

Retirement Income Savings in New Mexico & Recommendations for Addressing the Shortfall

A presentation to the Investment & Pensions Oversight Committee

Presented by Dr. Jeffrey Mitchell, Director, UNM-BBER

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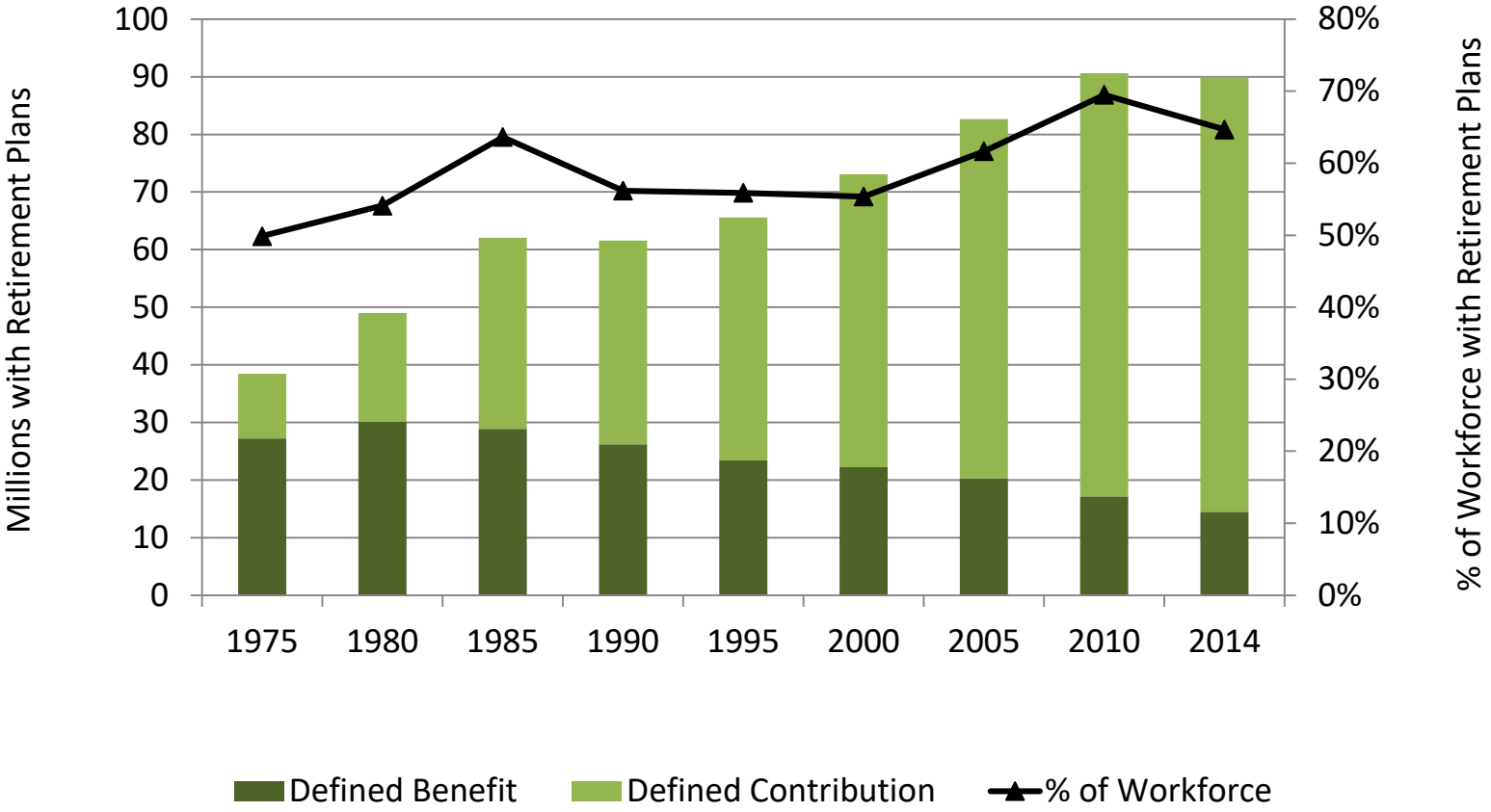
Overview

- Overview of findings & Task Force recommendations
- Review of data
- Possible solutions (embraced by other states)
 - Marketplace model
 - MEP model
 - Automatic IRA model
 - Voluntary IRA model
- Principles to consider in any planning strategy
- Roadmap / considerations for designing a plan
- Recommendations (a multipronged approach)
 - Financial literacy & education
 - Hybrid Marketplace & voluntary state-IRA Model
 - Subsequent automatic IRA model
 - Attorney General Advisory Opinion

Principal Data Findings

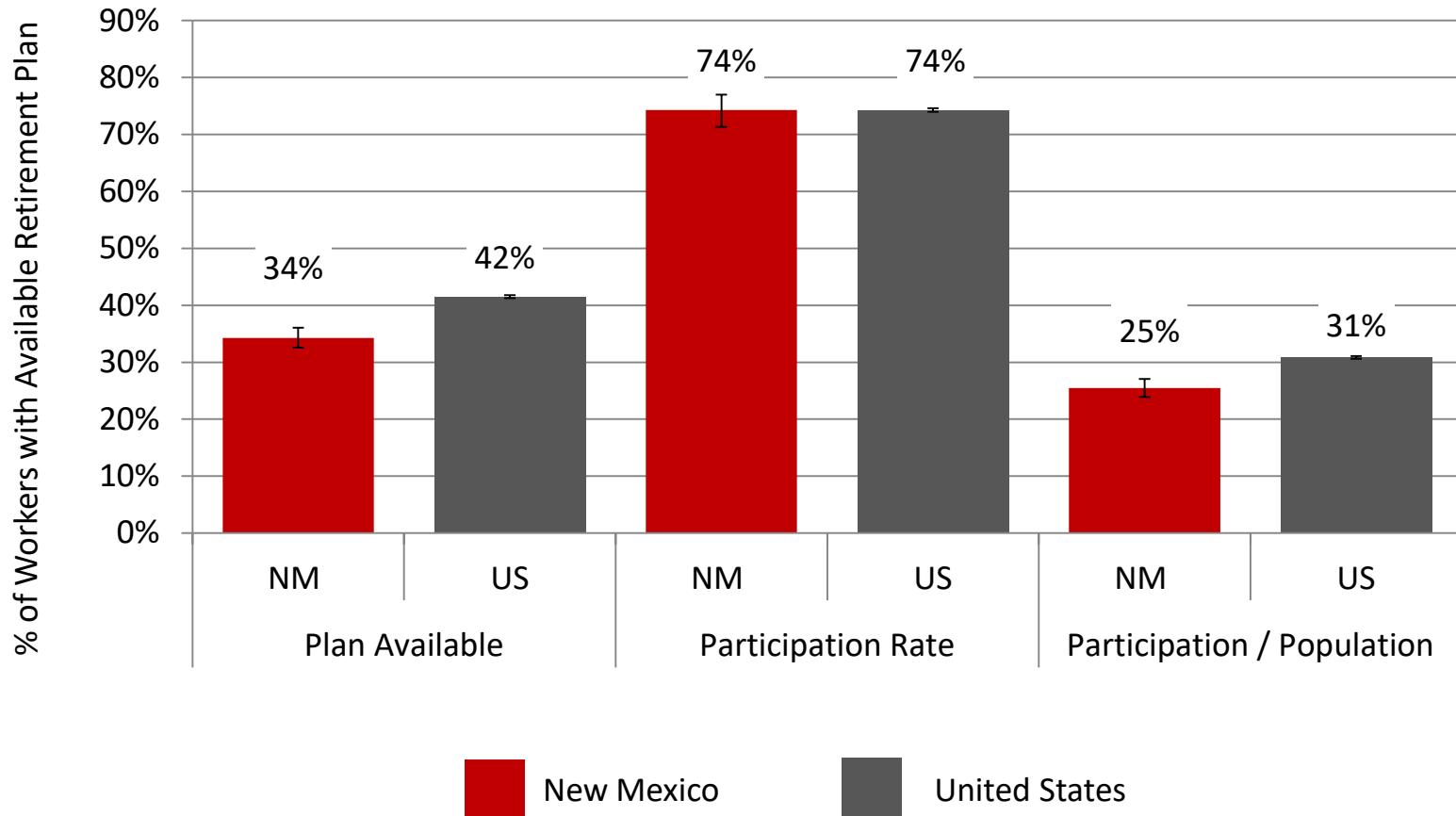
- Nationally – participation in retirement programs is generally increasing – but the growing share of programs are ‘Defined Contribution’ with little invested in them
- New Mexicans with access to a private sector Employer-Based Retirement Plan are as likely to participate as all US workers (74% each), but a smaller share have access to plans (34% vs. 42% nationally)
- Thus, a smaller share of New Mexicans participate in Private Sector Employer Plans (25% vs. 31%)
- This pattern holds according to nearly every worker and employer characteristic; e.g. firm size, part-time status, earnings, education
- Of persons 50+ y/o, 56% of employed New Mexicans have no retirement savings; only 27% have \$10,000 or more in savings
- By 2040, New Mexico’s population 60+ y/o will grow by one-third, from 465,000 to 614,000
- At current rates, the number of persons 60+ y/o with <\$10,000 in New Mexico will increase by 111,500, to 469,000 by 2040

Participation in US Employer Retirement Plans, 1975 - 2014



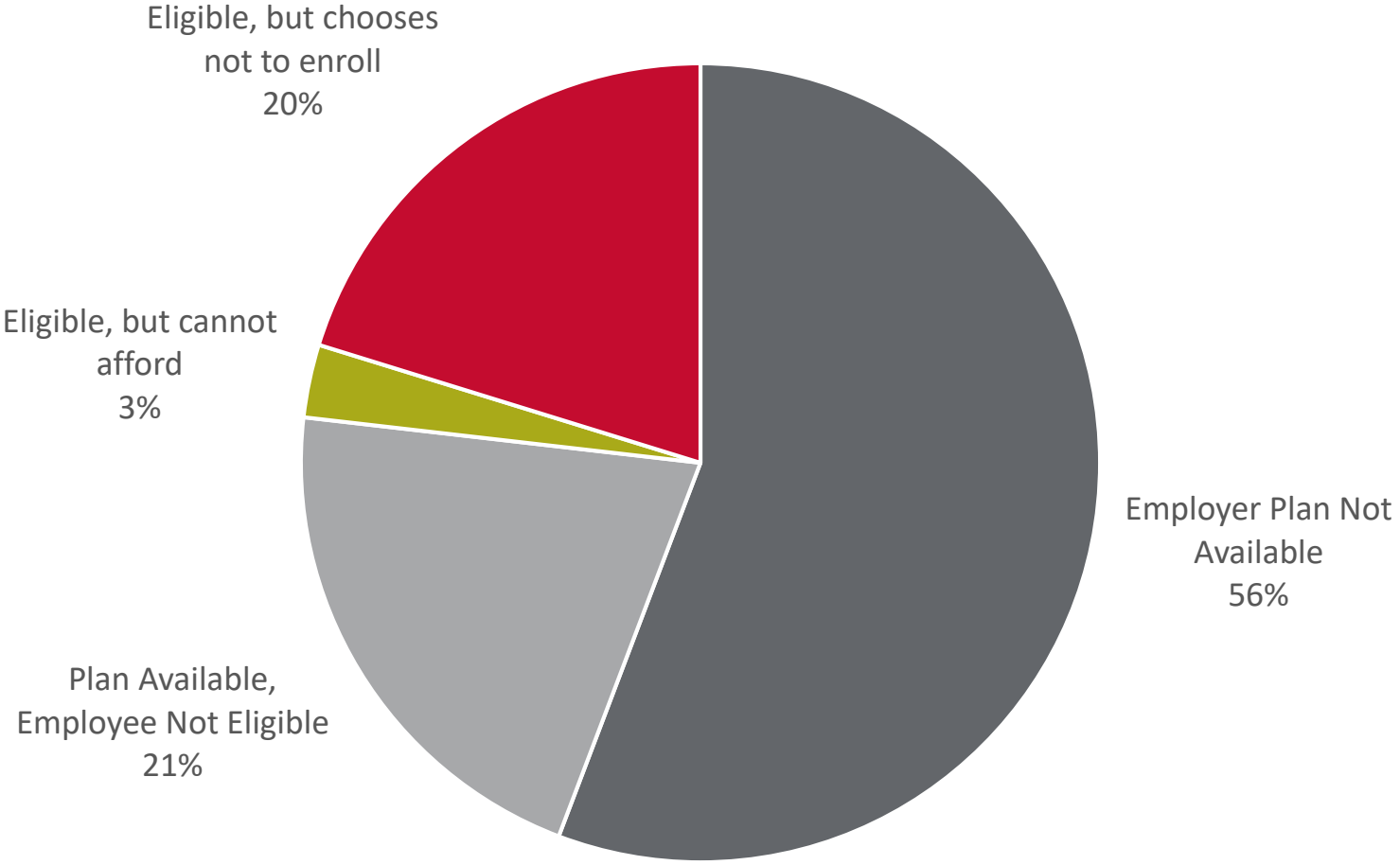
SOURCE: US Census, Current Population Survey, ASEC Supplement, 2016 Microdata

Plan Availability and Participation NM v. US (2014-2016)



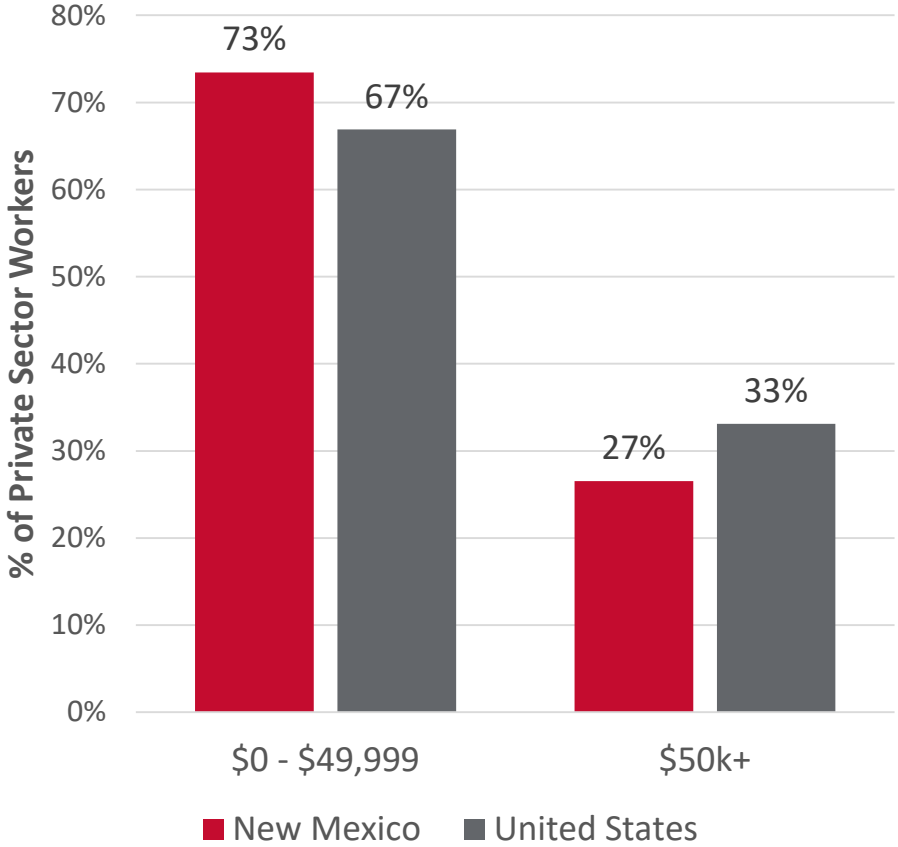
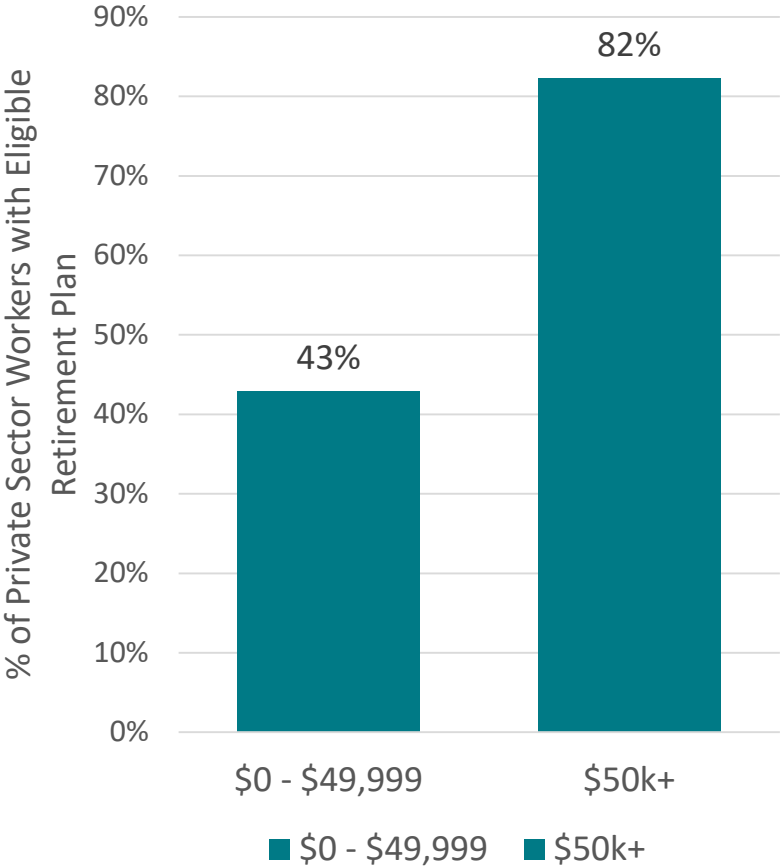
SOURCE: US Census, Current Population Survey, ASEC Supplement, 2016 Microdata

Reasons for Private Sector Non-Participation in New Mexico



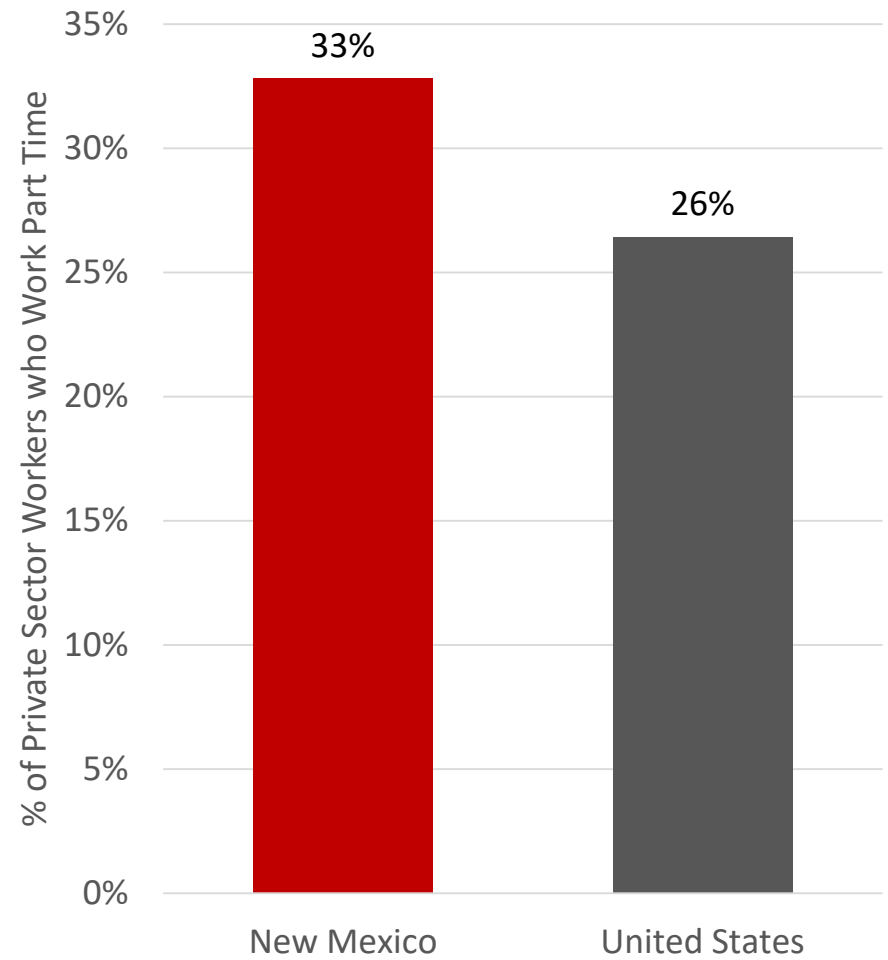
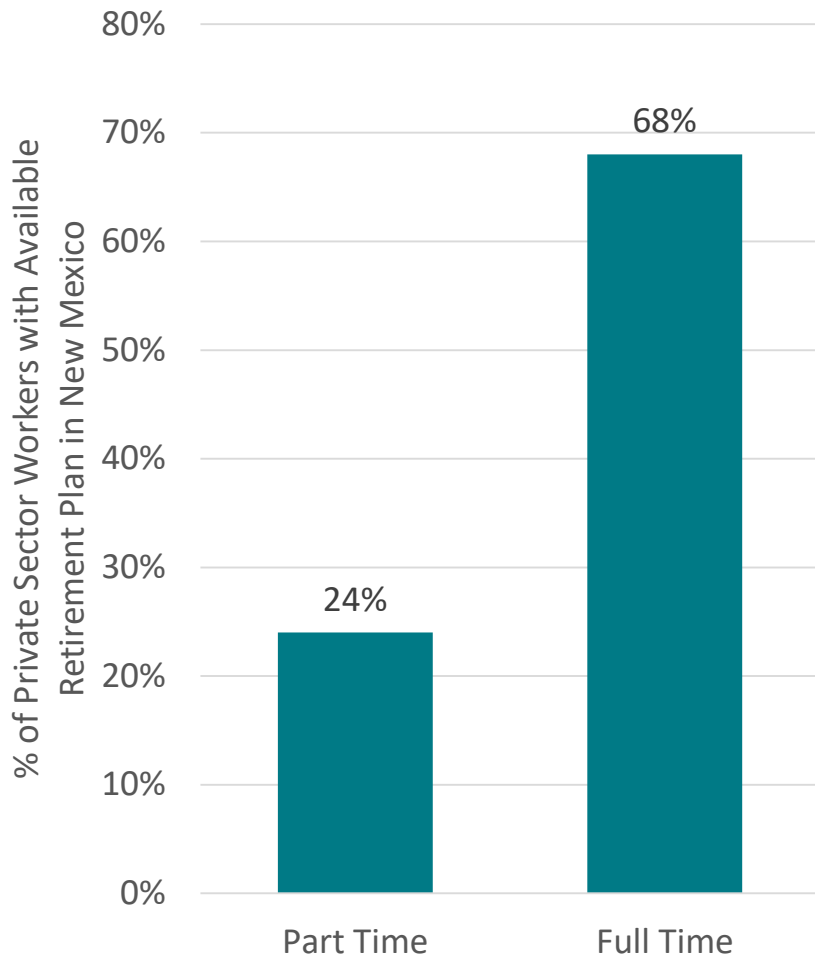
SOURCE: US Census, Survey of Income and Program Participation, SSA Supplement, 2014 Microdata

Access to Private Sector Employer Retirement Plans by Earnings (2014)



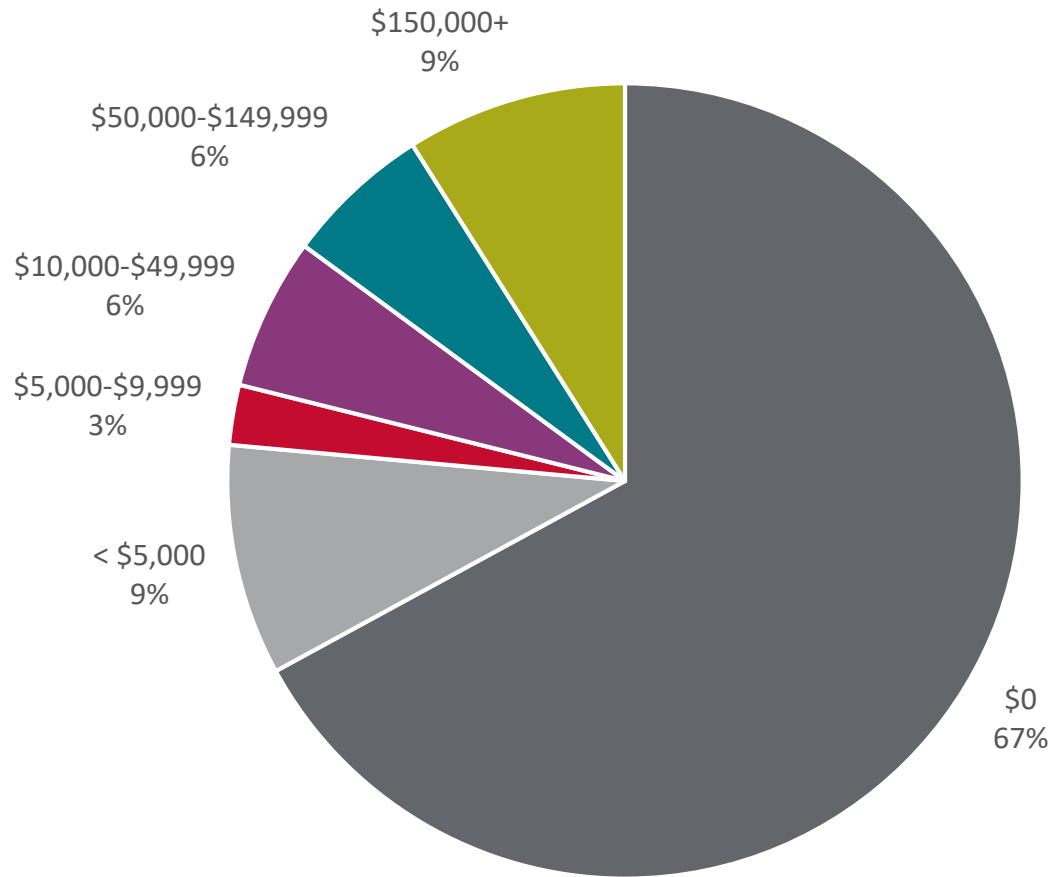
SOURCE: US Census, Survey of Income and Program Participation, SSA Supplement, 2014 Microdata

Access of Private Sector Employer Retirement Plan by Full-Time and Part-Time Status (2014)



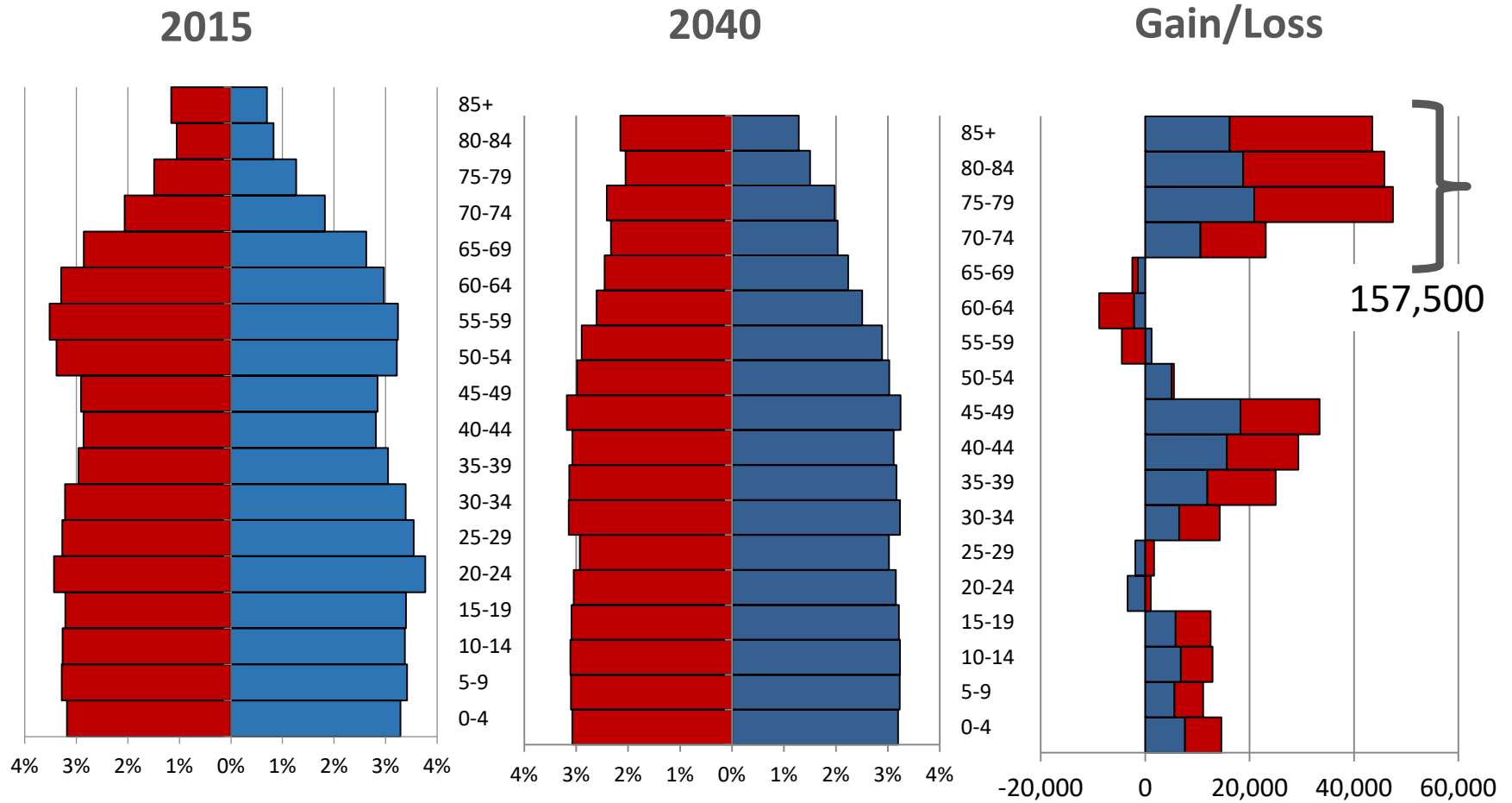
SOURCE: US Census, Survey of Income and Program Participation, SSA Supplement, 2014 Microdata

Retirement Plan Savings for New Mexican Private Sector Workers (2014)



SOURCE: US Census, Survey of Income and Program Participation, SSA Supplement, 2014 Microdata

New Mexico Population Projections by Age Cohort (2015 to 2040)



Source: UNM Geospatial and Population Studies

Appetite for Expanding the State's Role

- Survey of 500+ small business owners and decision makers in NM conducted by AARP in 2017
- 75% believe the state should be doing more to encourage individuals to save for retirement
- 78% believe that NM lawmakers should support legislation that would make it easier for small businesses to offer retirement plans
- 65% would support legislation that would create a “basic, privately managed, ready-to-go, retirement option.”
 - Broad support across political affiliation: 70% of Democrats, 64% of Republicans, 72% of Independents
- 63% of business that currently do not offer a plan say that they would likely offer a plan if a state option was available

Possible Solutions

1. Marketplace

- State develops a online marketplace portal of state vetted private-sector retirement plan options available to businesses (and to individuals)
- Completely Voluntary to Employers
- Multiple retirement planning options available, such as 401(k)-type plans
- Most (if not all) employer plans will be regulated by ERISA
- NJ & WA currently working on implementation

2. Multiple Employer Plan (MEP)

- Retirement plan adopted by two or more businesses who benefit from economies of scale to reduce cost
- MEP is a 401(k) plan, regulated by ERISA
- Requires coordination of small business
 - Note: Congress has been considering changing/loosening the requirements for MEP to expand its scope and effectiveness
- MA operates a MEP for non-profits and VT is rolling out a plan next year

Possible Solutions

3. Voluntary state-IRA

- **Both** employer and employee participation is **voluntary**
- Unclear if ERISA triggered with voluntary employer participation
- New York is currently developing a voluntary IRA program

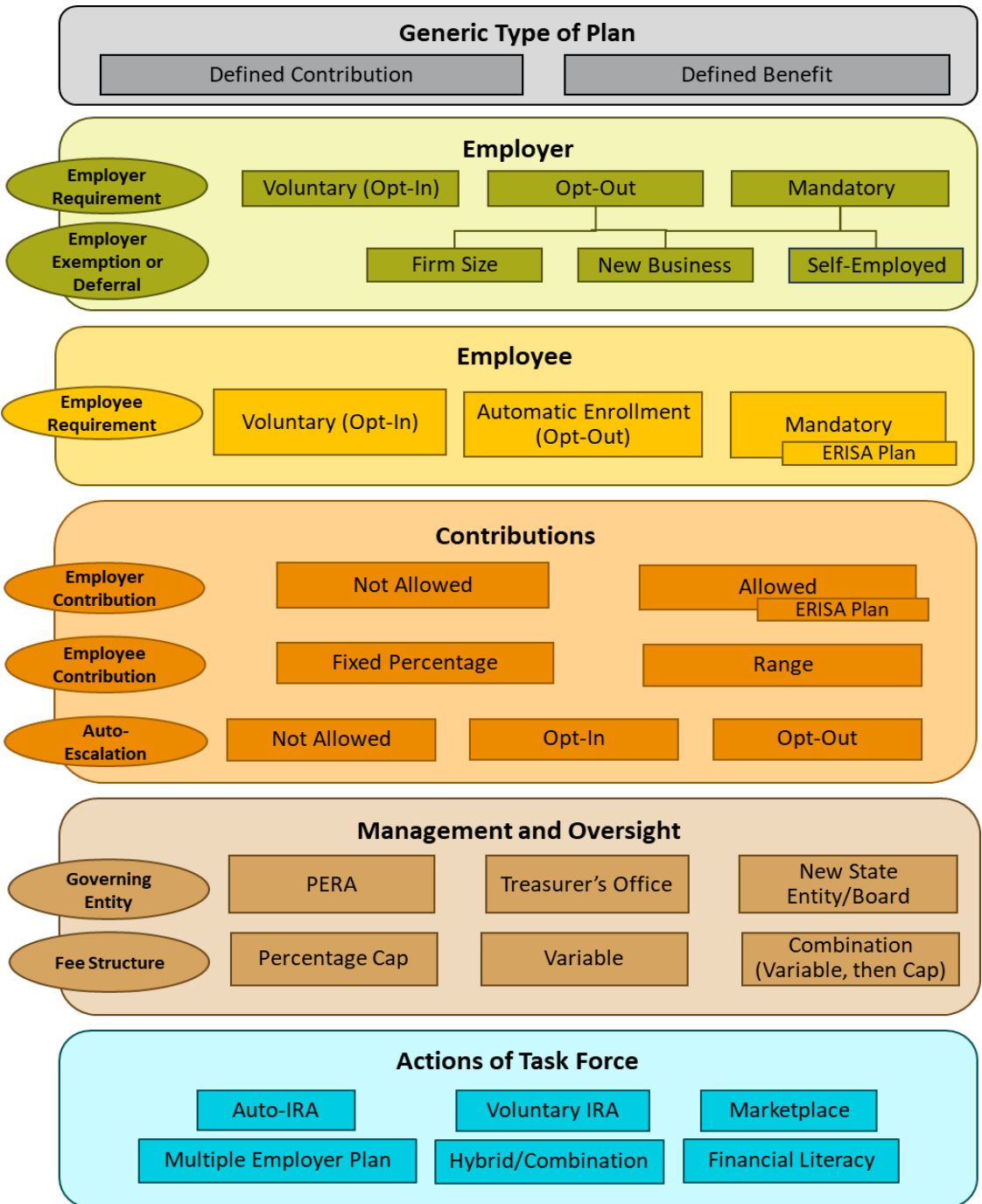
4. Automatic IRA (Auto-IRA)

- Similar to voluntary IRA, but participation **Mandatory** for Employers
- No fiduciary responsibility for employers
- Employees are automatically enrolled through payroll deduction (may opt out)
- Automatic enrollment can impact a large number of workers with no retirement savings
- IRA-type plans have relatively low contribution thresholds and no employer contributions
- ERISA treatment is unclear along both employer and employee dimensions
- CA, CT, IL, MD, and OR have implemented or will be implementing program

Principles to Consider in Plan Development

Principle	Description
Habit Forming	Encourage the habit of savings in New Mexico.
Access	All workers in the state should have access to a retirement savings plan at work, particularly through payroll deduction if possible. Additional considerations could be made for self-employed workers.
Automatic	If possible, access to payroll deduction plans should be automatic. However, ERISA must be considered. Additional considerations should be made regarding who maintains the plan (e.g. State, fiduciary, financial industry, etc.).
Ease	Investments should offer employees choice, but should not be overly complicated.
Lifetime Income	Workers should have a way to convert their retirement savings into a reliable lifetime income stream.
Portable	Employees should have the option to take the plan with them when they change jobs.
Employee Protections	The program should have safeguards in place to ensure that investments are prudently managed, including auditing and procurement principles.
(Low) Fees and Costs	Fees and costs should be reasonable.
Self-sustaining	The program must be self-sustaining via participant fees. Consideration should be made regarding how the program is funded and where the startup costs come from.
State Protections	The state should be indemnified from responsibility for gains and losses.
Business Protections	Employers should be indemnified from responsibility for gains and losses. Also, Employer involvement should be limited; employers shouldn't be responsible for the day to day operational or regulatory burden of the program.
Easy & Affordable to Small Employers	Small Employers should have access to a system that is affordable and easy to implement. Decisions related to whether employer participation is mandatory or encouraged. The state should consider whether to incentivize employer participation.
Education & Financial Literacy	Increase marketing related to the importance of saving for retirement. Consider allowing Public Education Department (PED) to draft Financial Literacy Curriculum that emphasizes and encourages saving.

Roadmap for Plan Consideration



Recommendations

1. Expand financial literacy
2. Advisory opinion from Attorney General
 - Automatic enrollment of employees into auto-IRA program and ERISA
 - Voluntary participation of employers into state-IRA program and ERISA
3. Hybrid state retirement system
 - Marketplace **AND** voluntary state-IRA program

If participation from voluntary state-IRA program is inadequate:

4. Convert voluntary IRA program to auto-IRA program

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