State-run Retirement Programs: Growth Continues and Opportunities Abound

December 2023

Overview

This AKF State-run Retirement Program ("SRRP") Market Report provides an annual update on trends and developments we have observed over the past year, as well as considerations for States seeking to launch or otherwise grow their SRRPs.

The lack of retirement preparedness continues to loom large, as another year of baby boomers are expected to retire without adequate financial resources. In fact, more than 17 million (or roughly 1 in 3) adults aged 65+ are economically insecure, living at or below 200% of the Federal Poverty Level.[1] As a lack of workplace savings opportunities continues, we have seen more States join the effort to provide programs to address this need for the future.

With more than $990 million in assets under management in over 784,000 accounts nationwide,[2] assets and accounts in SRRPs have grown 96% and 34%, respectively, since September 30, 2022.[3] Since our [October 2022 SRRP Market Report](), two Auto-IRA Programs and the first partnership have launched and four additional States have passed SRRP authorizing legislation.

Developments and trends across the SRRP market since October 2022 include:
- Solid growth as the Auto-IRA Market continues to expand, along with one State authorizing a Multiple Employer Plan ("MEP")
- Prevalence of the hybrid fee structure in Auto-IRA Plans
- Soft launch of the first Auto-IRA partnership
- Enduring simplicity of investment line-ups

Considerations for States in the year ahead include:
- Potential partnerships or collaborations for smaller States
- New retirement planning opportunities presented by Secure 2.0
- How to capitalize, if at all, on ongoing participant interest in lifetime income

Method

Data for this AKF Market Report has been compiled from available disclosure documents and Program websites as of November 30, 2022.

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[1] Sources: National Council on Aging and U.S. Census Bureau Current Population Survey. $27,180 per year for a single person in 2022.
[2] Source: State reporting and Georgetown University Center for Retirement Initiatives ("GU CRI") as of October 31, 2023
[3] Represents September 30, 2022 to October 31, 2023 GU CRI data

AKF Consulting Group gratefully acknowledges the resources provided by the Georgetown University Center for Retirement Initiatives. Please see www.cri.georgetown.edu for extensive information related to the development and status of the SRRP industry.

Findings and Observations

The following chart summarizes the state of SRRP models and authorized Programs, including three launches and four new authorized Programs:

	Auto-IRA		Multiple Employer Plan	Marketplace
	Mandatory	**Voluntary**		
Key Features	**Employers must participate or offer a qualified plan**	**Employer chooses to participate**	**Employer chooses to participate (can be non-related businesses)**	**Employers choose from available Plans**
	Roth IRAs as default	**Same**	**401(K)s**	**IRAs and 401(K)s**
	No employer contributions	**Same**	**Employer may fund**	**Employer may fund**
	Contributions set by IRA rules	**Same**	**Contributions set by qualified plan rules**	**Contribution amounts vary**
Launched	**California Connecticut Colorado[4] Maine[5] Maryland Illinois Oregon Virginia[6]**	**--**	**Massachusetts**	**Washington**
Under Development	**Delaware Hawaii Minnesota New Jersey Nevada New York City[7] New York State City of Seattle Vermont[8]**	**New Mexico**	**Missouri**	**New Mexico**

Note: Highlights represent changes from AKF's October 2022 SRRP Market Report

Supplementing the chart above, we note three key developments, which we discuss further in this Report:

- *Program Launches*: The Colorado and Virginia Programs fully launched as of January and June, 2023, respectively. Colorado is now reporting assets and accounts, with a significant number of accounts already funded.
- *Partnership Implementation*: Maine has officially entered into a partnership with Colorado, making it the first in the SRRP industry. Delaware is following suit, having approved a partnership with Colorado at its December 7, 2023 Board meeting.
- *Next States Up*: New Jersey and New York both recently wrapped up the initial stages of Program Administrator procurement, with each announcing its intent to award the business to Vestwell State Savings. Assuming successful contract negotiations, these awards appear to consolidate Program Administration across the SRRP industry with Vestwell.

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[4] Colorado launched its Pilot in October 2022, followed by a Full Launch in January 2023
[5] Maine is the first Partner State to Colorado, with a soft launch in October 2023
[6] Virgina launched its Pilot in February 2023, followed by a Full Launch in June 2023
[7] New York City Auto-IRA is expected to merge with the New York State Program
[8] In October 2022, Vermont was shown as a MEP in development; State legislation effective July 1, 2023 changed the Program structure to a mandatory Auto-IRA

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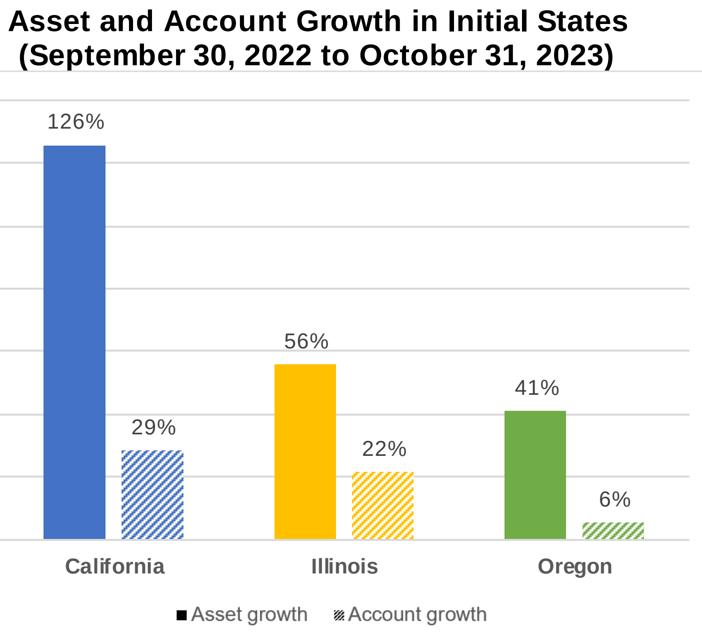
Observation 1: Solid Growth as Auto-IRA Market Expands

In 2023, Colorado and Virginia fully launched new Programs, and Maryland, Illinois and Connecticut completed their employer rollout waves. California reduced the employee threshold for employers covered, lowering it from five employees to one employee, effective December 31, 2025. This change, following a 2022 reduction in Illinois from 25 to five employees, has expanded the reach of SRRPs, making them mandatory for more businesses and, as a result, increasing the pool of potential participants.

The overall industry has grown steadily in assets and accounts over the past year notwithstanding market volatility. The graph below shows asset and account growth across the three initially launched Auto-IRA Programs.[9] We note in particular, California's pronounced asset growth, which we believe can be attributed to the early stages of enforcement against non-exempt and non-complying employers.



Source: States and GU CRI as of October 31, 2023

Due to differing launch dates, it is difficult to compare accounts and assets today across the seven up-and-running Auto-IRA Programs. However, comparing the first Auto-IRA Programs to launch in Oregon, Illinois and California,[10] we see overall increasing average funded account balances, as shown in the charts below. Although these Programs vary slightly in rollout and implementations, these comparisons provide a good perspective on account balances over time.

[9] Between September 30, 2022 and October 31, 2023, California added 102,714 new accounts while Illinois and Oregon added 23,566 and 6,421 new accounts, respectively
[10] Full Program launch occurred in Oregon in October 2017, in Illinois in November 2018, and in California in July 2019

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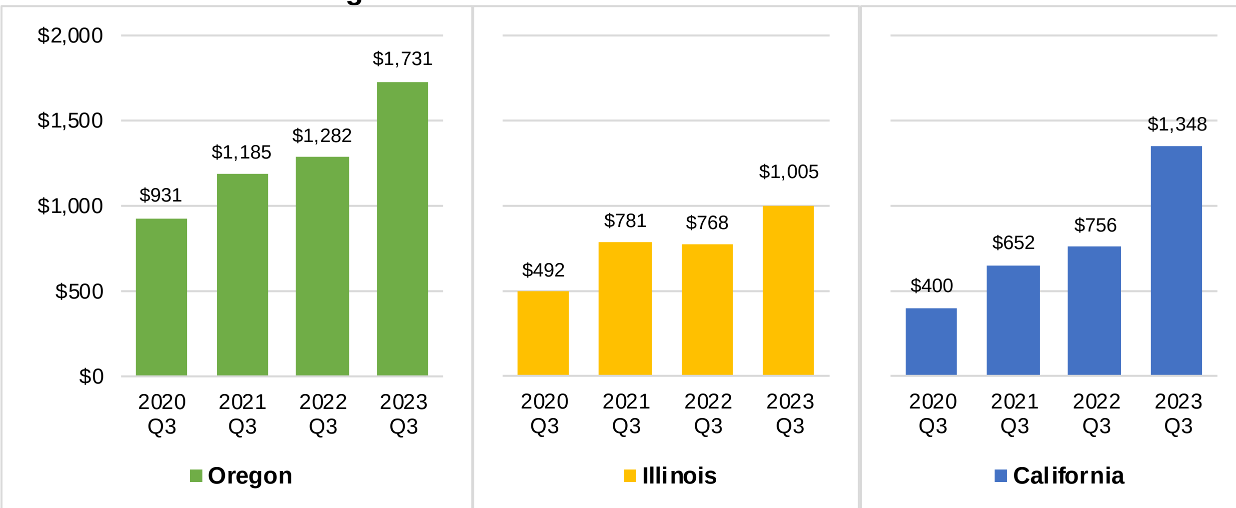
Average Funded Account Balance in Initial States



Source: States and GU CRI as of September 30, 2023

Among the Programs more recently launched, we note that Colorado posted impressive new account gains. After its statewide launch in January 2023, Colorado completed its enrollment waves in June 30, 2023, establishing 40,712 accounts since its rollout.[11] The addition of Maine and Delaware as partner States will enhance asset and account growth as the Program matures.

Observation 2: Hybrid Fee Structures Dominate

In its earliest days, fees for Program Administrators were solely based on assets in an account. In 2021, that structure changed to include dollar-based fees with the engagement of Vestwell as Program Administrator in Connecticut and the Program Manager conversion from Ascensus to Vestwell in Oregon. The inclusion of dollar-based fees reflects the fact that asset-based fees alone on small balance accounts delay a Program Administrator from recouping significant start-up costs and also covering higher-than-expected operating expenses.

The more recently launched Maryland, Colorado and Virginia Programs all charge a hybrid fee and, over the past year, the Ascensus-managed Programs in California and Illinois adopted a hybrid program administration fee structure as well.[12] As a result, the launched Programs uniformly charge both asset- and dollar-based program administration fees to participants, as shown below:

Program Administration Fees[13]

	OR	CT	MD	CO	VA	CA	IL
Asset-based	0.15%	0.20%	0.18%	0.15%	0.15%	0.25%	0.25%
Dollar-based	$14	$24	$24	$22	$24	$18	$16

[11] Source: State via GU CRI as of October 31, 2023
[12] The hybrid structure in Illinois will be effective as of January 1, 2024
[13] Programs are shown in the order of implementation of the hybrid structure

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We also note that the Connecticut and Virginia Programs each launched with a hybrid fee to cover State administrative fees; Oregon approved this fee structure in late 2022. If account balances remain low, we will not be surprised to see additional State shifts to a hybrid fee structure.

State Administration Fees[14]

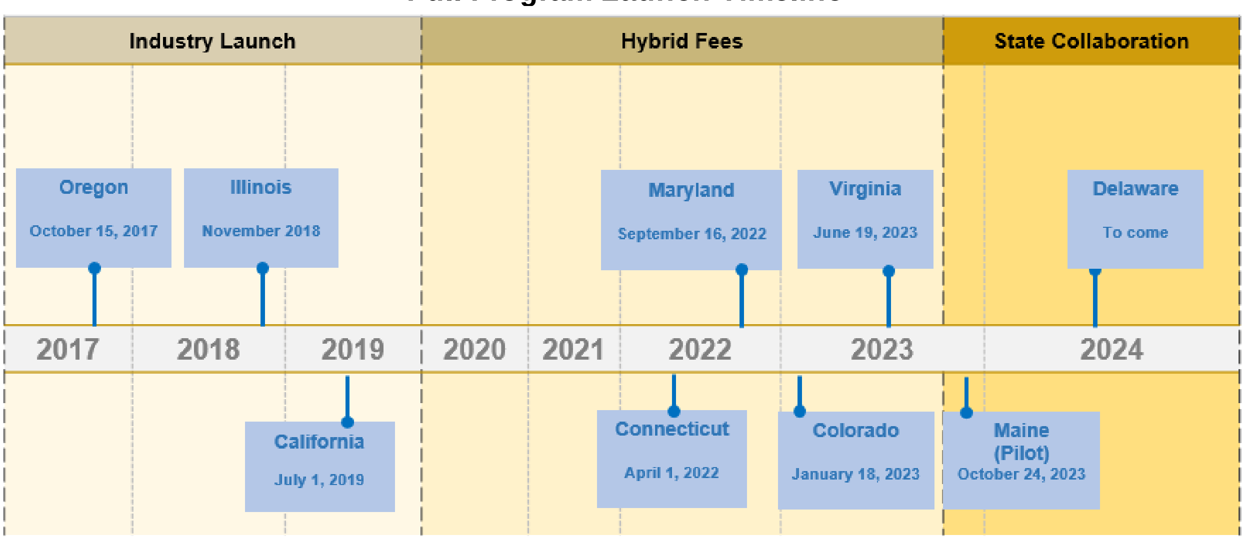
	OR	IL	CA	CT	MD	CO	VA
Asset-based	0.25%	0.05%	0.05%	0.02%	–	0.05%	0.05%
Dollar-based	$2	–	–	$2	$6	–	$3

Observation 3: Interstate Partnerships Have Arrived

In our 2022 Market Report, we reported on partnerships being imminent, now they have arrived: Maine and Colorado executed the inaugural SRRP partnership — with Maine benefiting from the already-launched Colorado Secure Savings Program.[15] The Maine-Colorado collaboration has forged a path for other States considering Auto-IRA Programs. After an extensive proposal and evaluation process beginning in August 2023, the Delaware Board formally approved a partnership with Colorado on December 7, 2023. The ability to form a partnership with an already launched Program allows a State to bring its own Program to market sooner while taking advantage of economies of scale presented by the partnership.

Since the initial Auto-IRA Plan launched in 2017, AKF has observed the Auto-IRA landscape evolve over three distinct periods: from the industry launches (2017-2019) to a notable industry-wide shift in fee structures (2021-2023), and now, the introduction of collaboration between States. The SRRP industry's journey from launch to partnerships signifies a remarkable evolution, demonstrating its adaptability to the needs of participants and stakeholders, and commitment to enhancing retirement options for citizens.

Full Program Launch Timeline



[14] Programs are shown in order of launch date
[15] Pilot launched on October 17, 2022; full Program launched on January 18, 2023

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Based on our experience in the ABLE industry – where at least three multi-State alliances exist – we expect other States to consider offering partnership structures. The challenge will be to create a partnership structure or fundamental plan that is different from the Colorado Partnership structure. Differences could exist in agreements between the States, account offerings, and other aspects impacting partners and participants.

Observation 4: Investment Line-ups Remain Simple

As new Programs launch, we see a continuation of the simple investment lineups that have been characteristic of the Auto-IRA industry. In fact, since our last Market Report, the newly launched Colorado and Virginia Programs closely mirror the investment lineups of existing States. We note:

- Colorado and Virginia offer SSGA and BlackRock Target Date Funds ("TDFs"). As a result, these two managers continue to be the dominant managers across SRRPs.
- Colorado and Virginia continue the trend of using time-based investments[16] as the Default Hold, with the initial payroll deposits defaulting to TDFs after a set period of time
- Connecticut remains the only State to offer a customized TDF structure, which incorporates underlying funds managed by Fidelity, Schwab and Vanguard,[17] and the only State to offer multiple "static" or "target-risk" investment options

Notably, with respect to the investment of these assets, TDFs continue to be the most popular investment choice. As of September 30, 2023, an average of 94.2% of total Program assets were invested in the TDF across California, Illinois and Oregon.[18] This preference is likely driven by the "default" nature of the option: after the Default Hold period, participant assets are moved automatically into the applicable TDF portfolio. Additionally, for savers making a more active choice, the appeal of TDFs lies in their simplicity and effectiveness. This investment vehicle offers participants the convenience of a "fund for life," which manages rebalancing and ensures diversification.

Future Considerations

As the landscape for SRRPs continues to evolve, we note three considerations for State administrators.

Consideration 1: Payroll Providers Can Jumpstart New Plans and Increase Participation in Existing Plans

Payroll providers have been an important component of SRRPs since the industry's inception. As early as 2017, we saw payroll providers convey an interest in these plans and their potential role in the establishment of these programs for small businesses. Program Administrators have recognized the importance of integrating SRRP platforms with those of payroll providers to facilitate easy administration for business owners. Now, as the industry continues to grow, we consider integration with payroll providers as a critical component for a Program Administrator to include in its suite of services when responding to a State's Request for Proposal.

[16] See AKF's 2021 SRRP Market Report for more information on time-based default provisions
[17] Lockwood Advisors serves as the Investment Advisor responsible for the TDF customization
[18] As of September 30, 2023, 97.8% of California assets; 89.3% of Oregon assets; and 95.4% of Illinois assets

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Many small business owners are outsourcing benefit and payroll to payroll providers. While not all payroll providers are integrated with a Program Administrator's platform directly, a business owner can delegate responsibility for the program any payroll provider. While this is not as beneficial as a systems integration, this delegation of responsibility will still make it easier for the employer to participate in the program.

SRRPs have no designated distribution channel, and as a result, State outreach often directs the dissemination of plan information. Payroll providers, however, speak to their clients often. Open enrollment, new employees, terminations, and name changes are just a few of the instances where payroll providers must speak to business owners. This unique position of frequent and necessary contact with employers allows the payroll providers opportunities to engage new employees, contact employees at open enrollment for updates, and also distribute forms at tax time. This recurring contact provides the chance for an employee to be regularly "reminded" about the program.

As SRRPs continue to expand, the collaboration between payroll providers and Program Administrators is likely to develop even more. Through this partnership, we can enhance retirement readiness among small business owners and employees, ultimately contributing to a more financially secure future for all participants.

Consideration 2: SECURE 2.0 Brings New Retirement Planning Ideas

For the most part, States have adopted the Auto-IRA as the easiest, simplest retirement option for eligible employers to implement. That may still be the case in terms of cost and implementation effort but SECURE 2.0 includes a number of provisions that may make 401k plans an attractive alternative for eligible employers. The following table highlights several SECURE 2.0 elements that provide an increased level of flexibility and cost containment for an employer:

Provision	Details	Effective Date
Start-up Tax Credit	Increases available tax credits for costs associated with the start-up and maintenance of qualified plans by businesses meeting certain employment thresholds (i.e., 50 or 100 employees depending on the credit)	Taxable years beginning after December 31, 2022
Starter-K	Allows for a deferral-only plan with no required matching contributions. The plan will automatically pass non-discrimination and top-heavy testing. Annual contributions are limited to $6,000 with a $1,000 catch-up provision available to participants aged 50 and older, both indexed. Employees can defer 3% to 15% of compensation.	Plan years beginning after December 31, 2023
Automatic Enrollment	Will be required of all employers at a pre-tax contribution rate of at least 3%, but not more than 10% of pay with a required automatic escalation feature.	Plan years beginning after December 31, 2024
Long-term, part-time worker eligibility	Expedited eligibility from three years to two years for all workers who work between 500 and 999 hours.	Plan years beginning after December 31, 2024
Saver's Match	Lower to middle-income employees will be eligible for a federal matching contribution of up to $2,000 per year that must be deposited in their retirement savings account. The match phases out based on income.	Taxable years beginning after December 31, 2026

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In reviewing these provisions, we note in particular the Starter-K, which eliminates the need for an employer match, as well as ongoing testing. Without these changes, a traditional 401k plan would be expensive to establish and maintain. Yes, a Starter-K will still have some employer responsibilities, and the degree of investment option flexibility is unknown, but for businesses in States that do not have an Auto-IRA mandate, the Starter-K may prove to be an attractive option.

Assuming the Saver's Match were available to Roth IRA account owners, it would provide an additional compelling reason for low- to middle-income employees to participate in a State-offered Program. We recognize that many challenges – administrative and otherwise – must be met before the Saver's Match would unconditionally be available to participants in a State Auto-IRA, but we encourage industry players to resolve those issues by the January 1, 2027 effective date. The attractiveness of the Match could be a game changer for participation growth in the State Programs.

On a final note, most 401k plans can, and now do, offer a lifetime income option. As we discuss in the next Consideration, many plan participants want a guaranteed income stream at retirement. In the State-run Retirement market today, only a MEP or marketplace could offer this option. Today, Massachusetts alone offers a MEP, and Missouri has now authorized a MEP launch for its State-run Retirement Program. Perhaps a MEP partnership becomes a possibility, particularly if other States follow suit.

Consideration 3: State-run Retirement Programs Can Address Lifetime Income Needs

Lifetime income has been and continues to be forefront in the minds of all retirement savers. In fact, 54% of retirement savers are considering a type of guaranteed income.[19] Annuities are often an answer to the lifetime income conundrum but they may not be viable options for participants in State Auto-IRAS with cost being the primary reason.

Rather, we continue to see a focus on Social Security as the perpetual lifetime income solution. The amount of lifetime income depends upon when an individual elects to "claim" their Social Security benefit. Based on research from the Social Security Administration, most retirees claim their benefits before the applicable full retirement age and, as a result, receive a reduced benefit. In fact, fewer than one in five workers wait until full retirement age to begin taking benefits. The following chart shows the difference in benefits depending upon an individual's initial draw:[20]

Age at Retirement	Percentage of Full Benefit Paid
62	70.0%
63	75.0%
64	80.0%
65	86.7%
66	93.3%
67	100.0%
68	108.0%
69	116.0%
70	124.0%

[19] Morning Consult for the American Council of Life Insurers, "Retirement Planning", May 2023

[20] Chart is sourced to Nerd Wallet (https://www.nerdwallet.com/article/investing/social-security/social-security-62-vs-67-vs-70). Percentages assume an individual born in 1960 or later. Social Security Administration data available as of September 6, 2023

The "Social Security bridge," a term frequently applied to describe the use of funds to postpone the claiming of Social Security until age 70, continues to be an important factor in the discussion of lifetime income. Assets in Auto-IRAs can be deployed to accomplish the goal of delaying the receipt of these benefits thereby maximizing retirement income. As we see it, State Programs have an opportunity to educate employees on how their IRA accounts in the Program can lead to greater Social Security benefit in the future. Although we see an abundance of media coverage of the issue, only Maryland currently addresses the Social Security bridge concept.

Find Out More

State Administrators and Program Managers are always searching for new ways to serve this evolving market. We would be delighted to discuss our findings in more detail with you. For more information, please contact:

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