State Farm Safeco

May 14, 2013

TO: The Honorable Elizabeth Steiner Hayward, Co-chair
The Honorable Greg Smith, Co-chair
Members of the General Government Subcommittee of the Joint Ways and Means Committee

FROM American Council of Life Insurers (ACLI)
National Federation of Independent Business (NFIB)
Associated Oregon Industries (AOI)
National Association of Insurance and Financial Advisors (NAIFA)
Portland Business Alliance (PBA)
Securities Industry and Financial Markets Association (SIFMA)
Professional Insurance Agents of Oregon/Idaho
Oregon Farm Bureau
Oregon Seed Council
Liberty Mutual Insurance Company
Safeco Insurance Company
Standard Insurance Company
State Farm Insurance Company

RE: HB 3436 A - OPPOSE

The organizations listed above remain strongly opposed to HB 3436-A. Our letter to the House Business and Labor Committee is attached for your reference. In brief:

- This is the wrong time to take on the costs, liabilities and risks of a new program for private workers, especially with a vibrant private market for these programs already in place.

- HB 3436 would put the State of Oregon in direct competition with private enterprises who already offer a wide range of affordable retirement savings products to businesses and individuals. Private workers will be hurt and jobs could be lost.
- A wide array of low cost IRAs and retirement savings products are currently available to any private sector worker or small business through thousands of outlets in Oregon.

- The creation of the Board, its initial research and the plan it establishes will have immediate costs to the General Fund and significant ongoing costs and liabilities to the state.

<u>Costs and Liabilities for the State</u>

There are direct fiscal costs and potential liabilities that the state run retirement plan options envisioned by HB 3436-A would create for the State of Oregon. Proponents have stated that HB 3436 is "just a study" but the plain language of the measure makes clear that it is not merely a study. There is no provision in the bill preventing the board from moving forward with a plan.

The bill creates a **permanent Board within state government** that will be charged with recommending, establishing and running a state sponsored retirement plan for private sector workers. These activities will have short and long term costs.

Section 1 (5) states that members of the new Board will be "**entitled to compensation** and expenses as provided in ORS 292.495."

Section 1 (7) calls on the Legislative Administration Committee to provide "staff support to the Board" and Section 1 (8) directs that "**all agencies, departments and officers of this state" shall assist** the Board in the performance of its functions…"

Section 2 and 3 require the Board to develop recommendations for "establishing an Oregon Secure Retirement Plan to offer retirement investment plans to employees in the private sector who have no retirement option through an employer" and to report to an Interim committee of the Legislature.
In creating the report, **the board "may work with, contract with and enter into agreements** with private sector entities to develop recommendations."

<u>Evidence of Start-up and Ongoing Costs Is Publicly Available</u>

As you assess the fiscal impact of HB 3436A, we would encourage you to consult several publicly available studies of similar bills performed by other states. For instance, just last year, the California Department of Finance (DOF) produced a fiscal analysis of SB 1234, the "Secure Choice Retirement Savings Program" which initially creates the California Secure Choice Retirement Savings Board and charges the Board with conducting a feasibility study and making recommendations, just as HB 3436 would do. A copy is attached.

CalPERS pegged the cost of the feasibility study at ***$1.7 million***. The study currently under way requires the hiring of consultants and the preparation and submission of IRS and ERISA opinion letters to the federal government. This same analysis is required under Section 3 (1) (b) of HB 3436. The DOF also notes that the program could create a "***multi-billion dollar" liability*** for the state.

The California Legislature ultimately decided to add "guardrail amendments" in an effort to contain some of these potential costs. The amendments state that the plan cannot be implemented unless: the interim study concludes that ERISA would not apply to the plan, the IRAs within the plan would receive favorable

IRS treatment, and the plan is self-sustaining. The California legislation also includes a 1% limit on plan administrative costs, and requires the Legislature to review and approve any proposal before it can move forward. **HB 3436 contains none of these cost limitations.**
A 2007 Maryland Legislative study concluded that a similar concept as the one included in HB 3436 "is potentially viable but will require ***significant long-term State expense***. The program may also be difficult to establish or market in the absence of federal legislative changes, such as a requirement that all employers have a pension plan, or offer a payroll deduction IRA account." Maryland reviewed two bills similar to HB 3436 this year and both failed to advance.

In 2009, the Washington State Department of Retirement Systems issued a report on several proposed state run retirement plan concepts, including two IRA-based programs and a state offered 401k program. It is a thorough report that identifies many of the factors that affect individual saving and the obstacles to creating a successful state plan. The conclusion of the report is that even the simplest of the three concepts would cost an estimated ***$1.9 in startup costs and $1.4 in annual state operational costs*** going forward. The Washington Legislature rejected legislation in 2009. The Washington report is attached.

Tennessee studied the same issues in 2009 and concluded the estimate cost ***of initial setup was $1.9 - $3.4 million, with ongoing operating costs of $1.3 - $2.0 million***. No action was taken by the Legislature. The Tennessee report is attached.

<u>Costs and Liabilities for the State and Oregon Employers</u>
In addition to direct costs to the state, HB 3436-A would create significant and unnecessary costs and liabilities for employers, and these should be considered in your review because they could affect the profitability of these important taxpayers.

Section 2 requires the Board to "develop recommendations for "**establishing** an Oregon Secure Retirement Plan to offer retirement investment plans to employees in the private sector who have no retirement option through an employer."

Section 2 (1) states: "**In developing the plan**, the board shall consider the following features…" All of the potential plans envisioned in HB 3436 will cause Oregon employers to incur administrative, compliance and marketing costs, and as well as liabilities as an ERISA plan fiduciary. Payroll reduction can only be accomplished with employer sponsorship and resources and could well trigger ERISA responsibilities for these employers. Making the state plan's IRAs accessible "to all private sector employees" will clearly require the sponsorship and assistance of employers.

Thus, the bill makes clear there will be a plan and it will cause employers to bear the compliance and other costs of the program.

A Legislative Counsel opinion presented to the House Business and Labor Committee concluding that HB 3436 does not "violate ERISA" is not on point. The wrong question was asked of Legislative Counsel. ERISA is a federal worker protection law that applies to employers and the benefit plans they sponsor for employees. **HB 3436 does not and cannot violate ERISA, but all the plan options it envisions will subject Oregon employers and most likely the state of Oregon itself to ERISA's requirements.**

We have submitted an expert legal opinion, based on specific Department of Labor rulings, that concludes employers and the state of Oregon will be subject to ERISA compliance rules and fiduciary standards under a state run plan such as the one in HB 3436. This expensive burden on employers is completely unnecessary. Any private worker in Oregon today has access to low cost IRAs through thousands of outlets. And small employers have access to SIMPLE IRA and SEP plans that do not trigger expensive ERISA compliance.

Costs Cannot Be Legislated Away

Section 2.2 of the HB 3436 says the plan may not "cause the State of Oregon to incur any liability or obligation for payment of savings or benefits earned by plan participants…" and cannot "Impose any financial obligation or liability on private sector employers whose employees participate in the plan with regard to investment or investment performance of the plan."

This language raises several questions and concerns:

-Can the state really hold itself harmless for all costs and liabilities under a plan it manages for employees across the state?

-If neither the state nor the private employer is responsible to the employee for investment shortfalls, then who is? The fact is that Oregonians deserve accountability.

-The language says the plan will not impose financial obligations and liabilities on employers for investment performance, but it clearly does not reference the potential employer costs of marketing, ERISA compliance, reporting, tracking of former employees and payroll systems.

Unfortunately, these costs cannot be legislated away.

Unfulfilled Promises

One of the greatest dangers of the bill is that it appears to make promises to seniors and others that cannot be fulfilled.

It is clear from testimony and recent op-eds from senior groups that they believe HB 3436 will provide a secure retirement for all Oregonians. We believe the committee should be extremely careful not to promise that this state run plan will solve the retirement crisis and create a secure retirement for seniors.

As the bill makes clear in Section 2.2, the State of Oregon has no intention of putting any money into this program and will not take any responsibility for "payment of benefits or savings" for individuals. The choice to sacrifice and save will still be an individual one, just as it is now.

The costs created by HB 3436 will not address this challenge of encouraging voluntary participation in retirement plans, which we share with the state as a priority goal. As national research shows, the obstacle to saving is not lack of access - it is job insecurity, the pressure to make ends meet and lack of awareness.

We hope that Oregon will work with private industry to address these obstacles.   But we urge you not to go down a path that threatens private sector jobs, puts unnecessary burdens on struggling small businesses and increases costs and liabilities for state government, all without solving the retirement challenge.

For these reasons, we urge you not to advance HB 3436 A.

SJR 1075 Feasibility Study Report
State Sponsored Small Business Retirement Savings Plan

Executive Summary

<u>Background</u>

Senate Joint Resolution 1075 instructs the Treasurer to perform a study and report to the Speaker of the Senate and the Speaker of the House of Representatives on the feasibility to establish a State sponsored voluntary retirement program for small businesses in Tennessee that would offer 401(k) plans and other savings vehicles.

Many workers do not participate in an employer sponsored retirement program. Large businesses sometimes offer a defined benefit or defined contribution plan to their employees. Small businesses are less likely to offer such a program. The State has experience in providing retirement savings programs for State employees. Concerns about insufficient retirement income for employees of small businesses have led to ideas to ease access to savings.

<u>Factual Overview</u>

Proponents of universal retirement savings programs believe that small employers should provide workers with an opportunity to participate in a retirement savings program. Small business represents 97% of all Tennessee employers. About 40% of workers in Tennessee work for businesses with fewer than 100 employees including 10% who are self employed. The proposal provides for the State to sponsor a small business savings program.

Proponents believe that if the state sponsors a program that small businesses and their employees will participate due to economies of scale leading to lower cost.

The sponsor designs the plan and requests a determination letter that the plan is a qualified plan from the Internal Revenue Service. The state sponsored program would set up the organization, structure, administration and procurement for the program. Small businesses who do not offer a retirement savings plan could choose to participate in the plan.

Some believe that existing expertise; infrastructure and skill sets within state government would hold down the cost of the program and provide economies of scale. It appears that grouping small businesses into a single program is perceived to be more cost effective for a commercial entity compared to providing services to individual small business plans. It is unclear if there would be any savings.

<u>Cost</u>

Estimated cost presented in **Chart # 5** ranges from $1.9 to $3.4 million for the first two years and $1.3 to $2 million annually for subsequent years.

<u>Observations</u>

- All employer employee observations relate to 4th quarter 2007.
- There were 120,900 employers and 2,367,777 employees for the quarter.

Executive Summary Continued

- Employer analysis: 97% of all Tennessee businesses or 117,420 employed fewer than 100 employees. Only 3% employed more than 100 employees. This 97% includes 11,000 self employed businesses with no employees.
- Employee analysis shows 40% are employed by small businesses.
- 943,472 employees are employed by 97% of all employers
- Due to the large number of employers, there is a risk of losing status as a qualified plan if even one employer failed to follow the plan document and IRS requirements fully.
- No State currently holds a determination letter from the IRS for a plan such as the one proposed. It is uncertain if a positive determination letter is available from the IRS.
- The internal revenue code permits employers to offer tax advantaged retirement savings plans to employees. However, the State would not be the employer of the target employees.
- Private employer retirement savings plans are subject to different sections of the internal revenue code that are more voluminous and demanding than the code sections pertaining to plans sponsored by government employers. Businesses are also subject to ERISA requirements that do not apply to government plans.
- Governmental experience does not provide the same skill set needed for operation of a business plan.
- Many retirement savings programs exist for small employers if they choose to adopt one. Financial service providers offer retirement savings plans to businesses of all sizes.
- Fiduciary issues could create additional risks and liabilities for the State.
- Costs of a savings plan increase considerably with the number of payroll reports.
- Low to moderate income workers are not as attracted to tax advantaged retirement savings designed to reduce income tax that is already low.
- There is a concern that sponsoring a small business program could impact state risk and potential liability.

Conclusion

Demand for retirement savings plans is of less importance than current income to many employees. It appears that increasing financial literacy through enhanced financial education for Tennesseans of all ages might encourage more retirement saving. Increasing awareness of the retirement savings programs available is a noble goal. Employer sponsored retirement savings plans that offer payroll deductions for employees are available today. Encouraging more employers to implement a plan is worthwhile. The market place offers financial services for employers who wish to sponsor 401(k) plans or deductible IRAs. Putting the State in the middle of this process could actually increase the cost to the employer as well as to the state.

Recommendation

No action is recommended at this time. It appears that a sound financial education is one of the missing links between savers and spenders. Increasing personal financial literacy through K -12 education could enhance personal retirement savings rates.

SJR 1075 Feasibility Study Report
State Sponsored Small Business Retirement Savings Plan

Purpose:

Senate Joint Resolution 1075 directs the Treasurer to report to the Speaker of the Senate and the Speaker of the House of Representatives on the feasibility of establishing a voluntary retirement program for small businesses in Tennessee that would offer 401(k) plans and other savings vehicles. The report is due no later than February 1, 2009. One approach suggested is to take advantage of the infrastructure of the state retirement system to obtain services for businesses at a lower cost than a business could obtain on its own.

Methodology:

During the course of the study we reviewed what other states have done. We used internet sites including: government, Bureau of Labor Statistics (BLS), Internal Revenue Service (IRS), U.S. Department of Labor (DOL), EBRI, ICI, AARP, American Society of Pension Professionals and Actuaries (ASPPA), professional organizations, benefit research organizations, third party administrators, Census, and financial intermediaries, such as banks, certified financial planners, and administrative organizations. The State of Tennessee Department of Labor and Workforce Development, Employment Security Division provided Tennessee specific employee and employer counts for the quarter ended December 31, 2007. The focus of SJR 1075 Feasibility Study is small businesses with fewer than 100 employees.

Criteria:

Retirement Plans are sometimes complicated endeavors such as 401(k) plans or pension plans. The Internal Revenue Service (IRS) requires a written plan document; the sponsor assumes fiduciary liability and the responsibility of assuring that the plan is compliant with the federal regulations. The IRS and DOL administer the Internal Revenue Code and the Employee Retirement Income Security Act (ERISA) respectively. Less complex retirement savings vehicles include Savings Incentive Match Plans for Employees SIMPLE 401(k)s, Individual Retirement Accounts (IRA) and SIMPLE IRAs.

The requirements of ERISA protect employees (and their beneficiaries) and their access to a benefit at retirement. Plans with fewer than 100 employees are exempt from the application of ERISA audit and testing requirements while they remain small. If they grow or are part of a multiple employer plan, the likelihood of being subject to ERISA increases.

Government sponsored employer plans are neither subject to ERISA nor to the technical testing criteria that must be met by private plans to continue as a qualified plan. The law that applies to governmental plans is not the same as those applicable to private employer sponsored plans. Experience with ERISA plans is neither present nor needed in state infrastructure.

In addition to differences between governmental and private business plans there are differences in business entities and expertise as varied as the individuals who run them. The characteristics of small businesses vary including the longevity of the firm, experience of the owner, number, age, education and skills of the employees. Characteristics that may lead to variations in sponsoring a retirement savings plan were compared in **Chart # 1**.

Banks, investment providers, financial advisors, insurance companies, law firms, third party administrators, record keepers, trustees, co-fiduciaries, consultants and others offer a variety of services to assist employers sponsoring a retirement savings program.

It is important to assure that a plan will be determined to be qualified by the IRS to meet the needs of the plan sponsor, protect the plan assets, to receive tax deferred status for employee contributions and for employer contributions to be deductible. There is a small federal tax credit available to employers establishing a plan. Explicit costs include the fees charged by the IRS to consider a plan applying for a determination letter as well as the cost to organize, design and administer a plan. Generally the IRS regards the costs to administer, sponsor and maintain a defined contribution plan to be an employer expense not to be passed on to employees. These costs could be quite large for a new state wide plan.

Sponsored Retirement Savings Plan (SRSP) Feasibility Considerations

1. Is there authority for a sponsored retirement savings plan (SRSP)?
2. Can it be done?
3. Is it offered by existing service providers?
4. Why Offer a New Retirement Savings Program?
5. Who would benefit?
6. What are the barriers?
7. Should it be done?
8. How many other states offer such a service?
9. What are the possible savings, economies of scale and existing knowledge base?
10. Who would do it?
11. How might it be accomplished?

1. Is there authority for a sponsored retirement savings plan (SRSP)?

There is no specific authority in state or federal law to sponsor a qualified retirement savings program for employees of private businesses.

The Internal Revenue Code Title 26 Section 401(a) provides that a qualified retirement plan be set up by an employer for the exclusive benefit of employees or their beneficiaries. Further a multiemployer plan may be established by a negotiated benefit group such as a union to benefit members of that union who may work for a variety of employers. In contrast an affiliated group of employers with shared ownership such as a parent child or brother sister corporation may establish a multiple employer plan on behalf of employees. There seem to be no specific authority for the state to sponsor a retirement plan for employees of unrelated parties. State and Federal legislation would likely be required to proceed.

Tennessee Code Annotated § 8-25-102. Defines an employee as a person who is paid for and provides services to the State for whom there is an employee employer relationship.
Tennessee Code Annotated § 8-25-103 requires deferred compensation plans for government employees to conform to applicable requirements of the Internal Revenue Service and to State law.
It is unclear what success might result from a request to the IRS for a determination letter. For the State to sponsor a plan for employees of private businesses would require IRS and U.S. DOL approval. No State has IRS approval to sponsor a plan for private business. There is no specific Internal Revenue Code that authorizes a state to do this.

2. Can it be done?

Beyond the authority, the only resources available might include the State's third party administrator and the existing investment services. However, it is not clear if the investment options would meet ERISA standards.

Current retirement plan models in use by businesses in the United States include Savings Incentive Match Plans for Employees (SIMPLE) Plans, SIMPLE IRA, SIMPLE 401(k), and Qualified Plans. Please see **Chart # 2**.

3. Is it offered by existing service providers?

Yes. Financial service organizations offering IRAs or 401(k)s include banks, insurance, and investment companies. Financial organizations provide administration for 401(k) and IRAs: See **Chart # 3** for Advantages of Payroll Deduction IRAs. They accept regular deposits of contributions to the employee accounts as payment directly from each employer. Plan design, filing form 5500, related audit, written plan document, income discrimination testing, and employee notification are advertised services. Marketing, promotions, enrollment, and communication are normally provided by financial service organizations. One of the most visible things they do is offer investment management services, mutual funds and securities to plan sponsors and participants.

4. Why offer a new retirement savings program?

There is concern for the financial security of workers who earn low to moderate wages and work for small businesses that offer no retirement savings plan. Among those concerns is that individuals who consume current income with no retirement savings may not have sufficient income at retirement to meet their needs. Studies show more people will save if a payroll deduction retirement plan were available.

Costs of offering a plan are deemed higher for small businesses per participant because the costs are spread over fewer workers. There is concern that small employers cannot afford to offer a plan that they must negotiate on their own.

5. Who would benefit?

It is projected that more employees of small businesses would begin participating in a retirement savings plan if offered by their employer. Small employers are 97% of all Tennessee employers. Small employers are less likely than large employers to sponsor retirement savings plans. It is estimated that about 400,000 more employees would participate if their employers offered a payroll deduction retirement savings plan. Small Tennessee businesses sponsoring a retirement saving program employ about 95,800 workers. In contrast, those not sponsoring a plan employ about 842,000 workers. See **Chart # 4**. Uptake rates are about 77% of employees.

6. What are the barriers?

Cost is a barrier. Washington State estimates costs to be $1.9-$3.4 million for the first 18-24 months and $1.3-$2 million annually thereafter. Cost in Tennessee would be similar. It is assumed that initial funding would be provided by the state until the plan grows to the point of being self sufficient. See **Chart # 5**.

Volume of activity is a barrier. If enacted, a state sponsored small business retirement savings plan could process as many as 2.9 to 5.7 million payroll reports annually. This would include about 10 million individual payroll records. The number of businesses and pay periods influence estimates. Retirement savings plans take salary deferrals out of each participant's paycheck and send it to the plan administrator with a report. The uptake rate[1] ranges from 80% per ICI while EBRI cites a 77% when plans are sponsored by employers. An estimated 110,000 small Tennessee businesses do not sponsor plans.

Meeting ERISA requirements for all employers is a barrier as an ERISA plan is subject to audit, reporting and testing provisions. There is concern that a state operating an ERISA plan for private business could subject a government plan to ERISA requirements. It is not legal to use the resources of a plan for any purposes other than the members and beneficiaries of that specific plan.

Meeting IRS requirements is a barrier. No state has requested a determination letter so it is questionable if one could be obtained. The IRS says that even one employer in a multiple employer plan can disqualify a plan for all sponsors and participants if it unintentionally fails to follow a plan document or to meet testing requirements.

Opposition from existing providers is a barrier. The American Society of Pension Professionals and Actuaries (ASPPA) is aware of a great deal of opposition from many financial providers to a state sponsored ERISA 401(k) plan. The Executive Director of ASPPA suggested that a large number of Tennessee financial service providers would oppose a state sponsored 401(k) proposal as competition for their services. This was confirmed by the President of National Institute of Pension Administrators (NIPA) who is a Tennessee

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[1] Brady, Peter J. and Sigrist, Stephen,Who Gets Retirement Plans and Why (September 1, 2008). ICI Investment Company Institute, Vol. 4, No. 2, September 2008. Available at http://www.ici.org/perspective/per14-02.pdf

resident. In Connecticut the Chamber of Commerce and Industry, local National Federation of Independent Businesses NFIB, State Insurance and Banking professional associations opposed a state sponsored employer retirement plan. This opposition was consistent with what ASPPA sees in other states. These groups are united in wanting to avoid an ERISA state sponsored retirement plan.

Risk exposure and potential liability is a barrier. An ERISA plan fiduciary is subject to personal liability as well as liability as plan sponsor. The ERISA standard for a fiduciary is a prudent expert. Could a state sponsored plan be subject to lawsuits common in private plans?

7. Should it be done?

While the concept offers the benefit of encouraging savings and payroll deduction retirement savings programs; the economic environment is not conducive to pursuing it now. Many employers that have offered employer contributions to 401(k) plans have suspended further contributions. This is a difficult economic environment to consider adding a large expense associated with offering a pension plan. There will be start up costs to the state when many employers are suspending contributions to their 401(k) plans.

8. How many other states offer such a service?

No other state sponsors a retirement savings plan for small businesses. Legislation has been considered in California, Connecticut, Illinois, Maryland, Michigan, New Hampshire, Pennsylvania, Vermont, Virginia, Washington, and West Virginia. See **Chart # 6**.

Washington is the only state to pass legislation. It established the Washington Voluntary Retirement Accounts Program (WVRA) subject to specific funding provided in the operating budget. It required the Director of the Department of Retirement Systems to develop and seek approval for a plan. Washington is asking the Legislature for continued funding support in order to develop a plan. See **Chart # 5**.

The states with legislation introduced noted many of the same advantages and disadvantages. They cite benefits of a universal retirement account to be increased retirement savings, portability of accounts, payroll deduction opportunity, and lower fees per account due to economies of scale. Common obstacles noted are ERISA compliance, business costs, risk exposure, and potential liability.

9. What are the possible savings, economies of scale and existing knowledge base?

There is some opportunity to find economies of scale, but it will cost a lot to get it. Small employers have little clout to demand lower prices or to command attention to their needs. The perception is that if small employers were treated as a single unit there would be economies of scale. The number of employers in this group would represent a large number of transactions for a small fee. Plan balances will be small and the transaction volume will be high compared to the dollars involved. Statewide communication with employers and potential participants would be costly, cumbersome and necessary.

Economies of scale might be realized if one entity communicates and markets to small businesses. Negotiated rates for services might bring the cost down. Providers usually need a minimum fee per plan and per head to make a profit. Fees go up with the number of payroll centers and transactions within a plan.

The existing skills sets in the state retirement system administration are very different from those required to administer a program for private business. The laws for government plans and private plans are so different that the IRS splits private and public plans into different units for administrative oversight. Further, the financial services community experts are often different people and divisions for public and private plans.

Investments for small business employer plans could not be commingled with government assets. The cash flow would be vastly different in size and scope. The investment policy might be vastly different due to the unknown cash flow. Staff paid by the retirement system could not properly be paid to work on another plan without cost recovery.

The State provides its 401(k) and 457 third party administrator (TPA) all transaction records and funding from three payroll sources monthly. The magnitude of payroll sources for a small business plan if permitted by the IRS would be huge.

10. Who would do it?

Service providers in the private sector exist today. The same financial services providers that operate plans for other businesses could make them available to additional sponsors. If a payroll deductible IRA or 401(k) program is proposed, it would be operated by an existing financial service provider. The investment management providers offer these services now. Financial service providers could implement a program with out state intervention. Existing state resources are not sufficient for a private public retirement program.

11. How might it be accomplished?

Financial services providers who operate across the country and provide such plans to existing businesses would serve any state sponsored retirement savings program. It would likely be outsourced. The provider could claim state approval for their services. There is no one size fits all in providing retirement savings plans. Does the employer contribute? Does the employee contribute? Is it optional, mandatory or prohibited by law? The sponsor must understand the obligations of implementing a plan.

There is an abundance of data, financial service providers and employers. When employers want services the financial community will break down the door to provide information and opportunities. It may be necessary to create demand for a retirement savings program for small business and let the market take care of the rest.

The increased manpower to set such a program up and to administer it would require additional resources including perhaps ERISA legal counsel, administrators, information systems support, marketing, procurement, and underlying support.

CONCLUSION:

Small employers do not see increased employee demand for retirement savings programs. Small businesses did not identify a lack of available services as a factor in not sponsoring a plan. They have noted that it costs more than they have to spend and that their employees prefer to have the cash now rather than later. Small employers may not receive solicitation for financial services until the business approaches a financial intermediary to place excess funds or establish a plan. A worker may contribute up to $5,000 to an IRA if there is no retirement savings plan.

Social security replaces a larger portion of low income wages at retirement than is available at higher incomes. Workers for small employers may not be focused on saving for retirement but may be saving for a home, a family or other goals. Surveys indicate that some small employers are not interested in sponsoring a plan because employees have expressed no interest in them. Surveys indicate that workers may not think about saving unless a plan sponsor brings the information to them. Workers who struggle to manage current consumption do not plan for future consumption.

Some studies indicate that workers who want retirement savings programs will choose employers who offer them. Worker loyalty and longer service are impacted favorably when plans are offered. Businesses and individuals sometimes struggle to make ends meet and keep costs low. Studies indicate that retirement savings programs do not increase gross savings but changes where money is saved. Low to moderate income workers are not attracted to tax advantages they do not need to reduce taxes they do not pay.

Retirement spending goals should drive saving rather than the reverse. How will a new car be purchased after retirement? Does a worker plan to make home repairs, pay off a house note, pursue a hobby, take trips, visit family, or relax? Has money been set aside to do so? What will those resources permit one to do? Concrete goals to save may be more compelling to encourage saving.

A state appropriation would be required. It was suggested that the State would issue a request for proposal for financial services and select a winner. The “winner” would then be subject to the terms of the engagement. Someone must monitor providers. The Executive Director of ASPPA supports a payroll deduction IRA and is opposed to a 401(k) if offered by the State to small employers in the program.

RECOMENDATION:

Consider creating demand for retirement savings by increasing awareness of resources available and by increasing financial literacy through education. There are many financial service providers, products, and workers. There is a need for retirement savings and the vehicles to do so are readily available to individuals and businesses. What is missing is the demand for these services.

It appears that a sound financial education is one of the missing links between savers and spenders. Increased personal financial literacy through education could enhance personal retirement savings rates. Educational material is available. Web sites offer many free lessons, publications, brochures and games aimed at every age and comprehension level. Increasing individual financial education at all levels of K-12 and adult education may result in increased retirement savings.

Information, study materials, lesson plans, work books, consumer, teacher, student and family financial information regarding the kinds of transactions people experience throughout life are available on line. Knowledge will increase demand and likely improve the out come of retirement savings initiatives.

Appendix I

<u>List of Charts and Support Data</u>

1. Small Business features as Compared to Starter Business
2. Retirement Plan Information on the IRS web site
3. Advantages of Payroll Deduction IRA
4. Tennessee Employees by Employer Size
5. Estimated Cost for Washington State
6. States that have entertained similar proposals of Universal Voluntary Retirement Accounts (UVRA)
7. Common Design Features Proposed - Universal Retirement Savings Account
8. Sponsored Retirement Savings Plan (SRSP) Feasibility Considerations
9. Services to Consider to provide a retirement savings plan to small businesses (sample service provider marketing)

Appendix II

<u>Graphics</u>

1. Tennessee Businesses by Number Employed
2. Cumulative Business Units by Number Employed
3. Line Graph Comparing Number Employed to Employee Count
4. Potential Impact by Employee Count
5. Projected Participation if Program Offered
6. Comparison of Employee Population and Potential Uptake Rates
7. Potential Range of Transaction Volume
8. 43 % of Tennessee Wages Paid by Small Employers

Appendix I

Chart 1: Small Business features as Compared to Starter Business

	Established Small Business	Starter Business
1.	Accumulated a steady trade or client base	Experiences unexpected surges and reductions in business.
2.	Has accumulated owner's equity.	Is still getting some experience and keeping the bills paid.
3.	Some employees have been with the business for several years.	May have full time employees.
4.	May have seasonal, part time employees or sub contractors	May have seasonal, part time, or "by the job" employees / sub contractors.
5.	May sub contract or hire out overflow work.	May work for others as a sub contractor or by the job.
6.	Payroll cost is predictable.	Payroll cost may vary.
7.	Owner may have cash to invest.	Owner makes payroll.
8.	Retirement service providers are ready to set up a plan.	Owner may want to provide a low cost benefit.
9.	Keeping costs low is important	Keeping costs low is important.
10.	Financial advisors smell money and try to get business.	Retirement plan service providers want established clients.
11.	Routinely deals with CPA, banker, insurance agent, and other financial services.	Know what needs to be done but does not have enough time for all the back office business.
12.	May have a full time book keeper	May keep books in a check register. Gets help only at tax time.
13.	May have a successful track record.	May be successful or have potential for the future.
14.	Demand for business may vary.	Demand for business may vary.
15.	Has a skill or service to offer.	Has a skill or service to offer.
16.	May be an independent thinker with no time or inclination to be part of someone's rigid operation.	May be an independent thinker with no time or inclination to be part of someone's rigid operation.

Chart 2:

Retirement Plan Information on the IRS web - site irs.gov
http://www.irs.gov/retirement/sponsor/article/0,,id=136475,00.html :

- Publication 560
  Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)
- **Publication 590**
  Individual Retirement Arrangements (IRAs)
- **Publication 3998**
  Choosing a Retirement Solution for Your Small Business
- **Publication 4118**
  Lots of Benefits when you set up an employee retirement plan
- Publication 4222
  401(k) Plans for Small Businesses
- Publication 4333
  SEP Retirement Plans for Small Businesses
- **Publication 4334**
  SIMPLE IRA Plans for Small Businesses

Chart 2 continued: EMPLOYER SPONSORED RETIREMENT SAVINGS PLANS

		Maximum Contribution			
Retirement Option Name	**IRS Ref IRC #**	*Employer contributions*	*ER cont. mandatory, permissive, Prohibited?*	*Employee contributions*	*EE cont. mandatory, permissive, Prohibited?*
Defined Benefit	401(a)	Deduction limit is any amount up to the plan's unfunded current liability	Mandatory	Deduction limit is any amount up to the plan's unfunded current liability	Permissive or Mandatory depending on plan
SEP -(Simplified Employee Pension)	408(k)	Smaller of $45,000 or 25% of participant's compensation	Permissive, ER can decide year-to-year	N/A	Prohibited
Profit-Sharing Plan	401(k)	The lesser of 25% of compensation or $46,000 in 2008	Permitted	N/A	Prohibited
Money Purchase Plan	401(k)	ER/EE combined: the lesser of 25% of compensation or $46,000 in 2008	Mandatory	ER/EE combined: the lesser of 25% of compensation or $46,000 in 2008	Permitted
401(k)	401(k)	ER/EE combined: up to the lesser of 100% of compensation or $45,000	Permitted	EE: $15,500 for 2008. If the employee is age 50 and over, an additional "catch-up" contribution is allowed up to $5,000 in 2008.	Permitted
Safe-Harbor 401(k)	401(k)	Either a specified matching contribution or a 3% contribution to all participants	Mandatory	EE: $15,500 for 2008. If the employee is age 50 and over, an additional "catch-up" contribution is allowed up to $5,000 for 2008.	Permitted; EE must contribute in order to receive the ER match; EE does not have to contribute in order to receive the ER nonelective contribution
SIMPLE 401(k)	401(k)	ER: dollar-for-dollar matching up to 3% of EE compensation ***or*** fixed nonelective contributions of 2% of compensation for each eligible EE	Mandatory	EE: $10,500 in 2008. If the employee is age 50 and over, an additional "catch-up" contribution is allowed up to $2,500 in 2008.	Permitted, EE must contribute in order to receive the ER match; EE does not have to contribute in order to receive the ER nonelective contribution
SIMPLE IRA (Savings Incentive Match Plan for Employees of Small Employers)	408(p)	Dollar-for-dollar matching up to 3% of EE compensation ***or*** fixed nonelective contributions of 2% of compensation for each eligible EE	Mandatory	Salary reduction up to $10,500; if employee is age 50 and over, catch-up contributions allowed up to $2,500	Permitted; EE must contribute in order to receive the ER match; EE does not have to contribute in order to receive the ER nonelective contribution
Payroll Deduction IRA	408(a)	N/A	Prohibited	The smaller of $5000 or EE's taxable compensation for the year (follows Traditional IRA contribution limits)	Permissive
SARSEP					

Chart 3:

Advantages of Payroll Deduction IRA

- Not a lot of people are selling Payroll Deduction IRA’s.
- No employer contribution required.
- No plan document required.
- Not subject to ERISA.
- No testing required.
- No plan audit required.
- Liability is reduced all around.
- Auto enroll can be used with an opt-out provision.

Chart 4: Tennessee Employees by Employer Size

Summarizes the number of Tennessee businesses (excluding governments) by employee count. Analysis indicates that more than half of the Tennessee Businesses employee less than 5 employees. About 75% of all businesses employ less than 10.

Stratified count of Employees per Employer	Units - Number of Employers	Employment In 2007			4th Quarter 2007 Wages Reported to DLWFD
	Quarter	October	November	December	
0	10,855	8,316	2,558	0	$119,403,055
1-4	60,345	126,351	124,459	120,486	$1,405,692,923
5-9	20,441	134,058	134,314	134,891	$1,412,140,111
10-19	13,313	179,597	179,199	179,267	$1,991,132,964
20-49	9,225	279,324	280,200	279,683	$3,343,389,852
50-99	3,241	221,301	222,889	223,523	$2,539,727,356
100-249	2,200	333,763	335,426	336,098	$3,751,341,194
250-499	731	250,051	252,650	253,807	$2,550,562,320
500-999	308	208,864	213,048	213,703	$2,155,759,430
1000+	241	613,188	625,146	634,171	$5,851,423,489
TOTAL PRIVATE * Employers	**120,900**	**2,354,813**	**2,369,889**	**2,375,629**	**$25,120,572,694**

* Excluding Government

Source: Tennessee Department of Labor and Workforce Development
Employment Security Research and Statistics,

Chart 5:

Estimated Washington State Costs:
Some state studies estimate costs to be approximately $500,000 per year for a few years versus Washington State estimating state costs to be in the range of $1.9 to $3.4 million for the first 18-24 months and $1.3to $2 million annually thereafter.

Estimated State Costs for Washington state per the November 2008 Report to the Legislature

Set-up and implementation (18-24 months)	**Option 1 – Inflation Protected IRA**	**Option 2 – Growth and Inflation Protected IRA**	**Option 3 – State-Administered 401(k)**
Plan design and approval	$573,698	$633,698	$823,698
Establish partner/vendor agreements and interfaces	$407,500	$627,500	$940,000
Develop communications and marketing programs	$912,500	$912,500	$1,652,500
Total estimated state set-up and implementation costs	**$1,893,698**	**$2,173,698**	**$3,416,198**
State on-going costs			
Administration tasks	$531,200	$591,200	$891,200
Investment tasks	$85,600	$205,600	$205,600
Communications and marketing	$640,500	$640,500	$840,500
Fiduciary and compliance oversight	$115,800	$115,800	$116,000
On-going annualized state costs	**$1,373,100**	**$1,553,100**	**$2,053,300**

Chart 6: States that have entertained similar proposals
of Universal Voluntary Retirement Accounts (UVRA)

State	Current legislation status		State	Current legislation Status
California	Stalled in Senate, will be reintroduced in 2009		Michigan	Do not believe that they have legal authority and have not gained legislative support. Are currently pursuing a public/private partnership
Connecticut	Passed Senate, stalled in House and will be reintroduced in 2009		Illinois	Advocacy group is trying to build support, but no legislation has been introduced to date
Maryland	Passed House, stalled in Senate, will be reintroduced in 2009		Pennsylvania	Bill introduced but never made it out of House Finance Committee. No knowledge of if it will be reintroduced
New Hampshire	Treasurer is taking the lead on issue		West Virginia	Feasibility study is due to Legislature in 2009 session
Virginia	Plan to offer legislation in 2009		Vermont	Hired someone external to increase small businesses' retirement accounts and to increase financial literacy
Washington	Submitted report Nov. 2008 and will update with an increased emphasis on legal issues			

**Chart 7: Common Design Features Proposed –
Universal Retirement Savings Account**

	URSA Proposed Characteristics	Feature / Description Focus
1.	Retirement Savings Account	To accumulate money for retirement income
2.	Sponsor	Small Employers offering no other DB or DC plans to all employees
3.	Government Role	Administration, investment, oversight, obtain or provide professional services, policy, enforcement
4.	Purpose	Accumulate money for retirement spending
5.	Funded by	% of EE current wages
6.	Collection Method	Payroll Deduction
7.	Duty to Deduct	Small employer
8.	Transfer Process	ER deducts then pays out funds to retirement savings provider(s)
9.	Alternate Transfer Process	EE signs up for auto ACH from bank account to URSA
10.	User	Employee of small business
11.	Supplements	Social Security Retirement Income
12.	Enrollment	Automatic
13.	EE or ER Opt Out?	Undecided
14.	Employer Plan Law	Established under ERISA and IRS qualification
15.	Proposed by	Various Organizations at the State and National Level
16.	URSA plan type	State law is subject to Federal law for employer plans
17.	Supported by	AARP and groups concerned about adequate retirement income
18.	Investment providers	Existing banks or financial services companies
19.	Other States	See chart showing 11 states entertaining URSA proposals

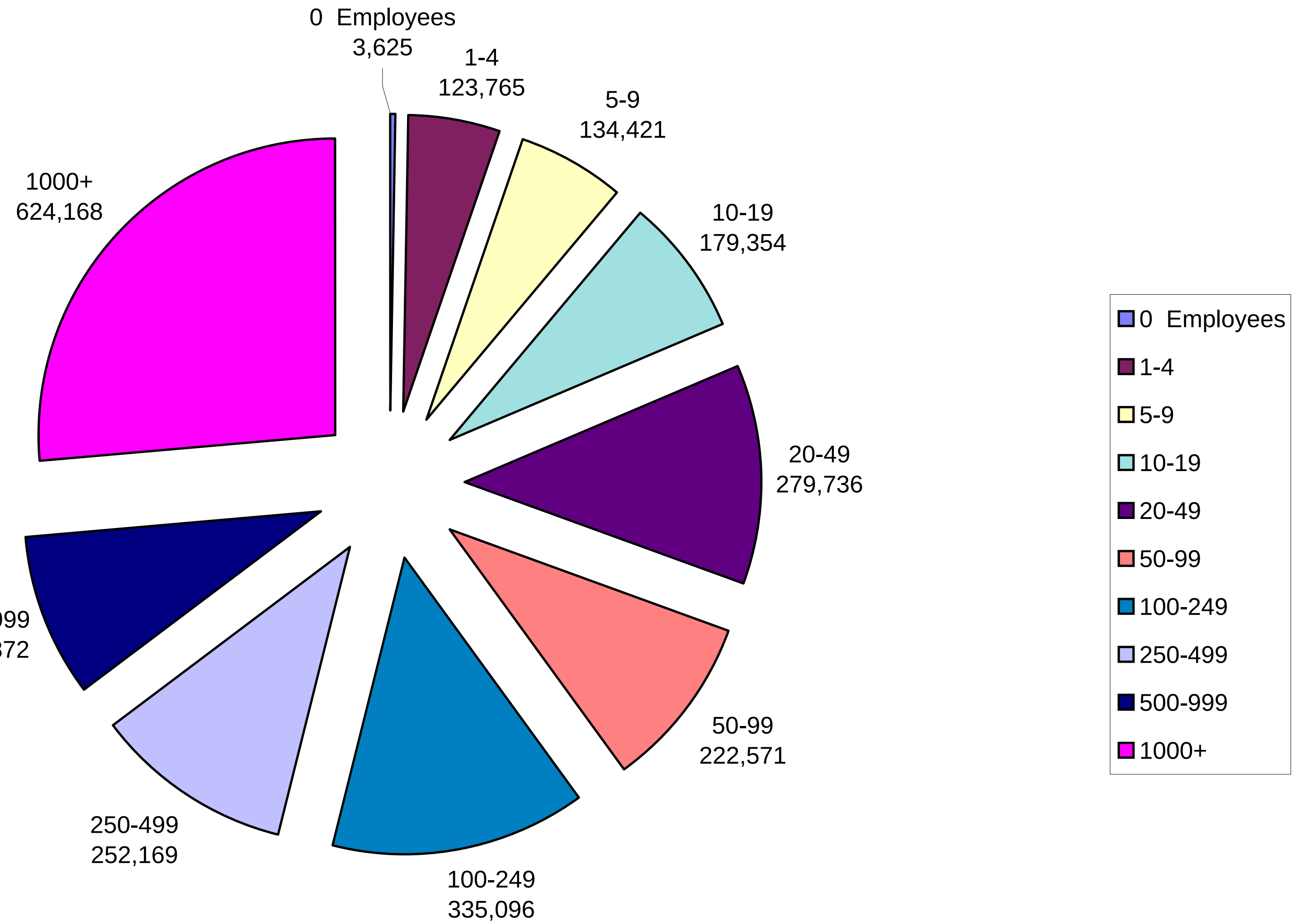
Chart 8: Sponsored Retirement Savings Plan (SRSP) Feasibility Considerations

1. Can it be done?
2. Is it offered by existing service providers?
3. Why Offer a New Retirement Savings Program?
4. Who would benefit?
5. What are the barriers?
6. Is there authority for a sponsored retirement savings plan (SRSP)?
7. Should it be done?
8. How many other states offer such a service?
9. What are the possible savings, economies of scale and existing knowledge base?
10. Who would do it?
11. How might it be accomplished?

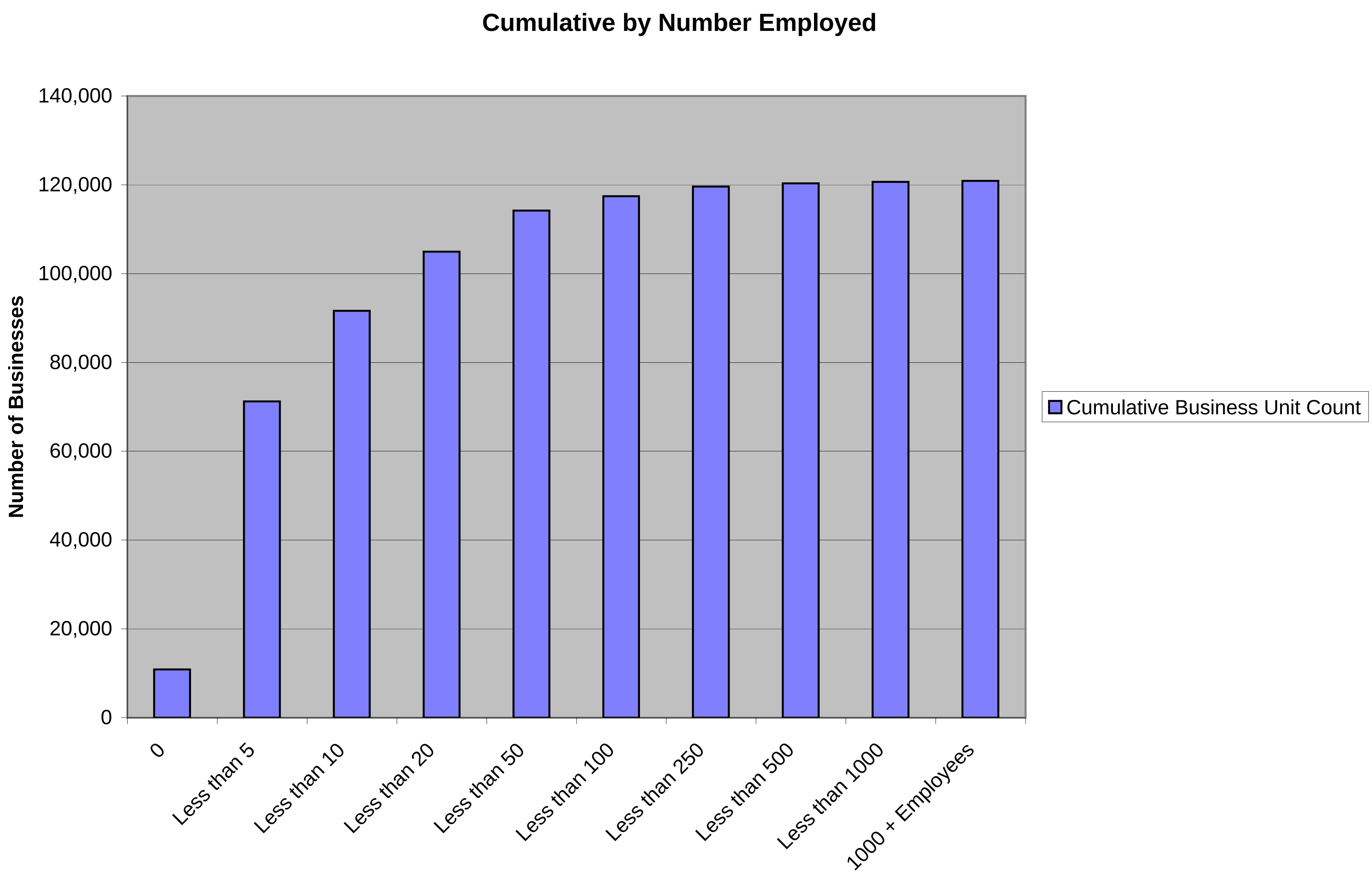
Chart 9: Services to consider to provide a retirement savings plan to small businesses (sample service provider marketing)

- Organized administration for the program
- Accept regular deposits of contributions to the employee accounts
- Accept payment directly from each employer
- Marketing and promotions
- Enrollment and communication
- Fee concessions based on the volume of business.
- Offer investment vehicles.
- Assume all specified duties in regard to the IRA owners, employers and the State.

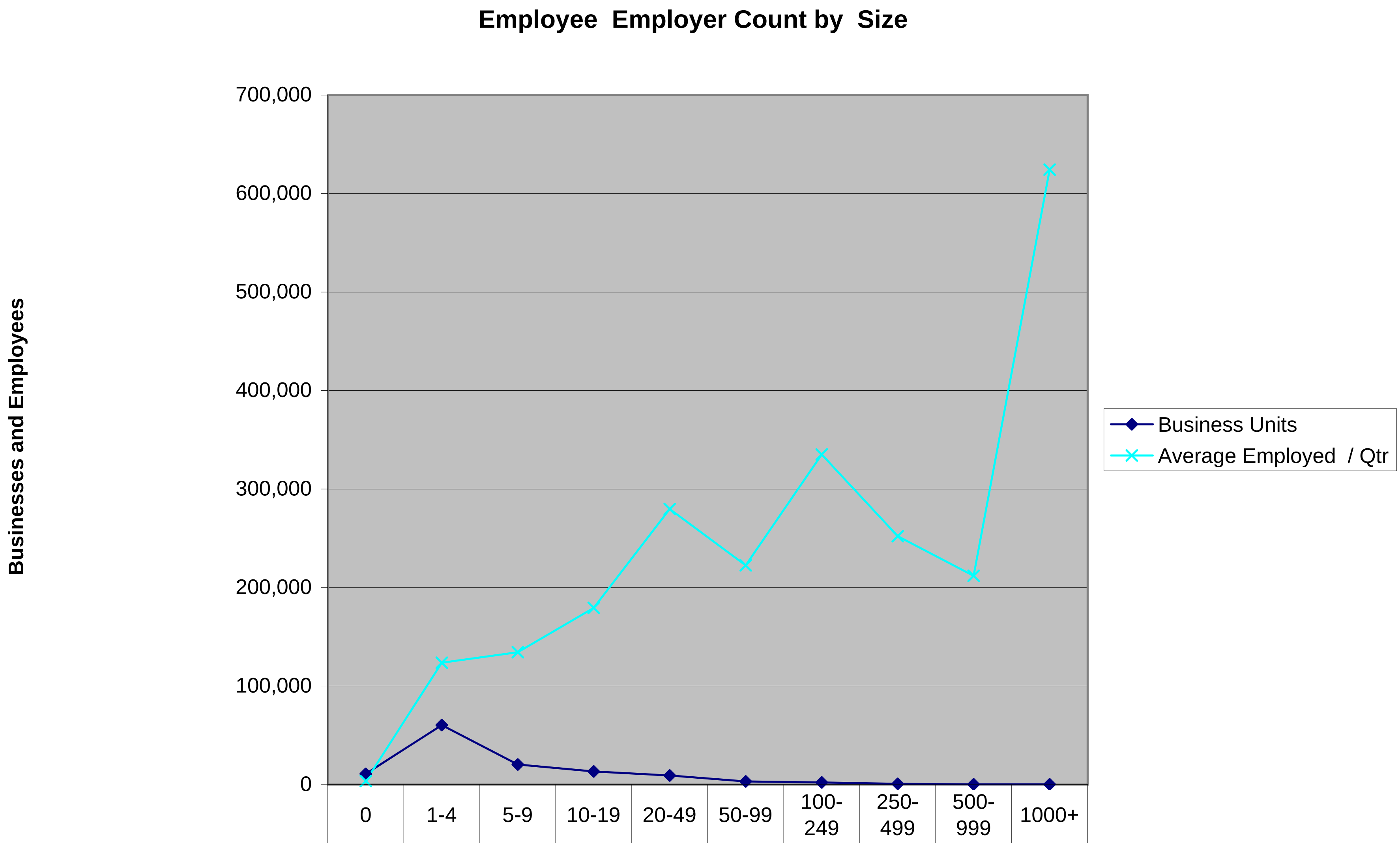
Total Number Employed By All TN Business Units this Size QTR End 12-31-2007



Data provided by TDLWD
Employment Security Research and Statistics,
Data Employment by Size of Firm as of Quarter Ended 12-31-2007
Employees by TN Employers


Cumulative by Number Employed
140,000
120,000
100,000
80,000
60,000
40,000
20,000
0
Number of Businesses
0
Less than 5
Less than 10
Less than 20
Less than 50
Less than 100
Less than 250
Less than 500
Less than 1000
1000 + Employees
Employer Size
Cumulative Business Unit Count

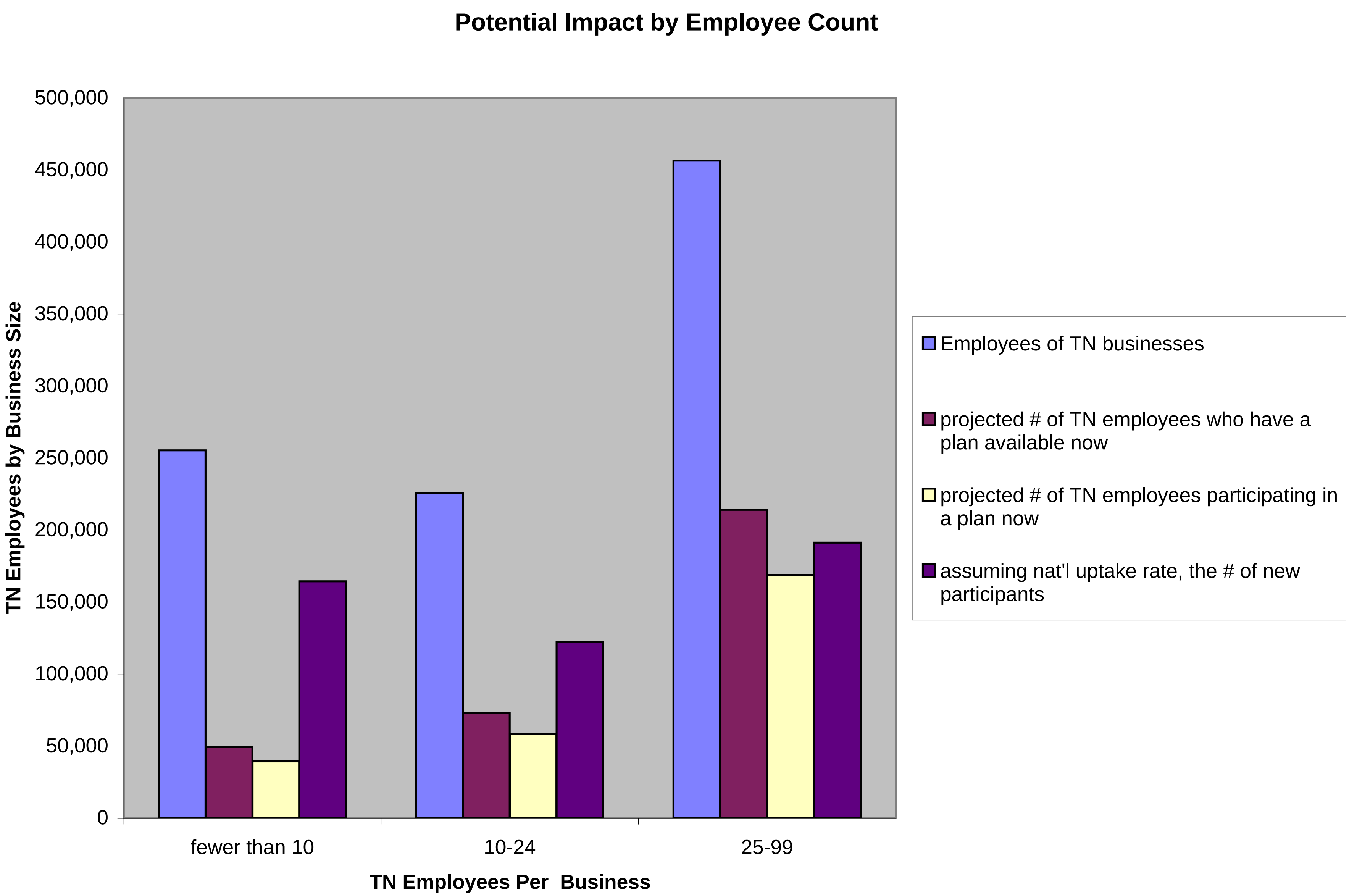
TN SJR 1075 Study
Data from 4th Qtr 2007
Illustrates Most TN Business have less than 100 Employees



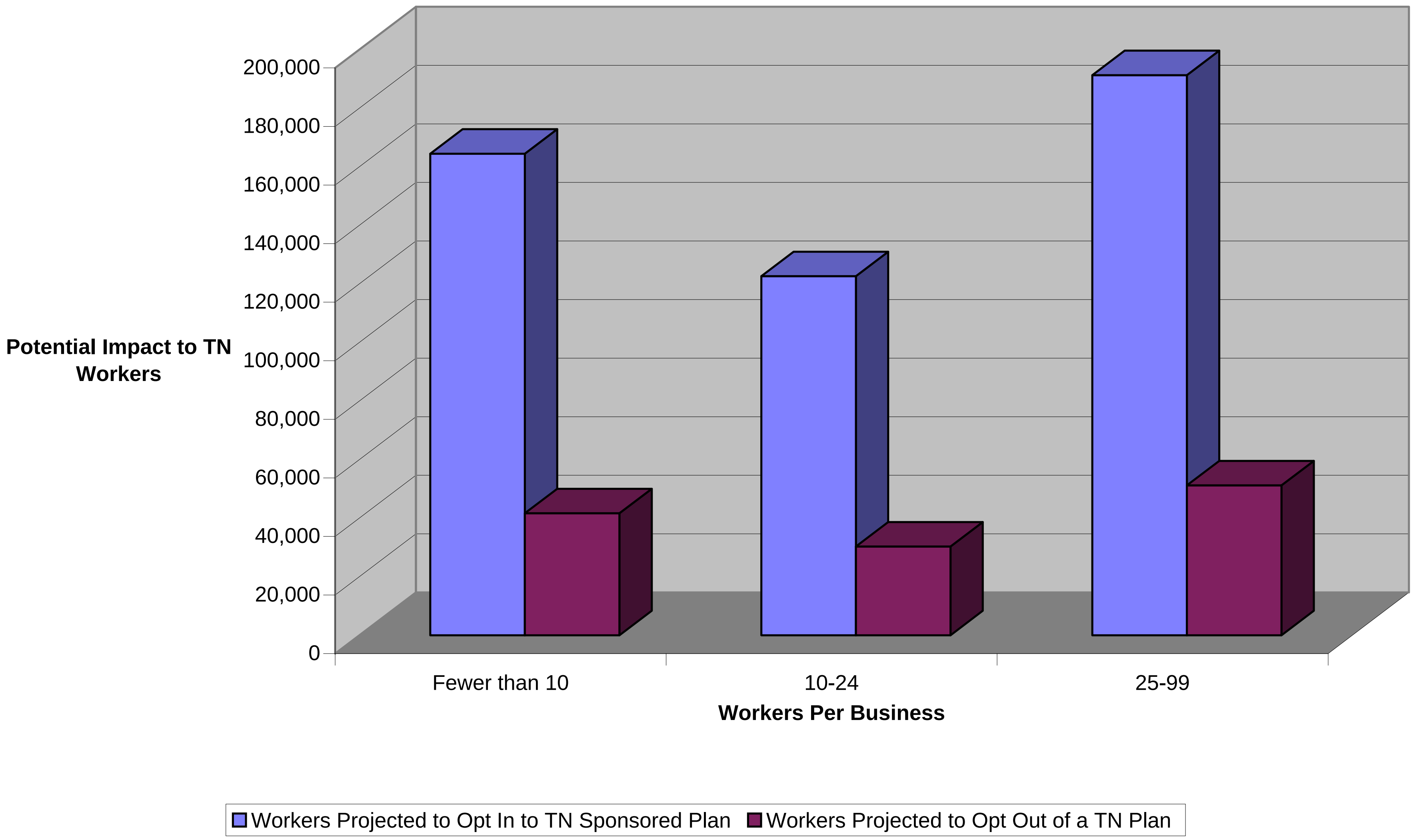
	0	1-4	5-9	10-19	20-49	50-99	100-249	250-499	500-999	1000+
Business Units	10,855	60,345	20,441	13,313	9,225	3,241	2,200	731	308	241
Average Employed / Qtr	3,625	123,76	134,42	179,35	279,73	222,57	335,09	252,16	211,87	624,16

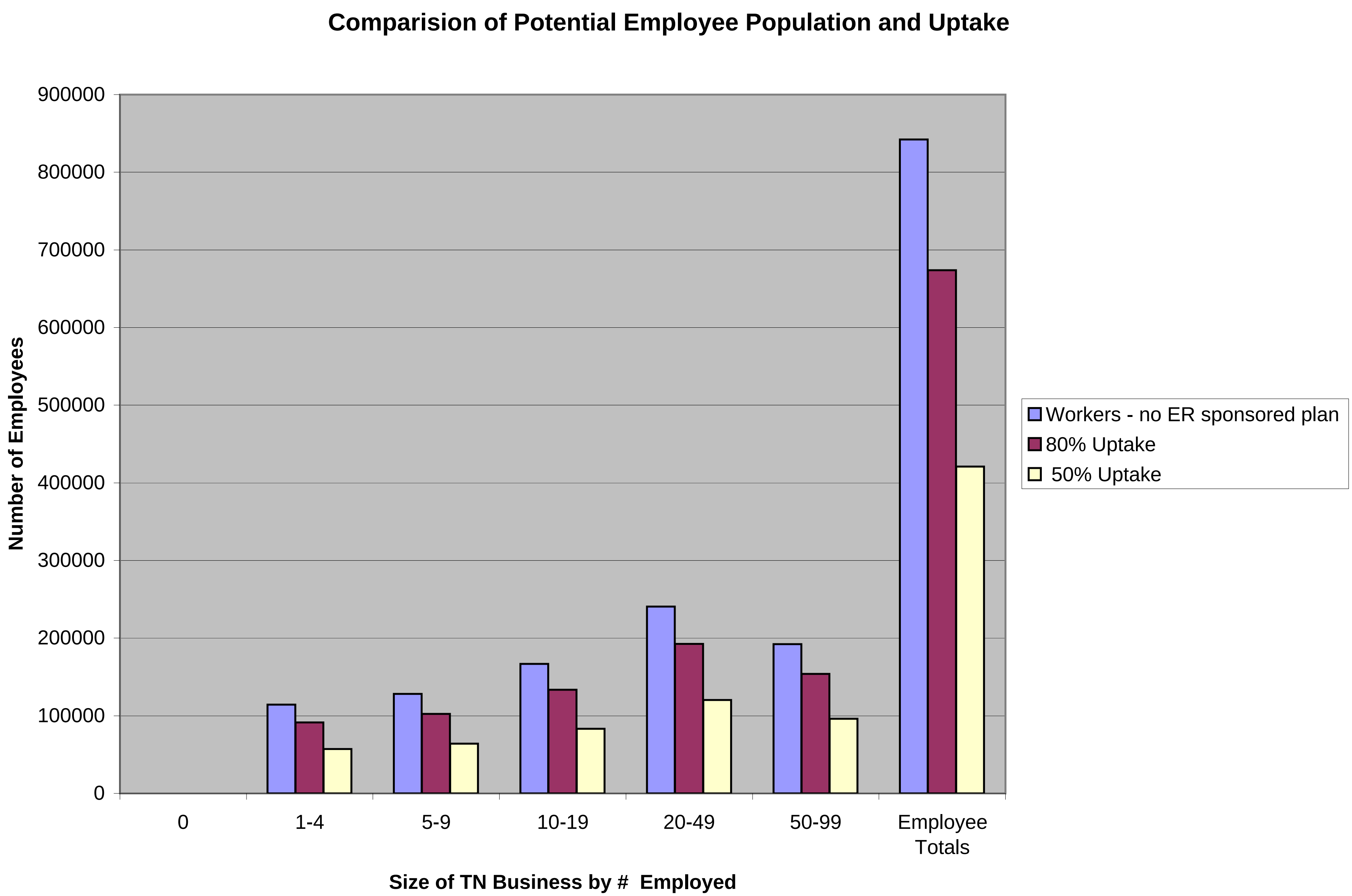
Size of Business

Data Source DLWD
Employment Security Statistics


Potential Impact by Employee Count
500,000
450,000
400,000
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
TN Employees by Business Size
fewer than 10
10-24
25-99
TN Employees Per Business
Employees of TN businesses
projected # of TN employees who have a plan available now
projected # of TN employees participating in a plan now
assuming nat'l uptake rate, the # of new participants

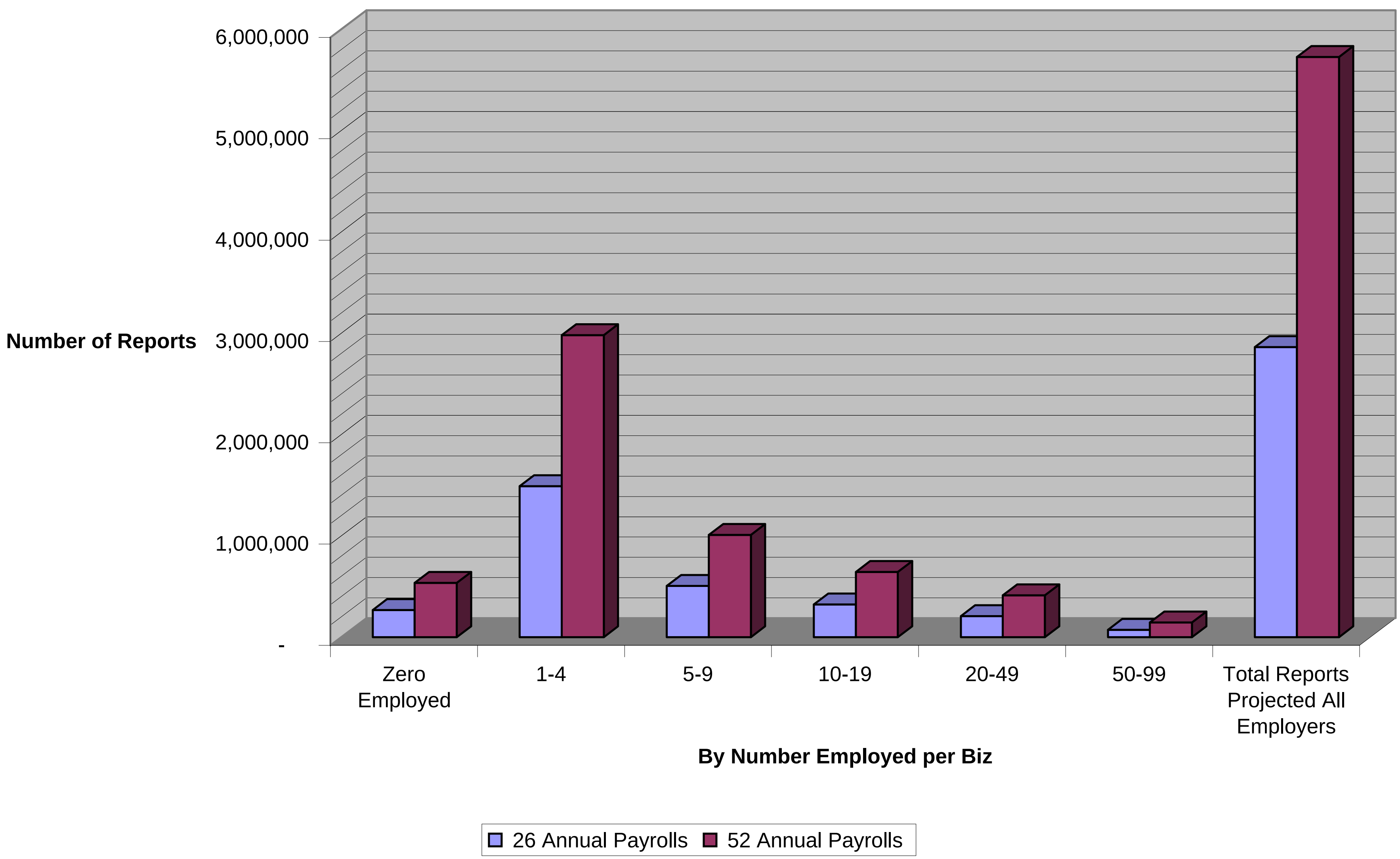
Projected Participation in State Sponsored Plan for Small Businesses



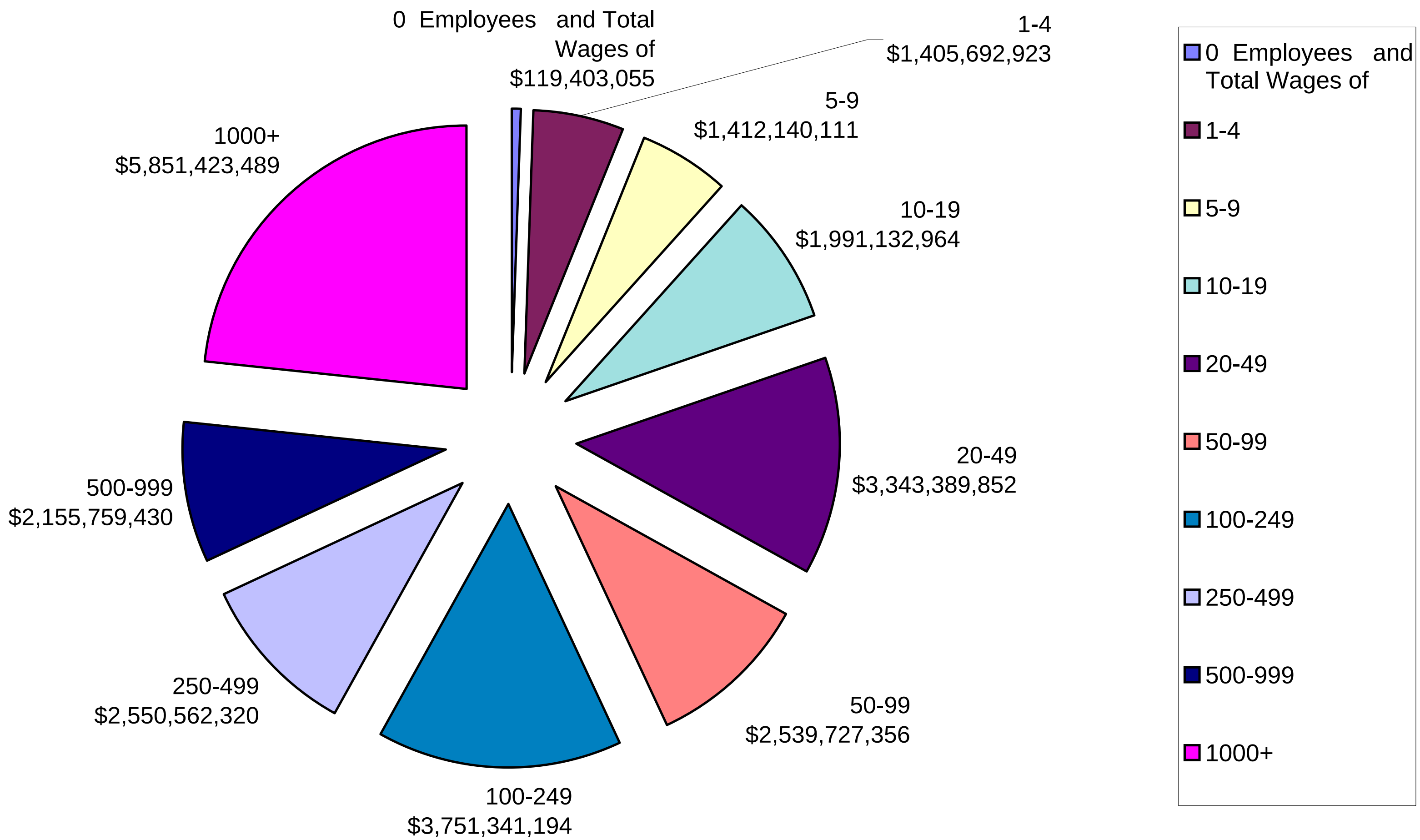


Comparision of Potential Employee Population and Uptake
900000
800000
700000
600000
500000
400000
300000
200000
100000
0
Number of Employees
0
1-4
5-9
10-19
20-49
50-99
Employee Totals
Size of TN Business by # Employed
Workers - no ER sponsored plan
80% Uptake
50% Uptake

Potential Range of Annual Payroll Report Transaction Volume



43% of TN Wages Paid by Firms Employing Less than 100



Data provided by DLWFD
Employment Security Research and Statistics,
Data Employment by Size of Firm
As of Quarter Ended 12-31-2007
43% Wages pd firms<100employees

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Methodology:

During the course of the study we have reviewed what other states have done. We used internet sites including: government, U.S. Department of Labor (DOL), Bureau of Labor Statistics (BLS), Internal Revenue Service (IRS), EBRI, U.S. Census, and financial intermediaries, such as banks, certified financial planners, professional organizations, benefit research organizations, third party administrators, PEO organizations, administrative organizations and the like. We contacted other states and AARP for copies of summary information across the nation for similar proposed legislation. The State of Tennessee Department of Labor and Workforce Development, Employment Security Division provided Tennessee specific employee and employer counts for December of 2007. AARP provided vast amounts of helpful information as well.

In looking at the feasibility of establishing a voluntary retirement plan for small businesses in Tennessee we considered documentation of the need for retirement planning as well as the extent of services currently available for retirement services for small businesses.

We considered the skill sets needed in a government plan and in a business plan and looked for overlap and economies of scale. We inquired of service provider professionals where the costs and benefits might be found in a state sponsored employer retirement plan.

Most of the retirement plan law and regulation oversight for business is the responsibility of the Internal Revenue Service and the U.S. Department of Labor. We briefly reviewed DOL, ERISA and IRS requirements for small business employer sponsored retirement plans.

We spoke with financial services provider's to discover prevailing industry practices. We met with AARP about the proposal and AARP experiences in other States. We talked to authors of articles pertaining to this topic when available.

We looked at cost numbers suggested by other states in the proposals they had before them. We reviewed the studies issued by other states and interested parties. We considered the scope of services available and how a business would access them. We looked at 401(k) and IRA guidelines.

To gain perspective on the context of services needed we looked at demographic information provided by the Department of Labor and Work Force Development and the number of Tennesseans working as or for small employers. To compare that to the nation as a whole we obtained census data that included some Tennessee specific references. In comparing the national data to the Tennessee specific information inference was used to develop conclusions. We considered the characteristics of businesses that may already be served and those not likely to be served.

May 21, 2013

To: Ways and Means Subcommittee on General Government
From: Main Street Alliance Business Owners
Re: Confronting the Retirement Security Crisis – Support For HB 3436

Co-chairs Steiner Hayward and Smith and Committee Members,

My name is Lee Mercer. I am a retiring small business owner and member of the Executive Team of Main Street Alliance of Oregon. We are a network of over 1200 small business owners statewide engaging on policy impacting our businesses and our communities.

Main Street Alliance of Oregon supports HB 3436 to create a state board to study ways to improve the retirement security of the employees of private businesses throughout Oregon.

I have submitted a letter from a group of Main Street Alliance of Oregon business owners outlining why small businesses in Oregon will benefit from this effort to improve retirement security. Some of our businesses who have testified previously on this bill have put all of their resources into their businesses and have retired on social security alone.

As small business owners it is a challenge to provide adequate retirement benefits to employees. Many of us have neither the time nor the money to invest in creating adequate retirement plans. As a result, half of all private sector employees are not participating in an employer-based retirement plan and amongst Oregon's smallest employers, less than one-third of all employees participate. The result is that low and middle income Oregonians are relying on Social Security for between 70 – 80% of their retirement income. We all know that Social Security alone will not provide enough to pay the bills during our retirement years.

Let me mention just four key ways HB 3436 will help improve retirement security in Oregon:

1. Many small businesses would like to offer retirement investment options to their employees, but currently find it difficult and cost-prohibitive to establish their own retirement plan. By creating a uniform, accessible statewide solution, HB 3436 will make it easier for all businesses (small and large) to offer retirement investment plans to their employees.
2. Key players including private employers and the financial industry will be involved in the study group created by this bill meaning all stakeholders will be represented in the plan developed.
3. The board created will study any potential ERISA issues involved in developing a pooled retirement security program in Oregon.
4. By not acting to improve retirement security in Oregon the state will incur more safety net costs in the long run as more and more Oregonians— employees and employers alike— retire into poverty.

Again, Main Street Alliance of Oregon enthusiastically supports HB 3436 and urges you to vote in the affirmative on this important legislation. Thanks for your time and consideration in this matter.

Lee Mercer, Main Street Alliance of Oregon

The MAIN STREET Alliance of Oregon

a big vision for small business

May 21, 2013

To: Ways and Means Subcommittee on General Government
From: Main Street Alliance Business Owners
Re: Confronting the Retirement Security Crisis – Support For HB 3436

Co-chairs Steiner Hayward and Smith and Committee Members,

The American dream includes the opportunity for families and individuals to set aside savings towards a secure and healthy retirement. In recent years, however, retirement security for working families has faced an unprecedented crisis.

A 2012 study by the Urban Institute and AARP's Public Policy Institute found that workers under age 55 today are less likely than their parents or grandparents to enjoy the living standards of their working years when they retire. As it is today, Social Security will be the main source of retirement income for most future middle-class retirees. Average monthly Social Security payments in 2013 are $1,261.

As small business owners it is a challenge to provide adequate retirement benefits to long-term employees. Not only does this lose some of our best employees to bigger companies that can offer a more comprehensive retirement package, it often forces us to choose between securing our own family's financial future and the retirement security of our cherished employees.

As a result, half of all private sector employees are not participating in an employer-based retirement plan and amongst Oregon's smallest employers, less than one-third of all employees participate. The result is that low and middle income Oregonians are relying on Social Security for between 70 – 80% of their retirement income. We all know that Social Security alone will not provide enough to pay the bills during our retirement years.

One major way to address this pending crisis is by improving retirement security in our state. We urge you to support House Bill 3436 and companion legislation to create a state board to study ways to improve the retirement security of the employees of private businesses throughout Oregon.

Yours Respectfully,

Wendy Grace, Arrowhead Chocolates, Joseph
Mark Kellenbeck, Brainjoy LLC, Medford
Jim Houser, Hawthorne Auto Clinic, Portland
Hank Keeton, Keeton Corporation, Scotts Mill
Steve Hanrahan, Mirador Community Store, Portland
Wail Eltelbany, N.Y. Bagel Bistro, Monmouth
Robert J Meyer, Ocean Beach Glassblowing & Gallery, Seal Rock
Deb Field, Paperjam Press, Portland
Rex Hagans, hazelnut farmer, Oregon City
Steven McGrath, Sustainable Solutions Unlimited, Portland
Jose Gonzalez, Tu Casa Real Estate, Salem
Mike Nagel, Uppercut Barber, The Dalles
Riktor Ball, Used Affordable Autos, Portland
Barbara Campbell, Wabi Sabi LLC, Bend

Main Street Alliance of Oregon, 126 NE Alberta St. Suite 202, Portland, OR 97211
Contact Stephen Michael, Small Business Organizer, stephen@mainstreetalliance.org, 831-428-3176

Selected statements on retirement security from some of these business owners:

From Hank Keeton, Keeton Corporation, Scotts Mill:

The sustainability and strength of the social fabric is only as strong as it's weakest part. When we're fully working, we have opportunities to contribute to the fabric. When we retire we rely on the fabric. Retirement security aids in the health of the overall fabric of society.

From Michael Nagle, Upper Cut Barber Shop, The Dalles, and member of Main Street Alliance Statewide Leadership Circle:

I am trying to get my business off the ground and I am having to put money into the physical plant and can't save any for retirement yet. It is an emotional challenge if anything.

From Barbara Campbell, Wabi Sabi, Inc., (an import store in) Bend and member of Main Street Alliance Statewide Leadership Circle:

This program would allow small business owners to more effectively recruit excellent employees.

From Steven McGrath, former owner, Sustainable Solutions Unlimited, Portland and member of Main Street Alliance Executive Team:

For years in my prior business, we had a goal of setting up a retirement plan such as a 401k, but the investments in time and resources were never feasible. Having a straight forward option to make one available will be a great resource!

And from Mark Kellenbeck, BrainJoy LLC, Medford (and co-chair of the Main Street Alliance):

The American Dream, in great part, is a secure and comfortable retirement. For many American's this is a far reach today. Social Security is not, in and of itself, sufficient retirement for most individuals. An Oregon retirement security plan that all workers can access, combined with Social Security, will make for a much improved and secure retirement for Oregon employees.

EPI BRIEFING PAPER

ECONOMIC POLICY INSTITUTE • JANUARY 18, 2012 • BRIEFING PAPER #334

OREGON RETIREMENT SECURITY

How are retirement needs being met now and in the future?

ELISE GOULD AND DOUGLAS HALL

This paper examines the retirement security of current Oregon retirees and prospects for the retirement security of current workers. By examining the income sources of retirees, we highlight Oregon retirees' heavy reliance on Social Security income and uncover important, and sometimes dramatic, differences in the reliance on Social Security and retirement funds[1] by income, race, and gender. Major findings include the following:

- Social Security constitutes nearly half (47.6 percent) of all income for Oregon retirees.
- Social Security's share of income ranges from 26.5 percent for retirees in the top quartile of earners to 85.0 percent for those in the bottom quartile.
- Retirement funds account for just 2.2 percent of annual income for retirees in the bottom quartile ($152 on average) but 41.0 percent of income for retirees in the top quartile ($21,511 on average).
- White retirees fare better than people of color, and men fare better than women.
- Retired Oregonians are less likely than Oregonians overall to live in poverty or extreme poverty, but retired Oregonians are also *more* likely than Oregonians overall to have incomes below 200 percent of the federal poverty level.

This paper also highlights where the disparities in income and income source originate by examining access to and participation in employer-sponsored retirement cover-

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age. This access is modest overall and quite low among low earners and those working for smaller, private-sector firms:

- Nearly half of all workers age 25–64 are not covered by a retirement plan at work.
- Only one in eight private-sector workers in the bottom income quartile participates in an employer-sponsored retirement plan, compared with more than six in eight in the top income quartile.
- As firm size decreases, so does access to and coverage under employer-sponsored retirement plans: In very small firms (24 or fewer employees) less than one-fourth of employees participate in employer-sponsored plans, compared with nearly two-thirds in very large firms (1,000 or more employees).

Income among current retirees

This paper draws on 2002–11 data from the *Annual Social and Economic Supplement* to the U.S. Bureau of Labor Statistics' Current Population Survey. To obtain reliable estimates for the state of Oregon, we combine 10 years of data to estimate income of current retirees and access to retirement plans among current workers. For the purposes of this analysis, retirees are defined as people age 60 and older who did not work during the reference period. For a full methodological discussion, see the appendix at the end of this paper.

Sources of retiree income

Oregonians on average benefit significantly from the public components of their retirement income, most notably Social Security (into which Oregon retirees have paid throughout their working lives), but also, to a much lesser extent, Supplemental Security Income.[2]

Social Security remains the most relied on source of income among current retirees in Oregon (see **Table 1** and **Figure A**). Nearly half (48.4 percent) of retirees' income comes from a combination of Social Security (47.6 percent) and Supplemental Security Income (0.8 percent). Retirement funds constitute just over a quarter (27.7 percent), and the remainder is a combination of dividend income (4.4 percent), rental income (4.1 percent), and other income (which includes income from personal savings, proceeds from the sale of stocks or bonds, and survivor's benefits).

While the distribution of retirement income is noteworthy, so, too, is the amount of retirement income that sustains the "average" Oregon retiree.

TABLE 1

Sources of personal income for retirees in Oregon (2001–10)

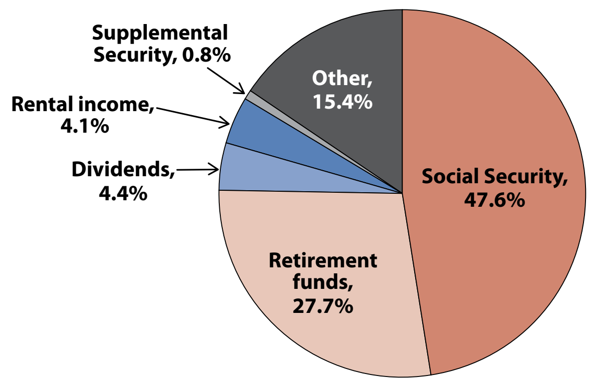
	Mean (in 2010 dollars)*	*Shares*
Total income	$23,686	100.0%
Social Security	$11,283	47.6%
Retirement funds	$6,558	27.7%
Dividends	$1,038	4.4%
Rental income	$970	4.1%
Supplemental Security	$179	0.8%
Other	$3,657	15.4%

*average of 10 years from 2001 to 2010

SOURCE: EPI analysis of 2002–11 data from the *Annual Social and Economic Supplement* to the U.S. Bureau of Labor Statistics' Current Population Survey

FIGURE A

Share of Oregon retirees' personal income by source (2001–10)



NOTE: Percentages represent average of 10 years from 2001 to 2010

SOURCE: EPI analysis of 2002–11 data from the *Annual Social and Economic Supplement* to the U.S. Bureau of Labor Statistics' Current Population Survey

While an analysis of *all* retirees in Oregon is instructive, digging a little deeper provides a more nuanced understanding of the well-being of Oregon's retirees. There is a dramatic variation in both the amount and distribution of income sources across the income distribution. **Table 2** breaks down sources of income by income quartile, examining separate income and income sources for the bottom 25 percent of retirees, the middle 50 percent, and the top 25 percent. The average income of the bottom 25 percent of retirees is $7,056 (ranging from $0-$10,653), less than half the $17,604 average income for the middle 50 percent of retirees (with incomes ranging from $10,654–$28,205). Retirees in the top quartile—with incomes starting at $28,206—have an average income of $52,508, nearly 7.5 times the average for the bottom 25 percent of retirees.

The pie graphs in **Figure B** highlight the drastic differences in sources of income for these three income groups. Importantly, none of the three distributions shown bears resemblance to the "average" distribution seen in Figure A. Instead, we see that the bottom three-fourths of retirees rely very heavily on Social Security income—the share relying on Social Security income is 85.0 percent for the bottom 25 percent of income earners, and 71.6 percent for the middle 50 percent of earners. Social Security contributes a still significant 26.5 percent of income for retirees in the top 25 percent.

Even more stark is the variation in the share of income derived from retirement funds across the income distribution. Those in the bottom 25 percent receive just 2.2 percent of their total income from retirement funds, while those in the top 25 percent receive 41.0 percent of their income from retirement funds—a share that is nearly 19 times greater than the corresponding share for the bottom 25 percent. Moreover, when comparing the *amount* of retirement funds by income category shown in Table 2, we see that those in the top quartile receive more than 140 times the income from retirement funds as those in the bottom quartile ($21,511 compared with $152). With annual retirement-fund income of just $152, it is clear that employer-based retirement plans contribute very little to the economic well-being of the bottom quartile of Oregon retirees.

TABLE 2

Sources of personal income for retirees in Oregon by income quartile (2001–10)

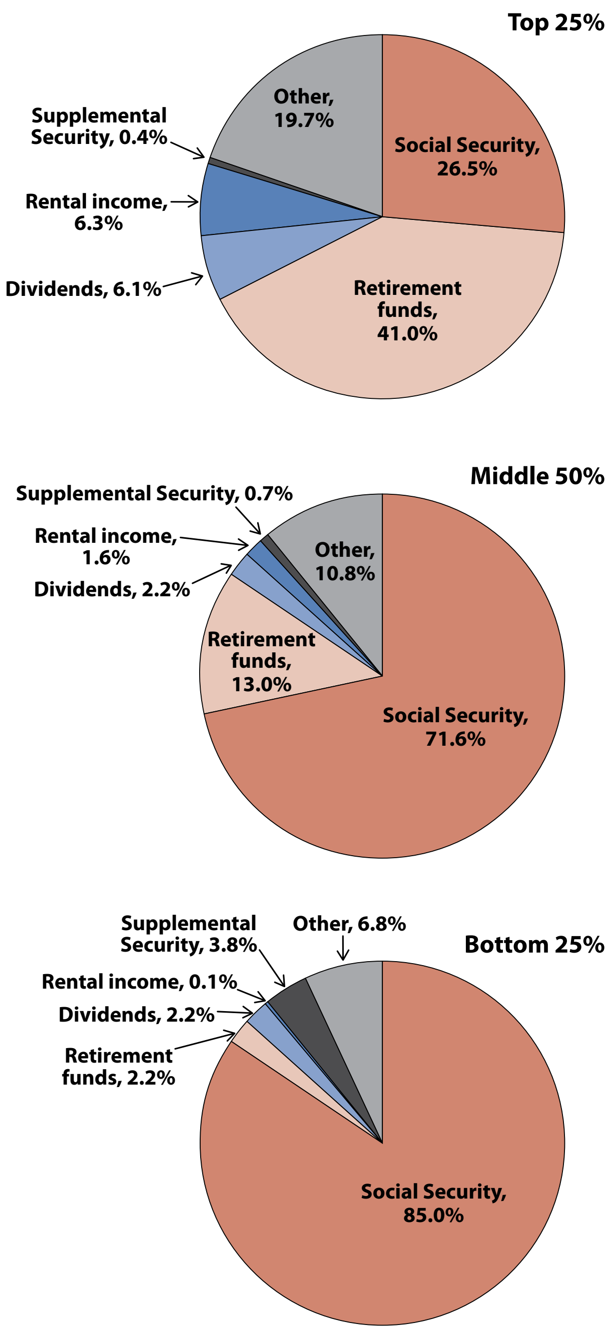
	Mean (in 2010 dollars)*	*Shares*
Bottom 25%		
Total income	$7,056	100.0%
Social Security	$5,995	85.0%
Retirement funds	$152	2.2%
Dividends	$154	2.2%
Rental income	$6	0.1%
Supplemental Security	$271	3.8%
Other	$477	6.8%
Middle 50%		
Total income	$17,604	100.0%
Social Security	$12,607	71.6%
Retirement funds	$2,291	13.0%
Dividends	$395	2.2%
Rental income	$288	1.6%
Supplemental Security	$128	0.7%
Other	$1,895	10.8%
Top 25%		
Total income	$52,508	100.0%
Social Security	$13,929	26.5%
Retirement funds	$21,511	41.0%
Dividends	$3,211	6.1%
Rental income	$3,300	6.3%
Supplemental Security	$189	0.4%
Other	$10,368	19.7%

*average of 10 years from 2001 to 2010

SOURCE: EPI analysis of 2002–11 data from the *Annual Social and Economic Supplement* to the U.S. Bureau of Labor Statistics' Current Population Survey

FIGURE B

Share of Oregon retirees' personal income from various sources, by income quartile (2001–10)



NOTE: Percentages represent average of 10 years from 2001 to 2010

SOURCE: EPI analysis of 2002–11 data from the *Annual Social and Economic Supplement* to the U.S. Bureau of Labor Statistics' Current Population Survey

Demographic differences in retiree income

Important demographic differences are also apparent in the data on Oregon retirees. As evident in **Table 3**, there are disproportionately more nonwhite people in lower income groups (and similarly higher shares of white retirees amongst the higher income quartiles). In the overall retiree population, 93.9 percent of retirees are white. In the highest income quartile, that share increases to 96.8 percent. Black retirees comprise a very small share of retirees in Oregon, and their share gets ever smaller as one moves up the income distribution, from 1.6 percent of retirees in the bottom quartile to 0.9 percent of the top quartile. Hispanic workers comprise a slightly larger share of the overall population of Oregon retirees, but like black retirees, their share shrinks as incomes increase, from 2.7 percent of retirees in the bottom quartile to just 0.6 percent of retirees in the top income quartile (even less than the share of the top quartile that are black).

Low-income seniors are also much more likely to be women. Women, who constitute 57.3 percent of all Oregon retirees, constitute more than four-fifths (82.8 percent) of retirees in the bottom quartile, but just a little over a third (34.7 percent) in the top quartile.

Poverty rates among retirees

In 2010, the poverty level for a single person was $11,139 and $14,218 for a two-person family. For a single person, 200 percent of the poverty level was $22,278, and it was $28,436 for a family of two. **Table 4** and **Figures C** and **D** show the share of Oregonians and Oregon retirees at various income levels as measured in relation to the federal poverty level, including how the distribution varies by gender. These figures show that income inequality is less pronounced among retirees than among working-age adults.

These illustrations also suggest that Social Security is an effective anti-poverty program for retirees. The incidence of poverty (family income below 100 percent of the federal poverty level) and extreme poverty (family income below 50 percent of the federal poverty level) among retirees in Oregon is notably lower than for Oregonians overall. Between 2001 and 2010, 11.8 percent of all Or-

TABLE 3

Share of Oregon retirees of different race/ethnicity and gender, by income quartile (2001–10)

	All	Bottom 25%	Middle 50%	Top 25%
Race				
White	93.9%	89.4%	94.7%	96.8%
Black	1.2%	1.6%	1.2%	0.9%
Hispanic	1.3%	2.7%	1.0%	0.6%
Other	3.6%	6.3%	3.2%	1.7%
	100.0%	**100.0%**	**100.0%**	**100.0%**
Gender				
Male	42.7%	17.2%	44.2%	65.3%
Female	57.3%	82.8%	55.8%	34.7%
	100.0%	**100.0%**	**100.0%**	**100.0%**

NOTE: Percentages represent average of 10 years from 2001 to 2010

SOURCE: EPI analysis of 2002–11 data from the *Annual Social and Economic Supplement* to the U.S. Bureau of Labor Statistics' Current Population Survey

TABLE 4

Share of Oregonians at various family-income levels as relative to poverty (2001–10)

	Below 50% of poverty	50–99% of poverty	100–199% of poverty	200–299% of poverty	300–399% of poverty	At or above 400% of poverty	All
All Ages	4.9%	6.9%	19.5%	18.5%	14.7%	35.4%	100.0%
Retirees	1.4%	6.1%	29.0%	23.9%	15.1%	24.6%	100.0%
Retirees by gender							
Male	1.3%	4.4%	25.7%	24.3%	16.4%	27.9%	100.0%
Female	1.5%	7.3%	31.4%	23.6%	14.1%	22.1%	100.0%

NOTE: Percentages represent average of 10 years from 2001 to 2010

SOURCE: EPI analysis of 2002–11 data from the *Annual Social and Economic Supplement* to the U.S. Bureau of Labor Statistics' Current Population Survey

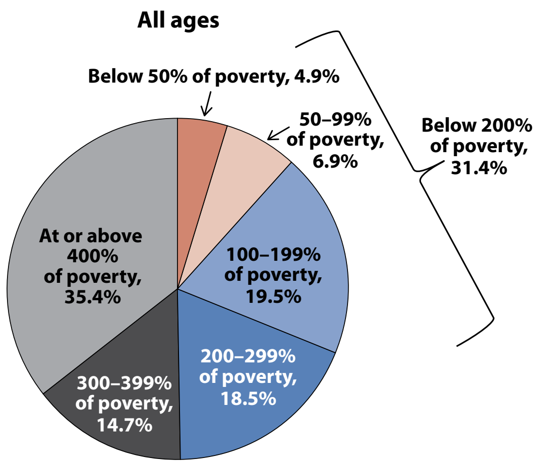
egonians were in families with income below the federal poverty level, compared with 7.5 percent of retirees. Importantly, the biggest difference is at the bottom, with only 1.4 percent of retirees experiencing extreme poverty, compared with 4.9 percent of the overall population.

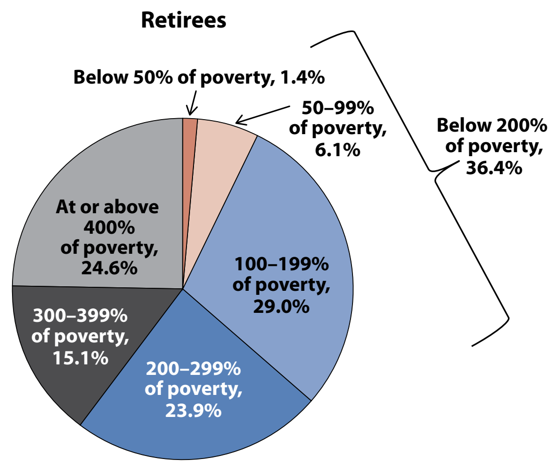
While Social Security keeps many seniors out of poverty, benefits are fairly modest. As a result, 29 percent of Oregon retirees are just scraping by, with incomes between 100–199 percent of the federal poverty level. Furthermore, only 24.6 percent of retirees have incomes above 400 percent of the poverty line, compared with 35.4 percent of the overall population.

Moreover, this means of analyzing the economic security of seniors relative to the general population does not adequately account for the high medical needs of people age 60 and older. The U.S. Census Bureau's newly con-

FIGURE C

Share of overall and retiree populations in Oregon at various income levels as relative to poverty (2001–10)



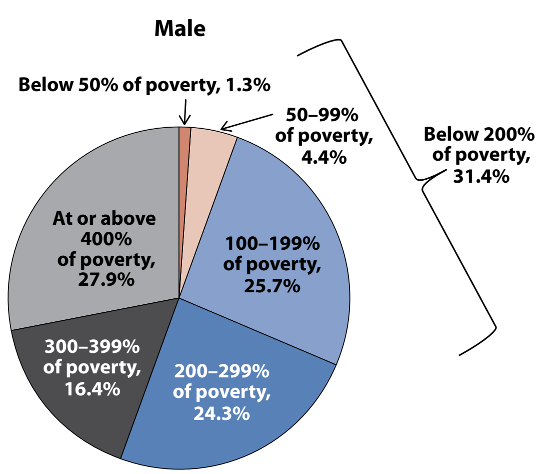


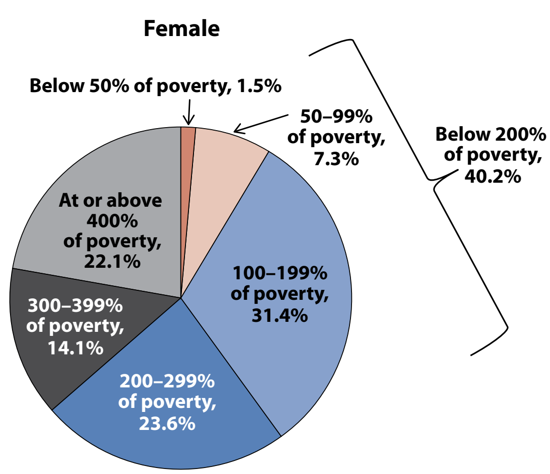
NOTE: Percentages represent average of 10 years from 2001 to 2010

SOURCE: EPI analysis of 2002–11 data from the *Annual Social and Economic Supplement* to the U.S. Bureau of Labor Statistics' Current Population Survey

FIGURE D

Share of Oregon retirees at various income levels as relative to poverty, by gender (2001–10)





NOTE: Percentages represent average of 10 years from 2001 to 2010

SOURCE: EPI analysis of 2002–11 data from the *Annual Social and Economic Supplement* to the U.S. Bureau of Labor Statistics' Current Population Survey

structured Research Supplemental Poverty Measure (SPM) highlights fundamental differences in the income needs of various age groups, taking into account particular types of expenditures, such as child care for families with children and higher average medical expenditures for the elderly. Using the SPM, many more seniors would fall below the minimum threshold needed to get by. Our previous comparisons, which did not take the SPM into account, may overestimate how well seniors are doing. Counting the cost of medical expenditures would increase the share of seniors who are considered poor relative to the working-age population.

Female retirees are more likely to be poor and near-poor than male retirees. As seen in Table 4 and Figure D, a larger share have incomes below the federal poverty level (8.8 percent compared with 5.7 percent) or have incomes below 200 percent of the federal poverty level (40.2 percent compared with 31.4 percent). The share with incomes between 200 percent and 299 percent of the federal poverty level is very similar, while a much smaller share of female retirees have incomes greater than 300 percent of the federal poverty level (36.2 percent compared with 44.3 percent).

Retirement-plan coverage among current workers

Nearly half of workers age 25–64 in Oregon are not covered by any retirement plan at work. Most of the problem is due to lack of access, though some workers choose not to participate in 401(k)-style plans, in which workers typically shoulder at least half of the cost (Purcell 2009). In contrast, participation in traditional defined-benefit pensions is generally automatic and does not require explicit employee contributions, at least in the private sector.[3]

Table 5 shows the extent to which Oregon workers (age 25–64) are offered an employer-sponsored retirement plan and whether they actually enroll in (take-up) such a plan. A little less than two-thirds of all workers

TABLE 5

Employer-sponsored retirement plan coverage in Oregon (2001–10)

	All workers age 25-64			Full-time workers age 25-64		
	Access	***Take-up***	***Participation***	***Access***	***Take-up***	***Participation***
All	64.2%	82.6%	53.0%	71.5%	88.5%	63.3%
By sector						
Private sector	59.3%	80.4%	47.7%	67.1%	86.4%	58.0%
Public sector	87.6%	89.8%	78.7%	92.1%	95.8%	88.2%
Income quartile among private sector						
Bottom 25%	29.5%	43.7%	12.9%	41.6%	66.4%	27.6%
Middle 50%	63.0%	80.7%	50.9%	71.5%	87.1%	62.2%
Top 25%	81.9%	93.1%	76.3%	84.0%	95.1%	79.8%
Firm size among private sector						
1–24 employees	29.6%	74.9%	22.2%	35.8%	84.3%	30.2%
25–99 employees	56.5%	77.8%	44.0%	64.3%	82.5%	53.0%
100–499 employees	68.8%	83.5%	57.5%	73.2%	87.4%	63.9%
500–999 employees	76.5%	78.0%	59.6%	77.3%	85.8%	66.4%
1,000+ employees	78.3%	82.2%	64.4%	83.9%	88.0%	73.8%

NOTE: A full-time employee works 50+ weeks a year and 35+ hours a week.

SOURCE: EPI analysis of 2002–11 data from the *Annual Social and Economic Supplement* to the U.S. Bureau of Labor Statistics' Current Population Survey

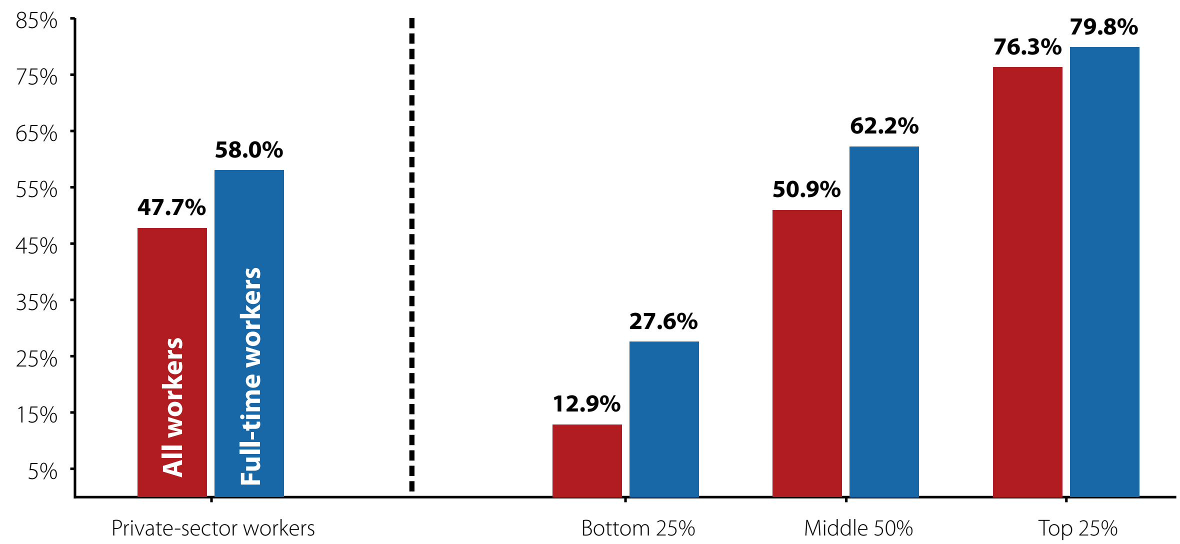
(64.2 percent) work for employers that sponsor a plan, and, given a take-up rate of 82.6 percent, just over half of all workers (53.0 percent) participate. Coverage is somewhat higher among full-time workers, 71.5 percent of whom work for employers that sponsor a plan. Given a take-up rate of 88.5 percent among those offered a plan, about 63.3 percent of full-time workers participate. Coverage is lower among all private-sector workers, 59.3 percent of whom work for employers that sponsor a plan, and 47.7 percent of whom participate.

Table 5 and **Figure E** also show that access to and participation in employer-sponsored retirement plans vary dramatically by income share—only about one in eight (12.9 percent) of private-sector workers in the bottom income quartile participates in an employer-sponsored retirement plan, compared with more than six in eight (76.3 percent) in the top income quartile. It is noteworthy that the increase in participation rates moving up the income scale is a function both of greater access to retirement plans by income (from 29.5 percent for the bottom quartile to 81.9 percent of the top quartile) *and* employee take-up (from 43.7 percent of the bottom quartile to 93.1 percent of the top quartile).

We also see significant variation in coverage when comparing firms of different sizes (see Table 5 and **Figure F**). As the firm size increases, so, too, does retirement plan coverage. Only 29.6 percent of employees of very small firms (those with 24 or fewer employees) work for employers that sponsor retirement plans, compared with 78.3 percent of employees of very large firms (those with 1,000 or more employees). Likewise, less than one quarter (22.2 percent) of employees of very small firms participate in employer-sponsored plans, compared with nearly two-thirds (64.4 percent) of employees of very large firms. Interestingly, employee take-up of retirement plan coverage doesn't vary in a consistent pattern or direction. The determinant driving higher participation rates as firms increase in size is whether or not employees are offered access to retirement plans.

FIGURE E

Share of Oregon private-sector workers participating in employer-sponsored retirement plans, all workers and by income quartile (2001–10)

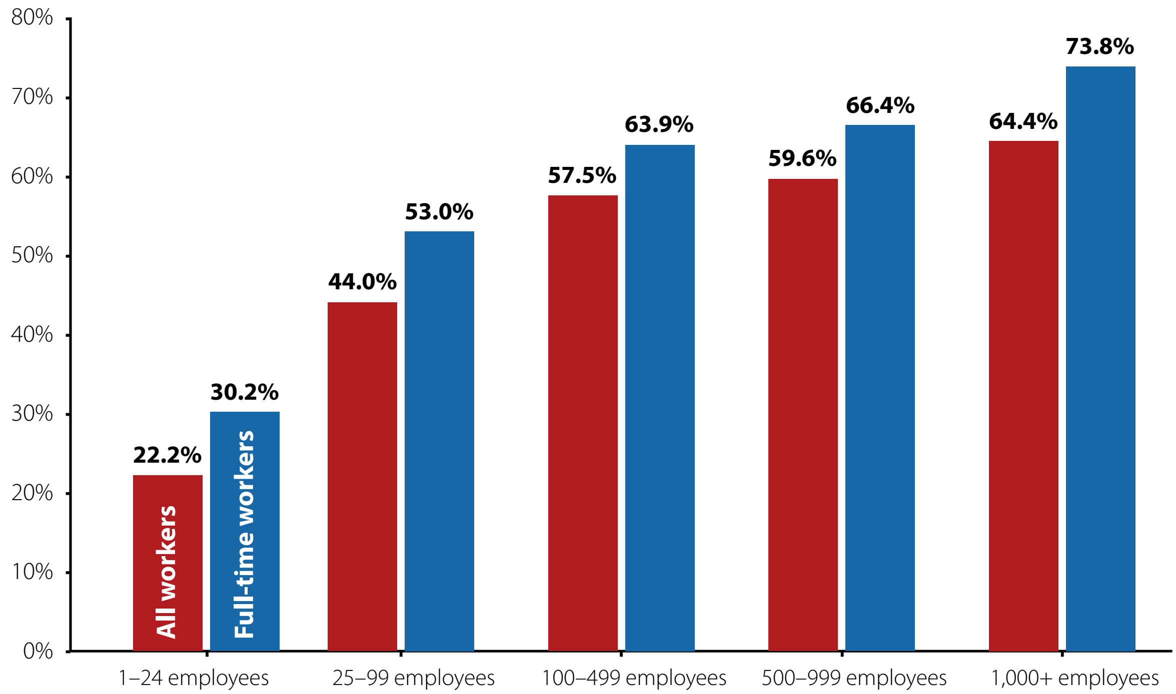


NOTE: Percentages represent average of 10 years from 2001 to 2010

SOURCE: EPI analysis of 2002–11 data from the *Annual Social and Economic Supplement* to the U.S. Bureau of Labor Statistics' Current Population Survey

FIGURE F

Share of Oregon private-sector workers participating in employer-sponsored retirement plans, by firm size (2001–10)



NOTE: Percentages represent average of 10 years from 2001 to 2010

SOURCE: EPI analysis of 2002–11 data from the *Annual Social and Economic Supplement* to the U.S. Bureau of Labor Statistics' Current Population Survey

Conclusion

As baby boomers move into their retirement years, retirement security will continue to be an issue of growing concern in Oregon and throughout the United States.[4]

Social Security remains the predominant form of retirement income for the lowest quartile of retirees, disproportionately composed of women, while the top quartile has much higher access to private retirement funds. Increasing access to employer-sponsored retirement coverage, particular among lower income workers and those currently working for smaller employers, can greatly enhance future retirement security.

Acknowledgements

The authors would like to acknowledge and thank EPI colleagues Natalie Sabadish, Monique Morrissey, Jin Dai, and David Cooper for their contributions to this paper, and the financial support of SEIU Oregon State Council.

Methodology

In this paper, our objective is to examine the income security of older Oregonians who no longer work in the formal labor market. We draw on 2002–11 data (reflecting 2001-10 survey responses) from the *Annual Social and Economic Supplement* to the U.S. Bureau of Labor Statistics' Current Population Survey. To obtain reliable estimates for the state of Oregon, we combine 10 years of data to estimate income of current retirees and access to retirement plans among current workers. For the purposes of this analysis, retirees are defined as people age 60 and older who did not work during the reference period.

For the most part (89.8 percent of our weighted sample), respondents list "retired" as the reason for not working. The remainder list "ill/disabled" (7.6 percent), "taking care of home/family" (1.9 percent), "could not/unable to find work" (0.5 percent), and "other" (0.2 percent). We consider all of these people retired in the sense that they rely on nonwage income for their livelihood and may well rely only on nonwage income for the rest of their lives. However, some (including some self-described "retirees") may eventually return to the labor force. That said, the results here differ only slightly from an analysis which restricts the sample to those who report only "retired." Additionally, removing the restriction provides a more sufficient sample size for our socio-demographic breakdowns.

With the exception of the tables and charts comparing retiree income with the federal poverty level, the data used here rely on individual/personal income. Because one's relationship to the federal poverty level is based on the income of their family unit, those data points, as indicated in the text, are based not on individual or personal income, but instead on family income.

In order to be included in our data, personal income must be greater than $0.00. Nearly all— 96 percent—of retirees (those 60 years old or older and not working) have positive income, while 3.9 percent have zero income, and .08 percent have negative income. The data presented here rely on the 96 percent with positive retirement income.

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Endnotes

1. *Retirement Funds* include regular payments of income from employment-based retirement accounts including 401(k) accounts, or from other tax-preferred retirement savings such as IRAs. In this paper, we use the term *retirement income* as an aggregate term that includes income from retirement funds and all other sources of income for retirees (other than Social Security). Importantly, lump-sum payments from 401(k) or IRA accounts are not counted here as retirement funds.
2. Supplemental Security Income (SSI) is a federal income-supplement program designed to help aged, blind, and disabled people with little or no income, providing cash assistance to meet needs such as food, shelter, and clothing. SSI is funded through general revenues, not through Social Security taxes.
3. Most economists would agree that these contributions come out of other forms of compensation even if not explicitly taken out of wages.
4. For a general discussion of these growing challenges see Morrissey (2009).

Testimony to the Ways and Means Committee in support of HB3436

May 21, 2013

Dear Chairs Steiner-Hayward and Smith and Committee Members,

My name is Diana Bartlett. I am an Oregonian and am a full-time, stay-at-home mom. I am here today to voice my support for creating an Oregon Retirement Savings Investment Board and the Oregon Secure Retirement Plan for Oregonians like me.

Like many parents, saving for the future is a high priority for me. I think my experience is one that is very common among parents who temporarily leave the workforce to raise their children.

I have two children under five. My husband works full-time. I worked full-time prior to the birth of my second child two years ago. Before becoming a parent, I earned a Masters Degree and have worked for multiple businesses and organizations over my career. I have been employed by organizations ranging from the very large to very small (fewer than three employees). I have retirement accounts from previous employers.

My decision to leave my full-time position following the birth of my second child was largely a financial one. When factoring in the cost of childcare, taxes, and the commute, my take-home pay would not have contributed greatly to our family's annual income, let alone long-term savings. However, the risk I took leaving the workforce, in addition to my lowered earning potential over my lifetime, is that I am no longer contributing to a retirement account that will help keep me financially stable later in life.

I am grateful for the last two and a half years I have spent caring for my kids at home. This time has allowed me to be active in my community and in my children's early education in a way that would not have been possible otherwise. I am fortunate that we are able to support our family on one income, on a short-term basis. However, I frequently worry about the impact this break from full-time work will have on my, and my family's, long-term savings abilities.

Without a consistent paycheck and automatic payments, I have not been actively engaged with my retirement savings since leaving the full-time workforce. I have not wanted to consolidate the money in my two existing accounts for fear of incurring costly penalties. I also haven't had the time or resources to fully investigate the many retirement savings options, nor do I have the resources to to hire an advisor to help me navigate savings & investment options.

It would be helpful to have an easy, portable system to help women who temporarily leave the workforce continue contributing to and managing their retirement savings over the long-term. I believe this could help empower women like me to be better prepared for their later years. The break I have taken from my career has ultimately been for the sake of my children. It is also for the sake of my children, that I want to have a solid plan for retirement, so they are not burdened with providing for me later in life.

Thank you for the opportunity to share my story with you.

Voice of Oregon Nurses Since 1904

Testimony in Support of HB 3436 A
May 21, 2013
Ways and Means Sub Committee on General Government
Oregon Nurses Association
Sarah Baessler, Director of Health Policy and Government Relations

Co-Chairs Smith and Steiner Hayward, Members of the Committee: Thank you for the opportunity to submit testimony in support of HB 3436 A.

The Oregon Nurses Association is Oregon's oldest and largest nursing union and professional association, and is proud to represent over 13,000 registered nurses, advanced practice nurses, and nursing students in Oregon.

As the largest segment of the health care workforce, nurses are on the front lines providing care to Oregon's seniors during their retirement years. Retirement is often a time when people face growing medical needs and expenses, often much higher than retirees have planned for, or can afford. A 65-year-old couple retiring in 2012 is estimated to need $240,000[1] to cover medical expenses throughout retirement, according to the latest retiree health care costs estimate calculated by Fidelity Investments. This represents a 4 percent increase from last year, when the estimate was $230,000.[i]

Currently, nearly half of Oregonians between the ages of 25-64 are not covered by a retirement plan at work. Without the security of a retirement plan, many Oregonians are at risk of not being able to cover their living and medical expenses when they retire and will be more likely to rely on publicly funded services, or forced to make the choice to forgo needed or recommended health care services.

HB 3436 A takes the first step in developing a strong and stable retirement plan for Oregonians who do not currently have another option, and can help provide a continuous and secure option for retirement savings and preparation.

HB 3436 A will start the process of ensuring that Oregon's retirees can be financially secure and have access to the vital care they need as they age by creating a board charged with developing a plan that will enable every working Oregonian to save money for retirement, regardless of income level and employer. HB 3436 A requires the board to develop a plan that is able to serve a broad range of workers and would be portable, allowing workers to change jobs without risk of losing their retirement savings. This will lay the foundation for ensure all working Oregonians have a stable and healthy retirement.

Please support passage of House Bill 3436 A.

Thank you.

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[i] Fidelity. Fidelity Estimates Couples Retiring in 2012 Will Need $$240,000 to Pay Medical Expenses Throughout Retirement. http://www.fidelity.com/inside-fidelity/individual-investing/retiree-health-care-costs-2012.

NFIB

The Voice of Small Business.®

Oregon

May 21, 2013

Joint Ways & Means Committee on Government

Re: HB 3436 – Creates Oregon Retirement Savings Investment Board for establishing Oregon Secure Retirement Plan for the private sector.

Representing 7,500 small business owners in the state of Oregon, we find HB 3436 very troubling for several reasons:

- We hear on a daily basis that Oregon's government is underfunded and understaffed and this would create another level of government bureaucracy over the private sector and small businesses.
- The PERS system presently is underfunded by $16 billion. Why would the state be compelled to develop and manage a retirement system for the private sector when managing the retirement fund for the public sector is consistently economically challenging to this state and its enrollees?
- There are several vehicles available to any individual such as simple savings accounts and IRA's that are created in the private sector to fulfill this need. These vehicles are created by entities who provide these services as their business endeavor. It is our belief that it is not the state's responsibility to create and oversee a retirement plan for individual employees in the private sector. This should remain at the option and responsibility of the employer and employee.
- At a time when small businesses are struggling in a sluggish economy while being faced with the implementation of health care reform, more regulation and tax uncertainty, HB 3436 would create yet another layer of government requirements, potential liability and add to the already administrative overload experienced by private sector small businesses.

NFIB OPPOSES HB 3436

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May 21, 2012

To: Co-Chairs Steiner-Hayward, Smith and Members of the Ways and Means Subcommittee on General Government

Fr: Retirement in Reach

Re: House Bill 3436

Position: Support

Retirement in Reach is a growing collaboration between AARP Oregon, the Urban League of Portland, the Main Street Alliance, Neighborhood Partnerships, SEIU, AFSCME, United Seniors of Oregon, Elders in Action, the Oregon Education Association, Oregon Nurses Association, Oregon State Firefighters Council, AAUW, Economic Fairness Oregon, the Oregon AFL-CIO and Family Forward Oregon. We have come together to seek solutions to one of the most pressing issues our state faces – retirement insecurity amongst Oregonians.

We ask to you lend your support to House Bill 3436A, authored by Representative Jules Bailey and Senator Lee Beyer with the assistance of Oregon State Treasurer Ted Wheeler. This bill brings together industry, employer, worker and expert voices to start a discussion on how to put retirement in reach for more Oregonians.

Why is HB 3436 necessary?

First, our population is becoming less prepared for retirement. There is a wealth of data on this topic, most recently reported in the Oregonian,

> "An online survey by Wells Fargo & Co. late last year of 500 Oregonian adults found half of them concerned about their ability to save enough for retirement, while 60 percent under age 50 expressed such concern. One-third said their current expenses prevented them from saving for the future, the bank said."[1]

This is a particularly acute problem amongst younger workers:

> "Now aged 38 to 47, Generation Xers also appear to have saved and accumulated only enough wealth to replace 50 percent of their pre-retirement income, Pew's projections show."[2]

With growing numbers of workers saving too little to support themselves, retirement security will quickly become a community problem as more Oregonians begin to rely on government services or other resources to provide for their basic living expenses in their old age. And with Oregon's senior population likely to double in the coming years, this "problem" will soon become a crisis for our budget, families and communities.

[1] "Recession left Generation X least prepared for retirement, study finds," Huntsberger, Brent. The Oregonian, May 16, 2013

[2] ibid

<u>Second, employer-based plans are not widely available or utilized in the private sector,</u> although there is a consensus that employment-based retirement plans are the best means to build retirement savings, The nature of Oregon businesses adds to this dilemma. Oregon is a small business state and small businesses have the greatest challenges providing retirement options for workers. This is confirmed by a study from the Economic Policy Institute:

> "As firm size decreases, so does access to and coverage under employer-sponsored plans: **In very small firms (24 or fewer employees) less than one-fourth of employees participate in employer-sponsored plans**, compared with nearly two-thirds in very large firms."[3]

Additionally, across all employment sectors, workers are facing a retirement income deficit. **Nearly half of Oregon's workforce between the ages of 25–64 are not currently covered by a retirement plan through their job.**

Our partners at the Main Street Alliance report that this is largely due to the following factors:

- Setting up a plan can take time and resources; small businesses do not have the same economies of scale as large businesses.
- Administering a plan is complicated and requires more attention than they have available.
- Many lack a human resources department to devote time and energy to plan design, cost and reviewing options.

<u>Third, we know that there are large disparities in retirement outcomes based on race and gender</u>. Women constitute about 57% of all Oregon retirees, yet they make up more than 80% of the poorest quartile of current Oregon retirees.[4] In professions predominately staffed by women, such as Oregon's homecare workforce, it is the norm to not provide any employer-based plan even if the plan includes employee-only contributions. People of color are also more likely to retire into poverty than white workers in Oregon[5]. There are a number of factors leading to this, not the least of which is the compounding effect of pay inequity between demographics over time.

Finally we are excited to see that this discussion focuses on some fundamental issues in retirement benefits. The features described in House Bill 3436A would create a plan that:

- Is portable and flexible for many types of workers and individuals.
- Gives individuals access to professional money management.
- Applies best business practices to gain economies of scale by encouraging the broadest possible enrollment and participation.
- Offers more security and predictability to workers' assets.
- Is affordable by creating no additional employer or state liability for sponsorship or market returns.

We look forward to working with members of the Legislative Assembly now and in the future to put retirement in reach for more Oregonians.

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[3] "Oregon Retirement Security. How are retirement needs being met now and in the future," Gould, Elise and Hall, Douglas. EPI Briefing Paper, Economic Policy Institute, January 18, 2012, Briefing Paper #334
[4] Ibid
[5] Ibid