ELIZABETH A. PEARCE
STATE TREASURER

RETIREMENT DIVISION
TEL: (802) 828-2305
FAX: (802) 828-5182

UNCLAIMED PROPERTY DIVISION
TEL: (802) 828-2407

ACCOUNTING DIVISION
TEL: (802) 828-2301
FAX: (802) 828-2884

STATE OF VERMONT
OFFICE OF THE STATE TREASURER

To: General Assembly

From: Beth Pearce, State Treasurer

Date: January 8, 2016

Re: Interim Study of the Feasibility of Establishing a Public Retirement Plan Required by Section C. 108 of Act 179 of 2014 (as amended during the 2015 Legislative Session)

This report reviews findings and recommendations pursuant to Section C. 108 of Act 58 of the 2015 Legislative Session.[1] The State Treasurer, the Commissioner of the Department of Labor, the Commissioner of the Department of Disabilities, Aging & Independent Living, two appointees from the Committee on Committees, and two appointees from the Speaker of the House formed the Public Retirement Study Committee (Committee) to evaluate the feasibility of establishing a public retirement plan in Vermont.

During 2015 the Committee met on six occasions and collected resources regarding retirement security from a variety of sources including the Center for Retirement Initiatives (CRI) at McCourt School of Public Policy of Georgetown University, AARP, Vermont Main Street Alliance, Vermont Businesses for Social Responsibility (VBSR), Central Vermont Chamber of Commerce, American Council for Life Insurers (ACLI), National Institute on Retirement Security (NIRS), Vermont Bankers Association (VBA), Vermont State Employees' Association (VSEA), VSEA Retirees-Chapter, Vermont-National Education Association (VT-NEA), Assets & Opportunity Scorecard, Vermont Business owners, the U.S. Department of Labor (DOL), and other stakeholders.

For a detailed state-by-state comparison matrix of states that have enacted legislation, please see the attached Georgetown CRI matrix and presentation (linked online here: http://cri.georgetown.edu/state-briefs/).[2]

---

[1] Please note that Act 58 of 2015 amended Act 179 of 2014 so that the Committee could meet for another year. The Committee recommends to the Legislature that its works be allowed to continue for an additional two years.
[2] Georgetown University, McCourt School of Public Policy, Center for Retirement Initiatives, *Comparison of Retirement Plan Design Features, By State: California, Illinois, Massachusetts, Oregon, and Washington.* http://cri.georgetown.edu/state-briefs/

Problem Statement

The Committee reviewed data from a variety of sources[3] and found that retirement savings for members of the public in Vermont are insufficient and that serious contemplation of a solution or measures to combat the problem of retirement security need to be taken.

An AARP study found that "about 45 percent of Vermont's private sector employees—roughly 104,000—work for an employer that does not offer a retirement plan. Significant numbers of workers at all levels of earnings and education do not have the ability to use payroll deductions to save for retirement."[4]

The U.S. Department of Labor (DOL) found that nationally: "approximately 68 million US employees do not have access to a retirement savings plan through their employers."[5]

It was identified that some barriers do exist for Vermont businesses, especially small businesses, in providing retirement plans to their employees. It was noted that some small businesses often do not have the time or capacity to provide retirement plans or guidance to their employees, of which some are part-time. It was also noted to the Committee that existing plans are available to individuals who do not have access to a plan through their employment.[6] Further it was noted to the Committee that many Vermont businesses do offer plans to their employees.

The Committee noted that the increase of individuals who are retirement age and who have inadequate or no retirement plan would force states to dedicate higher percentages of their state budgets to social services. Moreover, with higher percentages of seniors with inadequate retirement savings, states will have smaller tax bases from which to draw to pay for services.[7]

The Committee reviewed a study that focused on retirement savings in Utah. That study, done by Notalys LLC, "shows that modest increases in net worth among those who save the least for retirement would greatly improve retirement readiness and reduce government expenditures on public assistance programs."[8] Further, the "research show[ed] dramatic reduction in government outlays with a minimal increase in a worker's savings: Increasing

---

[3] For full list of resources please see the resources page of this report.

[4] AARP, *FactSheet: Vermont, August 2015.* http://www.aarp.org/content/dam/aarp/ppi/2015-08/aarp-vermont-fact-sheet.pdf

[5] U.S. Department of Labor, *Fact Sheet: State Savings Programs for Non-Governmental Employees, November 16, 2015*. http://www.dol.gov/ebsa/newsroom/fsstatesavingsprogramsfornongovernmentemployees.html

[6] The American Council of Life Insurers, *State Initiatives Regarding Retirement Plans for Private Sector Workers. (attached)*

[7] GovBeat, The Washington Post, Sept. 12, 2013, *The Northeast is getting older, and it's going to cost them.* https://www.washingtonpost.com/blogs/govbeat/wp/2013/09/12/the-northeast-is-getting-older-and-its-going-to-cost-them/

[8] *AARP Utah Commissions Study on Cost of Retiring Poor in the State*, "Costs of Retiring Poor: Nearly 1 in 5 Utahns Will Reach Retirement age with More Debt than Cash and Savings." http://states.aarp.org/aarp-utah-commissions-study-on-cost-of-retiring-poor-in-the-state/

net worth among the bottom one-third of retirees by just 10 percent over the worker's career would decrease government outlays by more than $194 million over the next 15 years."[9]

The Committee agreed that reliable and adequate income in retirement is not just good for the individual, but also has a positive impact on economic development. In 2012, the National Institute on Retirement Security (NIRS) published an economic analysis study on pension benefit expenditures. The study analyzed the impact of the millions of dollars in pension checks that are spent by retirees within their local community and state. Based on fiscal year 2009 data for Vermont, researchers determined that the $206.1 million in pension benefits paid to 13,935 retirees and their beneficiaries accounted for $299.8 million in total economic output. The study calculated that pension expenditures supported some 2,459 jobs in Vermont that paid $96.2 million in income. These expenditures also supported some $61.2 million in tax revenue at the local, state and federal levels.[10]

Guiding Principles

The Committee reaffirmed a list of guiding principles drafted by the Committee last year and agreed that these principles would provide a framework analysis of a potential plan in Vermont. The principles are listed here:

a. Simplicity—a plan should be easy for participants to understand
b. Affordable—a plan should be administered to maximize cost-effectiveness and efficiency
c. Ease of Access—the plan should be easy to join
d. Trustworthy Oversight—the plan should be administered by an organization with unimpeachable credentials
e. Protection from Exploitation—the plan should protect its participants, particularly the elderly, from unscrupulous business practices or individuals
f. Portability—the plan should not depend upon employment with a specific firm or organization
g. Choice—the plan should provide sufficient investment alternatives to be suitable for individuals with distinct goals, but not to many options to induce "analysis paralysis"
h. Voluntary—the plan should not be mandatory; however, auto-enrollment may increase participation
i. Financial Education and Financial Literacy—the plan should assist the individual in understanding their financial situation

[9] *AARP Utah Commissions Study on Cost of Retiring Poor in the State*, "Costs of Retiring Poor: Nearly 1 in 5 Utahns Will Reach Retirement age with More Debt than Cash and Savings." http://states.aarp.org/aarp-utah-commissions-study-on-cost-of-retiring-poor-in-the-state/

[10] http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/retireState/newsletters/Web%20VSERS%20July%202012.pdf

j. Sufficient Savings—encourage adequate savings in retirement combined with existing pension savings and social security
k. Additive not Duplicative—the plan should not compete with existing private sector solutions
l. Able to use pre-tax dollars

Legislative Recommendations

1. The Committee recommends that Act 58, Section C. 108 of the 2015 Legislative Session be amended to extend the work of the Committee for the next two years and extend the current sunset date of the Committee to January 15, 2018.

2. The Committee recommends that Act 58, Section C. 108 of the 2015 Legislative Session be amended to allow the Committee to meet an unlimited number of times each year to enable proper study concerning feasibility of a potential plan.[11]

3. The Committee expects to deliver recommendations to the General Assembly by January 15, 2017 and subsequently continue to function as a Committee until January 15, 2018 to act on recommendations. To that end, the Committee recommends that Act 58, Section C. 108 of the 2015 Legislative Session be amended to allow for the Committee to submit a report on January 15, 2017.[12]

Further Work of the Committee

The Committee discussed that it would be important to continue to monitor U.S. Department of Labor (DOL) guidance concerning State Savings Programs for Non-Governmental Employees regarding ERISA rules and other pertinent areas of analysis. The Committee noted that it would need to further analyze the relationship between the role of states and the federal government. The Committee and members of the public that participated in this effort noted that understanding the full implications of federal rules is essential in moving forward.

The Treasurer's Office will continue to work with the Georgetown University, McCourt School of Public Policy, Center for Retirement Initiatives and other national stakeholders.

The Committee also noted that it would continue to closely look at those states that are actively working to deliver on enacted plan models and seek conference and information from those states.

The Committee and the Treasurer's Office looks forward to continuing the work that it started and recommends that the Legislature reauthorize its ability to convene as a Committee for two years.

---

[11] Act 179 of 2014 and Act 58 of 2015 both limited the Committee to meeting six times during the year.
[12] [A two-part process where the next report is issued in 2017 and the Committee continues to function until January of 2018 to act on recommendations].

The State Treasurer would like to thank the efforts of the members of the Public Retirement Study Committee for their work:

• Monica Hutt, Commissioner, Vermont Department of Disabilities, Aging and Independent Living
• Annie Noonan, Commissioner, Vermont Department of Labor
• Dan Boardman, Owner, Hickok & Boardman Retirement Solutions—Appointed by the Speaker
• Russ Bennett, founder and owner of NorthLand Visual Design & Construction Inc.—Appointed by the Speaker
• Rebecca Towne, Vermont Gas—Appointed by the Committee on Committees
• Bob Hooper, Trustee and Board Member at Vermont Pension Investment Committee—Appointed by the Committee on Committees

cc: Shap Smith, Speaker of the House of Representatives
John Campbell, Senate President Pro Tempore
Steve Klein, Legislative Joint Fiscal Office

Resources

National Institute on Retirement Security, *Financial Security for Future Retirees: Vermont Scores 5 out of 10*. http://www.nirsonline.org/storage/nirs/documents/Factsheets/VT_FSS.pdf *(attached)*

AARP, *FactSheet: Vermont, August 2015.* http://www.aarp.org/content/dam/aarp/ppi/2015-08/aarp-vermont-fact-sheet.pdf *(attached)*

Georgetown University, McCourt School of Public Policy, Center for Retirement Initiatives, *Comparison of Retirement Plan Design Features, By State: California, Illinois, Massachusetts, Oregon, and Washington.* http://cri.georgetown.edu/state-briefs/ *(attached)*

Georgetown University, McCourt School of Public Policy, Center for Retirement Initiatives, *2015 Implementation States.* http://cri.georgetown.edu/states/all-states/ (*available online)*

The American Council of Life Insurers, *State Initiatives Regarding Retirement Plans for Private Sector Workers. (attached)*

Assets & Opportunity Scorecard, *State Profile: Vermont.* http://scorecard.assetsandopportunity.org/latest/report/state-profile (*available online)*

U.S. Department of Labor, *Fact Sheet: State Savings Programs for Non-Governmental Employees, November 16, 2015.* http://www.dol.gov/ebsa/newsroom/fsstatesavingsprogramsfornongovernmentemployees.html *(attached)*

Georgetown University, McCourt School of Public Policy, Center for Retirement Initiatives, State Level Data and Rankings: http://cri.georgetown.edu/states/state-level-data-rankings/ *(online resource)*

Information concerning U.S. Department of Labor Rules:

- http://cri.georgetown.edu/news/dol-releases-regulation-and-guidance-for-state-administered-retirement-plans/ *(available online)*
- http://www.dol.gov/ebsa/newsroom/fsstatesavingsprogramsfornongovernmentemployees.html *(attached)*
- https://www.gpo.gov/fdsys/pkg/FR-2015-11-18/html/2015-29427.htm *(available online)*
- https://www.gpo.gov/fdsys/pkg/FR-2015-11-18/html/2015-29426.htm *(available online)*

GEORGETOWN UNIVERSITY
McCourt School of Public Policy
Center for Retirement Initiatives

Comparison of Retirement Plan Design Features, By State:
California, Illinois, Massachusetts, Oregon, and Washington

September 30, 2015
(rev. 11/11/15)

	California Secure Choice Retirement Savings Program	Illinois Secure Choice Savings Program	Oregon Retirement Savings Program	Massachusetts Retirement Plan for Non-Profits	Washington Small Business Retirement Marketplace
Bill Sponsor	Sen. Kevin de León	Sen. Daniel Biss	Rep. Tobias Read, Rep. Jennifer Williamson and Sen. Lee Beyer	Rep. Garrett Bredley	Sen. Mark Mullet and Sen. Don Benton
Bill Number	SB 1234	SB 2758	HB 2960	H 3754	SB 5826
Bill Status	Enacted September 28, 2012	Enacted January 5, 2015	Enacted June 25, 2015	Enacted March 22, 2012	Enacted May 18, 2015
ERISA Applicability	To Be Determined	To Be Determined	To Be Determined	Yes	Marketplace plans can include ERISA plans and normal ERISA requirements apply to participating employers.
Ruling on ERISA Needed Prior to Implementation	Yes	No, but the Board must submit a written request to the U.S. Department of Labor about the applicability of ERISA.	No, but the Board must obtain legal advice on the applicability of ERISA.	Not Applicable	Not Applicable
Implement if ERISA Applies	No. The Board shall not implement the program if it is determined that the program is an employee benefit plan under the federal Employee Retirement Income Security Act (ERISA).	No. The Board shall not implement the program if it is determined that the program is an employee benefit plan under the federal Employee Retirement Income Security Act (ERISA).	No. The Board shall not establish the plan if it determines that the plan would qualify as an employee benefit plan under the federal Employee Retirement Income Security Act (ERISA) and/or applies to employers.	Yes	ERISA cannot apply to the state for operating the marketplace, but ERISA covered plans are allowed in the marketplace.
Market, Feasibility and/or Legal Analysis Required	Yes. Analyses to determine the necessary conditions for implementation including likely participation rates, contribution levels, and participants' comfort with investment vehicles and risks and if the plan will be self-sustaining. Funding must be provided by nonprofit or private entities or federal funding.	Not required by law; however, Illinois is conducting a market analysis as a part of its pre-implementation planning.	Yes. Analyses are required to determine the feasibility of the plan and to what extent similar plans exist in the market; to obtain legal advice regarding the applicability of ERISA to plan design; and to study aspects of employer and employee participation in the program. Funding available through appropriations to the Board.	No	No

	California Secure Choice Retirement Savings Program	Illinois Secure Choice Savings Program	Oregon Retirement Savings Program	Massachusetts Retirement Plan for Non-Profits	Washington Small Business Retirement Marketplace
Administrative Entity	Board – The California Secure Choice Retirement Investment Board. Board with nine (9) members: Treasurer (serving as chair); Director of Finance; the Controller; an individual with retirement savings and investment expertise appointed by Senate Committee on Rules; an employee representative appointed by Speaker of the Assembly; a small business representative appointed by Governor; and three additional members appointed by the Governor. The Board is in place and meeting monthly.	Board- The Illinois Secure Choice Savings Board. Board with seven (7) members: Treasurer (serving as chair); State Comptroller; Director of the Governor's Office of Management and Budget; two public representatives with expertise in retirement savings plan administration or investment appointed by Governor; a representative of participating employers appointed by Governor; a representative of enrollees appointed by Governor. The Board is appointed and has begun to meet.	Board –Oregon Retirement Savings Board with seven (7) members: Treasurer (serving as chair). The Governor shall appoint: a representative of employers; a representative with experience in the field of investments; a representative of an association representing employees; and a public member who is retired. A member of the Senate appointed by the President of the Senate; a member of the House of Representatives appointed by the Speaker of the House. The Board has been appointed and its first meeting is scheduled for early November 2015.	Agency- Office of the State Treasurer. There shall be in the Office of the State Treasurer a not-for-profit defined contribution committee. The committee shall consist of the Treasurer or a designee, who shall serve as chairperson, and additional members appointed by the Treasurer, two of whom shall have practical experience in the non-profit community and two of whom shall be currently employed by not-for profit corporations.	Agency- State Department of Commerce. The Director shall consult with the Washington State Department of Retirement Systems, the Washington State Investment Board, the Office of the Insurance Commissioner and the Department of Financial Institutions in designing and managing the marketplace. The Director will contract with a private entity to establish protocols for reviewing financial services firms interested in selling products and operating the marketplace website.
Administrators Compensated	No	No	Yes	Not applicable other than would apply to state employees.	Not applicable other than would apply to state employees.
Employers Affected	5 or more employees	25 or more employees	Employers that do not currently offer plans	Non-profits only with 20 or fewer employees	Fewer than 100 employees
Employer Participation	Mandatory. Employers retain the option at all times to set up any type of employer sponsored plan instead of the state arrangement.	Mandatory, with 2 year delay for new businesses. Employers retain the option of providing a plan available on the open market.	Mandatory. Employers can establish alternative retirement plans for some or all of its employees.	Voluntary	Voluntary
Penalties for Employer Non-Compliance	Yes. To be determined.	Yes - $250 per eligible employee to start.	Not Specified	Not Applicable	Not Applicable

	California Secure Choice Retirement Savings Program	Illinois Secure Choice Savings Program	Oregon Retirement Savings Program	Massachusetts Retirement Plan for Non-Profits	Washington Small Business Retirement Marketplace
Structure of Accounts	Traditional IRA	Roth IRA	Defined Contribution Plan (IRA is intent)	Defined contribution 401(k) plan	SIMPLE IRA; myRA (Roth IRA); payroll deduction IRA and others can be added. Must also offer "life insurance plans designed for retirement purposes."
Automatic Enrollment	Yes	Yes	Yes	Yes	Business owners may auto enroll as IRS rules allow - no state requirement.
Employee Opt-Out	Yes	Yes	Yes	Yes	Participation is voluntary for employees.
Employee Re-Enrollment after Opt-Out	Yes, but only during designated open re-enrollment period.	Yes, but only during designated open re-enrollment period.	Not Specified	Not Available	Not Specified
Default Contribution Rate	3% (with administrative discretion in the range of 2% to 4%).	3%	To be set by the Board	6% or can choose 4% with auto-escalation up to 10%	Not Specified
Employer Contribution	Permitted unless ERISA applies.	Not permitted	Not permitted	Permitted	Permitted (encouraged by the inclusion of ERISA covered plans in the marketplace).
Availability to Other Employers	Yes. Employees of nonparticipating employers and the self-employed may be allowed to contribute.	Yes. Other employers with fewer than 25 employees may be allowed participate.	Will be determined by market analysis.	No	Yes. The self-employed and sole proprietors are eligible to participate in the marketplace.
Tax & Other Incentives	Yes. Disseminate information about tax credits available to small businesses for establishing retirement plans. Also, encourage the use of federal Saver's Tax Credit available to low and moderate income households to encourage retirement savings.	Not specified	Board can examine ways to reduce costs through incentives, tax credits or other means.	Not Available	Yes. Can identify and promote existing federal or state tax credits and other benefits to encourage retirement savings or participation in retirement plans.

	California Secure Choice Retirement Savings Program	Illinois Secure Choice Savings Program	Oregon Retirement Savings Program	Massachusetts Retirement Plan for Non-Profits	Washington Small Business Retirement Marketplace
Investment of Assets	Asset categories for the investment of funds includes: equities; US and corporate debt obligations; securities; money market funds; mutual funds; insurance agreements; and FDIC-insured bank products. Equities cannot exceed 50 percent of overall asset allocation of the fund.	Investment options for enrollees to include: default life-cycle target date fund and any or all of the following: a conservative principal protection fund; a growth fund; a secure return fund; and an annuity fund.	Not specified	13 custom target date funds; 4 objective base funds: growth fund; income fund; capital preservation fund; and an inflation protection fund.	Firms participating must offer a minimum of two product options: a target date fund or similar fund and a balanced fund.
Investment Management	The California Secure Choice Retirement Savings Trust's Program Fund is to be invested as determined by the Board as its Trustee. The Board will engage outside investment firm(s). The Fund must be self-sustaining. Collective, common and pooled investment of assets. The Board may establish a "Gain and Loss" Reserve Account to allocate interest, at the stated interest rate, as needed. There must be a mechanism in place to protect the value of individuals' accounts and holds the state harmless again any liability. The Board must establish effective risk management and oversight programs.	The Illinois Secure Choice Program Fund is established with the Board as its Trustee and moneys in the fund from enrollees and participating employers will be held as pooled investments to achieve cost savings through efficiencies and economies of scale. The Board will engage outside investment firms, as needed. The Fund will maintain individual accounts for enrollees. The Fund is the not the property of the State and cannot be comingled with State funds. The Board also must establish effective risk management and oversight programs.	Pooled accounts established under the plan for investment; accounts will be professionally managed. Plan must maintain separate records and accounting for each plan account. May not guarantee any rate of return or interest rate on any contribution.	Not Available	Not Specified

	California Secure Choice Retirement Savings Program	Illinois Secure Choice Savings Program	Oregon Retirement Savings Program	Massachusetts Retirement Plan for Non-Profits	Washington Small Business Retirement Marketplace
Fees	No more than 1%.	No more than .75%	Must keep administrative fees low.	Custom Target Date Funds: 22-86 bps Growth: 60 bps Income: 40 bps Capital Preservation: 40 bps Inflation Protected: 86 bps	No more than 1%
Program Funding	The California Retirement Savings Trust includes an Administrative Fund and a Program Fund and the Trust must becoming self-sustaining. Moneys from the Program Fund are transferred to the Administrative Fund to cover the operating costs of the program. The State can accept any grants, gifts, legislative appropriation, and other moneys from the state, any unit of the federal, state or local government or any other person, firm, partnership or corporation for deposit to the program or administrative fund.	The Illinois Secure Choice Administrative Fund is created as a non-appropriated separate and apart trust fund in the State Treasury. The Administrative Fund is to be used by the Board to pay for administrative expenses it incurs. The Administrative Fund may receive any grants or other moneys designated for administrative purposes from the State, or any unit of federal or local government, or any other person, firm, partnership, or corporation.	The Oregon Retirement Administrative Savings Plan Fund must be self-sustaining and is established from funds to be continuously appropriated to the Board. It is separate and distinct from the General Fund. The Plan Fund consists of money appropriated by the Legislative Assembly; moneys transferred from the federal government, other state agencies or local governments; moneys from payment of fees; any gifts or donations; and earning on moneys in the fund. The Legislature appropriated $250,000, which may be used only for reimbursing other state agencies for providing outreach or technical assistance services; and $743,541, which may be used only for the operating expenses of the Board. The appropriation is a General Fund loan.	Not Available	The Legislature appropriated $524,000 for the Department of Commerce for the two year budget cycle beginning July 1, 2015. In addition to any appropriated funds, the Director may use private funding sources, including private foundation grants, to pay for marketplace expenses. On behalf of the marketplace, the Department shall seek federal and private grants and is authorized to accept any funds awarded to the department for use in the marketplace.

	California Secure Choice Retirement Savings Program	Illinois Secure Choice Savings Program	Oregon Retirement Savings Program	Massachusetts Retirement Plan for Non-Profits	Washington Small Business Retirement Marketplace
Establish Website	Yes. The creation of a Retirement Investments Clearinghouse, but only if there is sufficient interest in a site by private sector providers and if the private sector provides the funds to build and maintain the site. The website would contain information on the vendor registration process, retirement plans, and statements from participating vendors. Vendors must offer an appropriate array of accumulation funding options, including, but not limited to, investment options that offer guaranteed returns and the conversion of retirement savings account balances to secure retirement income, a diversified mix of value, growth, growth and income, hybrid and index funds or accounts across large, medium and small capitalization asset classes.	Yes. There must be sufficient interest in a site by private sector providers and if the private sector provides the funds to build and maintain the site.	Not Specified	Yes. Retirement Income Control Panel – web based tool to allow participants to view hypothetical projections of retirement income based on assumptions on account balances, savings and rate of return.	Yes. Marketplace website would include information on how eligible employers can participate in the program.
Implementation Timeline	The Board must complete the market and legal analyses and report to the Legislature for authorization before it can launch its program. Current plan is to complete the analyses by year end 2015 and go back to the Legislature in 2016.	Enrollment of participants must be possible within 24 months after the effective date of the Act (by June 1, 2017). Employers then have 9 months after that date to set up their automatic payroll deposits for their employees. If the Board does not have adequate funds to implement the program within the specified timeframe, the Board may delay implementation.	By December 31, 2016, the Board must provide a report to the Legislative Assembly including, but not limited to, the market analysis, ways to increase financial literacy, analysis of cost to employers, and a timeline for program implementation so individuals may begin making contributions no later than July 1, 2017.	Not Available	Rules to implement the program must be presented by January 1st of the year to be adopted and cannot be adopted until the end of the legislative session that year.

THIS PAGE IS INTENTIONALLY LEFT BLANK

Fact Sheet: Vermont

Workplace Retirement Plans Will Help Workers Build Economic Security

David John and Gary Koenig
AARP Public Policy Institute

Access to an employer-based retirement plan is critical for building financial security later in life. Yet, about 45 percent of Vermont 's private sector employees—roughly 104,000—work for an employer that does not offer a retirement plan. Significant numbers of workers at all levels of earnings and education do not have the ability to use payroll deductions to save for retirement.

Currently in Vermont , workers of larger employers are more likely to have a retirement plan than workers of smaller employers. The probability of having a workplace retirement plan also differs considerably by workers' earnings level, education, and race and ethnicity. The lack of ability to participate in an employer-provided retirement plan, however, spans all levels of education and earnings, and cuts across all groups.

Vermont's Situation by the Numbers

About 45 percent of Vermont workers ages 18 to 64 in the private sector work for businesses that do not offer a retirement plan.

- **Small-business employees are less likely to have a plan:** Workers in Vermont businesses with fewer than 100 employees are much less likely to have access to a plan (61 percent) than workers in larger businesses (29 percent). In raw numbers, about 69,000 small-business employees do not have access to a retirement plan compared with about 35,000 in businesses with 100 or more workers.
- **Workers at all education levels do not have a plan:** About 63 percent of workers who did not have a high school degree did not have an employer-provided retirement plan—a much higher percentage than workers with some college (44 percent) or a bachelor's degree or higher (38 percent). But in raw numbers, workers with at least some college who did not have access to an employer plan exceeded those workers without a high school degree who did not have access to an employer plan (57,000 versus 9,000).
- **Workers at all earnings levels do not have a plan:** More than 79,000 of Vermont employees with annual earnings of $40,000 or less did not have access to a workplace plan. These workers represent about 76 percent of the 104,000 employees without an employer-provided retirement plan.
- **Access to a plan differs substantially by race and ethnicity:** About 56 percent of Hispanic workers and about 51 percent of African Americans lacked access to an employer-provided retirement plan. Minorities accounted for about 7 percent (7,000) of the roughly 104,000 employees without a workplace retirement plan.

Why Access to Payroll Deduction Retirement Savings Plans Is Important

- **Makes saving easier:** About 90 percent of households participating in a workplace retirement plan today report that payroll deductions are very important and make it easier to save.[1] Saving at work appears to be critical: Few households eligible to contribute to an Individual Retirement Account outside of their jobs regularly do so.[2]
- **Helps increase retirement income:** Social Security is essential to retirement security, but its

AARP Real Possibilities
Public Policy Institute

average retirement benefit is only $1,300 a month. Most retirees will need additional resources. Providing workers with a convenient way to save is an important step to increase the amount of assets a person will have at retirement: A 2014 Employee Benefit Research Institute study found that about 62 percent of employees with access to a retirement plan had more than $25,000 in total savings and investments, and 22 percent had $100,000 or more. However, only 6 percent of those without access to such a plan had over $25,000 saved, and only 3 percent had $100,000 or more.[3]

- **Allows individuals to build their own economic security:** Retirement savings plans help workers achieve economic security through their own efforts. Greater access could also help improve economic mobility and reduce wealth disparity.

Vermont: Who is NOT Covered by a Workplace Retirement Plan?
(percentage and number of private wage and salary workers ages 18–64 whose employer does not offer a retirement plan)

Item	Group	%	Number
ALL	ALL	44.5%	104,408
Age	18–34 years	55.0%	48,419
	35–44 years	38.5%	19,347
	45–54 years	36.7%	18,382
	55–64 years	39.4%	18,260
Race & Ethnicity*	Hispanic	56.2%	1,831
	Asian (non-Hispanic)	45.9%	2,107
	Black (non-Hispanic)	51.0%	1,410
	White (non-Hispanic)	44.0%	96,929
Education	Less than high school	63.0%	8,844
	High school	50.2%	38,984
	Some college	44.2%	29,627
	Bachelor's or higher	37.5%	26,953
Gender	Male	43.6%	51,398
	Female	45.3%	53,010
Employer Size	Under 10	77.7%	30,394
	10–49	59.5%	29,255
	50–99	39.0%	9,770
	100–499	33.3%	12,791
	500–999	29.1%	4,540
	1,000+	26.2%	17,657
Earnings Quintile	$14,000 or less	70.7%	30,999
	$14,001 to $25,000	57.4%	27,167
	$25,001 to $40,000	40.9%	21,583
	$40,001 to $63,500	32.5%	17,375
	Over $63,500	19.5%	7,284

Source: U.S. Census Bureau's Current Population Survey, March Supplements 2012–2014.

Note: The results are based on three-year averages from 2011–2013. The sample includes workers whose longest-held job was in the private sector. Earnings quintiles are based on all wages and salary earned by U.S. workers, whether or not they were covered by a retirement plan.

** Other non-Hispanic category is not shown, so sum of race & ethnicity categories may not sum to total*

1 Jack VanDerhei, "The Impact of Modifying the Exclusion of Employee Contributions for Retirement Savings Plans from Taxable Income: Results from the 2011 Retirement Confidence Survey," Employee Benefit Research Institute (EBRI) Notes, March 2011. Available at http://www.ebri.org/pdf/notespdf/EBRI_Notes_03_Mar-11.K-Taxes_Acct- HP.pdf.

2 For workers earning between $30,000 and $50,000, about 72 percent participated in an employer-provided retirement savings plan when one was available, compared with less than 5 percent without an employer plan who contributed to an Individual Retirement Account. Unpublished estimates from EBRI of the 2004 Survey of Income and Program Participation Wave 7 Topical Module (2006 data).

3 2014 RCS Fact Sheet #6," EBRI. Available at http://ebri.org/pdf/surveys/rcs/2014/RCS14.FS-6.Prep-Ret.Final.pdf.

State Fact Sheet, August 2015

601 E Street, NW
Washington DC 20049

Follow us on Twitter @AARPpolicy
on facebook.com/AARPpolicy
www.aarp.org/ppi

For more reports from the Public Policy Institute, visit http://www.aarp.org/ppi/.

AARP Real Possibilities
Public Policy Institute

State Initiatives Regarding Retirement Plans for Private Sector Workers

The American Council of Life Insurers (ACLI) is fully committed to state and national efforts that encourage additional private retirement plan coverage and individual savings. There are many initiatives a state can undertake to do so without imposing an employer mandate, undermining existing plans or entering into unfair competition with the existing marketplace of retirement plan products and services. For instance:

ACLI supports state initiatives to promote retirement savings by private sector workers through education, incentives and collaboration with the private sector (Oregon considered a "State of Savers" program with these elements earlier this year). *Examples of these initiatives include*:

• Public awareness campaigns, financial literacy education, access to online resources and partnerships with existing non-profit and government efforts.

• Financial incentives designed to spur employer plan adoption and individual savings, including plan start-up credits and low-income tax credits or grants.

• Voluntary public/private partnerships that engage both financial services providers and employers.

ACLI also supports state-sponsored clearinghouses or marketplaces of private sector retirement plan providers with the characteristics noted below (Washington state has passed such a program and legislation to establish a similar program has been introduced in New Jersey):

• The state-based initiative is completely voluntary for the employer and the worker.

• The program is designed to reach underserved segments of the workforce, including small employers, part-time, seasonal and low-to-moderate income workers.

• The program preserves and promotes the continued offering of retirement plans by licensed financial services providers.

• Licensed agents and brokers maintain their roles in marketing, placing and supporting the retirement plans.

• The plans that are available to employers may include:

- ✓ Voluntary payroll deduction IRAs with no employer endorsement, no auto-enrollment, no default investments (an ERISA "Safe Harbor" Plan);
- ✓ The federal myRA retirement savings program (not subject to ERISA);
- ✓ A tax qualified "SIMPLE Plan" (subject to streamlined ERISA rules);
- ✓ A payroll deduction IRA arrangement with auto-enrollment features (subject to ERISA);
- ✓ A 403b, 401k, or MEP, with or without auto-enrollment features (subject to ERISA).

Note on Recent United States Department of Labor Draft Guidance

Recent draft guidance from the U.S. DOL may encourage states to go beyond these initiatives and propose a state-run retirement plan for private workers. Although the draft guidance purports to clear the way for these plans, the DOL makes clear that states will need to take on additional costs and responsibilities and that these plans could be challenged in federal court. In addition, by exempting states from worker protections that apply to private plans, the draft guidance creates an un-level playing field and the potential for unfair competition.

Fact Sheet

U.S. Department of Labor
Employee Benefits Security Administration
November 16, 2015

State Savings Programs for Non-Government Employees

At the 2015 White House Conference on Aging, the President directed the Department of Labor to publish guidance to support the efforts of a growing number of states trying to promote broader access to workplace retirement saving opportunities for America's middle class workers. The Employee Benefits Security Administration (EBSA) today published in the Federal Register a proposed regulation describing a safe-harbor for state laws that require employers to facilitate enrollment in state-administered payroll deduction individual retirement accounts (IRAs). Under the terms of the safe harbor, state programs that mandate auto-enrollment in IRAs in accordance with the safe-harbor would not be treated as ERISA-covered plans. EBSA also released an Interpretive Bulletin regarding certain state laws designed to expand the retirement savings options available to their private sector workers through ERISA-covered retirement plans.

I. Background

Approximately 68 million US employees do not have access to a retirement savings plan through their employers. For older Americans, inadequate retirement savings can mean sacrificing or skimping on food, housing, health care, transportation, and other necessities, and places stress on social welfare programs as a source of income and economic security for older Americans. To address this problem, some states have adopted or are considering retirement savings programs for their private sector workers. Some have passed laws that would require employers not offering workplace plans to automatically enroll employees in payroll deduction IRAs administered by the states, which are also called "auto-IRA" laws. Other states are considering alternatives in which the states sponsor or facilitate plans covered by ERISA, such as state marketplaces, prototype plans, and multiple employer plans. A serious impediment to wider adoption of such state measures is uncertainty about the effect of ERISA's broad preemption of state laws that "relate to" private sector employee benefit plans and its prohibition on requiring employers to offer ERISA plans.

II. Proposed Regulation

The proposed regulation describes circumstances under which a state-required payroll deduction savings IRA program would not give rise to an employee pension benefit plan under ERISA and, therefore, should not be preempted by ERISA.

State Law and Role of the State -- The principal conditions of the proposed safe harbor focus on the role of the state. The state program must be established and administered by a state pursuant to state law. The state must be responsible for investing the employee savings or for selecting investment alternatives from which employees may choose. The state must be responsible for the security of payroll deductions and employee savings. The state also must adopt measures to ensure that employees are notified of their rights under the program, and create a mechanism for enforcement of those rights. The state may administer its program or contract with private-sector providers to administer the state program.

Additional Conditions -- Other conditions of the proposed safe harbor focus on the role and rights of employees. For example, participation in the program must be voluntary for employees. Thus, if the program requires automatic enrollment, employees must be given appropriate notice and have the right to opt out. Moreover, since employees own their IRAs, they must have the ability to withdraw their money under normal IRA rules without any other cost or penalties.

Limited Role of Employer -- Under the proposal, the employer's activities must be limited to ministerial activities such as collecting payroll deductions and remitting them to the program; providing program information to employees; maintaining records of payroll deductions and remittance of payments; and providing information to the state necessary to the operation of the program. The employer may have no discretionary authority or control over the employees' IRAs or the operation of the IRA program. Employers cannot contribute employer funds to the IRAs.

Public Notice and Comment -- The proposed regulation has a 60-day comment period. Comments can be submitted electronically by email to e-ORI@dol.gov or by using the Federal eRulemaking portal at www.regulations.gov. All comments will be available to the public, without charge, online at www.regulations.gov and www.dol.gov/ebsa, and at the EBSA Public Disclosure Room.

III. Interpretive Bulletin

Today the Department also issued an Interpretive Bulletin to assist states interested in helping employers establish ERISA-covered plans for their employees. Under one approach, the state would establish a marketplace to connect eligible employers with retirement plans available in the private sector market. The marketplace would not itself be an ERISA-covered plan, and the arrangements available to employers through the marketplace could include ERISA-covered plans and other non-ERISA savings arrangements. Under another approach, the state would make available a "prototype plan" that individual employers could adopt. Each employer that adopts the prototype would sponsor an ERISA plan for its employees, and the state or a designated third-party could assume responsibility for most administrative and asset management functions of an employer's prototype plan. Under a third approach, a state would establish a "multiple-employer plan" or MEP that eligible employers could join rather than establishing their own separate plan. The MEP would be run by the state or a designated third-party.

Because ERISA broadly preempts most state laws that relate to employee benefit plans covered by the Act, some states may have been deterred from enacting measures to facilitate the establishment of such plans because of legal uncertainty about their status. The Department is issuing an interpretive bulletin explaining its view that the state law approaches described above should not be preempted by ERISA.

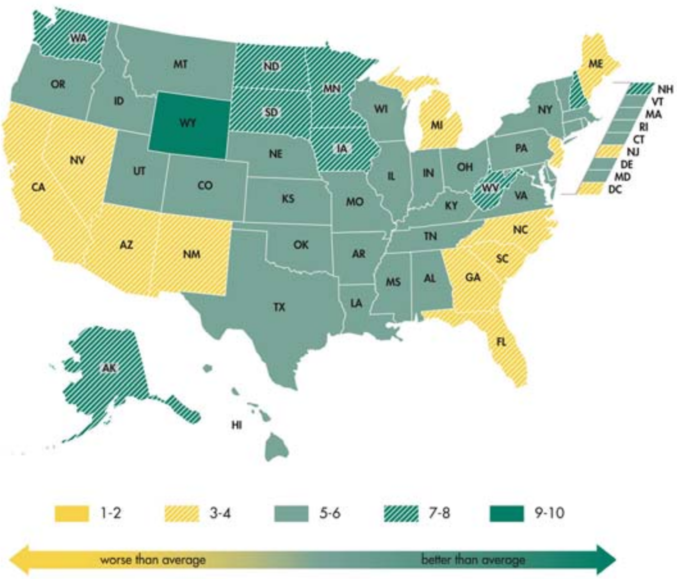
1. *Preemption*. The interpretive bulletin makes clear the Department's view that ERISA preemption principles leave room for states to encourage greater access to ERISA-based retirement savings options, as long as employers participate voluntarily and ERISA's requirements, liability provisions, and remedies fully apply to plans established through the state programs. Such state actions do not undermine the primacy of federal regulation with respect to covered employee benefit plans. They do not require employers to adopt or participate in ERISA plans, or mandate any particular benefit structure. Instead, they merely give employers an additional option for providing benefits to their employees in a way that is fully subject to ERISA's regulations, obligations, and remedies.

2. *Multiple Employer Plans*. The interpretive bulletin also makes clear that a state is able to sponsor and administer a multiple employer plan for the state's private sector employers ("state MEP"). The interpretive bulletin explains that, unlike financial institutions that sell retirement plan products to employers, a state can indirectly act in the interest of the employers and sponsor a MEP under ERISA because the state is tied to the contributing employers and their employees by a special representational interest in the health and welfare of its citizens. The state is standing in the shoes of the employers in sponsoring the plan.

3. *Scope*. The interpretive bulletin sets forth the Department's views of sections 3(2), 3(5), and 514 of ERISA as applied only to the three approaches described therein. The interpretive bulletin does not deal with state payroll deduction savings IRA programs that would be covered by the proposed regulatory safe harbor discussed in Section II above. States would have the option of requiring IRA programs under that safe harbor, facilitating or sponsoring ERISA-covered plans in accordance with this interpretive bulletin, or both.

Financial Security for Future Retirees: Vermont Scores 5 out of 10

NATIONAL INSTITUTE ON
Retirement Security
Reliable Research. Sensible Solutions.



Vermont like every state faces challenges to the financial security of future retirees. The state's 5 out of 10 score on the Financial Security Scorecard means that the next generation has a relatively low potential for financial insecurity in retirement. The scorecard considers: future income, key retiree costs, and labor markets for older workers.

With its average ranking, Vermont has an important role to play fashioning financial security as workers age. Although the state's labor market score indicated good employment opportunities for older workers, its retiree cost and future retiree income scores could use significant improvement. Workers need help to maintain their standard of living with an adequate income stream over their retirement years. Less than half of Vermont workers participate in a retirement plan at work. Those who have saved for retirement in defined contribution (DC) account have an average balance of just $19,768, the lowest in the nation. Workers have saved just over a third of the $57,175 average annual earnings of working Vermonters in 2012.Financial industry experts recommend that workers by their 40s should have 2-3 times salary in retirement savings set aside. Increasing retirement plan coverage and savings for retirement is important otherwise the percentage of older Vermonters living in poverty in the future may exceed the 2012 level of 7.5 percent.

POTENTIAL FUTURE RETIREE INCOME SCORE: 4 OUT OF 10

The components of Vermont's retirement income score were mixed and yielded a below-average score. With 49 percent of private sector employees participating in an employer-sponsored retirement plan in 2012, Vermont had the 15th highest coverage rate in the nation. However, the $19,768 saved in the average DC account held by Vermont workers was the lowest in the nation, and far below the $30,345 in retirement savings nationally. Vermont also had a relatively high 5.98 percent marginal tax rate on pension income.

MAJOR RETIREE COST SCORE: 4 OUT OF 10

Vermont's retiree cost score was also a mixed bag, and also yielded a below-average score. Vermont had higher than average Medicare generosity, with an average cost-sharing liability of $1,615 in out-of-pocket costs for enrollees. However, Medicaid generosity was the third poorest in the nation, with Medicaid payments of just $9,870 per beneficiary. In addition, the state ranked 44th in housing costs, with 40 percent of older households in Vermont paying 30 percent or more of their income towards housing costs.

OLDER ADULT LABOR MARKET SCORE: 8 OUT OF 10

In 2012, Vermont ranked well above average in its older adult labor market score. The state ranked 12th in the nation in both unemployment rate and labor market opportunities for older workers. Specifically, the unemployment rate for workers age 55 and older was 3.9 percent, versus 5.3 percent nationally, and the median wage for older workers was $15.00 per hour, higher than the national average of $14.76.

VERMONT FINANCIAL SECURITY SCORES: 2000, 2007, 2012, AND NATIONAL AVERAGE 2012

	2000	2007	2012	National
Overall Score	**5**	**4**	**5**	**5.4**
Retirement Income Score	**4**	**3**	**4**	**5.5**
Retirement Plan Participation (Private Sector)	50.91%	50.52%	49.04%	46.0%
Average DC Account Balance	$23,724	$18,475	$19,768	$30,345
Marginal Tax Rate on Pension Income	6.28%	6.39%	5.98%	4.0%
Retiree Cost Score	**4**	**4**	**4**	**5.4**
Medicare Out of Pocket Cost per Enrollee	$1,334	$1,537	$1,615	$1,745
Medicaid Payments for Older Beneficiaries	$9,476	$10,438	$9,870	$16,978
Older Households Paying 30% or More for Housing	33.2%	40.6%	40.2%	32.7%
Labor Market Score	**8**	**6**	**8**	**5.6**
Older Worker Unemployment Rate	1.3%	3.1%	3.9%	5.3%
Median Hourly Wage for Older Workers	$13.39	$15.06	$15.00	$14.76

Note: All dollar figures are in 2012 dollars.

ABOUT THE FINANCIAL SECURITY SCORECARD

The Financial Security Scorecard measures three key areas of retirement security: potential future income, major retiree costs, and the labor market for older Americans. This Scorecard assesses Vermont relative to the other states on these dimensions of retirement security.

Nationally, private sector participation and savings in retirement plans are particularly inadequate. Reflecting an overall downward trend, even the highest-ranking state for workplace retirement plan participation had just 54% of private sector workers age 21-64 enrolled in a pension or 401(k) style retirement plan. Furthermore, existing savings levels in 2012 generated account values that are lower than a year's income and below levels that financial industry experts recommend as targets for most ages. Thus, regardless of relative scores, all states have their work cut out for them when it comes to creating absolute financial security for aging populations.

States were ranked based on eight measures of financial security for future retirees including: percentage of private sector workers participating in a retirement plan at work; average defined contribution account balance; marginal tax rate on pension income; average out-of-pocket expenditures for Medicare patients; average Medicaid spending per elderly patient; percent of older households spending 30 percent or more of income on housing costs; unemployment rate of people 55 and older; and median hourly earnings of workers 55 and older. Rankings were scored both overall and within three key categories on a scale of 1 to 10, with higher scores indicating better performance for the years 2000, 2007 and 2012.

For more information about the national and state scorecards visit www.nirsonline.org.

NATIONAL INSTITUTE ON
Retirement Security
Reliable Research. Sensible Solutions.