AMERICANS' VIEWS OF STATE-FACILITATED RETIREMENT PROGRAMS

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INTRODUCTION

The past several decades have seen dramatic changes to the U.S. retirement system that have left many Americans ill-prepared for retirement. A broad body of research finds that most working Americans are not on track for a secure retirement. The ongoing COVID-19 pandemic has further complicated retirement for many Americans, with one out of every three Americans saying they now plan to retire later than planned due to the pandemic.[1]

Saving enough for retirement during working years has been difficult for most workers, and the burden of preparing has increased in recent years. Social Security now replaces less income than it did in the past. Fewer Americans are offered a defined benefit (DB) pension through their employer. Defined contribution (DC) plans like 401(k) accounts shift risks from employers to workers, and individuals often are ill-equipped to manage these risks. Simultaneously, Americans face rising costs in retirement. Housing, healthcare, and long-term care costs have increased and present even higher obstacles than in past decades. As the U.S. population ages, these costs are projected to rise even more.[2] With the proportion of Americans aged 65 and older continuing to grow, an inadequate retirement infrastructure will pose serious fiscal challenges for the nation.

According to the Boston College Center for Retirement Research (CRR), half of U.S. households will not have enough retirement income to maintain their standard of living in retirement, even if they work to age 65 and annuitize all their financial assets. CRR's research indicates that there is a need to address the retirement system such that employer program coverage is universal and continuous so workers can accumulate adequate resources to maintain their standard of living in retirement.[3]

Unfortunately, retirement coverage is not universal in the U.S. Only about half of workers participate in either a defined benefit plan or a 401(k) account, and this percentage has remained constant for decades.[4] Moreover, workplace retirement program coverage varies sharply by occupation, wage level, and part-time/full-time status. According to The Bureau of Labor Statistics' National Compensation Survey (NCS) data, in 2019 84 percent of management and professional workers in the private sector had access to an employer sponsored program, compared to only 41 percent of workers in service jobs. Only 39 percent of workers in part-time jobs had access to a retirement program, compared to 77 percent of workers in full-time jobs.[5]

On the bright side, retirement program coverage is highly prevalent for public sector workers. For the vast majority of employees of state and local government, participation in a public pension plan and contributing toward the cost of the pension is a mandatory term of employment.[6]

In Washington, federal lawmakers have taken some steps to address the U.S. retirement crisis. Enacted in 2019, the Setting Every Community Up for Retirement Enhancement (Secure) Act was designed to make retirement savings more accessible, providing incentives for employers to start defined contribution retirement programs. The measure created pooled employer plans (PEPs) that enable small businesses to work together to offer employees a retirement program, and it included tax credits to help business owners get started. Meanwhile, certain provisions of the 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act were targeted at providing fast and direct economic assistance to Americans during the COVID-19 pandemic, and the measure included easier access to retirement program withdrawals and loans. While many Americans were in dire need of economic support at the time, the downside of this legislation is that dipping into retirement savings often has negative long-term impacts on retirement security. This year, Congress is considering additional retirement legislation that would expand changes enacted under the Secure Act to help increase retirement savings.

At the state level, there has been a high degree of action to address the retirement challenges facing Americans by providing increased access to retirement programs. Since 2012, some 46 states have either enacted, studied, or considered legislation that would establish so-called state facilitated retirement savings programs **(Figure 1)**. And as of May 15, 2021, 13 states and two cities have enacted state-facilitated retirement savings programs for private sector workers. Five states (California, Illinois, Massachusetts, Oregon, and Washington) were open to employers in 2020. Massachusetts and Oregon started programs in 2017, while Washington opened its marketplace in March 2018. The Illinois program was launched in 2018, followed by California in July 2019. The remaining states are working toward program implementation.[7]

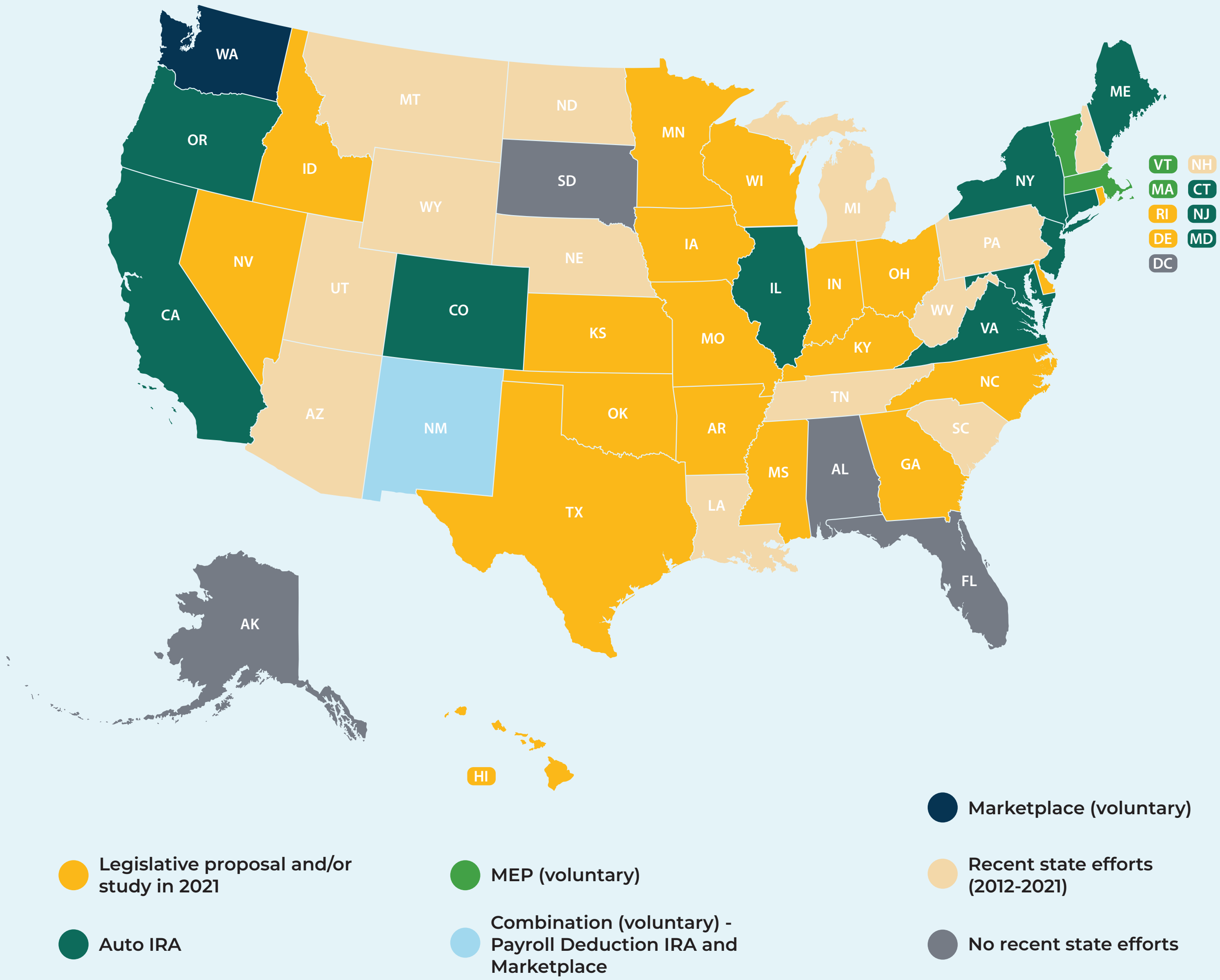
While each program is different, the most popular type of program that states are enacting automatically enrolls workers in moderate risk, low-cost retirement savings accounts referred to as auto-IRAs. Broadly, the state-facilitated programs require private sector employers lacking retirement programs to provide their employees with access to retirement accounts through payroll deductions. While these programs are overseen and administered by the state, investments are managed by private companies. Workers in states that offer these programs can access these retirement savings accounts when they retire.

These state-facilitated retirement programs offer a backstop for those working in jobs where employers do not offer retirement programs like a pension plan or 401(k) account. For many reasons, employer-sponsored retirement programs are important, but only about half of workers participate in either an employer-sponsored defined benefit pension or a 401(k) account. This percentage of employees participating in workplace programs has remained constant for decades.[8] Employer-sponsored retirement programs are important because they have advantages that are not available to state-facilitated programs, including employer contributions. While state-facilitated programs can improve retirement savings via a paycheck deduction within a system that offers economies of scale, the state-facilitated programs are not considered a replacement for workplace retirement programs. Ideally, the state-facilitated programs will nudge more employers to offer retirement programs to their employees. According to Pew research, more employers in states like California, Oregon and Illinois are moving toward program sponsorship in response to the new state-facilitated programs.[9]

Against this backdrop, this issue brief examines national sentiment of Americans about state-facilitated retirement savings initiatives. This research finds that:

- The vast majority of Americans (72 percent) agree that state-facilitated retirement savings programs are a good idea. There is high support across party and generational lines, with support highest among Millennials (78 percent).
- Three-quarters of Americans (75 percent) say they would participate in state-facilitated retirement programs, consistent across party and generational lines.
- Americans view many key features of state-facilitated retirement programs as highly favorable, especially portability (84 percent), higher returns (82 percent), and lower fees (82 percent).

Figure 1: 2021 State Legislative Map



Source: Georgetown University's Center for Retirement Initiatives

I. AMERICANS SAY STATE-FACILITATED RETIREMENT PROGRAMS ARE A GOOD IDEA

Nearly three fourths of Americans agree that state-facilitated retirement programs are a good idea **(Figure 2)**. At a time when the nation faces deep division on a broad range of issues, support for state-facilitated programs holds strong across party lines **(Figure 3)**. Moreover, the support is strong across generational lines, with Millennials most supportive of these new retirement programs **(Figure 4)**.

Figure 2: The vast majority of Americans say state-based retirement programs are a good idea.

Overall, do you think these state retirement programs are a...

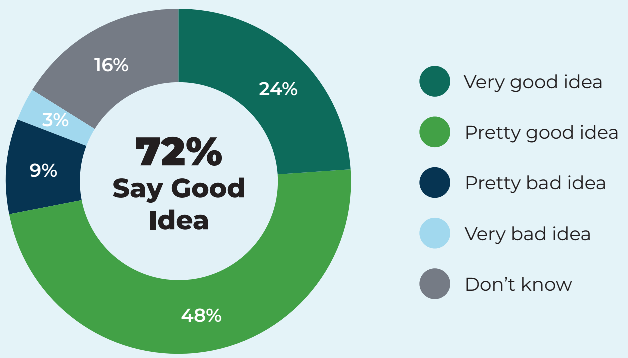


Figure 3: Across party lines, Americans agree that state-based programs are a good idea.

Overall, do you think these state retirement programs are a...

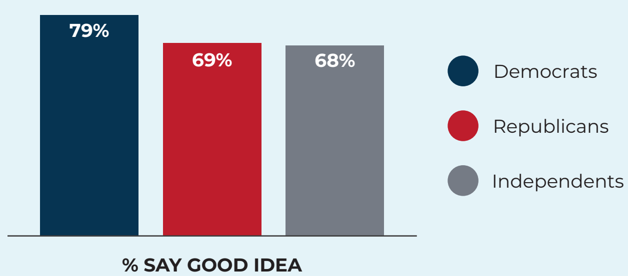
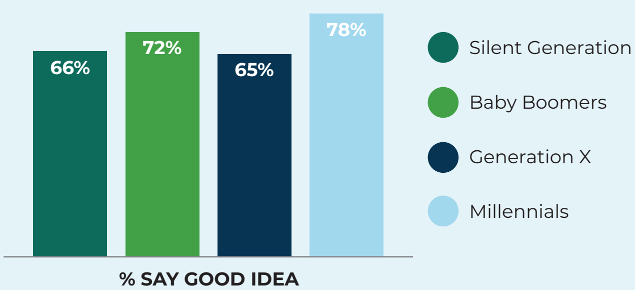


Figure 4: Across generations, there is strong support for state-based retirement programs.

Overall, do you think these state retirement programs are a...



II. MOST AMERICANS WOULD PARTICIPATE IN STATE-FACILITATED RETIREMENT PROGRAM

Not only do most Americans say that new state-facilitated programs are a good idea, they also say they likely would participate in the programs if offered **(Figure 5)**. Three-quarters (75 percent) indicate interest in participating, with interest consistent across both party **(Figure 6)** and generational **(Figure 7)** lines.

Interestingly, when asked about participation in state-facilitated programs, support is highest among the oldest and youngest generations. The Silent Generation is in a position to reflect back on their working careers, while Millennials still have time left to prepare for retirement.

Figure 5: Most Americans would participate in state-based retirement programs if offered.

Overall, based on the previous description, how likely do you think you (would be/would have been) to consider participation in this program if it were available through your employer?

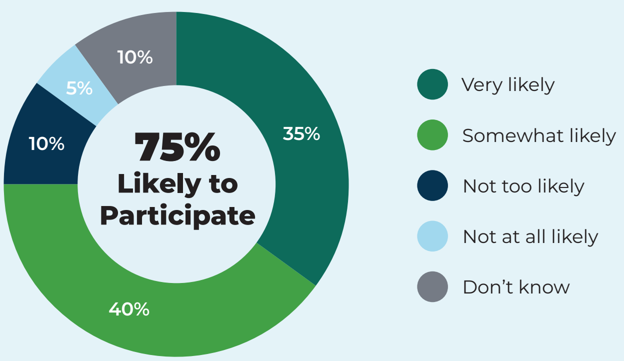


Figure 6: Across party lines, most Americans would participate in state-based programs if offered.

Overall, based on the previous description, how likely do you think you (would be/would have been) to consider participation in this program if it were available through your employer?

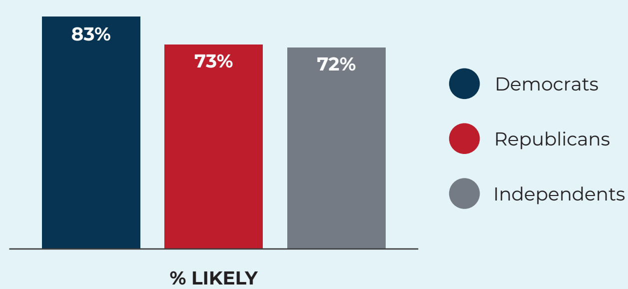
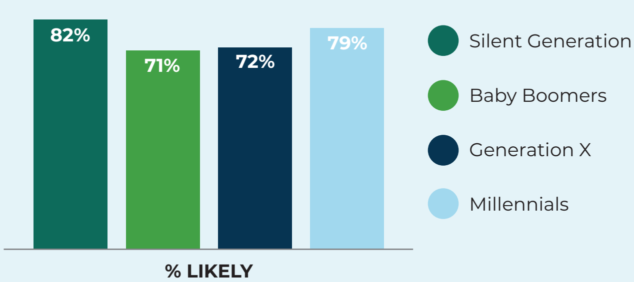


Figure 7: Across generations, most Americans would participate in state-based retirement programs.

Overall, based on the previous description, how likely do you think you (would be/would have been) to consider participation in this program if it were available through your employer?



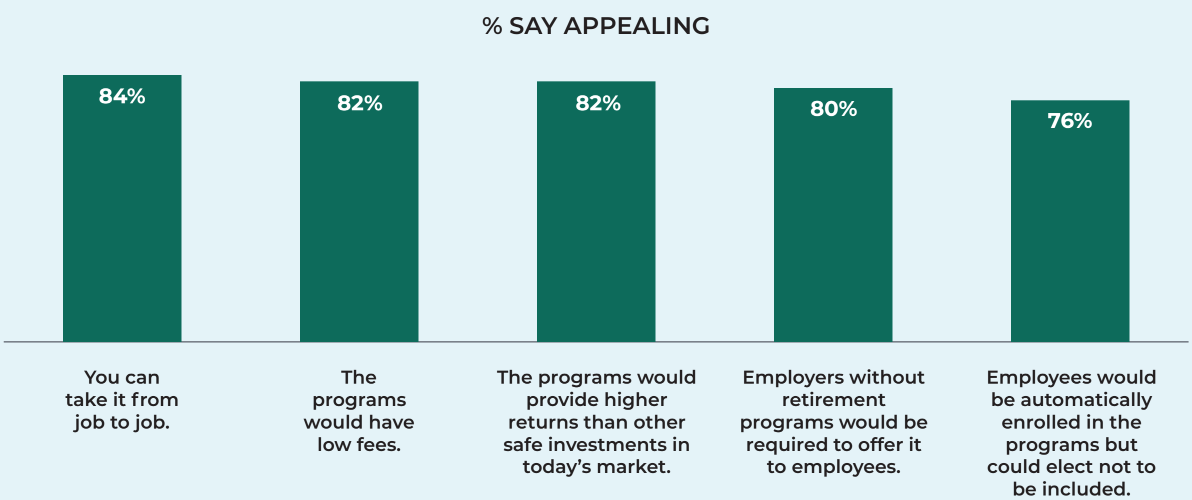
III. AMERICANS ARE HIGHLY FAVORABLE ABOUT MANY KEY FEATURES OF STATE-FACILITATED RETIREMENT PROGRAMS

Each of the state-facilitated retirement programs that are up and running or in progress have features that help strengthen retirement security – low fees, higher returns than a bank savings account, portability from job to job, and automatic enrollment.

Across the board, Americans have favorable views of the features that are included in most state-facilitated retirement programs. The highest support is for benefit portability (84 percent), higher returns (82 percent), and lower fees (82 percent) **(Figure 8)**.

Figure 8: Americans are highly supportive of many of the key features of state-based retirement programs.

How appealing are each of the following aspects of this new type of retirement plan?



CONCLUSION

The U.S. is facing a retirement savings crisis that likely is worsening thanks to yet another economic crisis. While wealthier Americans have enjoyed large investment gains during the pandemic, many Americans faced severe economic impacts like losing jobs, hours and earnings. Today, far too many Americans are not on track to maintain their standard of living in retirement. The retirement savings shortfall can be attributed to many factors, including the move away from pensions, stagnant wages, and a lack of employer sponsored plans. Also, cuts to Social Security benefits and skyrocketing costs for health, long-term care, and housing in retirement are exacerbating the retirement crisis.

This research offers an assessment of Americans' views about new state-facilitated retirement programs.

- The vast majority of Americans (72 percent) agree that state-facilitated retirement programs are a good idea. There is high support across party and generational lines, with support highest among Millennials (78 percent).
- Three-quarters of Americans (75 percent) say they would participate in state-facilitated retirement programs, consistent across party and generational lines.
- Americans view many key features of state-facilitated retirement programs as highly favorable, especially portability (84 percent), higher returns (82 percent), and lower fees (82 percent).

Going forward, it will be important to monitor actions in states to implement additional state-facilitated retirement programs, as well as monitor the results for states with programs up and running. These state-facilitated programs coupled with action in Washington, D.C. are steps in the right direction for addressing the retirement savings shortfall facing working Americans.

METHODOLOGY

Conducted by Greenwald Research, information for this study was collected from online interviews between December 4–10, 2020. A total of 1,203 individuals aged 25 and older completed the survey. The final data were weighted by age, gender, and income to reflect the demographics of Americans aged 25 and older. The sample was selected using Dynata, an online sample provider. Tabulations in some of the charts may not add up to 100, due to rounding.

For the purposes of this research, Millennials include those ages 25 to 43, Generation X includes those ages 44 to 55, Baby Boomers include those ages 56 to 74, and the Silent generation includes those age 75 or older.

ENDNOTES

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