The Only Way to Ensure Retirement Plan Coverage for the Uncovered Is an Employer Mandate

December 10, 2019

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Voluntary efforts don't move the needle.

The Massachusetts legislature is considering a bill that would establish a state-run "Secure Choice Retirement Program" to cover workers whose employer does not provide a retirement plan. Similar efforts are under way in California, Connecticut, Illinois, New Jersey, and Oregon. These initiatives involve a mandate on employers to auto-enroll their employees in a Roth IRA with a contribution rate of 5 or 6 percent.

Inevitably when these Auto-IRA proposals are debated, critics argue against imposing any employer mandate and in favor of proceeding on a voluntary basis. The problem is that prior initiatives without a mandate have not moved the needle in terms of coverage.

- The SIMPLE (Savings Incentive Match Plan for Employees of Small Employers) introduced in 1996 is a prime example. While the SIMPLE greatly reduced the cost and hassle of establishing a retirement plan, take-up was miniscule.

- The Treasury's myRA (my retirement account) – a starter account introduced in 2015 for those without coverage at their current employer – offered multiple access points, no fees, and preservation of principal, but take-up was only about 30,000 accounts before the Treasury discontinued the program.
- Preliminary observations from Washington State's voluntary retirement marketplace suggest that employer participation has been much lower than anticipated by supporters.

Now we can added one more example to the limitations of the voluntary approach – Massachusetts' Connecting Organizations to Retirement (CORE) Plan. CORE is a state-administered multiple employer 401(k) plan – often referred to as a MEP – designed for nonprofits with 20 or fewer employees. The notion is that the state takes on a number of administrative tasks to reduce the cost of the program. Once an employer signs up, its employees are automatically enrolled in a plan with a default contribution rate of 6 percent, with annual increases of 1 or 2 percent up to a maximum rate of 12 percent. Employees can reduce their contribution rate or opt out at any time.

Employees whose employers sign up for CORE enjoy significant advantages over those available in the state-run Auto IRA programs. First, the contribution limits are much higher — $19,000 for a 401(k)-type plan versus $6,000 for an IRA. Second, the employer can make matching contributions. Third, fees, at least in the short term, are lower.

BUT, employers do not sign up for voluntary arrangements. As of November 2019, after two years of operation, 63 employers and 460 employees are in the program. These employees represent less than half of 1 percent of Massachusetts employees working in small nonprofits. This result is not a problem with the design of CORE, but rather reflects the general disinterest of small employers in providing a retirement plan.

The current legislation in Massachusetts (Senate Bill 602 /House Bill 1075) lumps together a proposal to establish the Massachusetts Secure Choice Retirement Program with a proposal to expand the Massachusetts CORE plan to all employers. This pairing of the two programs may reflect a reluctance to upend CORE, which took a long time to establish and could serve as one option in response to a mandate.

Despite the limitations of CORE, passing the two as a package would improve the financial security of many Massachusetts workers. All the action, however, will come from the Secure Choice Program with the employer mandate.