



A MASSACHUSETTS AUTO-IRA PROGRAM

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Executive Summary

Today, roughly one-third of U.S. households arrive at retirement completely reliant on Social Security. The reason is simple: at any given time, about half of private sector workers do not have access to an employer-sponsored retirement plan; and very few workers save for retirement outside of these plans.¹ In general, these workers are more likely to be lower income, non-White, and female.

In Massachusetts, which has a slightly lower share of uncovered workers than the national average, about 1.6 million private sector workers do not have a retirement plan through work. Of those, 1.1 million are with an employer that does not offer a plan. Given this large coverage gap, the recently proposed state auto-IRA program for Massachusetts offers an opportunity to improve retirement security for many employees while minimizing the responsibilities of participating employers. Importantly, the proposed program follows most other states by requiring most employers without a retirement plan to automatically enroll their employees in the state program.

Ultimately, for an auto-IRA program to be viable it must provide enough revenue to attract a third-party administrator (TPA) and be fiscally sustainable for the Commonwealth. The experience of three large state auto-IRA programs – California, Illinois, and Oregon – can help anchor expectations in Massachusetts. Based on the enrollment experience of these plans, an auto-IRA program in Massachusetts would result in retirement accounts for over 400,000 uncovered workers in the Commonwealth within five years and more than 600,000 in fifteen years. Additionally, with a typical contribution and fee structure (that is, employee contributions that start at 4 percent of salary and increase 1 percentage point per year until reaching 8 percent and account fees equal to about \$24 per year), the program would be cash-flow positive to the Commonwealth and the TPA in about 5 years (recouping startup costs within a year or two more). As such, an auto-IRA program would be financially viable in Massachusetts and could substantially reduce the share of workers without retirement savings in the state.

¹ Although IRAs are available to employees without a workplace retirement plan, few workers use these vehicles to actively save. Instead, IRAs tend to be the eventual landing spot for money saved through employer-sponsored 401(k)s. See Munnell and Chen (2017).

Assessing the Potential for an Auto-IRA Program in Massachusetts

In Massachusetts, which has a slightly lower share of uncovered workers than the national average, about 1.6 million private sector workers do not have a retirement plan through work. Of those, 1.1 million are with an employer that does not offer a plan. Given this large coverage gap, the recently proposed state auto-IRA program for Massachusetts follows most other state programs by requiring that most employers without a retirement plan automatically enroll their employees in the program.² Overall, the program offers an opportunity to improve retirement security for uncovered workers – many of whom are lower income, non-White, and female – while requiring little from participating employers.

The success of any state auto-IRA program can be measured along multiple dimensions. But, for a program to be viable, it must provide enough revenue to attract a third-party administrator (TPA) and be fiscally sustainable for the state. Key factors are the extent to which a significant proportion of eligible employers and employees participate, and whether employees accumulate meaningful balances in their accounts.

This report assesses the financial and fiscal feasibility of a state auto-IRA program in Massachusetts – drawing on the enrollment experience of three established programs in California, Illinois, and Oregon. The first section discusses employer participation. The second section focuses on employee participation. The third section models the financial and fiscal feasibility of the program under various assumptions. The final section concludes that an auto-IRA program would be financially viable in Massachusetts and could substantially reduce the number of workers without retirement savings.

I. Employer Participation

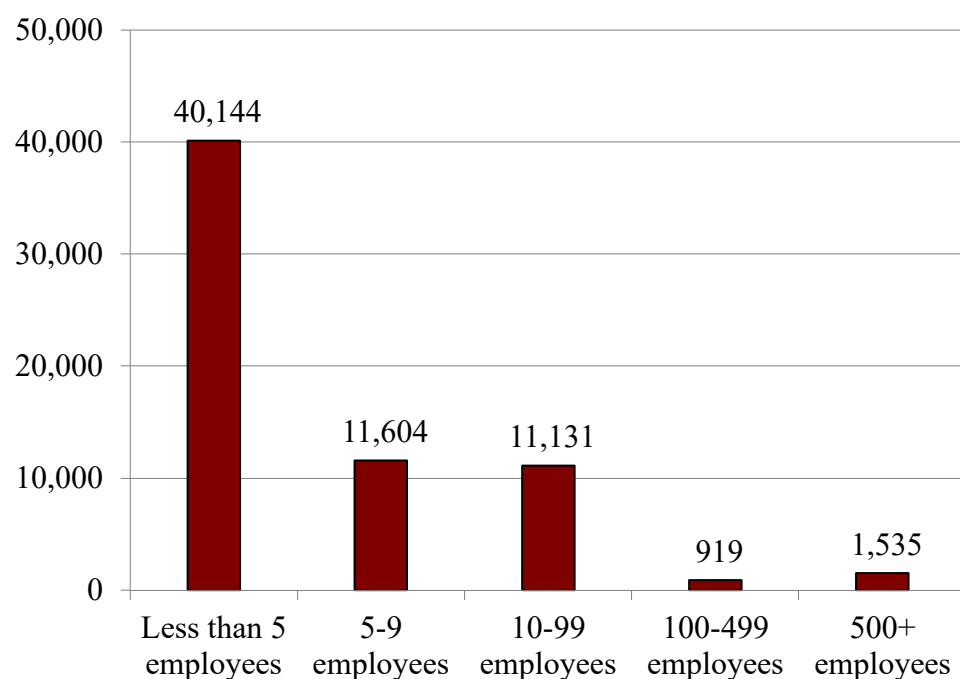
The current auto-IRA bills before the Massachusetts legislature require program participation by most employers with 5 or more employees that do not offer a retirement plan.³ To gauge the number of employers potentially affected, the Center for Retirement Research at Boston College obtained data on the number of employers by firm size from the U.S. Census

² The Massachusetts Secure Choice Savings Program Act, introduced by Rep. Paul Donato and Sen. Sal DiDomenico, would create an automated savings program that is mandatory for employers that have been in business for at least 2 years and have 5 or more employees.

³ As of September 2023, 18 states have introduced a state auto-IRA program. Three states – New Mexico, Hawaii, and Washington – set up programs that are voluntary for employers. New York started with a voluntary program, but is switching to a mandatory program (New York State Assembly 2021).

Bureau’s *Statistics of U.S. Businesses* (SUSB) and used the *National Compensation Survey* (NCS) to determine how likely these employers are to offer a retirement plan, by firm size. These data suggest that over 25,000 employers, mostly firms with fewer than 100 employees, would be required to participate (see Figure 1). If Massachusetts were to follow the path of other states and eventually expand the requirement to all employers without a plan, the number of employers affected would increase to over 65,000.

Figure 1. *Number of Employers in Massachusetts without a Retirement Savings Plan, by Number of Employees*



Sources: Center for Retirement Research at Boston College calculations from the U.S. Census Bureau, *Statistics of U.S. Businesses* (2020); and the U.S. Bureau of Labor Statistics, *National Compensation Survey* (2022).

States have relied on various strategies to implement their employer mandates.⁴ Oregon left the enforcement mechanisms open as it began to roll out its program, but, in 2020, instituted an annual fee for non-compliance of \$100 per employee (capped at \$5,000).⁵ Illinois is imposing a penalty of \$250-\$500 per employee per calendar year during which the employee is not

⁴ While the legislation for MarylandSaves states that businesses without other retirement programs “should” auto-enroll employees in the program, Maryland imposes no financial penalty for not participating. Instead, Maryland uses a financial incentive approach, under which the State waives a \$100 to \$300 annual report filing fee if an employer participates in the program or offers their employees a qualified plan.

⁵ Oregon Legislative Assembly (2020).

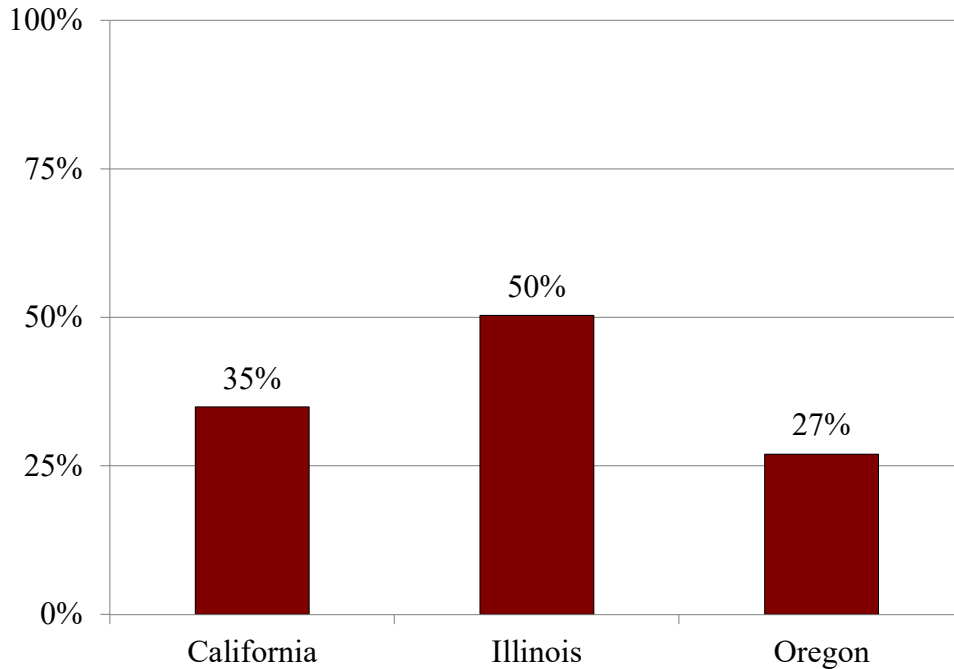
enrolled in the program and has not opted out.⁶ California implemented a fee of \$250 per employee and an additional \$500 per employee for continued noncompliance, which became effective in 2020 for employers with 100+ employees, 2021 for employers with 50+ employees, and 2022 for employers with 5+ employees.⁷

While states have been successful in getting near complete employer registration, shepherding employers through the onboarding process to set up payroll deductions has been slower than initially expected. From 2020 to 2023, the share of employers that have been fully onboarded (i.e. have made payroll deductions at least once) in California, Illinois, and Oregon has increased very little. And, as of June 2023, none of these programs reported more than half of their registered employers as fully onboarded (see Figure 2). Fortunately, the data suggest that most employers that have not fully onboarded are small businesses, muting their overall impact on the pace of employees enrolled. And, one would expect – given the employer mandates – that the share of employers completing the onboarding process should eventually approach 100 percent.

⁶ Illinois General Assembly (2015).

⁷ CalSavers (2021) and California State Assembly (2020).

Figure 2. *Percentage of Registered Firms That Have Made Payroll Deductions, June 2023*



Sources: California State Treasurer (2023), Illinois State Treasurer (2023), and Oregon Retirement Savings Board (2023). For Oregon, the data reflect the percentage of registered firms that have made payroll deductions within the last 90 days.

The slower-than-expected onboarding process may reflect the limited administrative capacity of smaller employers, but other issues or challenges may also be affecting the pace of onboarding. That said, costs to employers do not appear to be one of these challenges; the experience of participating employers suggests that employer costs associated with the program are negligible. In 2019 and 2020, Pew Charitable Trusts surveyed employers participating in the OregonSaves program and found that about 80 percent reported no costs at all.⁸ And, those that did report costs most often cited fees charged by external payroll and accounting firms to administer program contributions, or wages to staff responsible for setting up the program and registering employees.⁹

While costs are generally quite small, some employers could still see them as a pain point. To understand potential pain points for employers, Table 1 lists some of the main functions that employers could be asked to carry out to support a typical auto-IRA program and

⁸ Pew Charitable Trusts (2021).

⁹ Employers who handled payroll internally were about equally likely to report out-of-pocket costs as employers who outsourced their payroll management.

summarizes factors that affect the cost associated with each function. The burden of these responsibilities is likely to vary by firm size and by how the employer’s payroll is administered. Functions such as registering for the program will likely pose a greater burden on firms with more employees.¹⁰ Another factor that can influence cost is the administrative and technical expertise of business owners, as well as the variability and frequency of the pay schedules for different types of workers employed by the firm.

Table 1. *Primary Functions and Costs for Employers to Support a State Auto-IRA Program*

Activity	Cost drivers
<i>Introduce Auto-IRA program</i>	
Get informed about the program	Number of employees and locations, whether State provides communication materials, and whether employers or record-keeper introduces program.
<i>Register or claim exemption through the Auto-IRA self-service portal for employers</i>	
Enter employer id and EIN or TIN, number of employees, contact information, and self-service preferences into online portal.	Comfort level with technology.
<i>Provide data for initial enrollment and program communications</i>	
Enter employee SSN or ITIN, name, email, address, date of birth, through <i>Auto-IRA</i> portal.	Specific data fields needed; whether data can be updated from software or payroll vendor; whether recordkeeper can accept data format; whether information must be manually entered.
Alternatively, upload an electronic file (spreadsheet) or allow payroll provider to send this information.	
<i>Make payroll deductions</i>	
Enter deduction amount into payroll system or process.	Payroll administration method, number of employees, familiarity of owner with payroll processes.
Write check or send direct deposit with total deductions, or send file that lists deduction for each employee.	
<i>Internal record maintenance</i>	
Maintain employee enrollment and contribution rate change forms on file.	Number of employees, format in which records must be kept, length of time records need to be kept.

¹⁰ Pew Charitable Trusts (2021) found that middle-sized firms (10 to 49 employees) were more likely than small firms (nine or fewer employees) to report out-of-pocket costs – possibly because larger workforces translate to higher administrative costs.

Other potential activities

Respond to inquiries from employees about Auto-IRA in case of data or deduction errors.	Number of issues that need to be resolved over the phone, extent to which employer is responsible for solving problems, number of employees.
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Source: Center for Retirement Research at Boston College examples.

In Oregon, employers offered several concrete recommendations to reduce employers’ potential administrative burden: 1) make communications materials easy to locate and deliver to employees; 2) make it easy for employers to determine whether they are subject to the mandate; 3) direct employees to a place other than the employer to answer questions about the program; 4) have a recordkeeper or other entity collect employee elections and send employers information on how to manage payroll deductions or provide new data; 5) leverage tools that employers are already familiar with for filing reports or providing data to the state; 6) use data that the state already has to pre-populate information about eligible employees so employers only have to validate data; and 7) allow electronic transfers of data in common file formats such as CSV.

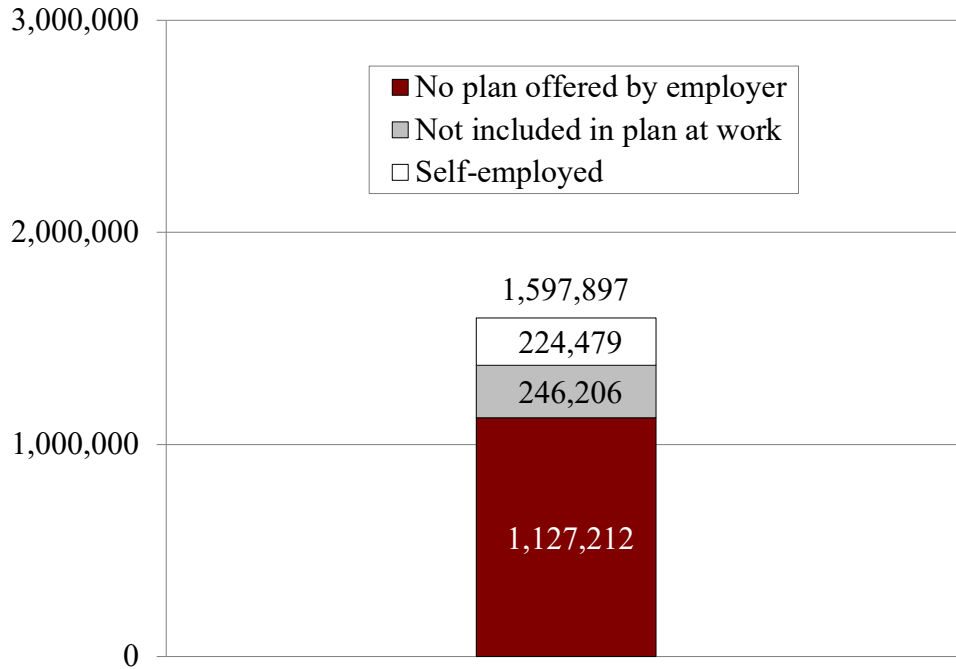
II. Employee Participation

Overall, estimates show that 1.6 million Massachusetts workers lack access to a retirement plan and, theoretically, all these workers would be eligible to participate in the auto-IRA program (see Figure 3). The primary focus for the program would initially be the 1.1 million workers whose employers do not offer a retirement plan.¹¹ In most other existing programs, self-employed workers (including “1099” contract workers) are generally not required to enroll.¹² Additionally, employers that offer their own plan are not required to auto-enroll workers who are not included in their plan.

¹¹ Interestingly, recent studies suggest that state programs have indirectly increased coverage by encouraging employers to adopt their own plans in response to the mandate. See Bloomfield et al. (2023); Pardue (2023); and Guzoto, Hines, and Shelton (2023).

¹² Self-employed workers (including “1099” contract workers) are less likely to show up in employer payroll systems where automatic deductions could be made; thus, many would need to contribute through a bank account – introducing an additional logistical complication for the onboarding process.

Figure 3. *Number of Private Sector Workers in Massachusetts Without Coverage, 2020*



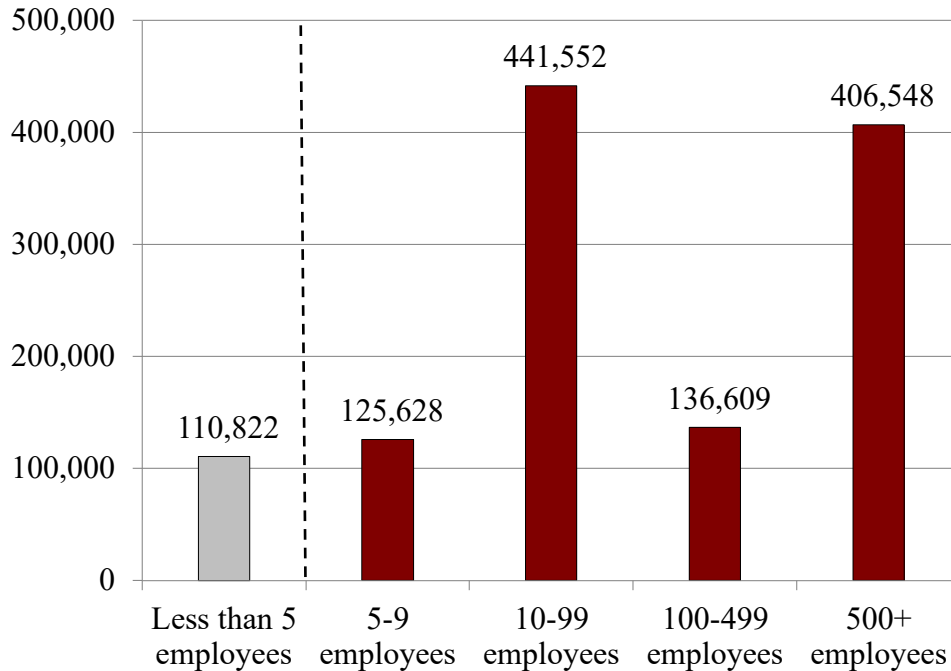
Note: The self-employed include incorporated self-employed.

Sources: Center for Retirement Research at Boston College calculations from the U.S. Census Bureau’s *Business Dynamics Statistics* (2020); U.S. Bureau of Labor Statistics’ *Current Employment Statistics* (2022); and the U.S. Census Bureau’s *Current Population Survey* (2022).

As noted earlier, the current main bill put forth by the Massachusetts legislature would follow the approach of most other states by initially exempting very small firms from the requirement to join the program (e.g., firms with less than 5 workers). Even with such an exclusion, the initiative would still reach the vast majority of uncovered workers in the state (see Figure 4).¹³

¹³ States that have provided an exclusion to smaller employers often still allow these employers to participate on a voluntary basis. And, workers without a plan at the smallest of employers would be able to join the program outside of auto-enrollment, but take up would be expected to be relatively low.

Figure 4. *Number of Massachusetts Workers with No Plan at Work, by Employer Size, 2020*

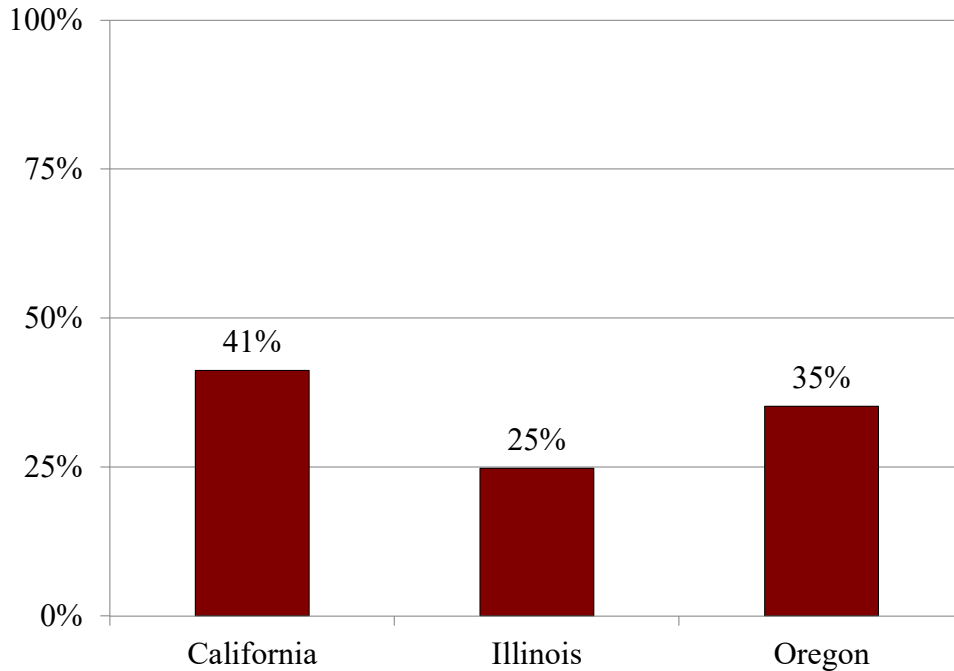


Sources: Center for Retirement Research at Boston College calculations from the U.S. Census Bureau’s *Statistics of U.S. Businesses* (2020); and the U.S. Census Bureau’s *Current Population Survey* (2022).

To accumulate meaningful assets in a state-sponsored plan, employees need to join the program and participate continuously. The question is what level of participation Massachusetts should expect. In California, Illinois, and Oregon, the reported employee opt-out rates have been around 30-35 percent, but less than half of the retirement accounts set up for employees receive contributions in any given month (see Figure 5).¹⁴ This latter issue could reflect irregular employment patterns for workers who have been historically uncovered, but is most likely due to employers’ difficulty making regular payroll deductions. Better understanding the reasons for irregular payroll deductions – and then addressing them – is an important next step for those working to ensure that state auto-IRA programs achieve their intended goals.

¹⁴ Prior to October 2021, Oregon consistently reported opt-out rates between 30 and 35 percent using a similar methodology to California and Illinois, where the opt-out rate is the sum of accounts that had an opt-out action in 30 days and accounts that enrolled but never contributed divided by the sum of accounts that had an opt-out action in 30 days and enrolled accounts. However, starting in April 2022, Oregon began reporting opt-out rates equal to the sum of accounts that had an opt-out action in 30 days divided by the sum of accounts that had an opt-out action in 30 days and enrolled accounts. This shift resulted in reported opt-out rates of around 25 percent for Oregon, while California and Illinois remained at around 30-35 percent.

Figure 5. *Contributing Accounts as a Share of Total Funded Accounts, June 2023*



Sources: California State Treasurer (2023), Illinois State Treasurer (2023), and Oregon Retirement Savings Board (2023).

To project the program participation and contribution patterns of uncovered employees, it helps to understand their demographic characteristics, their labor force participation and earnings – including job mobility – and their financial knowledge and engagement with financial institutions. With this type of information, the Commonwealth can craft more effective communication strategies to educate workers about Massachusetts’ Auto-IRA program to enroll as many participants as possible. Some of the key topics are discussed below.

Socioeconomic Characteristics

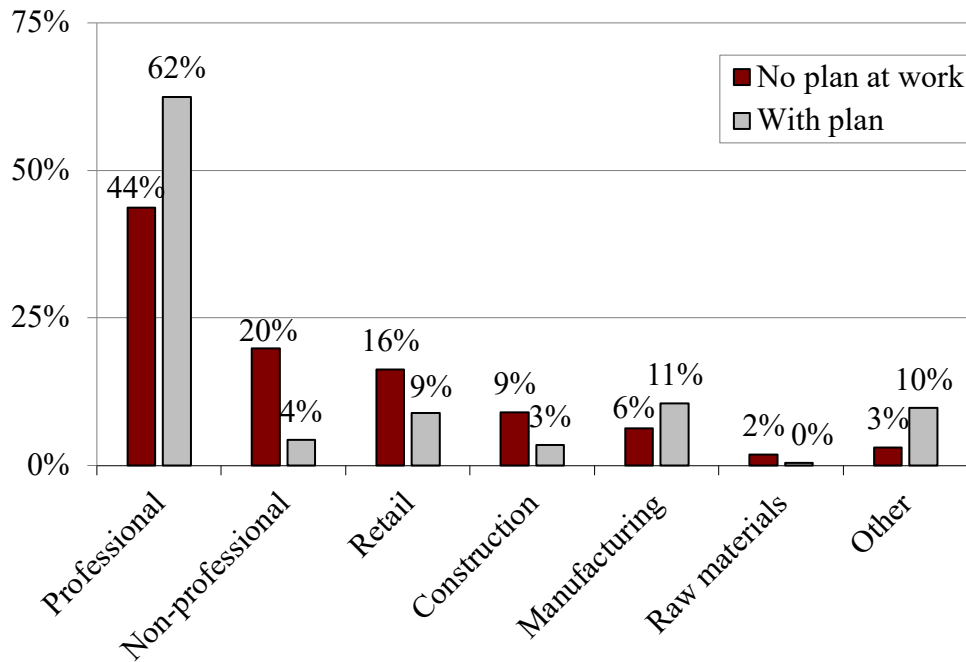
Massachusetts workers without an employer plan are different from covered workers in several ways. Education is the most significant dividing line, as only 21 percent of uncovered workers have a college degree compared to 38 percent of covered workers.¹⁵

¹⁵ Center for Retirement Research at Boston College calculations from the U.S. Census Bureau, *Current Population Survey* (2021).

Industry, Mobility, Hours Worked, and Wages

In terms of industry, Massachusetts employees with no plan at work are more likely to be employed in non-professional services, retail, and construction than their counterparts with a plan (see Figure 6).

Figure 6. *Industry Distribution of Massachusetts Workers by Coverage Status, 2020*



Source: Center for Retirement Research at Boston College calculations from the U.S. Census Bureau, *Current Population Survey, March Supplement* (2022).

Another important aspect of the labor market for uncovered workers is their financial vulnerability – they are more likely to work part-time and earn less than covered workers. Part-time workers tend to be less attached to the labor force, and their lower earnings will impact program feasibility through slower growth in account balances. Just over seventy percent of workers in Massachusetts with no plan at work are employed full time, compared to just under 90 percent of covered workers (see Table 2). Additionally, the average earnings of workers with no plan at work is \$51,010 compared to \$100,101 for covered workers. Given the greater financial vulnerability of uncovered workers, state auto-IRA programs typically use Roth IRAs

rather than traditional IRAs because workers are not charged a penalty for emergency withdrawals of their contributions.¹⁶

Table 2. *Massachusetts Employee Earnings and Hours Worked by Coverage Status, 2022*

Hours	No plan at work		With plan	
	Share	Average earnings	Share	Average earnings
1-34	29%	\$17,481	11%	\$35,910
35+	71	64,805	89	108,420
Total	100%	\$51,010	100%	\$100,101

Source: Center for Retirement Research at Boston College calculations from the U.S. Census Bureau, *Current Population Survey, March Supplement* (2022).

Job Mobility

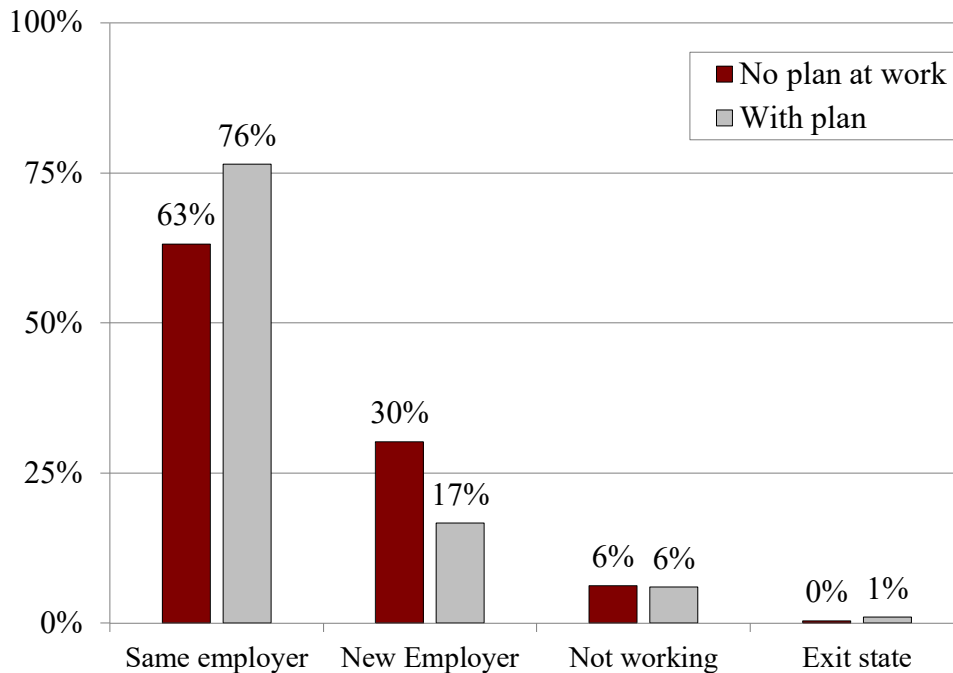
An important and often overlooked factor that will affect the success of the program is the stability of workers’ employment. For example, frequent shifts from employment to non-employment will have two detrimental effects: 1) individuals will not be contributing to their accounts; and 2) some workers will likely withdraw assets to make ends meet during the transition. Workers moving from a job at one employer participating in Massachusetts’s IRA Program to another pose less of a problem, but still present a challenge to the program’s TPA to keep track of the participant and ensure that contributions through each employer go to the same account. Frequent job changes, even between employers participating in the program could result in lapses in contributions due to delays in employee processing and payroll submission. To gauge how large of an issue work mobility is to Massachusetts’ IRA Program, this analysis follows the same workers over time to see if, approximately one year later, they are working at the same employer, a different employer, or not working.

The results presented in Figure 7 show that, not surprisingly, workers without a workplace retirement plan have less stable employment than covered workers. Specifically, they are more likely to exit their current job for another job one year later and more likely to exit to

¹⁶ Given their lower earnings, uncovered workers are also likely to have a lower federal tax liability, which makes a tax-deferred retirement account less valuable relative to a post-tax (i.e., no tax) account. That said, if workers withdraw more than just their contributions from their Roth IRA, which would occur if they took out their full account balance, they may still face a penalty. Therefore, it may be beneficial to make workers aware of these penalties and easily distinguish contributions from investment earnings.

non-employment. The share of workers without a plan going to a new job will likely be around 30 percent per year and the share of workers leaving work for non-employment will be just over 5 percent per year. As the program ramps up, keeping an eye on what happens to accounts as workers move from employer to employer will be important.

Figure 7. *One-year Mobility Rates for Workers in Massachusetts, by Coverage Status*



Source: U.S. Census Bureau, *Survey of Income and Program Participation* (1996, 2004, and 2008).

Financial Capability

Another issue to be aware of is that, like uncovered workers nationally, uncovered workers in Massachusetts are under greater financial stress than workers who are covered by an employer plan. And, on average, the population of uncovered workers in Massachusetts is less likely to be familiar with commercial financial products and investment concepts such as compound interest and portfolio diversification.

These issues show up in several ways (see Table 3). First, more than one in four uncovered workers is spending more than they make and is unlikely to be able to contribute to a retirement plan without cutting their spending or taking on more debt. Second, only about one-half of uncovered workers can come up with \$2,000, which suggests that the IRA Program would be the first time many workers will have access to significant assets. Thus, state agencies

that are involved in financial education could highlight the value of assets in the program to meet needs that occur prior to retirement and provide guidance on when it makes sense to withdraw money from the plan versus using other forms of debt.

Table 3. *Financial Status and Literacy of Massachusetts Workers by Coverage Status, 2021*

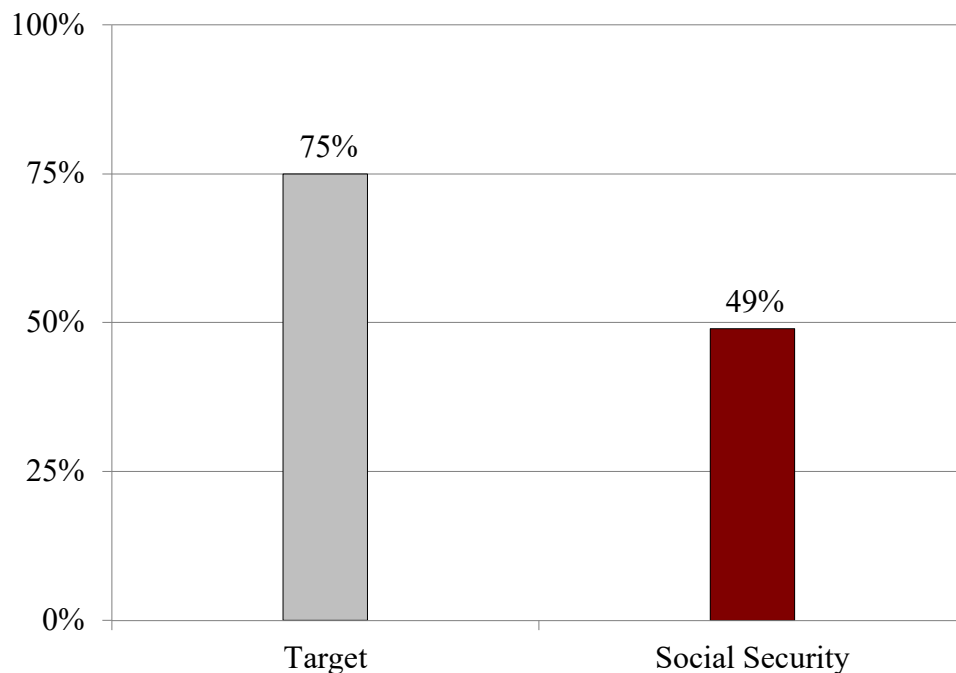
	Not covered	Covered
<i>Financial situation</i>		
Spend more than makes	30%	18%
Can come up with \$2,000	49	85
Used unconventional credit sources	9	11
<i>Interaction with the financial system</i>		
Has checking account	88%	94%
Owns non-retirement investments	17	55
Owns a credit card	69	95
Uses online banking tools	80	91
Uses mobile banking tools	81	80
<i>Financial literacy</i>		
Understands compounding	55%	80%
Understands diversification	28	51
Learned about finance at school	13	19
Learned about finance at work	4	14

Source: Center for Retirement Research at Boston College calculations from the Financial Industry Regulatory Authority (FINRA) *National Financial Capability Study* (2021).

Financial capability data offer other lessons for Massachusetts as well. Use of financial services among uncovered workers suggests that a significant minority of participants may need help accessing their accounts and understanding how to carry out certain actions (like changing investments). More than 10 percent of uncovered workers do not have a checking account and around 20 percent do not use online or mobile banking tools. Uncovered workers are also much less likely than covered workers to have a credit card or own any nonretirement-investments. These data support the need for a user-friendly website to access the account. In terms of financial education, most uncovered workers struggle with understanding diversification, and almost half appear to have trouble answering a question about compound interest. Again, the commonly used feature of auto-enrollment could help here, as it is well-suited for an individual with low financial literacy and little engagement with the financial system.

Despite their limited financial resources and experience with financial institutions, uncovered workers do need to save additional income for retirement. While their low earnings allow them to benefit from the progressive structure of the Social Security system, Social Security alone will not provide adequate levels of replacement income. As shown in Figure 8, when a typical low-earner retires at age 65, Social Security will replace 49 percent of his pre-retirement earnings; this estimate is actually generous because it assumes continuous work from ages 25 to 65 and does not account for the fact that lower-wage workers are more likely to have gaps in their work history and claim benefits at younger ages. The 49-percent amount falls well short of a standard replacement rate target of 75 percent of pre-retirement earnings needed to maintain a typical worker’s standard of living in retirement. Having access to a payroll-deduction IRA provides an opportunity to help bridge the gap between Social Security benefits and target replacement rates.

Figure 8. *Target Replacement Rate and Replacement from Social Security (Assumes Continuous Work from Ages 25-65)*



Sources: Center for Retirement Research at Boston College illustrations and Clingman, Burkhalter, and Chaplain (2021).

In summary, evidence from California, Illinois, and Oregon suggests that most employers in Massachusetts without a retirement plan would join an auto-IRA program. But, the employer onboarding process might go more slowly than expected – especially for small employers. On the employee side, about one-third of employees would likely opt out and less than half of the accounts set up for those who remain in the program will experience regular payroll deductions. Given these likelihoods, the next section will assess the viability of a typical auto-IRA program in the Commonwealth of Massachusetts.

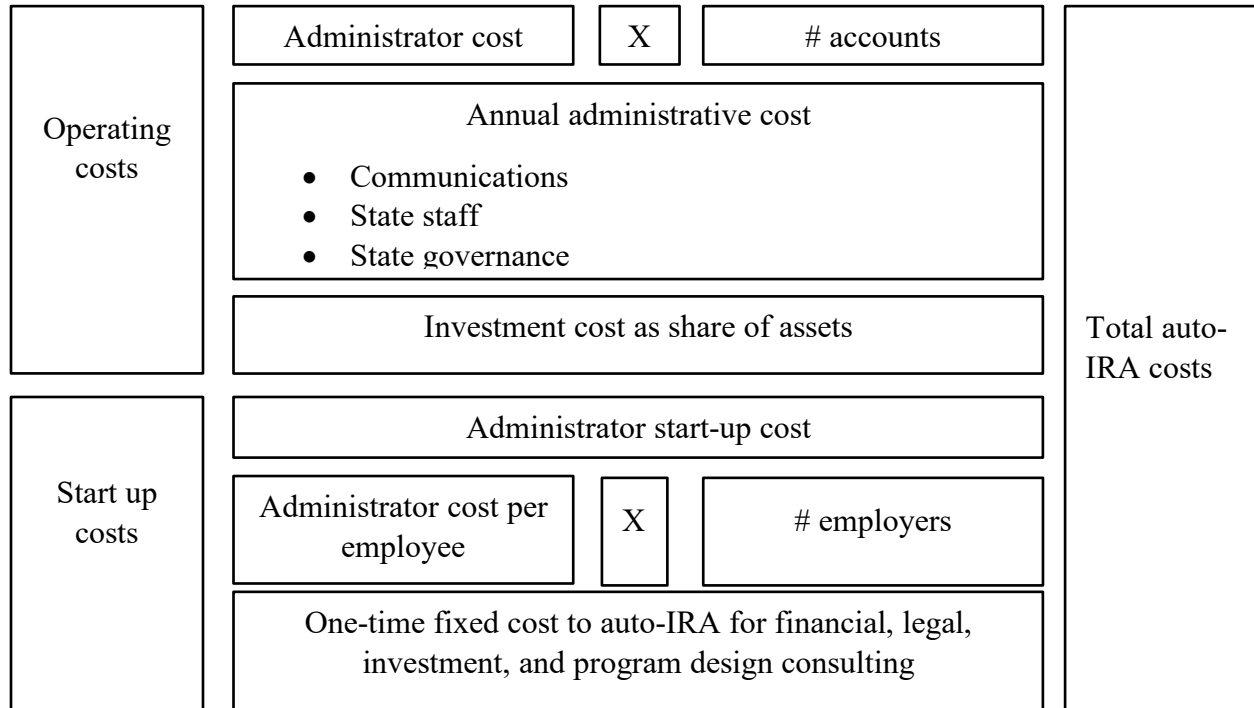
III. Program Finances

This section reports on the feasibility of a state auto-IRA program in the Commonwealth of Massachusetts. To be viable, an auto-IRA program must be profitable for a TPA and sustainable for the state. To assess these dual goals, the analysis uses two metrics. The first metric is the number of years it takes for the program revenue to cover the Commonwealth’s and TPA’s annual operating costs – i.e., to become “cash-flow positive.” The second metric is the time it takes for the Commonwealth and TPA to break even on overall costs – i.e., to become “net positive.” Both metrics can be affected by factors under the Commonwealth’s control, such as the default contribution rate, the fees charged to each retirement account, the enforcement of an employer mandate with automatic enrollment, and whether the state chooses to fund the program through loans or appropriations. The outcomes also can be affected by factors outside the State’s control, such as the behavior of employees regarding participation and withdrawals.

The Financial Model and Major Assumptions

Before discussing the result of the analysis, it is important to cover the major parameters and assumptions involved in modelling the financial feasibility of an auto-IRA program. We begin with program costs. The costs for a state auto-IRA program can be divided into two categories: 1) the start-up costs associated with creating the program and bringing on employers; and 2) the operating costs associated with maintaining accounts, serving participants, and managing investments. Some of these costs would be borne by the TPA and some by the Commonwealth. Figure 9 illustrates these costs schematically.

Figure 9. *Costs for Massachusetts Auto-IRA Program*



Source: Center for Retirement Research at Boston College illustration.

Start-up Costs. The start-up costs reflect two facts: 1) setting up a program requires work by both the administrator and the Commonwealth; and 2) the administrator faces considerable costs of connecting with employers. Based on information from auto-IRAs in other states, the start-up costs for the administrator are roughly \$750,000 plus \$150 per employer.¹⁷ On the Commonwealth’s side, the experience of other jurisdictions suggest that Massachusetts’ start-up costs will be roughly \$1.5 million (see Table 4). These costs include program design, investment and legal consultants, web development, administration, and marketing.

¹⁷ Center for Retirement Research at Boston College’s initial estimates for administrator start-up costs were \$1 million plus \$200 per employer, but conversations with BNY Mellon suggest that costs could be much lower. At the time of the conversations, BNY Mellon had only been live with their first state auto-IRA program, Oregon, for a few weeks. So, it is unclear whether their cost projections reflect actual current costs. Unfortunately, we have not been able to confirm updated cost estimates with Ascensus or Vestwell. To be conservative, the baseline estimates fall between Center for Retirement Research at Boston College’s initial estimates and projections from BNY Mellon.

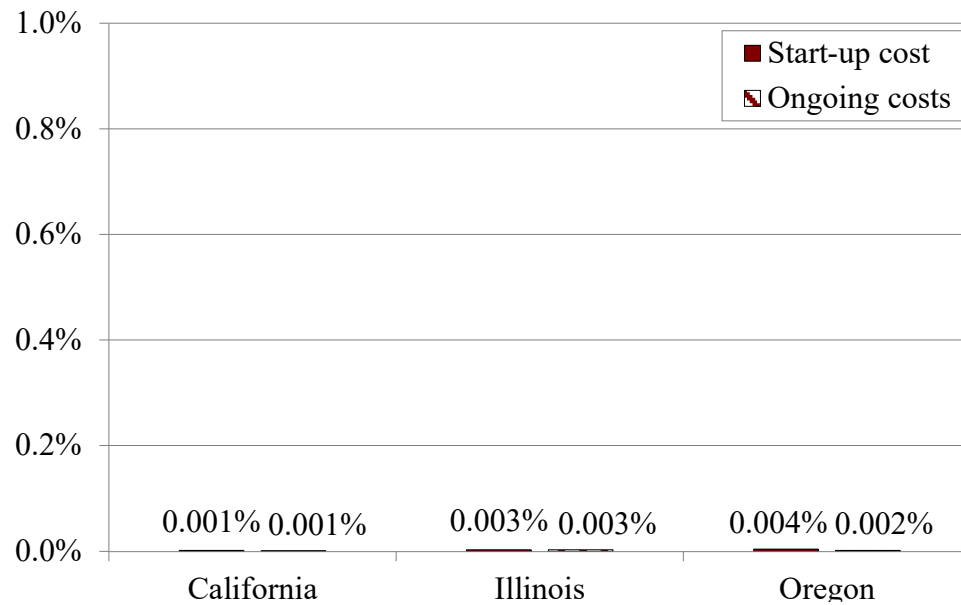
Table 4. *Actual Start-up Costs for State IRA Programs*

State	Years to launch	Total start-up	Pre-launch marketing	Consulting/ contracts	% consulting/ contracts
Oregon	2	\$1,000,000	\$110,000	\$242,000	24%
Illinois	2	1,433,000		305,000	21
California	2	2,952,000	-	1,835,000	62

Sources: Center for Retirement Research at Boston College calculations using California State Treasurer (2019); Oregon Legislative Assembly (2019); Colorado General Assembly (2019); Massena Associates (2021); and U.S. Census Bureau, *Annual Survey of State Government Finances* (2019).

While States do incur meaningful startup costs, it is important to note that experience to date suggests they are a miniscule share of total state operating expenditures (see Figure 10).

Figure 10. *Start-up and Ongoing Costs of Auto-IRA Program as a Percentage of State Budget Expenditures, 2019*



Sources: Center for Retirement Research at Boston College calculations using California State Assembly (2020); California State Treasurer (2019); Center for Retirement Initiatives (2018); Colorado General Assembly (2019); Massena Associates (2021); Oregon Legislative Assembly (2019); and U.S. Census Bureau, *Annual Survey of State Government Finances* (2019).

Operating Costs. From the administrator’s perspective, operating costs include the per-account recordkeeping cost to keep track of account funds, provide statements, cover call centers, and maintain the program’s website for the accountholders. Also included are the transaction costs associated with money coming into the program and going out through

distributions. Based on the experience of the auto-IRA initiatives, this report assumes a per-account cost of \$20 per year for the TPA.¹⁸

For the administrator, the total cost of account administration therefore depends on the number of accounts, both active and inactive. An account is considered “active” when an individual is working for an employer and contributing to the plan. Inactive accounts are held by someone who is no longer employed at an eligible employer but who has not closed out his account. Importantly, both types of accounts carry a cost to the administrator since – regardless of account type – disbursements must be made, statements sent out, and customer service provided.

For Massachusetts, the operating costs are relatively fixed. Based on discussions with other state programs, the assumption for this analysis is that Massachusetts will need at least four full-time staff to oversee the auto-IRA program, including board oversight operations and governance; manage the relationship with the program administrator; arrange program audits; and conduct ongoing communications with employers and employees.¹⁹ The annual costs also include payments to legal and financial firms to audit the program. As a result, operating costs for the state are assumed to be about \$1 million per year – regardless of the number of employers or employee accounts.

The state’s and TPA’s costs are offset by annual fees paid from the assets held in employee accounts. Most programs include a mix of: 1) flat-dollar-per-account fees; and 2) percent-of-asset fees. Based on a survey of the most recent program descriptions and financial reports, the annual account fee charged by the TPA is assumed to be \$21.60 plus .25 percent of assets. The account fee charged by the state is assumed to be \$2.40 plus .10 percent of assets. Table 5 summarizes the key program costs and fees for the feasibility model. In addition to these fees, each investment fund into which an employee places their money charges a fee. In practice, this fee amounts to roughly .10 percent of account assets because most programs default

¹⁸ Center for Retirement Research at Boston College’s initial estimates for annual operating costs were \$30 per account, but conversations with BNY Mellon suggest costs could be lower. At the time of the conversations, BNY Mellon had only been live with their first state auto-IRA program, Oregon, for a few weeks. So, it is unclear whether their cost projections reflect actual current costs. Unfortunately, we have not been able to confirm updated cost estimates with Ascensus or Vestwell. To be conservative, the baseline estimates fall between Center for Retirement Research at Boston College’s initial estimates and projections from BNY Mellon.

¹⁹ Illinois’ program relies on 2 full-time staff members – a Director and an Outreach Coordinator. Oregon, as the pioneer in this space, has relied on 3-4 employees to handle program administration in addition to outreach and enforcement issues.

employees into low-fee target date funds. Importantly, for the state and TPA, the investment fees are charged before the state's and TPA's account fees.

Table 5. *Fees and Costs Assumed for Auto-IRA Model*

Parameter	Assumption
<i>Annual auto-IRA account fees</i>	
Charged by investment manager	.10% of assets
Charged by TPA	\$21.60 + .25% of assets
Charged by Commonwealth	\$2.40 + .10% of assets
<i>Administrative Costs for the Commonwealth and TPA</i>	
Commonwealth start-up costs	\$1.5m
Commonwealth operating costs	\$1m per year
TPA start-up costs	\$750k + \$150 per employer
TPA annual operating costs	\$20 per account

Sources: Center for Retirement Research at Boston College assumptions based on data from existing programs and conversations with third-party administrators.

Model Results

To illustrate the potential range of outcomes for an auto-IRA program in the state, the analysis will show results for various levels of employer and employee engagement: baseline (based on the experiences of California, Illinois, and Oregon), high, and exemplar (see Table 6). Importantly, given the employer mandate, the share of employers registered and onboarded is expected to approach 100 percent over time.

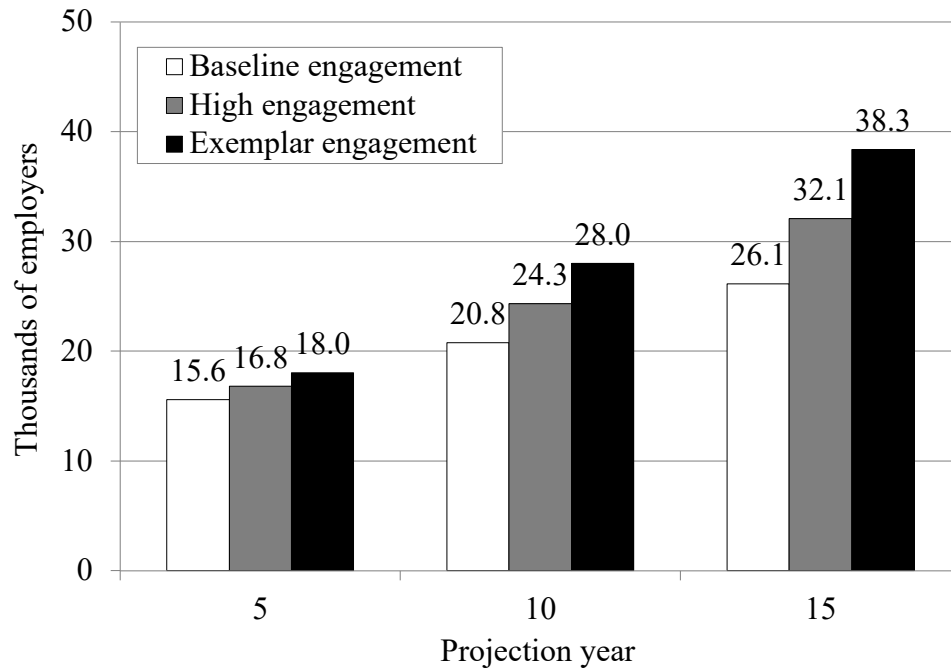
Table 6. *Employer and Employee Engagement Levels for 15-year Projection Model*

Parameter	Level of engagement		
	Baseline	High	Exemplar
% of eligible employers registered in 15 years	80%	90%	100%
% of registered large employers onboarded in 15 years	90	95	100
% of registered mid-sized employers onboarded in 15 years	90	95	100
% of registered small employers onboarded in 15 years	70	85	100
% of employees not opting out	65	75	85
% of retirement accounts receiving contributions each period	40	70	100
% of contributions withdrawn each period	40	30	25

Sources: Center for Retirement Research at Boston College assumptions based on data from existing programs and research literature.

To begin, Figure 11 shows the number of employers set up to make payroll deductions under the three engagement scenarios. The projected numbers are the product of the number of eligible employers assumed to register for the program each year and the amount of time it then takes them to ultimately set up payroll deductions. This is the first stage of the process and determines the trajectory of the per-employer startup costs for the administrator.

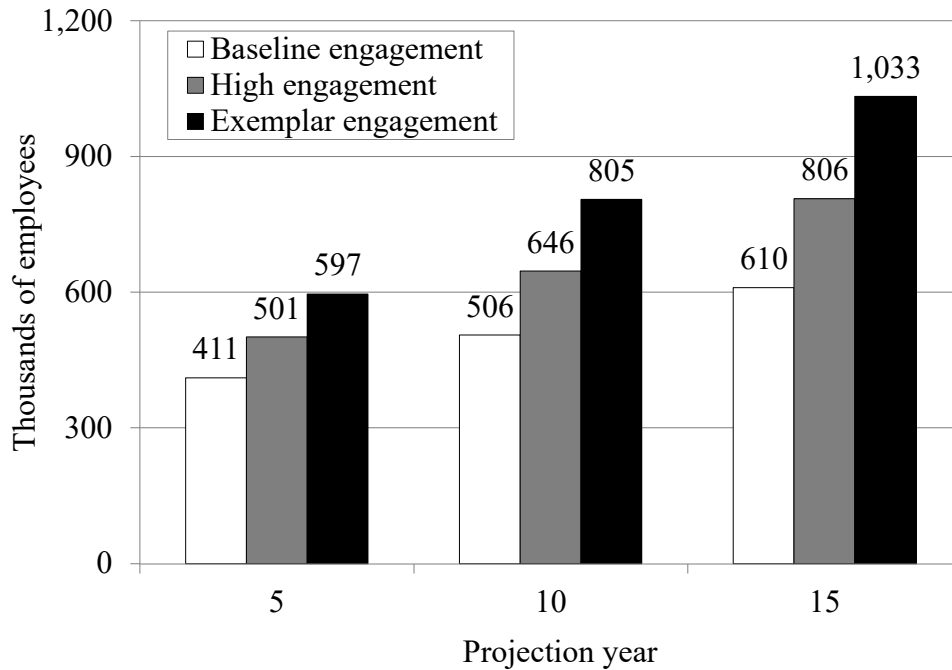
Figure 11. *Employers Set up for Payroll Deductions, by Engagement Level*



Source: Center for Retirement Research at Boston College calculations.

Figure 12 shows the number of employee accounts set up under the three engagement scenarios. These estimates are the product of the number of employees who work at employers that have set up payroll deductions and the employee opt-out rate. In terms of the program’s financial viability, the ongoing operating costs for the TPA are driven by the number of employee accounts.

Figure 12. *Employee Accounts Set Up for Payroll Deduction, by Engagement Level*

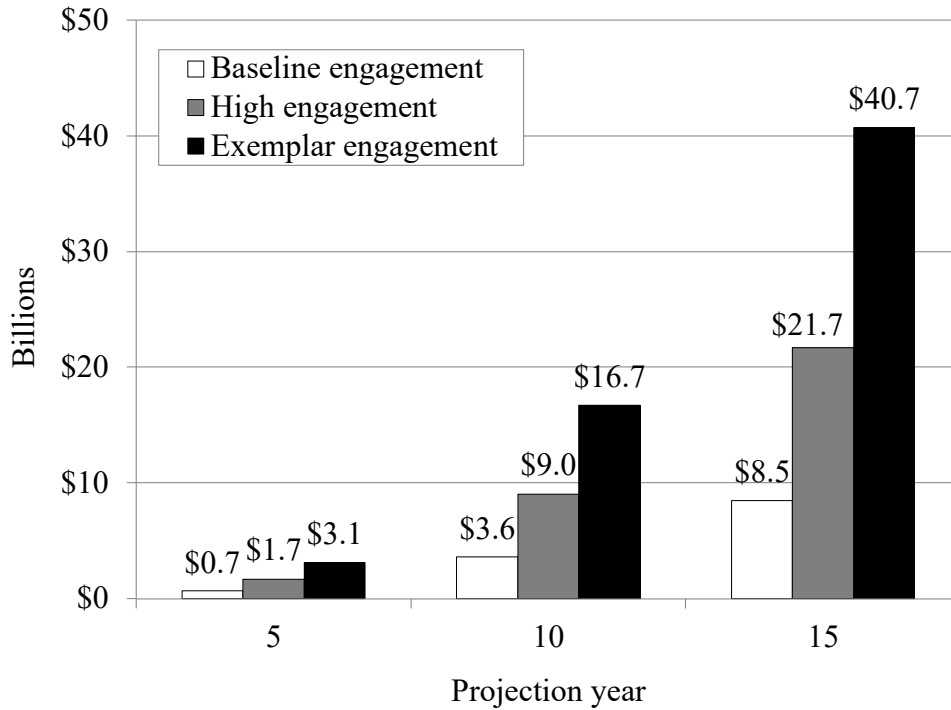


Source: Center for Retirement Research at Boston College calculations.

Figure 13 shows the total asset levels under each level of engagement, assuming a baseline 6-percent investment rate of return and a default contribution rate that starts at 4 percent of salary and increases 1 percentage point annually to a maximum of 8 percent (reflecting a blend of the contribution policies used by established programs).²⁰ At the baseline level of engagement, the model projects that a program in Massachusetts could amass more than \$3.5 billion in assets within a decade.

²⁰ The estimate of program assets also reflects the fact that: 1) only a portion of the employee retirement accounts receive contributions in any given month; and 2) a portion of account assets are withdrawn by employees each month.

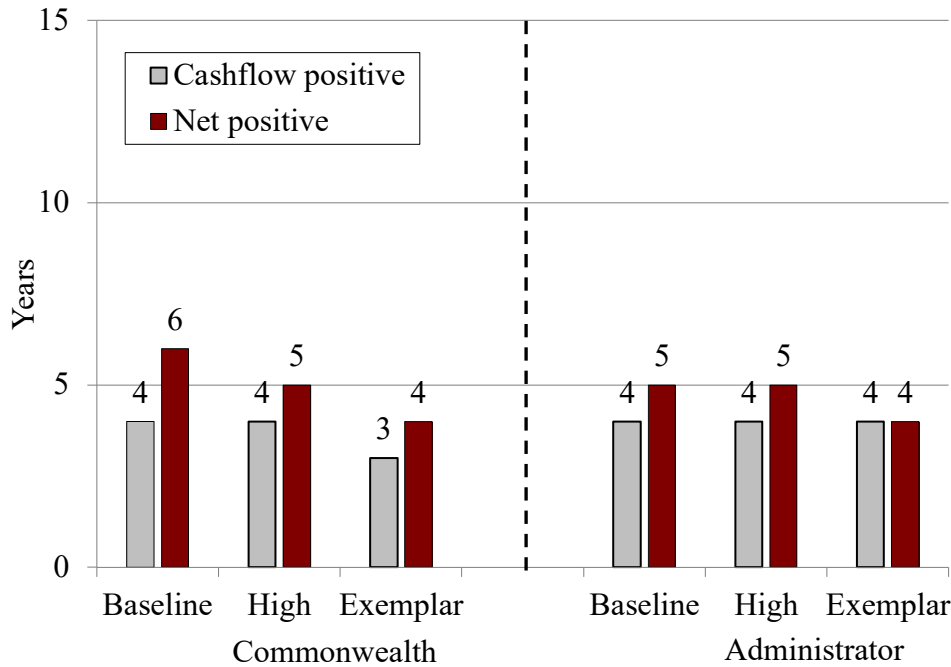
Figure 13. *Total Program Assets Under Management, by Engagement Level*



Source: Center for Retirement Research at Boston College calculations.

Finally, Figure 14 shows the first year that the state and TPA are projected to become cash-flow positive and net positive (i.e., recouped initial start-up costs) under each engagement scenario. The results suggest that – under the baseline scenario – a typical program could be cash-flow positive to the state within 5 years, and net positive within 6 years. For the TPA, the program could be cash-flow positive within 4 years and net positive within 5 years.

Figure 14. *Years until Cash-flow Positive and Net Positive, by Engagement Level*

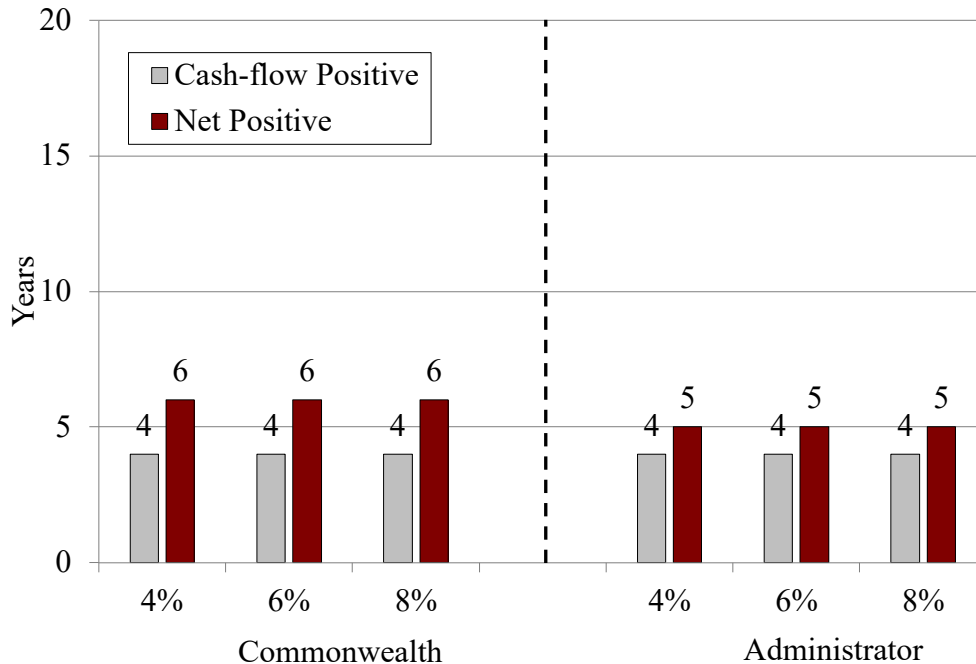


Source: Center for Retirement Research at Boston College projections.

To understand how investment performance might impact feasibility, Figure 15 shows the first year that the state and TPA are projected to become cash-flow positive and net positive at three investment rates of return – 4 percent, 6 percent, and 8 percent (assuming the baseline level of engagement).²¹ The model suggests that investment returns have little impact on when either the state or the TPA become cash-flow positive or net positive. This reflects the fact that program revenue from fees relies primarily on flat-dollar fees per account.

²¹ The different levels of engagements are based on the employer enrollment and employee participation experienced for California, Illinois, and Oregon.

Figure 15. *Years until Cash-flow Positive and Net Positive, by Investment Rate of Return*



Source: Center for Retirement Research at Boston College projections.

Overall, the results suggest that a typical auto-IRA plan in Massachusetts would be viable and could result in retirement accounts for hundreds of thousands of uncovered workers. It would just under 5 years before the program would be cash-flow positive to the state and TPA (and a year or two more to become net positive).

IV. Conclusion

In Massachusetts, about 1.6 million private sector workers do not have a retirement plan through work. Of those, 1.1 million workers are with an employer that does not offer a plan. Given this large coverage gap, the recently proposed state auto-IRA program for Massachusetts offers an opportunity to improve retirement security for employees without a retirement plan – many of whom are lower income, non-White, and female – while requiring little from participating employers.

Ultimately, for an auto-IRA program to be viable it must provide enough revenue to attract a third-party administrator and be fiscally sustainable for the state. Based on the enrollment experience of the established programs in California, Illinois, and Oregon, an auto-IRA program would result in retirement accounts for over 400,000 uncovered workers in the

Commonwealth within five years – and more than 600,000 in fifteen years. Concerted efforts to improve the onboarding process could substantially improve these numbers. Additionally, under a typical cost and fee structure, the program would be cash-flow positive to the state and TPA in under 5 years (recouping startup costs within a year or two more). As such, an auto-IRA program would be financially viable in Massachusetts and could help reduce the share of workers without retirement savings.

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