

## **An Assessment of Demand for Retirement Income Savings in New Mexico**

Underinvestment in retirement savings nationwide creates the potential for fiscal challenges as states must face the prospect of relying on public funds to fulfill the needs of aging populations. States with a high percentage of low-income workers are especially vulnerable because those individuals are less likely to have adequate retirement savings.

The data suggest that New Mexico has a relatively lower percentage of private-sector workers who have a retirement plan available to them through their employers compared to the rest of the nation. This result holds across multiple dimensions such as work status (e.g., full-time versus part-time), income, education, and the like. Additionally, every 2 out of 3 (67%) private-sector workers in New Mexico have \$0 saved for retirement, which is a larger percentage of employees with zero cash savings than the national average. Exacerbating this problem is the expected trajectory for population growth for retirement-aged individuals in the state. At expected rates of population growth and current savings rates, the number of persons 60+ years old with less than \$10,000 saved for retirement in New Mexico will increase by 111,500, to 469,000, by 2040.

To investigate the issue of underfunded retirement savings as it relates to New Mexico, Senate Joint Memorial 12 (the Memorial) created the Retirement Income Security Task Force (the Task Force) (see <http://www.sos.state.nm.us/uploads/files/SJM12-2017.pdf>).

Between June 29, 2017, and June 7, 2018, the Task Force held seven meetings, including two ad hoc committee meetings, with key stakeholders in the community. The Task Force examined relevant data and analyzed recommendations related to two key areas contemplated by the Memorial. In particular, the Task Force assessed the retirement savings shortfall in New Mexico and provided general recommendations for managing the shortfall.

As a result of the expected underfunded retirement savings in New Mexico, the Task Force recommends four legislative actions: one related to financial literacy, one related to the creation of an online marketplace, one related to the creation of a voluntary state IRA (which, depending on a predetermined set of triggers, may convert to a mandatory IRA), and one related to a request for an advisory opinion from the New Mexico Attorney General. Each recommendation is detailed below.

- (1) The Task Force recommends the development and funding of a state-wide educational curriculum in financial literacy with a specific focus on retirement savings and planning. Curricula developed and deployed should focus on both young adults and older individuals. This recommendation recognizes that in order to ensure a robust uptake in any program implemented by the state, New Mexicans must be made aware of the critical nature of saving for retirement and be given the tools to be successful.

- (2) The Task Force recommends the development of an online marketplace portal for private-sector retirement plans that are vetted by an appropriate state entity. This will encourage employers to make available private-sector retirement plans for their employees by lowering the barriers and complexity of retirement planning.
- (3) Because not all employers will choose to, or have the ability to, start and fund a retirement program for their employees, the Task Force also recommends the creation of a state-sponsored voluntary payroll deduction Individual Retirement Account (IRA) program, where participation for both employers and employees would be voluntary. This will supplement the marketplace program.
- (4) If the combination of the marketplace and voluntary state IRA program does not meaningfully meet the goals of increased program participation, an automatic state IRA program will be triggered by a pre-determined measurable event as a replacement for the voluntary state IRA program. Employer participation would become mandatory, but employees will still be allowed to opt-out. Using a payroll deduction system, a chosen percentage of the employee's paycheck would be automatically deducted and placed in that individual's personal state IRA account. This will capture employees most at risk from retirement underinvestment and will expand the universe of individuals in the state covered by some type of retirement program. The Task Force does not recommend a specific event to trigger the creation of the automatic IRA program; however, possibilities include specifying a number of intervening years after the creation of the marketplace model; specifying a percentage of private-sector workers who must be covered by the marketplace (or other program) by a given date (if that threshold is not met, then the automatic IRA program is triggered); or similar events/triggers.
- (5) Due to the uncertainty surrounding the federal interpretation of the Employee Retirement Income Security Act (ERISA, a federal law regulating voluntary private-sector employee benefit plans) as it relates to the implementation of an automatic IRA program, the Task Force requests an advisory opinion from the New Mexico Attorney General. The Task Force specifically requests that the Attorney General provide an opinion regarding (a) whether automatic enrollment of employees into an IRA program will likely trigger ERISA and therefore impose a fiduciary responsibility on the employer, and (b) whether allowing for the voluntary participation of employers in the automatic IRA program will trigger ERISA.