Massachusetts offers state 401(k) plan to small non-profits

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Unclear how far voluntary efforts can go to close the coverage gap

The coverage gap is the most serious problem in the private sector retirement system. At any moment in time, less than half of private sector workers are offered any type of retirement plan by their employer. Since people only save through organized savings mechanisms, those without coverage do not accumulate retirement assets.

Policymakers have recognized the coverage problem and have proposed a federal "Auto-IRA" program under which employers without a plan would be required to automatically deposit a percentage of their employee's earnings in an Individual Retirement Account. The employee would retain the ability to opt out. Unfortunately, no such legislation has been enacted at the federal level. Instead, the states have leaped into the breach. California, Connecticut, Illinois, Maryland, and Oregon are in various stages of developing state Auto-IRA programs. Oregon's program is actually up and running.

Massachusetts has taken a different tack. In 2017, the state launched a multiple-employer 401(k) plan open to non-profits with 20 employees or fewer. This initiative is known as the Connecting Organizations to Retirement (CORE) plan. The state takes on the bulk of the administrative and investment responsibilities. The idea is to relieve small employers of the administrative and fiduciary burden of offering their own plans, and, through economies of scale, reduce the fees and expenses generally associated with running a small 401(k).

Once an employer chooses to participate in CORE, its employees are automatically enrolled in the plan. An employee can then opt out if he chooses not to participate. The employer can match the employee contributions or make contributions regardless of whether or not the employee contributes. CORE automatically escalates the employee's contribution; for example, the initial contribution rate is increased gradually each year until it reaches a specified ceiling.

Enrolling employees in a low-cost 401(k) has a number of advantages over the IRA model – primarily, employees can contribute more than they could to an IRA and their employer can match their contribution. Participants also have the protections offered under the Employee Retirement Security Act of 1974 (ERISA)

The downside of the Massachusetts approach is that it relies on each employer to make the decision to participate. In contrast, the Auto-IRA approach *requires* each employer without a plan to automatically enroll their employees. Moreover, the Massachusetts plan is limited to small non-profits, whereas the Auto-IRA approach targets all employers without a plan.

I am skeptical that the voluntary approach will work, but am happy to be proved wrong.