WRITTEN TESTIMONY OF
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BEFORE THE
SENATE FINANCE COMMITTEE
CONCERNING "CHALLENGES IN
THE RETIREMENT SYSTEM"
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INTRODUCTION

Chairman Grassley, Ranking Member Wyden and Members of the Committee, thank you for the opportunity to address the Committee on the topic of retirement security.

My name is Tobias Read and I have the honor of serving as Oregon's State Treasurer. At the Oregon State Treasury, we focus on promoting the financial security of all Oregonians. We manage a $100 billion investment portfolio, issue the state's bonds, serve as the central bank for state agencies and local governments, and administer savings programs for individuals and families.

Before I was elected State Treasurer, I served in the state legislature. In 2015, I co-sponsored the legislation that led to the creation of the Oregon Retirement Savings Program, also known as OregonSaves. The Oregon State Treasury is tasked with implementing OregonSaves, and my experience with OregonSaves is why I am here to testify before you today.

We created the first-in-the-nation OregonSaves program in response to our nation's retirement savings crisis. According to the National Institute for Retirement Security, the gap between what's saved and what's needed is estimated to be at least $6.8 trillion nationally.[1] At the same time, more than half of the private sector workforce in the United States lacks access to an employer-sponsored retirement savings plan at work. In Oregon alone, with a working age population of 1.8 million, there were an estimated <u>1 million</u> private sector workers without such access. And that matters, because research by the AARP shows that workers are 15-times more likely to save if there is an option to do so at work.[2]

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[1] https://www.nirsonline.org/wp-content/uploads/2017/06/retirementsavingscrisis_final.pdf
[2] https://www.aarp.org/content/dam/aarp/ppi/2017-01/Retirement%20Access%20Race%20Ethnicity.pdf

That's why everyone should be happy to see the efforts of Oregon and other states to expand savings options to more people. Empowering more people to invest in their own futures is vital to the financial wellbeing of individuals and families alike.

The program is working. I am pleased to report that OregonSaves is already a success, and it is still just getting started. Tens of thousands of people are already participating and most of these Oregonians had never saved before. We have eclipsed $18 million in savings by the first waves of participants. That number increases by more than $2.2 million a month and is accelerating.

What is OregonSaves?

OregonSaves is an easy, automatic way for Oregonians to save for retirement at work. Workers at an employer that does not offer a qualified retirement plan can automatically enroll and start saving into their own personal IRA. OregonSaves is also a public-private partnership. The program is overseen by the State and managed by a private program administrator with extensive experience in the financial services industry, similar to how 529 plans are structured.

Oregon employers that do not offer a retirement savings option are required to offer OregonSaves to their workers. Participating workers contribute to their IRA with every paycheck, and those IRAs are tied to the worker and not the job, ensuring that what a worker saves is portable and will always be their money and under their control. Workers can opt out if they want, but most are staying in—about 3 of every 4 eligible workers.

Based on early demographic data, two-thirds of workers age 35-44 choose to participate in OregonSaves when they work at a facilitating employer.[3] This means OregonSaves is laying a foundation for a long-term culture shift, in which saving early and throughout your career becomes the norm.

But beyond the numbers, I love to hear the stories of the savers, like Genevieve from the non-profit Merit NW in Salem. Genevieve told us that OregonSaves is "the easiest retirement program I have ever participated in. It has removed a lot of the stress of having to choose from a long list of decisions that feel overwhelming. Saving for retirement should be easy and painless."

[3] http://crr.bc.edu/wp-content/uploads/2018/12/IB_18-22.pdf

I’m also excited to see enthusiasm from businesses. Signing up workers is quick and easy. As Josh Allison, owner of Reach Break Brewing in Astoria told us, “OregonSaves allows me to offer a retirement plan to my employees, which I would have a difficult time providing on my own. As a small family-owned business, it gives me the tools to recruit and retain good employees. It also gives my employees the ability to work for our company as a career. It’s a win-win for all parties involved.”

How does it work?

OregonSaves launched in a pilot phase in July 2017 and began operating statewide at the beginning of 2018. The program fills an important gap by expanding access to workers who have traditionally been unable to contribute to workplace retirement accounts. Workers, such as hair stylists or those in construction, generally work for themselves or for small businesses that lack employer-sponsored plans. For these workers, making long-term financial plans—including for retirement—often takes a back seat.

The program is currently registering employers with more than 10 workers. The statewide rollout will continue in waves through 2020, which is the timeline for small firms with four or fewer workers. However, many employers see the benefits of OregonSaves and aren’t waiting to register. Employers of any size can enroll at any time ahead of their registration date, and nearly 2,000 have already chosen to do so.

The program is also open for voluntary enrollment by individuals, including the self-employed, gig economy workers, and those whose employers do not facilitate OregonSaves. Over 250 individuals have self-enrolled since we made that option available late last year.

OregonSaves is adding approximately 1,800 workers per week and the program now has more than 78,000 workers enrolled. We anticipate a similar volume of workers to enter the program over the next few years, as small businesses join the program in the final waves. The estimated total of eligible workers could be as large as 400,000-500,000.[4]

The participation rate of eligible workers has remained steady at around 72 percent, consistent with the market research analysis completed in 2016,[5] which

[4] https://www.oregon.gov/retire/SiteAssets/Pages/Newsroom/ORSP%20Market%20Analysis%2013JULY2016.pdf

[5] https://www.oregon.gov/retire/SiteAssets/Pages/Newsroom/ORSP%20Market%20Analysis%2013JULY2016.pdf

estimated opt-out rates of 20 to 30 percent. And, there is potential for opt-out rates to drop over time: data from the United Kingdom's NEST program, a similar defined contribution workplace retirement plan with automatic enrollment, show the opt-out rate dropped by almost 50 percent over time.[6]

Workers automatically enrolled in OregonSaves utilize a standard set of options designed to reduce the stress and decision paralysis often ascribed to individuals enrolling in retirement savings plans. The standard savings rate and account type for OregonSaves is 5 percent of gross pay into a Roth IRA. Other states (CA, IL) initially set their standard savings rate at 3 percent, for fear that a higher initial percentage would reduce participation in the program. Our results show the higher percentage has not affected participation. The average savings rate is currently around 5.5 percent, and workers are contributing an average of $117 per month. Both CalSavers and Illinois Secure Choice chose to increase their standard savings rate to 5 percent based on our results.

We chose a Roth IRA as the standard account type because workers can withdraw their contributions at any time without penalty. This is an important design feature for new savers, many of whom lack emergency savings to weather financial shocks such as car repairs or medical bills.

Additional standard design features include depositing the first $1,000 saved into a capital preservation fund. This serves a dual purpose: first, it keeps our participants away from market volatility in the early months when they are new to the program. Second, it ensures that if a worker is automatically enrolled and decides soon thereafter to withdraw from the program, they can quickly access all contributed funds. Contributions above $1,000 automatically flow into a target date fund based on the participant's estimated retirement age.

Finally, the standard design includes an automatic escalation of 1% on January 1st of each year until the contribution rate reaches 10%. Almost 10,000 OregonSaves participants had their first auto-escalation on January 1st, 2019 and we are happy to report that 90% of participants who auto-escalated made no changes to their contribution rates. In fact, 48 participants used the reminder as an opportunity to increase their savings rate even further.

Preliminary analysis of participant data by the Center for Retirement Research at Boston College shows that 83 percent of workers who have not opted out are

[6] http://www.nestinsight.org.uk/wp-content/uploads/2018/06/How-the-UK-Saves.pdf

sticking to the default. This is similar to worker behavior in 401(k) plans.[7] Participants can go online or call at any time to make changes to their contribution rate, type of investment, account type (Roth or Traditional IRA), or auto-escalation details. And many do. The OregonSaves call center gets approximately 3,600 calls per month from participants seeking to interact with their accounts.

Employer Facilitation

From the beginning, Treasury was aware that the success of the OregonSaves program relied heavily on our relationship with employers throughout the state. We constructed the program to limit the requirements on employers as much as possible and are constantly considering ways to decrease the time employers spend facilitating the program. Employer interaction with the program includes the steps outlined below.

First, registration or exemption. All Oregon employers receive notices from the OregonSaves program in the months leading up to their registration date. For employers that already offer a qualified retirement plan, these notices simply prompt them to go online and certify themselves as exempt. In practice, we have seen a small number of employers use these program notices as a prompt to set up their own qualified retirement plan instead of facilitating OregonSaves. We see this as an exciting development, both for workers, who will have access to better benefits, and for private industry.

In addition to the self-exemption process, we have determined two other ways to certify that an employer is exempt. If an employer files a federal form 5500 and our staff is able to positively match the business on the form 5500 with the Oregon business, we will send a notice of presumed exemption from the program. Additionally, Treasury has a bill currently before the Oregon Legislature, (Senate Bill 165), which would add a checkbox on a required annual business filing with the Oregon Department of Revenue. If the bill passes, employers offering a qualified retirement plan could check the box on the form and the Department of Revenue would transfer data to Treasury to exempt the employer from the program.

Employers that do not offer a qualified retirement plan go online to register. Registration involves verifying basic employer information and affirming the employer does not currently offer a plan. Once registered, the employer is

[7] http://www.nber.org/2018rrc/slides1/1.2a%20-%20Belbase.pdf#page=13

prompted to provide basic information about each worker so OregonSaves can contact individuals to set up their accounts or obtain opt-out forms. Employers can either upload an excel spreadsheet onto the program platform or enter this data manually. Most employers tell us this process takes approximately 30 minutes to an hour, depending on the number of workers and the method used for upload.

Beginning 30 days following worker enrollment, employers begin transferring contribution amounts to the individual IRAs. Employers using a payroll service provide instructions to their payroll provider to initiate these transfers. Employers without a payroll service handle these transfers as they would any other deduction from an employee's pay. Employers and payroll providers tell us this adds 10-15 minutes to their payroll each pay period.

Program Changes for Employers

Our original program rules gave employers the ability to make programmatic changes to individual worker accounts and asked employers to distribute program materials to workers. We have since shifted all responsibility for making changes and distributing materials to our third-party program administrator. In so doing, we are reducing the amount of time employers spend facilitating the program and ensuring the information reaching workers is provided in a timely and efficient manner.

We have also been working together with Illinois Secure Choice and CalSavers to collaborate with the nation's largest payroll providers. At a meeting in Chicago last month, over a dozen payroll providers sent representatives to discuss how best to integrate payroll services with the state programs. It is our hope that by laying this groundwork early, payroll providers and third-party provider platforms will automate communication this year, further reducing the employer's role and in some cases eliminating their responsibilities entirely.

Ensuring Worker Access to OregonSaves

Our goal is to ensure every Oregonian access to a retirement savings option at work. Oregon law requires all employers that do not offer a qualified retirement plan to facilitate OregonSaves, but does not include a mechanism to investigate compliance. The Oregon Legislature is set to vote on Senate Bill 164, which would allow our Bureau of Labor and Industries to investigate employer compliance. Treasury worked with employer and stakeholder groups to draft and amend this bill. The goal is to ensure all Oregon workers have access to the program without placing an undue burden on small employers around the state.

At a recent House Business and Labor committee hearing, representatives of the business community spoke about the process of creating program rules for employers, and this proposed compliance mechanism. A lobbyist representing several employer groups in Oregon, said "the Treasurer's office has been incredible in the implementation of this program…they have tirelessly worked with us throughout the rules process to ensure this is easy to implement. My clients are excited about it, their employees are excited about it. It's not what I thought I would have been telling you two years ago or three years ago."

The OregonSaves call center gets approximately 1,250 calls per month from employers with questions about the program and their role as a facilitating employer. The OregonSaves team has provided over 330 one-on-one training sessions to employers to assist in program set-up and provides informational sessions across the state to employer groups of varying sizes.

Public Support

The public overwhelmingly supports OregonSaves. Employers say it is easy to sign up workers, and based on a recent public survey by DHM,[8] the level of support has actually increased in the first year. That poll found an astounding 82 percent of people support OregonSaves.

They know it is the right approach, and that it will improve savings, making Oregon stronger, today and in the long run. Or as John, an employee at Provoking Hope in McMinnville told us, "I'm 30 and now just thinking about my future. For the first time in my life, I'm thinking ahead. Where I'm at today is a 180 [degree] turn – I never even had a bank account before. I'm grateful these types of programs are available to get people on the right track."

No Fees for Employers; Reducing Fees for Workers

Facilitating OregonSaves is fee-free for employers. Program costs are covered by fees on the IRA account assets. The all-in fee for workers is capped at 1.05 percent of assets per year. This level will likely drop once the program is fully implemented and assets continue to grow. According to the 2016 feasibility study,[9]

[8] https://www.aarp.org/content/dam/aarp/research/surveys_statistics/econ/2018/oregon-retirement-savings-oregonsaves.doi.10.26419-2Fres.00248.001.pdf

[9] https://www.oregon.gov/retire/SiteAssets/Pages/Newsroom/ORSP%20Feasibility%20Study%208_11_2016.pdf

it is estimated that fees could drop down to 30 to 50 basis points after start-up costs are repaid. In fact, investment fund fee reductions are already a reality. In September 2018, State Street Global Advisors, OregonSaves' investment manager, announced lower investment fund fees for the OregonSaves Target Retirement Funds (from 13 to 9 basis points), which is the standard investment option for participants, as well as for the OregonSaves Growth Fund (from 6 to 2 basis points), reducing the all-in fees for workers invested in those options accordingly.

Federal Law and Interaction with State Programs

OregonSaves and the other state-based auto-IRA programs are constantly seeking better ways to serve employers and program participants. We believe the following changes at the federal level would help achieve our program goals of reduced burden on employers and a better product for our participants:

1) **Creating a robust 5500 database.** As previously mentioned, we currently use Form 5500 data to presume employers exempt from the program. While helpful, that data is not as robust as we originally anticipated. Our match rate was approximately 11.5% when comparing our data with the Form 5500 filings. Upon further research, we believe part of the issue is that subsidiary companies are not listed in a way that can be easily searched and retrieved. If a more robust database existed, OregonSaves and the other state programs could more easily exempt employers that offer a qualified retirement plan, meaning we can reduce the administrative burden on exempt employers and focus our efforts and resources on those businesses who need to facilitate.

2) **Allowing minors to use OregonSaves.** Under the age of majority (18 or 21, depending on the state) an IRA is a custodial account that a custodian (typically a parent) holds on behalf of a minor child. The account is transitioned into the child's name at the age of majority. We recommend changing this requirement and allowing minors as young as 16 to open their own accounts and hold the money in their own names. This would allow state-based programs to auto-enroll minors working at facilitating employers and get young workers in the habit of saving early in their working lives.

3) **Exemption from future federal legislation.** When considering federal legislation that would overlap or create national-level retirement savings programs, we would ask for an exemption to allow state-based programs to continue where they already exist.

Conclusion

OregonSaves is already succeeding and achieving the goal of improved access to retirement savings. Workers and businesses across Oregon express strong support and agree about the need for the program. Kevin, the Chief Content Officer at Statehood Media in Bend, summed up the need for this program when he said, “the Oregon Retirement Savings Plan reminds us that now, more than ever, we need to find easy and convenient ways to fund our retirement…For me, it makes recruiting to Oregon easier. For the country, this is a step forward in national security.”

The success of OregonSaves will have long-term positive implications for the savers and for Oregon. Thousands of Oregonians will save significant amounts of money for years to come as OregonSaves is phased in statewide. Every person is different and their retirement needs will vary, but OregonSaves and the ability to save is already improving our business climate, and is already increasing the long-term financial stability of thousands of Oregonians.

And we are just getting started.