VTSaves
Retirement Program
(Senate Bill 135)

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Presentation to House Committee on Government Operations & Military Affairs

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The Problem

- Americans, including Vermonters, have inadequate retirement savings.
- Too many Vermonters – particularly those who are self-employed or work for small employers – lack access to convenient, automatic retirement savings.
- Workers with access to workplace retirement programs are **15x more likely** to save than those without. [Access to Workplace Retirement Plans by Race and Ethnicity, AARP Public Policy Institute, 2017]
- Vermonters with insufficient retirement savings will have to rely on social programs when they stop working.
- Over 80% of Americans earning less than $50,000 lack access to workplace retirement savings. [AARP Research Minute, Feb. 15, 2023]

VERMONT: WHO IS NOT COVERED BY A WORKPLACE RETIREMENT PLAN?

Item	Group	%	Number
ALL	ALL	40.4%	88,346
Age	18–34 years	49.8%	42,051
	35–44 years	34.6%	16,599
	45–54 years	34.7%	15,249
	55–64 years	34.3%	14,448
Race & Ethnicity	Hispanic	43.0%	960
	Asian (Non-Hispanic)	39.9%	1,817
	Black (Non-Hispanic)	71.9%	2,307
	White (Non-Hispanic)	39.7%	81,491
Education	Less than High School	66.8%	5,318
	High School	48.3%	28,480
	Some College	45.3%	25,299
	Bachelor's or Higher	30.5%	29,249
Gender	Male	38.5%	41,727
	Female	42.4%	46,619
Employer Size	Under 10	68.9%	25,219
	10–24	53.8%	23,405
	25–99	36.6%	6,215
	100–499	27.7%	9,118
	500–999	19.8%	2,747
	1,000 +	29.0%	21,642
Earnings Quintile	$18,000 or less	74.4%	31,739
	$18,001 to $31,000	61.1%	24,795
	$31,001 to $50,000	32.9%	17,118
	$50,001 to $78,000	18.8%	8,091
	Over $78,000	16.4%	6,602

Vertmonters who are not currently covered are:

- **Lower-earning**
- **Younger**
- **Less educated**
- **More likely to be BIPOC**
- **More likely to be female**

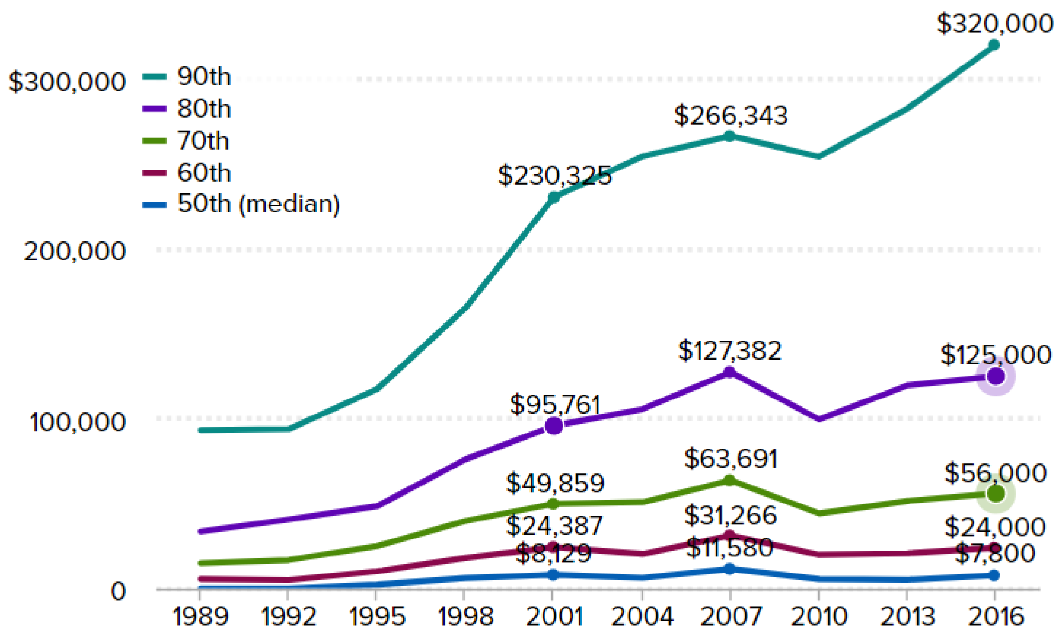
[Payroll Deduction Retirement Programs Build Economic Security: Vermont - AARP Fact Sheet]

Retirement Security is Unevenly Distributed (1/2)

Americans in historically disadvantaged groups are on average less prepared for a financially secure retirement than others.

Women are on average less prepared for a financially secure retirement than men. (“The State of American Retirement Savings,” Economic Policy Institute, Dec. 10, 2019); this is due to lower average wages and longer lifespan, among other things.

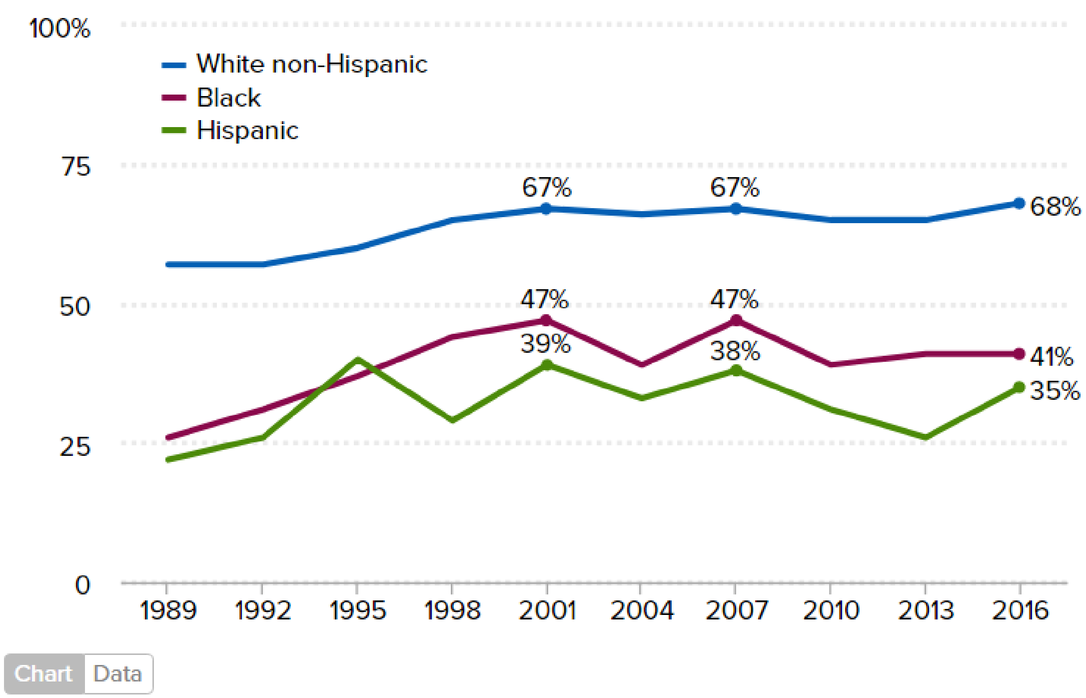
Since the Great Recession, retirement wealth distribution has grown even more unequal:



Retirement Security is Unevenly Distributed (2/2)

Black and Latinx Americans are roughly half as likely as White non-Hispanic Americans to have any retirement savings at all.

Share of families age 32–61 with retirement account savings by race, 1989–2016



Note: Retirement account savings include funds in 401(k)-style defined contribution plans and in IRAs.

Source: EPI analysis of Survey of Consumer Finance data, 2016.

Americans – and Vermonters – also lack emergency savings

On top of the retirement crisis, Vermonters – like other Americans – are not financially prepared for emergencies.

Almost 60% of Americans do not have enough saved to handle a $1,000 emergency without borrowing.

Because VTSaves would – by default – be a Roth IRA, it would function as an emergency fund as well as retirement savings. Savers may withdraw their principal at any time without penalty.

What are the Benefits of Auto-IRA Programs? (1/2)

- Substantial increases in retirement preparedness across the board
  - Projected increases in household net worth (NW) of 69% across all eligible workers

- Larger increases in readiness among historically disadvantaged Americans
  - Projected increases in household NW of 89% among Black and Latinx families.
  - For younger Black and Latinx families, increases are projected at 125%.

- Retirement Security Becomes More Evenly Distributed

- Generational/Entrenched Wealth Gaps are Reduced

Benefits of Auto-IRA Programs (2/2)

- Decreased reliance on social-safety-net programs in retirement. 2017 AARP estimate: roughly $1,000,000/year in reduced state spending if the average retiree had only $1,000/year in increased income.

- Savers may be able to delay claiming Social Security by one or more years between "early" (age 62) and "normal" (age 67) retirement. Each year of delay has the potential to increase Social Security benefits by 7-8% for life.

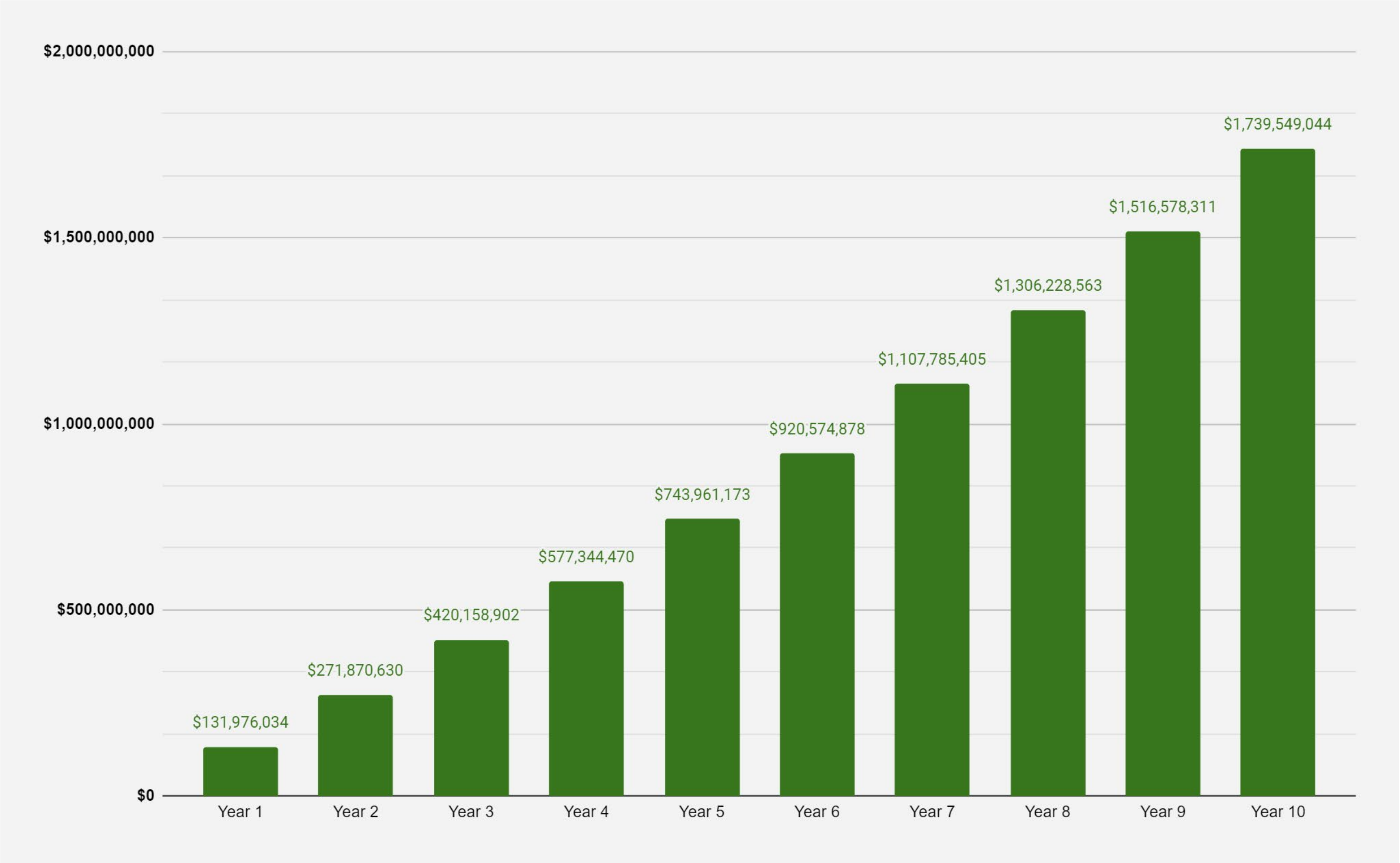
  - Pew Charitable Trusts (see link above) estimates that about half of auto-IRA participants would be able to delay claiming by at least 1 year, and about a third could delay by two or more years. The effects are most pronounced for BIPOC savers and savers with less than a high school education.

- Greater retirement security for seniors leads to greater financial freedom for their children and others who would otherwise fill the gap.

Savers are Making Meaningful Progress

- Savers in Oregon and California are setting aside an average of about $2,000 per year.
- Total assets under management in the six active states are $735 million as of Jan. 31, 2023.
- Average account balances are growing rapidly.
- Most savers accept the default deferral rate (5% in VT Bill, with 1% increase after each year of participation, to a maximum of 8%).
- Most savers use a target-date fund that automatically rebalances an appropriate mix of assets over time, based on saver's age.

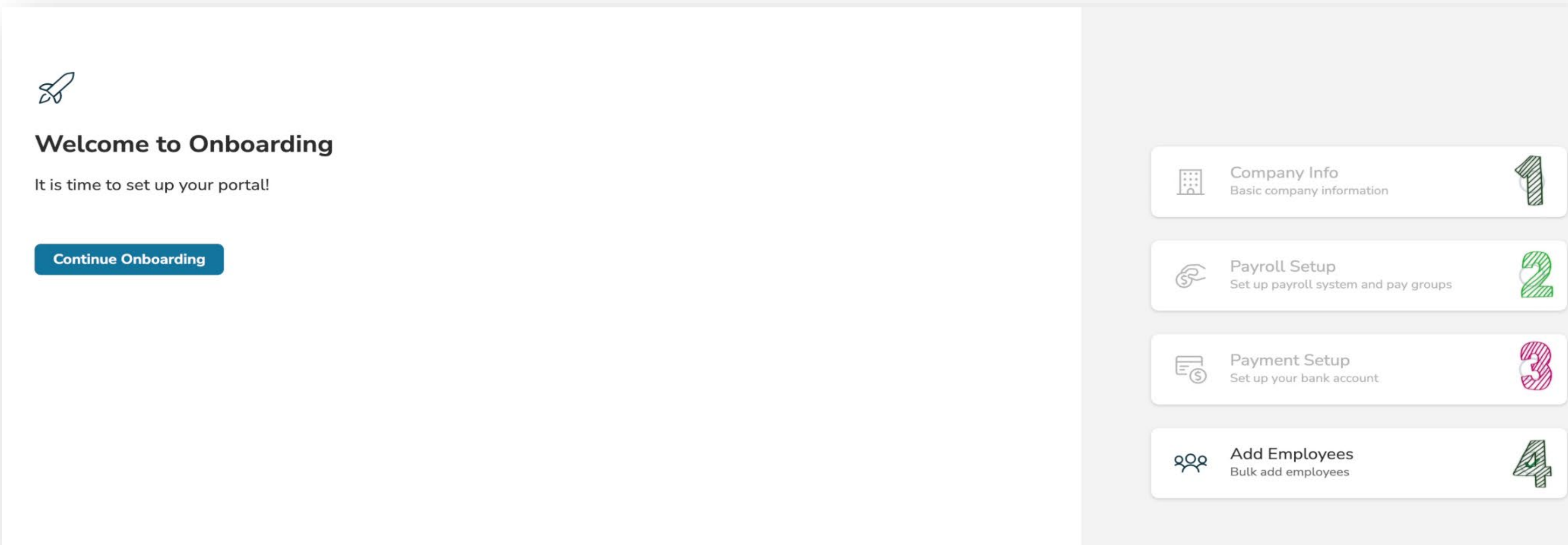
Projected VTSaves Balances – First 10 Years (approximate)



Signing up is fast and easy for employers

- Other states report that employers spend less than 15 minutes on initial sign-up, and just minutes per subsequent pay period.

- Intuitive web-based software, with automated APIs that interface with many payroll systems, including Quickbooks.



Auto-IRA is a Tested and Popular Model

(2015) Illinois
(2015) Oregon
(2016) Maryland
(2016) Connecticut
(2016) California[8]
(2019) New Jersey (as amended)
(2020) Colorado
(2021) Virginia
(2021) Maine
(2021) New York (as amended)
(2022) Hawaii
(2022) Delaware

Pew Trusts 2017 Survey

73% of workers support automatic enrollment

68% support automatic annual escalation of contributions

cri-state-brief-snapshot-22-01.pdf (georgetown.edu)

VTSaves – Key Features (1/2)

- Minimal state costs – 3 or fewer FTEs. Self-funding after start-up, advertising/outreach costs. Efficiencies of partnering with another state and a third-party administrator.

- Applies only to employers without an existing plan.

- No cost to employers. Modest management fee to employees.

- Employees have full control: can opt out and control contribution rate. 5% by default, with “escalator” to 8%.

VTSaves – Key Features (2/2)

- Simple investment line-up. Capital preservation, target-date funds.
- Phased rollout – 25+ employees by July 1, 2025, 15-24 by Jan. 1, 2026, 5-14 by July 1, 2026.
- Potential to include even smaller employers – Oregon currently rolling out to <5.
- VTSaves will make thousands more Vermonters eligible for the Savers Match under Secure 2.0.

Resources

[Oregon Saves]

[My CT Savings]

[CalSavers]

[Colorado Secure Savings]

General Resources
[Georgetown Center for Retirement Initiatives]

[AARP State Retirement Resource Center]

[Pew Charitable Trusts Retirement Savings Project]

[Brookings Institution State Retirement Resource Center]