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August 2016

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KENTUCKY CENTER for ECONOMIC POLICY

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By Ashley Spalding

Kentucky Center for Economic Policy

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# New Retirement Plan for Private Sector Workers Would Strengthen Economic Security in Kentucky

The population is aging in Kentucky and across the country as the baby boomers reach retirement age, with the share of Kentuckians over the age of 65 expected to grow from 15 percent today to 20 percent by 2030. Yet too many in the state are deeply underprepared for financial security in retirement. The growing elimination of more secure defined benefit plans in the private (and more recently the public) sector has worsened the problem, and the current level of Social Security benefits is not adequate for a decent standard of living. The average defined contribution account (such as a 401(k)) balance for current workers in Kentucky was only $32,499 in 2012, and many workers have jobs where no type of plan is offered at all.[1] More must be done at all levels of government to promote a more secure retirement for the sake of retirees and the economy as a whole.

A comprehensive solution to the problem would include protecting and strengthening defined benefit plans as well as Social Security. Another aspect is to increase the number of private sector workers who participate in an employer-sponsored retirement plan. According to one analysis, just 43 percent of Kentucky private sector workers in 2012 participated in such a plan, the 13th lowest coverage rate in the nation, down from 49 percent in 2000.[2] Fortunately, a number of states are now taking action to create retirement plans for employees at private workplaces that do not offer one and Kentucky should join them. Such a program would help increase quality of life for seniors, assist small businesses in attracting and retaining qualified employees and improve the economy as a whole as fewer Kentuckians rely on assistance in their later years.

## Importance of Retirement Plan Participation

Participation in a retirement plan is typically considered to be one "leg" of a so-called three-legged stool necessary for a financially secure retirement — the other two legs being Social Security and savings. While Social Security provides a solid financial base and keeps most out of poverty, it's not enough on its own as currently structured. The average monthly benefit for a retiree receiving Social Security in Kentucky in 2014 was $1,243.[3]

Retirement plan participation can:

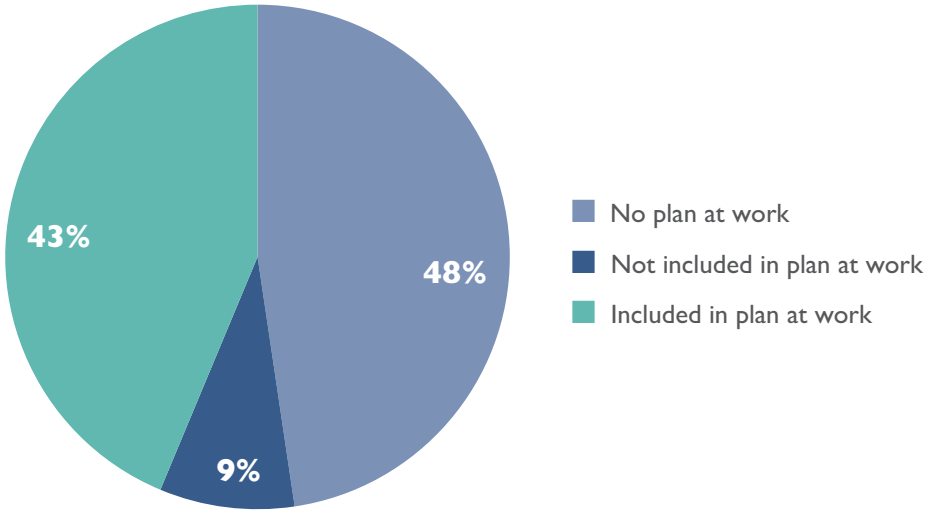
- Increase the likelihood of being self-sufficient in retirement, covering health care expenses and passing along assets to future generations.[4]
- Benefit the state down the road as it ends up bearing the costs of seniors in poverty. Those without a retirement plan are more likely to live in poverty and need assistance from family and public assistance to make ends meet. An analysis of retirement in Utah found that if 1/3 of the state's least prepared for retirement saved an additional $14,000 over their entire career there would be a decrease in the need for government programs by about $194 million through 2030.[5] Forty-two percent of Kentucky's older adults have incomes below two hundred percent of the poverty threshold.[6]
- Help businesses as employees may be less likely to quit when they have access to a retirement plan. Low turnover rates save money as hiring and training can be very expensive. Unfortunately small businesses often don't offer retirement plans due to administrative complexity and cost, among other reasons.

Individuals can open retirement accounts independently but very few do. Less than 10 percent of workers nationally contribute to a plan outside of work.[7]

## Access to Retirement Plans Limited

While participating in a retirement account at work is just a first step in building retirement savings, it is an important one — and too few Kentuckians have access. As shown in Figure 1 below, 48 percent of private sector employees ages 25 to 64 in Kentucky — approximately 566,780 Kentuckians — work for a company that does not offer a plan. Eight percent have a plan available at work but do not participate either because they are not eligible for the plan or choose not to participate. Part-time workers are frequently not eligible for workplace retirement plans. Nationally only 37 percent of part-time private sector workers have access to a retirement plan, compared to 76 percent of full-time workers.[8]

Figure 1 – Employer-Sponsored Retirement Plan Coverage Workers Age 25-64
(Private sector, 2013-2015)




Source: KCEP analysis of U.S. Census Bureau, Current Population Survey microdata.
Three-year average, 2013-2015. Accessed from https://cps.ipums.org/cps/index.shtml.

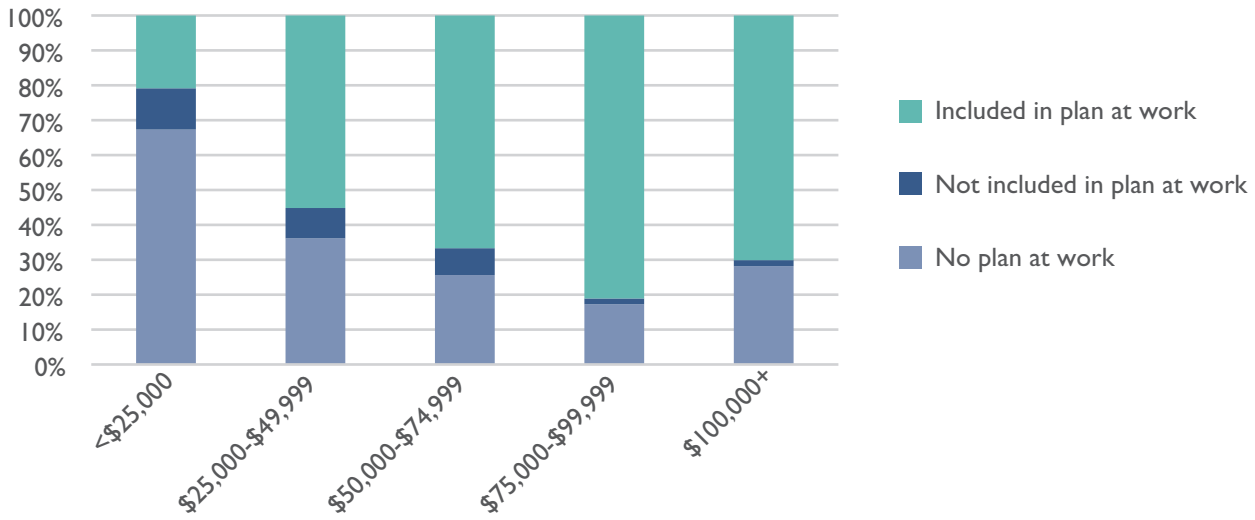
Among those least likely to have access to a retirement plan at work are low-income workers and those who work for small businesses and in certain industries such as hospitality and construction.

### Low-Wage Workers

Low- and moderate-income workers in Kentucky have less access than those with higher incomes to workplace retirement plans, making it difficult for them to save for retirement. Just 21 percent of Kentucky private sector workers with incomes under $25,000 are included in a plan at work; 67 percent work for an employer that does not offer a plan. Thirty-one percent of working Kentuckians in 2013 were employed in occupations with median annual pay below the poverty threshold for a family of four — ranking the state 11th worst on this measure.[9]

Access to workplace retirement plans increases with worker incomes. There is a jump to 55 percent of workers being included in a plan for those with incomes between $25,000 and $49,999, and 70 percent of those with incomes $50,000 and above are included in a plan at work.

Figure 2 – Private Sector Worker Participation in Workplace Retirement Plans by Annual Earnings (Ages 25-64)

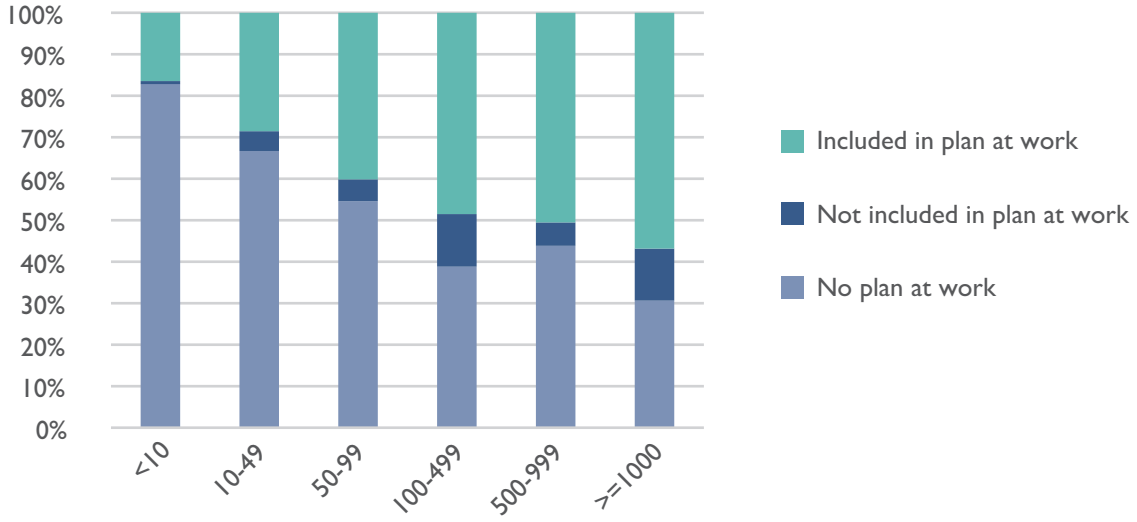



Source: KCEP analysis of U.S. Census Bureau, Current Population Survey microdata. Three-year average, 2011-2013. Accessed from https://cps.ipums.org/cps/index.shtml.[10]

## Small Businesses

Employees at small businesses are less likely than workers at larger private sector companies to have access to a workplace retirement plan. Eighty-three percent of employees at private firms with less than 10 people do not have access to a plan at work, and 67 percent at firms with between 10 and 49 employees. In comparison, just 33 percent of workers at companies with 500 or more employees work for an employer that does not offer a workplace plan. Thirty percent of private sector workers ages twenty-five to sixty-four in Kentucky are at businesses with less than fifty employees.[11]

Figure 3 – Employer-Sponsored Retirement Plan Coverage Workers Age 25-64 by Firm Size (Private sector, 2013-2015, three-year average)

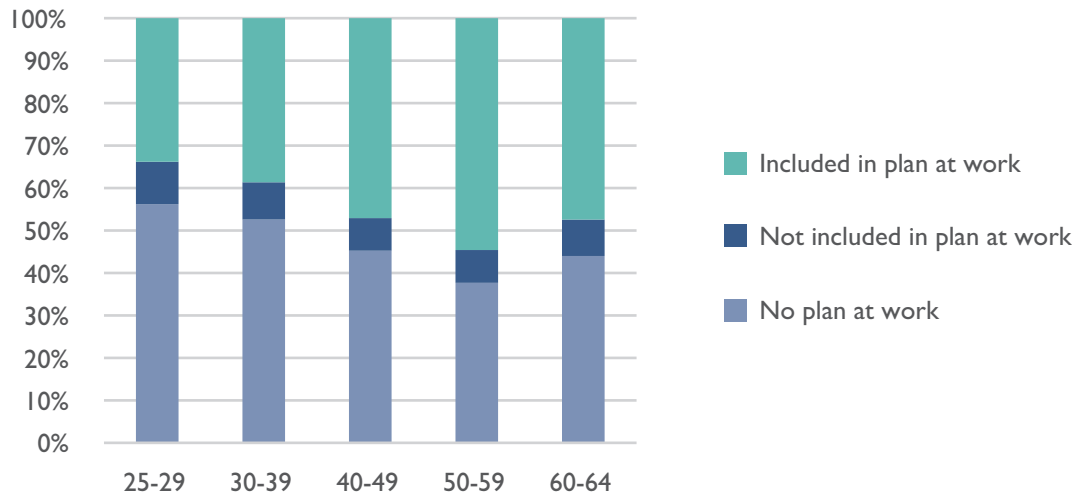



Source: KCEP analysis of U.S. Census Bureau, Current Population Survey microdata. Three-year average, 2013-2015. Accessed from https://cps.ipums.org/cps/index.shtml.

## Young Workers

Younger workers are generally less likely to have access to a workplace retirement plan. Private sector workers ages 25 to 29 are more likely than older workers to have an employer that does not offer a retirement plan — 56 percent compared to 45 percent for those ages 40 to 49, and 38 percent for workers ages 50 to 59. These younger workers are also less likely to be enrolled in a plan at work when they do have an employer that offers a workplace plan.

Figure 4 – Employer-Sponsored Retirement Plan Coverage Workers Age 25-64 By Age
(Private sector, 2013-2015, three-year average)



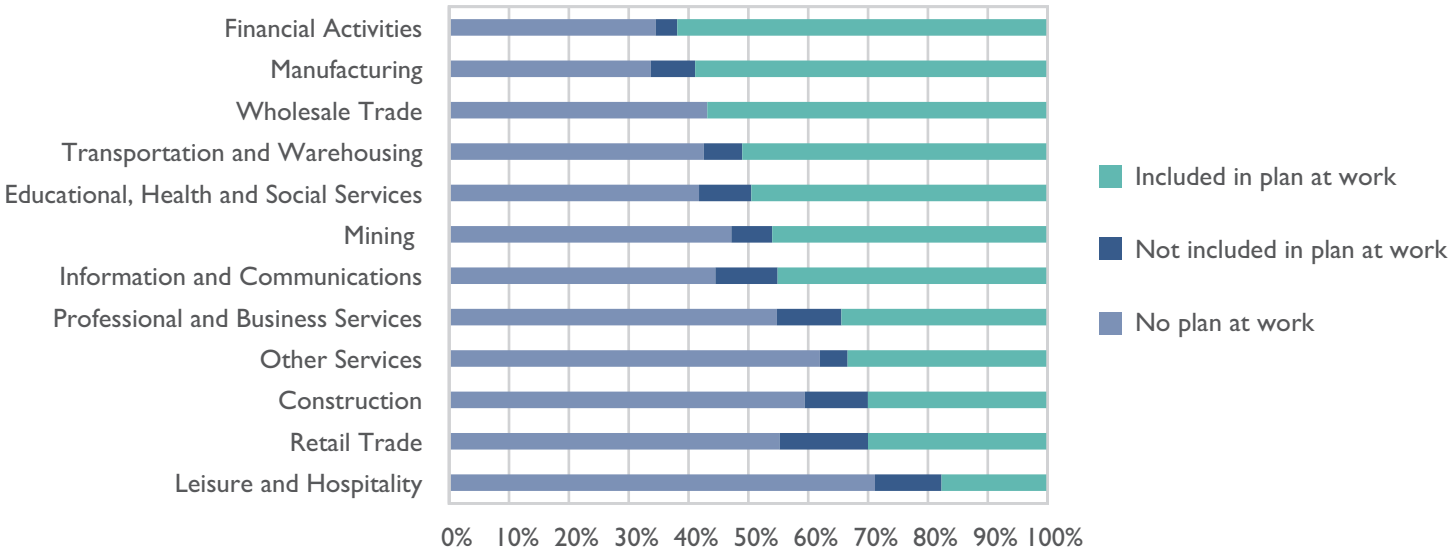

Source: KCEP analysis of U.S. Census Bureau, Current Population Survey microdata.
Three-year average, 2013-2015. Accessed from https://cps.ipums.org/cps/index.shtml.

## Workers in Certain Sectors

Workers in certain industries are less likely than others to have access to a workplace retirement plan in Kentucky. Only 18 percent of Leisure and Hospitality workers and 30 percent of both Construction and Retail workers participate in a plan at work.

In contrast, Financial Activities and also Manufacturing have relatively high rates of workers participating in a workplace plan — 62 percent and 59 percent, respectively. Unfortunately the manufacturing industry has still not fully recovered from the recession while the typically low-wage leisure and hospitality sector, with the majority of jobs not offering a retirement plan through work, has seen good growth in Kentucky.[12] Some of the jobs that have high rates of participation in workplace retirement plans are also more likely to be unionized.[13]

Figure 5 – Employer-Sponsored Retirement Plan Coverage Workers Age 25-64 By Industry
(Private sector, 2013-2015, three-year average)

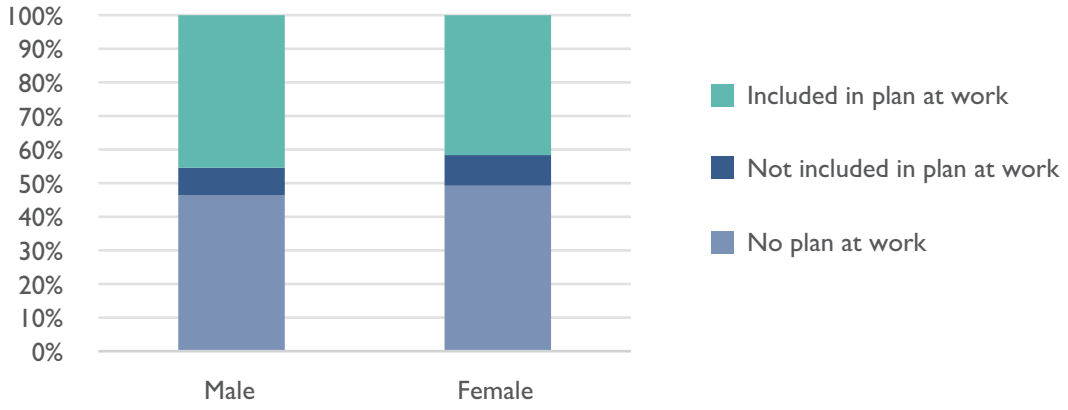



Source: KCEP analysis of U.S. Census Bureau, Current Population Survey microdata.
Three-year average, 2013-2015. Accessed from https://cps.ipums.org/cps/index.shtml.

## Gender

Men and women in Kentucky have generally comparable access to workplace retirement plans. Forty-five percent of working men ages 25 to 64 compared to 42 percent of working women in this age group are included in a workplace retirement plan. Women are a little more likely to have an employer who does not offer a plan — 49 percent compared to 46 percent of men. However, these are not statistically significant differences.

Figure 6 – Employer-Sponsored Retirement Plan Coverage Workers Age 25-64 By Sex
(Private sector, 2013-2015, three-year average)

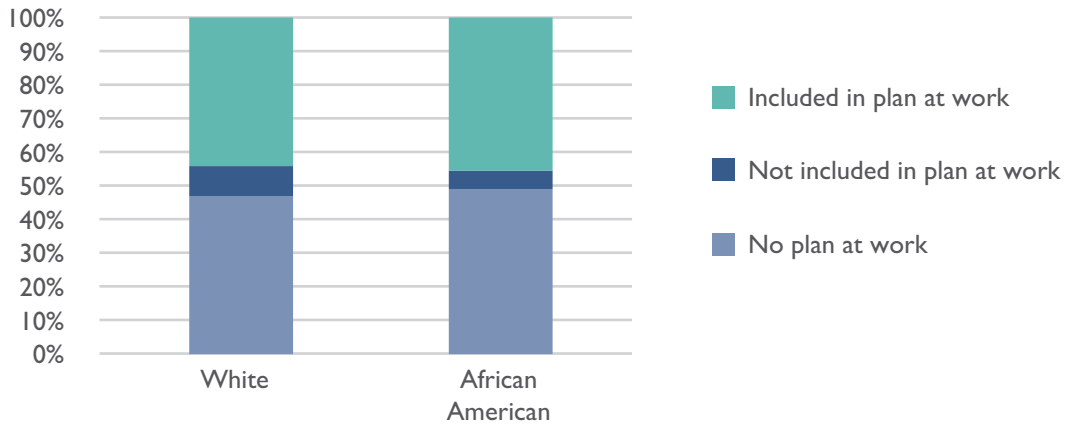



Source: KCEP analysis of U.S. Census Bureau, Current Population Survey microdata.
Three-year average, 2013-2015. Accessed from https://cps.ipums.org/cps/index.shtml.

### Race

African American Kentuckians have about the same access as whites to a workplace retirement plan — 49 percent of African American private sector workers ages 25 to 64 compared to 47 percent of whites work for an employer that does not offer a plan. Forty-five percent of African Americans participate in a plan at work compared to forty-four percent of white workers. These are not statistically significant differences.

Figure 7 – Employer-Sponsored Retirement Plan Coverage Workers Age 25-64 By Race
(Private sector, 2013-2015, three-year average)




Source: KCEP analysis of U.S. Census Bureau, American Community Survey microdata. Three-year average, 2013-2015.

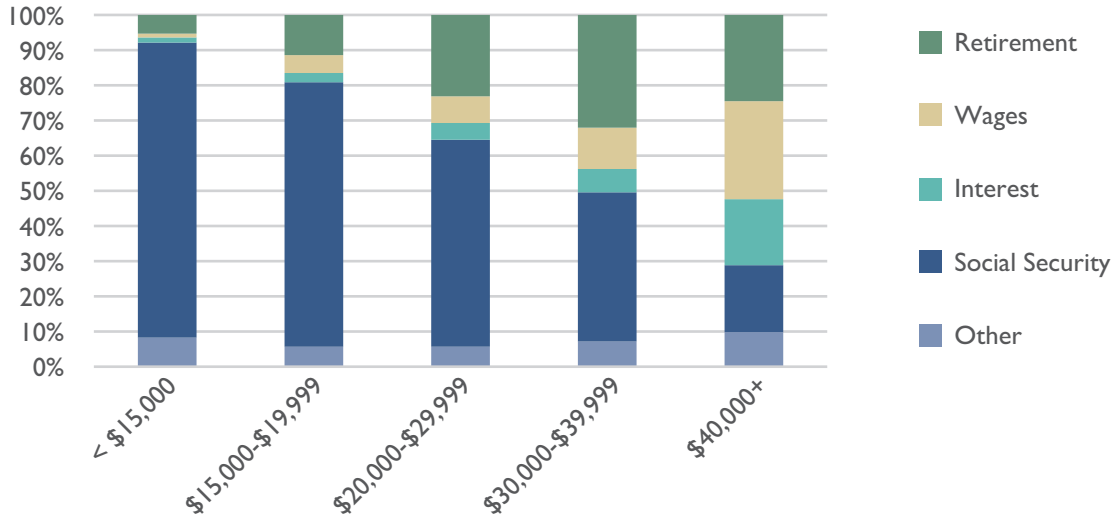
## Kentuckians' Overreliance on Social Security

As mentioned previously, Social Security isn't enough to cover living expenses for most Kentuckians. However, many retirees in Kentucky rely heavily upon it in retirement. It is the only source of income for 35 percent of Kentuckians age 65 and over who receive the benefit and makes up at least half of total income for 69 percent of Kentuckians in this group.[14]

As seen in Figure 8, the overreliance on Social Security is greater for those with low incomes — many of whom were/are likely low-wage workers without access to a retirement plan at work.

Social Security makes up an average of 84 percent of the total income for seniors in Kentucky with less than $15,000. In contrast, it makes up just 19 percent of income for seniors with more than $40,000 in annual income.

Figure 8 – Sources of Senior (ages 65+) Income in Kentucky By Income
(Private sector, 2012-2014, three-year average)




Source: KCEP analysis of U.S. Census Bureau, American Community Survey microdata.
Three-year average, 2012-2014. Accessed from http://www.census.gov/programs-surveys/acs/data/pums.html.[15]

## Expanding Retirement Security

With retirement insecurity so prevalent in Kentucky, the state needs policies that increase access to workplace retirement plans — for instance, by establishing a state-sponsored retirement plan — as well as promoting improved wages and otherwise strengthening the economy. Greater retirement security is good for Kentuckians, small businesses and the state as a whole.

States are moving forward with policies to increase access to workplace retirement plans by administering or facilitating retirement accounts for private sector employees. Since 2012, more than 25 states have considered proposals to study or establish state-sponsored plans — including Kentucky in 2015 — and some have enacted legislation.[16]

Legislation relating to the provision of such accounts has been enacted in a number of states, although none have yet been fully implemented. The following four states have enacted legislation that requires most employers who do not offer a retirement plan to do so through a state-sponsored plan:[17]

- California: Enacted 2012. Establishes an IRA (Individual Retirement Account) program, the Secure Choice Retirement Savings Plan, for employers with five or more employees who do not offer a workplace retirement plan. Prior to implementation, the Board was required to conduct a market analysis to determine whether the necessary conditions for implementation of the law could be met; a final report was released in March 2016.[18] The report found: after some reasonable start-up costs the program would become self-sustaining; the administrative time and effort involved for employers is expected to be minimal; and high levels of participation by employees are expected. Further legislative action is still needed in order to set the program in motion.
- Illinois: Enacted 2015. Implementation would occur in January 2017 at the earliest. The Illinois Secure Choice legislation institutes a state-sponsored IRA program for private sector workers at employers with twenty-five or more

employees that do not offer a retirement plan. Enrollment of employees is to begin before June 1, 2017 unless the Board does not obtain adequate funding to implement the program.[19]

- Oregon: Enacted 2015. Law establishes the Oregon Retirement Savings Board, which will develop a defined contribution retirement plan for Oregon workers and conduct a market and legal analysis of the plan. A report to the legislature will be completed by December 2016.[20] Contributions to the plan should begin no later than July 1, 2017.
- Connecticut: Enacted 2016. Institutes a public-private entity (the Connecticut Retirement Security Exchange) to create a workplace retirement savings plan for private sector workers without access to one at businesses with five or more employees; the retirement security plan will begin operating in 2018. Previous legislation had created the Connecticut Retirement Security Board, which assessed the feasibility of such a plan.

These plans hold many characteristics in common. They are mandatory for most businesses that do not already offer a workplace retirement plan. Employees are enrolled by default (though they can opt out). Default enrollment is important because it has been shown to increase participation. Fees charged to workers are capped and plans are portable. The role of the employer is largely to tell their employees about the plans and to send in the employee's payroll contributions. The plans are expected to be self-sustaining after start-up costs. Boards consisting of public officials and private citizens oversee the plans and hire professionals to manage investments.

The federal government is in the process of reducing the amount of federal oversight required of these plans. The Employee Retirement Income Security Act of 1974 (ERISA), the federal law that regulates pensions, provides important protections but many employers find it to be too expensive or overly burdensome to offer retirement plans under ERISA. The Labor Department is developing a new safe harbor for state-sponsored IRA plans that would enable them to avoid falling under the law.[21] A draft of the new proposed rule has been circulated although the final version has not yet been released; the public comment period ended January 19, 2016.[22]

House Bill 261 in Kentucky's 2015 General Assembly would have established a state-sponsored retirement plan similar to those described above called the Kentucky Retirement Account (KYRA), administered by a third-party administrator contracted by a board largely composed of the state Treasurer, Secretary of the Labor Cabinet and Secretary of the Finance Cabinet.[23] KYRA would have been an automatic enrollment payroll deduction Roth IRA program for employees of private employers with five or more employees. Employees not opting out would deposit a minimum of three percent of wages per pay period into their Roth IRA. A default investment option based on a worker's age would be provided. Kentucky's House Bill 261 was not put to a vote in committee during the 2015 General Assembly, and no such legislation was proposed in 2016.

Variations on this model involve states encouraging employers to offer retirement plans but not requiring employer participation, which would have far less of an impact. Washington state and New Jersey are both in the process of offering an on-line small business retirement marketplace through which employers can select a retirement plan to offer their employees if they so choose. Massachusetts will be providing an option for small nonprofit organizations to participate in a state-sponsored retirement plan that would reduce the costs of setting up and administering a retirement plan.

There are drawbacks to these types of state plan. The design falls squarely under ERISA. In addition, a voluntary state retirement program will not necessarily increase retirement savings as employers already have the option to participate in a plan and are not.

With such a large share of Kentucky's private sector workers facing retirement insecurity, the state should move to establish a state-sponsored retirement plan for private sector workers in the 2017 legislative session. According to a survey by AARP, 74 percent of Kentuckians support a state retirement savings plan and 73 percent agree that offering a retirement savings plan would help small businesses stay competitive.[24]

## Conclusion

It is important to the future of the state that Kentuckians are able to adequately save for retirement. One of the biggest barriers is lack of access to retirement plans — which has worsened over time and is especially a problem for low-income workers, employees at small businesses and in certain industries, and younger workers. In order to improve the financial security of private sector retirees in the future, Kentucky should establish a state-sponsored retirement plan.

# Endnotes


1 National Institute on Retirement Security, "Financial Security for Future Retirees: Kentucky Scores 6 out of 10," http://www.nirsonline.org/storage/nirs/documents/Factsheets/KY_FSS.pdf.

2 National Institute on Retirement Security, "Financial Security for Future Retirees."

3 Social Security Administration, "Annual Statistical Supplement to the Social Security Bulletin, 2015," Table 5.J3, "Number and Total Monthly Benefits of Beneficiaries Aged 65 or Older, by State or Other Area and Sex," December 2014, https://www.ssa.gov/policy/docs/statcomps/supplement/2015/supplement15.pdf.

4 Rich Jones and Alison Suzukamo, "Retirement at Risk," The Bell Policy Center, April 21, 2014, http://www.bellpolicy.org/sites/default/files/RetirementSecurityBellPolicyCenter.pdf.

5 Jay Goodliffe, Erik Krisle, Sterling Peterson and Sven Wilson, "The Cost of Retiring Poor: Government Outlays in Utah's Retiring Population," January 2015, http://media.navigatored.com/documents/Retiring+Poor+Impact+Study+2015-01-19+Final.pdf.

6 Juliette Cubanski, Giselle Casillas and Anthony Damico, "Poverty Among Seniors: An Updated Analysis of National and State Level Poverty Rates Under the Official and Supplemental Poverty Measures," Kaiser Family Foundation, June 2015, http://files.kff.org/attachment/issue-brief-poverty-among-seniors-an-updated-analysis-of-national-and-state-level-poverty-rates-under-the-official-and-supplemental-poverty-measures.

7 The PEW Charitable Trusts, "How States are Working to Address the Retirement Savings Challenge: An Analysis of State-Sponsored Initiatives to Help Private Sector Workers Save," June 2016, http://www.pewtrusts.org/en/research-and-analysis/reports/2016/06/how-states-are-working-to-address-the-retirement-savings-challenge.

8 Bureau of Labor Statistics, "Employee Benefits in the United States — March 2015," U.S. Department of Labor, News Release, July 24, 2015, http://www.bls.gov/news.release/pdf/ebs2.pdf.

9 Working Poor Families Project, Analysis of May 2013 Occupational Employment Statistics, Bureau of Labor Statistics.

10 Changes in the survey's income questions in 2014 make comparisons with previous years impossible and in order to have a reliable sample size for this analysis three years of data are needed; therefore this analysis of retirement plan access by income uses 2011-2013 CPS data.

11 Source: KCEP analysis of U.S. Census Bureau, Current Population Survey microdata. Three-year average, 2013-2015. Accessed from https://cps.ipums.org/cps/index.shtml.

12 Jason Bailey, "The State of Working Kentucky 2015," presentation, October 19, 2015, http://kypolicy.org/presentation-the-state-of-working-kentucky-2015/.

13 The PEW Charitable Trusts, "Who's In, Who's Out: A Look at Access to Employer-Based Retirement Plans and Participation in the States," January 2016, http://www.pewtrusts.org/~/media/assets/2016/01/retirement_savings_report_jan16.pdf.

14 KCEP analysis of U.S. Census Bureau, American Community Survey microdata. Three-year average, 2012-2014.

15 Changes in the Current Population Survey's income questions in 2014 make comparisons with previous years impossible and in order to have a reliable sample size for this analysis three years of data are needed. To analyze the most recent data on senior income, American Community Survey data for 2012-2014 was used instead of Community Population Survey data.

16 United States Government Accountability Office, "Retirement Security: Federal Action Could Help State Efforts to Expand Private Sector," September 2015, http://www.gao.gov/assets/680/672419.pdf.

17 Maryland also recently enacted a state-sponsored retirement plan mandating employer participation, but there are some key differences.

18 Overture Financial LLC, "California Security Choice Market Analysis, Feasibility Study, and Program Design Consultant Services," March 17, 2016, http://www.treasurer.ca.gov/scib/report.pdf.

19 The PEW Charitable Trusts, "How States are Working to Address the Retirement Savings Challenge."

20 Oregon Retirement Savings Board, "Work Plan," December 31, 2015, http://www.oregon.gov/treasury/ORSP/Documents/Timelines%20and%20Milestones%20-%202016.1%20Board.pdf.

21 In order for a state plan to avoid falling under ERISA the employer's role must be minimal. To qualify for a safe harbor provided by the Labor Department an IRA program funded by payroll deductions has had to meet the following conditions: the employer doesn't make any contributions; employee participation is completely voluntary; employer involvement is minimal and limited to providing information about the program to employees without endorsing the program; and the employer is not paid for offering the program. There has been some concern that the automatic enrollment aspect of the state-sponsored retirement plans could actually cause them to fall under ERISA. As a result, the Labor Department is in the process of developing a new safe harbor for employers participating in a state-sponsored IRA plan. The implementation of all four of the state plans described here are contingent upon ERISA not applying to them.

22 Department of Labor, "Interpretive Bulletin Relating to State Savings Programs That Sponsor or Facilitate Plans Covered by the Employee Retirement Income Security Act of 1974," Employee Benefits Security Administration, November 18, 2015, http://webapps.dol.gov/FederalRegister/PdfDisplay.aspx?DocId=28540.

23 House Bill 261, http://www.lrc.ky.gov/record/15rs/HB261.htm.

24 AARP, "A Common Sense Approach: The 2015 Kentucky Work and Save Plan," presentation, December 2015.