

Oregon Retirement Savings Task Force Recommendations

General Overview

The Oregon Retirement Savings Task Force finds that the national retirement savings crisis deeply affects far too many Oregonians. According to a 2011 study by the Oregon State Treasury, roughly 45 percent of employed Oregonians do not have access to employer-sponsored retirement plans. Of those with access to an employer-sponsored plan, nearly a quarter do not enroll. And many Oregonians simply do not save enough. More than half of Oregon workers have less than \$25,000 in retirement savings and more than a quarter have saved less than \$1,000.

While retirement security has historically been seen as a matter of shared, as well as personal, responsibility, it is rapidly becoming a broad concern for policymakers. Widespread failure to save adequately for retirement will likely lead to increased burdens on costly social services.

The Retirement Savings Task Force believes that the State should be a leader in addressing this crisis and recommends to the Oregon Legislature the creation of a retirement security program encompassing the following:

Retirement Savings Plan Characteristics

To overcome the challenges faced by Oregonians who want to save and prevent the potential strain on public resources resulting from inadequate saving rates, the Task Force recommends developing and making available a retirement savings plan for all Oregonians lacking access to a plan at their workplace. The plan should have the following nine characteristics:

1. **Voluntary participation with auto-enroll.** Employees should be automatically enrolled with the right to opt-out. Employees should be notified of and provided financial education about their enrollment upon employment.
2. **Auto-escalation of contribution levels with employee control.** Employees should have the opportunity to choose their initial and ongoing automatic contribution rates or rely on the default rates. The default rates for employee contributions should be automatically increased over time.
3. **Contributions from payroll deductions.** Defined contributions should be made from employee payroll deductions. Existing payroll systems should be used wherever possible to reduce costs. Persons who are self-employed or unemployed should also be able to make contributions.
4. **Tax benefit.** The plan should meet the qualification requirements to receive federal and state tax deductions for the participants.
5. **No required employer contribution.** Employers should not be required to contribute to employee accounts. If possible, voluntary employer contribution arrangements on behalf of employees should be accepted.
6. **Reports to savers.** Accounts should be individual and account information should be regularly reported to each participant.
7. **Portability.** Accounts should be portable, allowing savers to maintain their accounts from one job to the next and during periods of unemployment or self-employment.

8. **Pooled and professionally managed.** Funds should be pooled and professionally managed to maximize returns for participants.
9. **Self-sustaining.** The costs to manage the accounts should be paid from employee payroll contributions and/or account earnings.

Program Governance and Management

The Task Force recommends empanelling a state board responsible for sponsoring and overseeing the program outlined in these recommendations. The Legislature should provide appropriations and contracting authority to the board to conduct this work.

The board should consist of members representing private, for-profit entities; private, tax-exempt entities; consumers who would enroll in the plan; the Legislature, the Office of the Governor, and the Office of the Treasurer. Alternatively, the existing Retirement Savings Task Force could continue to serve in lieu of the creation of a new board or until a new board is appointed.

The Task Force stands ready to receive direction from the Legislature regarding any work it would like performed.

Additional Program Components

The Task Force acknowledges that more effort is needed to ensure all Oregonians have access to a retirement savings plan with the above characteristics. The Task Force recommends further investigation and analysis in the following areas:

Market Research

We recommend that the Legislature appropriate funds for a Request for Information (RFI) or Request for Proposal (RFP) to receive input from financial service providers, experts, and scholars to conduct a market analysis and program refinement and delivery. The RFI or RFP should be used to thoroughly understand the extent to which financial firms currently provide retirement savings plans with the nine recommended characteristics noted above and what impediments exist to enhance existing products. The RFI should also investigate market capacity and industry ability to expand traditional employer-based coverage into underserved markets, especially minorities, women, and low-wage workers. The plan described above should not have the effect of discouraging employers from sponsoring qualified plans under the existing federal system.

Small Business Outreach

Under this program, employers should be responsible for distributing retirement plan materials produced by the plan provider to their employees and providing employee payroll information to the plan provider. As explained in the Report, some small businesses report that they do not sponsor a retirement plan because the additional administrative burdens stretch their resources and/or exceed their expertise. The Task Force recommends undertaking a small business outreach program to better understand the real costs and other limitations faced by small business offering retirement plans and requests an appropriation for this purpose. The State

should make efforts to partner with existing business organizations to make information available to small business owners regarding the plan and other employer-based retirement savings options.

Tax Credits and Other Incentives

The information gathered from Small Business Outreach should be forwarded to appropriate legislative committees and used by the Legislature when considering whether tax credits or comparable incentives to offset the direct costs to employers, including nonprofits, could boost retirement savings. We recommend that any legislative consideration of incentives for employers include similar incentives for savers to boost retirement savings.

Legal Guidance

The most significant unanswered legal question is whether the state's sponsorship of any retirement savings strategy complies with the federal Employee Retirement Income Security Act (ERISA) and what preemption issues, if any, preclude the State from acting in this area. To ensure that the program implemented complies with ERISA and that account holders receive the tax benefits associated with retirement savings under the Internal Revenue Code, the Task Force recommends that the Legislature appropriate funds for the State to obtain guidance from legal experts in coordination with other states facing similar ERISA concerns and other outstanding legal questions. This legal counsel should be used to develop a plan with enough definition and certainty to receive an expedited opinion from the US Department of Labor.

Financial Literacy

While education alone is not enough to address the retirement security crisis, efforts to increase participation in retirement savings plans should be accompanied by increased financial literacy education and financial values education. The Task Force recommends additional research into the preferable components of an education program, including inclusion in public schools, employee orientations, small business resources, and public awareness campaigns.

Limitations

It is the intention of the Task Force that all of the above recommendations comply with state and federal law. Any recommendation that the Legislature deems extends beyond what is permissible under current law should not affect the other recommendations, which should remain in effect as provided.