Real Possibilities

Thank you, on behalf of AARP Colorado's 680,000 members, for considering our testimony on Senate Bill 200, the Colorado Secure Savings Program. We are a nonprofit, nonpartisan organization dedicated to helping people ages 50 and older to improve their quality of life as they age. In doing so, we focus not only on those nearing and currently in retirement, but those who are at all stages of their careers and will retire in the future.

This state, like many others, is facing a retirement crisis. The average Social Security benefit in Colorado is about $17,000 a year, while on average older families in Colorado spend $23,000 a year on food, utilities, and health care alone.[1] Social Security was never intended to be a person's sole source of income in retirement, yet in 2012, nearly one in four older Colorado citizens relied on Social Security for 90% or more of their income.[2] At this rate, one out of every two middle-class retirees will be unable to afford their basic needs in retirement- things like medicine, utilities, and rent. This will cost taxpayers down the line in social services. If we take action today we can reverse this trend, and that is what Senate Bill 200 seeks to do.

---

[1] https://states.aarp.org/work-save-its-time-for-an-innovative-solution/; https://www.businessinsider.com/social-security-retirement-benefits-by-state-2018-4

[2] Mikki Waid, "Social Security Is a Critical Income Source for Older Americans: State-Level Estimates, 2010-2012," AARP Public Policy Institute, 2014. https:www.aarp.org/content/dam/aarp/research/public_policy_institute/econ_sec/2014/social-security-critical-income-source-AARP-ppi-econ-sec.pdf

Certain groups of people are disproportionately impacted by a lack of access to retirement plans. The higher rate of part-time employment among women is a large factor in their low eligibility rates for employer-sponsored retirement plans, as they may not work enough hours to be covered by their employer's plans. Employees of color are significantly less likely to have access to workplace retirement plans, and households of color have disproportionately lower retirement savings than white households, even controlling for age and income. The contingent workforce, including gig workers, tend to also lack this critical access to employer-sponsored retirement plans. Programs such as those laid out in Senate Bill 200 are necessary to reach a huge and underserved population.

Retirement Insecurity in Colorado

Colorado is no exception to this retirement crisis. About 46% of Colorado's private sector employees- approximately 909,000 individuals- work for an employer that does not offer a retirement plan.[3] This problem is not going to solve itself. Personal retirement savings is a prerequisite to being self-reliant in retirement. Yet we know that employees are 15 times more likely to save merely by having access to a workplace retirement plan.[4]

This lack of access is not limited to younger workers, either. Nationwide, roughly 40% of those who are near retirement lack a way to save for retirement via payroll deduction. Participation rates in traditional retirement plans have not budged in more than 40 years, but programs like Colorado Secure Savings can change that.

---

[3] David John and Gary Keonig, "Workplace Retirement Plans Will Help Workers Build Economic Security," AARP Public Policy Institute, 2015. https://www.aarp.org/content/dam/aarp/ppi/2015-08/aarp-colorado-fact-sheet.pdf
[4] AARP Public Policy Institute estimates from the March 2017 Current Population Survey, U.S. Bureau of the Census.

The problem is lack of access. Although individuals without access to a way to save for retirement at work could open up their own individual retirement accounts, this rarely happens. Only 5% of people will go out on their own and open an IRA, and the numbers haven't changed in decades.

<u>How Senate Bill 200 Works</u>

This legislation provides for a program that is a public-private partnership approach to retirement savings. It is completely voluntary for employees, as they always retain the option to opt-out of participation in the program. It will operate similar to a 529 college savings plan. In order to understand how this program would work, it is helpful to break the impact down by each group: employers, employees, and the state.

Employers

Businesses would have access to a simple, plug-and-play retirement program for their employees, which is professionally managed and easy to use. The operational and regulatory burden of running a retirement plan is taken away from small business owners. The private sector would facilitate the program, and it would be overseen by the state. Business owners would only be responsible for disseminating information packets to their employees and running payroll deduction, which they are already doing to remit taxes.

Employees

This bill impacts employees working for an employer that does not offer a qualified alternative retirement plan. These employees would be automatically enrolled in the program, with the option to opt-out of participation at any time. Employees would also have full control over how much they want to put away and what they want to invest in – how much you save, if at all, is entirely up to you.

Accounts would be portable so a person could take their savings with them, if they change jobs. Economies of scale will keep costs low, while also generating new business for the private sector.

The State

With regard to the state, this program is designed to be self-sustaining over time, and will be participant-funded. The state is not responsible for participant gains or losses in the market. This is a 401(k) style program, the state **will not** provide any pension-style benefit to enrollees. What a participant puts in is what they get out, plus or minus gains and losses in the market. The state plays the role of aggregating small businesses who otherwise would have to go out and pay retail for a retirement plan, operate it, choose the investments and providers, incur fiduciary liability, and fill out a great deal of paperwork when they could be using that time to keep their doors open instead.

By affording workers access to a simple way to save for retirement, fewer households will need to rely on social services, ultimately savings taxpayer dollars. Research has found that Colorado could save $155 million on public assistance programs between 2018 and 2032 if lower-income retirees saved enough to increase their retirement income by $1,000 more per year.[5] In addition, Work and Save will grow a new generation of investors, who can build their assets and invest in more complex financial services products down the road. Importantly, the Colorado Secure Savings Board found that a state-facilitated automatic enrollment IRA program such as this is expected to be cost-neutral to the state within a five year period.

<u>Action in Other States</u>

[5] William Shiflett and Catherine Harvey, "Colorado Could Save $155 Million by Helping People Save for Their Own Retirement," AARP Public Policy Institute, 2017. https://www.aarp.org/content/dam/aarp/ppi/2017/04/AARP1150_FS458_Colorado_May1v2.pdf

Many states have taken action in moving forward on retirement security. Today, 11 states have enacted new programs for private sector workers, and more states are well-positioned to continue this work across the country.

Oregon was the first state to implement this kind of retirement security solution, with their launch of OregonSaves in 2017. OregonSaves was the first in the nation program of its type- an automatic IRA retirement savings solution for businesses and employees in the state of Oregon. With over $45 million saved already, and the program no longer relying on loaned funds, OregonSaves is leading the way to a more secure future.

Conclusion

AARP is fully supportive of the passage and implementation of the Colorado Secure Savings Program, and we urge you to support Senate Bill 200.