

VT Saves

Retirement Program

(Senate Bill 135)

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*Presentation to House Committee on Ways and Means
May 4, 2023*



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

Vermonters who are not currently covered are:

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

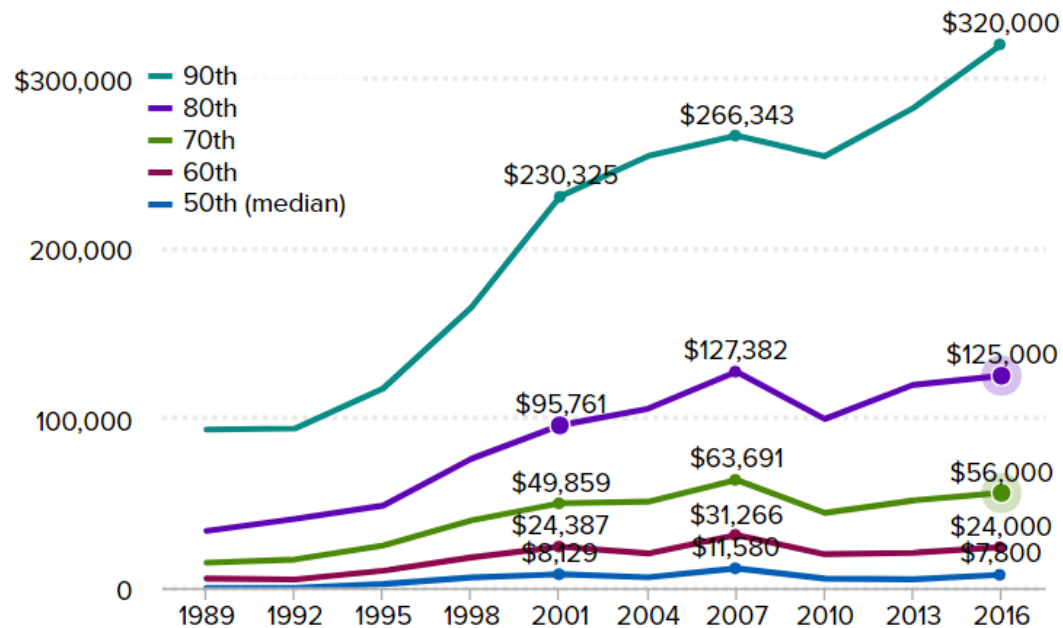
[Payroll Deduction Retirement Programs](#)
[Build Economic Security: Vermont - AARP](#)
[Fact Sheet](#)

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

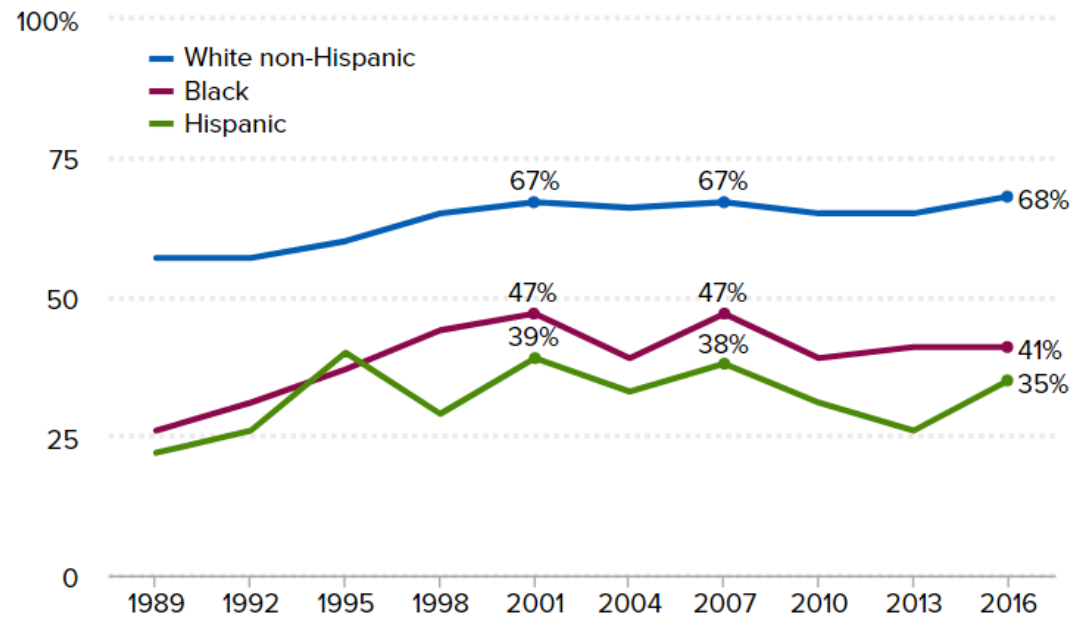


Chart Data

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**

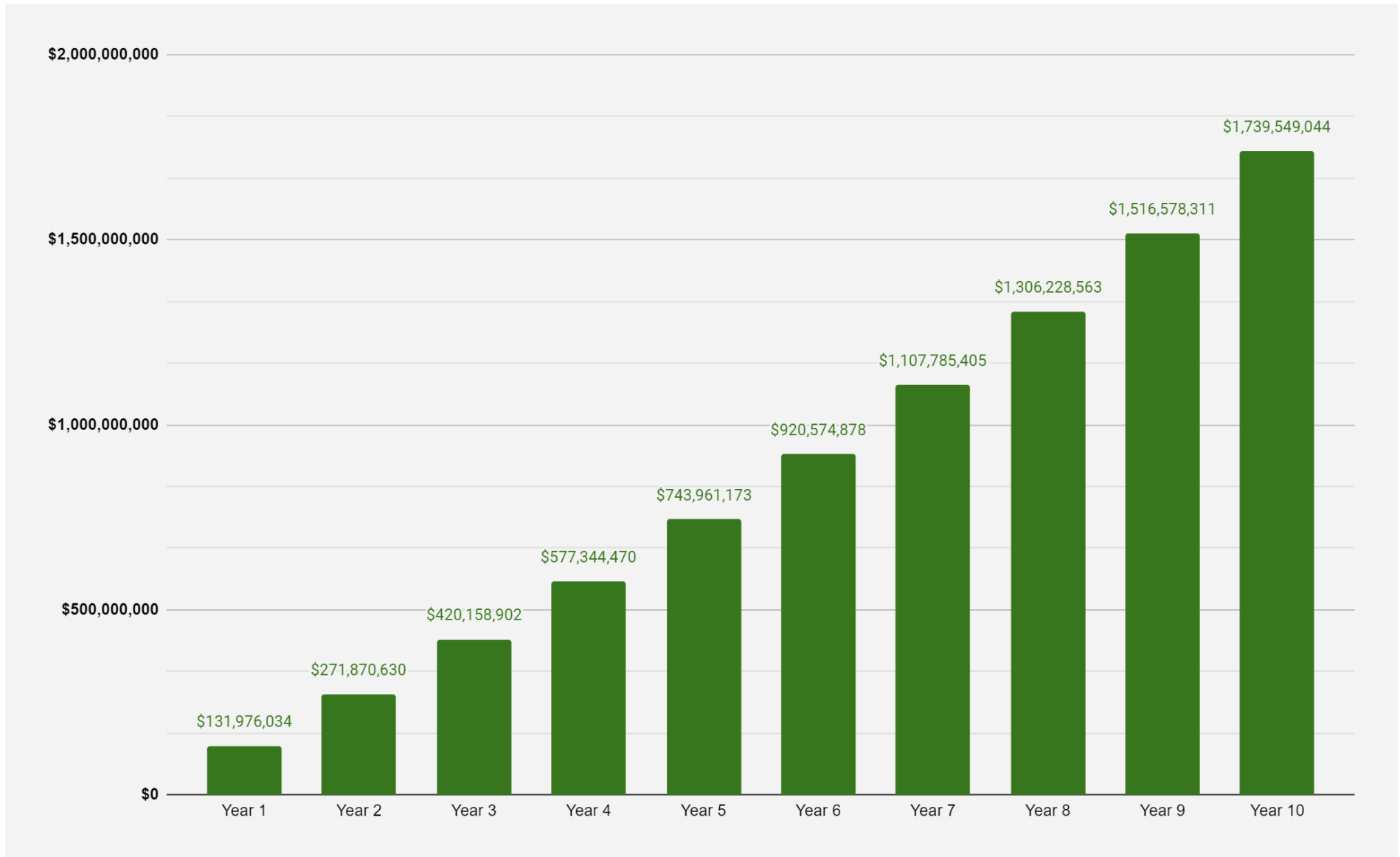
Benefits of Auto-IRA Programs (2/2)

- 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

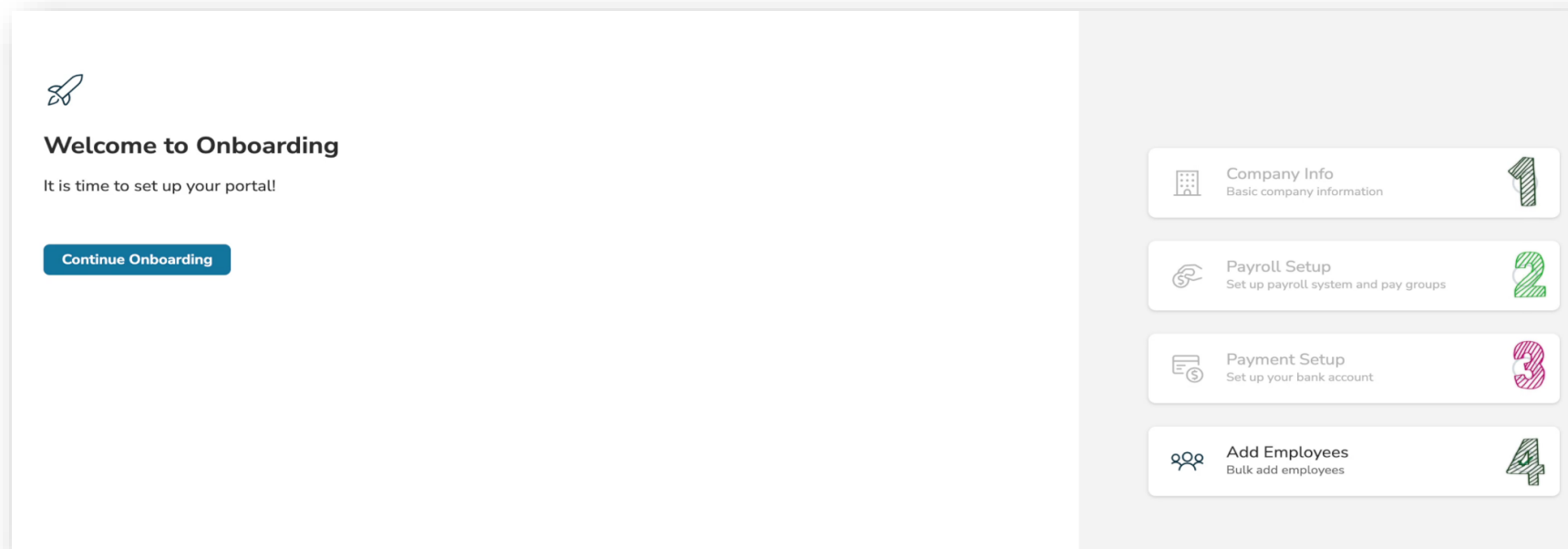
- Savers in Oregon and California are setting aside an average of about \$2,000 per year.
- Total assets under management in the six active states are \$735 million as of Jan. 31, 2023.
- Average account balances are growing rapidly.
- Most savers accept the default deferral rate (5% in VT Bill, with 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) California⁸
(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%.**

VT Saves – 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.**
- **VT Saves 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](#)