Employer and Employee Reactions to State-Level Retirement Savings Initiatives for Private Sector Workers

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Abstract

Approximately one-quarter of the American private sector workforce lacks access to a retirement plan at their workplace, and relatively few save for retirement outside of a workplace retirement plan. However, evidence is growing that many face a reduced standard of living when they reach retirement. To address these problems, several states are considering implementing statewide retirement savings plans for private sector workers who do not have a plan at their workplace. Many of these state proposals rely on tools from behavioral economics; for example, automatic enrollment at hire and automatic escalation of contributions as well as requiring employers to enroll employees if there is no employer-sponsored retirement plan. While these tools have proven to be very effective in large corporate retirement plans, participants likely to be covered by these state-sponsored plans are expected to be different demographically than the employee population in large corporate retirement plans. Using separate national surveys of small to medium size business owners and of workers in similar size firms in addition to focus groups, we examine how employers and workers would react to these policy proposals. In particular, we pose different scenarios in order to understand reactions and possible behavior that could be expected to occur when these state plans are implemented. We find evidence that workers and employers are supportive of these auto-IRA plan proposals and are similarly supportive of both a 3 percent and 6 percent default contribution rate. However, the proposed policies must be clear about the respective roles of employers and government in these plans.

Introduction

The majority of Americans depend on employer sponsored retirement plans to save for retirement. However, roughly one-quarter of workers do not have access to such a plan, and less than two-thirds participate in available plans.[i] Access and participation are only part of the equation: half of nonretired Americans said that they would have enough money to live comfortably in retirement (no matter the source).[ii] These statistics provide a bleak picture of retirement in the United States—a far cry from ideal visions of enjoying life after decades of hard work. In fact, over one-third report that they do not plan to retire or plan to work as long as possible.[iii]

Understandably, both American workers and policymakers are concerned about retirement security. Because of this, state and city governments are looking into ways to bolster employer sponsored retirement savings plans. One such policy is a non-ERISA plan, called an auto-IRA or sometimes "Secure Choice." For this, employers not sponsoring a retirement plan would disseminate plan information, enroll workers into the state plan, and deduct employees' contributions from their paychecks. Facilitating retirement savings through the workplace can make saving for retirement easier and more accessible, allowing workers to have contributions directly and automatically deducted from their paychecks. Plan design features such as automatic enrollment with the option to opt-out can greatly increase participation. When automatic enrollment is included in a plan it has been shown to dramatically increase participation.[iv] This can overcome the inertia that often prevents workers from taking the active step of enrolling in an employer sponsored retirement plan, while still giving them the option to opt-out if they don't wish to participate.

This paper examines how employers and workers perceive state sponsored auto-IRA proposals. To do so, The Pew Charitable Trusts convened focus groups and conducted surveys with private sector small and mid-sized business representatives and workers. Focus groups provided an opportunity to discuss in greater detail and depth employers' and workers' perspectives on retirement and a hypothetical state-sponsored auto-IRA plan, while surveys provided an opportunity to look at nation-wide patterns and to gage reactions to different parts of the plans. Pew found that while both employees and employers were wary of government intervention and automatic enrollment, reactions to auto-IRA plans overall were overwhelmingly favorable. This suggests that dissemination of information is enormously important: both employers and employees need to be reassured that government will not manage or have access to employees' contributions.

Background

Social Security was never meant to be Americans primary source for retirement income. Fewer than 15 percent of workers contribute to an IRA, placing more importance on employer sponsored retirement plans.[v] The changing retirement landscape—in which workers are less likely to have defined benefit plans and more likely to have defined contribution plans—places the investment risk on the employee rather than the employer.[vi] Only half of workers participate in retirement plans through their employer.[vii] Reasons for not participating often include affordability and to a much lesser extent not thinking of it.[viii]

Policymakers are increasingly focused on ways to address retirement security issues by increasing access and participation. More than half of states since 2012 have considered or adopted retirement legislation. One option is that a state or local government can sponsor and administer a plan within the structure of ERISA, the federal law that governs pensions. Examples of such an ERISA compliant plan are a prototype plan or a multiple employer plan, both of which aim to reduce the costs of offering a plan to employees. Another option is to encourage employers to voluntarily offer plans by setting up a marketplace exchange, in which employers can easily compare retirement plan options. Finally, government can sponsor an automatic enrollment payroll deduction plan, not subject to ERISA, sometimes called Secure Choice or an auto-IRA plan. In such a plan, employers meeting certain criteria (e.g., not already offering a plan, a minimum number of employees) would either have to begin their own plan or take part in a government sponsored plan. While employers are responsible for enrolling workers and processing deductions, employers are not otherwise involved.[ix]

Policymakers and advocates are often focused on government sponsored auto-IRA plans specifically because automatic enrollment is proven effective at increasing participation and savings when incorporated into retirement plan design.[x] One study by Nessmith and colleagues show that newly hired workers are almost twice as likely to participate in plans when there is automatic enrollment compared to voluntary enrollment.[xi] Not only did Madrian and Shea in their study show that enrollment doubled across cohorts when automatic enrollment was introduced, but automatic enrollment is particularly beneficial to low income, younger workers, women, and racial minorities. For example, in their study, participation rates for those earning less than $20,000 were more than six times the rate after automatic enrollment was in effect compared to before. The participation rates for White workers more than doubled and for Black and Hispanic workers it more than quadrupled. Because of these dramatic statistics, legislation of government sponsored retirement plans often includes automatic enrollment as legislators and policymakers hope to leverage this to increase participation.[xii] Not all are supportive of automatic enrollment; though it includes the ability to opt-out, it seen as coercive by some.[xiii]

Data and Methods

To conduct this research, The Pew Charitable Trusts conducted four separate research projects: focus groups and surveys of business representatives and workers, separately. Focus groups were used to both inform survey design and additionally to obtain detailed information about topics of retirement. Surveys were then designed to obtain information about barriers and motivations—either to offering retirement plans or to participating in retirement plans—as well as reactions to hypothetical state sponsored plans for a national sample.

Employer focus groups

Pew sponsored focus groups in Philadelphia, Chicago, Dallas, and Los Angeles in October 2015 that were moderated by Alan Neumann Research. Two sessions comprising different groups were held in each city; groups alternated between small (5 to 49 employees) and medium (50 to 249 employees) sized employers who either did or did not currently offer retirement plans (see Table 1). In total 62 business representatives participated.

Table 1: Employer Focus Groups Configuration

SEGMENT	Small Company (5-49 employees)	Medium Sized Company (50-249 employees)	TOTAL
No retirement plan offered	1 Philadelphia group (8) 1 Dallas group (8)	1 Chicago group (10) 1 Los Angeles group (7)	33 participants
Retirement plan offered	1 Chicago group (4) 1 Los Angeles group (8)	1 Philadelphia group (9) 1 Dallas group (8)	29 participants
TOTAL	28 participants	34 participants	62 participants

Participants were asked questions about the barriers to and motivations for offering retirement plans and their reactions to a hypothetical auto-IRA plan and a marketplace exchange. Audio recordings of the focus groups were transcribed verbatim, and data were coded in NVivo. Quotes presented in this paper were edited to remove fillers (e.g., “like,” “um”) and extraneous information (indicated by […]) for clarity.

Employer survey

A business survey was conducted by The Pew Charitable Trusts via a contract with ICF International to understand why employers do or do not offer retirement plans and how they react to various state sponsored retirement plans including an auto-IRA plan, a multiple employer plan, and a marketplace exchange. The probability sample is based on the Dun & Bradstreet list of businesses and focuses on private-sector small to mid-size businesses (five and 250 employees) nationwide.[xiv] A representative of the business who was knowledgeable about benefits and who had input on benefit-related decisions responded to the survey, such as the employer, CEO, or HR manager. The survey used a stratified survey design to ensure representative national estimates. The strata were the four Census regions, whether an enterprise was a goods-producing or service-producing business, and the number of employees (five to 50 and 51 to 250). The survey used computer-assisted telephone interviewing (CATI) to collect data between April 26, 2016 and June 29, 2016. The total sample includes 1,639 business representatives. The sample is split between employers who sponsor a retirement plan (56 percent) and those who do not (44 percent). In terms of workforce size, 68 percent have 5 to 24 total employees, and the remaining 32 percent have 25 to 250 total employees.

Employee focus groups

The Pew Charitable Trusts arranged eight focus groups in Philadelphia, Atlanta, Chicago, and San Jose in February 2016 that were moderated by Alan Neumann Research. The eight focus groups are divided by employer-size (5-49 employees and 50-250 employees) and whether employees had access to an employer sponsored retirement plan, as outlined in Table 2. The employer size was relaxed for two focus groups because of difficulty finding medium sized companies that did not offer retirement benefits. Approximately half of these participants in the Atlanta and San Jose no plan groups worked at medium sized businesses, and the rest were from smaller companies, ranging from seven to 32 employees. In total, 61 employees participated.

Table 2: Employee Focus Group Configuration

SEGMENT	Small Company Employees (5-49 employees)	Medium Sized Company Employees (50-249 employees)	TOTAL
No retirement plan offered	1 Philadelphia group (8) 1 Chicago group (8)	1 Atlanta group (8) 1 San Jose group (6)	30 participants
Retirement plan offered	1 Atlanta group (8) 1 San Jose group (7)	1 Philadelphia group (8) 1 Chicago group (8)	31 participants
TOTAL	31 participants	30 participants	61 participants

Note: Because relatively few medium-sized company employees reported not having retirement benefits, employer size restrictions were relaxed for the Atlanta and San Jose groups. Half of these focus groups included participants from smaller companies with seven to 32 employees.

Participants were asked questions about their knowledge and experience with retirement plans and their reactions to a hypothetical state sponsored auto-IRA plan, modeled off the plans used in California's and Connecticut's feasibility studies. Audio recordings of the focus groups were transcribed verbatim, and data were coded in NVivo. Quotes presented in this paper were edited to remove fillers (e.g., "like," "um") and extraneous information (indicated by […]) for clarity.

Employee survey

The Pew Charitable Trusts surveyed 2,918 Americans aged 18 to 64 year olds who are employed and not working for the government using GfK's probability based internet panel, KnowledgePanel. The survey was released to a random sample of 15,872 panel members. The survey was fielded from August 2, 2016 through August 23, 2016 in English and Spanish. Data were weighted to be nationally representative using several benchmarks (i.e., gender, race/ethnicity, education, Census region, household income, language proficiency, and employment status). For these analyses, Pew excludes 556 respondents who reported working for employers with 251-500 employees across all locations. The final sample for this paper includes 2,247 workers.

Results from Business Survey and Focus Groups

Reactions to State Auto IRA Proposals

Because employers who sponsor and who do not sponsor plans will be differently impacted, the survey presented different prompts to these groups. Non-plan sponsors were asked more detailed questions in order to obtain a more nuanced understanding of what pieces of the plan were supported or opposed.

Survey Prompt for Retirement Plan Sponsors

Now I am going to ask a few questions about a new retirement plan intended to make it easier for employees at business without retirement plans to save for retirement. Since your business offers a retirement plan, this proposal would not necessarily apply to your organization. However, given your experience with retirement plans, we would like your input. Here are a few details about the plan:

- The plan would only cover employees who don't have access to a retirement savings plan at their work and would not apply to employees already in a plan.
- Workers would contribute to the retirement savings account unless they took action to opt-out of the program. Employers could not make their own contributions.
- The plan would be sponsored by an outside organization and not by businesses like yours.
- A businesses' only responsibility would be to withhold money from participating employees' paychecks and send it to the retirement account on their behalf.

Survey Prompt for Non- Sponsors

Now I am going to ask a few questions about a new retirement plan intended to make it easier for employees at business without retirement plans to save for retirement. The plan would be sponsored by an outside organization and not by businesses like yours. Please indicate your level of support for each separate feature.

np8a. Businesses only responsibility would be to withhold money from participating employees' paychecks and send it to the retirement account on their behalf.

np8b. Businesses would not be required to contribute to the plan

np8c. Businesses would not have any legal responsibility for their employees' retirement accounts

np8d. Employees who don't have access to a retirement savings plan at their work would be offered the chance to participate in one.

np8e. By default, workers would contribute to the retirement savings account unless they took action to opt-out of the program.

np8f. Employees could stop or change their contributions at any time

np8g. As a starting point, participating employees would contribute a set amount of [Varied: 3% OR 6%] of their paychecks to the retirement account

np8h. Employees could withdraw their own contributions to the account at any point without a penalty

np9. Now I want you to think about all of these plan features together. Please tell me whether you would strongly support, somewhat support, somewhat oppose, or strongly oppose the plan.

Figure 1a: Reactions to Auto-IRA Plans by Small and Medium Sized Businesses Offering Retirement Plans

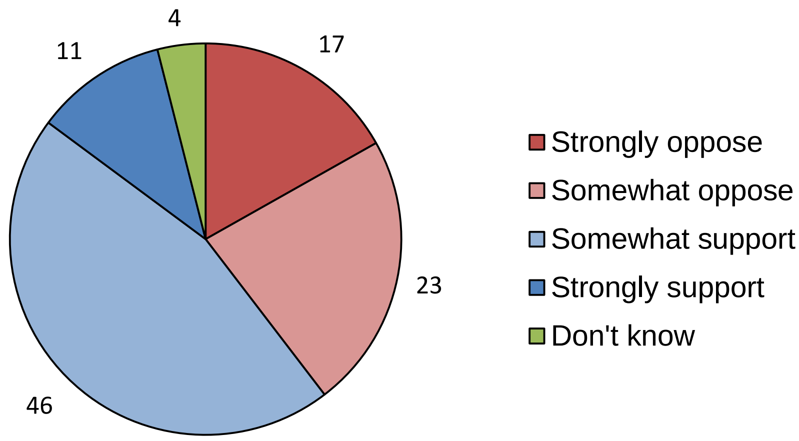
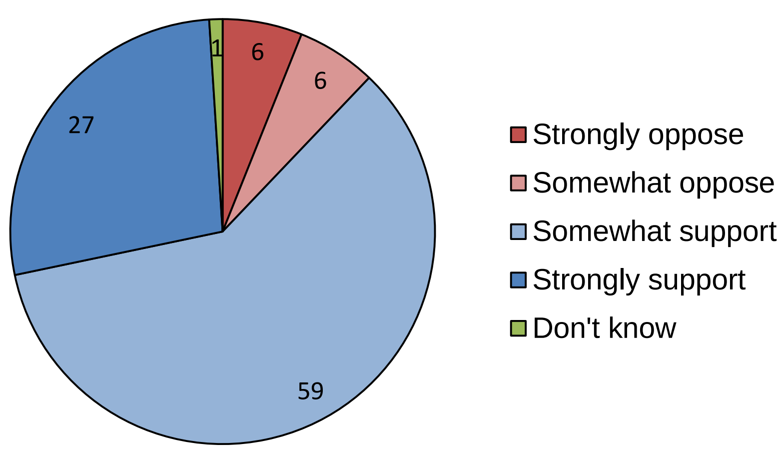
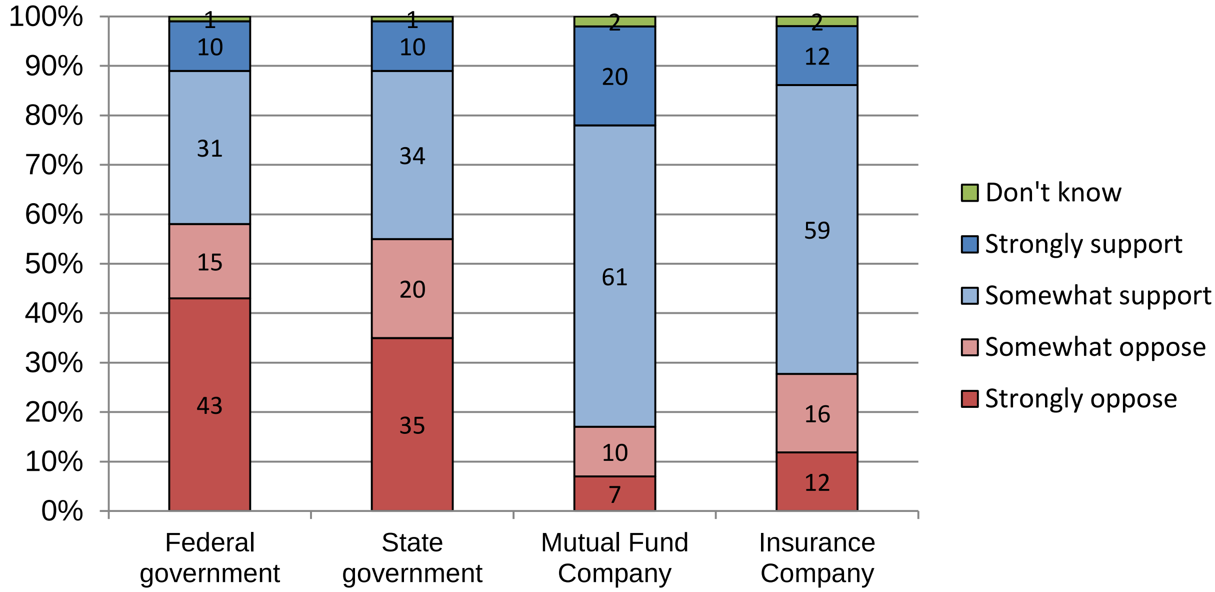


Figure 1b: Reactions to State Sponsored Auto-IRA Plans by Small and Medium Sized Businesses Not Offering Retirement Plans



The majority of both plan sponsors and non-plan sponsors support the auto-IRA plan proposals. However, plan sponsors were much more likely to report that they oppose the plan than were non-plan sponsors (40 percent compared to 12 percent). This is in line with previous findings from focus groups convened by The Pew Charitable Trusts in which non-plan sponsors were more amenable to an auto-IRA plan, which they felt would benefit their employees while not costing the business or overly stressing the employees.[xv]

Figure 2: Reactions to Different Sponsoring Organizations by Non-Plan Sponsoring Employers



Note Percentages may not add to 100 percent because of rounding.

Though initial reactions to these auto-IRA plans are overwhelmingly positive among non-plan sponsors, reactions changed pointedly when they were asked about different sponsoring organizations. Opposition was only 12 percent of the non-plan sponsoring businesses originally, and this number leaped to 58 percent when the federal government was the sponsoring agency and to 55 percent when it was the state government. Federal government was more likely to have "strongly oppose" as the reaction than state government.

Focus groups revealed that particularly when combined with automatic enrollment, businesses generally felt that the government—which participants believed was inept and could not be trusted to manage a program of constituents' money—forced participation, though some saw this as a good thing.[xvi]

> I don't know, I just feel like, with everything else [the federal government has] to take care, for them now to take *this* on with all of the *other* problems we already have, to me, is a big question mark. I don't have a lot of confidence in the state or the federal, to be honest. [A medium business participant in Chicago who doesn't offer a plan when asked if they view the state and federal government's ability to administer an auto-IRA plan any differently; italics indicate participant's stressed words]

> It has a "Big Brother" feeling to it. It's a little too heavy-handed. [A small business participant in Los Angeles without a plan responding to auto-enrollment]

> We don't have a state that is organized enough to handle its own future. We're in really big trouble, and you're talking about they're going to organize a retirement plan? [A small business participant offering a plan in Los Angeles reacting to hypothetical state sponsored auto-IRA plan]

Discussion of automatic enrollment among Chicago small business representatives that offer plans

Participant A: […I]t's like you've been forced. You've been tricked. You know, you haven't been treated as an adult that's able to make their own decision.

Participant B: And you may not be able to afford to have that money taken out.

Participant A: Depends, depends on your plan and how it's set up because, like she was saying, that's how it used to be, where it's like, open enrollment, we're closed, got to wait until the next time. Until then, it's coming out of your check.

Moderator: [Participant C], what do you think of that? I mean, is that a good idea, bad idea?

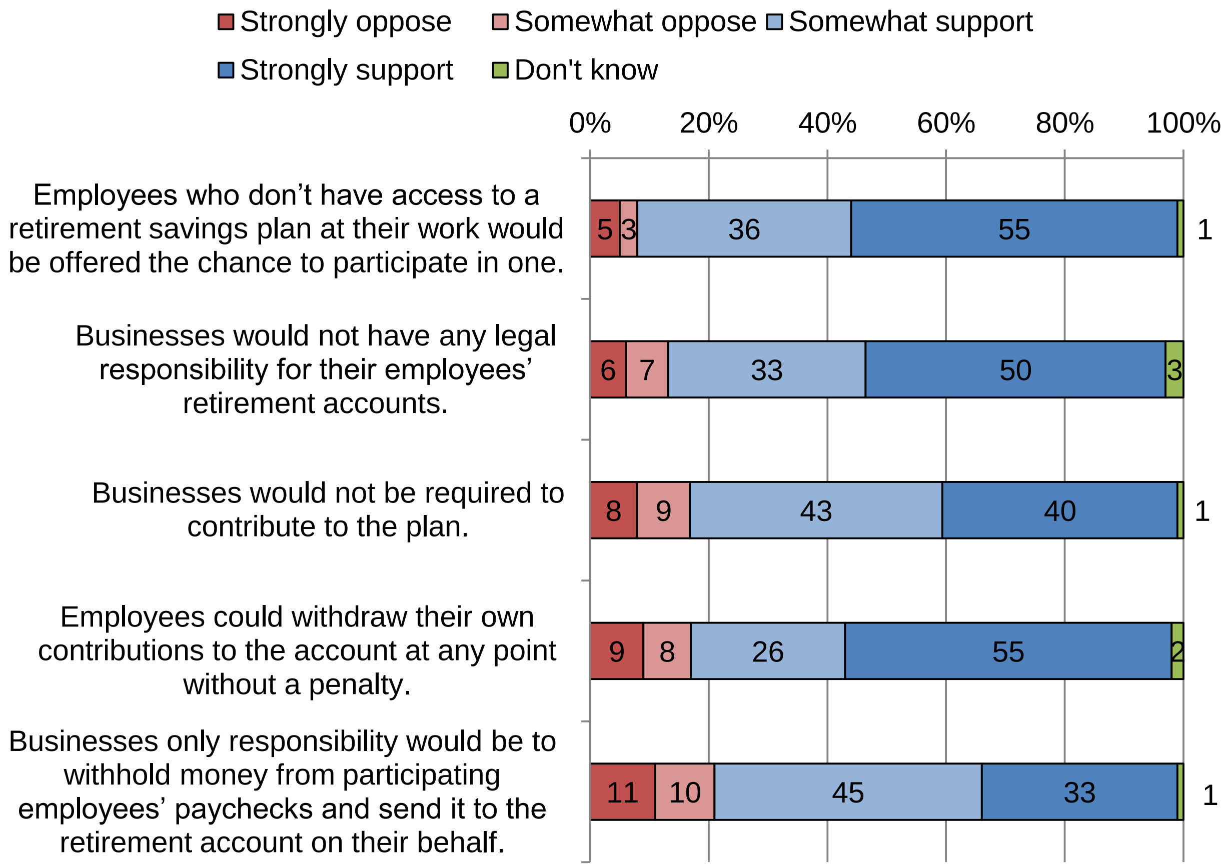
Participant C: I kind of feel like it forces you to prepare for the eminent future when you're not going to be working. Like, yeah, it's going to sting. But […] I see it more of a necessity.

Moderator: […] because thinking with your management hat on would you want to automatically have people automatically be enrolled in this 401k? Would there be benefits to that or not?

Participant D: Absolutely. It's the best thing you can do for these people. I've got three or four people who could never have bought a house without borrowing the money from their 401k.

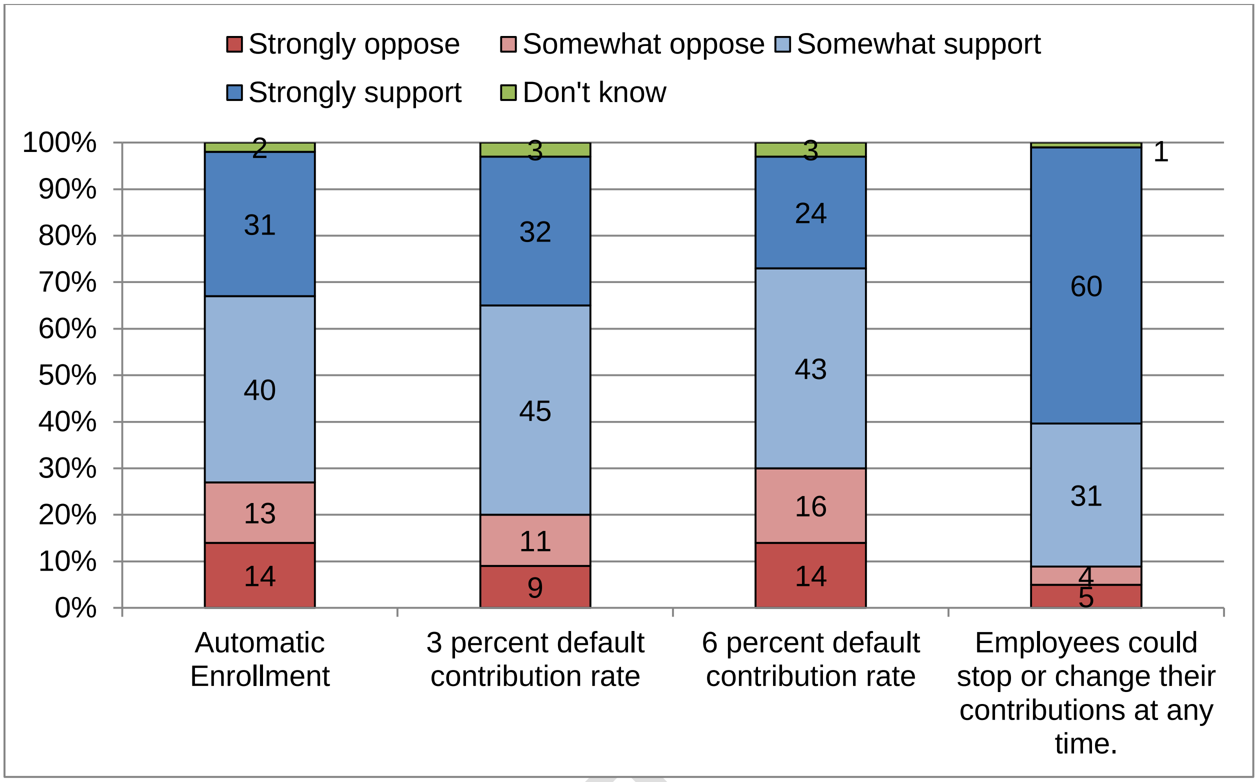
Compared to government, sponsorship by mutual funds and insurance companies is much more supported (roughly twice as many respondents supported company sponsorship as government sponsorship). However, even compared to initial support, both of these options have less support.

Figure 3: Reactions to Auto-IRA Proposal Pieces by Non-Plan Sponsoring Employers



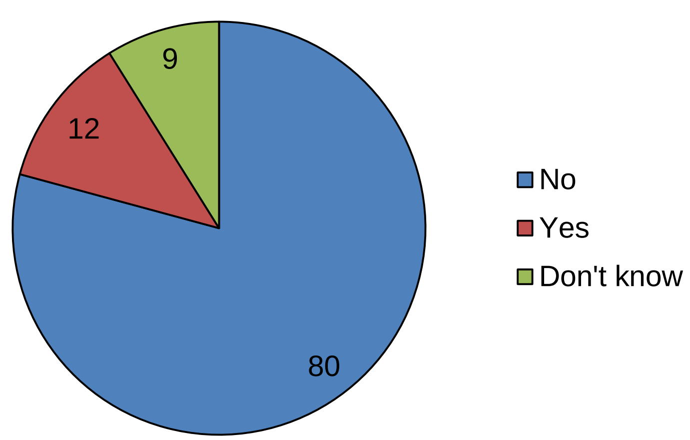
Non-plan sponsors were asked their support about a number of features of an auto-IRA plan, all of which had a great amount of support. Most supported was that employees who did not currently have access would be offered the ability to participate (91 percent). While the least support was given to businesses’ only responsibility being to withhold money, that was still highly supported (88 percent).

Figure 4: Reactions to Pro-Saving Proposal Pieces by Non-Plan Sponsoring Employers



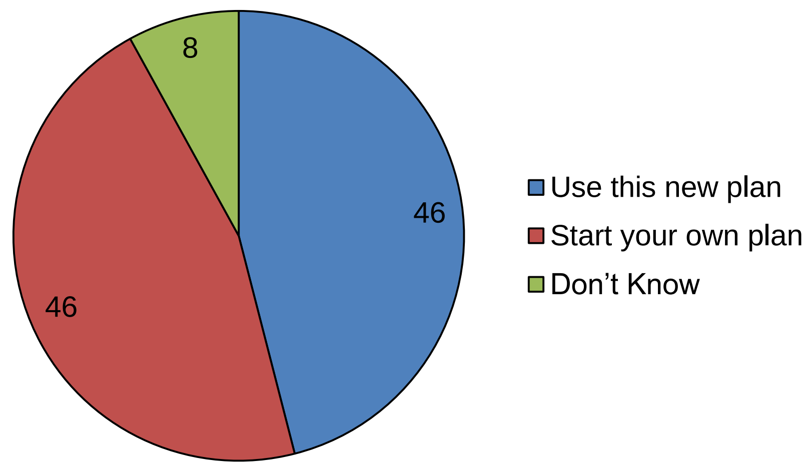
There was much more opposition to factors related to automatic enrollment by non-plan sponsors. Though there were favorable opinions that employees could stop or change their contributions at any time (91 percent somewhat or strongly supported), more than one in four employers opposed automatic enrollment. Those who were given a 6 percent default contribution rate by employees prompt were 50 percent more likely to strongly or somewhat oppose compared to those who were given a 3 percent default contribution. It is important to note that there was no difference in overall support of auto-IRA plans between employers who were given a 3 percent or 6 percent default contribution.

Figure 5a: Would Plan Sponsors Stop Offering a Retirement Plan for New State Plan?



Note Percentage does not add to 100 percent because of rounding.

Figure 5b: Would Non-Plan Sponsors Use State Sponsored Plan or Start Their Own Plan



Both plan and non-plan sponsors were asked if they would use the proposed state sponsored auto-IRA plans. While investment companies may be worried that a state sponsored plan would be bad for their business, these findings suggest otherwise. Very few plan sponsors (13 percent) would stop offering their plain to take advantage of a state sponsored plan. Focus groups revealed that many employers use retirement benefits as a means to obtain high quality employees. Not being able to offer a matching contribution would make them less competitive. Among non-plan sponsors, as many employers would use the state plan as would start their own plan. Many employers would like to offer a plan to employees but do not for a variety of reasons (e.g., cost, not knowing how to choose), and this policy may be the nudge to get them to do so on their own.

Offering Retirement Benefits Makes Employers More Competitive in the Job Market:
Another reason it's important, from a business standpoint of view, is retention. I mean, you know, you want to retain your employees. And if you don't offer them something that's competitive in a benefit package that offers retirement, certainly is going to, it brings loyalty, where I won't have to be doing turnover and turnover and turnover because, you know, Joe has found a different job that does offer those things. It's not constantly paying to train and paying to find people. [Chicago small business representative which offers a plan]

Non-plan sponsors want to offer a plan in the future:
I think if our cash flow was better, if the money was there to be able to provide. I mean, I have employees that have worked there for 30--35 years. They started there when they were 18. We have longevity, that after that much time of being some place, you walk away. And, I think more people, like you said, more people will stay if they had that, you know, there was something there. [Los Angeles medium size business representative without a plan]

Results from Employee Survey and Focus Groups

Reactions to State Auto IRA Proposals

The employee survey questioned those without access to a retirement plan about what they would do regarding a hypothetical state sponsored plan. Given that so many employers and employee focus group participants were untrusting of the state government, question wording was asked to minimize state involvement up front when asked about their initial reactions of staying in a plan or opting out. Then specific questions were asked about support of the plan, including a more detailed statement about state sponsorship in addition to a clear statement that neither the state nor employer contributes to the plan (see Appendix). After receiving more detailed information, the respondent was then asked again about whether they would stay in the program or opt-out. In this way, we are better able to tease out why respondents may opt-out or not.

State Proposal Auto-IRA Plan

Your employer would automatically deduct a contribution from each paycheck and deposit the money into a retirement account in your name. Your savings will be invested and provide you with income in retirement. This account will follow you if you change jobs. Some important features of this program:

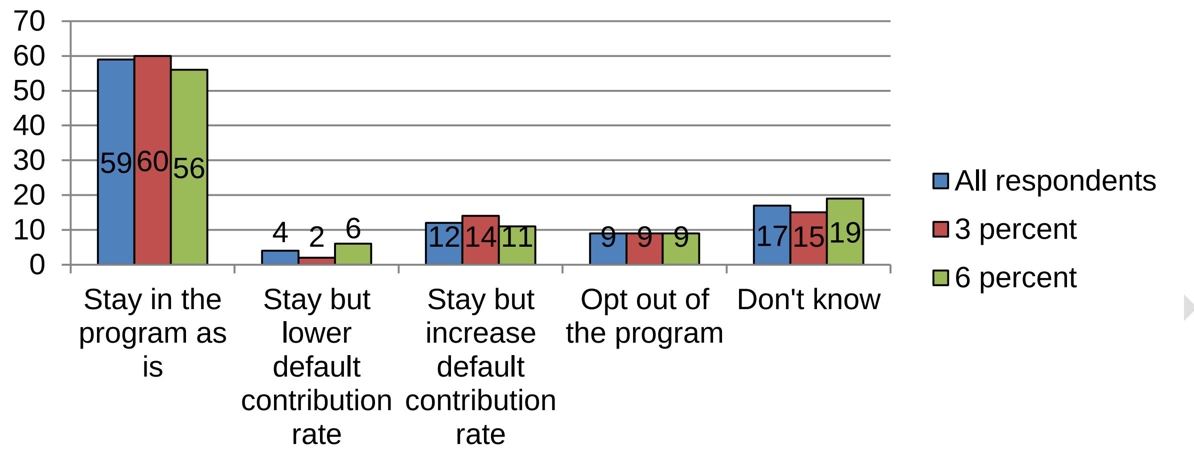
- By default, [3 or 6] percent of your pay, or [$30 or $60] per every $1,000 you earn, will be deducted and deposited into your account. You can change how much you contribute at least once a year and can stop contributions at any time by opting out of the program.
- The money will be invested in a fund with a mix of assets (e.g., stocks and bonds) appropriate for someone your age, managed by a private company that is regulated by the state. These “target date” retirement funds account for the amount of time until you retire and become more conservative as you approach retirement to lower investment risk and protect against loss.
- Contributions are made pre-tax; that is, you do not pay taxes on your contributions until you withdraw in retirement.
- Prior to retirement, you can withdraw your contributions at any time after paying taxes and a 10-percent early withdrawal penalty.

If you were informed of the details of this program and told you had 30 days to opt-out before being automatically enrolled, would you…

__ Stay in the program
__ Stay in the program, but ask your employer to change the contribution rate to [fill in] percent
__ Opt-out of program
__ Don’t know
__ Prefer not to say

See Appendix for subsequent questions regarding specific proposal pieces.

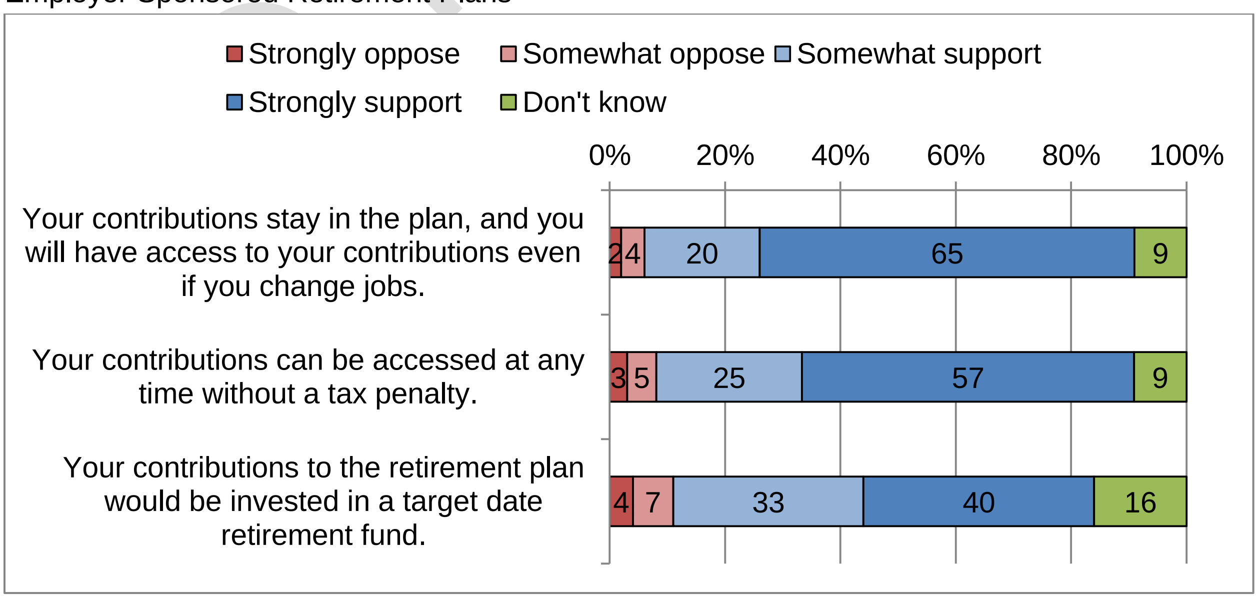
Figure 6: Initial Reactions to Proposed State Plans by Employees without Access to a Retirement Plan



The initial reactions to the proposed state plan were overwhelmingly positive. The majority of employees would stay in the program, though 16 percent of all respondents would change the default. Notably, 12 percent would *increase* their default contributions. Very few would opt-out (9 percent), but almost one in five respondents reported that they did not know what they would do in this situation. They may feel that they do not enough information, or they should consult with family members or financial advisors.

There were significant differences between workers who received the 3 percent default contribution rate prompt and those who received a 6 percent default rate. Those who had a 6 percent default contribution were more likely to lower their default contribution and were more likely to say they didn't know what to do in this situation than were those with a 3 percent default rate. However, opt-out rates were the same for both groups (9 percent)

Figure 7: Reactions to State Plan Proposal Individual Features by Employees without Access to Employer Sponsored Retirement Plans

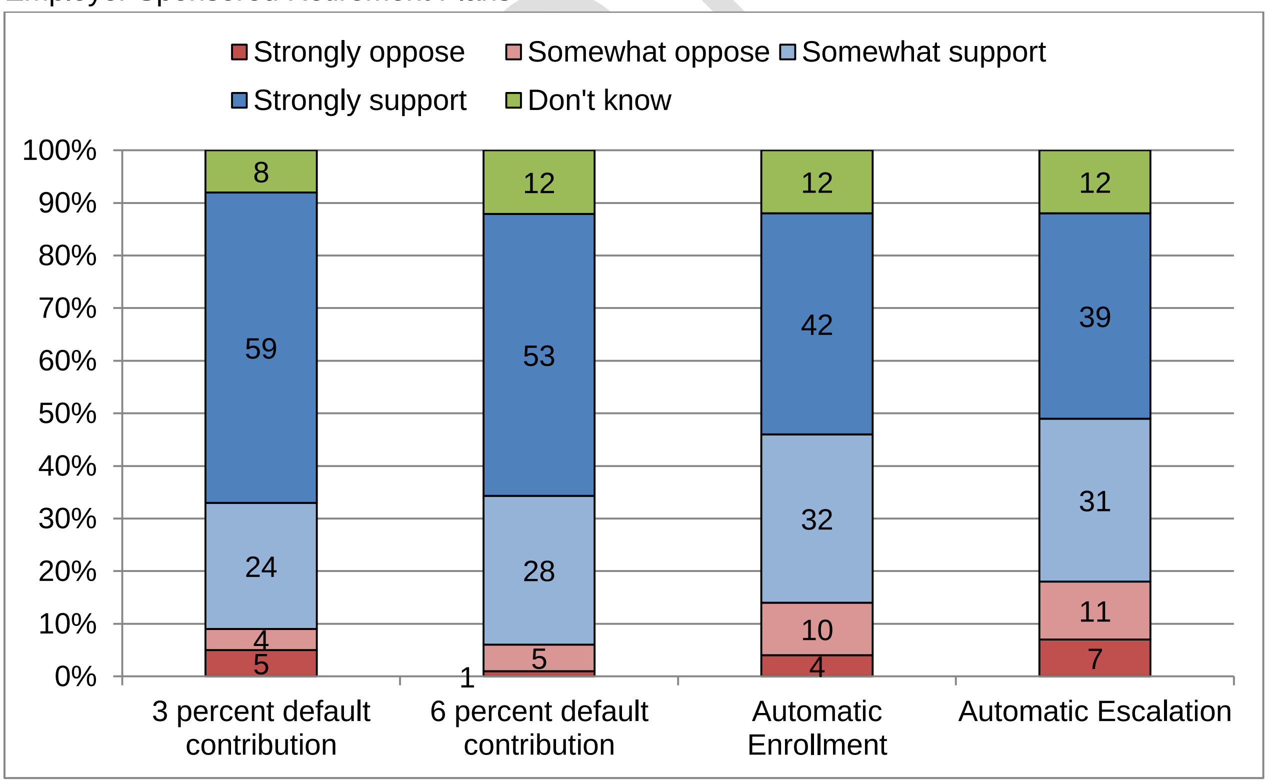


The survey asked for levels of support of individual features of the proposed plan in addition to more detail about sponsors, contributions, and pro-saving features. There were relatively high rates of support for each of the individual plan features. Respondents most supported that the contributions were mobile and could be accessed at any time without penalty as well as the contribution rates themselves. Other Pew research showed that building an emergency fund was a priority for many families, offering a Roth IRA type plan would be well supported and helpful as it could serve as emergency savings.[xvii] Given that many individuals have not had any experience with retirement plans, the ability to access and control contributions may give potential participants a certain level of trust or comfort with the program. Further, it is likely that so many do not know how they feel about having a retirement plan invested in a target date fund because of a lack of financial literacy. The full survey question describes this plan, but still may be unclear those without experience.

> Your contributions to the retirement plan would be invested in a target date retirement fund, which accounts for the amount of time remaining until you retire. The fund becomes more conservative as the "target date" (the date of expected retirement) approaches to lower investment risk and protect against loss.

It is important that the dissemination of information about proposed plans include a clear description of such plans.

Figure 8: Reactions to State Plan's Pro-Savings Features by Employees without Access to Employer Sponsored Retirement Plans



There was a statistically significant difference in support for a default contribution rate of 3 percent and of 6 percent. Those who saw a 3 percent default contribution rate were more likely to strongly support this feature (59 percent compared to 53 percent) but also more likely to strongly oppose (5 percent compared to 1 percent). However, when combining somewhat and strongly support, there is little difference (83 percent of those who saw a 3 percent default contribution and 81 percent of those who saw a 6 percent default contribution). Further, given there was no difference in opting out (9 percent), these results suggest that policymakers may be able to help constituents more effectively save by using a 6 percent default contribution rate.

Pro-savings features—automatic enrollment (employees participate in plans unless they opt-out) and automatic escalation (contributions increase annually until a contribution limit is reached)—are also highly supported. Among those without access to a retirement fund, 84 percent of respondents somewhat or strongly support automatic enrollment and 79 percent support automatic escalation. Among focus group participants without retirement plans, there was also relatively high support. Many responded that this was *forced* savings, but the connotation was not always negative as some saw this as a push in the right direction though others worried that they would not remember or easily be able to opt-out. For others, the fact that you can change contributions or stop contributions at any time was the main reason they supported this plan.

Focus groups participants' reactions to automatic enrollment

> I think it goes back to kind of what we were talking about: it's forced. I don't want to say forced savings, but it makes you think about saving for the future. And since the plan allows you—or would allow you in a case of an emergency—to withdraw that money without a penalty, that puts me at ease of mind to say, hey, look, this is a good way to save money. [Participant from a medium size business without a plan in San Jose]
>
> I'm not really sure because like I feel like you could opt-out, which is good, but at the same time, I'd be afraid that I would miss like the memo to opt-out and I would be stuck in it, and then I wouldn't like it. So I feel like I'd rather not be like a mostly forced thing. If it was something you could sign up for, that might be better, be like something you choose to do. But if it's just like you have to opt-out, then it seems intimidating and sketchy. [Participant from a small business without a plan in Philadelphia]
>
> I don't have a problem with it, because you can always change it later. [Participant from a small business without a plan in Atlanta]
>
> I want to say: I don't want somebody controlling my paycheck, right? But I also want to say that because I don't do it on my own, for me this would be good, even if it's not being matched because at this point, I need to save regardless. So if somebody is taking money out of my check, and I then I can access it for retirement, then I'm okay with that. Otherwise, I'm not going to save it. [Participant from a small business without a plan in San Jose]
>
> Unless it's really clear you have the option to decline and everyone knows that that's an option. If it could slip past people wouldn't know, I feel like it's bad in that

point. [Participant from a small business without a plan in Philadelphia].

I'm not really sure because like I feel like you could opt-out, which is good, but at the same time, I'd be afraid that I would miss like the memo to opt-out and I would be stuck in it, and then I wouldn't like it. So I feel like I'd rather not be like a mostly forced thing. If it was something you could sign up for, that might be better; be like something you choose to do. But if it's just like you have to opt-out, then it seems intimidating and sketchy. [Participant from a small business without a plan in Philadelphia].

Have we not seen what kind of a mess the government makes? [Participant from a medium sized business without a plan in Atlanta in reaction to the possibility such a plan could be managed by the state]

Focus groups participants' reactions to government sponsorship

Participants from small businesses without plans in Philadelphia discussing auto-IRA plan sponsorship:

Participant E: I have no problem with the outside company. I know [Participant F] and some other people do. I have more problem with it being run by the state.
Participant F: Yeah, that would be actually worse. The state doesn't know what they're doing.
Participant E: Because I think the state would—I mean, unless the state hired someone that knows what they're doing—you're going to have some clerk sitting, "oh, yeah, let's throw a couple hundred thousand in here."

Just the being monitored by the state is all--it just scares me. […] All the stuff you hear on the media about the state [trails off]." [Participant from a small business without a plan in Chicago].

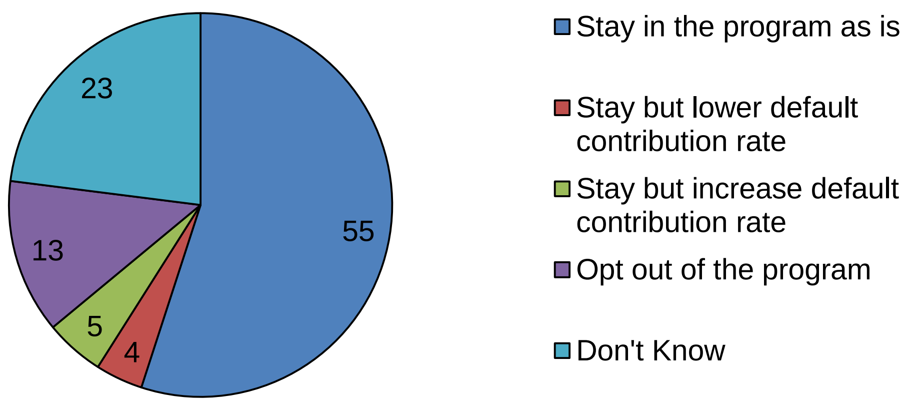
Overall, workers in focus groups, like employers, thought the plan was a good idea overall but were reluctant to lend their support because of the state involvement. Because of this hesitation, survey question wording was as specific as possible to clarify that the state is not managing the money nor will it be able to access the funds.

Figure 9: Reactions to State Sponsorship and Respondent-Only Contributions by Employees without Access to Employer Sponsored Retirement Plans

Support of a state sponsored plan was higher among employees than among employers (see Figure 2). Of employees, 64 percent somewhat or strongly supported a plan sponsored by state. Unlike the business survey, the employee survey explicitly stated “your contribution is still deducted from your paycheck by your employer who deposits it in your personal individual retirement account, which is managed by a private investment company. The investment company would be selected and monitored by the state. The funds in your account are legally your money, and cannot be accessed by your employer or the state.”

Because 401(k) retirement plans often include a matching contribution from the employer, it is possible that employees responded more positively believing that their employer or the government would also contribute. To address this, the survey explicitly states that only the respondent would contribute to their retirement plan. This received the least support of all features, but still 44 percent somewhat or strongly support this.

Figure 10: Reaction to State Proposal after All Details



After receiving all details—including state sponsorship and only the respondent contributing to their retirement savings plan—respondents were asked again if they would stay in the plan, stay in the plan but change the default contribution, or opt-out. Slightly more would opt-out (13 percent after all details compared to 9 percent initially), and fewer would participate (64 percent after all details compared to 75 percent initially). Table X shows how reactions changed between the initial and final prompt. The vast majority did not change views after learning additional details (77 percent), though some changed their views to opting out (7 percent) or to being undecided about what to do (11 percent).

Table 3: How Reactions Changed between Initial and Final Prompt

	Percent
Always opt-out	6
Always contributes	60
Always don't know	11
Originally contributes, then opts out	6
Originally opts out, then contributes	0

Originally contributes, then don't know	9
Originally opts out, then don't know	2
Originally don't know, then contributes	4
Originally don't know, then opts out	1

Reactions to Pro-Savings Features by Employees with Access to Employer Sponsored Plan

Employees who do not participate in available employer sponsored retirement plans were asked for reactions to pro-savings features. Though these questions are similar to the state proposal questions, they stipulate that these features are a part of the *employer* sponsored plan.

Figure 11: Reactions to Automatic Enrollment by Employees with Access to a Retirement Plan Who Don't Participate

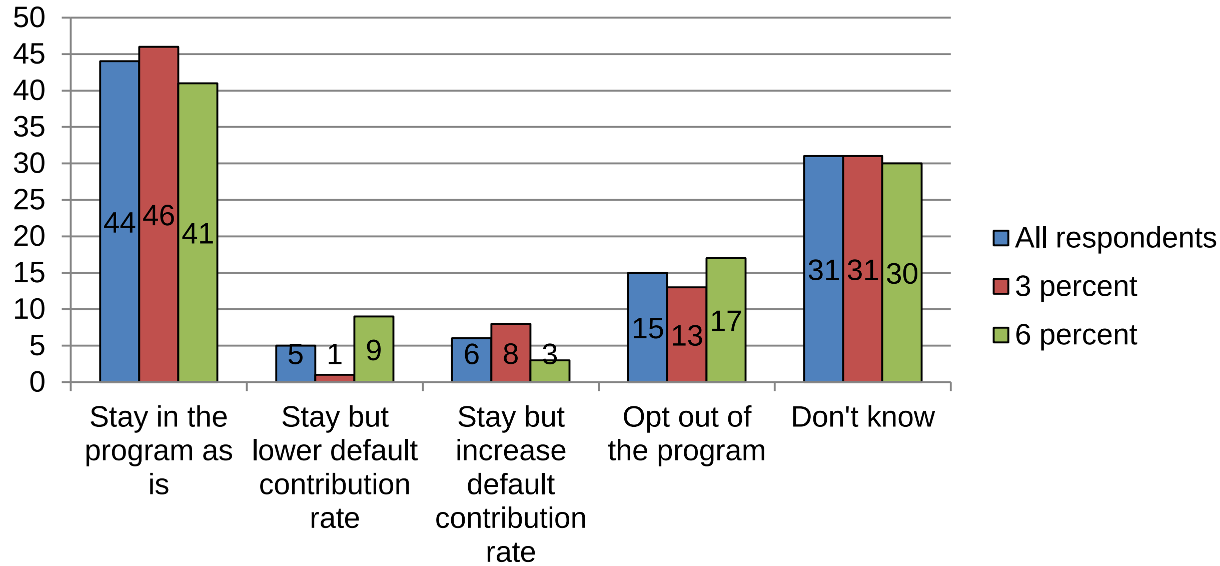
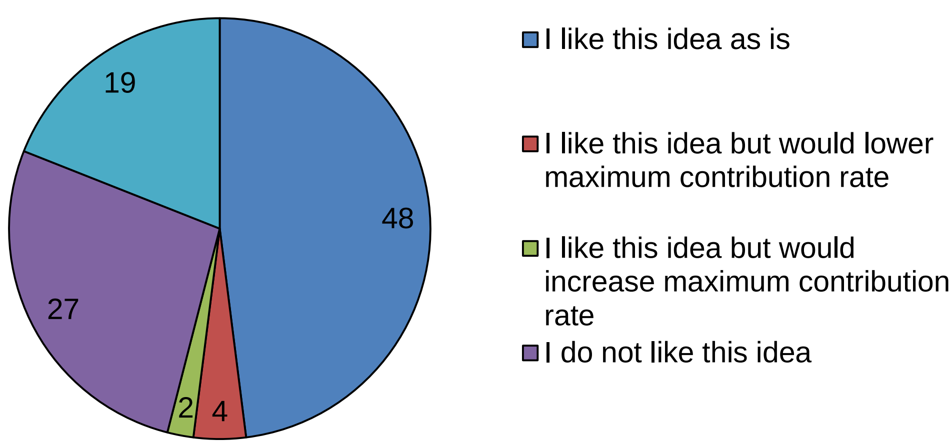


Figure 12: Reactions to Automatic Escalation by Employees with Access to a Retirement Plan Who Don't Participate



Compared to the initial reactions to the state proposal, more respondents with access to employer sponsors plans would opt-out of an automatic enrollment plan (15 percent compared to 9 percent) or are undecided (31 percent compared to 17 percent). Moreover, there is less support for automatic escalation. Compared to 70 percent of employees without employer sponsored retirement plans who somewhat or strongly supported automatic escalation, 54 percent of employees with access said that they liked this idea (6 percent would change the maximum contribution rate).

Conclusion

Many working Americans face an uncertain retirement future. Similar to extant research, workers in focus groups expressed anxiety that they are not saving enough, that volatile markets meant that what their savings might not be enough, or that they would outlive their savings. Several participants felt that they had to work as long as possible because they could not afford to retire.[xviii] Over one-third of working Americans lack access to an employer sponsored retirement plan, and only half of working Americans participate in such a plan.[xix] Though employers would often like to provide retirement benefits, the cost of a plan is a major hindrance.[xx] Efforts by both employers and state policymakers to increase retirement savings through automatic enrollment and state sponsored auto-IRA proposals seek to address these coverage gaps. The extent to which they can be effective will in part be determined by how palatable they are to those affected.

The analyses presented in this paper point to two notable takeaways for policymakers. First, while both workers and business representatives in focus group participants saw preparing for retirement as important, they often saw automatic enrollment and the auto-IRA proposal as forced participation into a plan they did not choose and worried that the state government wouldn't manage the program effectively. Employee focus group participants were more agreeable, noting that contributions could be changed at any time. Employee and business representative survey results also diverged regarding state involvement. Both federal and state government sponsorship was met with a sharp decline in support by business representatives, but approximately two-thirds of employees supported state sponsorship. This suggests that the dissemination of clear information about these plans is incredibly important to the reaction received.

Employers weighing introducing automatic enrollment as part of their retirement plan should carefully consider how they roll this out to their employees. Similarly, state governments considering or implementing an auto-IRA plan in their state will need to think critically about the role of the state and how they present the plan to their state's workers. These plans often include automatic enrollment as well and policymakers will need to clearly communicate to workers their options and provide them with clear and complete information. Emphasizing the aspects of the plans workers approved of, including the accessibility of their funds, the portability of their plans, and the ability to adjust their contribution amount as well as the professional management of the funds would likely increase support for such a program.

The second finding is that states that want to maximize savings can feel more comfortable introducing a higher default employee contribution rate. Despite a difference in support of the default contribution rate between employees presented with a 3 percent and a 6 percent contribution, there was no difference in opt-out rates. While those receiving a 6 percent default contribution were more likely to lower the contribution rate, they were somewhat more likely than others to stay in the program as is.

Workers want to save for retirement, and businesses want to help their employees, but there are barriers to both groups. This paper addresses the reactions to one policy solution: the auto-IRA plan. Overall, reactions were positive, but with a caveat: businesses and employers do not want to feel like government—an entity they often mistrusted with finances—is forcing them to do something. Because of this, it is important for government agencies to be clear about their role with constituents.

Appendix

Questions about specific pieces of state proposed auto-IRA plans

H2a. Your contributions occur can be accessed at any time without a tax penalty.

H2b. As a starting point, your contributions to the retirement plan would be a set at [3 or 6] percent of pay, but you could change that amount at any time.

H2c. Imagine an additional plan feature where every year, the percent of pay that you would contribute to the plan would automatically increase by 1 percent until it reaches [7 or 10] percent. For example, after one year it would change from [3 or 6] percent to [4 or 7] percent. But again, you can adjust your contribution or stop this increase at any time.

H3A-H3C PRESENTED IN RANDOM ORDER:

> H3a. Your contributions to the retirement plan would be invested in a target date retirement fund, which accounts for the amount of time remaining until you retire. The fund becomes more conservative as the “target date” (the date of expected retirement) approaches to lower investment risk and protect against loss.
>
> H3b. You are automatically enrolled after an enrollment period and would have to opt out if you did not want to participate. That is, contributions to the account would automatically come out of each paycheck unless you told your employer that you did not want to participate. You could opt out at any time.
>
> H3c. Your contributions stay in the plan, and you will have access to your contributions even if you change jobs.

H3d. Suppose this plan is sponsored by your state government. Everything about the plan remains the same: your contribution is still deducted from your paycheck by your employer who deposits it in your personal individual retirement account, which is managed by a private investment company. The investment company would be selected and monitored by the state.

The funds in your account are legally your money, and cannot be accessed by your employer or the state.

H3e. Only you make contributions to your fund; neither your employer nor the state government would make contributions.

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