, Federal Government

Year	Baseline Scenario ($M 2020)	Sufficient Savings Scenario ($M 2020	Net Differential ($M 2020)	Cumulative Differential ($2020 M)
2020	$1,047	$594	$453	
2021	$1,094	$617	$477	$477
2022	$1,142	$641	$502	$979
2023	$1,191	$664	$527	$1,506
2024	$1,241	$688	$553	$2,058
2025	$1,291	$713	$579	$2,637
2026	$1,342	$737	$605	$3,242
2027	$1,394	$763	$632	$3,874
2028	$1,447	$788	$659	$4,533
2029	$1,552	$839	$713	$5,246
2030	$1,556	$841	$715	$5,961
2031	$1,581	$853	$728	$6,689
2032	$1,642	$883	$759	$7,449
2033	$1,655	$889	$766	$8,215
2034	$1,669	$895	$773	$8,988
2035	$1,682	$902	$780	$9,768
15 Year (2021-2035)	**$21,481**	**$11,713**	**$9,768**	

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Appendix D: Saving for Retirement Virginia529 Employer Survey Final Report

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Objectives

Virginia529 sought to conduct a research study to:

- Understand **employer attitudes** toward retirement savings in general and at the workplace among employers who do not offer retirement benefits to employees
- Identify **barriers to offering a retirement savings plan** to employees
- Identify **factors of importance** when considering offering a retirement savings program to employees
- Assess **overall appeal** of the retirement savings program being considered

In conjunction with four other program exploration components, the research will be presented to the General Assembly to aid in decision-making regarding the potential state-facilitated retirement savings program.

ANR

Methodology

Data collection mode	Multi-mode (phone and online)
Average length	16 minutes phone and 11.5 minutes online
Sample size	n=301
Qualifications	• Employed or self-employed in Virginia (or owned a business at any point in 2020) at a company with at least two employees • Involved in decision-making regarding employee benefits • Company does not offer retirement savings benefits to all employees
Timing	August 17, 2020 – October 15, 2020
Sampling	• Purchased B2B telephone sample (n=97) • B2B and consumer online panels (n=51) • Virginia529 partners (online link) (n=115) • ANR's B2B database (online link) (n=4) • Star City's B2B database (online link) (n=34)
Maximum margin of error (95% confidence level)	n=301: $\underline{+}$5.7%

ANR

Summary of Key Findings

COVID-19 has had a substantial impact on Virginia businesses.

- Contact rates during data collection were extremely low compared to experience on similar past studies.
- Three-fourths (74%) of survey respondents said their company had been negatively impacted by COVID-19 - most commonly in the form of lost revenue (86%).

Summary of Key Findings

While Virginia employers think the issue of saving for retirement is very important, they have mixed attitudes regarding providing a retirement savings plan to employees.

- Most (81%) Virginia employers think saving for retirement is very important, and half (52%) think employees being able to save money for retirement while working at their company is very important.
- While most recognize that offering a plan can benefit businesses in a variety of ways and “is the right thing to do” (77% top 2 box), the majority also responded that it is the employee’s responsibility to find and fund their own retirement savings accounts (73% top 2 box).
- Larger businesses employing at least ten full-time employees generally have a more favorable attitude toward employer provision of retirement savings plans.

Summary of Key Findings

A state-facilitated retirement plan is appealing to most Virginia employers (84% top 2 box) but would ideally address some of the barriers that employers have faced.

- The most common barriers to providing a plan include a lack of resources to administer a plan (50%) and the expense of set-up (49%).
- Employees having direct access to their accounts and program representatives is very important (71%) and may alleviate concerns regarding the resources required to administer a plan, especially among smaller businesses.
- The majority of Virginia employers would forego more services and plan options in favor of having **no legal responsibility** for running the plan (82%) and a program with **no fees** (78%).

Key Characteristics

All respondents (n=301)		
Number of full-time employees	<10	74%
	10-49	17%
	50-99	2%
	100-499	3%
	500+	4%

All respondents (n=301)		
Number of part-time employees	<10	80%
	10-49	12%
	50-99	2%
	100-499	3%
	500+	3%

All respondents (n=301)		
Number of locations	1	79%
	2-4	17%
	5+	4%

Key Characteristics

All respondents (n=301)		
Company classification	Woman-owned	36%
	Minority-owned	17%
	Veteran-owned	12%
	None	49%
	Don't know	2%

All respondents (n=301)		
Industry	Retail	13%
	Other non-retail	12%
	Construction	11%
	Financial services, insurance, or real estate	8%
	Information Technology	7%
	Transportation, communications, or utilities	6%
	Restaurant	6%
	Healthcare	5%
	Manufacturing	4%
	Agriculture	2%
	Other (specify*)	26%

*Examples include childcare/education, consulting, automotive, non-profit, event production/ entertainment, plumbing, landscaping, photography

Key Characteristics

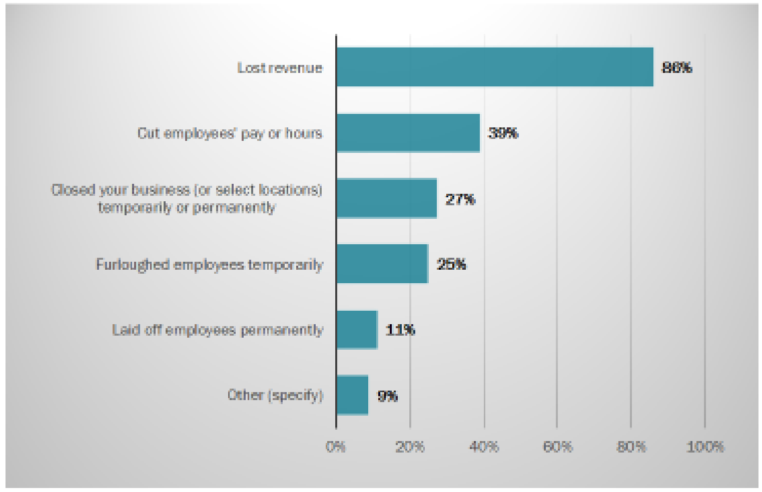
All respondents (n=301)		
Geography	Northern	27%
	Hampton Roads, Eastern	25%
	Southside, Central	29%
	Southwest, W. Central, Valley	19%

All respondents (n=301)		
Urban density	Rural or farm area	11%
	Small city or town	39%
	Suburb outside a large city	29%
	Large city	22%

Impact of COVID-19

74% of employers surveyed said their company has been negatively impacted by COVID-19.

Most (86%) who have been negatively impacted said they have *lost revenue*, and at least one-fourth *cut employees' pay or hours* (39%), *closed their business temporarily or permanently* (27%), or *furloughed employees temporarily* (25%).



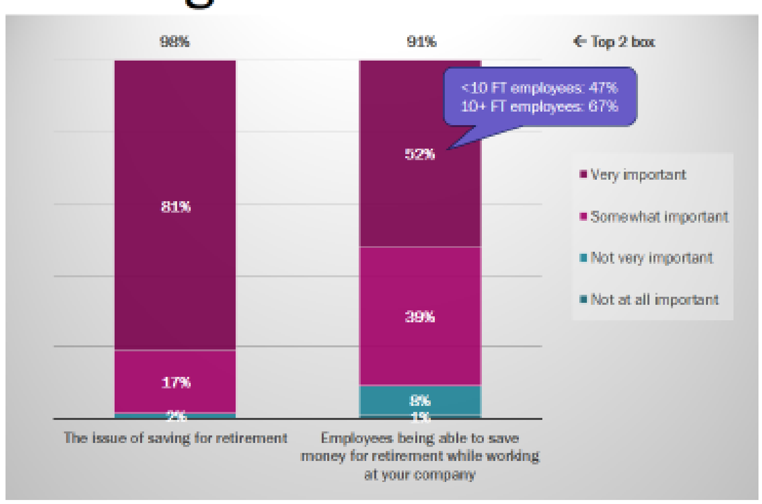
CP5. Has your company been [Was your company] negatively impacted by COVID-19? All respondents (n=301)
CP6. In what ways has your business been [was your business] negatively impacted by COVID-19? Respondents whose business was negatively impacted (n=223)

Importance of Saving for Retirement

Regardless of company size, location, or political views, most (81%) employers surveyed think *saving for retirement* is a very important issue, with virtually all (98%) saying the issue is somewhat or very important.

Employees being able to save money for retirement while working at their company is also viewed as highly important but is comparatively less important than the issue of *saving for retirement* in general.

- This issue is of significantly greater importance to companies with 10 or more full-time employees than those with fewer than 10 employees.

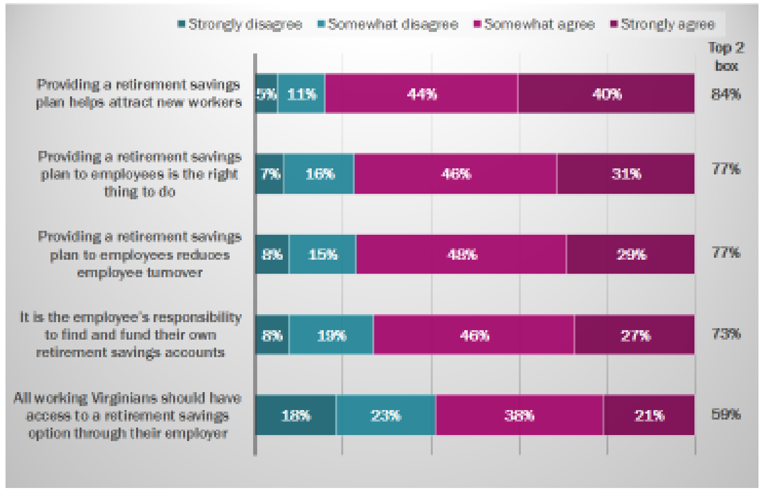


Q2. In your opinion, how important are each of the following?
All respondents (n=301)

Attitudes Toward Saving for Retirement

While most employers surveyed agreed that *providing a retirement savings plan is the right thing to do*, the majority also agreed that *it is the employee's responsibility to find and fund their own retirement accounts*.

Most employers agreed that there are benefits to the company when a retirement savings plan is offered (*attracting new workers*, *reducing employee turnover*), but they were split on their agreement that *all working Virginians should have access to a retirement savings option through their employer*.



Q1. How much do you agree or disagree with each of the following statements?
All respondents (n=301)

Attitudes – by Size and Region

Companies with ten or more full-time employees were more likely than those with fewer employees to agree that *providing a retirement savings plan to employees is the right thing to do* and that *all working Virginians should have access to a retirement savings option through their employer*.

Agreement that *all working Virginians should have access to a retirement savings option through their employer* is significantly lower in the Southwest/West Central/Valley region than the rest of the Commonwealth.

	Full-time employees		Region			
Percent somewhat or strongly agree (top 2 box)	<10 (n=223)	10+ (n=78)	Northern (n=81)	Hampton Roads, Eastern (n=75)	Southside, Central (n=88)	SW, West Central, Valley (n=57)
Providing a retirement savings plan helps attract new workers	84%	85%	88%	81%	84%	83%
Providing a retirement savings plan to employees is the right thing to do	72%	92%	84%	76%	76%	70%
Providing a retirement savings plan to employees reduces employee turnover	77%	77%	79%	75%	76%	77%
It is the employee's responsibility to find and fund their own retirement savings accounts	75%	68%	79%	75%	68%	70%
All working Virginians should have access to a retirement savings option through their employer	54%	73%	62%	65%	61%	44%

Red / blue shading indicate a significantly lower/higher percentage than all other subsegments within the category

Q1. How much do you agree or disagree with each of the following statements?
All respondents (n=301)

ATTITUDES

Attitudes – by Role and Political Views

Owners and partners tend to have different attitudes toward retirement savings than those holding other roles within the company (like General Managers, Employee Benefits Managers, etc.). There are also differences in attitudes by political views.

- Non-owners and moderates/liberals are significantly more likely than their counterparts to agree that *providing a retirement savings plan to employees is the right thing to do.*

Percent somewhat or strongly agree (top 2 box)	Role		Political views		
	Owner/ partner (n=195)	Other (n=102)	Conservative (n=93)	Moderate (n=92)	Liberal (n=52)
Providing a retirement savings plan helps attract new workers	82%	89%	86%	86%	83%
Providing a retirement savings plan to employees is the right thing to do	73%	87%	69%	83%	87%
Providing a retirement savings plan to employees reduces employee turnover	76%	79%	70%	83%	83%
It is the employee's responsibility to find and fund their own retirement savings accounts	76%	66%	81%	71%	62%
All working Virginians should have access to a retirement savings option through their employer	52%	75%	51%	59%	71%

Red / blue shading indicate a significantly lower/higher percentage than all other subsegments within the category

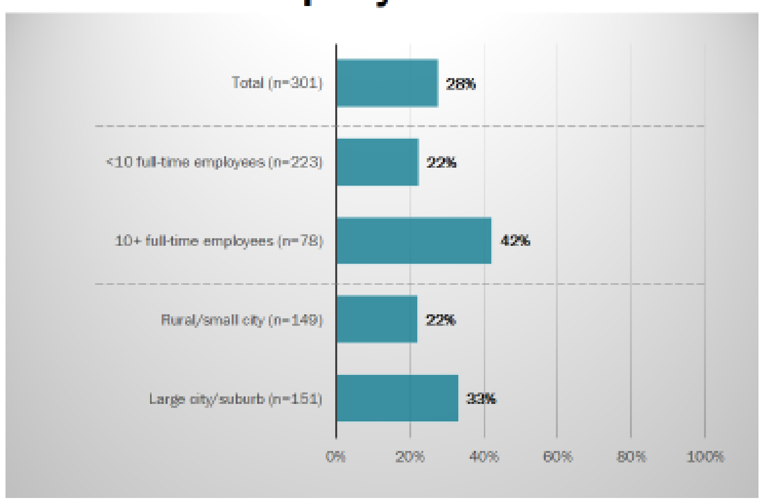
Q1. How much do you agree or disagree with each of the following statements?
All respondents (n=301)

CURRENT OFFERINGS

Resources Offered to Employees

Just one-fourth (28%) of employers surveyed said they provide resources to their employees to facilitate their independent retirement savings.

- Businesses employing 10 or more full-time employees are significantly more likely to offer these resources compared to those with fewer employees.
- Employers in large cities or suburbs outside of large cities are also significantly more likely to provide retirement savings resources to their employees compared to those in small cities or rural areas.

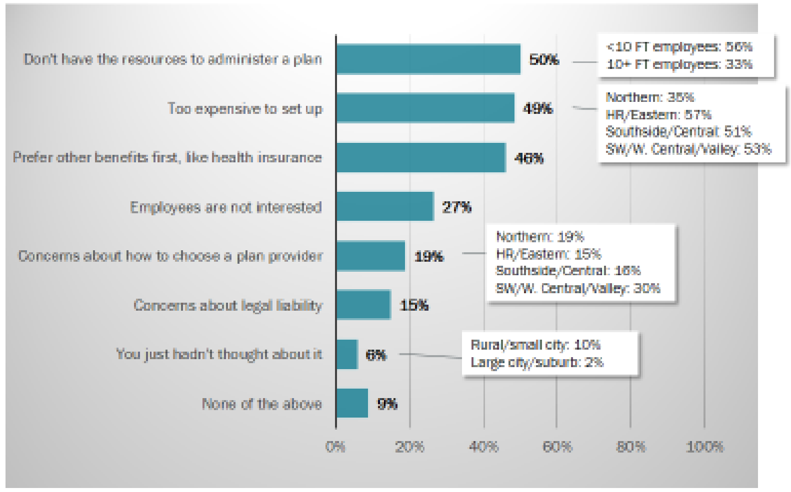


Q4. Do [Did] you provide any resources to your employees to facilitate their independent retirement savings, such as websites or literature about how to save for retirement independently?
All respondents

BARRIERS

Barriers to Offering a Retirement Plan

Employers surveyed most often said that they *do not have the resources to administer a retirement plan* (especially among businesses with fewer than ten full-time employees), they *are too expensive to set up*, or they *focus on other benefits first*.



Q3. Please indicate whether any of the following are reasons your company does/did not offer a retirement plan to all employees. Please select all that apply.
All respondents (n=301)

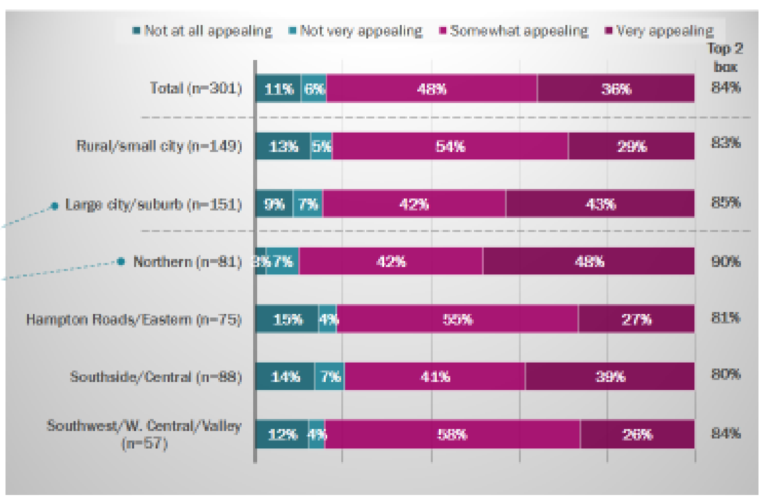
PROGRAM PREFERENCES

Program Appeal

Most (84%) employers surveyed said the program described is somewhat appealing (48%) or very appealing (36%).

The percentage rating the program as very appealing is highest among employers in large cities or suburbs outside of large cities (43%) and those in the Northern region (48%).

There are no significant differences in appeal by number of full-time employees, role, or political views.

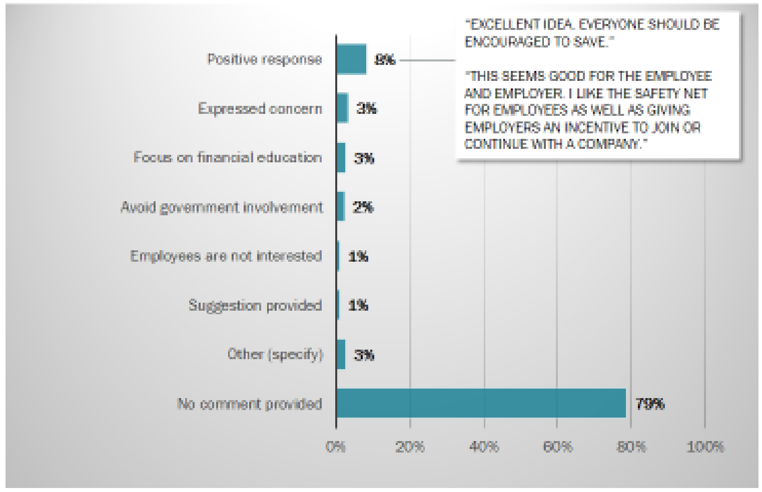


Q8. Next, I'd like for you to rate the appeal of the following statement about the potential retirement savings program. **The program would be run as a public-private partnership where the Commonwealth oversees the program but engages professional financial managers and recordkeepers to run the day to day operations.**
All respondents (n=301)

Open-Ended Comments

Respondents were provided with a text box at the end of the survey where they could provide additional comments related to the program or the topic of retirement.

While most (79%) did not provide an additional comment, many provided positive responses regarding the program (8%).

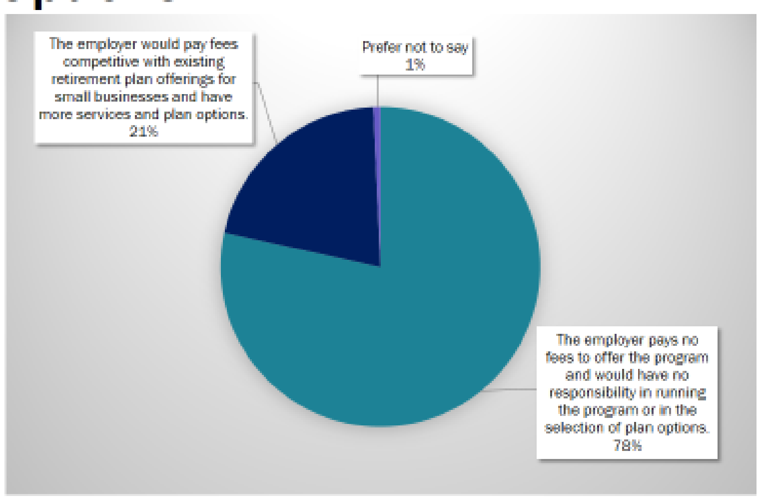


C1. Do you have any final thoughts on the topic of retirement savings programs that you'd like to share?
All respondents (n=301)

Fees v. Plan Options

The majority (78%) of employers surveyed would **prefer a program with no fees** where they have no responsibility in running the program or selection of plan options.

These results are consistent regardless of number of full-time employees, urban density, region, and political views.

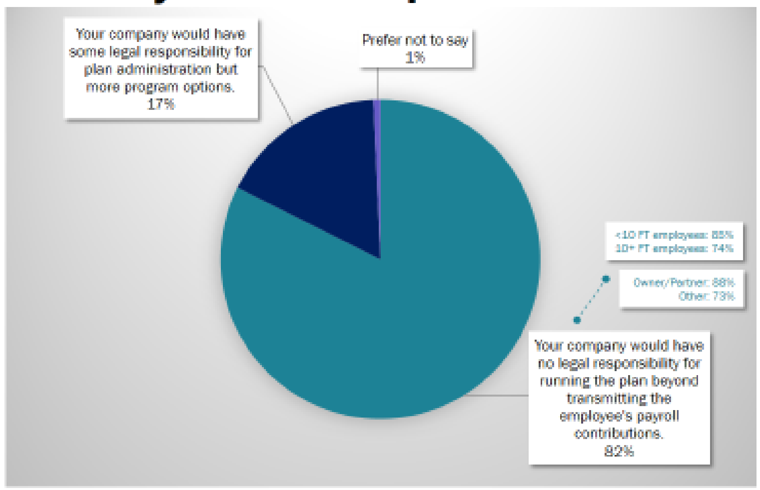


Q5. Of the two types of program features described, which option would you prefer?
All respondents (n=301)

Legal Responsibility v. Plan Options

The majority (82%) of employers surveyed would **prefer having no legal responsibility for running the plan**, even if assuming some legal responsibility introduced more program options.

- Businesses with fewer than 10 full-time employees and owners/partners have the strongest preference for no legal responsibility compared to their counterparts.
- There are no statistically significant differences by urban density, region, or political views.

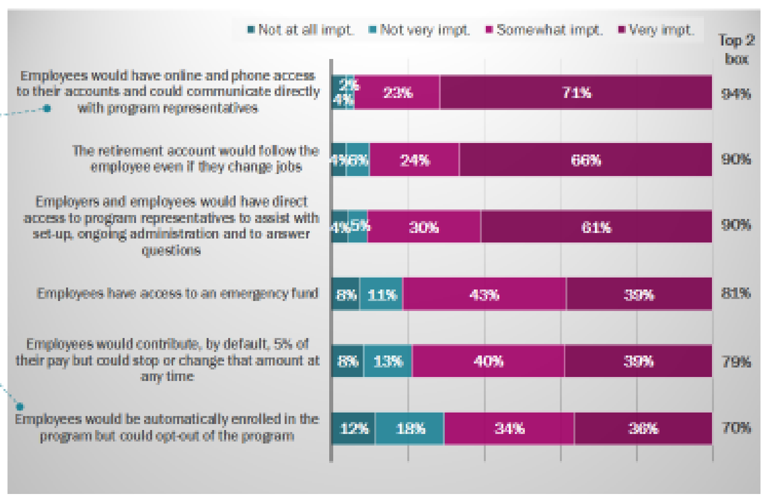


Q6. Of the following two statements, which is more preferable to you?
All respondents (n=301)

Importance of Plan Features

A variety of plan features are important to employers, including *employees having online and phone access to their accounts and direct access to program representatives*.

Automatic enrollment of employees is comparatively less important, though somewhat or very important to 70% of respondents.



Q7. As an employer, how important are each of the following features of a retirement plan?
All respondents (n=301)

Importance – by Role and Region

Importance of some features show significant variation by role and region:

- *Employees have access to an emergency fund* is considerably more important to employers in the Northern region compared to elsewhere.
- *Employees would be automatically enrolled but could opt-out* is significantly more important to non-owners/partners than owners/partners.

Percent somewhat or very important (top 2 box)	Role		Region			
	Owner/ Partner (n=195)	Other (n=102)	Northern (n=81)	Hampton Roads, Eastern (n=75)	Southside, Central (n=88)	SW, West Central, Valley (n=57)
Employees would have online and phone access to their accounts and could communicate directly with program representatives	96%	91%	99%	93%	91%	93%
The retirement account would follow the employee even if they change jobs	91%	88%	94%	89%	88%	90%
Employers and employees would have direct access to program representatives to assist with set-up, ongoing administration and to answer questions	93%	87%	95%	89%	89%	88%
Employees have access to an emergency fund	81%	82%	93%	76%	77%	79%
Employees would contribute, by default, 5% of their pay but could stop or change that amount at any time	77%	81%	84%	76%	78%	75%
Employees would be automatically enrolled in the program but could opt-out of the program	65%	81%	74%	68%	69%	70%

Red / blue shading indicate a significantly lower/higher percentage than all other subsegments within the category

Q7. As an employer, how important are each of the following features of a retirement plan?
All respondents (n=301)

Employment & Decision-Making

All respondents (n=301)		
Employment status	Self-employed	60%
	Employed	39%
	Previously self-employed	1%
Decision-making responsibility	Primarily responsible	67%
	Partially responsible	30%
	Not responsible but provides significant input	4%

Role & Political Views

All respondents (n=301)		
Role	Owner or partner	65%
	Non-owner manager (GM, etc.)	15%
	Employee Benefits Manager	5%
	Chief Financial Officer (CFO)	5%
	Human Resources Director	2%
	Other (specify)	7%
	Prefer not to say	1%
Political views	Conservative	31%
	Moderate	31%
	Liberal	17%
	Something else	5%
	Don't know	4%
	Prefer not to say	13%

Demographics

All respondents (n=301)		
Age	18 to 34	9%
	35 to 44	22%
	45 to 54	24%
	55 to 64	28%
	65+	16%
	Prefer not to say	2%
Gender	Male	52%
	Female	45%
	Prefer not to say	4%

Demographics

All respondents (n=301)		
Race/Ethnicity	White/Caucasian	78%
	Black/African American	12%
	Hispanic	4%
	Asian/Pacific Islander	2%
	Other	2%
	Prefer not to say	7%
Education	High school graduate (or equivalent) or less	12%
	Some college or technical training (2-yr. degree)	24%
	College graduate (4-yr. degree)	32%
	Post-graduate study	5%
	Graduate or professional degree	25%
	Prefer not to say	4%

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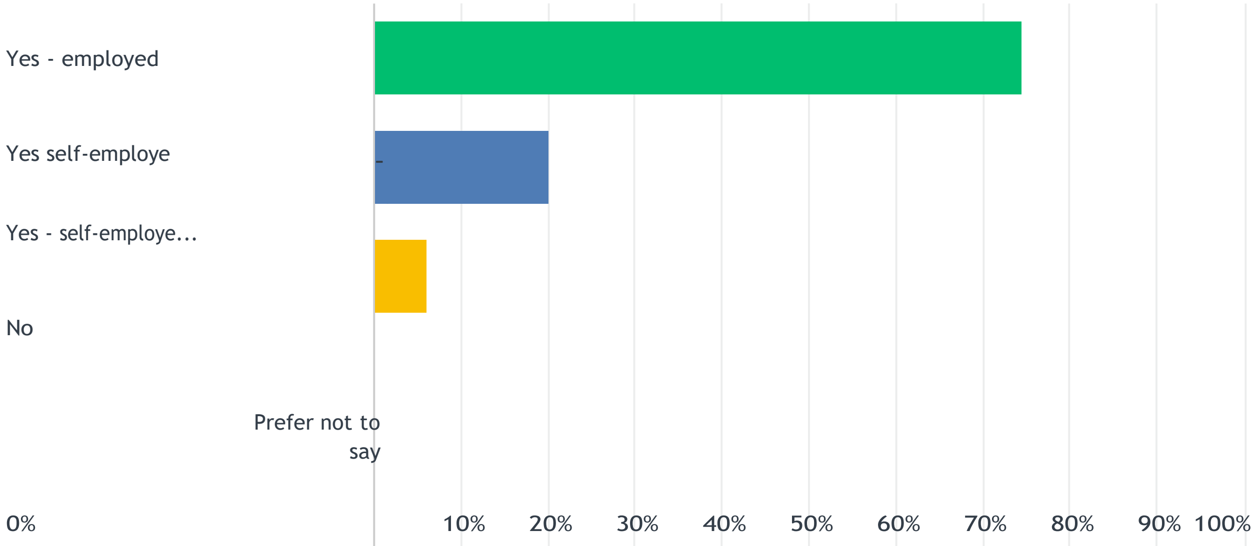
Appendix E: Virginia529 Employee Survey Summary Response Data and Charts

Q1 Are you currently employed or self-employed at a company doing business in the Commonwealth of Virginia?

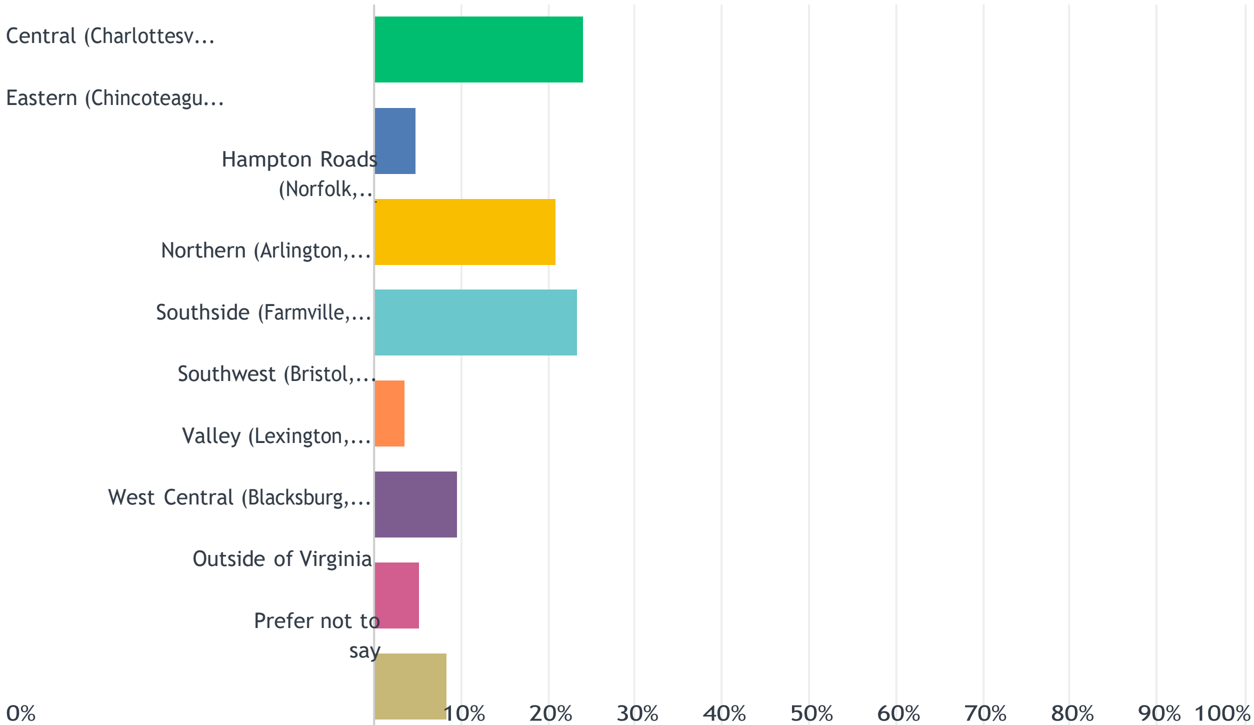
Answered: 968 Skipped: 0



ANSWER CHOICES	RESPONSES	
Yes - employed	74.48%	721
Yes - self-employed	19.52%	189
Yes - self-employed, sole practitioner	5.99%	58
No	0.00%	0
Prefer not to say	0.00%	0
TOTAL		968

Q2 What region of Virginia best describes where you currently reside?

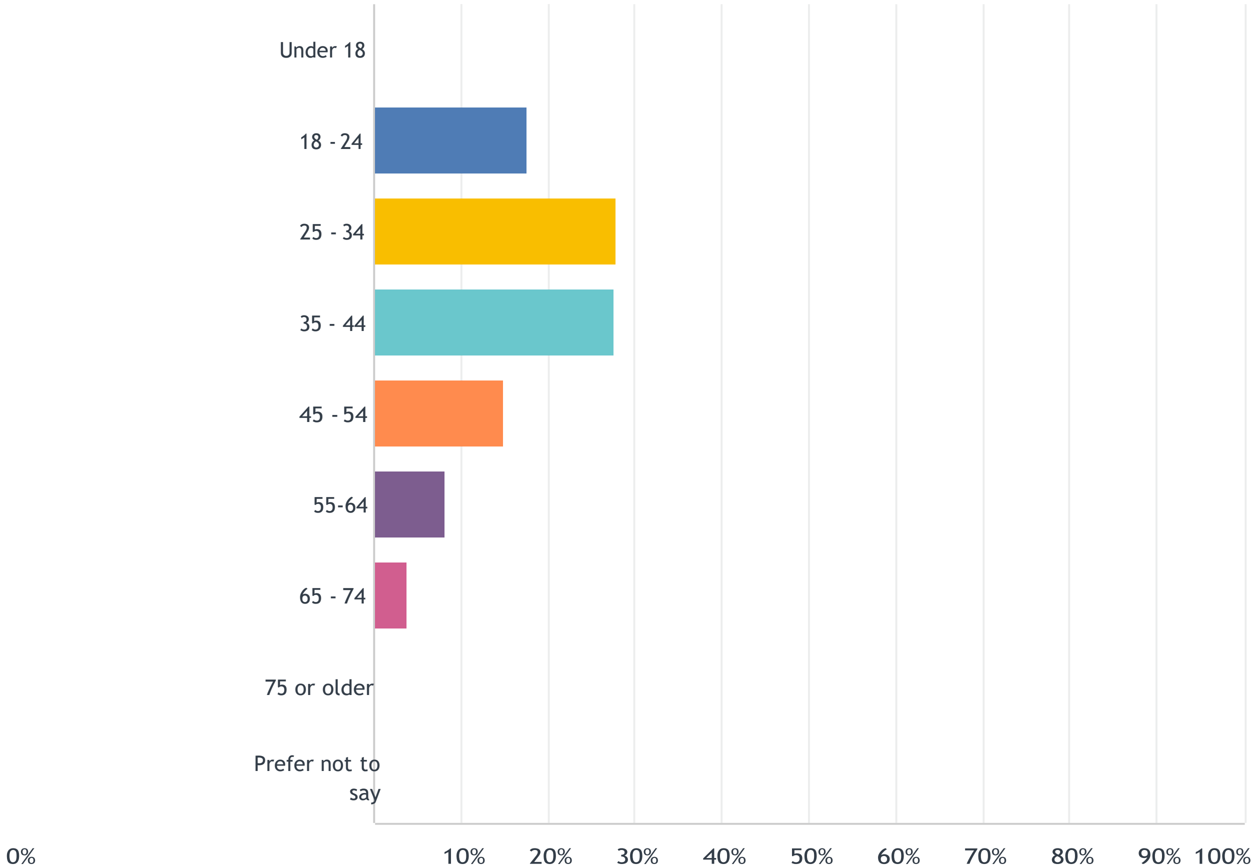
Answered: 968 Skipped: 0



ANSWER CHOICES	RESPONSES	
Central (Charlottesville, Petersburg, Richmond)	23.97%	232
Eastern (Chincoteague, Kilmarnock, Tappahannock)	4.75%	46
Hampton Roads (Norfolk, Virginia Beach, Williamsburg)	20.97%	203
Northern (Arlington, Ashburn, Fredericksburg)	23.35%	226
Southside (Farmville, Franklin, Martinsville)	3.62%	35
Southwest (Bristol, Danville, Galax, Wise)	9.61%	93
Valley (Lexington, Waynesboro, Winchester)	5.27%	51
West Central (Blacksburg, Lynchburg, Roanoke)	8.47%	82
Outside of Virginia	0.00%	0
Prefer not to say	0.00%	0
TOTAL		968

Q3 Where does your age fall in the following categories?

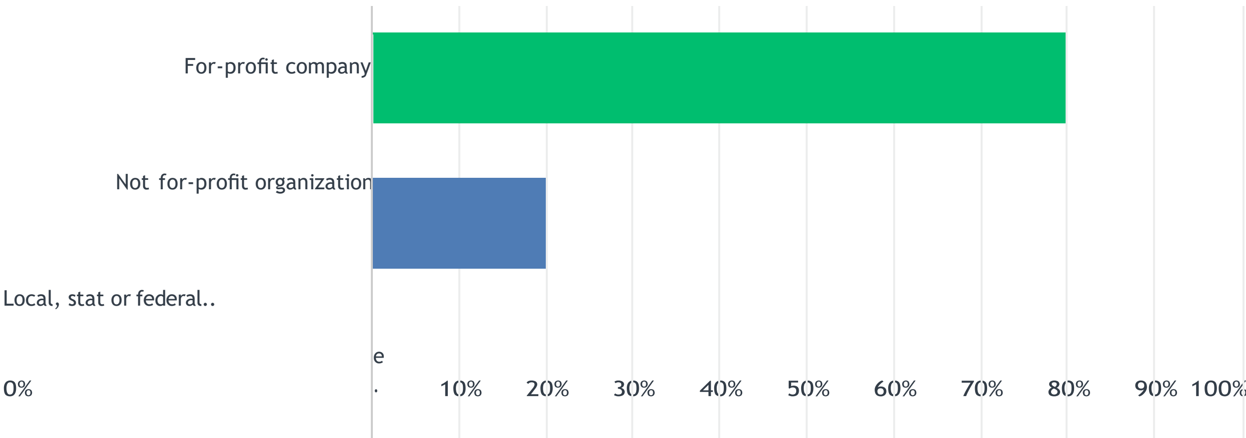
Answered: 968 Skipped: 0



ANSWER CHOICES	RESPONSES	
Under 18	0.00%	0
18 - 24	17.56%	170
25 - 34	27.79%	269
35 - 44	27.69%	268
45 - 54	14.88%	144
55-64	8.06%	78
65 - 74	3.82%	37
75 or older	0.21%	2
Prefer not to say	0.00%	0
TOTAL		968

Q4 Thinking of your primary employer, which of the following best describes the organization you work for?

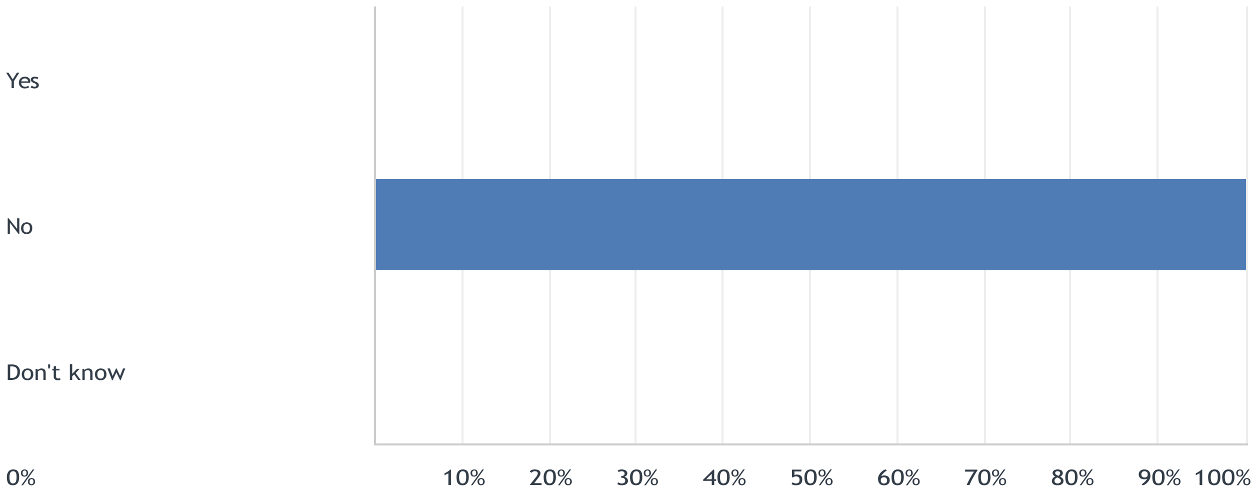
Answered: 968 Skipped: 0



ANSWER CHOICES	RESPONSES	
For-profit company	80.06%	775
Not for-profit organization	19.94%	193
Local, state or federal government agency	0.00%	0
TOTAL		968

Q5 Does your primary employer offer a retirement savings plan (e.g. 401(k), pension, or profit sharing plan)?

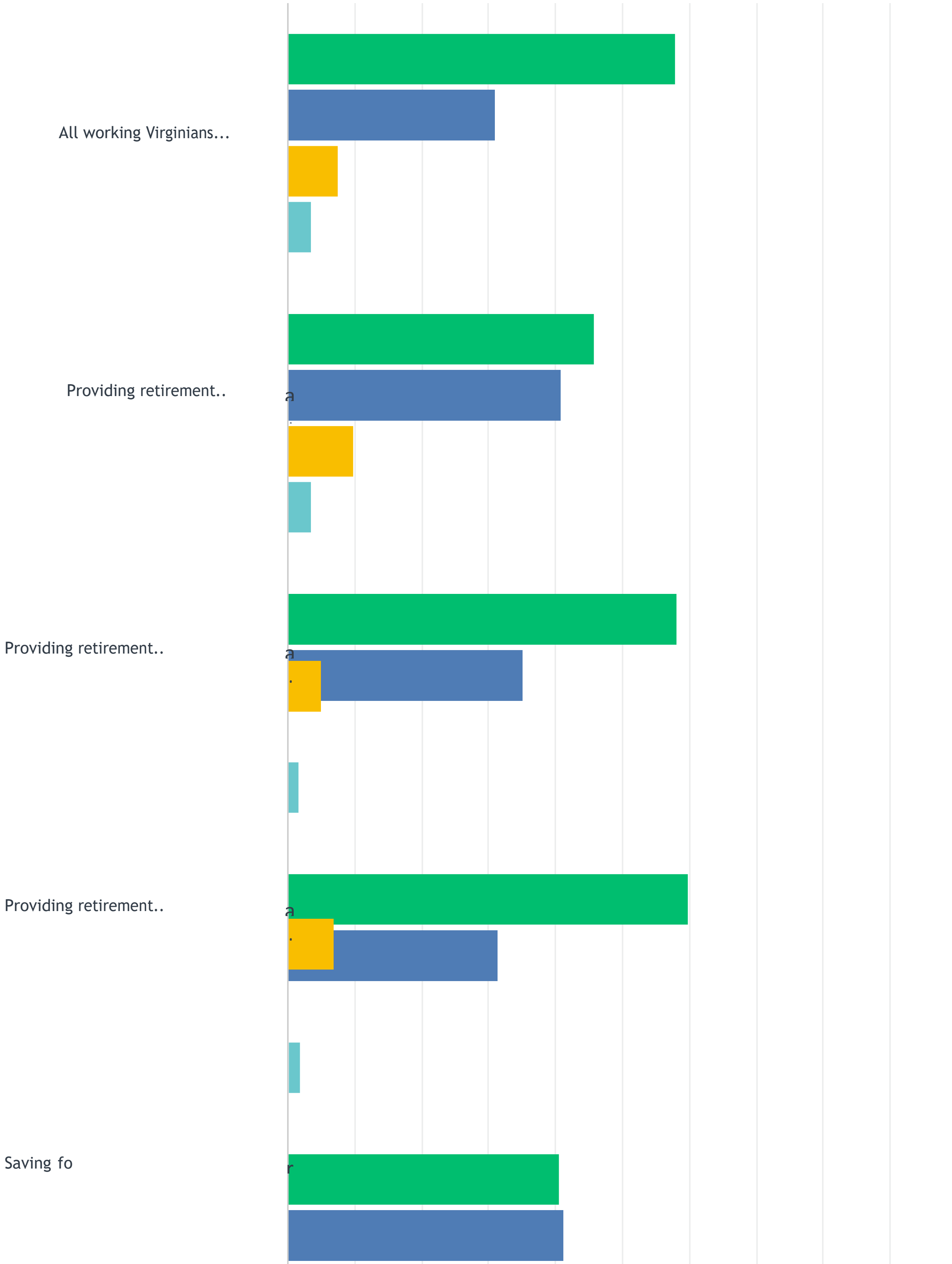
Answered: 968 Skipped: 0

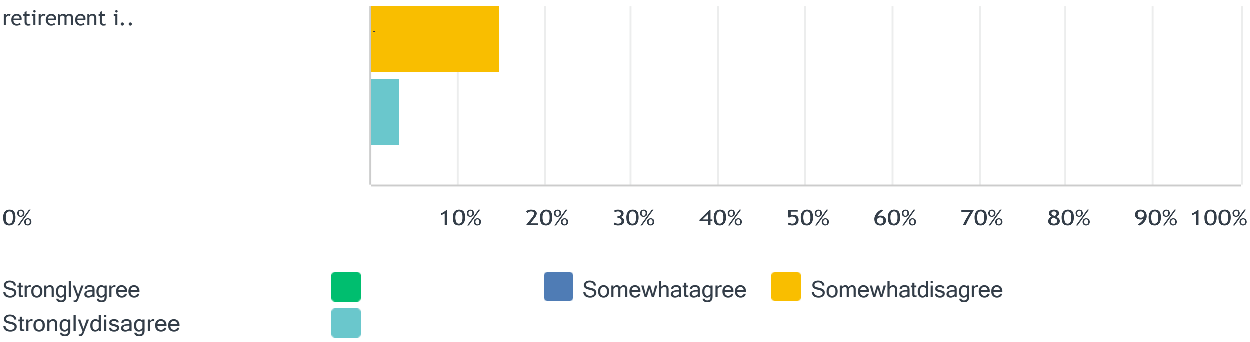


ANSWER CHOICES	RESPONSES	
Yes	0.00%	0
No	100.00%	968
Don't know	0.00%	0
TOTAL		968

Q6 How much do you agree or disagree with each of the following statements?

Answered: 968 Skipped: 0

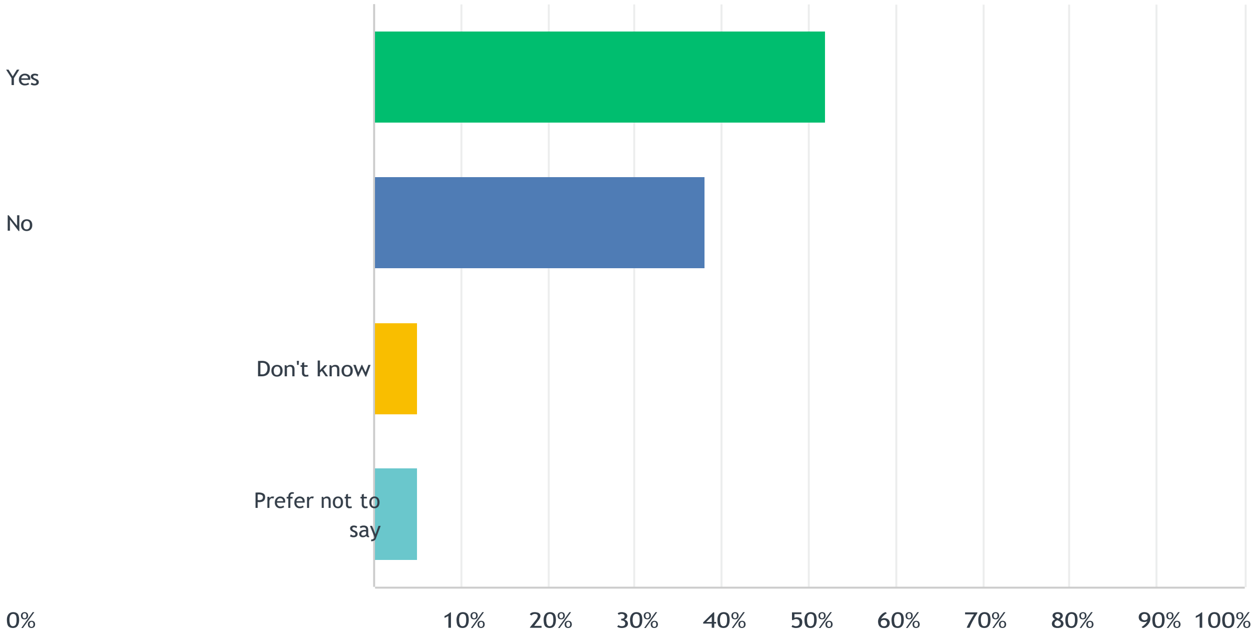




	STRONGLYAGREE	SOMEWHATAGREE	SOMEWHATDISAGREE	STRONGLYDISAGREE	TOTAL
All working Virginians should have access to a retirement savings option through their employer	57.95% 561	30.99% 300	7.54% 73	3.51% 34	968
Providing a retirement savings plan to employees reduces employee turnover	45.87% 444	40.70% 394	9.92% 96	3.51% 34	968
Providing a retirement savings plan helps attract new workers	58.06% 562	35.23% 341	5.06% 49	1.65% 16	968
Providing a retirement savings plan to employees is the right thing to do	59.92% 580	31.40% 304	6.82% 66	1.86% 18	968
Saving for retirement is the responsibility of the employee	40.60% 393	41.22% 399	14.88% 144	3.31% 32	968

Q7 Are you currently saving for retirement?

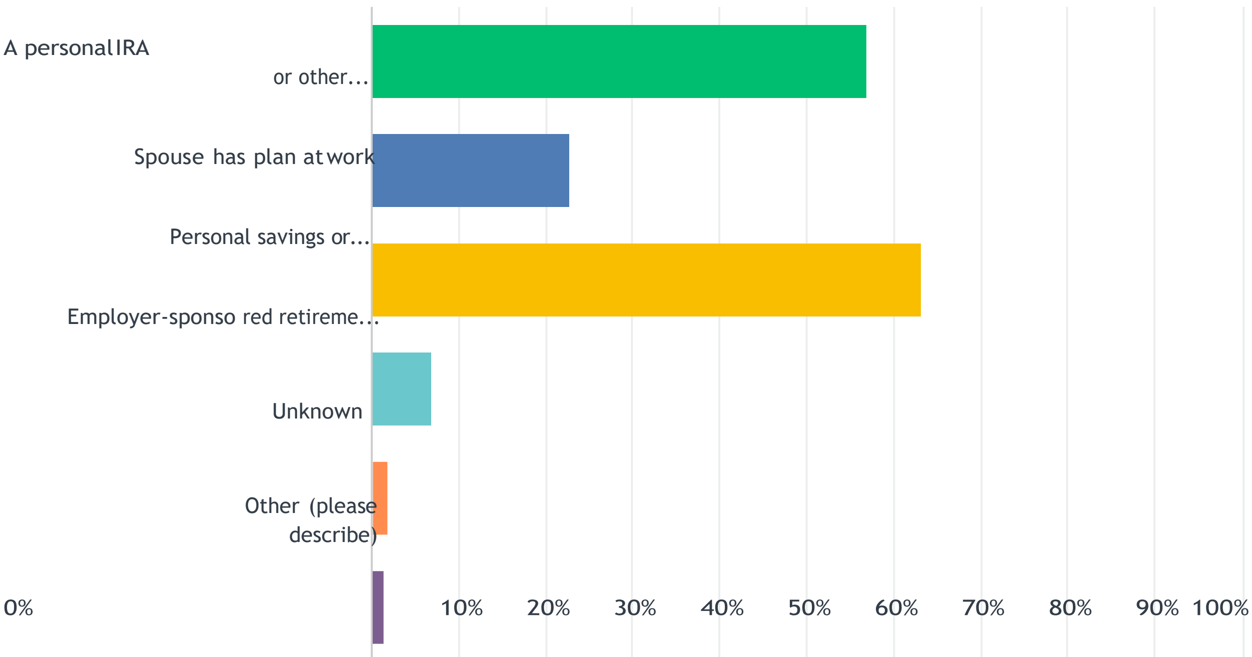
Answered: 968 Skipped: 0



ANSWER CHOICES	RESPONSES	
Yes	51.86%	502
No	38.12%	369
Don't know	4.96%	48
Prefer not to say	5.06%	49
TOTAL		968

Q8 If you are saving for retirement, which of the following ways are you saving for retirement? Please select all that apply.

Answered: 502 Skipped: 466

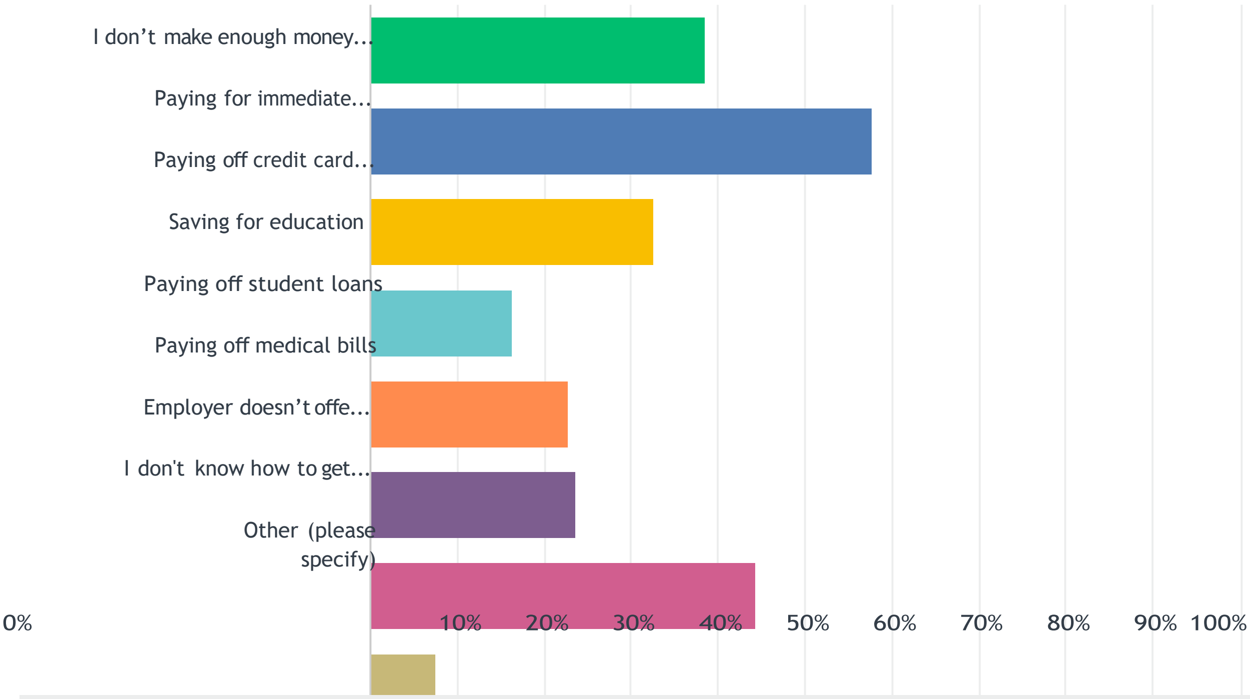


ANSWER CHOICES	RESPONSES	
A personal IRA or other non-employer sponsored retirement plan	56.97%	286
Spouse has plan at work	22.71%	114
Personal savings or investments not in a retirement account (e.g., bank account, mutual funds)	63.15%	317
Employer-sponsored retirement plan	6.97%	35
Unknown	1.79%	9
Other (please describe)	1.39%	7
Total Respondents: 502		

#	OTHER (PLEASE DESCRIBE)	DATE
1	Mutuaks	10/8/2020 10:37 PM
2	Stocks	10/7/2020 9:17 PM
3	myself	10/1/2020 11:14 AM
4	Real Estate Rentals	9/26/2020 8:35 PM
5	Silver gold and other investments	9/24/2020 10:41 AM
6	crypto	9/23/2020 7:48 AM
7	Previous employer	9/22/2020 4:22 PM

Q9 Below are common obstacles someone may face in saving for retirement. Please indicate whether any of the following is an obstacle at all in saving for your retirement. You may choose more than one.

Answered: 968 Skipped: 0

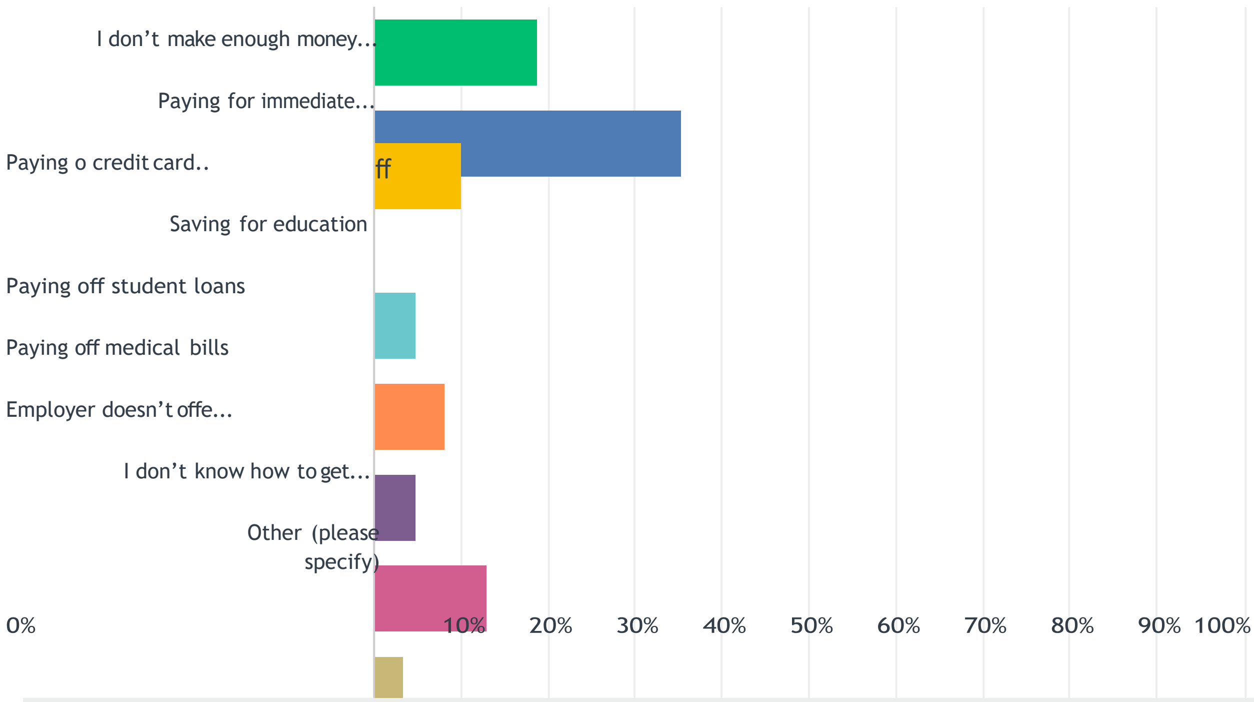


ANSWER CHOICES	RESPONSES	
I don’t make enough money to save for retirement	38.43%	372
Paying for immediate needs, like food, mortgage, or rent, or unexpected expenses, like home or car repairs	57.75%	559
Paying off credit card debt	32.54%	315
Saving for education	16.22%	157
Paying off student loans	22.73%	220
Paying off medical bills	23.66%	229
Employer doesn’t offer a retirement savings option	44.42%	430
I don't know how to get started	7.44%	72
Other (please specify)	2.58%	25
Total Respondents: 968		

#	OTHER (PLEASE SPECIFY)	DATE
1	I have no obstacles.	10/10/2020 10:24 PM
2	Gi9	10/10/2020 9:31 AM
3	No obstacles am saving all my social security and M living off my earnings.	10/10/2020 12:40 AM
4	Retirement	10/8/2020 10:38 PM
5	Have not really thought about it	10/5/2020 10:04 PM
6	My needs like coffee clothes shoes makeup and food like snacks	10/4/2020 11:25 PM
7	None if the above	10/4/2020 12:23 PM
8	Tvgg	10/4/2020 3:30 AM
9	no issues	9/28/2020 5:54 PM
10	Poo	9/28/2020 5:55 AM
11	raising grand children	9/27/2020 7:23 PM
12	I am already collecting my retirement	9/27/2020 5:48 PM
13	no obstacle	9/27/2020 1:00 PM
14	n/a	9/27/2020 11:30 AM
15	N/A	9/27/2020 9:55 AM
16	Already have a pension	9/27/2020 9:31 AM
17	Helping adult childre	9/26/2020 10:07 PM
18	None	9/26/2020 7:05 PM
19	I’m a shopaholic	9/24/2020 10:24 AM
20	None	9/23/2020 3:41 PM
21	I simply haven't started , but I will soon	9/22/2020 9:23 PM
22	none	9/22/2020 6:06 PM
23	Sons college 529	9/22/2020 4:22 PM
24	What little money I have left after paying for everything I spend on my children.	9/22/2020 4:16 PM
25	I am semi-retired. I work part time to supplement my pension and social security.	9/15/2020 4:46 PM

Q10 Of the obstacles listed, what is the most important obstacle you face in saving for retirement?

Answered: 968 Skipped: 0

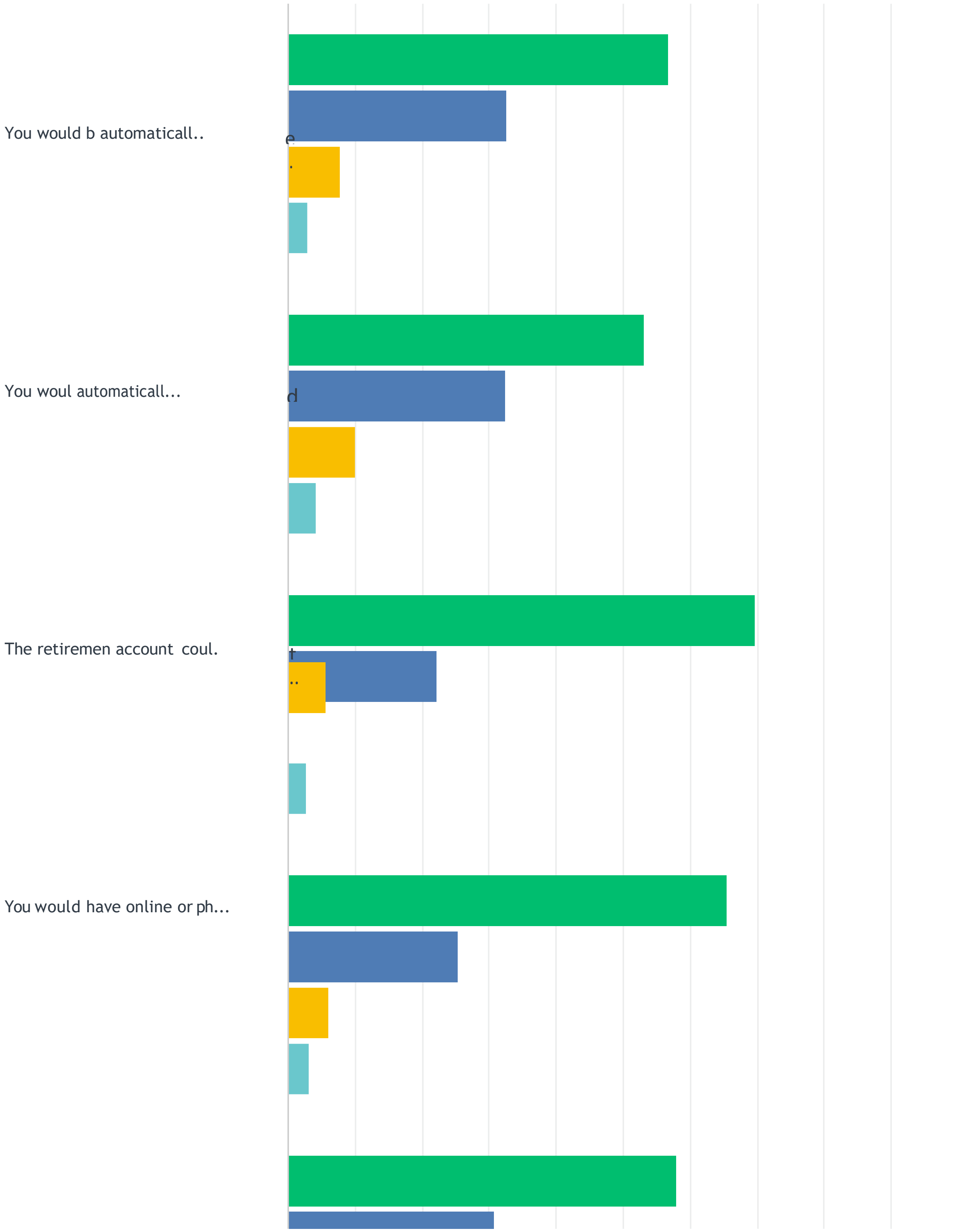


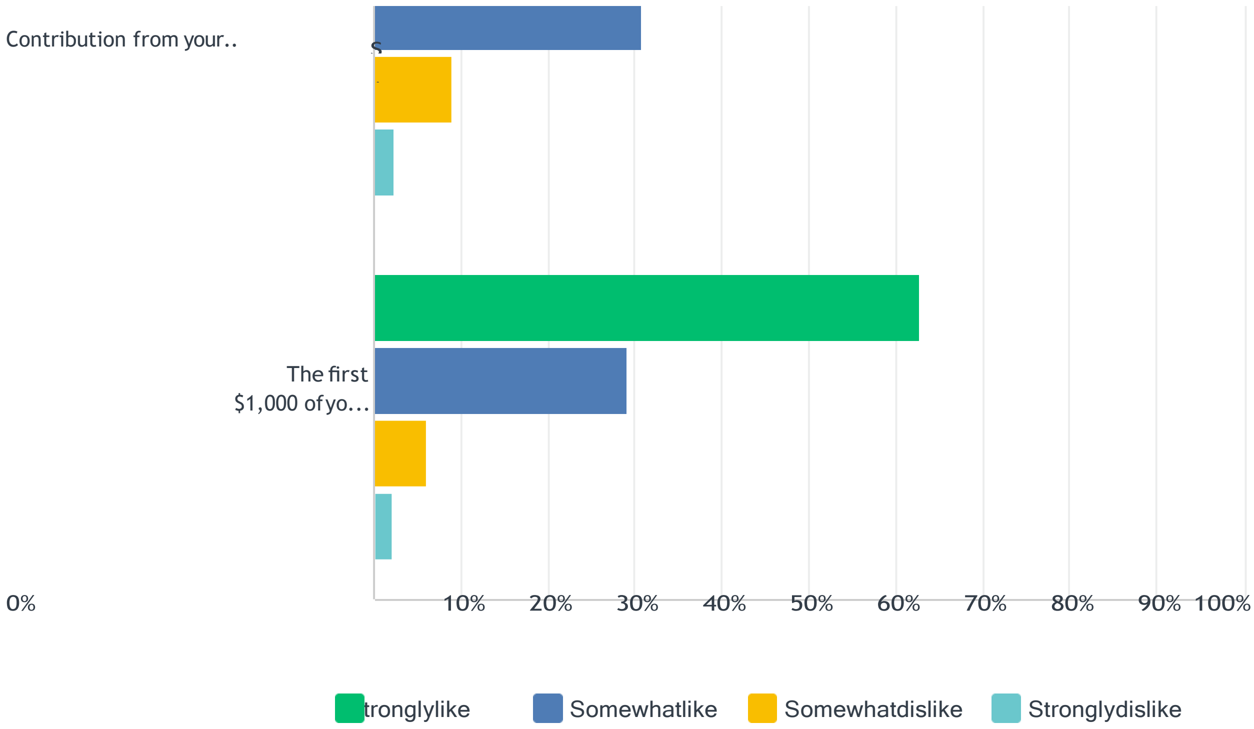
ANSWER CHOICES	RESPONSES	
I don’t make enough money to save for retirement	18.90%	183
Paying for immediate needs, like food, mortgage, or rent, or unexpected expenses, like home or car repairs	35.33%	342
Paying off credit card debt	10.12%	98
Saving for education	4.86%	47
Paying off student loans	8.06%	78
Paying off medical bills	4.86%	47
Employer doesn’t offer a retirement savings option	13.02%	126
I don’t know how to get started	3.31%	32
Other (please specify)	1.55%	15
TOTAL		968

#	OTHER (PLEASE SPECIFY)	DATE
1	I have no obstacles.	10/10/2020 10:24 PM
2	Currently self-employed in between employers so I do not currently have a 401(k) plan in which to stash away money	10/7/2020 4:41 PM
3	None of the above	10/4/2020 12:24 PM
4	saving for retirement	10/3/2020 2:10 PM
5	No obstacles	10/3/2020 8:10 AM
6	none	9/28/2020 5:54 PM
7	already receiving retirement funds	9/27/2020 5:48 PM
8	none of the above	9/27/2020 1:01 PM
9	n/a	9/27/2020 11:30 AM
10	N/A	9/27/2020 9:56 AM
11	Already have pension	9/27/2020 9:31 AM
12	None	9/26/2020 7:05 PM
13	Paying off student loans	9/23/2020 1:31 PM
14	none	9/22/2020 6:06 PM
15	I don’t know	9/15/2020 6:33 PM

Q11 As an employee, which of the following features of a retirement plan would you say you strongly like, somewhat like, somewhat dislike or strongly dislike?

Answered: 968 Skipped: 0

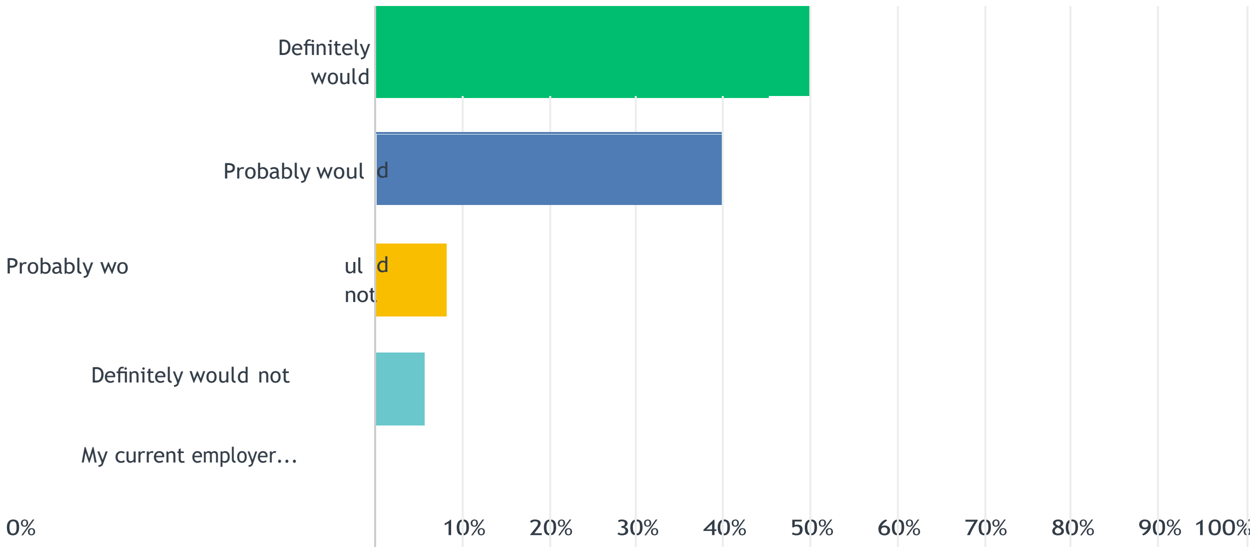




	STRONGLYLIKE	SOMEWHATLIKE	SOMEWHATDISLIKE	STRONGLYDISLIKE	TOTAL
You would be automatically enrolled in the program but could opt-out at any time	56.71% 549	32.64% 316	7.75% 75	2.89% 28	968
You would automatically contribute a set amount of your pay, but you could stop, pause, increase, or decrease that amount at any time	53.20% 515	32.44% 314	10.12% 98	4.24% 41	968
The retirement account could stay with you, even when you change jobs	69.73% 675	22.21% 215	5.27% 51	2.79% 27	968
You would have online or phone access to your retirement account	65.50% 634	25.41% 246	5.99% 58	3.10% 30	968
Contributions from your paycheck would be taken out after taxes but you would be able to withdraw your contributions at any time, without a penalty or taxes	57.85% 560	30.79% 298	8.99% 87	2.38% 23	968
The first $1,000 of your contributions would be placed in an emergency savings fund which you could access at any time, without penalty, for unplanned expenses	62.71% 607	29.03% 281	6.10% 59	2.17% 21	968

Q12 If your employer sponsored a retirement savings plan like a 401(k), would you participate in the retirement savings plan?

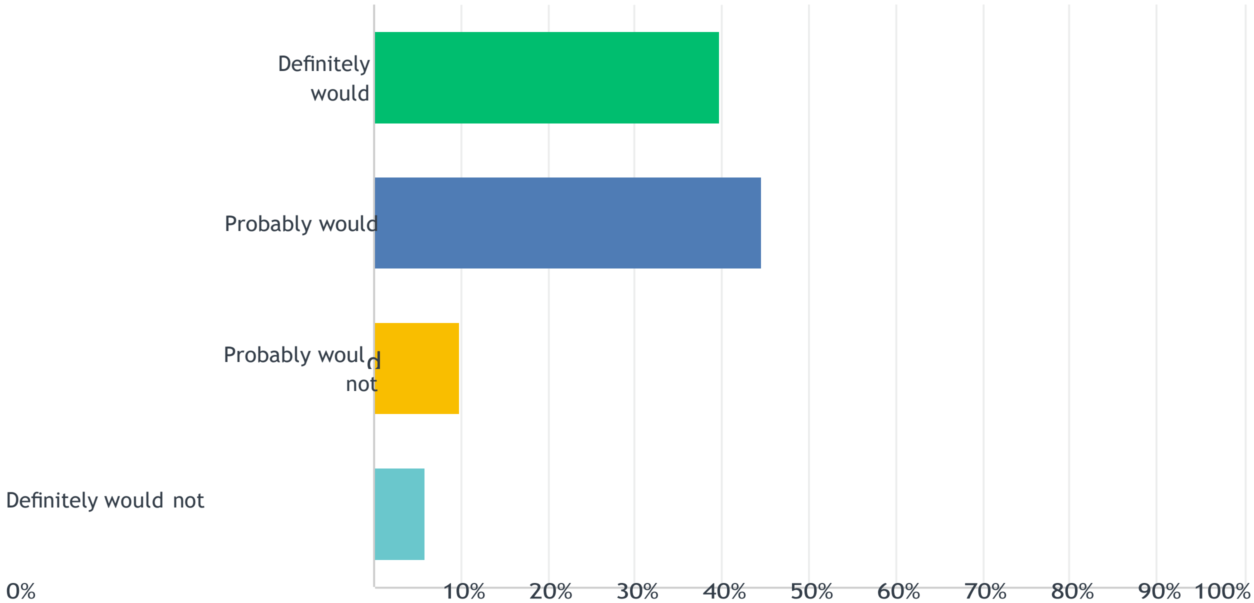
Answered: 968   Skipped: 0



ANSWER CHOICES	RESPONSES	
Definitely would	45.45%	440
Probably would	40.29%	390
Probably would not	8.47%	82
Definitely would not	5.79%	56
My current employer already offers a retirement plan (401k)	0.00%	0
TOTAL		968

Q13 If a retirement savings program offered automatic enrollment with a set, small percentage contribution from your paycheck, and a choice to opt-out, how likely is it that you would participate in this program?

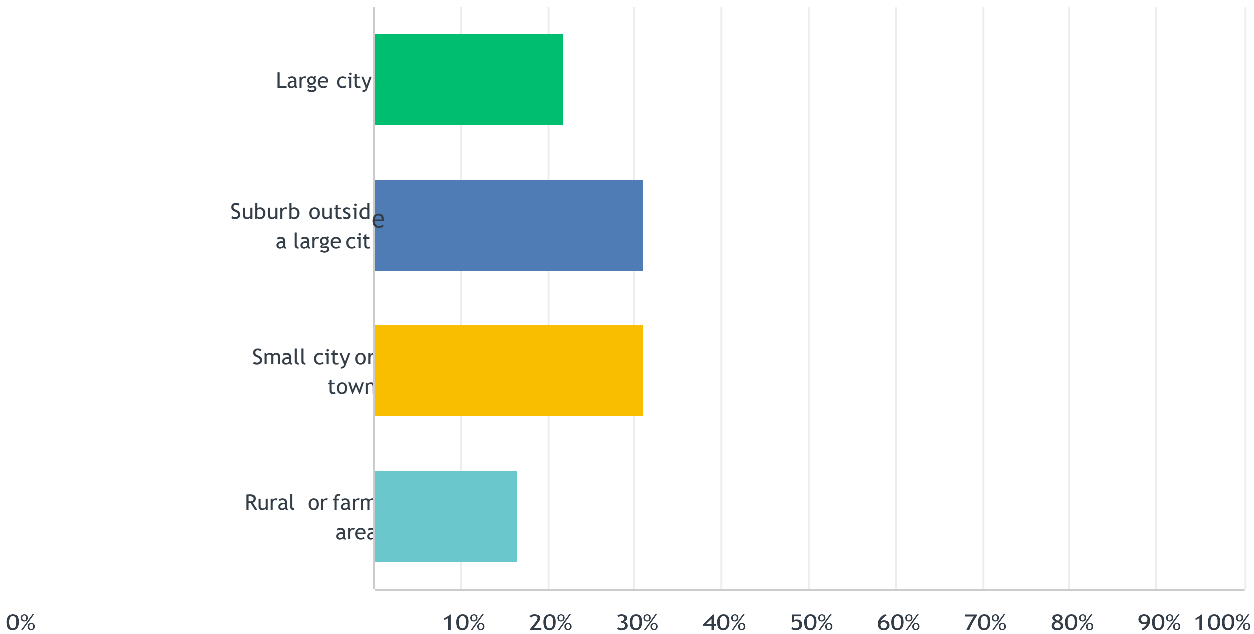
Answered: 968 Skipped: 0



ANSWER CHOICES	RESPONSES	
Definitely would	39.67%	384
Probably would	44.63%	432
Probably would not	9.92%	96
Definitely would not	5.79%	56
TOTAL		968

Q14 Which of the following best describes the location of your company? Please base your answer on the location where you primarily work.

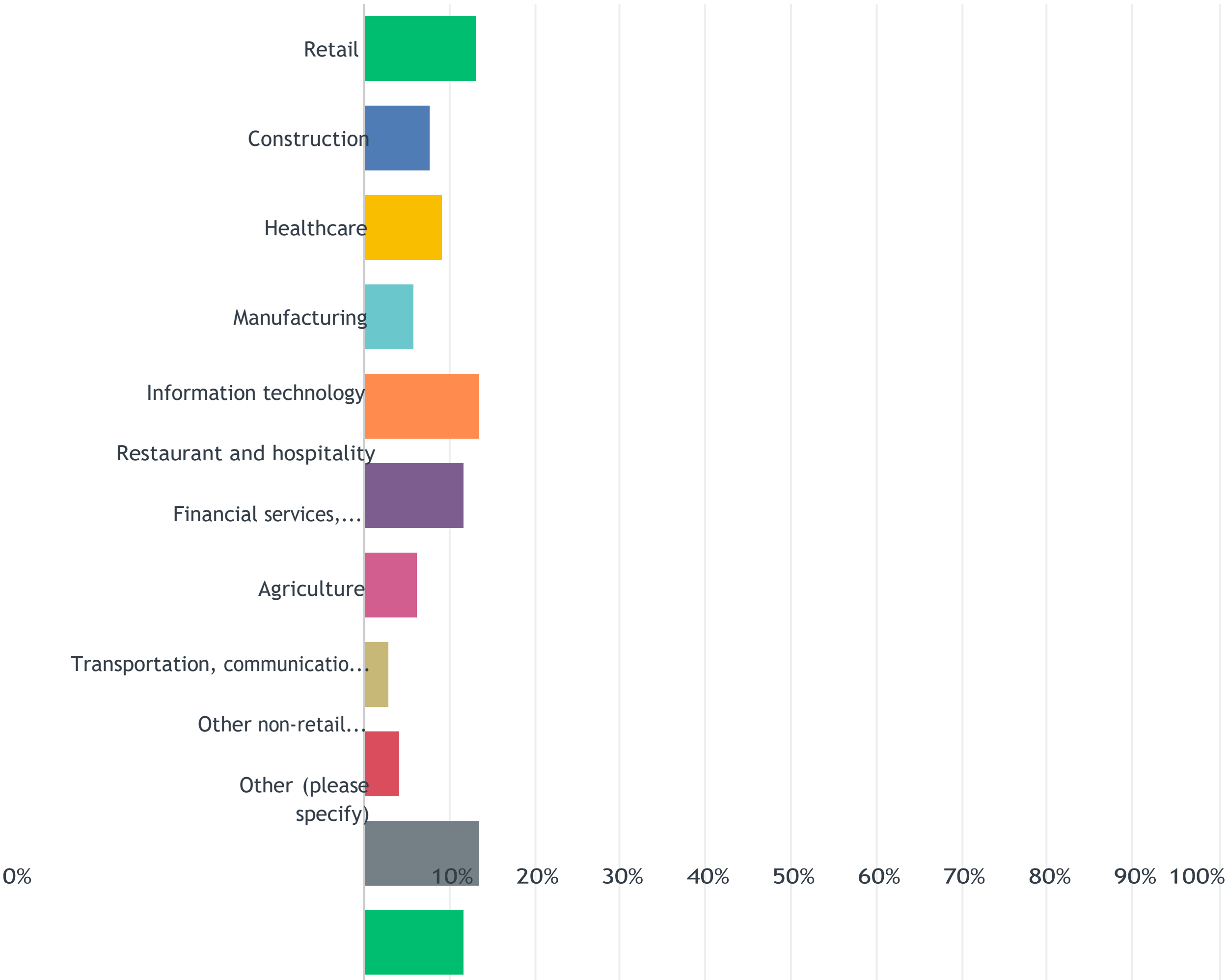
Answered: 968 Skipped: 0



ANSWER CHOICES	RESPONSES	
Large city	21.69%	210
Suburb outside a large city	30.99%	300
Small city or town	30.89%	299
Rural or farm area	16.43%	159
TOTAL		968

Q15 Which of the following categories best describes your company’s industry?

Answered: 968 Skipped: 0



ANSWER CHOICES	RESPONSES	
Retail	13.12%	127
Construction	7.64%	74
Healthcare	9.30%	90
Manufacturing	5.89%	57
Information technology	13.53%	131
Restaurant and hospitality	11.67%	113
Financial services, insurance, or real estate	6.30%	61
Agriculture	3.00%	29
Transportation, communications, or utilities	4.24%	41
Other non-retail services	13.64%	132
Other (please specify)	11.67%	113
TOTAL		968

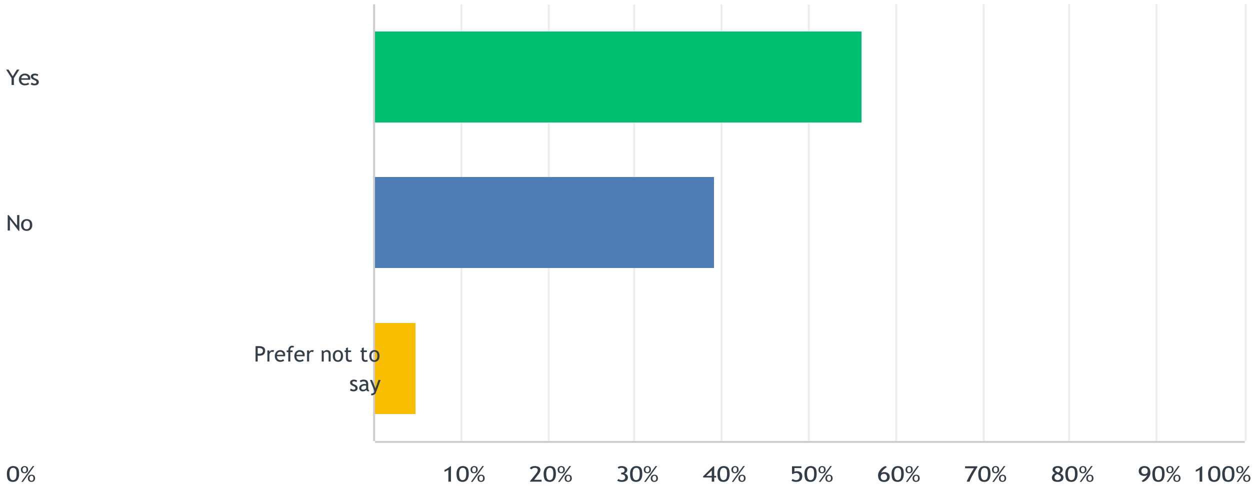
#	OTHER (PLEASE SPECIFY)	DATE
1	Garage	10/12/2020 11:01 AM
2	Music	10/12/2020 8:36 AM
3	Media Production	10/11/2020 9:31 PM
4	Parcel delivery	10/11/2020 7:17 PM
5	Church	10/11/2020 7:11 PM
6	real estate	10/11/2020 5:50 PM
7	House keeping	10/11/2020 10:00 AM
8	customer service	10/10/2020 1:24 AM
9	Church	10/10/2020 12:45 AM
10	Church	10/9/2020 10:25 PM
11	Accounting & Taxes	10/9/2020 11:14 AM
12	sanitation	10/9/2020 9:49 AM
13	security and communications	10/9/2020 12:25 AM
14	Education	10/6/2020 11:10 PM
15	leisure sports	10/6/2020 1:25 PM
16	Professional Barber	10/6/2020 6:53 AM
17	Sales and Media	10/6/2020 12:10 AM
18	Property manager	10/5/2020 7:33 PM
19	Education	10/5/2020 6:37 PM
20	Religious day school/day care	10/5/2020 12:56 PM
21	Only Fans	10/5/2020 10:27 AM
22	Salon and spa	10/5/2020 1:38 AM
23	education	10/4/2020 8:49 PM
24	House keeping	10/4/2020 4:33 PM
25	Higher Education	10/4/2020 10:30 AM
26	Non profit	10/3/2020 10:13 AM
27	Life Coach	10/3/2020 9:38 AM
28	Graphic design	10/3/2020 2:31 AM
29	Education	10/2/2020 1:36 AM
30	Personal care service	10/1/2020 10:25 AM
31	Event planning	9/30/2020 10:56 PM
32	Computer software	9/30/2020 5:01 PM
33	Education	9/30/2020 11:35 AM
34	childcare	9/29/2020 9:15 PM
35	Custodian Services	9/29/2020 3:12 PM
36	Education	9/29/2020 2:08 PM
37	Education	9/29/2020 9:38 AM

38	Trade	9/29/2020 6:57 AM
39	BOAT SALES	9/28/2020 6:36 PM
40	Consulting	9/28/2020 5:18 PM
41	Microjobs, eCommerce, Web Content	9/28/2020 2:20 PM
42	Retail	9/28/2020 10:38 AM
43	Winery	9/28/2020 10:32 AM
44	Advertising	9/28/2020 2:49 AM
45	landscaping	9/27/2020 10:22 PM
46	Education	9/27/2020 9:18 PM
47	food and beverage	9/27/2020 7:46 PM
48	non profit	9/27/2020 7:24 PM
49	Automotive	9/27/2020 4:08 PM
50	It/Information Technology	9/27/2020 3:09 PM
51	Freelance	9/27/2020 3:06 PM
52	Food	9/27/2020 2:31 PM
53	real estate	9/27/2020 1:04 PM
54	education	9/27/2020 11:59 AM
55	non profit	9/27/2020 11:38 AM
56	Sales	9/27/2020 11:37 AM
57	writing	9/27/2020 11:31 AM
58	Business Services	9/27/2020 10:36 AM
59	consulting	9/27/2020 9:58 AM
60	Higher education	9/27/2020 9:56 AM
61	Creative Services	9/27/2020 9:51 AM
62	Security Consulting	9/27/2020 9:33 AM
63	Private Piano Lessons	9/27/2020 9:03 AM
64	Home healthcare agency	9/27/2020 6:44 AM
65	CHURCH	9/27/2020 4:16 AM
66	writing	9/27/2020 3:14 AM
67	Law	9/27/2020 2:03 AM
68	Education	9/27/2020 12:33 AM
69	Own a tow company	9/27/2020 12:13 AM
70	Counseling	9/26/2020 11:53 PM
71	other	9/26/2020 11:25 PM
72	Pest control	9/26/2020 11:18 PM
73	sanitation	9/26/2020 10:15 PM
74	Church	9/26/2020 9:22 PM
75	Interior design	9/26/2020 7:12 PM

76	video productions	9/26/2020 6:35 PM
77	Education	9/26/2020 6:34 PM
78	House painting	9/26/2020 5:41 PM
79	Accounting	9/26/2020 3:38 PM
80	Non-Profit / Social Services	9/26/2020 7:44 AM
81	Mental Health Counselor	9/25/2020 12:32 PM
82	food and beverage	9/25/2020 9:12 AM
83	Religious institution	9/25/2020 7:23 AM
84	Personal services	9/24/2020 9:07 AM
85	Child care	9/23/2020 8:56 PM
86	Convenient store	9/23/2020 5:49 PM
87	Entertainment	9/23/2020 3:21 PM
88	Food Delivery	9/23/2020 12:15 PM
89	Respite care	9/23/2020 11:15 AM
90	education	9/23/2020 10:36 AM
91	Education	9/23/2020 10:05 AM
92	Computer Hardware	9/23/2020 9:43 AM
93	Consulting	9/23/2020 8:09 AM
94	human resources	9/23/2020 7:55 AM
95	biotech	9/23/2020 7:51 AM
96	media	9/23/2020 7:29 AM
97	Legal	9/23/2020 12:03 AM
98	Logistics	9/22/2020 11:43 PM
99	Day trading	9/22/2020 11:24 PM
100	Market Research Rep	9/22/2020 11:22 PM
101	Gaming	9/22/2020 10:16 PM
102	Specialized graphics	9/22/2020 9:27 PM
103	Academics	9/22/2020 6:41 PM
104	Non profit	9/22/2020 5:16 PM
105	Housecleaning	9/22/2020 4:18 PM
106	Publishing	9/16/2020 11:41 PM
107	Professional services (design & printing)	9/16/2020 11:40 PM
108	business services	9/16/2020 8:04 PM
109	Imprinted promotional products	9/16/2020 7:36 PM
110	Engineering	9/16/2020 7:28 PM
111	nonprofit historical landmark	9/16/2020 6:12 PM
112	Sales	9/15/2020 6:35 PM
113	Childcare	9/15/2020 4:10 PM

Q16 Have you been negatively impacted by COVID-19?

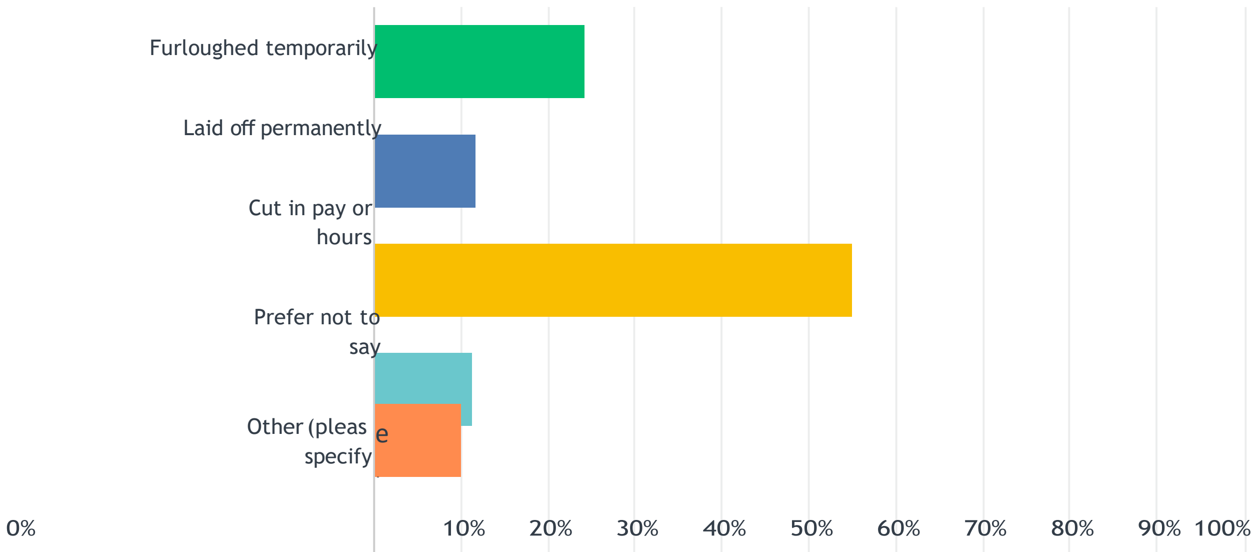
Answered: 968   Skipped: 0



ANSWER CHOICES	RESPONSES	
Yes	55.99%	542
No	39.15%	379
Prefer not to say	4.86%	47
TOTAL		968

Q17 In what ways have you been financially impacted by COVID-19? Please select all that apply.

Answered: 542 Skipped: 426



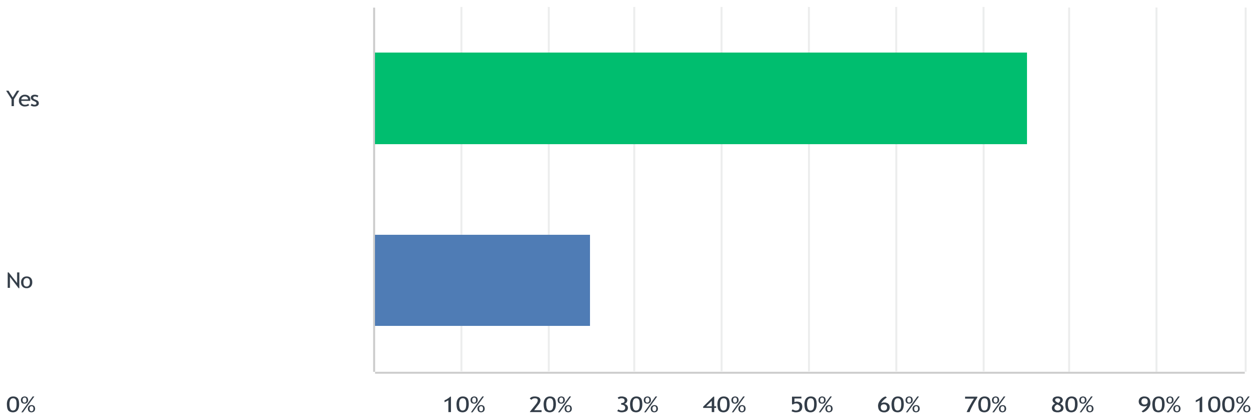
ANSWER CHOICES	RESPONSES	
Furloughed temporarily	24.17%	131
Laid off permanently	11.81%	64
Cut in pay or hours	54.98%	298
Prefer not to say	11.25%	61
Other (please specify)	9.41%	51
Total Respondents: 542		

#	OTHER (PLEASE SPECIFY)	DATE
1	Was laid off 3 months then only opened at half capacity	10/12/2020 2:53 PM
2	I’m a bartender and no bar seating is allowed.	10/11/2020 7:59 PM
3	None	10/11/2020 7:11 PM
4	full time	10/10/2020 9:47 PM
5	Spouse lost job	10/9/2020 10:26 PM
6	Everyone is impacted negatively by it	10/9/2020 1:51 PM
7	No Work from everyone not having any money	10/9/2020 1:49 AM
8	Overly cautious	10/8/2020 1:28 PM
9	As I am self employed I have found it difficult to gain new clients	10/7/2020 9:20 PM
10	Restaurant closed	10/6/2020 7:20 PM
11	Spouse laid off	10/6/2020 7:58 AM
12	3 weeks out of work due to exposure. First week was for testing and next 2 for exposure	10/5/2020 10:52 PM
13	Household income significantly affected	10/5/2020 10:05 PM
14	can't expose myself toothers	10/5/2020 7:33 PM
15	Left job to take care of children	10/5/2020 10:27 AM
16	family and job balance	10/4/2020 8:49 PM
17	working from home	10/4/2020 7:50 PM
18	I work plenty of hours. Pay just doesn’t add up. Maybe I work too many hours	10/4/2020 1:19 AM
19	not financially but psycologically	10/3/2020 9:58 AM
20	Spent extra on PPE, office May close at the end of the year	10/2/2020 8:44 PM
21	Family financial crisis	10/1/2020 5:44 PM
22	business financial loss	10/1/2020 10:25 AM
23	Travel business stopped.	9/30/2020 10:46 PM
24	Summer job didn’t happen	9/29/2020 3:57 PM
25	Loss of investment value	9/29/2020 3:35 PM
26	hard to find a good paying job due to companies cutting their work force	9/29/2020 1:17 PM
27	Outnof work since march, its now sept. The company i work for may go bankrupt	9/29/2020 6:58 AM
28	Household income cut by 80%	9/28/2020 2:20 PM
29	my normal business has not continued and I've had to find other ways to make money	9/28/2020 1:56 PM
30	child care expenses	9/27/2020 10:48 PM
31	Family	9/27/2020 9:12 PM
32	Death in family	9/27/2020 2:02 PM
33	Not much hours	9/27/2020 11:08 AM
34	Panic/anxiety, unable to perform job responsibilities	9/27/2020 10:39 AM
35	Schools closed. Impacts children.	9/27/2020 10:16 AM
36	Limited access to customers.	9/27/2020 9:52 AM
37	Decrease in demand for products/decrease in sales	9/27/2020 8:32 AM

38	others cut in pay/hours	9/27/2020 3:14 AM
39	Job	9/27/2020 3:02 AM
40	Scammed during pandemic	9/26/2020 9:34 PM
41	Business closed	9/26/2020 2:08 PM
42	Have not been financially impacted. It has changed job requirements.	9/25/2020 7:24 AM
43	Lost some clients	9/24/2020 8:07 AM
44	People not looking for life music during this time.	9/24/2020 12:35 AM
45	Not allowed to travel	9/23/2020 9:58 AM
46	Cut in pay	9/23/2020 9:48 AM
47	Loved ones very sick	9/23/2020 9:19 AM
48	Change in lifestyle	9/23/2020 8:09 AM
49	Company issues	9/22/2020 7:24 PM
50	Temporary closed due to Covid-19	9/16/2020 7:37 PM
51	Child care challenges	9/16/2020 7:11 PM

Q18 Would you be interested in participating in a financial wellness program if offered by the Commonwealth of Virginia?

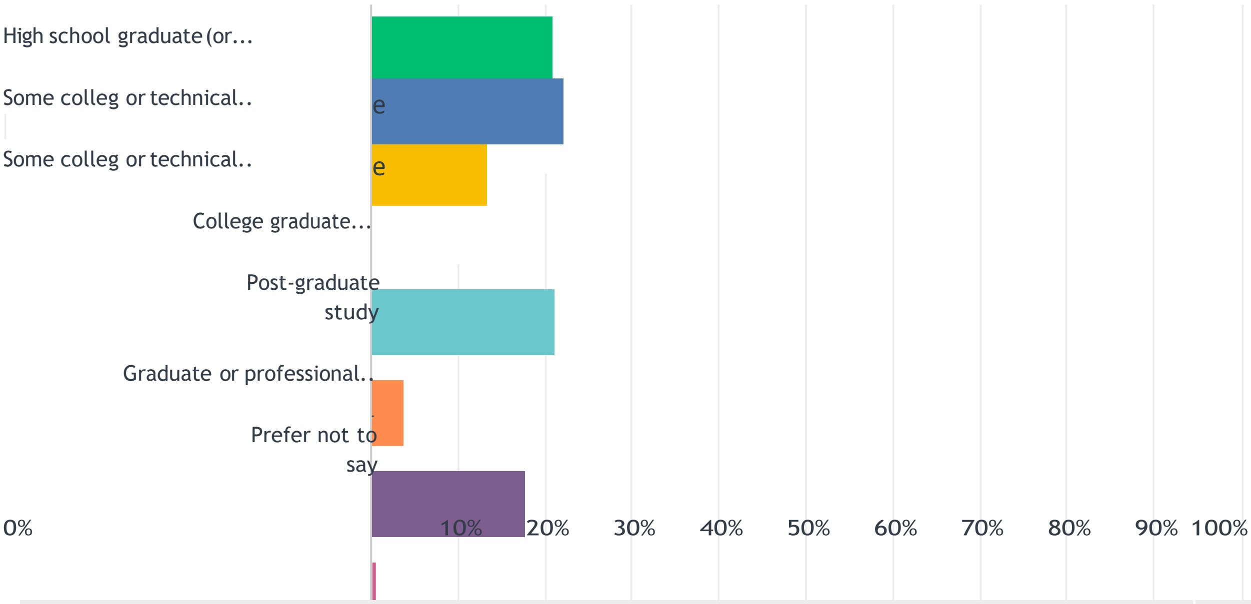
Answered: 968 Skipped: 0



ANSWER CHOICES	RESPONSES	
Yes	75.21%	728
No	24.79%	240
TOTAL		968

Q19 What is the highest degree or level of school you have completed?

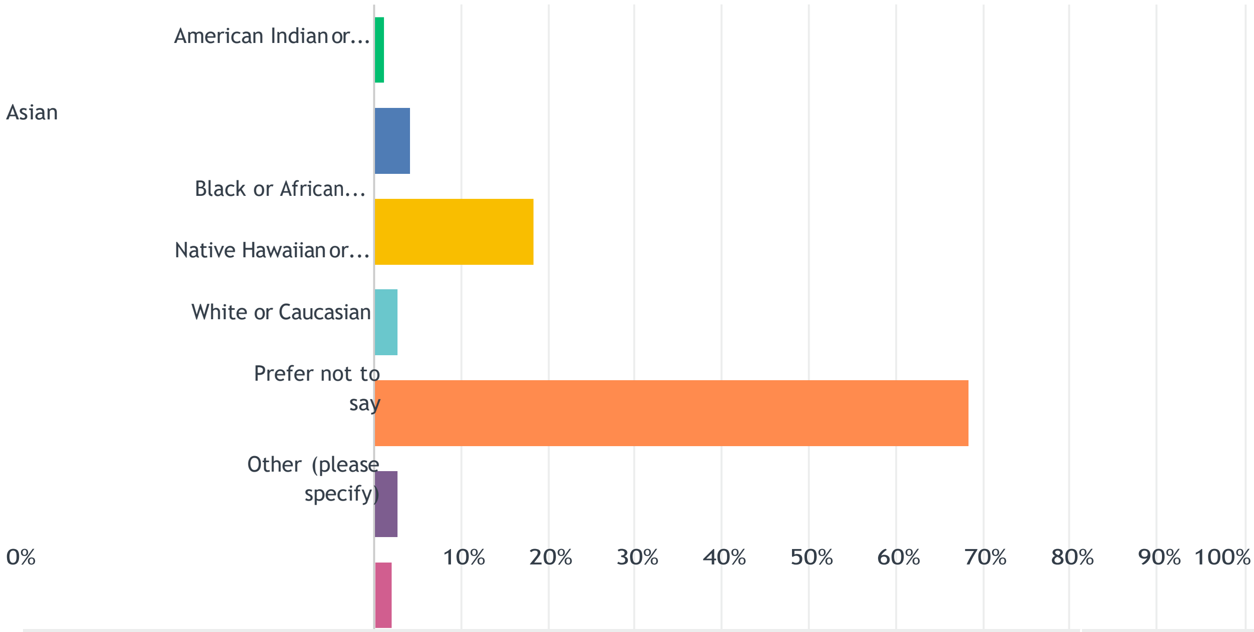
Answered: 968 Skipped: 0



ANSWER CHOICES	RESPONSES	
High school graduate (or equivalent) or less	20.87%	202
Some college or technical training (no degree)	22.21%	215
Some college or technical training (associates or 2-year degree)	13.43%	130
College graduate (4-year degree)	21.18%	205
Post-graduate study	3.82%	37
Graduate or professional degree (Master’s Degree/PhD/Law)	17.77%	172
Prefer not to say	0.72%	7
TOTAL		968

Q20 Which of the following best describes your race?

Answered: 968 Skipped: 0



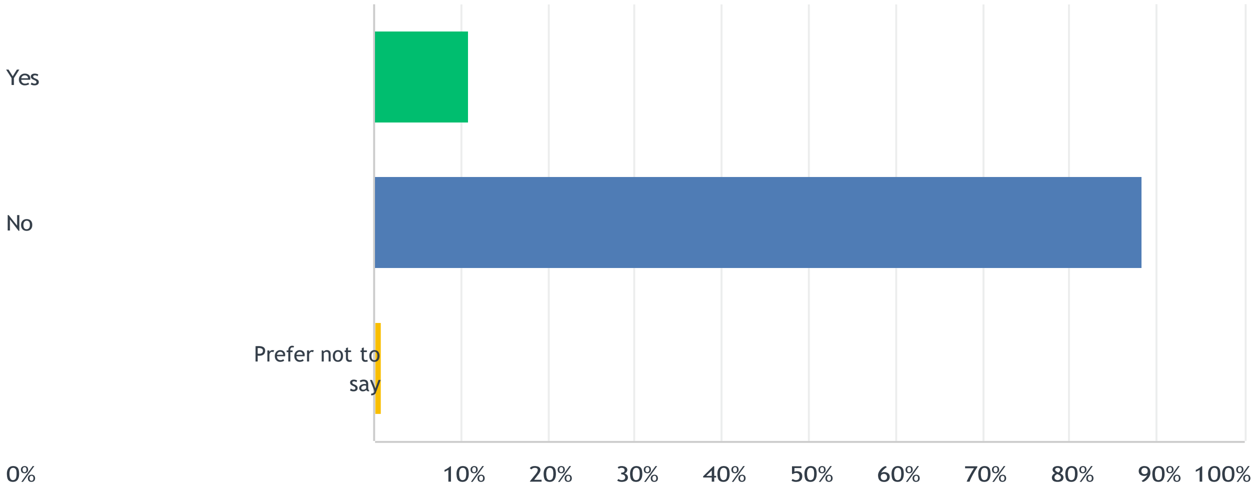
ANSWER CHOICES	RESPONSES	
American Indian or Alaska Native	1.24%	12
Asian	4.24%	41
Black or African American	18.49%	179
Native Hawaiian or other Pacific Islander	2.79%	27
White or Caucasian	68.49%	663
Prefer not to say	2.69%	26
Other (please specify)	2.07%	20
TOTAL		968

#	OTHER (PLEASE SPECIFY)	DATE
1	Cuban	10/12/2020 1:00 AM
2	Black & white	10/11/2020 7:12 PM
3	Korean and Black	10/11/2020 6:55 PM
4	Chicano	10/10/2020 10:26 PM
5	Matematicas	10/7/2020 12:20 PM
6	Hispanic	10/6/2020 7:48 PM
7	Mix	10/6/2020 7:20 PM
8	Portuguese	10/5/2020 12:35 PM
9	Mixed Racial Background	10/4/2020 5:51 AM
10	Hispanic	10/1/2020 11:59 PM
11	White/Asian	10/1/2020 5:45 PM
12	Latino	9/29/2020 2:17 PM
13	Latino	9/27/2020 7:39 AM
14	Cape Verdean	9/27/2020 6:45 AM
15	mixed	9/26/2020 11:26 PM
16	Mixed race	9/25/2020 5:32 PM
17	Human	9/24/2020 12:36 AM
18	Multi-racial	9/23/2020 12:04 AM
19	None of the above	9/22/2020 9:28 PM
20	Mixed	9/15/2020 6:37 PM

TOTAL	968

Q21 Are you of Hispanic/Latino origin or descent?

Answered: 968 Skipped: 0

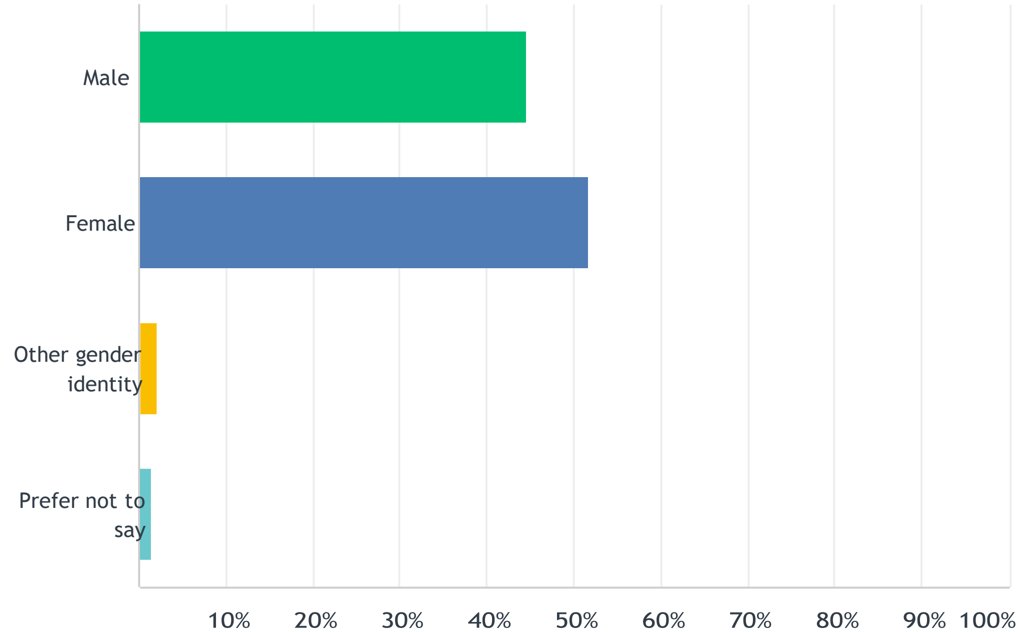


ANSWER CHOICES	RESPONSES	
Yes	10.85%	105
No	88.22%	854
Prefer not to say	0.93%	9
TOTAL		968

TOTAL	968

Q22 What is your gender?

Answered: 968 Skipped: 0

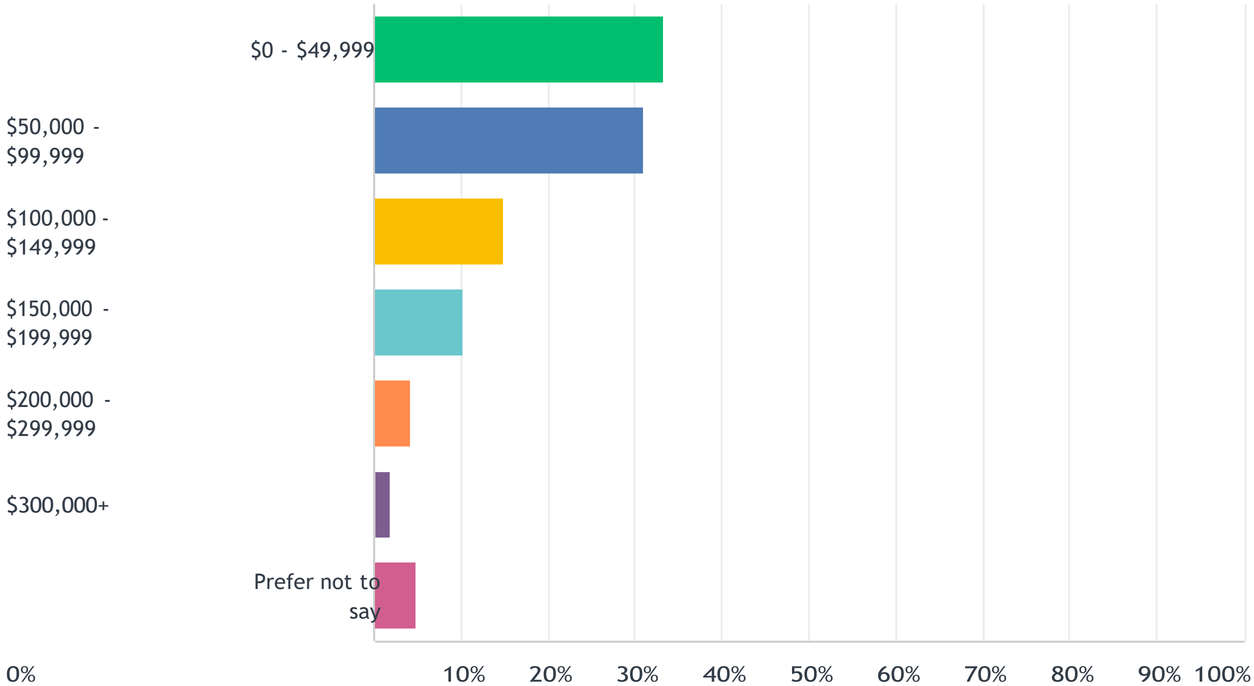


ANSWER CHOICES	RESPONSES	
Male	44.63%	432
Female	51.76%	501
Other gender identity	2.17%	21
Prefer not to say	1.45%	14
TOTAL		968

TOTAL	968

Q23 What is your annual household income?

Answered: 968   Skipped: 0



ANSWER CHOICES	RESPONSES	
$0 - $49,999	33.16%	321
$50,000 - $99,999	30.99%	300
$100,000 - $149,999	14.77%	143
$150,000 - $199,999	10.33%	100
$200,000 - $299,999	4.13%	40
$300,000+	1.86%	18
Prefer not to say	4.75%	46
TOTAL		968

TOTAL	968

Q24 Do you have any final thoughts on the topic of retirement savings programs that you'd like to share?

Answered: 670   Skipped: 298

TOTAL	968

#	RESPONSES	DATE
1	This is a nice initiative, love this.	10/12/2020 2:48 PM
2	No	10/12/2020 2:18 PM
3	None	10/12/2020 2:18 PM
4	great	10/12/2020 2:07 PM
5	No	10/12/2020 1:24 PM
6	no	10/12/2020 12:12 PM
7	No	10/12/2020 9:17 AM
8	No	10/12/2020 9:15 AM
9	None, but thank you.	10/12/2020 8:36 AM
10	No	10/12/2020 7:13 AM
11	None	10/12/2020 5:43 AM
12	No	10/12/2020 3:23 AM
13	thank you	10/12/2020 3:09 AM
14	The topic were very interesting	10/12/2020 1:00 AM
15	Start now!	10/12/2020 12:40 AM
16	none	10/11/2020 11:50 PM
17	No	10/11/2020 10:58 PM
18	No	10/11/2020 10:48 PM
19	Not really	10/11/2020 10:15 PM
20	Idek frfr	10/11/2020 9:37 PM
21	nope	10/11/2020 9:35 PM
22	The fact is that every one of us will come to a point in life where we are unable to work. I can’t rely on social security when that time comes for me.	10/11/2020 8:00 PM
23	No	10/11/2020 7:53 PM
24	no	10/11/2020 7:32 PM
25	very good	10/11/2020 7:24 PM
26	No	10/11/2020 7:18 PM
27	I think having a program that moves with you would be great	10/11/2020 7:17 PM
TOTAL		968
28	No	10/11/2020 7:15 PM
29	No	10/11/2020 7:12 PM
30	No	10/11/2020 6:55 PM
31	No	10/11/2020 6:53 PM
32	none of your business	10/11/2020 6:44 PM
33	No	10/11/2020 6:31 PM
34	None	10/11/2020 5:54 PM
35	No thank you	10/11/2020 5:51 PM
36	not really	10/11/2020 5:51 PM
37	NO	10/11/2020 4:23 PM

38	None	10/11/2020 4:00 PM
39	this is most useful	10/11/2020 2:46 PM
40	No	10/11/2020 12:37 PM
41	Pretty good topic	10/11/2020 11:40 AM
42	no not really	10/11/2020 11:02 AM
43	No.	10/11/2020 10:22 AM
44	no	10/11/2020 9:37 AM
45	No	10/11/2020 1:36 AM
46	I already have a Sep IRA through Vanguard, and I enjoy the freedom of personally being able to select where my money goes.	10/10/2020 10:26 PM
47	Option to invest in a annuity of some kind since a guaranteed income will be what some people best understand	10/10/2020 9:25 PM
48	No	10/10/2020 8:25 PM
49	I don’t know	10/10/2020 8:11 PM
50	All companies should have a retirement plan	10/10/2020 7:41 PM
51	None	10/10/2020 7:19 PM
52	No	10/10/2020 6:46 PM
53	No I do not	10/10/2020 6:08 PM
54	These are the best	10/10/2020 6:04 PM
55	No	10/10/2020 2:03 PM
56	none	10/10/2020 1:04 PM
57	No	10/10/2020 11:57 AM
58	I dont think america has any type of retirement plan	10/10/2020 11:42 AM
59	Goo	10/10/2020 9:31 AM
60	No,thanks	10/10/2020 7:40 AM
61	mo	10/10/2020 6:14 AM
62	no	10/10/2020 5:11 AM
63	I would rather not be automatically enrolled in any kind of program. Instead, I'd like to be given the option to opt-in at any time, including during the first day when employers hand out the first-day paperwork. That would give people much more control over their finances.	10/10/2020 3:21 AM
TOTAL		968
64	very good programs	10/10/2020 2:51 AM
65	I love this	10/10/2020 1:40 AM
66	no	10/10/2020 1:24 AM
67	No	10/10/2020 12:43 AM
68	No I do not.	10/9/2020 11:31 PM
69	yess,i have	10/9/2020 10:08 PM
70	Nope	10/9/2020 8:26 PM
71	No	10/9/2020 8:13 PM
72	thank you for this survey	10/9/2020 7:22 PM
73	No	10/9/2020 6:49 PM

74	No, thanks for asking tho	10/9/2020 4:16 PM	
75	Please provide savings programs for people who are trying to retire	10/9/2020 3:34 PM	
76	No	10/9/2020 3:25 PM	
77	I just want to save more and faster.	10/9/2020 2:49 PM	
78	No	10/9/2020 1:52 PM	
79	No	10/9/2020 12:24 PM	
80	there will be the amount of money to run this in the future	10/9/2020 12:14 PM	
81	I just wanna quit this job it's very tiring and annoying I'm jk I'm a little kid XD	10/9/2020 12:13 PM	
82	no	10/9/2020 11:53 AM	
83	if the programs comfort for me then i am very interested to saving account..	10/9/2020 11:32 AM	
84	No	10/9/2020 11:21 AM	
85	No	10/9/2020 11:15 AM	
86	No	10/9/2020 10:42 AM	
87	No	10/9/2020 10:40 AM	
88	yes	10/9/2020 10:37 AM	
89	No	10/9/2020 10:24 AM	
90	no not really	10/9/2020 10:22 AM	
91	This would be a blessing for some future security	10/9/2020 9:50 AM	
92	None	10/9/2020 9:36 AM	
93	No	10/9/2020 8:52 AM	
94	no	10/9/2020 8:29 AM	
95	No	10/9/2020 8:27 AM	
96	No	10/9/2020 8:22 AM	
97	none	10/9/2020 7:53 AM	
98	the government should pay more attention in this issue.	10/9/2020 5:42 AM	
99	There should be more options to make the account more accessible without penalty	10/9/2020 5:03 AM	
100	I want to get myself enrolled into the program.	10/9/2020 4:23 AM	
101	N/a	10/9/2020 2:54 AM	
102 TOTAL	No	10/9/2020 1:56 AM	968
103	Nope	10/9/2020 1:49 AM	
104	Interesting	10/9/2020 1:35 AM	
105	no	10/9/2020 1:19 AM	
106	No	10/9/2020 12:52 AM	
107	None	10/9/2020 12:48 AM	
108	I'm worried I won't have enough before I can't work anymore	10/9/2020 12:26 AM	
109	No	10/8/2020 11:36 PM	
110	No	10/8/2020 11:26 PM	
111	No	10/8/2020 11:06 PM	

112	No	10/8/2020 11:05 PM
113	Ok	10/8/2020 10:50 PM
114	No	10/8/2020 9:00 PM
115	Having a program for retirement that we could access by the state would only be great if we could remove funds to change states or move residency.	10/8/2020 8:08 PM
116	No	10/8/2020 7:49 PM
117	None	10/8/2020 7:43 PM
118	Would love to have this	10/8/2020 7:40 PM
119	To save for it in the upcoming years.	10/8/2020 7:23 PM
120	no	10/8/2020 4:13 PM
121	no	10/8/2020 3:23 PM
122	no	10/8/2020 1:28 PM
123	Nope	10/8/2020 1:20 PM
124	Yes	10/8/2020 12:05 PM
125	No Good	10/8/2020 10:58 AM
126	Not really im just not sure how to save money	10/8/2020 10:41 AM
127	no	10/8/2020 9:38 AM
128	None	10/8/2020 6:34 AM
129	no	10/8/2020 5:18 AM
130	J	10/8/2020 5:07 AM
131	it sounds great	10/8/2020 3:05 AM
132	Don't think of any	10/8/2020 1:48 AM
133	none	10/8/2020 1:41 AM
134	Great survey. I hope the economy gets better	10/8/2020 12:42 AM
135	No	10/7/2020 11:22 PM
136	N/A	10/7/2020 11:04 PM
137	I believe broad diversity is key to long term savings goals so that when investing we are able to take an asymmetric risk instead of putting all of our eggs in one basket so to speak.	10/7/2020 9:22 PM
138	No	10/7/2020 9:19 PM
139	yes, i would like to know more about it.	10/7/2020 3:29 PM
TOTAL		968
140	That will be too good for every employees for automatic retirement savings that describe above.	10/7/2020 1:58 PM
141	no	10/7/2020 1:44 PM
142	No	10/7/2020 1:06 PM
143	no thank you	10/7/2020 12:55 PM
144	None	10/7/2020 12:44 PM
145	Nose	10/7/2020 12:20 PM
146	No	10/7/2020 11:14 AM
147	Joe mama	10/7/2020 9:48 AM
148	No I don’t	10/7/2020 4:18 AM

149	Saving right now is really hard when there is no work going on anymore because of the Virus	10/7/2020 2:44 AM
150	No	10/7/2020 12:17 AM
151	no	10/6/2020 11:42 PM
152	no	10/6/2020 9:54 PM
153	No	10/6/2020 7:48 PM
154	No	10/6/2020 7:21 PM
155	no im fine	10/6/2020 7:20 PM
156	Thank you so much!	10/6/2020 5:42 PM
157	No	10/6/2020 12:50 PM
158	No	10/6/2020 12:28 PM
159	yes i like it	10/6/2020 11:43 AM
160	good	10/6/2020 9:21 AM
161	Yes	10/6/2020 8:10 AM
162	No	10/6/2020 7:50 AM
163	nah	10/6/2020 6:57 AM
164	No	10/6/2020 6:55 AM
165	No	10/6/2020 6:54 AM
166	not yet	10/6/2020 5:47 AM
167	No	10/6/2020 1:51 AM
168	I've tried to prioritize it above other concerns, but have relatives that could benefit from the program mentioned in this survey.	10/6/2020 12:11 AM
169	it was great to share	10/5/2020 11:34 PM
170	I need a retirement plan, but my employer doesn't offer one	10/5/2020 11:19 PM
171	I would love to have a retirement plan but we just dont make enoigh money. We are barely making our regular bills right now.	10/5/2020 10:53 PM
172	no	10/5/2020 10:45 PM
173	No	10/5/2020 10:39 PM
174	good	10/5/2020 10:34 PM
175	No	10/5/2020 10:13 PM
TOTAL		968
176	Well it sounds like a good idea but the issue would be people would be dependent on a program which can be unhealthy because people are less motivated to do things themselves. It sounds good but I doubt it will be good long term	10/5/2020 10:06 PM
177	No	10/5/2020 9:39 PM
178	No not at the moment	10/5/2020 9:12 PM
179	I'd love to have retirement funds	10/5/2020 9:07 PM
180	Na	10/5/2020 8:25 PM
181	No	10/5/2020 7:55 PM
182	No	10/5/2020 7:40 PM
183	no	10/5/2020 7:34 PM
184	No	10/5/2020 7:29 PM

185	I get to spend the best time with my family I love dearly	10/5/2020 5:17 PM
186	No.	10/5/2020 2:12 PM
187	No	10/5/2020 10:28 AM
188	It's hard for employers to have a retirement plan for their employes	10/5/2020 9:47 AM
189	No	10/5/2020 2:30 AM
190	Everyone should have access to a professional financial advisor.	10/5/2020 1:43 AM
191	No	10/5/2020 12:59 AM
192	No	10/5/2020 12:43 AM
193	No, thank you.	10/4/2020 11:56 PM
194	Retirement saving must need for every people	10/4/2020 11:38 PM
195	Nope	10/4/2020 11:00 PM
196	No	10/4/2020 10:23 PM
197	no	10/4/2020 10:13 PM
198	No	10/4/2020 9:33 PM
199	N/a	10/4/2020 9:28 PM
200	be secure for retirement.	10/4/2020 8:50 PM
201	No	10/4/2020 7:53 PM
202	No, Thank you	10/4/2020 7:51 PM
203	It's very important to me of retirement savings and of course it would be helpful in the future for me and my family.	10/4/2020 7:08 PM
204	No, this was a great survey !	10/4/2020 6:30 PM
205	no everything sounds great	10/4/2020 5:25 PM
206	No	10/4/2020 4:34 PM
207	N/A	10/4/2020 4:07 PM
208	yes of course.	10/4/2020 3:30 PM
209	No	10/4/2020 3:00 PM
210	Ok	10/4/2020 3:00 PM
211	No	10/4/2020 1:54 PM
212	Nope	10/4/2020 1:32 PM
TOTAL		968
213	No	10/4/2020 1:18 PM
214	No	10/4/2020 12:27 PM
215	Should move retirement age to 45	10/4/2020 12:01 PM
216	No	10/4/2020 11:46 AM
217	I will settle in country side	10/4/2020 11:15 AM
218	no	10/4/2020 11:06 AM
219	no	10/4/2020 11:00 AM
220	not really	10/4/2020 10:11 AM
221	Nope.	10/4/2020 5:51 AM

222	Please make it a reality it would help a lot of young Virginians for the future	10/4/2020 4:50 AM
223	Uuh	10/4/2020 3:31 AM
224	No	10/4/2020 12:45 AM
225	No	10/4/2020 12:26 AM
226	Nope	10/3/2020 11:11 PM
227	No	10/3/2020 10:35 PM
228	Its important	10/3/2020 9:29 PM
229	It’s a good thing	10/3/2020 7:04 PM
230	no	10/3/2020 6:02 PM
231	No	10/3/2020 5:21 PM
232	good surveys	10/3/2020 5:15 PM
233	No	10/3/2020 4:56 PM
234	None at all	10/3/2020 4:49 PM
235	It is really important things.	10/3/2020 3:46 PM
236	The survey was good. It was about retirement saving program that helped me much.	10/3/2020 3:36 PM
237	No	10/3/2020 3:04 PM
238	No	10/3/2020 2:32 PM
239	i like all the things	10/3/2020 1:47 PM
240	No	10/3/2020 12:58 PM
241	No	10/3/2020 10:48 AM
242	Noo	10/3/2020 10:45 AM
243	I wish I had begun many years ago	10/3/2020 10:14 AM
244	The employee retirement income security act covers two types of retirement plants, defined benefit plans defined contribution plans.	10/3/2020 10:08 AM
245	no	10/3/2020 9:59 AM
246	Some of the questions didn't apply since I'm 65, such as would I participate in a program now. It's because of my age (why bother) not because I don't want to.	10/3/2020 9:53 AM
247	none	10/3/2020 9:25 AM
248	No	10/3/2020 8:59 AM
249	No	10/3/2020 8:14 AM
TOTAL		968
250	No. All great to me!	10/3/2020 7:12 AM
251	Everyone needs to save for retirement	10/3/2020 7:01 AM
252	None	10/3/2020 6:35 AM
253	No	10/3/2020 5:32 AM
254	No	10/3/2020 2:31 AM
255	I honestly wish jobs could provide more Beni fits to employees and an emergency check when stuff like pandemic happens	10/2/2020 11:04 PM
256	No	10/2/2020 10:46 PM
257	No thank you	10/2/2020 8:44 PM
258	no	10/2/2020 8:11 PM

259	none	10/2/2020 7:43 PM
260	No	10/2/2020 4:52 PM
261	like	10/2/2020 3:45 PM
262	No	10/2/2020 3:42 PM
263	No	10/2/2020 3:29 PM
264	Savings are always helpful. It reduce our tension. We must need retirement savings system all over the state.	10/2/2020 3:10 PM
265	No	10/2/2020 2:54 PM
266	yes	10/2/2020 1:35 PM
267	Helpful and supportive	10/2/2020 12:52 PM
268	No	10/2/2020 5:56 AM
269	No	10/2/2020 1:45 AM
270	No	10/1/2020 11:59 PM
271	Duh	10/1/2020 10:46 PM
272	i love this survey very much.	10/1/2020 6:29 PM
273	No	10/1/2020 1:52 PM
274	no	10/1/2020 1:37 PM
275	No	10/1/2020 12:36 PM
276	No	10/1/2020 11:34 AM
277	None	10/1/2020 11:17 AM
278	I need sufficient financial resources to maintain and improve my lifestyle through this.	10/1/2020 10:41 AM
279	it would be helpful to have access to state supported plans	10/1/2020 10:26 AM
280	No I dont	10/1/2020 10:22 AM
281	No	10/1/2020 9:31 AM
282	This survey is too important for an employee. And i would like to recommend others of my employee.	10/1/2020 8:57 AM
283	No	10/1/2020 3:49 AM
284	I think not now . but future planing .	10/1/2020 3:36 AM
285	No	10/1/2020 1:33 AM
TOTAL		968
286	I actually like it	10/1/2020 1:04 AM
287	No thank you	10/1/2020 12:14 AM
288	No tahnamskks	9/30/2020 9:48 PM
289	Brb	9/30/2020 8:43 PM
290	Nope	9/30/2020 5:02 PM
291	No	9/30/2020 4:35 PM
292	dog	9/30/2020 12:21 PM
293	Saving is a habit. It may make rational, mathematical sense to start saving early, but it isn’t always easy. But the instinct to save grows as you do it. It’ll start to feel good as you see that account balance grow.	9/30/2020 11:39 AM
294	No	9/29/2020 11:36 PM

295	Yes	9/29/2020 10:11 PM
296	Nope	9/29/2020 9:44 PM
297	that I hope I am lucky to have one someday	9/29/2020 9:16 PM
298	No	9/29/2020 7:33 PM
299	No	9/29/2020 6:21 PM
300	No	9/29/2020 4:20 PM
301	no	9/29/2020 4:03 PM
302	yes	9/29/2020 3:41 PM
303	No	9/29/2020 3:35 PM
304	Nothing what so ever	9/29/2020 2:55 PM
305	Nope	9/29/2020 2:17 PM
306	Ni	9/29/2020 2:12 PM
307	no	9/29/2020 2:09 PM
308	No	9/29/2020 1:31 PM
309	just it would be easier to save money for retirement if we were paid more. so we would have more money left over after bills and food to save.	9/29/2020 1:18 PM
310	No	9/29/2020 12:35 PM
311	No	9/29/2020 11:59 AM
312	Not at this time.	9/29/2020 11:54 AM
313	No, I don't.	9/29/2020 11:15 AM
314	Retirement programs is essential for every employee	9/29/2020 11:08 AM
315	None	9/29/2020 10:19 AM
316	yes	9/29/2020 9:51 AM
317	No thank you	9/29/2020 9:39 AM
318	Not exactly	9/29/2020 9:00 AM
319	Nothing	9/29/2020 7:41 AM
320	no	9/29/2020 7:06 AM
321	no	9/29/2020 6:58 AM
322	No	9/29/2020 2:28 AM
TOTAL		968
323	No	9/29/2020 12:37 AM
324	No	9/28/2020 11:32 PM
325	Nope	9/28/2020 11:32 PM
326	None	9/28/2020 9:28 PM
327	No	9/28/2020 8:55 PM
328	none	9/28/2020 7:48 PM
329	good	9/28/2020 7:32 PM
330	goog	9/28/2020 6:55 PM
331	NO	9/28/2020 6:37 PM

332	none	9/28/2020 5:19 PM
333	yes	9/28/2020 4:21 PM
334	Yes	9/28/2020 4:07 PM
335	I think retirement saving is most important for every person.	9/28/2020 3:58 PM
336	I don't have any final thought.	9/28/2020 3:04 PM
337	No	9/28/2020 2:56 PM
338	it is very interesting	9/28/2020 2:39 PM
339	nothing	9/28/2020 2:25 PM
340	Does look interesting	9/28/2020 2:21 PM
341	yes	9/28/2020 2:02 PM
342	No	9/28/2020 1:41 PM
343	I want to save because i can live a good life after retirement	9/28/2020 1:20 PM
344	No	9/28/2020 11:35 AM
345	no	9/28/2020 11:26 AM
346	No	9/28/2020 11:09 AM
347	I think people need to save money for future.	9/28/2020 11:06 AM
348	Not at this time	9/28/2020 10:39 AM
349	It’s a good idea and investment	9/28/2020 10:33 AM
350	check out this place for a good job here.	9/28/2020 9:47 AM
351	no	9/28/2020 9:21 AM
352	thank you	9/28/2020 9:21 AM
353	very well	9/28/2020 9:01 AM
354	Retirement saving programs is the most important that would help everywhere.	9/28/2020 8:56 AM
355	No	9/28/2020 8:11 AM
356	It is hard to get started	9/28/2020 7:48 AM
357	G	9/28/2020 5:56 AM
358	As a self employed farmer it isn't easy for my husband and I to start saving for retirement. A savings program like the one mentioned sounds like a great idea for many families like ours.	9/28/2020 5:29 AM
359	no thank you	9/28/2020 3:23 AM
TOTAL		968
360	No thank you	9/28/2020 2:50 AM
361	No	9/28/2020 2:45 AM
362	No comment	9/28/2020 1:44 AM
363	No	9/28/2020 1:32 AM
364	No	9/28/2020 12:59 AM
365	Ni	9/28/2020 12:19 AM
366	NO	9/28/2020 12:16 AM
367	No	9/27/2020 11:30 PM
368	NA	9/27/2020 10:49 PM
369	none	9/27/2020 10:23 PM

370	no	9/27/2020 9:31 PM
371	This was a very interesting survey about retirement savings	9/27/2020 9:17 PM
372	I’d like a retirement fund because my parents are using theirs currently and I see how useful they are	9/27/2020 9:13 PM
373	No	9/27/2020 8:00 PM
374	It would be nice to have one that will not get taxed by the government. It is my money and I should be able to save it	9/27/2020 7:47 PM
375	I try to save a much as I can while living comfortably	9/27/2020 7:26 PM
376	no one can tell what the economy will be doing in the next year	9/27/2020 7:25 PM
377	none	9/27/2020 7:08 PM
378	No	9/27/2020 7:06 PM
379	N/A	9/27/2020 7:01 PM
380	I really enjoyed the survey	9/27/2020 6:53 PM
381	I like the idea but immediate enrollment is bad	9/27/2020 6:51 PM
382	retirement is something that must be planned for financially and emotionally	9/27/2020 5:54 PM
383	I like this retirement program.	9/27/2020 5:35 PM
384	No	9/27/2020 4:50 PM
385	No.	9/27/2020 4:13 PM
386	No	9/27/2020 4:08 PM
387	it was very good for me and i like it	9/27/2020 3:34 PM
388	i want to saving for my future	9/27/2020 3:12 PM
389	i save	9/27/2020 3:11 PM
390	No comment.	9/27/2020 3:07 PM
391	No	9/27/2020 2:59 PM
392	No	9/27/2020 2:44 PM
393	It should be offered to every American and I think it's the government's job to enforce	9/27/2020 2:32 PM
394	It would be nice	9/27/2020 2:02 PM
395	like	9/27/2020 2:02 PM
396	N/A	9/27/2020 1:50 PM
397	Rjjd	9/27/2020 1:47 PM
TOTAL		968
398	No. I am set on my retirement choices.	9/27/2020 1:05 PM
399	None	9/27/2020 12:45 PM
400	Would you like an egg?	9/27/2020 12:43 PM
401	No	9/27/2020 12:14 PM
402	no	9/27/2020 12:00 PM
403	No	9/27/2020 11:51 AM
404	none	9/27/2020 11:39 AM
405	None	9/27/2020 11:38 AM
406	No	9/27/2020 11:36 AM

407	thanks	9/27/2020 11:32 AM
408	No	9/27/2020 11:25 AM
409	Na	9/27/2020 11:18 AM
410	No	9/27/2020 11:10 AM
411	Never rely on social security. You need to have other assets to depend on at retirement age.	9/27/2020 10:19 AM
412	Great idea	9/27/2020 9:57 AM
413	I would like to know more about this proposed retirement program.	9/27/2020 9:55 AM
414	No	9/27/2020 9:52 AM
415	No, I think it's covered it all.	9/27/2020 9:42 AM
416	Nobe	9/27/2020 9:40 AM
417	no	9/27/2020 9:36 AM
418	We are at a loss for the company since COVID	9/27/2020 9:09 AM
419	No, thank you.	9/27/2020 9:04 AM
420	Good	9/27/2020 8:48 AM
421	Nope	9/27/2020 8:45 AM
422	No	9/27/2020 8:10 AM
423	No	9/27/2020 8:08 AM
424	No thank you	9/27/2020 7:51 AM
425	No	9/27/2020 7:39 AM
426	I hope Virginia is able to set up this type of retirement plan. It is a great idea.	9/27/2020 6:45 AM
427	Interesting survey.	9/27/2020 5:34 AM
428	no	9/27/2020 3:47 AM
429	No	9/27/2020 3:03 AM
430	I like this idea alot, I hope it happens!!	9/27/2020 3:03 AM
431	No	9/27/2020 2:30 AM
432	Make sure you save your money and pay off what you need so you don’t got to weary about nothing	9/27/2020 2:11 AM
433	yes its really good for us	9/27/2020 2:05 AM
434	No	9/27/2020 2:04 AM
TOTAL		968
435	Na	9/27/2020 1:32 AM
436	This survey was wonderful	9/27/2020 1:18 AM
437	Nope thrg	9/27/2020 12:49 AM
438	It should be easier to be able to switch programs if you need to. I was participating in until my employer decided they were no longer supporting that company. I had a loan on the account at the time, so I was unable to switch to the new company. I am also unable to contribute anymore to the account, so it does me no good. It should be easier, and you shouldn't have to pay penalities to roll your account into a new one.	9/27/2020 12:35 AM

439 I think that due to the lack of so many jobs offering benefits, most people I know don't even have saving for retirement on their radar until it's way too late to help significantly. It also scares me how few of my friends my age have even $100 squared away in case of an emergency. It's a really dangerous position that so many people are put in and it's mostly due 9/27/2020 12:34 AM

	to inaccessibility of how to do it along with our jobs barely paying enough to cover rent and groceries.	
440	none.	9/27/2020 12:33 AM
441	Mo	9/27/2020 12:20 AM
442	Not at thiss time	9/27/2020 12:15 AM
443	I really don’t have any final thoughts about it. I just wish it was available to everyone. We all need some type of plan when we retire.	9/27/2020 12:02 AM
444	is it funded by taxes? what happens if you move/work out of state?	9/26/2020 11:26 PM
445	No	9/26/2020 11:25 PM
446	No	9/26/2020 11:14 PM
447	NO	9/26/2020 11:12 PM
448	No	9/26/2020 11:08 PM
449	I love the idea of financial assistance	9/26/2020 10:54 PM
450	N/a	9/26/2020 10:46 PM
451	an employee sponsored retirement program should be available, even for small business employees. The employees don't get paid well and this would help secure our future.	9/26/2020 10:17 PM
452	It’s stressful.	9/26/2020 10:12 PM
453	No	9/26/2020 10:09 PM
454	Yes, i want to rest after 10 years but i want savings my profits in future.	9/26/2020 10:03 PM
455	None	9/26/2020 9:55 PM
456	No	9/26/2020 9:34 PM
457	No	9/26/2020 9:27 PM
458	None	9/26/2020 9:24 PM
459	no	9/26/2020 9:20 PM
460	Retirement programs are wonderful and something that is definitely needed, but until people have enough income to be able to put some aside for retirement, they are a non issue. Bills in the present have to paid first before anyone can think about the future.	9/26/2020 9:08 PM
461	no	9/26/2020 8:58 PM
462	I really hope my employee starts to offer this soon.	9/26/2020 8:39 PM
463	None.	9/26/2020 8:39 PM
464	No	9/26/2020 8:16 PM
TOTAL		968
465	Where is the next stimulus	9/26/2020 7:56 PM
466	none	9/26/2020 7:44 PM
467	No. I thought the survey was good though and brought up some good ideas.	9/26/2020 7:38 PM
468	No	9/26/2020 7:26 PM
469	Nothing	9/26/2020 7:20 PM
470	No	9/26/2020 7:13 PM
471	Very Nice	9/26/2020 7:00 PM
472	No	9/26/2020 6:44 PM
473	no	9/26/2020 6:43 PM

474	Just can’t make enough money to save for retirement	9/26/2020 6:40 PM
475	no	9/26/2020 6:35 PM
476	None	9/26/2020 6:35 PM
477	Very interesting.	9/26/2020 6:35 PM
478	Idk	9/26/2020 6:31 PM
479	No	9/26/2020 6:15 PM
480	No	9/26/2020 6:00 PM
481	As of now, no. I’ll be concerned in my later 50	9/26/2020 5:51 PM
482	No	9/26/2020 4:16 PM
483	No	9/26/2020 4:00 PM
484	No	9/26/2020 3:38 PM
485	No	9/26/2020 3:34 PM
486	No	9/26/2020 3:00 PM
487	I think it would be really good thing for everyone	9/26/2020 2:55 PM
488	None	9/26/2020 2:44 PM
489	None	9/26/2020 2:18 PM
490	No	9/26/2020 1:40 PM
491	None	9/26/2020 1:34 PM
492	No	9/26/2020 12:11 PM
493	It is important	9/26/2020 11:51 AM
494	It’s time for an overhaul of the system.	9/26/2020 11:13 AM
495	Good topic	9/26/2020 10:54 AM
496	Not at all.	9/26/2020 9:58 AM
497	Thank you.	9/26/2020 7:45 AM
498	No, not at this time	9/26/2020 3:34 AM
499	I thinks this is a great idea considering a lot of thought and input from the tax payers.	9/26/2020 3:33 AM
500	No	9/26/2020 1:37 AM
501	No	9/26/2020 12:05 AM
502	No	9/25/2020 11:48 PM
TOTAL		968
503	No	9/25/2020 7:28 PM
504	Nah	9/25/2020 7:01 PM
505	No	9/25/2020 5:32 PM
506	no	9/25/2020 4:46 PM
507	No	9/25/2020 3:22 PM
508	i think this is a common part of life that we should save for our late age security.	9/25/2020 2:20 PM
509	N/A	9/25/2020 1:45 PM
510	No	9/25/2020 1:44 PM
511	states should make all jobs offer health care and retirement benefits	9/25/2020 12:34 PM

512	A retirement plan should be mandatory through all jobs in Virginia	9/25/2020 9:16 AM
513	no9	9/25/2020 9:14 AM
514	commonwealth of va needs to raise minimum wage and care for virginians better.	9/25/2020 8:55 AM
515	No	9/25/2020 8:52 AM
516	No	9/25/2020 7:50 AM
517	no	9/24/2020 10:45 AM
518	I think it's a great idea I wish they would start something like that	9/24/2020 10:29 AM
519	No	9/24/2020 10:19 AM
520	No	9/24/2020 9:08 AM
521	No	9/24/2020 8:28 AM
522	No	9/24/2020 8:14 AM
523	It was good	9/24/2020 8:03 AM
524	No ma'am	9/24/2020 7:51 AM
525	No thank you	9/24/2020 7:30 AM
526	More money is equivalent to less problems.	9/24/2020 6:48 AM
527	No	9/24/2020 6:12 AM
528	no	9/24/2020 5:43 AM
529	No	9/24/2020 5:21 AM
530	Nothing	9/24/2020 5:20 AM
531	N0	9/24/2020 4:28 AM
532	nope	9/24/2020 2:28 AM
533	No I just wish I had income to save.	9/24/2020 12:43 AM
534	No	9/24/2020 12:23 AM
535	Help with saving the right way, while still having enough money to pay bills efficiently.	9/23/2020 10:55 PM
536	No	9/23/2020 10:10 PM
537	none	9/23/2020 9:58 PM
538	N0	9/23/2020 9:02 PM
539	Would love to save	9/23/2020 8:57 PM
540	Its a great idea	9/23/2020 8:55 PM
541	A volunteer retirement saving program is okay. Mandating automatic participation in a retirement saving program with money taken out after taxes is not good.	9/23/2020 5:51 PM
542	No	9/23/2020 5:30 PM
543	n/a	9/23/2020 3:44 PM
544	no	9/23/2020 3:22 PM
545	Retirement is a great option to have	9/23/2020 2:09 PM
546	This would be a great idea	9/23/2020 1:37 PM
547	No	9/23/2020 1:37 PM
548	No	9/23/2020 1:20 PM
549	no	9/23/2020 1:17 PM

TOTAL	968

550	Aside from employers not offering a savings plan, currently the most difficult thing is not making enough money to put aside as well. This alternative state based plan sounds like a great idea though.	9/23/2020 12:54 PM
551	none	9/23/2020 12:51 PM
552	No	9/23/2020 12:35 PM
553	I like the idea of the program being contemplated.	9/23/2020 12:32 PM
554	I would like to save more money at any cost really	9/23/2020 12:31 PM
555	unique idea, appreciate.	9/23/2020 11:55 AM
556	Wish I had a plan in place.	9/23/2020 11:32 AM
557	Not at this time	9/23/2020 11:17 AM
558	I have very little idea what it even is. Please take my answers with a grain of salt.	9/23/2020 11:09 AM
559	Very interested in the plan	9/23/2020 11:07 AM
560	no thank u	9/23/2020 10:57 AM
561	I would be interested to see how this retirement program could affect self-employed people. Since I am the only person running my business was wondering if I could enroll in a program like this.	9/23/2020 10:37 AM
562	I would love to start savinf	9/23/2020 10:30 AM
563	N/A	9/23/2020 10:18 AM
564	No	9/23/2020 10:10 AM
565	None	9/23/2020 10:06 AM
566	I would love another stimulus to be passed	9/23/2020 9:54 AM
567	No	9/23/2020 9:47 AM
568	None	9/23/2020 9:45 AM
569	Thank you	9/23/2020 9:31 AM
570	Not at this time	9/23/2020 9:20 AM
571	No	9/23/2020 9:01 AM
572	no	9/23/2020 8:48 AM
573	No	9/23/2020 8:32 AM
574	It sounds like a very good program I'm definitely interested	9/23/2020 8:28 AM
575	very positive think	9/23/2020 7:56 AM
TOTAL		968
576	I would like one.	9/23/2020 7:52 AM
577	no	9/23/2020 7:42 AM
578	no i don't have	9/23/2020 7:40 AM
579	no.	9/23/2020 7:30 AM
580	Not rite now	9/23/2020 7:08 AM
581	most people need help and start too plan too late.	9/23/2020 6:49 AM
582	Excellent survey here! Thank you!!	9/23/2020 3:39 AM
583	NO THANKS AB0UT IT	9/23/2020 3:11 AM
584	None	9/23/2020 2:43 AM
585	No	9/23/2020 2:26 AM

586	Thanks	9/23/2020 2:24 AM
587	More input on one of the first questions that spoke of a mandatory savings proram that wouldn't affect your take home pay.	9/23/2020 2:11 AM
588	No	9/23/2020 1:57 AM
589	Prefer not to answer at this time.	9/23/2020 1:55 AM
590	Yes. This would be great, but most people I know including myself are struggling just to meet basic expenses.	9/23/2020 1:26 AM
591	No	9/23/2020 12:52 AM
592	Nothing	9/23/2020 12:04 AM
593	nothing	9/22/2020 11:59 PM
594	None, seems like an ok idea	9/22/2020 11:26 PM
595	No I don’t	9/22/2020 11:23 PM
596	I think that it’s a great plan for retirement.	9/22/2020 10:24 PM
597	This sounds nice!	9/22/2020 10:17 PM
598	none	9/22/2020 10:12 PM
599	No	9/22/2020 9:59 PM
600	No	9/22/2020 9:57 PM
601	No	9/22/2020 9:53 PM
602	No	9/22/2020 9:51 PM
603	No	9/22/2020 9:48 PM
604	our company cetagory's	9/22/2020 9:46 PM
605	i like it	9/22/2020 9:45 PM
606	NONE	9/22/2020 9:45 PM
607	nope	9/22/2020 9:30 PM
608	No comment	9/22/2020 9:24 PM
609	No	9/22/2020 9:04 PM
610	No	9/22/2020 8:59 PM
611	Thanks	9/22/2020 8:58 PM
612	no	9/22/2020 8:30 PM
613	Not at this time.	9/22/2020 8:22 PM
TOTAL		968
614	None	9/22/2020 7:55 PM
615	Nope	9/22/2020 7:52 PM
616	No	9/22/2020 7:25 PM
617	I have no other thoughts	9/22/2020 7:22 PM
618	It's crucial to everyone that still works	9/22/2020 7:19 PM
619	No	9/22/2020 7:01 PM
620	No answer	9/22/2020 6:59 PM
621	Not really	9/22/2020 6:57 PM
622	No	9/22/2020 6:56 PM

623	No	9/22/2020 6:50 PM
624	No thank you	9/22/2020 6:41 PM
625	Everyone should be offer one	9/22/2020 6:38 PM
626	No	9/22/2020 6:17 PM
627	na	9/22/2020 6:04 PM
628	None	9/22/2020 5:51 PM
629	i dont have any further things to say.	9/22/2020 5:18 PM
630	Nope	9/22/2020 5:17 PM
631	none	9/22/2020 5:14 PM
632	None	9/22/2020 5:06 PM
633	Nope	9/22/2020 5:06 PM
634	Thank you keep the surveys coming	9/22/2020 4:58 PM
635	Thank you. Vote for Biden	9/22/2020 4:53 PM
636	No	9/22/2020 4:47 PM
637	No.	9/22/2020 4:44 PM
638	No	9/22/2020 4:36 PM
639	I think this is a great idea that will help many people	9/22/2020 4:35 PM
640	no	9/22/2020 4:32 PM
641	No tax liability if money was withdrawn?	9/22/2020 4:27 PM
642	This program could help so many lives and generations if done with the workers best interest always 1st over profit.	9/22/2020 4:22 PM
643	Would be an awesome program if done the right way	9/22/2020 4:21 PM
644	None	9/22/2020 4:19 PM
645	No	9/22/2020 4:08 PM
646	NO	9/17/2020 12:49 AM
647	I worry about having retirement savings because we have two kids to put through collage, and we live paycheck to paycheck.	9/16/2020 11:42 PM
648	It’s something I know I should be doing. It would be nice if I learned more on how to prepare and save money in school.	9/16/2020 11:42 PM
649	No	9/16/2020 9:39 PM
TOTAL		968
650	no	9/16/2020 8:50 PM
651	N/A	9/16/2020 8:43 PM
652	No	9/16/2020 8:08 PM
653	nope	9/16/2020 8:06 PM
654	No.	9/16/2020 8:01 PM
655	Thanks for the opportunity	9/16/2020 7:53 PM
656	This would be great for Virginia!	9/16/2020 7:38 PM
657	No	9/16/2020 7:28 PM
658	No	9/16/2020 7:16 PM
659	No	9/16/2020 7:03 PM

660	good survey	9/16/2020 6:54 PM
661	Retirement savings programs would really help people have a little peace of mind especially when approaching the time to retire.	9/16/2020 6:18 PM
662	no	9/15/2020 9:02 PM
663	no	9/15/2020 7:49 PM
664	No	9/15/2020 7:30 PM
665	no	9/15/2020 6:45 PM
666	Just that it is always great to rely on what people work hard for.	9/15/2020 6:37 PM
667	no	9/15/2020 5:06 PM
668	No	9/15/2020 4:14 PM
669	N/A	9/15/2020 4:10 PM
670	Yes because is a good thing	9/15/2020 4:08 PM

Appendix F: Transcripts of In-depth Interviews with Virginia Employers

Conducted by: Pew Charitable Trusts
Interview Date/Time: 9-30-2020—9:01-AM

INTERVIEWER: So why don't we just start with, if you could just describe the business where you work, the name, what kind of business it is, how big it is, where it's located, that kind of stuff.

RESPONDENT: I am self-employed. I am a small business owner. I have a food establishment business that has two locations [in the Richmond area] with less than ten full-time employees.

INTERVIEWER: Terrific. And you're a sole proprietor, would that be accurate?

RESPONDENT: Yes.

INTERVIEWER: Okay. So now I just want to ask some questions about employee benefits in general. What types of benefits does your business currently offer to the workers?

RESPONDENT: We do not offer any benefits to our staff, like any, in terms of like insurance contribution or dental plans or retirement options.

INTERVIEWER: Okay. Any paid time off or anything like that or . . .

RESPONDENT: Yeah. Well, we offer for employees after they have been working for a year, they get offered paid time off and sick day benefits as well.

INTERVIEWER: So just thinking about benefits generally, you know, knowing that you're not offering a lot right now, what type of benefits do you think, as the owner, would be important to offer down the road, if you could do so?

RESPONDENT: Ideally, we would like to offer, you know, insurance, whether or not that's something that the business itself contributes to, option for dental, and a retirement option as well for our staff.

INTERVIEWER: And do you get a sense from your employees that they would view those benefits as important to have?

RESPONDENT: For the staff that we typically hire, I don't think so. I don't think it would be an especially significant draw for them to know that they had those options.

INTERVIEWER: So is that because, are they just like younger workers, or, you know, they have other benefits, if you know?

RESPONDENT: Yeah. It would be, yeah, mainly because, you know, I think it would be valuable to like our salary staff, but it would be like a small percentage of, you know, maybe two out of ten employees would value that option. But primarily because a lot of the staff that we have are younger, yeah, because they're just, you know, younger people who either have another option, or just aren't, you know, that's not something they look to right now. Like, you know, as a, they're not just, they're just not concerned with that.

INTERVIEWER: I mean, that makes sense. Okay. So I just want to turn more specifically to retirement plans, since this is a study about retirement. And when I talk about retirement plans, I'm not talking about Social Security. But these are plans that would be sponsored by an employer. And these can be plans, there are different kinds.
They can promise a specific monthly benefit at retirement, or they can allow workers to save to an investment account, or some combination of those. And typical examples are pension plans, 401(k) plans, and profit-sharing plans. So the first question I have is, do you think, and this is just your opinion in general, not really tied to your business, but do you think employees should have access to a retirement plan through their workplace?

RESPONDENT: I don't think it should be something that's mandated for every business to offer. I think employees should have, I think all, you know, working adults should have access, you know, well, easier access to retirement plans that are, you know, more accessible. Whether that be through like a federal or state, you know, program, but some kind of, you know, that's not just like going through like a public, the private sector.

INTERVIEWER: Yeah. So they should have access in some way, just not necessarily have it that, have it be required that the company provide it. That it should just be provided in some fashion.

RESPONDENT: Yeah.

INTERVIEWER: And why do you think they should have access, generally speaking?

RESPONDENT: I mean, I think a lot of people just aren't aware, you know. It's just not something that, you know, across all groups of people is emphasized, and I think there's not a, I mean, not that I'm aware of. I mean, if you, unless you work at an employer that offers some kind of retirement plan, it's not something that I think a lot of people would think to seek out on their own like just through like a, you know, private company. But I think if it was something where like people were automatically, you know, once you do a tax filing, you're automatically able to enter like a state retirement plan that you can carry over from, you know, that maybe isn't tied specifically to an employer, that . . .

INTERVIEWER: It's like you're in the plan. But the plan stays with you basically, not where you work.

RESPONDENT: Yeah.

INTERVIEWER: Okay, that makes sense. So let me just ask some questions about you, as a business owner, what you're thinking about this. So what are, first of all, what are some reasons why your company doesn't offer a retirement plan?

RESPONDENT: The, my business is just, we just had our two-year anniversary, so we're still, you know.

INTERVIEWER: New.

RESPONDENT: You know, I still consider things, I still consider it a startup. You know, because we're in the food industry, that is, you know, traditionally a very challenging industry to have longevity in. It, you know, I did some research prior to opening the business on potential benefits that we could offer our staff in terms of, you know, health insurance and dental. But I didn't really, you know, because I had people, I think, reach out to me.
But I didn't really have, I didn't get like a lot, solicitations for, you know, retirement options for small business employers. It wasn't something that kind of like came across my radar very often. It wasn't something that I thought, you know, like as a startup, that like I would offer, just because of the, you know, unknown of the business being open and surviving. So it was just always kind of a long-term goal, as opposed to something that I wanted to offer like right away.

INTERVIEWER: Sure. And I think you said earlier, a lot of your employees, they're not really thinking about benefits in general, let alone retirement plans. So you're not, it would be fair to say you're not getting a lot of demand from your workers for a retirement plan as well. Do you ever think about any sort of, just for yourself as the business owner, tax advantages or anything like that from having a retirement plan at work, or is that not really part of the equation?

RESPONDENT: I've spoken to, you know, I have a friend who is a CPA and had spoken to her about, you know, the tax benefits that we would get because of that. I just, you know, the percentage of people who would participate in it, I just, I wasn't sure that it was going to be anything more than zero. And it just seemed like just another thing, you know, added onto a list that I didn't know if, you know, people coming into our business were going to be interested in.

INTERVIEWER: No, that makes sense. So, it sounds like you've done some thinking about this in the past. It's more of that you have other things to do. Would it be fair to say you might offer it in the future then, offer a retirement plan I should say?

RESPONDENT: Yeah. I mean, yeah, I think as, you know, a business owner, I definitely have aspirations to have an inclusive, you know, package for staff that provides them an option for health insurance and provides them an option for other coverage that they might need. And retirement, I, you know, it would require the business getting to like a certain financial level of sustainability that, where I would think, okay, this is something that we can now maybe, or it . . .

INTERVIEWER: Take on.

RESPONDENT: . . . I think it would have to do with, yeah, I think it would have to do with like the type of staff we had. You know, if like the majority of our staff were salaried employees and/or, you know, maybe older people who are more aware of, you know, planning for their future.

INTERVIEWER: Yeah. If I'm hearing you right, it's a little bit of a combination of your company gets more established financially, as well as your employees are more in a position to be receptive to the retirement plan.

RESPONDENT: Yeah.

INTERVIEWER: Yeah. So a little bit of both, I guess. How familiar would you say that you are with retirement plan options for small businesses like yours? I mean, from, say, not at all familiar to very familiar, how familiar would you say you are with retirement options?

RESPONDENT: I would say not at all familiar.

INTERVIEWER: Okay. If you wanted to start a retirement plan, I mean, where would you go to get more information to become more familiar? What kind of sources would you see as being credible on this topic?

RESPONDENT: I would probably do, reach out like word of mouth, or through like a business, like through a local like business organization. Like either through . . .

INTERVIEWER: Like the Chamber or something.

RESPONDENT: Yeah. Either through like a, you know, the Small Business Association in my area, either through, you know, like a networking group online, probably that way. You know, just like kind of getting a recommendation from somebody in like my field.

INTERVIEWER: And are there any, if you were to go like right now to someone that you trusted, are there any specific questions or topics that you would really want to know about?

RESPONDENT: I'd probably want to know about, you know, what the kind of, what my obligations were, what the, like what things that I, you know, what it required from me as a business owner. Whether that be like how often I speak to employees about it, what information I offer to them, how, you know, whatever accounting tax things needed to be dealt with with it. I'd want to know about the ease of getting in and out of it. So whatever, you know, like if I decided it was something that I didn't want to offer, how flexible it would be with that.
And the ease of, you know, like access for like employees, like what they would get, you know, whether it be like their own online portal. You know, whether it would be something that they would be able to, how easy it would be for them to carry over funds to a different, you know, like if they stopped working with us, and want to roll over to like another plan they might already have.

INTERVIEWER: Yes, that makes sense.

RESPONDENT: And, yes. Yeah. I think those would be the three . . .

INTERVIEWER: Three questions you would have at the moment.

RESPONDENT: . . . things that I would, yeah.

INTERVIEWER: Okay, great. So we're on the last section now, and this is going to be covering a new policy idea about getting people to save more for retirement. And I'm going to just break it up into like three or four parts, because it's a little bit lengthy. I'm going to give you a little bit of each, and then just ask you for your reaction to it.
Here's the scenario. Now imagine that state policymakers are designing a new retirement savings program for businesses that don't offer a plan for their workers. Policymakers want your input on this program. In this scenario, the state would set up an individual savings and investment account for everyone without a retirement plan at their job.
Businesses would only be responsible for initially enrolling their workers in the program and then facilitating the payroll contributions on behalf of the participating workers. The process is similar to tax withholding employers already undertake. Employers would not make contributions themselves. So let me pause there and just see if you have any reactions to any of the elements I just mentioned.

RESPONDENT: Yeah. I like the idea of a, you know, government-sponsored retirement option. I like the idea of, you know, I like the option of the business being able to either contribute or not contribute. And I like the idea of it being something that, you know, the employee automatically gets enrolled in, as opposed to it being like, you know, you hire somebody, and then ask them, oh, do you want to participate in this program? Because I feel like a lot of employees just would be, if they're not interested, would say no.

INTERVIEWER: Okay. So it's better to sort of get them in, and then have them take that step out, as opposed to the reverse.

RESPONDENT: Yeah. I think that it should be something that you just automatically, you know, like when you go to, you know, get your license, you're automatically registered to vote. And when you go to . . .

INTERVIEWER: Oh, right.

RESPONDENT: . . . when you, you know, fill out a W-2, you're automatically enrolled in this, you know, retirement.

INTERVIEWER: I see. Just, you know, thinking about your business, I mean, would it be difficult or a challenge, or, let, I might put it this way. How much work would it be for your business to send payroll contribution into these kinds of accounts, would that be a lot of work, a little bit of work, something you already do anyway?

RESPONDENT: Like to add it on as another holding or . . .

INTERVIEWER: Another payroll deduction. Yeah, exactly.

RESPONDENT: I mean, I think it is, I mean, depending on how, you know, if it's something as easy as all of the payroll companies, this is tied into what they already do. Like if it's just another option, you know, when you sign up for payroll, and you just select your state, and they automatically add it in, then it seems like that would be, you know, easy. But if it was something where, you know, the business owner had to create like an account with the state agency, and then had to like monitor it, you know, on a quarterly basis, and had to, you know, I think that would be challenging.

INTERVIEWER: Okay. All right, that makes sense. Let me give you another piece to this. So here are some additional features that apply to the workers. To streamline the process, workers would be automatically enrolled in the program, as we discussed, unless they decided to opt out or change how much they're contributing. The commonwealth would oversee the plan, but administration and investments would be managed by a private financial company.
Contributions would be put in a separate fund that would be invested in the government, who would not have access to the workers' savings. Additionally, the worker could always access their contributions tax- and penalty-free if they faced a financial emergency. Let me pause there, just get your quick reactions to that. I mean, anything good or challenging that you see in what I just said?

RESPONDENT: I like the idea of it, you know, being something that people are automatically enrolled in. I like the idea, you know, of there being a option for people to withdraw funds without penalty. I don't know if I would participate in, I would be least likely to participate in a program that didn't allow that. And . . .

INTERVIEWER: Sure. Do you think your employees would react negatively or positively to this kind of a thing?

RESPONDENT: I think positively. I think most people, or I think a lot of people maybe who don't know about retirement, or who do, are, you know, worried about, well, I have, I might have money now to put into a retirement. But then if I need the money, I'm not going to be able to get it out, or it's going to take me a long time, or I'm going to have to pay a penalty.

INTERVIEWER: Yeah. Okay, the next part of this is policymakers are also considering the issue of fiduciary responsibility. Fiduciaries are in a position of trust with respect to a retirement plan. For example, employers who make decisions about the plan's investments, or the firms that manage the plan's investments, are usually fiduciaries.
And fiduciaries must act solely in the interest of the plan participants and carry out duties with care and diligence. Failure to do so can create potential legal and financial liability. Let's assume under this plan that I've been describing, businesses like yours would not have fiduciary responsibility for any state-facilitated retirement savings program. Any thoughts or reactions to what I just described about fiduciary responsibility?

RESPONDENT: I think that sounds great.

INTERVIEWER: Okay. So but that's a, that would be a plus, is not having to deal with the fiduciary responsibility.

RESPONDENT: Yeah.

INTERVIEWER: Okay. And then the last part, we sort of already covered it, but I, we sort of added this question at the end. Let me just make sure I'm reading this correctly. Employers in other states have remarked on the importance of balancing the need to preserve retirement savings with a participant's need to access funds for financial hardship reasons. Do you think, I mean, it's hard to speculate, but if this kind of a program had been in existence in Virginia, and if your workers were in it, do you think having the option to withdraw funds for financial hardship could have been beneficial for your employees in the early months of the pandemic?

RESPONDENT: Yeah. I think I, you know, I assume that if there was a, you know, savings account of some kind, that people, most people would have withdrawn from that. I don't know. It's hard, you know. It's hard to say. Because at the beginning, people were getting more money than, you know, a lot of people were getting maybe more money than they had made working, so maybe they would have, you know.
Like we encouraged all of our staff early on, who were receiving extra unemployment benefits, to use that money as a savings, you know, to try to keep as much as that, you know, of that, what they had. So I probably, in this situation, might have, you know, I might have encouraged staff like, if you don't need

access to these funds, you know, leave them where they are, until you really do need them. But I think it would, you know, for, just for peace of mind alone, I think it would have been a help to people.

INTERVIEWER: Yeah. Even if they didn't use it, it would be . . .

RESPONDENT: Even if they didn't use it, and they just knew it was there. Yeah.

INTERVIEWER: Yeah, that makes sense. Last question for you. I mean, we've sort of gone through some, a hypothetical plan that has some different ideas in it. The last thing, I guess, the commonwealth will want to know if they were to sort of go down this path of having some sort of retirement savings program available, it, would you, would there be anything that the commonwealth could do to help you introduce it to your workers, in terms of either outreach or communication or anything like that? I mean, do you, any thoughts on that aspect of this?

RESPONDENT: Yeah. I think having, you know, an option for a business to connect with a representative, either through having, meet online, you know, online meet and greets, or, you know, but something beyond like just receiving a notice in the mail saying, hey, this is what the state is doing. Or like connecting with other business, you know, networking groups in the region to kind of help promote this like new program. I feel like those are all things that are kind of ways that we kind of look to, you know.
Like initially, when I tried to learn about like offering insurance to my employees, it was, you know, I found out through like one of those kind of networking organizations. So I think, you know, finding a way to get the information out that's maybe not directly from like state to business, maybe like through a middle person that maybe already has like an established, you know, communication with like small businesses or, you know, entrepreneurs.

INTERVIEWER: No, right. Yeah, like your local business association. So the state commonwealth would sort of work with them and help get the word out that way.

RESPONDENT: Yeah. Mm-hmm.

INTERVIEWER: That makes sense. Okay. All right. Well, we're doing right on time here. That's all the questions I have for you. Is there anything else that you would like to say that you didn't get to say on this topic?

RESPONDENT: No. I, you know, I think it's a great, I think it's a good idea to have an offering that's outside of, you know. I think a lot of people don't know about retirement. I think it's one of those things where if you, you know, I mean, some people come from families who, you know, their parents had a retirement plan, and their parents had a retirement plan. And they might have worked somewhere where they, you know, were offered a 401(k) and, or a pension, and so they passed that on to their children. But if you, you know, are from a family who maybe didn't have those options, I think a lot of people just don't know how to go about doing that, and they don't know who to contact. And I think it should be something that is offered to everyone. I think it shouldn't be, I think if you have a plan at one job, you should be able to leave that job and take that plan with you, or rollover and not have to pay a penalty. But, yeah, I'm all for, you know, I think we all have concerns about Social Security, and whether that will be enough. I think we all kind of know that it's not, so . . .

INTERVIEWER: Whether it will be there, that's right.

RESPONDENT: Yeah. So I think having something that people are automatically all eligible to be a part of is a great thing.

INTERVIEWER: Well, that's great. I think that's a great way to end the interview. So thank you so much for your time. I know this is a chunk out of your working day, so I really appreciate it. I have your email address. And if there is, I think there will be a public report. I'll be sure to email it to you, so you can take a look at it.

RESPONDENT: Okay, great. Yeah. I'd be interested in seeing that.

INTERVIEWER: Very good. Well, thank you, Michelle. You have a great day.

RESPONDENT: You too. Bye.

Conducted by: Pew Charitable Trusts
Interview Date/Time: 10-09-2020—4:01 PM

INTERVIEWER: Well, why don't we get started? Can you just describe your business for me, just for background purposes, the name of your business and what type of business and how big it is, that kind of thing?

RESPONDENT: Name of the company is CitruSolution. It's a carpet cleaning company. There's two owners, or partners, and have three part-time people working for us.

INTERVIEWER: Okay. And what part of Virginia are you located, like north Virginia?

RESPONDENT: Close to Richmond.

INTERVIEWER: Close to Richmond, okay.

RESPONDENT: Yep.

INTERVIEWER: And what's your involvement with the company, are you one of the partners?

RESPONDENT: Right.

INTERVIEWER: So let me just start off with a couple of just general questions about employee benefits. What kinds of benefits do you currently offer workers, not just retirement, but any kind of benefit?

RESPONDENT: We don't offer any type of benefits right now. You know, we're a small company, so we don't have any money for doing that.

INTERVIEWER: If you were to offer benefits sometime down the road in the future, what do you think would be the most important one you would want to offer your workers?

RESPONDENT: Just second.

INTERVIEWER: Sure.

RESPONDENT: All right. I'm sorry about that.

INTERVIEWER: Oh, no problem.

RESPONDENT: I guess the easiest one is probably the retirement and the other ones like health benefits. But like I said, we're so small, we can't really afford to do stuff like that.

INTERVIEWER: Sure. Do you have a sense of what, you know, what your employees might want if you were ever to get into those conversations?

RESPONDENT: My guess would be retirement. But like I said, they're part time. And whether they'd be willing to put money towards it or not, I don't know.

INTERVIEWER: That's fair. Well, let's just talk a, ask a few more questions about retirement plans. And when I say retirement, I'm not talking about Social Security, but a retirement plan offered by a business like yours. So do you think, in your opinion, should employees have access to a retirement plan through their job?

RESPONDENT: I think it would be nice if they had one. I mean, I worked in the corporate world, and I've always had either a pension or a 401(k), so I think it's important for people to have a chance to do something.

INTERVIEWER: And I think you said one of the reasons that your business currently doesn't offer a plan right now is just you're very small. You have a few part-time people. Do you see, and I know this is speculation, you know, we're talking about maybe the future, but do you see a retirement plan as either not important for recruiting the kinds of workers that you work with, or do you think the employees would even be interested at all?

RESPONDENT: Yeah. I think for us, since they're part time, I don't think it really applies as far as trying to employ somebody. I think it would be a little bit different if we're looking for full-time help.

INTERVIEWER: Do you, let's see, do you think your business might offer a retirement plan in the future, and if so, what might cause you to do that? Again, I'm asking you to speculate a little bit.

RESPONDENT: I know when I was doing the survey, I mean, I think if there's a plan out there where they had an option to do it, and if they wanted to put 5% of their own pay or something like that into it, I see no problem with that. I mean, I've looked into it at one time before, and it was just too complicated to even think about trying to do anything.

INTERVIEWER: Mm-hmm. And you have some prior corporate experience, so would you say you're fairly familiar with retirement plans out there?

RESPONDENT: Yes. Mm-hmm.

INTERVIEWER: Okay. If you were going to start a retirement plan, where would you go for information, and what kinds of questions would you want to know about starting a plan?

RESPONDENT: First, are there any fees for them to get into it? I mean, I hate for somebody to think they're going to put $30 or $40 or something into it, and $5 or $10 went towards fees or something. I know with mutual funds, usually you always have a certain amount of fee, but usually it's . . . these funds are making money too so . . .

INTERVIEWER: Mm-hmm.

RESPONDENT: Like before, I kind of looked at it maybe for T. Rowe Price or Edward Jones or something like that. But it seemed like it was too complicated when I was trying to see if we could do it as far as the partners. And then employees, like I said, I just couldn't figure anything out, and we just kind of let it go. I just take care of my Roth each year.

INTERVIEWER: Mm-hmm. Let's go on to the last set of questions. These are about new policy ideas that are out there. And I just want to run some scenarios past you and just get your reactions to them. I'm going to break this up into two or three parts, so here it is. Now imagine that state policymakers are designing a new retirement savings program for businesses that don't offer a plan for their workers.
In this scenario, the state would set up an individual savings and investment account for everyone without a retirement plan at their work. Businesses would only be responsible for initially enrolling their workers in the program and then facilitating payroll contributions on behalf of the participating workers. This process is similar to tax-withholding employers already do. Employers would not make contributions themselves. So let me just stop there and see if you have any reactions to anything that I just said.

RESPONDENT: That's the one I would go for, is where we weren't actually paying anything in. I would, I'd have to figure out how we're going to do payroll if we were submitting the money, some of the money somewhere else. But I'm sure if I talked to our payroll people, they probably have some way to do something with the software. I don't know.

INTERVIEWER: You have . . .

RESPONDENT: But that's what I think, it should be their options. You know, you set them up, and then it's up to them if they want to put any money into it or not.

INTERVIEWER: Would it be a lot of work to work with your payroll company to do something like that, do you think? Or . . .

RESPONDENT: I'm not 100% sure, because we just log in, put the hours in each week, and it automatically runs it and sends the, you know, wires over, sends the money to the bank and stuff. So and then they take care of the taxes and stuff, so we, I don't really have to do a whole lot. I'm sure there's probably a way in the software where you could have certain money taken out, but I'm not, I don't know right offhand how we'd do it.

INTERVIEWER: Okay. Is there something, if this were sort of a state-sponsored program, would you want the state's help in any way to sort of introduce or educate your workers about it, or is this something you'd rather do yourself?

RESPONDENT: I guess a lot of it would depend on what type of funds you're getting into, if it's something like T. Rowe Price, where they have whole prospectus of funds to pick from, or is it just going to be, you know, half a dozen?

INTERVIEWER: Yeah. So if it was just a few, then you wouldn't need that much help . . .

RESPONDENT: Right.

INTERVIEWER: . . . getting them up to speed. That makes sense. Okay, a couple more. Let me just add a little more detail to this. To streamline the process, workers would be automatically enrolled in the program, unless they decided to opt out or change how much they're contributing. The commonwealth would oversee the plan, but administration and investments would be managed by a private financial company, like a T. Rowe Price.
Contributions would be put into a separate fund that would be invested, and the government would not be able to access workers' savings. Employees could access their contributions and take them out without penalty if they had a financial hardship. Let me just stop there and just get your reaction to anything I just said.

RESPONDENT: No, I'm fine with all that.

INTERVIEWER: Just was there anything that's positive or negative? Oh, I'm sorry. Go ahead. What was that?

RESPONDENT: I'm good with all that. The only thing, I'm pretty sure it's the setup that way now too like in a 401(k). If you had a hardship, or you had a mortgage or something, I think you can pull into it, but you got to pay interest back or something. And I guess that's kind of what you're talking about.

INTERVIEWER: Yeah. I mean, how do you think your, you know, just thinking about your employees or the people that you work with, I mean, how do you think they would react to a plan like this?

RESPONDENT: Like I said, I'm not 100% sure, because they're part time. And I'm not really sure how much money they want to put into it. You know, I got one that's like 19 years old, and I got another one that's 50-some years old. And I'm sure the 50-some-year-old hasn't really thought about retirement a whole lot, but I guess that's kind of what I'm more thinking about is towards him. The younger one still has time, but still needs to get started at some time.

INTERVIEWER: That's right. I mean, do you think having the ability, just going back to that option to be able to pull your money out if you really needed it. Do you think that would have been, and maybe not so much your employees, but maybe businesses in your area, do you think that could have been helpful during the early months of the pandemic, having that ability?

RESPONDENT: Probably would. That would give the employees something to draw back on if they needed it. So, yeah, come to think of it, I guess it would be good to have.

INTERVIEWER: All right. One more bit to this, and then I think we'll be done. So this is the last part of the scenario. So policymakers are also considering the issue of fiduciary responsibility. Fiduciaries are in a position of trust with respect to the retirement plan. For example, employers who make decisions about the plan's investments or selecting investment firms that manage the plan are usually fiduciaries. Fiduciaries must act solely in the interest of plan participants and carry out duties with care and diligence. Failure to do so can create potential legal and financial liability. Let's assume under this plan that I've been describing, businesses like yours would not have fiduciary responsibility under a state-sponsored retirement savings program. What reactions do you have to that element of the program?

RESPONDENT: I like that. I want, I would prefer for the state to be responsible for it and running it, so I don't have to worry about where their money is and where they're investing their money. I would just as soon the state was handling it.

INTERVIEWER: Okay. That's, I was trying to get through these kind of quickly, because I sort of caught you on a Friday afternoon. That's all the questions I really have for you. Is there anything else about the topic of retirement for small businesses that you just want to add in general?

RESPONDENT: I just think it's good for them to have. I mean, I haven't set it up, because it's kind of a little difficult trying to get something set up for part-time people. So I think it's just a good opportunity for them to save for retirement, because a lot of them don't think about it.

INTERVIEWER: Yeah. I think that's probably true. Well, Mr. . . .

RESPONDENT: Well, I was in the corporate world before. And I always made sure I was saving plenty for retirement. But these guys don't really think about it.

INTERVIEWER: Yeah. Well, me too. And I've always saved for retirement, or at least tried to. Well, I really appreciate your time. And I appreciate your being flexible to answer a few questions. We'll, hopefully, we'll try and let you know when this report is done. And if we can, we'll try and send you a copy. But you have a great weekend, and I'll talk to you soon.

RESPONDENT: All right. You too.

INTERVIEWER: All right. Bye-bye.

Conducted by: Pew Charitable Trusts
Interview Date/Time: 10-22-2020—1:48 PM

INTERVIEWER: If you could just start by just describing the business, where you work, you know, just what do you do and how big it is and just some background.

RESPONDENT: Sure. So . . . for a small businessWe are a window tinting, we apply window film mainly on automobiles. We do do some commercial or residential. And we are a company of five or six with the owner. I'm the office manager. And then we have three window tinters, two tinters, one helper. And that's what we do.

INTERVIEWER: So let me just ask some general questions about benefits at your company. What types of benefits do you, or does the business currently offer to the workers there?

RESPONDENT: So basically we only offer health insurance, and everybody is covered by Kaiser.

INTERVIEWER: Okay. And what types of benefits, well, you only offer health insurance. Are there any other benefits that you think might be important if you could offer them to the workers?

RESPONDENT: Well, I do think the retirement is important, particularly for a couple of the workers. One, the owner. I think the owner should have something in place. I mean, and then, you know, we've got the workers, and some of these guys have been with me for 10, 11 years. So, and this is it, you know, for them, I mean, unless they go to another tinting company, so it would be nice to offer them that. Dental insurance. I mean, we have a very tiny dental insurance policy, so if that was more affordable, that would be helpful as well. And of course life insurance but through our . . . comp policy in person they do offer a life insurance, and we've looked into it a little bit.

INTERVIEWER: Okay. Do you think the employees and the owner feel the same way in terms of the importance of these benefits that you just mentioned?

RESPONDENT: Yeah, mm-hmm.

INTERVIEWER: All right. So let me talk a little bit more about retirement and retirement plans. And when I say retirement plan, we're not talking about Social Security but a plan that would be offered by an employer, you know, like your business. And so examples include pension plans, 401K plans, profit sharing plans, things like that. So first question is, should employees have access to a retirement plan through their job, and why or why not?

RESPONDENT: Sure, because, you know, the future is important. Retirement is important.

INTERVIEWER: And thinking about your own business, what are some of the reasons your firm doesn't currently offer a retirement plan?

RESPONDENT: Probably the, I don't know. I can't, I don't know.

INTERVIEWER: Hmm. Okay.

RESPONDENT: Probably the lack of education.

INTERVIEWER: Was this something that you, have you talked about doing this in the past, offering a retirement plan, or not at all?

RESPONDENT: We've talked about it for basically me and the owner.

INTERVIEWER: Okay. And do you think you might do something in the future?

RESPONDENT: Yes.

INTERVIEWER: And what might cause you to make that decision to offer retirement benefits? I mean, what might trigger that, do you think, in your mind that would change from where you are now to a future plan?

RESPONDENT: I think if the owner understands the financial part of it better, then that could help change the setup for . . .

INTERVIEWER: So just a little more, yeah, so just a little more education about, you know, how it would work and what it would cost and . . .

RESPONDENT: Right.

INTERVIEWER: . . . that sorts of things. Okay.

RESPONDENT: Exactly.

INTERVIEWER: And so to get that information, I mean, where, just, and I'm just, this is all hypothetical, of course, but, you know, where do you think you or the owner would go first to get information about starting a retirement plan? What kind of place would you guys go to?

RESPONDENT: Well, we have a friend in the business that has reached out to us that we would probably maybe contact him. Then there's AFLAC has contacted us, and AFLAC is kind of appealing. But we didn't follow through with AFLAC at the time. We just moved and, you know, it wasn't, we just weren't in that position to be making those decisions so at this point a little bit more so, but of course, we've got the COVID now, so day by day, month to month still, so that's my answer there.

INTERVIEWER: Yeah. So the last set of questions are about new policy ideas to help small businesses offer retirement benefits. I'm going to read you a hypothetical scenario and then just ask you sort of your reactions to it. And I'm going to break it up into two or three parts. Here's the scenario. Now imagine that state policymakers are designing a new retirement savings plan for businesses that don't have one. Policymakers want your input.
In this scenario, the state would set up an individual savings and investment account for everyone who does not have a retirement plan at their job. Businesses would only be responsible for initially enrolling their workers in the program and then facilitating payroll contributions on behalf of those participating workers. This process is similar to the tax withholding employers already do. Employers would not make contributions themselves. So let me just pause there and just see if you have any reactions to any part of what I just said.

RESPONDENT: That all sounds positive and good.

INTERVIEWER: Okay. I mean, do you think that would be, you know, do you think the payroll aspect would be a challenge if you had to sort of . . .

RESPONDENT: No.

INTERVIEWER: . . . deduct like 5% and send it to a retirement account?

RESPONDENT: No.

INTERVIEWER: Would that be a challenge?

RESPONDENT: No.

INTERVIEWER: Okay.

RESPONDENT: I don't think so.

INTERVIEWER: That's something you do already probably, do that sort of stuff?

RESPONDENT: Exactly.

INTERVIEWER: Yeah. Okay. Here are two more . . .

RESPONDENT: And I do. I file all of it separately through, you know, through the state of Virginia. I don't even use my payroll system to do it. I do it separately through Virginia's website.

INTERVIEWER: Oh. Here are a few more features. To streamline the process, workers would automatically be enrolled in the program unless they decided to opt out or change how much they are contributing. The Commonwealth would oversee the plan, but the plan administration and the investments would be managed by an outside private financial company. Contributions would be put into a separate fund that would be invested, and the government would not be able to access workers' savings. Employees could access their contributions and take them out without penalty if they had a financial emergency. Okay. So we'll just pause there and just see if there's anything in there that you think is either positive or negative and, or anything that . . .

RESPONDENT: No, it's good. That sounds all good.

INTERVIEWER: Okay. And, I mean, just sort of a follow-up to that, how do you think your workers would react if they were enrolled in a program like that?

RESPONDENT: I think they would like it. I think one of my guys is, I think two of my guys would be very interested in it. They're definitely savers and doing their own thing on their own, some IRAs and things. So I think they would be very receptive.

INTERVIEWER: And again, this is sort of speculating, but, you know, this, the part in there that I mentioned about if there's a financial emergency they'd be able to access their savings, do you think that's something that would be appealing to the workers?

RESPONDENT: Sure, of course.

INTERVIEWER: I don't know if that was a situation during the early months of the pandemic, but being able to access their money if, would that have been . . .

RESPONDENT: Sure, of course. I think that would be appealing to everybody.

INTERVIEWER: Yeah. Okay. Last part. Almost there. So policymakers are also considering the issue of fiduciary responsibility. Fiduciaries are in a position of trust with respect to the plan. For example, employers who make decisions about plans' investments or investment firms that manage the assets are usually fiduciaries. Fiduciaries have to act solely in the interest of the plan participants and carry out the duties with care and diligence. Failure to do so can create potential legal and financial liability. Let's assume under this plan that I've been describing, businesses like yours would not have any fiduciary responsibility for a state retirement savings program. Any reactions to that?

RESPONDENT: I mean, I would assume that the state is picking good financial firms, so I think that would be fine.

INTERVIEWER: And is that sort of anything, you know, when you and the owner talked about retirement plans in the past, has the legal liability aspect ever come up, like being responsible for a program?

RESPONDENT: No. We haven't really talked that in depth about it.

INTERVIEWER: Yeah. All right. Those are all the questions I have for you. Is there anything else that you want to mention before I let you go?

RESPONDENT: No, I'm, that's, I think we're good.

INTERVIEWER: Terrific. Well, thank you for taking the time to talk to me. We really appreciate it and especially getting input from small business owners like you. And have a great day.

RESPONDENT: Thanks. You too.

Conducted by: Pew Charitable Trusts
Interview Date/Time: 10-02-2020—10:01 AM

INTERVIEWER: Okay, so just to start with, can you just tell me about your business, where you work, the name of it, what it does, how big is it, that kind of thing, just for background?

RESPONDENT: Yup. Alpha Bonding, we're a small bail bond agency, and we're in south side of Virginia.

INTERVIEWER: Okay, and what do you do with the company?

RESPONDENT: I am, do a little bit of everything. I manage the company. I write bonds and basically everything else. Like I say, we're relatively small, so it's only a few employees.

INTERVIEWER: Yeah, you wear a lot of hats to get things done, yeah.

RESPONDENT: Yup.

INTERVIEWER: Okay, so let's switch to start talking about employee benefits just generally. What kind of benefits does your business offer the workers there, if any?

RESPONDENT: We don't offer any. Like I said, we're very small. We're basically a mom-and-pop, so we don't offer any benefit package.

INTERVIEWER: Okay, and so no health insurance, nothing like that.

RESPONDENT: Correct.

INTERVIEWER: Okay. So if you were to offer any benefits, what do you think would be the most important one you could offer to the workers right now?

RESPONDENT: It would probably, health would go second, just because of the Medicaid expansion in Virginia. Maybe some type of retirement.

INTERVIEWER: And do you think your employees would view those as important too?

RESPONDENT: Yeah, between health and retirement, yeah, those would be the top two. I guess they would. They would fluctuate between them, depending on who you asked.

INTERVIEWER: So let's, this study is about retirement, so let's talk a little bit more specifically, and when I talk about retirement plans, I'm not talking about Social Security but a plan sponsored by a business like yours. And there are all kinds of retirement plans, whether a savings plan or one that promises a specific monthly benefit when people retire. You probably have heard some of these terms like 401k plans or profit-sharing plans or pension plans, just all kinds of plans like that.

RESPONDENT: Mm-hmm.

INTERVIEWER: So in your opinion, should employees have access to a retirement plan through their workplace? Not thinking about your specific one, but just generally, should they have access to a plan?

RESPONDENT: I think it depends on the size. The smaller companies like us, if they're able to offer it, then, you know, that's great, but if they can't, then I'm just . . . but definitely the larger companies . . . and above, they should have some type of . . . retirement for their employees.

INTERVIEWER: And what are just some of the reasons your business doesn't currently offer a retirement plan?

RESPONDENT: Just because of size. We're so small, it's basically, you know, a family-run business. So it's something we haven't really considered yet.

INTERVIEWER: Do you get a sense of the employees are not interested, or does that not even come up?

RESPONDENT: Yeah, it doesn't even come up.

INTERVIEWER: Okay, and you don't feel like you need it to recruit people to your business?

RESPONDENT: . . . I don't.

INTERVIEWER: Have you ever considered offering a retirement plan in the past?

RESPONDENT: I have not.

INTERVIEWER: And do you think you might do so in the future?

RESPONDENT: It probably depends on growth. I mean, if we get a little bit bigger, and we're recruiting, then that might be a benefit that we look at.

INTERVIEWER: If you wanted to start a plan in the future, you know, if you felt like you've got that growth and you're ready to take that step, where would you go for information to learn more about what to do?

RESPONDENT: Probably the Internet just to kind of get the process started. I'd look online to see what all the resources I could come across and go from there.

INTERVIEWER: And do you have any, I mean, if you were to get on the Internet and wanted to learn more about retirement plans, would you have any specific questions? I mean, what would you want to learn about first?

RESPONDENT: Just the basics, you know. What's involved? How do you get started? What would some of the costs be? What would the benefits be? Just, you know, the basic questions trying to figure out what all is involved, especially since it's something that I haven't researched before.

INTERVIEWER: Sure, okay, that makes sense. So I want to switch gears. There are some policy ideas out there. I'm going to run some ideas where state government might be able to help out small businesses like yours. So now imagine the policymakers in the Commonwealth are designing a new retirement program for businesses that don't offer one currently, and they want your input on the program.

In this situation, the state would set up an individual savings and investment account for everyone who does not have a retirement plan at their job. Businesses would only be responsible for enrolling the workers in the program and then making sure payroll contributions on behalf of the workers got into their accounts. So this process would be similar to the tax withholding that employers already do, and employers would not make contributions themselves.

So let me just pause there and just see, do you have any reactions to what I just said, you know, either positively or negatively?

RESPONDENT: . . . start, I think that might be a positive for some of the smaller companies, but I would want to see what would be involved, I guess, maybe time and the ease of them doing the payroll deduction and then getting into the account. So that back end of it, I would want to know a little bit more about the process and what was involved. I definitely like the idea of the state kind of doing the heavy lifting on it.

INTERVIEWER: So I have a question here. It's going to be how much work do you think it would be to send payroll, because that's something you would want to get more information about, is how to do that. Is that right?

RESPONDENT: Yeah, and that's something, you know, our payroll is done through an accounting service, so if just something that, another button that they have to push, then it would be relatively easy and simple. But if it's just more work on my end . . . then that would be something I would want to look at.

INTERVIEWER: Okay, I understand. That makes sense. Let me see. If this scenario became law, what could the state do to help introduce this kind of program to your workers?

RESPONDENT: . . . let them know it's a new and get the information out and making sure all of the questions were answered and there was a resource for people to go with questions that came up in the process of getting rolled out.

INTERVIEWER: Let me give you a few more features about this situation that apply to the employees. To streamline the process, workers would be automatically enrolled in the program unless they decided to opt out or change how much they were contributing. The Commonwealth would oversee the plan, but the administration and the investments would be managed by a private financial company. Contributions would be put into a separate fund that would be invested, and the government would not be able to access workers' savings. Employees could access their contributions and take them out without penalty if they had a financial emergency. So let me just stop there and get your reactions, either positively or negatively, to what I just said.

RESPONDENT: The only question I would have would be on, you know, the background of the company managing it. If it was one of the well-known larger financial companies, then I would be a little bit more comfortable, as long as they were pretty solid. That would be the only question, just about the company managing it, you know, their reputation.

INTERVIEWER: Okay, so the Commonwealth would have to vet it and make sure that it's a reputable company.

RESPONDENT: Yeah, want to make sure that it would be, there would be some things in place that the company was to be monitored in what they were doing. Are they investing the bulk of the money or whether they're investing it, or are they just holding it? You know, all of that would be important.

INTERVIEWER: Okay, right, that makes sense. Just thinking about your workers, how do you think they would react if they were enrolled in this program?

RESPONDENT: Same thing . . . opportunity to save and the flexibility of adding and taking away, as far as the amount. I think maybe like the company just managing it would probably be a bit of a concern, just to make sure that they were comfortable with the . . .

INTERVIEWER: Okay. And so the one feature I mentioned was that people could take the money out if they had a financial emergency. So you think the option to withdraw money for financial hardship could have been beneficial for your employees during the pandemic, especially the early months of the pandemic?

RESPONDENT: No, not so much for our guys because our business wasn't really affected. We had one or two slow weeks, but we weren't really hit like the rest of our industry . . . for other companies, you know, outside of ours, I can definitely see that . . . added benefit. But it just didn't really apply to us because of our industry.

INTERVIEWER: Okay, but you could certainly see it in other companies that you know of . . . might have been helpful.

RESPONDENT: . . . easily, yup, especially during COVID, definitely would be a benefit.

INTERVIEWER: Yeah, okay. And this is the last description of the plan. This is actually the last set of questions. Policymakers are also considering the issue of fiduciary responsibility. Fiduciaries are in a position of trust with respect to a retirement plan. For example, employers who make decisions about investments or investment firms that manage the plan's assets are usually fiduciaries. And fiduciaries must act solely in the interests of the plan participants and carry out duties with care and diligence. Failure to do so can create potential legal and financial liability.

Let's assume under this plan that I've been talking about, businesses would not have any fiduciary responsibility for a state-facilitated retirement savings program. That would all be taken on by the state. And so, again, what are your reactions to this element of the program?

RESPONDENT: That would be a benefit because the employees wouldn't be responsible actually for the program and things, so for that state to take that responsibility, that is definitely a benefit.

INTERVIEWER: Is that something that you would sort of be concerned about as someone who, you know, runs this business, having that sort of legal or financial liability for retirement plans? That would be a concern of yours?

RESPONDENT: . . . that would be a concern.

INTERVIEWER: Yeah, okay. Those are all the questions I have for you. I tried to be a little quick because I know you're a little pressed for time this morning. Do you, is there anything else that, you know, just thinking back over the questions, before we close it out, is there anything else that you would like to add that you haven't said yet?

RESPONDENT: No, I think that's it. I know you said you guys are doing research, but where is the state, as far as actually considering this? Where are they in the process?

INTERVIEWER: Sure. So the Virginia College Savings Program is actually doing the study, and they're supposed to report the study to the legislature, I want to say around December 15th. It's mid-December. And so that will get presented to the legislature, and then from there, it's really up to the legislature what they want to do with it. I think the report will have some sort of recommendation as to what the state, or recommendation as to what the state could do to help out small businesses. And then we'll see what the state house wants to do. So that's basically the process, as I know it.

RESPONDENT: Got you . . . cool.

INTERVIEWER: Well, thank you so much for taking the time today. I really appreciate it.

RESPONDENT: Yes, sir, no problem at all. You have a good weekend.

Conducted by: Pew Charitable Trusts
Interview Date/Time: 10-26-2020—9:03 AM

INTERVIEWER: So why don't we just start with, tell me about your business, what kind of business it is, where it's located, how big it is, just sort of a general background about your business.

RESPONDENT: Okay. Well, this is one of the reasons I wanted to do your survey is because we are a small business. And having worked in large businesses, I understand that small ones can get overlooked sometimes. So this is, we are a retail bookstore in downtown Roanoke. We've been open for three years as of last week. We have expanded once. We went from a very small store, it was almost a trial effort, to a 1,200-foot retail spot on the Roanoke City Market, which, if you're familiar with Roanoke at all, is the downtown, revitalized downtown area that works hard to attract local people as well as tourists.

We have seen growth in our business pretty steady since we opened. Of course, we were scared to death of the pandemic. We closed for 11 weeks. However, we already had a up-and-running website that we were able to do our promotions and such that the majority of our regular customers, who bought on a pretty regular basis, did move over there.

And we were able to keep our sales within about, I'm thinking about 75% to 80% during the actually being shut. When we went back to the store in June, of course, we started getting street traffic again, and the online fell off. But it has combined, it's done not too bad. We're probably not, well, we might be up to where we were this time last year. We had just . . .

INTERVIEWER: Wow, that's great.

RESPONDENT: But we also have made sure our business, from the beginning, because we're a little different than what you might assume with a bookstore. You know, you've probably heard the proverbial story is, all my life, I wanted to open a bookstore. And all my life I've loved bookstores, and but my husband and I were actually just looking for a business that we thought would be profitable. For a lot of reasons, I had been in nonprofit work and corporate work for a long time, and I decided I wanted to work for myself.

And so we did a lot of business research. And one of the things that we chose to look at was bookstores because there was not one in Roanoke. And we concluded that it was a good business adventure, or venture. It was, it has been an adventure. But that's why we decided, as much as our love of bookstores, we thought it had a good, viable future. And there's a lot of misconceptions out there right now, especially before the pandemic, about failing bookstores. But they actually, they actually fail much less than, say, even restaurants.

INTERVIEWER: That's interesting.

RESPONDENT: So we are fairly, fairly well. We are lucky we did get some grant money, the PPP money we got. We only have, it's myself. I work full time. And to be honest with you, sometimes, since we opened, I get paid, and sometimes I don't. We have one part-time employee who works, now he's working about 20 hours a week. And then my husband takes care of the accounting administrative stuff, which is probably about eight hours a week. So that kind of tells you where we are as far as our status right now. Of course, we're like a lot of small businesses. We're hoping for a good Christmas.

INTERVIEWER: Exactly. So you've been in business for about three years now. You've had the pandemic. It sounds like you're doing pretty well, you know, probably as well as can be expected.

RESPONDENT: Yes.

INTERVIEWER: And did you, and you have one part=time employee. Did you have more employees before the pandemic, or has it been about the same?

RESPONDENT: No, we didn't. We didn't. And of course, this employee didn't work for us for a while. Although we are a small, small business, and we have it structured such as, so it's under an LLC. So when I did pay myself, I actually was paid as an employee of the LLC so that we paid unemployment taxes, the whole nine yards, which was just a, I had been in workforce development, so I thought, well, it might be a good idea, you know. We don't know what's going to happen. And it turns out we didn't. And that made me qualify for unemployment, which was good.

INTERVIEWER: No, that's smart. So, okay, so now does your bookstore, or the LLC, does it offer any benefits to you and the other employee?

RESPONDENT: Yeah. The LLC pays my health insurance. And we do not currently offer anything to the part-time employee. And this is kind of a luxury of a small business. We've done that as much based on his position, his place in life as anything. He is still living at home with his parents. He's covered by insurance. And we did not look into doing that.

INTERVIEWER: I see, yeah.

RESPONDENT: If we had somebody that worked more and was in different circumstances, we would probably try to. You know, that's a long way from saying that we could, but we would probably look into that.

INTERVIEWER: Sure, that makes sense.

RESPONDENT: There's actually, actually, there would be a benefit to us because when we looked into doing this insurance, you know, it's so expensive to buy one policy. If we had actually had two employees, we might have been able to get something with a better rate. And but you can't for just one employee. So that actually, moving from no benefits for employees to moving to at least healthcare would have some benefits for the business as well as the employees.

INTERVIEWER: I know this is speculation, and it's crazy times. But do you have any sense of, because this survey is about benefits and retirement. But thinking about the future, do you see yourselves, you know, hiring an employee or two down the road if things go well?

RESPONDENT: Yeah. That's ultimately been our goal since we started was to, you know, pie in the sky, we'd be able to open another one because when we designed this bookstore, we had two concepts. One was kind of the downtown, hipster market for visitors. And the other one was kind of out in the suburbs, mommy market. And we would like to open a second one that would be more of the mommy market. So, yes, we got to a place we would like to do that, yeah.

INTERVIEWER: I see, okay. Well, you've been a small business owner with your husband for three years now. So some of these questions, you know, want you to think, in part, with your experience as a small business owner, but maybe also thinking about down the road, if you had a couple more employees. So let me talk a little bit more specifically about retirement plans.

And when I say retirement plans, just to be clear, I'm not talking about Social Security, but a plan sponsored by an employer that could be, you know, they're often called a 401K plan or profit-sharing plan or pension plan. So first question is, should employees have access to a retirement plan through their workplace, and why or why not?

RESPONDENT: Yes, definitely. Well, I got on the bandwagon really early in my career. I, my dad was a state employee, so I understood what he had. I had worked for the State of Virginia the early part of my career, so I was well aware that there was a little bit of money accumulating for me out there. I went to work for a big corporation, Bell South, and they had a 401K, which I had never heard of. And somebody sat down and explained it to me. The part I remember most is, hey, you put in some money, and they give you some too. So I've been on, really believe in those, even if you just make minimum wage, if you can put a little bit to the side.

INTERVIEWER: Now have you all, have you and your husband ever thought about starting a retirement plan when you started this current business?

RESPONDENT: Well, we have. We took into, that was a major consideration because I'm 59, and that was a major consideration of, was this something we could afford to do in line with what we were trying to do, saving for retirement? Now he is eight years older than me. So he, and self-employed as an engineer, so he has, we look at really, we look at it together, but then we look at it, what our opportunities are.

I had been in, as I said, I worked for the State of Virginia for a short time. And also, through a federal passive(?) grant, had benefits through the City of Roanoke. So I have two pensions out there. And they're not big, but they would probably buy my groceries. The, and we do have some pretty good investments. And he's had very successful time this year, for whatever reason, I guess engineering is good this year, and is really working to fortify our retirement primarily because I am not putting a lot toward my retirement. I've had, you know, I have a 401K and IRA and stuff and probably would put some in it.

We've added a little bit, we try to, out of our, you know, my paycheck, but not a lot. So it's something we believe in. We would like to do that. I've talked informally with my employee because he's very young, and he really doesn't understand the importance of, you know, planning this even if you are just 25.

And I told him that we would try, if he thought he wanted to start saving for his retirement, we would see what we could set up to help match, you know, what he could put away, or a partial match or something. We still haven't convinced that young man he ought to be doing it, but if he did, we would try to do that because I think that would be as important as just growing our own business is making it a good situation for somebody else.

INTERVIEWER: That makes sense. So really, if he came to you and said, hey, I really, I think I ought to be saving for the future, you would try and figure out how to make that happen within the constraints of your business, obviously.

RESPONDENT: Yes, we definitely would. If he told me today, hey, I want to put $25, you know, a week away, I would say, all right, I'll come up with the money to match that. But I'll keep working on him.

INTERVIEWER: You have some familiarity with retirement plans. So on a scale of one to five, with one being not at all familiar and five being very familiar, how confident or how good would you say you are about being familiar with retirement plans? Or I should say retirement plan options for a small business like yours.

RESPONDENT: In general, the kinds of things that are available, probably a five. The kinds of things applicable to a small business, probably about a three.

INTERVIEWER: Okay. So if you wanted to start, you know, if your employee came to you, or maybe you started doing really well, and you had more employees, if you wanted to start a retirement plan, where would you go, or who would you go to for more information about small business options in retirement planning?

RESPONDENT: Probably, I would have a conversation initially with our own financial planner just to get some direction.

INTERVIEWER: This is your own, sort of you and your husband's financial planner, right?

RESPONDENT: Yes, our personal one.

INTERVIEWER: Okay.

RESPONDENT: Just because we respect her experience. I probably would do some googling around, especially on sites like the Small Business Administration, to see what else was there, and then talk to professionals I know, primarily here in Roanoke, about what might be doable.

INTERVIEWER: Some of your peers, right?

RESPONDENT: Yeah, people I've met in the business world over the years.

INTERVIEWER: Sure. So what . . .

RESPONDENT: Oh, quick, what you said right there, yeah. I hadn't even thought about that. We have a very lively discussion forum for booksellers. And, yes, that's one thing I would do immediately is, who offers this, and can I talk to you?

INTERVIEWER: Yeah. And would you have any, are there any specific questions or topics that you would want information about about retirement plans? Is there anything in particular you'd want to know, or is it more general?

RESPONDENT: I would want to know, from an operational standpoint, the dos and don'ts, not necessarily, you know, legally, but things that, I have a question I ask people. What do you wish you'd known going into this that would maybe save us time or effort or even money? So I would want to know some really practical things about looking at it very hands on. I'm less concerned about the investment side, you know, of who should we do, mostly because that's a thing my husband is very well versed on. And so it would be the practicality of doing it.

INTERVIEWER: How to get it up and running and then keep it running once it's set up.

RESPONDENT: Yes, exactly.

INTERVIEWER: I see.

RESPONDENT: And, you know, what are some of the things you should look at long term? You know, don't start it if you don't think you can maintain it because this can happen down the road. Or, you know, start it as early as possible because this can happen down the road, that kind of thing.

INTERVIEWER: I see, okay. All right. So now we're going to shift gears a little bit. This is the last set of questions, and this is about public policy initiatives. So what I'm going to do is sort of give you a hypothetical scenario, and I'll break it up into like three parts. And just after each part, I'll just ask you for your reaction.

So imagine state policymakers are designing a new retirement savings program for small businesses that don't offer a plan for their workers. They want your input on this idea. In this scenario, the state would set up individual savings and investment accounts for every worker without a retirement plan at their job. Businesses would only be responsible for initially enrolling their workers in the program and then facilitating payroll contributions on behalf of their participating workers.

This process is similar to tax reporting that employers already do for their workers. Employers would not make contributions themselves. So let me just pause there. And just do you have any reactions to anything I just said?

RESPONDENT: Yeah. It sounds very positive. I would have two comments. One is the employers would not make any contributions. Is that would not or could not?

INTERVIEWER: Could not.

RESPONDENT: Could not, okay. The reason I would hesitate at that is because if an employers, if that's set up and an employer wanted to make contribution, it maybe could be an easier function. I mean, if I'm going to have to report to you who I've got already, you know, take the money out for them, it might be a simpler way. Now maybe you're covering this in some other options. A simpler way that, okay, instead of sending $100 for this person, I'll send $200 for this person, so if that worked. Because one of the things with small business is make it as least labor intensive as possible. You know, the simpler you can . . .

INTERVIEWER: I see.

RESPONDENT: . . . yeah. That's the big thing about anything new we try to take on is you have, at least initially, you're doing it yourself.

INTERVIEWER: Right.

RESPONDENT: Yeah. The other comment I had was, oh, you said something about it would be aimed at the people who did not have retirement programs at their work.

INTERVIEWER: Correct.

RESPONDENT: I would think there should be an option for people who do have at their work simply because, now I say this with love in my heart, but I've worked for some people that were like pretty stupid with their retirement plans. You know, that might end up being a better option for somebody, let's just put it that way.

INTERVIEWER: Okay. So it doesn't sound like it would be a lot of work for your business to send payroll contributions to a program like this.

RESPONDENT: No, because, you know, most everybody uses some semblance of QuickBooks or something, and it's just another item you add and another check you write or transfer or whatever. So that in itself, since that's a process we already do, you know, it's not coming up with a new task.

INTERVIEWER: I see. So another question with this is, you know, if this were to become actual law, and thinking about how to educate workers about a program like this, and even employers, what could the state do to facilitate introducing this program to workers like your employee? So if they're rolling this out, what could they do to sort of, you know, increase awareness about it and how it works?

RESPONDENT: Yeah, good luck with that. I used to do federal grants and workforce development, where you worked with employers and trying to get them to participate in things that would make them money. And, you know, it's very, very targeted, simplified communication focused on what this does for the business because as much as people like to be nice to their employees, do this, bottom line, it's what you can do for me. So if you could pouch it in terms of employee retention maybe, you know, hey, if this is a benefit you can give that will keep your employees, it's this small cost with this much benefit, that kind of thing, in language they could understand would probably be your best tool.

INTERVIEWER: I see.

RESPONDENT: Yeah. I worked somewhat closely with the Virginia Employment Commission. And one of the challenges they had is when they were trying to roll something out to businesses, is that they would use so much internal VEC language that so much of it didn't mean anything to anybody.

INTERVIEWER: They weren't able to connect with it, yeah.

RESPONDENT: Definitely, you know. It was just, you know, this acronym and that acronym and this phrase. And it's like this means nothing to these people. I barely understand it, and I'm in it every day, you know. So yeah, really clear communications is going to be focused on what's in it for them.

INTERVIEWER: I see, okay. Let's move on. Let me give you a few more features about this program. And these are more focused on the employees.

RESPONDENT: Okay.

INTERVIEWER: To streamline the process, workers would be automatically enrolled in the program unless they decide to opt out or change how much they're contributing. The commonwealth would oversee the plan, but administration and investments would be managed by an outside, private financial company. Contributions would be put in a separate fund that would be invested, and the government would not be able to access workers' savings. Employees could access their contributions and take them out without penalty if they had a financial emergency. So let me just stop there and see if you have any reactions to anything I just said.

RESPONDENT: I like the part of the outside investments, the outside management, because, you know, despite the stories you hear, I think they, by and large, do a good job. I especially like the part where it can't be read by the General Assembly because, you know, things I hear about BRS(?), because that's one of the programs I'm in, that you're just kind of like, wait a minute. And the part I would be concerned about would be the take it out without penalty. I think people would be, just from what I know of friends and family who take it out with penalty, I think you would almost defeat the purpose if you just made it, like people would see it as a regular savings account. Well, I can always take money out of that.

INTERVIEWER: I see. So it's almost self-defeating in a way.

RESPONDENT: Exactly. Part of the reason I have what I do now is because to take it out, I would have to think long and hard, and it would cost me. And I have taken out, I took some out, a small portion, to start my bookstore. But that was very much in tune with what's the market doing. How quickly will I earn this back? You know, what will this, how far will this take me in starting my business? So, yeah, I just think, knowing my own sons that are 31 and 33, I think they would raid it if they got in a pinch. And I would raid mine too. You know, if it was going between not eating and eating, of course I would. But I would think you should make it at least difficult enough that people are thoughtful about it.

INTERVIEWER: So that's, yeah, and I think that's what I was going to ask you is that, you know, it's probably good that it's there in a true financial emergency, like you said.

RESPONDENT: Yes, exactly.

INTERVIEWER: But you do want to, people to pause. And I'm not trying to put words in your mouth, but I'm just trying to summarize it. You want people to pause before they take it so they're just not raiding their own retirement plan.

RESPONDENT: Exactly. And the other thing would be, given what we said a few minutes ago about employer contributions, I think possibly there should maybe be, even if you did make it open to being accessed any time, that employer-contributed dollars, maybe you should have to rise to a higher threshold. I'm trying to think this through as I'm saying it, that it's harder to get . . .

INTERVIEWER: Sure.

RESPONDENT: . . . out, yeah.

INTERVIEWER: That makes sense because if I put my money in, in an emergency, I should be able to get my money out. But if it's the company's, or the business's, then that should be a higher bar or barrier to get in that money.

RESPONDENT: Right. I wouldn't want to see, I wouldn't want it to be real onerous because if it's an emergency, it's an emergency. But I would want it to be, again, you'd have to be fairly thoughtful.

INTERVIEWER: Sure. Okay, last part. Policymakers are also considering the issue of fiduciary responsibility. Fiduciaries are in a position of trust with respect to a retirement plan. For example, employers who make decisions about the plan's investments or investment firms that manage the plan assets are usually fiduciaries. And fiduciaries must act solely in the interest of plan participants and carry out duties with care and diligence. Failure to do so can create potential legal and financial liability.

Let's assume, under this plan that we've been discussing, businesses would not have fiduciary responsibility for the new state-run retirement savings programs. So owners like you would not be, would not have that legal responsibility. What reactions do you have to this aspect of the plan?

RESPONDENT: I think that's important. I would think there should be the responsibility up to the point where if we agree to contribute funds, we do so in a timely manner. I think beyond that, once it leaves our hands, that, no, there shouldn't be any fiduciary responsibility simply because you shouldn't be responsible for something you don't actually control.

INTERVIEWER: Exactly, okay. That's all the questions I have for you today. Is there anything else that, you know, we've touched on that you want to add that you didn't get a chance to?

RESPONDENT: Just that I think it's a really important thing going on. You know, we all hear the stories about the young people right now, especially those with college loans, educational loans. I've read some things that seem fairly, fairly legitimate about don't forget to plan for your savings, your retirement even if you're doing that. You can't put off one part of your life because of the other. And I don't really think that message is out there.

And I understand, at that age, if I had, gosh, if I'd had that kind of debt, I don't know what I would have done. But still, you know, if you say that message long enough, maybe it's still ten years before it gets through to you, but eventually, it will get through to you. And if people think, I have to pay this off before I can do that, you know, even baby steps are baby steps. So I think doing something and making those tools available is very important.

I think you're going to get some pushback. Oh, what's the government doing in the middle of this? They shouldn't auto-enroll me in anything unless blah, blah, blah. And I'm like, well, you're auto-enrolled in unemployment, you know. And you certainly don't have any trouble with that. So my very conservative son was like, the government shouldn't be charging us all these taxes and blah, blah, blah. And I'm thinking, did you have any trouble taking that unemployment check when you got laid off? Well, no. I was like, then hush.

So, yeah, I think, you know, it's one of those things that even if, some of the people that could benefit the most from it might be the biggest, the people most against doing it. But that doesn't mean there's not a reason to do it.

INTERVIEWER: Exactly, okay. That makes sense.

RESPONDENT: Now where is this information going to go? Are you preparing a report for somebody?

RESPONDENT: Yeah, I'd like to have that. Another thing that just, when you talked about that, is I was a very young, single mom when the 529s came out. And I remember some of my concerns and why I didn't participate in it was I set up separate accounts for my kids. And they weren't protected in that I paid my taxes as I went along. So I didn't have any of that benefit. But the reason I didn't do 529s is my understanding at the time, and this could have been wrong, that there was difficulty in getting to the money in an emergency. And there was somewhat unknown, you know, if I save all this and then my kid doesn't go to college, what's going to happen with that money?

And also, the use of the money, one of my sons ended up going into some industrial training instead, and it was, well, nobody could tell you, well, are you going to be able to use it . . . those programs? Can you use it for other career-building training but not college? So I think people that would see a new plan like this would, at least part of them would be thinking down the road and want to make sure that it does suit with them. And they, you know, ultimately, it's like, I don't want to lose my money.

So, you know, and I don't think anybody would, but that can be some of the concern at the beginning, especially when you start talking about investments. Hey, you know, you invested my money, and you did a poor job, or we had a depression or whatever, and now my money is gone. So anything that would reassure them that way. And I know . . .

INTERVIEWER: No, that's a good point, yeah. Oh, go ahead.

RESPONDENT: I was going to say, a lot of this, you know, you would work at as you got through it. But that was one of my concerns before is that it was really unclear in some of these, I'm kind of a devil's advocate person sometimes. And it's like, well, I don't know, what if this happened? What if that happened? You know, some of those strange scenarios are worked through.

And I think what you're doing, interviewing business people, is especially important. At some point, you may be doing this, interviewing people, especially young people, what would be your worries? If you did this, if you put your own money into it, what would be your worry down the road? Because, you know, somebody my age might never even think of what they're thinking of.

INTERVIEWER: Well, that's right.

RESPONDENT: Right. Part of it is the opportunity cost. I only have so many hours in my day. And just in the nature of a bookstore, I get a lot of people that want me to help them promote their book. And I'm like, I have to look at what's the reality? If I spend five hours promoting your book, am I going to make enough money off your book to make it viable? If not, I'm better off spending those five hours doing some kind of marketing effort that will. So it's, you know, it's got to be very practical for people.

INTERVIEWER: No, I . . .

RESPONDENT: . . . yeah. The good feelings is great, but it's got to be, you know, really practical. And this, some notions I have refined since I've gotten into my small business.

INTERVIEWER: Mm-hmm. Well, this has been great. Thank you so much for taking the time. I really appreciate it. And as I said, you'll probably hear from my towards the end of the year once we have a report done.

RESPONDENT: Okay. And the other thing I should tell you about my background, I didn't even think about it, is I used to run a Chamber of Commerce in . . . and spent a lot of time talking with very small businesses. So some of these comments have come from things I've learned from them.

INTERVIEWER: Oh, good. No, that's good. I think just having all these perspectives is really helpful.

RESPONDENT: Right.

INTERVIEWER: It's just, because, you know, you did the survey. You answered the questions. And it will say, you know, 75% said this, and 30% said that, but to sort of get behind those numbers a little bit more, I think it's helpful to the policymakers to, you know, well, okay, this is how business owners think about this. I think that's very useful beyond just a number.

RESPONDENT: Yes.

INTERVIEWER: You know, so that's good.

RESPONDENT: Well, my background is in marketing. I'm always amazed at surveys. You know, when you see a question, you're like, well, wait a minute, which way are you reading this? And some people might be against something because they hate it. Some people might be against it because they don't think it's nearly enough. And that's very nuanced. So I appreciate you doing this work. And this is nonpartisan, right?

INTERVIEWER: Oh, absolutely. It's nonpartisan.

RESPONDENT: Okay. I assumed it was the way you were asking questions.

INTERVIEWER: Yeah, there's been no decision made of which way to go.

RESPONDENT: Yeah. My local general assembly representative is a small business owner, or I think he's retired now, but owned a small business. But he's pretty conservative. So you send me a report, and I'm going to poke him too.

INTERVIEWER: Good. I hope you do.

RESPONDENT: All right.

INTERVIEWER: Well, thank you, I really appreciate your time.

Appendix G: Other State Cost Feasibility Assessments

Other States – Cost Feasibility Assessments by Virginia529

Nearly two years after the CNU Report was conducted, experiential data from states who have launched or are in the process of launching a state-run program is useful to inform further analysis, particularly in the development of projected versus actual costs and asset projections based on empirical data for the two models. Like Virginia, most states with an active or launched program started with a study. Key elements of those studies (e.g. market analysis, analysis of program design features and financial feasibility) informed the type of program adopted.

California

Based on market analysis, an analysis of program design features and a financial feasibility study, California concluded that an auto-IRA program could potentially reach around 6.8 million employees. Based on the market survey, respondents were comfortable with a 5% default contribution rate and automatic escalation. Based on these assumptions, the study concluded that the program participation rate would likely be at least 70% of the eligible population resulting in the program's financial sustainability. The feasibility report included a sensitivity analysis that found even with an extreme 80% opt-out rate the program would become self-financing in the fourth year, and pay off the setup costs in the fifth year.

Oregon

CRR conducted both a market research report and feasibility analysis prior to the launch of Oregon's program. The market research report found that approximately, 590,000 Oregonians worked for an employer that did not offer a plan while another 201,000 workers were self-employed without a plan accounting for 34% and 12% of the total workforce respectively. Another 15% of the workforce was excluded from their employer's existing plan due to limited work hours or for other reasons.

Modeling an auto-IRA program, the analysis assumed an initial contribution rate of 5% and adjusted various other assumptions like the automatic escalation of contributions, default investments, program rollout, and fees ranging from 100 to 120 basis points, the study found that the program would be cash-flow positive in four to five years and net positive in six to nine years. The study estimated approximately $1 million in fixed startup costs and an onboarding cost of $200 per covered employer. The study notes that once start-up costs are paid back, program fees can be reduced to 30 to 50 basis points.

Connecticut

The Connecticut Retirement Security Board (CRSB) was created through HB5591 2016, which directed the Board to conduct a market and feasibility analysis. The Board retained CRR as well as several partners to undertake the study. Similar to the results found in other states, the resulting report estimated that, under a 6% contribution rate baseline scenario, the program would be self-sustaining in year two and be net positive in year five.

Colorado

Colorado contracted with CRR to conduct a financial feasibility assessment. CRR noted that despite federal and state initiatives to provide employers with access to low-cost retirement plans, take-up rates by employers have been low and have not led to a significant expansion of coverage on either a nationwide or state-wide basis. According to CRR, as of 2016, only 14% of U.S. households had contributed to an IRA and that these households “tend to have a college education, additional retirement savings such as a 401(k) through an employer, and higher household earnings.” In the face of such low take-up, CRR found that even modest participation of 50% of eligible participants in a state-administered auto-IRA program would be a significant expansion of coverage. CRR also found that from the perspective of the state’s financial outlays, under a baseline scenario, an auto-IRA program as outlined in the bill would be self-financing in the fourth year and pay off the setup costs in the sixth year.

Appendix H: Virginia State Agency Assessment

Virginia529 State Agency Assessment

Agency Name	Functions & Responsibilities	Organizational Framework
Department of Accounts	The Department, under the direction of the State Comptroller, is responsible for: providing a unified financial accounting and control system for state funds; developing a comprehensive system of checks and balances between state agencies entrusted with the collection, receipt and disbursement of state revenues; and maintaining a central accounting system for all state agencies and institutions.	Department has 9 divisions including the following: • Applications & Technology • Finance & Administration • General Accounting • Financial Reporting • Cardinal Enterprise Applications • State Payroll Operations • Compliance Oversight & Federal Reporting • Information Security Operations • Payroll Service Bureau
Virginia Employment Commission	The Virginia Employment Commission (VEC) is an agency under the Secretary of Commerce & Trade. The function of VEC is to provide the Commonwealth's workforce with services that promote maximum employment, unemployment benefits and labor market information to enhance the economic stability of Virginia.	VEC is overseen by a Commissioner with two Deputy Commissioners, an Internal Audit & Information Security Officer, and a Confidential Assistant / Policy/ Administration Director. Functions the 4 Divisions oversee include: • Communications • General Services • Workforce - Services, Programs & Operations • Finance • Human Resources • Information Technology • Purchasing • Administrative Law • Economic Information & Analytics • Customer Service / Customer Contact Center Operations • Program Grants • Unemployment Insurance Additionally, a Deputy Commissioner oversees a Central office, 6 District Offices and 26 local offices as part of workforce operations. The other Deputy Commissioner oversees a Central Office, 3 Regional adjudication centers and 3 tax administration regions.
Virginia Retirement System	The Virginia Retirement System is an independent state agency that delivers retirement and other benefits to covered Virginia public sector employees. VRS ranks as the 18th largest public or private pension fund in the U.S. and the 41st largest in the world, serving more than 723,000 active and inactive members, retirees and beneficiaries. Members include public school teachers, political subdivision employees, state agency employees, public college and university personnel, state police, Virginia law officers and the judiciary.	As an independent state agency, the Virginia Retirement System (VRS) has a Board of Directors who oversee the Director, Internal Audit, Chief Investment Officer. The Director manages 9 departments of divisions as follows: • Chief Financial Officer • Chief Technology & Security Officer • Public Relations Director • Chief Customer Programs Officer • Executive Assistant • Policy & Planning Director • Chief Human Resources Officer • Chief Customer Relations Officer Defined Contributions Plan Administrator

Agency Name	Functions & Responsibilities	Organizational Framework

Virginia Treasury	Treasury serves as the central state agency, providing statewide financial services for agencies and institutions of the Commonwealth. The State Treasurer reports directly to the Secretary of Finance, which is a cabinet position reporting directly to the Governor.
	
	Treasury is responsible for the investment of state monies, issuance and management of the short and long-term financing needs of the Commonwealth, administration of the state's unclaimed property and escheat laws, administration of insurance and risk management programs, management of the state's banking network, development of cash management programs, and check issuance services.
		Treasury has membership on ten Boards and Commissions. The State Treasurer is supported by a Special Assistant and has four departments and a Deputy Treasurer function that oversees six service area divisions. They are as follows:
		• Internal Review
		• Information Security Officer
		• Deputy Treasurer Programs
		  ○ General Management
		  ○ Debt Management
		  ○ Risk Management
		  ○ Operations
		  ○ Cash Management
		  ○ Investments and Unclaimed Property
		• Human Resources
		• Administrative Services

Virginia College Savings Plan	An independent agency of the Commonwealth of Virginia, with a mission to provide superior, affordable, innovative, tax-advantaged higher-education savings options to help families and others achieve their academic goals. The agency offers several savings programs including: • Invest529 • CollegeAmerica • ABLEnow • ABLEAmerica VCSP also administers scholarship and educational programs, including SOAR Virginia and Reading Makes Cents.	The Plan shall be administered by an 11-member board that consists of (i) the director of the Council or his designee, the Chancellor of the Virginia Community College System or his designee, the State Treasurer or his designee, and the State Comptroller or his designee, all of whom shall serve ex officio with voting privileges, and (ii) seven nonlegislative citizen members, four of whom shall be appointed by the Governor, one of whom shall be appointed by the Senate Committee on Rules, two of whom shall be appointed by the Speaker of the House of Delegates, and all of whom shall have significant experience in finance, accounting, law, investment management, higher education, or disability advocacy.
New Agency or Authority	Based on discussions with several other states with an active program, the following functions would be a minimum requirement for full operational capability. • Executive Director • Marketing / Outreach • Administrative Coordinator	

Appendix I: December 14, 2020 Comment Letter from Judi Carsrud of the National Association of Insurance and Financial Advisors (NAIFA) to Virginia529

To: Sonia Valadez, Virginia529 cc: James Denney and Bob Bradshaw

From: Judi Carsrud, Assistance Vice President, Government Relations

Re: Report to Virginia General Assembly: Retirement Savings

Date: December 14, 2020

Sonia,

NAIFA very much appreciates the ability to participate in Virginia529's study to evaluate the current retirement systems, possible gaps in access and/or participation in retirement savings plans, and the methods other states have considered or have implemented to expand overall coverage. We welcome the opportunity to provide feedback and data as this process continues.

Thank you for sending the final draft in progress for presentation to the General Assembly. We are limiting our comments to those with which we have some experience and expertise, and commend you for the well-organized, well written and thorough study.

We would first note that we wish this study would extend for another year, as we strongly believe that private sector multiple employer plans, beginning in 2021, will address many of the concerns with the "access gap" to savings programs, but with far more robust results with respect to participation by employers and savings rates by participants. As noted in your study, enactment of the SECURE Act has made it much more feasible for employers to simply adopt into a multiple employer retirement plan than prior to that law's enactment.

Multiple employer plans will have all the benefits, features and provisions of more traditional single employer retirement plans, but with significant relief to the employers with respect to cost, administrative duties and fiduciary duties. The advantages of these plans over a state-facilitated auto-IRA plan include employer matching of participant contributions, diversity of investment options, less cost to employee-participants, significantly higher annual contribution limits, and the ability (in most plans) to select either or both ROTH or traditional tax treatment of plan assets.

In contrast, the study's references to state-facilitated MEPs is really just one plan, in Massachusetts, and that plan is not a good representation of the take-up rate, costs, etc. because that plan is ONLY available to non-profit businesses with 20 or fewer employees, a very narrow and limited representation of businesses not already offering a retirement program. The study's comparisons of a MEP to an auto-IRA model are therefore quite limited.

Our general comments regarding the study, include that we agree that auto-enrollment and auto-escalation features improve overall retirement savings, and we encourage these features in private sector plans as well. We strongly agree that education and financial literacy are of paramount importance, and we believe that a public-private partnership to enhance education and literacy should be aggressively pursued. We concur with your study's analysis of what entities would be best able to successfully and efficiently sponsor a state auto-IRA program, such as Virginia529. Allowing both traditional and ROTH tax treatment is preferred, as proposed.

We believe that Virginia should consider how to encourage employers to offer retirement savings, and even mandate that certain, larger employers offer payroll deductions savings programs, but we also recognize that there are many reasons why the smallest employers do not offer plans that cannot be addressed merely by passing some plan costs from the employer to the employee, as is typical in state-sponsored plans. We also note that employers who cannot readily access payroll integration services would be inordinately challenged in being required to facilitate payroll deduction to a state auto-IRA.

NAIFA is working closely with Congress to enact more retirement enhancements, including expansion of the Saver's Credit, a refundable tax credit for employers to cover 100% of their start-up costs in implementing a plan, auto-enrollment and auto-escalation defaults, increases in catch-up contribution limits, and inclusion of long-term, part-time employees. Both the House and the Senate have legislation they believe will be enacted in 2021, another reason we encourage Virginia to wait and see the impact of federal legislative efforts before then addressing any gaps.

Specifically, we hesitate to support state mandated auto-IRA programs because by their very nature, they are far less robust than private sector retirement plans. The contribution limits to these IRAs are a third of what is available in a private sector plan; there are no ERISA protections for participants; many only offer ROTH tax treatment, which can be cost-prohibitive for lower income workers who will likely opt out all together; employer-matching is a huge incentive for employee participation in plans, and most small to medium sized employers match in order to qualify for the non-discrimination safe harbor and most other employers choose to match contributions to remain competitive in attracting and retaining qualified employees. Simply stated, we fear that by mandating employers participate in a state auto-IRA program, employers who would otherwise choose far more robust plans will instead just follow the mandate, resulting in less participation by workers, smaller overall savings and more likelihood of lackluster enthusiasm by both employers and the employees. Our experience is that when employees see the results of their savings, matched by their employers, they become enthusiastic and committed to long term planning and savings.

As noted above, we wish this study was a year later, when there would be much more data on which to determine if there is a gap in access and how to best resolve. Your study projects a 10-year time frame to break even, and therefore, contemplating improvements in the private sector marketplace coupled with the 10-year cost analysis, it might be prudent to conduct a study every 2-3 years to see how the plan is performing with a reauthorization after 5 years.

Sonia, thank you again for including NAIFA. We are happy to assist in the future and will help find resources for you if we cannot meet a specific need. This is an important topic and working together will yield the best results.

I wish you and your team, and your families, a very happy holiday season!

[END OF REPORT AND APPENDICES]

Virginia529℠

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