

October 24, 2023

Massachusetts Joint Committee on Financial Services
The Honorable James Murphy, House Chair
The Honorable Paul Feeney, Senate Chair
24 Beacon Street, Room 112
Boston, MA 02133

Re: ARA Supports H. 998 & S. 624 – the Massachusetts Secure Choice Savings Program Act

Dear Chair Murphy and Chair Feeney:

The American Retirement Association (ARA) writes in support of House Bill No. 998 and Senate Bill No. 624, legislation that creates the Massachusetts Secure Choice Savings Program to help close the current retirement plan coverage gap in the private-sector workforce in the Commonwealth of Massachusetts.

The ARA is the coordinating entity for its five underlying affiliate organizations representing the full spectrum of America's private retirement system – the American Society of Enrolled Actuaries (ASEA), the American Society of Pension Professionals and Actuaries (ASPPA), the National Association of Plan Advisors (NAPA), the National Tax-Deferred Savings Association (NTSA), and the Plan Sponsor Council of America (PSCA). Combined the ARA represents over 35,000 retirement plan professionals nationwide, including 1197 members in the Commonwealth of Massachusetts.

The ARA's members and the organizations they are affiliated with support 95 percent of all the defined contribution plans, such as 401(k) plans, in the United States. The ARA and its underlying affiliate organizations are diverse in the roles they play but are united in their dedication to the success of America's retirement system.

The ARA's mission is to help American workers bolster their retirement security by facilitating well-designed workplace retirement savings plans. We do that by educating retirement benefits professionals, and by advocating to give every working American the opportunity to achieve a comfortable retirement. The ARA – in its over 50-year existence – has consistently and actively supported efforts to expand retirement plan coverage in the private workforce.

Secure Choice Programs Address Racial Inequities in Retirement Savings

Workplace retirement saving plans are successful for those that have access to them. These plans provide long term economic growth and build financial security for the middle class. The critical factor that determines whether moderate-income workers save for their retirement is whether they have access to a retirement savings plan at work. Data shows that more than 70 percent of workers earning \$30,000 to \$50,000 will save in a plan when given the opportunity at work, but fewer than 7 percent save on their own through an IRA.¹ In other words, moderate-income workers are 12 times more likely to save for retirement if they have access to a retirement savings plan at work.

Historically, workers in minority and underserved communities have faced barriers to accessing retirement plans due to limited access to workplace retirement plans, like 401(k) plans. This retirement

¹IRS tabulations and Vanguard, *How America Saves*, 2018

plan coverage gap, and the corresponding lack of retirement savings, is particularly pronounced in the Black and Hispanic communities. According to a recent research report, 52 percent of Black Americans and 68 percent of Hispanic Americans do not currently have access to a workplace retirement plan.²

Expanding retirement plan coverage with automatic enrollment is the key to addressing racial inequities in retirement savings. Data shows that when moderate income workers are automatically enrolled in a workplace retirement plan there is no racial disparity in retirement savings participation with Black, Hispanic, and White Americans all participating at an 80 percent rate.³ Closing the retirement plan coverage gap helps achieve equality and fairness in retirement savings opportunities.

New research clearly shows the positive impact these programs have in helping underserved and moderate income workers save for their retirement. For example, an analysis of OregonSaves, the first state law in the country to require their state businesses to offer a retirement plan for their workers, shows a statistically significant increase in household retirement assets and no negative impact on other types of savings, with larger effects concentrated among older, female, single, and childless workers, and in lower-income households.⁴

Secure Choice Programs Are Good for Small Businesses

The Massachusetts Secure Choice Program is modeled after the auto-IRA concept first proposed in a 2006 paper co-authored by Mark Iwry with the Brookings Institution and David John with the Heritage Foundation. Auto-IRAs are designed to be simple and low-cost, with minimal paperwork and administrative burden for the employer.

Small businesses benefit from these auto-IRA programs. Nearly all small businesses that do not have a retirement plan want to offer one for their employees. After conducting a national survey of small business owners, Pew Charitable Trusts found that 86% of small and mid-sized employers without plans – employers with between 5 and 250 employees – support the concept of a payroll deduction retirement plan with automatic enrollment. Among small employers without plans, 51% said they would start their own plan rather than enroll workers in the state-facilitated program.⁵

The policy problem is not that there is a lack of retirement products available to small businesses. There are plenty of retirement plans available at a reasonable cost and generous federal retirement plan startup tax credits for small businesses. The problem is that many small business owners are too busy running their own businesses to focus on offering a retirement plan to their employees, so a nudge is needed to get them to act. However, we believe that any requirements placed on employers should be designed to minimize the burden on the employer while achieving the desired policy outcome of increasing the availability of workplace savings arrangements.

²Richard W. Johnson, Urban Institute Fellow, *How Can Policymakers Close the Racial Gap in Retirement Security?* October 2020, available at: https://www.urban.org/research/publication/how-can-policymakers-close-racial-gap-retirement-security/view/full_report

³401(k) Plans in Living Color, A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups, The ARIEL/Aon Hewitt Study, 2012.

⁴Dao, Ngoc. Does a Requirement to Offer Retirement Plans Help Low-Income Workers Save for Retirement? Early Evidence from the OregonSaves Program (August 2023) available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4561558

⁵ Pew Charitable Trusts, Small Business Views on Retirement Savings Plans, January 2017, available at: <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/01/small-business-views-on-retirement-savings-plans>

Secure Choice Programs in Place in 15 states

In recent years, state governments have taken steps to close the retirement plan coverage gap in their jurisdictions with the enactment of laws that mirror House Bill No. 998 and Senate Bill No. 624. A key policy feature of nearly all these automatic IRA programs is a requirement that businesses over a certain size provide access to some type of retirement plan to their employees. If employers do not already offer a workplace retirement plan, or do not want to adopt one available to them in the private marketplace, they can enroll their employees in the state program. To date, 15 states have enacted such programs.

The ARA believes that House Bill No. 998 and Senate Bill No. 624 strikes the proper balance to close the retirement plan coverage gap in the private sector workforce to the greatest extent possible while imposing the minimum possible burden on Massachusetts' employers. House Bill No. 998 and Senate Bill No. 624 requires private sector employers with 5 or more employees in the Commonwealth of Massachusetts to offer a retirement plan to their employees. House Bill No. 998 and Senate Bill No. 624 ensures that any type of retirement plan, such as a 401(k) plan, satisfies the requirement. Further, House Bill No. 998 and Senate Bill No. 624 create a state-facilitated IRA-based retirement program designed to be exempt from the Employee Retirement Income Security Act (ERISA). This approach – unlike the more radical approach taken in House Bill 1070 – will not force the state to compete with the many existing retirement plan products in the marketplace.

The ARA appreciates the opportunity to share its views on this important issue with the Joint Committee on Financial Services. The ARA strongly supports House Bill No. 998 and Senate Bill No. 624 and urges its prompt enactment into law.

Sincerely,



Brian H. Graff, Esq., APM
Chief Executive Officer
American Retirement Association

cc. Representative Paul Donato
Senator Sal DiDomenico