By John Iekel

Expanding the private retirement system with auto IRAs will allow millions more workers to save for retirement at work without imposing a burden on the small employers they work for.
Expanding the private retirement system with auto IRAs will allow millions more workers to save for retirement at work without imposing a burden on the small employers they work for.
It’s your turn, and you draw a card. Perhaps it says, “Proceed to Go.” Or maybe it says “Free Parking,” the space where a game piece sits in limbo, waiting to move to a place named for a state, where the player can build his or her nest egg. It’s Auto IRA, and it’s no game, but a real-life undertaking by a number of states, concerned about the retirement readiness of an aging populace, frustrated by the perceived lack of employment-based coverage, hoping to leverage the administrative and investment aptitudes of the existing state pension infrastructures, and/or looking to make some political hay over the logjam of national politics. The issue is coverage, or more precisely, creating a ready ability for workers to save for retirement that leverages the convenience of payroll deduction and the power of automatic enrollment that has helped so many who already have access to such programs. At the core of these state-based designs — and at present, most are little more than a rough schematic — is the requirement that employers who do not currently offer a workplace retirement plan provide a payroll deferral option for their workers. Many of these programs contemplate coupling that with an automatic enrollment of workers in an IRA. The rules say that employees may raise or lower their contributions; they also may opt out. How players fare depends on the space — or, more accurately, state — where the employee is located.

Well, not just yet. But maybe soon.

To date, there are more than a dozen states that have at least considered allowing auto IRAs; in some of them, the measures are already dead, but in others they are pending. Four states are creating boards to study the matter, three through legislation and one through executive order by the governor. None have implemented measures that establish auto IRA bills. Yet.

The spaces on the American game board where some form of state retirement plan coverage solution is in play are scattered around the map, but they are in every region. Following is a look at what has been happening in selected states.

**Arizona**

The Arizona legislature is considering a measure that sponsor Rep. Martin Quezada (D) hopes will bridge the canyon between some employees’ current retirement readiness and their account balance when they retire. HB 2063 would establish the Arizona Secure Choice Retirement Savings Program, through which employees of private-sector employers with five or more employees would be covered by a state-run auto IRA if they are not covered by an employer-provided retirement plan. The bill was introduced on Jan. 22 and is currently before the House Appropriations and Rules Committees.

**California**

California has a penchant for dramatically charting its own course. So it comes as no surprise that it was the first state to enact legislation on auto IRAs. And in typical California fashion, the measure it adopted is very much a hybrid.

Gov. Jerry Brown (D) on Sept. 28, 2012 signed into law SB 1234, a measure that authorizes the establishment of an automatic enrollment retirement savings plan for the more than six million California workers who do not have access to an employer-provided retirement plan. The bill was introduced on Jan. 22 and is currently before the House Appropriations and Rules Committees.

**Colorado**

Would: Create the Colorado Retirement Security Task Force

Status: House passed bill May 1, 2014; pending in Senate

---

**Status of Auto IRA Legislation**

<table>
<thead>
<tr>
<th>State</th>
<th>Bill</th>
<th>Would:</th>
<th>Status:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>HB 2063</td>
<td>Establish the Arizona Secure Choice Retirement Savings Program</td>
<td>Before House Appropriations and Rules Committees</td>
</tr>
<tr>
<td>California</td>
<td>SB 1234</td>
<td>Authorize establishment of the California Secure Choice Retirement Savings Program; requires study first</td>
<td>Enacted Sept. 28, 2012</td>
</tr>
<tr>
<td>Colorado</td>
<td>HB 14-1377</td>
<td>Create the Colorado Retirement Security Task Force</td>
<td>House passed bill May 1, 2014; pending in Senate</td>
</tr>
</tbody>
</table>
Judy Miller, ASPPA’s Director of Retirement Policy, explains what the law says about California employers that are not providing such access: “Employers that do not choose a private provider would be defaulted to the ‘California Secure Choice Retirement Savings Program,’ a state-run payroll deduction IRA program. These employers would automatically withhold 3% of pay and forward those contributions to the state-run program for investment. Employees could opt out or elect to contribute more or less than the 3%. Employers’ only responsibility will be to withhold contributions from employees’ pay and forward the contributions on for investment.”

The bill makes it clear that at any time, any employer can choose to set up a retirement plan with a private provider and stop withholding contributions for the state program. Miller adds that the law also provides that:

• state-run IRAs are to have a guaranteed rate of return declared in advance of the year;
• distributions are to be made in the form of lifetime income based on accumulated account balance at retirement; and
• the risks associated with these guarantees must be privately insured.

Those provisions aren’t in place yet, and won’t be until legislation is enacted that implements the program. And that can’t happen until the California Secure Choice Retirement Savings Program Board conducts a market analysis and feasibility study to determine whether the legal and practical conditions for implementation can be met. Another wrinkle — the state won’t pay for the study; instead, private nonprofit or for-profit entities, or the federal government, must fund it. Once it is finished with the study, the board is to submit it to the legislature, which will then consider legislation authorizing implementation. And when that will happen, and how it might emerge from that process, remains anybody’s guess.

Colorado

Citing statistics that show that almost 60% of Colorado private-sector workers overall, and 80% of employees who work for employers with fewer than 50 employees, do not have access to an employer-based retirement plan, the Colorado legislature is currently considering a bill that would set in motion preliminary steps that could lead to some type of auto IRA or other state-run retirement plan. Before any action is taken, however, House Bill 14-1377, which would create the Colorado Retirement Security Task Force, a body which would make recommendations on how to increase the percentage of residents in the state who have adequate retirement security, must be passed. The state House of Representatives passed the bill on May 1; it is still pending in the Colorado Senate.

Connecticut

While no fewer than four of the six New England states have at least considered auto IRA bills, one of them, Connecticut, has gone the farthest down the auto IRA road. Section 180 of the state budget that Gov. Dannel P. Malloy (D) on June 13 signed into law (now Public Act No. 14-217) establishes a board to study, and then implement, a public retirement plan for private-sector employers. That makes Connecticut the second state to at least get the ball rolling by creating a framework to make retirement savings through payroll deduction available to most of its private sector workers.

Andrew Remo, ASPPA’s Congressio- nal Affairs Manager, points out that Connecticut’s law has some unique features. It actually funds the feasibility study with state money (unlike California) and sets clear implementation deadlines. It establishes a clearinghouse to help employers identify vendors of private retirement plan products. And it requires that private employers with five or more employees that do not offer an employer-sponsored retirement plan to their employees participate in the public retirement plan.

Illinois

The Land of Lincoln has had more than its fair share of political turmoil of late, but that hasn’t kept Illinois from moving ahead on its auto IRA proposal. Unlike most of the other states, rather than first commissioning a study on how best to approach the subject, enabling legislation in the form of the Illinois Secure Choice Savings Program Act (S. 2758) was introduced this spring.

The bill would create the Illinois Secure Choice Savings Program Fund out of money received from enrollees and participating employers, as well as a board to manage the fund. But the bill has not yet made it out of the House of Representatives; it is still pending before the House Rules Committee, though Miller says that the bill is currently “in hibernation.”

Indiana

The Hoosier State is considering a measure that at least has the potential to affect private-sector employers. Sen. Joseph Zakas’ (R-Granger) colleagues have passed SB 54, a bill he introduced
that calls for a study of local pension plans. The measure is currently pending before the House of Representatives.

**Louisiana**

The Bayou State has a flavor and character all its own, and that holds true when it comes to addressing access to a retirement savings vehicle by employees of small businesses too — it is the only state in the Deep South considering such a measure. While not an auto IRA design, Sen. Troy E. Brown (D-Napoleonville) on March 10 introduced SB 283, a bill that would create a portable retirement savings plan for private-sector employees. The measure is now before the Committee on Retirement.

**Maryland**

Maryland is considering legislation that would require nearly all private businesses in the state to provide a workplace retirement savings plan for their employees. Senate Bill 921 would also establish the Maryland Secure Choice Savings Trust, which would be a state-run auto-IRA program for private employers that do not wish to use a private provider to satisfy the requirement. The bill was introduced on Jan. 31, 2014 and is before two committees: Budget and Taxation, and Finance.

And the Executive Branch is acting as well. Gov. Martin O’Malley (D) in May announced the establishment of the Governor’s Task Force to Ensure Retirement Security for All Marylanders to examine how to improve retirement security for private-sector employees in Maryland. The task force, whose members were announced in August, is to issue a report by Dec. 4. Among the reasons for forming the task force that O’Malley’s office cited are that just under half — 49% — of private-sector workers in the state participate in a retirement plan and 36% do not have access to an employer-provided retirement plan.

**Oregon**

Like California to its south, Oregon is conducting a study. On Aug. 1, 2013, Gov. John Kitzhaber (D) signed into law HB 3436, a law that creates the Oregon Retirement Savings Investment Task Force. The task force is to make recommendations regarding retirement savings and for the establishment of the Oregon Secure Retirement Plan. The task force exists until March 31, 2016 and is to report to the interim committee of the legislative assembly.

**West Virginia**

West Virginia soon may mine for information that could lead to a retirement savings plan managed by the state government. Sen. Roman Prezioso (D-Marion) on March 6 introduced Senate Concurrent Resolution 91, a measure that asks the Joint Committee on Government and Finance to study the creation of a cost-effective and portable group government-managed retirement savings program that would be available to small businesses and their employees, or would encourage and promote currently available private-sector financial and retirement security opportunities for small businesses and their employees.

**But Don’t Forget the Feds**

Well before the recent spate of state initiatives, in February 2012, Rep. Richard Neal (D-Mass.) introduced H.R. 4049, a bill that would have established incentives on a national basis to encourage employers to offer auto IRAs. The bill did not become law, but at the time it even enjoyed bipartisan support.

Rep. Neal introduced similar legislation, the Automatic IRA Act of 2013 (H.R. 2035), on July 8, 2013, this time without any Republican cosponsors. It was referred to the House Education and Labor Committee and is before the Subcommittee on Health, Employment, Labor and Pensions.

The auto IRA concept enjoys considerable support at the other end of Constitution Avenue as well, in the form of President Obama’s MyRA program (see sidebar).
Like the auto IRA, President Obama’s “MyRA” program, unveiled early this year, is being created to help low- and middle-income workers who do not have access to an employer-sponsored retirement plan. Highlights of the program include:

- The initial investment can be as low as $25, and additional contributions, which can be made via payroll deduction, can be as low as $5.
- Employers will not have the option of auto-enrolling workers in a MyRA.
- There will be no fees.
- Contributions will be invested in Treasury securities and earn a variable interest rate. (The model seems to be the government securities investment fund of the federal Thrift Savings Plan.)
- Those earning under $191,000 a year are eligible to create a MyRA, with accounts rolling into a Roth once they reach $15,000.

Many experts are skeptical about how many people will contribute because of the voluntary nature of MyRAs and other factors. The program, slated to begin rolling out in late 2014 — hasn’t yet.

What’s in all this for advisors? At a minimum, more individuals saving for, and thinking about, retirement — savings accumulations that might one day find their way into a workplace retirement program. The programs are likely to bring about a greater awareness on the part of employers, particularly smaller employers, about the importance of helping workers make financial preparations for retirement. And, perhaps most significantly, it could provide advisors with the opportunity to work with employers frustrated by the limitations of the auto IRA offerings to “opt out” by putting in place a more robust retirement savings solution, such as a 401(k).