

Rhode Island Secure Choice Retirement Savings Program Would Help More Than 172,000 Workers Save

Lack of retirement savings could otherwise lead to \$456 million in additional state spending by 2040

Overview

Retirement security is largely dependent on people saving money through a plan provided by their employer, but millions of Americans lack access to this important benefit. Research shows that workers are 15 times more likely to save for retirement if they can do so through payroll deductions, but many small businesses are unable to offer retirement benefits due to high startup costs and a lack of administrative capacity.

Nationally, 56 million workers—nearly half of the private-sector workforce—don't have retirement benefits at their workplaces, which affects the ability of working families to plan for their financial future. The lack of access to workplace savings also affects taxpayers. A recent study by The Pew Charitable Trusts quantified the costs of insufficient retirement savings both nationally and in Rhode Island and found that insufficient savings results in decreased household spending and an increased demand for social assistance programs, placing an even greater burden on a shrinking tax base.

Retirement in Rhode Island by the numbers

- 172,000 workers—51.2% of the Ocean State's private-sector workforce—do not have access to retirement savings through their jobs.
- If the retirement savings situation doesn't change, a lack of savings will lead to \$456 million in increased state spending from 2021 to 2040.
- By 2040, vulnerable older households in the state will face an average income shortfall of \$9,090 per year.
- From 2021 to 2040, the ratio of older households to working-age households in Rhode Island will increase by 37%, further exacerbating the burden placed on Rhode Island taxpayers.

Why a state automated savings program matters

But there's good news: Even small savings now could help offset the impact of this projected \$456 million shortfall. If Rhode Island households saved an average of an additional \$2,170 a year, or \$180 a month—meaning that some households would save more and some would save less—they could erase the taxpayer burden while ensuring themselves a decent standard of living in retirement.

Earlier this year, lawmakers introduced the Rhode Island Secure Choice Retirement Savings Program Act (H.B. 7127 and S.B. 2045) to create an automated savings program that would make it easier for businesses to help workers save for retirement. The bill would create an individual retirement account (IRA) program—at no cost to employers—that would automatically enroll workers who don't have access to employer-based retirement

benefits. Businesses that don't currently offer a retirement savings plan would incur no costs and would be required only to facilitate the program by enrolling their workers and processing payroll deductions. Businesses could stop facilitating the program at any time by adopting an employer-sponsored plan, such as a 401(k). Workers participating in the program would always control their contribution level and could opt out at any time.

Lawmakers in 16 states have passed legislation to create similar automated savings programs, variously also known as "secure choice," "auto-IRA," or "work and save." If Rhode Island were to enact similar legislation, it would join California, Colorado, Connecticut, Delaware, Hawaii, Illinois, Maine, Maryland, Minnesota, Nevada, New Jersey, New York, Oregon, Vermont, Virginia, and Washington in expanding retirement security for its citizens. Although some of the state programs are relatively new, more than 800,000 savers in the seven states with active programs have already amassed \$1 billion in assets. These workers are saving \$168 per month on average, demonstrating that saving even \$5 per day can lead to significant sums over time.

Benefits of a Rhode Island automated savings program

For employees:

- Workers are automatically enrolled to start saving for their future via payroll deduction but may opt out or change their contributions at any time.
- Contributions are deposited into a post-tax Roth IRA, owned by the worker, who can access contributions at any time with no penalty, including for unexpected financial emergencies.
- The IRA moves with workers if they change jobs.

For employers:

- The program is provided at no cost to employers, and setup is simple.
- Businesses enroll their workers and process payroll deductions; they are not plan sponsors and are not legally liable for the accounts. Reporting and administration are handled by a financial services firm hired and overseen by the state.
- Offering a retirement savings benefit helps small businesses compete on a more level playing field with larger businesses to recruit and retain workers.
- Any employer can start its own plan, such as a 401(k), at any time, thus replacing the state program; in fact, data from the first states to adopt an automated savings program shows that the rate at which employers have started their own plans has increased since the state programs were established.

For taxpayers:

- Like the rest of the country, Rhode Island faces the fiscal strain of an increasingly older population. Making it easier for people to set aside even modest levels of savings during their working years will pay dividends for workers and taxpayers in the long run—and help erase the looming \$456 million in increased state spending.

The Pew Charitable Trusts

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