State Administered Private Sector Employee Retirement Savings Study Workshop

Deloitte Consulting LLP

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Workshop Agenda

Meeting Item	Duration
Introduction of Attendees	10 min
Background & Summary of Key Findings to Date	20 min
Discussion of Program Design	90 min

Introductions

Introductions

Interested Parties	Organization Represented
Lorna Smith	MMB
John Pollard	MMB
Former Rep. Patti Fritz	Legislative Author
Barbara Battiste	Economic Security for Women
Patc Ammann	MN State Board of Investment
Mary Jo George	AARP
Sarah Mysiewicz	AARP
Brian Elliot	SEIU
Robyn Rowan	MN Insurance and Financial Services Council
Beth Kadoun	Minnesota Chamber
Dave Bergstrom	MSRS
Anna Odegaard	MN Asset Building Coalition
Roger Fitzgerald - AARP Volunteer	Former small business owner
Kirsten Libby	Securities Industry and Financial Markets Association
Others	

Deloitte Team Members: Pat Pechacek, Jamie Helms, Ashleigh Forsell, Anna Slayton, Jolene Bruner

Participant Expectations

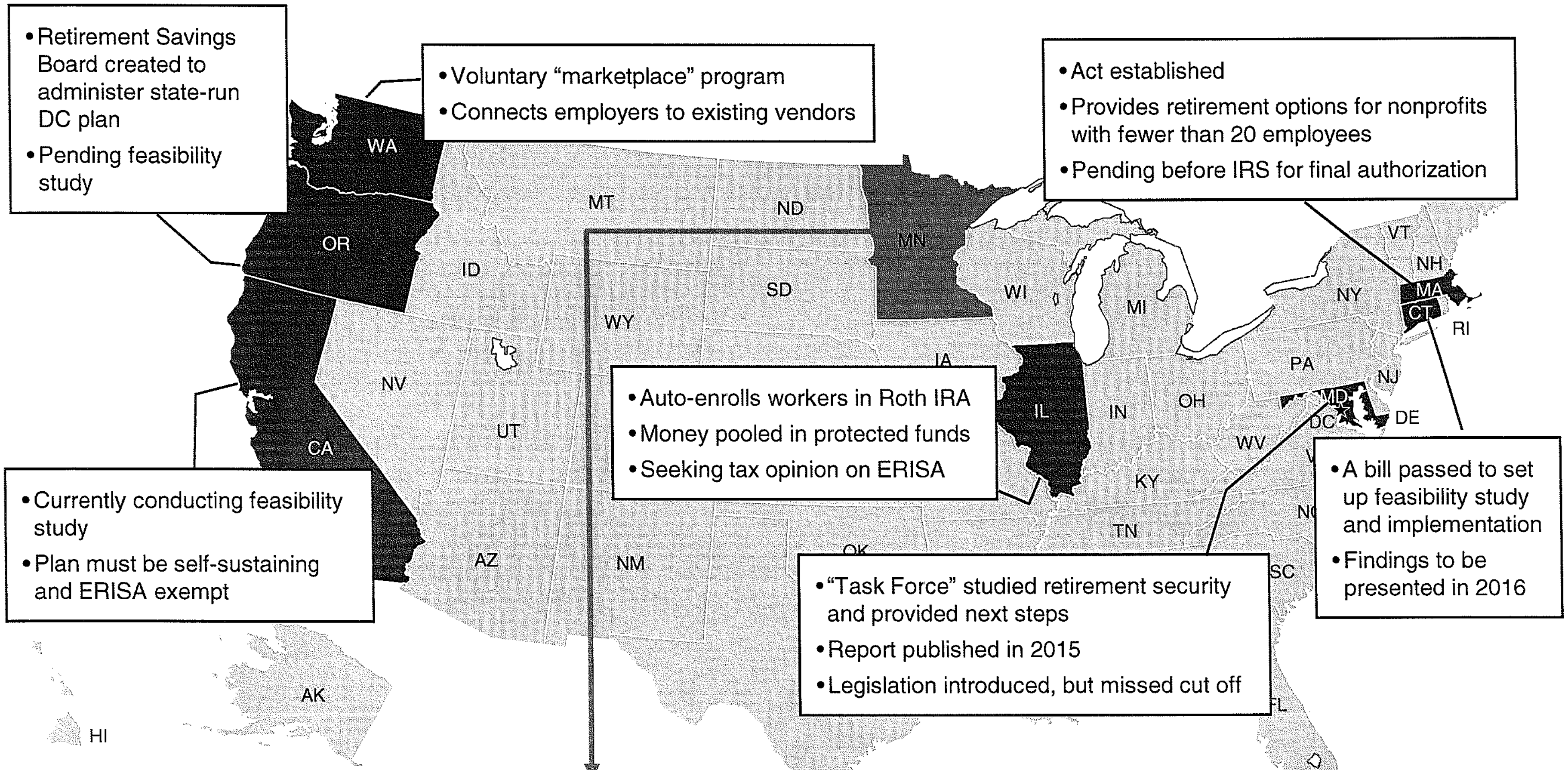
- Your participation in these sessions is critical to the success of Minnesota's Retirement Saving Study… so please *provide input, ask questions and share your point of view*
- *Do not assume something will be addressed if you don't raise it*… if it's not reflected in the documentation or if you do not raise it, it may get missed
- In addition to representing your point-of-view, also *focus on what is best for Minnesota*
- *Focus on how* the State can address the retirement challenge

Background & Summary of Key Findings to Date

A Secure Retirement is out of Reach for Millions of Americans

"At Risk"	• Americans increasingly worry about financial security in retirement and are "at risk" in their ability to have adequate savings[52]
Shift from DB to DC plans	• Shift from less defined benefit plans to more defined contribution plans, placing more responsibility on the individuals to saving enough for retirement[3]
Social Security deficit	• Social Security provide close to 35% of a retiree's income[3] and is expected to run out by 2034[58]
Lack of access to employer-sponsored plans	• 48% (44.5 million individuals) in the U.S. did not have access to an employer-sponsored retirement plan[3]
Low participation rates	• Workers who do have access to an employer-sponsored retirement plan, either elect not to participate or are not saving enough[3, 46]

A number of states, like the State of Minnesota, have taken the initiative to understand and address the retirement crisis for private sector employees



Study analyzes the potential for creating a state-administered retirement savings program to serve private sector employees who do not have access to a retirement program through their employer

Source 60

A four phase approach has been created to help the State in determining what options to consider for a state-sponsored retirement program

I. Market Analysis	II. Program Design Option	III. Evaluate Financial Impact	IV. Findings and Alternatives

★ Survey distributed ★ Initial design options workshop

As part of the Market Analysis phase, Deloitte worked with the State of Minnesota in distributing a survey to:

✓ Gain insights into the retirement security challenge for small businesses' and their employees
✓ Gauge small businesses' interest in a possible state-sponsored retirement savings programs

Survey Summary

- A total of 195 employers responded, approximately **65%** of those employers have **fewer than 50 employees**
- Of those who responded, approximately **16% do not offer** a retirement plan to their employees
  - Of the **84.4% of employers** who **offer an employer-sponsored plan**, approximately 64% do not allow part-time employees to participate in the plan
  - Given the part-time national average workforce is 23.8%[48] this would equate to 12.8% in addition to the 15.6% of workers without access to an employer-sponsored retirement plan (or 28% total)
- Five potential program design options were shared with the employers:
  - Education
  - Incentives
  - Retirement exchange
  - Voluntary program
  - Automatic enrollment program
- **Education and incentives were supported** most by employers surveyed

Based on the market analysis and survey findings, there are three groups of private sector workers that would benefit from the state-sponsored retirement savings program

Access, but not saving enough

- Recommendation is to **save at least 8-11 times** of income[3]
- 92% of Americans retirement assets do not meet this minimum[3]
- Average defined contribution balance in Minnesota in 2012 per account holder was **$38,492** among all groups[10]

Not offered a plan

- About **873,000**, or **39%**, private sector workers **do not have access** to an **employer-sponsored benefit plan** in Minnesota[45]
- Only 4.6% of workers who are not offered employer-sponsored plans save in their own IRAs, meaning this group is 15x less likely to save than those workers offered plans[59]

Part-time Employees

- Of the employers surveyed, 64% employers that offer an employer sponsored plan do not offer their plan to part-time workers*
- This gap is further supported as the national average suggests there **61%** of part-time private sector workers **do not have access** to an **employer-sponsored benefit plan**[46]

Utah conducted a study and the findings indicated that if the bottom of one-third of workers increased their net worth by just 10% over their career, this would decrease expected government outlays on safety net spending by more than $194 million over the next 15 years.[41]

*Data pulled from MN Survey Study

MN v Utah
Double the population
2.6 retirees
MN spends double on public program

Barriers exist for employers and employees when it comes to participating in private sector retirement plans

Employer Barriers to Offering Retirement Plans	**Short Term Employees**	Not always eligible to participate[45]
	Complex Administrative Burdens	Implementation, start up and ongoing costs[50, 51]
	Fiduciary Responsibility	Confusing to choose the right plan and options[50, 51]
	Administrative Costs/Fees	Challenging to negotiate low fees[50, 51] 50+ e'ees x 2 the costs
	Competing Benefits	Demand for other benefits such as healthcare prioritized[50]
Employee Barriers to Participating and Saving in Retirement Plans	**Income**	Lower income individuals are less likely to participate[15]
	Age	Younger individuals are less likely to save for retirement[15]
	Gender	Women are less likely to have retirement plans than men[14]
	Race and Ethnicity	Households of color have less in retirement savings[17]
	Competing Financial Needs	Student loans, house payments and raising a family[7]
	Personal Circumstances	Forgetfulness, lack of education, lack of planning and procrastination[15]

Moons has reached out to E'ees

Private sector employers have adopted various strategies that have been successful in encouraging employees to participate and increase their retirement savings

Automatic Enrollment	• Plan participation among those automatically enrolled came in at 91%, compared to a 42% participation rate when new employees had the option[63]
Automatic Contribution Escalation	• 62% of plan sponsors use auto escalation feature[57] • Can increase an individual's account balance more than 100%[67]
Matching Threshold	• Serves as a strong focal point as workers decide how much to save[12]
Limited Options	• Offering a small number of plan options has a positive correlation with participation[12]
Planning Aids	• Planning aids can increase employee participation up to 21%[12]
Education	• 69% of plan sponsors who made changes to their communication strategies within the previous 2 years reported an increase in plan participation[64]

While these strategies are being implemented, they represent a solution only available to those employed by companies that offer a retirement savings program

Discussion of Program Design Options

Goals and Expectations

Various retirement program design aspects presented to guide today's discussion

Feedback received will help establish guiding principles, serve as inputs into potential program designs and recommendations

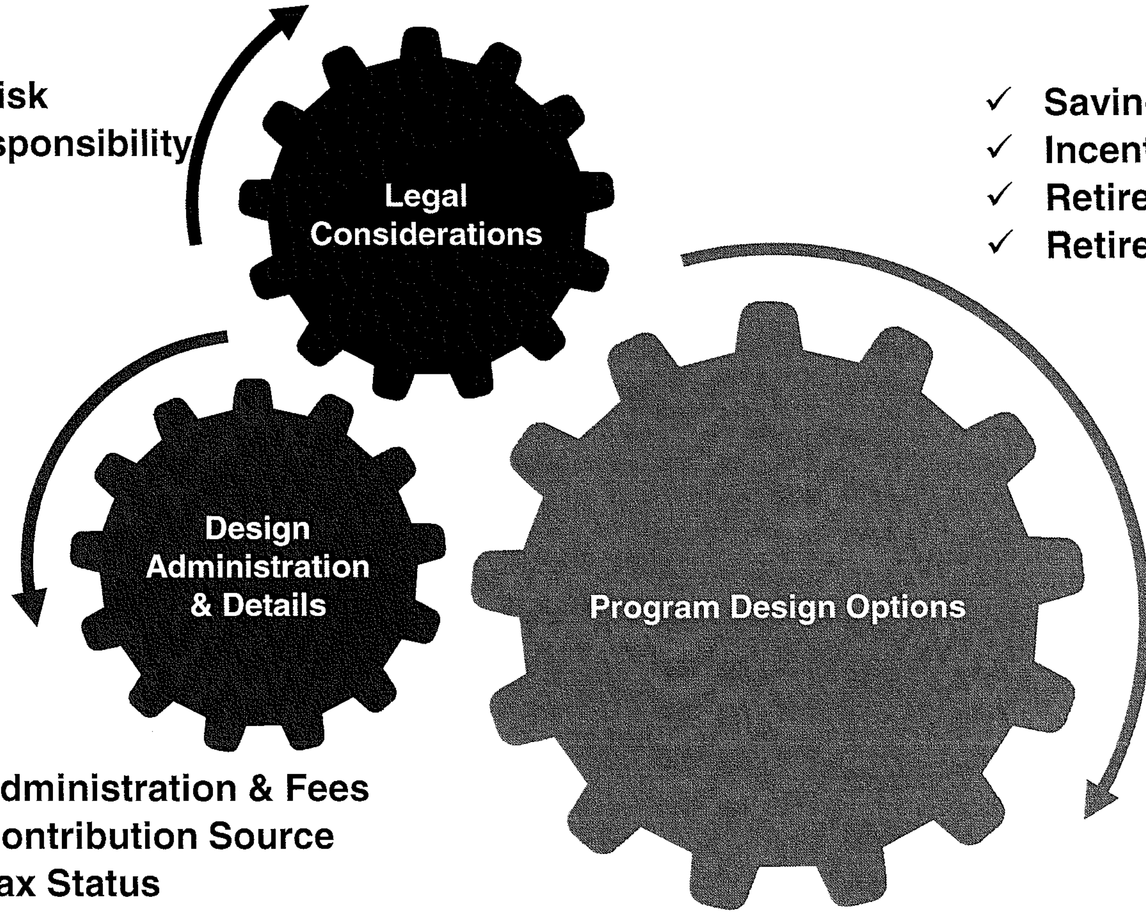
All thoughts and opinions are welcome and encouraged

There are various retirement program aspects that should be considered in solving the retirement challenge in Minnesota

Solving the Retirement Challenge in Minnesota

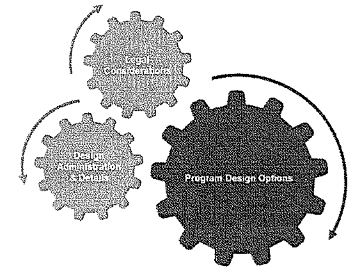
- ✓ **Investment Risk**
- ✓ **Fiduciary Responsibility**

- ✓ **Savings Vehicle Options**
- ✓ **Incentives**
- ✓ **Retirement Education**
- ✓ **Retirement Exchange**



- ✓ **Administration & Fees**
- ✓ **Contribution Source**
- ✓ **Tax Status**
- ✓ **Enrollment**

State Sponsored - State is providing access to DC plan



Savings Vehicle Options

What type of savings options should the state consider?

Defined Contribution Plan

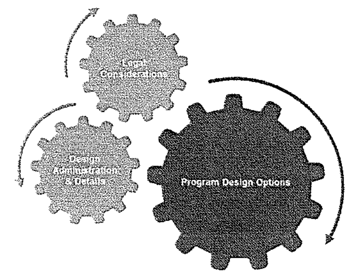
- Establish a traditional DC plan like those offered by many employers
- Employees contribute through payroll deduction
- The only option available to reduce FICA tax for employee and employers
- Higher contribution limits[61]

myRA-like Plan

- Similar to Federal myRA
- Simple, safe, and affordable way to save up a lifetime maximum of $15,000[62]
- Investment will grow risk free, earning interest at the same rate as investments in the government securities fund
- No cost to employees

Payroll Deduction IRA

- Employer sets up the payroll deduction IRA program with a bank, insurance company or other financial institution
- Employees choose whether to participate and how much
- Simplifies the process of individuals enrolling in an IRA
- No employer responsibility to administer plan[61]



Incentives

Should the State consider different types of incentives to encourage employers to sponsor a savings program?

Current Incentives

Tax incentives

- Employer contributions are tax deductible from employer's income
- Tax credit for some of the ordinary and necessary costs of starting a SEP, SIMPLE IRA or qualified plan for employers with 100 or fewer employees
  - Credit is 50% of employer's eligible startup costs up to a maximum of $500 per year[61]

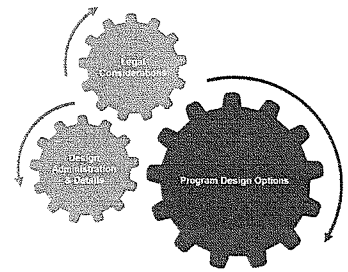
Additional Incentives

Additional Tax incentives

- Determine target business size and provide additional tax-incentives
  - According to the survey conducted, 90% of businesses who don't offer a retirement plan have fewer than 50 employees

Other Incentives

- Negotiate lower program fees with providers



Retirement Education

Should the State consider an educational campaign?
Separate or in conjunction with other programs?
Whose responsibility is it to educate individuals on retirement?

State

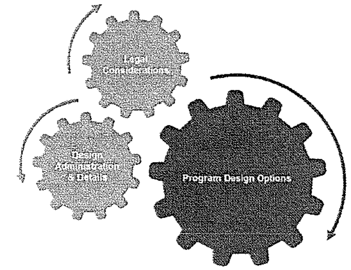
- Raise awareness of the importance of saving for retirement, how much to save, when to start saving, retirement readiness
  - Educational seminars for employers and individuals
  - Sponsor billboards, print ads, commercials
  - Educational curriculum in schools
  - Education in conjunction with social safety net programs

Employer

- Educate on existing plan if offered or to educate on private sector products if they don't offer one
  - Online resources / Company intranet
  - Trainings / learning seminars focused on saving for retirement
  - Annual enrollment meetings
  - New hire orientation sessions
  - Emails / targeted communications based whether an employee is saving or not

Securities Industry

- Educate consumers on the importance of saving for retirement, cost of retirement, and available vehicles as well as educating employers (plan sponsors)
  - Interactive tools to show an individual's retirement readiness
  - Marketing channels – mailings, commercials, ads
  - Tailoring communication based on the individual's life stage / age
  - Trainings / learning seminars focused on saving for retirement



Retirement Exchange

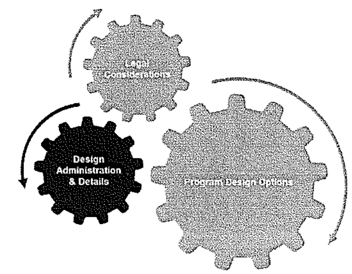
Should the State consider a retirement exchange as an alternative approach to a state-sponsored program?

State Facilitates Relationships with Private Sector Brokers

- The State connects employers with available private sector retirement savings options
- The State of Washington enacted "Washington Small Business Retirement Marketplace,"[60]
    - A voluntary retirement exchange (website) for employers to participate in
    - Connects employers with currently available low-cost, low-fee private sector retirement savings options (SIMPLE IRA, IRA, MyRA, etc.)

Considerations

- Should employers be required to select one of the exchange options or should it be voluntary?
- Should the State select only specific providers and options for the marketplace or should the market be open to all private insurers?



Administration & Fees

Should the State/Quasi State, employer, or a third-party administer the program?
Who should pay for the program fees?

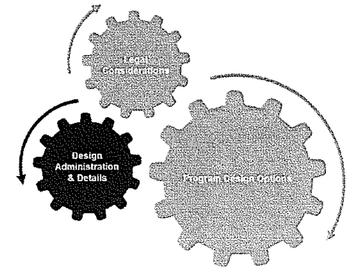
Administrative Responsibilities

- Monitoring of the program and updating as necessary so it's achieving the defined objectives whether it be an education outreach, exchange or a state-sponsored plan
- Ensuring programs meets current laws and updating as necessary
- Responding to participant questions
- Day-to-day program operations and administration
- Development of educational materials, including communications, for employers, employees, and/or the public informing on the program design, eligibility, and benefits

Fees

- Paid from plan assets
- Taxpayers
- Participants
- Employer
- Combination of the above

Administrative work and cost is dependent on the program design option selected



Contribution Source

Who should be able to contribute to the potential state-sponsored plan?

Employer Contributions Only

- All contributions in the plan come from the employer
  - Similar to a defined benefit format

Employee Contributions with Employer Match

- Optional Match
  - The employer has the option to match employee contributions
- Mandatory Match
  - The employer must match a pre-defined % of employee contributions

Employee Contributions Only

- All contributions in the plan come from the employee
  - The employer is not allowed to provide a match

State Contributions

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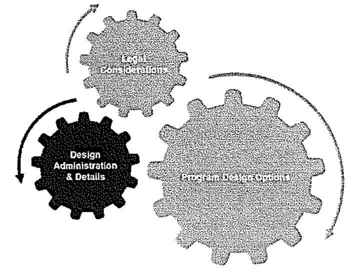


Tax on Contributions

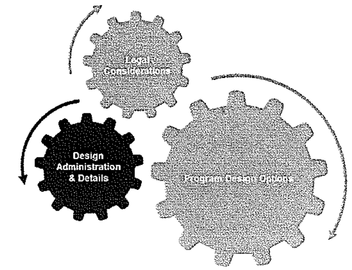
Should employee contributions be pre-tax or post-tax?

Pre-Tax Contributions (Traditional)

- Tax Deferred – allows the participant to postpone paying taxes on the amount contributed and the earnings that are generated as long as they remain in the account
- Potential Advantages:
  - Reduced taxable income in savings years
  - Contributions and earnings may be taxed at a lower rate if the participant's taxable income is lower than it was during their working years
- Potential Disadvantage
  - Contributions to the plan are excluded from the state income tax, resulting in potential revenue loss

Post-Tax Contributions (Roth)

- Tax Now – the participant pays income tax on their contributions up front
- Potential Advantages
  - The money in a Roth account grows tax free, meaning no taxes will be paid at time of withdrawal



Enrollment

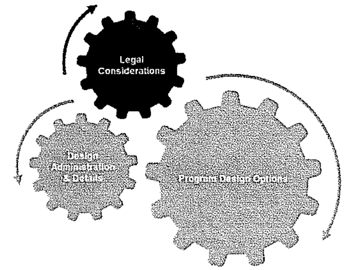
Should the State automatically enroll individuals into a potential state-sponsored plan or should it be voluntary enrollment?

Automatic Enrollment

- The employees would be automatically enrolled in the plan
    - Pre-defined deduction rate from payroll
    - Automatic contribution escalation
    - Reenrollment
    - Opt out
- State of Illinois
    - Eligible workers are automatically enrolled with a 3% payroll deduction per paycheck. They may opt out if they wish[34]
    - Only employees can contribute to their accounts

Voluntary Enrollment

- The employee would voluntarily enroll into the plan
    - Employees decide how much to contribute
    - Opt in



Investment Risk

Who should accept the risk?

Employer Accepts Risk

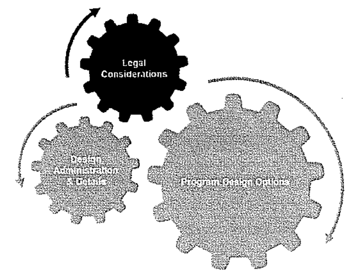
- The employer must decide:
  - How much to contribute to plan assets
  - How to allocate those contributions among different investment options
- Bears the investment risk during the accumulation phase and then absorbs longevity risk and much of inflation risk after retirement
  - Responsible for replacing lost funds to cover promised benefits

Employee Accepts Risk

- The employee must decide:
  - Whether to join the plan
  - How much to contribute
  - How to allocate those contributions among different investment options
  - How to change those allocations over time
  - How to withdraw the accumulated funds at retirement
- Exposes employee to the risks of saving too little, losing funds when financial markets fluctuate, seeing the value of their retirement income eroded by inflation, and outliving their resources since payment is generally not in the form of an annuity

State Accepts Risk

- Guaranteed return option
  - Responsible for funding enough to cover promised benefits



Plan Fiduciary

Whom is to take on the fiduciary responsibility, if required*:
the State or the employer?

Fiduciary Responsibilities

- The Employee Retirement income Security Act (ERISA) protects plan assets by requiring that those persons or entities who exercise discretionary control or authority over plan management or plan assets, anyone with discretionary authority or responsibility for the administration of a plan, or anyone who provides investment advice to a plan for compensation or has any authority or responsibility to do so are subject to fiduciary responsibilities[61]
- Run the plan solely in the interest of participants and beneficiaries and for the exclusive purpose of providing benefits and paying plan expenses
- Fiduciaries who do not follow these principles of conduct may be personally liable to restore any losses to the plan, or to restore any profits made through improper use of plan assets[61]

*There is a lack of clarity regarding ERISA and state sponsored programs. The U.S. Department of Labor will publish a proposed rule by the end of 2015 clarifying how states can move forward; thereby potentially changing the responsibilities outlined on this slide.

Additional Considerations

What other considerations related to a potential state-sponsored retirement savings program do you want to discuss today?

Next Steps

I. Market Analysis → II. Program Design Option → III. Evaluate Financial Impact → IV. Findings and Alternatives

★ Initial design options workshop

Incorporate today's discussion, market research and survey results as inputs into the development of potential options for the State to consider in offering a state-sponsored retirement savings program. Options will be shared and discussed at the next workshop a month from now.

Appendix

Market Analysis

Americans are "at risk" in their ability to have adequate retirement funds

There is a national crisis in Americans saving enough for retirement

- Based on the EBRI Issue Brief *Retirement Income Preparation and Future Prospects,* 43.7% of Late Baby Boomers and 44.5% of Gen Xers are considered to be "at risk" in their ability to pay for basic retirement expenditures and uninsured health costs; 70.3% of households in the lowest 1/3 of preretirement income are "at risk" further reinforcing the issue of adequate retirement savings[52]

- After 10 years of retirement, 41% of those in the lowest income quartile are estimated to run out of money. This percentage increases to 57% after 20 years in retirement[52]

- Workers who are younger, have lower earnings, and have less attachment to the workforce typically work for employers who do not sponsor a retirement plan and saving for retirement is not a top priority[53]

The average amount of savings Minnesota residents have upon retirement is less than the recommended amount to be financially secure

The median net worth (excluding retirement assets) for those aged 55-64 with retirement accounts is $245,000 and $40,000 for those without.[3]

The recommended rate for a person to start saving at age 25 more than doubles if they wait until age 45, and triples if they wait until age 55.[13]

Only 4.6% of workers who are not offered employer-sponsored plans save in their own IRAs, meaning this group is 15x less likely to save than those workers offered plans.[59]

To maintain standard of living, a typical American household needs to replace 85% of pre-retirement income. Social security provides roughly 35% of this replacement.[3]

The average yearly benefit of a retiree on Social Security was $15,270.[20]

The average defined contribution balance in Minnesota in 2012 per account holder was $38,492 among all groups.[10]

Barriers to Savings: Why employers are not offering a plan

Short Term Employees	• Firms feel no need to offer for minimal time working
Administrative Burden	• The burden of paperwork and administration is a common concern among small employers. Many smaller firms lack the sufficient financial resources, time and personnel to take on the administrative tasks in offering a plan to employees The startup and ongoing costs in administering a plan was key barrier for small employers. • Some firms cannot offer a company match and therefore don't offer a retirement plan
Fiduciary Responsibility and Investment Selections	• Firms find it challenging to pick the right plans (especially for younger and older workers), and they often do not know the rules and want to avoid being held liable[50, 51]
Competing Benefits	• Demand for retirement savings benefits among employees may be lower than the demand for health care benefits and with limited employer funds for benefits, smaller employers tend to offer health care benefits. • Offering health care benefits is a key recruiting tool used by smaller employers[50, 51]
Fees	• Smaller firms may have higher administrative and consulting fees due to a lack in economies of scale • Plans with fewer participants generally have lower assets thus pay higher fees as a percentage of assets • More challenges exist in negotiating lower fees for smaller plans – participants in plans with less than 50 participants paid average fees of 0.43% annually whereas participants in plans with more than 500 participants paid average fees of 0.22% annually[50, 51]

Recent burdens on small Minnesota businesses may be impacting employers from offering private sector retirement plans to their employees

MNsure Health Insurance Program[35]	• Insurance costs for small businesses are high compared to big business costs which benefit from economies of scale • MNsure is a government run marketplace that was expected to cover 155,000 people in small group plans by the end of 2015, and as of May 2015 only covered 1,405 due to ongoing technical challenges, administrative burdens, and a lack of tax credits to encourage small employers to participate in the exchange[56]
Minimum Wage Law[36]	• As of 2014, the minimum wage for small businesses (firms with annual revenue at $500,000 or less) in Minnesota is $6.50 • Minimum wage in Minnesota is to increase to $7.25 on August 1, 2015 for small businesses • Minimum wage in Minnesota is to increase to $7.75 on August 1, 2016 for small businesses
Women's Economy Security Act[37]	• May increase costs to small businesses by requiring more leave time and extra accommodations for pregnant and nursing women, as well as the ability to transfer positions
Taxes[35]	• Utility rates were lowered for many big businesses and raised for many small businesses • New customers of solar and wind energy will be assessed a fee - discouraging customers from buying and future small businesses in this segment from operating in MN • Property tax legislation had a positive affect for big businesses and a negative affect for small firms
Other Concerns	• Problem of limited internet access - the House recently tried to shut down a bill for improved internet access across greater Minnesota, but after much protest it returned with only 10% of its funding[35] • Many small businesses lack the newest technologies[38] • Loans come at a higher price[34]

Barriers to Savings: Why employees are not participating in a plan

Early Distributions	• Withdrawing of retirement savings prior to 59.5 is often and accompanied by a 10% excise tax[7] • Before the economic downturn, approximately 5% of participants took withdrawals per year, with 20% being hardship withdrawals averaging $5,500 and 80% being non-hardship withdrawals, including "59 ½ withdrawals" (a plan feature that allows employees who reach 59 ½ to withdraw funds on a pre-tax basis without a hardship), averaging about $15,500[11] • Lower income Americans are more apt to withdraw; about 9% withdrawing per year have an income between $20,000 and $60,000[11]
Age and Income of the Individual	• As income increases, so does participation rate; participation rate of those who make between $10,000-$19,999 is 18%, 34% for those who make between $20,000-$29,999, and 65% if income is between $40,000-$49,000[15] • 38% of individuals aged 25-34 participate in a employer-based retirement plan whereas 49% aged 35-44 participated and participation increases for the next age groups[15] • Younger workers place retirement as less of a priority than older workers due to competing financial needs
Competing Financial Needs	• Examples are school loans, house payments, and raising a family[7] • 34% of Minnesotan's pay more than 30% of their income on housing costs[10]
Other Factors	• Forgetfulness, lack of education, lack of planning and procrastination[12] • 56% of those with a bachelor degree participated in an employment based retirement plan, whereas only 38% participated if they had a high school diploma, and 20% with no high school diploma

Gaps exists in retirement savings by gender

Overall, women are less likely to have retirement plans than men due to their overall lower average wage earnings and lower rates of full-time work in comparison to males[15]

However, among full-time, full-year workers, women have higher participation rates in retirement plans than do men[15]

Women are more likely to participate in a defined contribution plan than men if offered one through their employer[15]

Women near retirement have about $34,000 in retirement assets compared to $70,000 for the male counterpart[14]

Females have a lower median income than males[16]

Females also live longer than males requiring them to save more[30]

The average annual Social Security benefit awarded in 2012 for a retiree 65 years of age was $19,194 for a male and $14,523 for a female[1]

Gaps exists in retirement savings by race and ethnicity

75% of Black households and 80% Latino households age 25-64 have less than $10,000 in retirement savings, compared to 50% of white households[17]

Hispanic wage and salary workers were significantly less likely than both white and black workers to participate in a retirement plan, although native-born Hispanics were more likely to participate than non-native born Hispanics[29]

Among near-retirees, the per-household average retirement savings balance among households of color ($30,000) is one-fourth that of white households ($120,000) of increasing participation and savings[17]

Note: Poverty rates vary greatly among different races, of which white people have the lowest poverty rate.[15] There is a significant earning gap between households of color and whites.[18]

Solving the race and ethnicity gap in saving for retirement may not be achieved through the state-sponsored retirement plan, however, this gap should not be ignored and could be supported with a targeted educational campaign encouraging retirement savings

Private sector employers have adopted various strategies that have been successful in encouraging employees to participate and increase their retirement savings

Automatic Enrollment	• Proven the most successful means of increasing participation and savings • A study showed that new hires automatically enrolled have a 91% participation rate compared to only a 42% participation rate for those who voluntarily enrolled[63]
Automatic Contribution Escalation	• Increasing the contribution rate annually is an important strategy for employees reaching their retirement goals; only 6% of employees will sign up for it on their own, whereas 80% will participate if it's part of the plan default option[66] • 62% of plan sponsors use auto escalation feature to encourage increased savings[57]
Matching Threshold	• Serves as a strong focal point as workers decide how much to save[12] • However many participants elect to contribute the minimum amount to get the full company match, which can result in a lower savings rate than may be required for a secure retirement[64]
Limited Options	• Offering a small number of plan options has a positive correlation with participation[12] • Behavioral research studies have shown that participants feel overwhelmed by too many investment choices, which may deter employees from participating[64]
Education	• 83% of plan sponsors reported that they use communications to encourage employees to save for retirement and to raise awareness of assets needed for retirement[57] • 69% of plan sponsors who made changes to their communication strategies within the previous 2 years reported an increase in plan participation[64]
Planning Aids	• When planning aids are offered to new hires, studies show that these materials encouraged employees to participate more than those who do not have any help in enrolling; Planning aids can increase employee participation up to 21%[12] • Offering planning aids can have 2 to 3 times the estimated impact of matching contributions on savings plan participation[12]

While these strategies are being implemented, there are still many private sector workers who do not have access to an employer-sponsored plan and are not saving enough for their retirement thus the State of Minnesota wants to reduce this large gap in retirement savings

The current expenditures on publicly funded social safety net programs by Minnesota are impacted by the insufficient retirement savings of retirees

Federally Funded

- **92% of Minnesotans** over 65 are receiving Social Security[20]
- Without Social Security, **45% of Minnesota's 65+ population** would have incomes **below poverty line**[20]
- Social Security **makes up 50% or more** the income for **61% of Minnesotans age 65 and older**, with 28% relying solely on Social Security[20]
- The **trust fund** from which Social Security benefits are paid is expected to be **depleted by 2034** and continuous tax income is expected to be able to **cover only 75% of scheduled benefits**[39]
- Of the federal budget, **24% goes to Social Security**, 24% to Medicare/Medicaid/CHIP/etc., **11% to safety net programs**, and 41% to others[24]
- In fiscal year 2012, the Federal Government's estimated **revenue loss** (due to tax preferences) associated with DC accounts was **$51.8 billion** and **$16.1 billion** with IRAs[39]
- **73% of the total government outlays for retirees** are spent on **1/3 of the US retiring population**, roughly $2.7 billion[41]

State Funded

- Minnesota was the **second highest state in 2008 in safety net spending** (ratio of public welfare spending to total direct state general expenditure), at 44% with the average of all states at 34%[19]
- In FY2011, states spent an **estimated $149 billion** of their own funds **on Medicaid** and state spending on the program is **projected to grow at 8.3%** annual rate for the next decade, in part reflecting program expansions under the Affordable Care Act[19]
- 21% (48,726) of Minnesota SNAP-eligible adults are age 60+ [21]
- Locally (MN), **7.5 percent of seniors** (about 1 in 13) are at **100% of poverty** and 24.9% (1 in 4) are at or below 200% of poverty[22]
- Minnesota Medicaid spending per "aged" enrollee is $17,053[23]

Minnesota ranks in fifth of the highest expenditure states when it comes to safety net programs

In 2014, Minnesota spent $11.3 billion on social safety net programs. Total estimated government spending in MN was $35.4 billion for 2014.[55]

2014 Data[54] Program	MN Average Benefit per person	National Average	Percent of MN spending vs National spending	MN Rank
Workers Compensation	$147	$266	(44.8%)	22
Temporary Disability Insurance	$44	$150	(70.7%)	24
Minnesota Medicaid and Children's Health Insurance Program	$13,318	$7,435	79.1%	3
Minnesota Supplemental Security Income	$1,028	$906	13.5%	16
Minnesota Temporary Assistance for Needy Families (TANF)	$444	$347	27.8%	13
Minnesota Supplemental Nutrition Assistance Program (SNAP)	$1,152	$1,292	(10.8%)	44
Minnesota General Assistance Program*	$3,333	$2,065	61.4%	5
Unemployment Insurance	$1,985	$1,468	35.2%	11
Total	**$21,451**	**$13,930**	**54%**	**5**

*Consists largely of general assistance; expenditures for food under the special supplemental nutrition program for women, infants, and children (wic); other needs assistance; refugee assistance; foster home care and adoption assistance; the 2008 economic stimulus act rebates; earned income tax credits (eitc); child tax credits; arra funded tax credits; other tax credits; and energy assistance.

Based on a Utah Study, Minnesota has the potential to significantly reduce safety net spending for retirees

Utah's Social Safety Net Program Spending due to Insufficient Retirement Savings[29]

Selected Public Programs	Maximum Benefit
Property Tax Abatement	$924
Utah Retired Tax Credit	$450
Medicare Cost Sharing Program (Utah Medicaid)	$7,859
Home Energy Assistance Target	$450
Supplemental Security Income	$8,796
Supplemental Nutrition Assistance Program	$2,328

Total Program Outlays through 2030 (in Millions)	
All Retirees	$3,782
Top One-Third	$2,747
Top Quarter	$2,529
Top 10%	$2,065
Top 5%	$1,677

- Through 2030, new retirees entering program eligibility will be eligible for $3.7 billion in program benefits
- An increase in net worth among the bottom one-third of retirees by just 10% over the workers career would decrease expected government outlays by more than $194 million over the next 15 years – amounting to only $14k in savings over their career[41]
- The ratio of Minnesota to Utah new retirees through 2030 (aged 45 and above) is 2.6 and Minnesota spends more on safety net programs than Utah; through this comparison we can assume Minnesota eligible program benefits would be at least $9.6 billion and expected outlays would decrease by at least $504 million[28]

The Department of Labor will propose regulations to help states in offering potential state-administered programs

State Savings Plans

- The President directed the DOL to develop a regulation to support the states in trying to promote broader access to workplace retirement savings
- The department will propose a regulation, near the end of 2015, that will clarify how states can move forward with state-sponsored retirement savings programs, with respect to auto-enrollment and for employers to offer coverage
- Obama has long supported federal legislation that would auto-enroll new workers into payroll deduction IRAs, so he is likely to back this similar agenda[47]

Legal Background

- The most pressing issue is whether ERISA will preempt or nullify state efforts
- The DOL believes ERISA preemption should not be an insurmountable barrier to the states' good faith efforts to bolster the retirement security of their workers
- The DOL already has a safe harbor regulation in place that states payroll deduction IRAs in private sector workplaces are not ERISA-regulated employee benefit plans so long as certain conditions are met[47]

Survey Findings

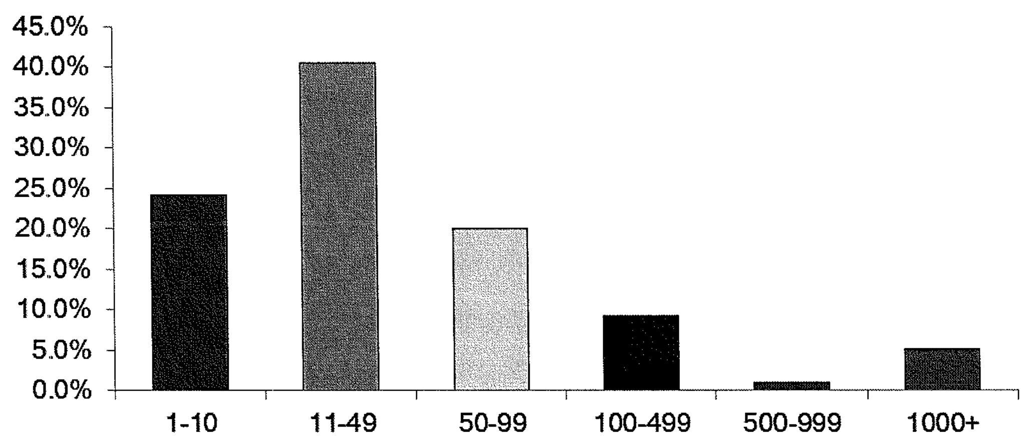
The survey was distributed to help the State of Minnesota gain insights into the retirement security challenge for small businesses' employees

The online survey was conducted by Deloitte Consulting, on behalf of the State, and primarily targeted to small businesses of various industries and locations in Minnesota

The list of employers given the opportunity to participate in the survey was provided by the Minnesota Chamber of Commerce

A total of 195 employers responded, approximately 65% of those employers have fewer than 50 employees

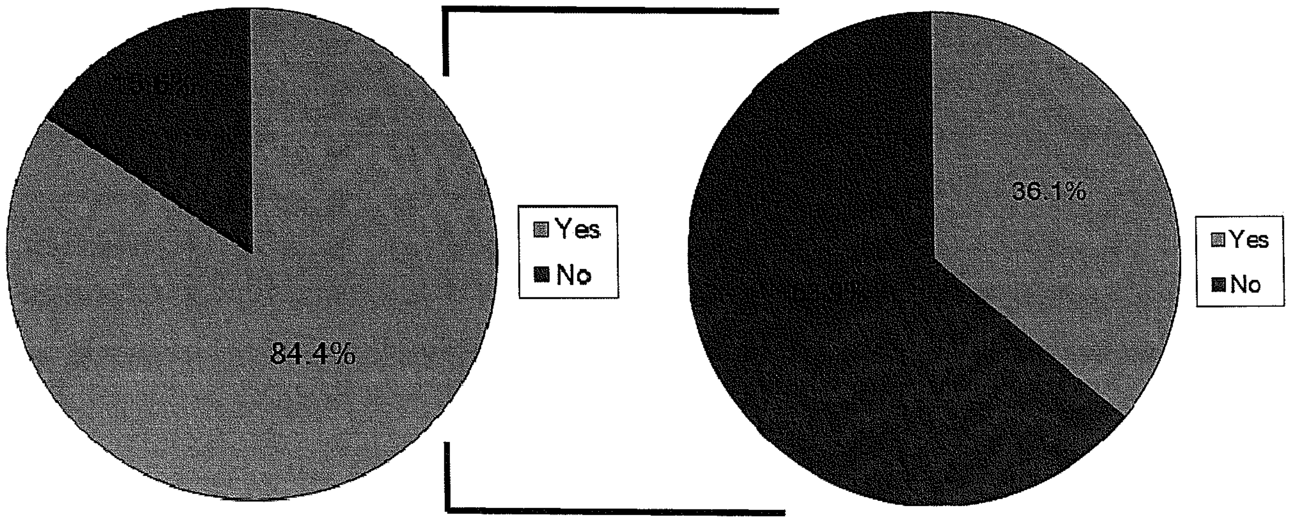
Results of this survey were analyzed by Deloitte Consulting



Gaps exist in the number of Minnesota private sector workers who have access to employer-sponsored retirement saving plans

Do you offer an employer sponsored retirement plan (i.e. 401(k)/Roth 401(k), SIMPLE 401(k), 403(b)/Roth 403(b), SIMPLE IRA, SEP)?

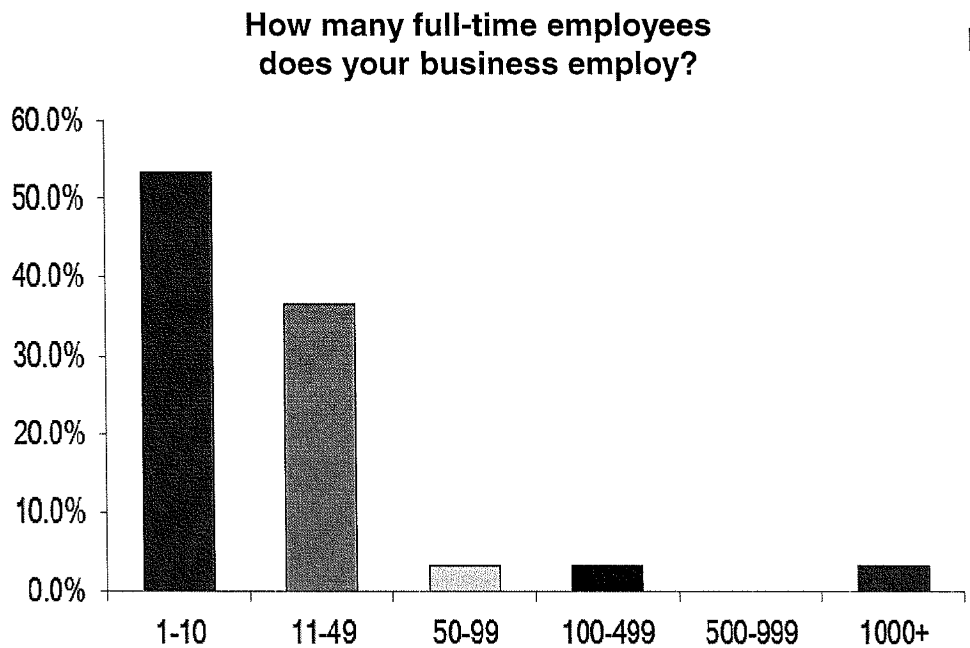
Are your part-time employees eligible to participate?

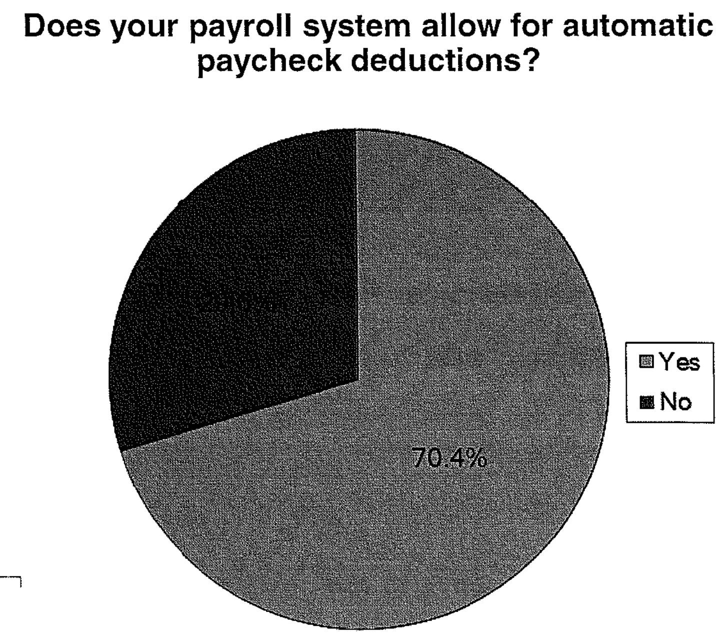


There are numerous Minnesotan's who could potentially benefit from having retirement savings access

- Approximately 16% of Minnesota employers that responded do not offer a retirement plan
- Of the 84.4% of employers who offer an employer-sponsored plan, approximately 64% do not allow part-time employees to participate in the plan
- Given the part-time national average workforce is 23.8%[48] this would equate to 12.8% in addition to the 15.6% of workers without access to an employer-sponsored retirement plan

The majority of employers who do not offer an employer-sponsored retirement plan have less than 50 employees



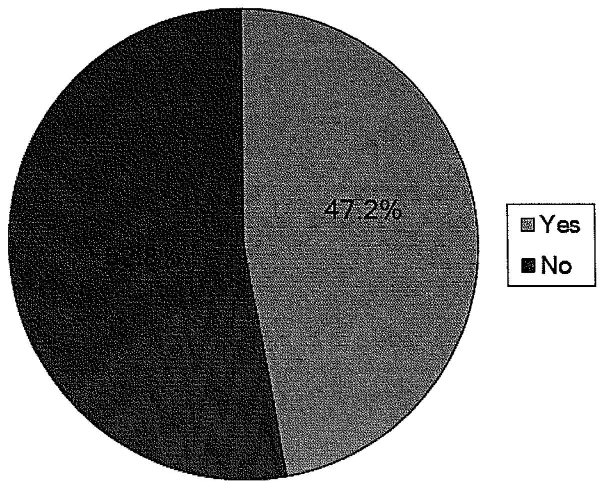


A number of barriers were identified as to why some private sector employers have elected not to provide retirement plans to their employees

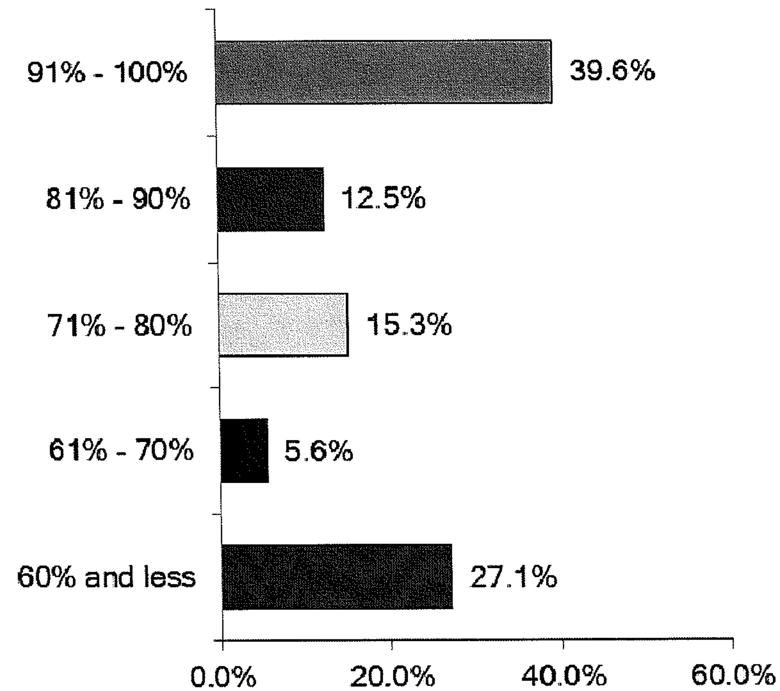
- The main reasons for not providing a plan are due to size of company (too small), high costs, administrative complexity and amount of work involved; all of which were expected[27]
- 90% of business who don't offer a retirement plan have fewer than 50 employees
- 30% of employers not offering a retirement plan have payroll systems that do not allow for automatic withdrawals, which suggests any plan requiring payroll deductions would be an additional cost burden to these businesses

Survey results suggest that most employees would participate in an employer-sponsored retirement plan if one was offered

When a new employee qualifies to join your employer sponsored plan are they automatically enrolled?



What percentage of your eligible employees participate in the plan?



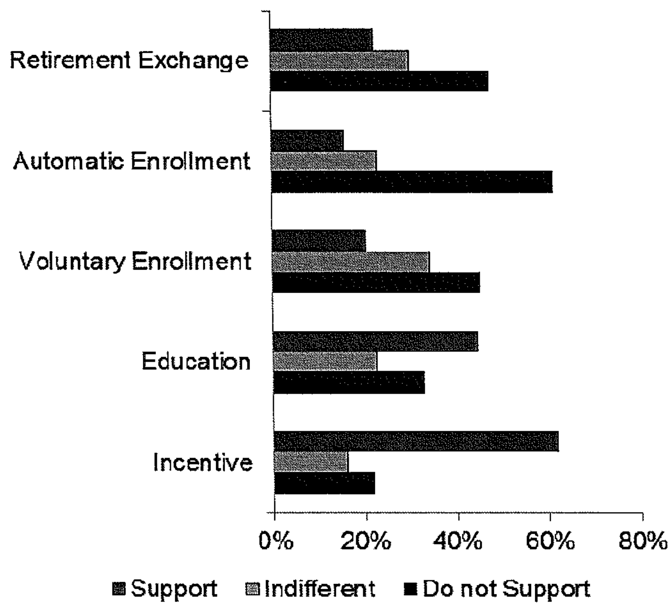
Results indicate that if an employee is offered a retirement savings plan through their employer, they are more likely to participate than not

- The average participation rate among the 84% that offer a plan is 73% and the median participation rate is 80%
- Auto-enrollment is a common consideration for other states and is currently in place with 47% of employers surveyed who offer a retirement plan
    - 91% of employers reported that less than 10% of employees opted-out with automatic enrollment[57]

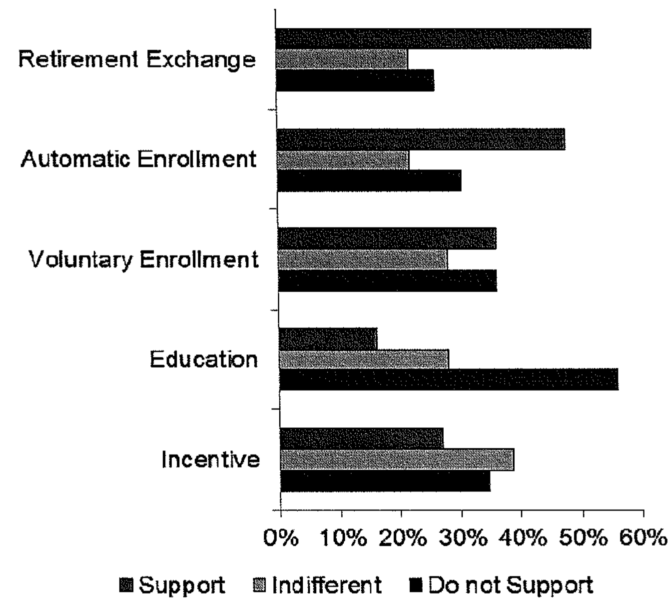
Five potential plan design aspects were presented to determine the level of support from employers

How strongly would you support the proposed retirement savings plan?

Currently offers a plan



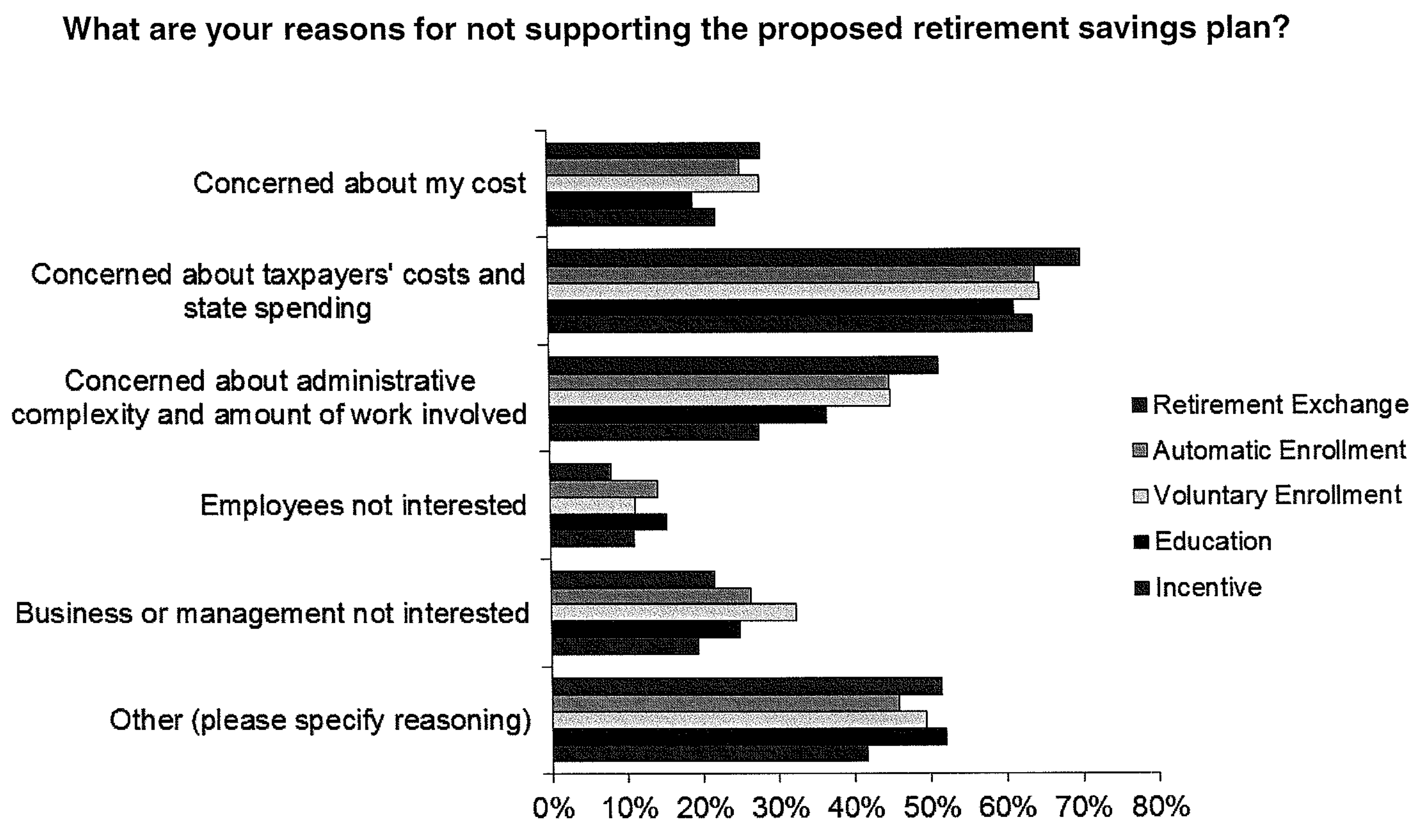
Does not currently offer a plan



There is low support from small businesses for a state-sponsored plan

- Of the aspects listed, providing retirement education and incentives were the only two options for which "support" outweighed "do not support"
- When asked if there was a cost associated for enrolling employees in any of the potential retirement savings plans, 17% said their support of the plan would change and 26% were undecided
- Automatic Enrollment was the least supported plan of all the options

Majority of the respondents opposed the proposed retirement savings plans due to concerns about taxpayers' costs and state spending



"Other" responses for not supporting a plan were consistent for all plan design options

- Not the role of the government
- Lack of trust and confidence in the government
- The private sector is already professional, efficient and has the tools available to effectively assist MN private sector workers in saving for retirement

When asked to rank the plan design options, education and incentives were the most preferred among employers

Please drag and drop the following five plan features in order of importance, with your top choice in the first position.

1. **Education:**
   Employees would receive information to educate them on how to best save for their retirement
2. **Incentive:**
   Employers would receive an incentive for offering an employer sponsored retirement plan
3. **Retirement Exchange:**
   A marketplace connecting employers and employees with financial service firms offering retirement plans
4. **Voluntary Enrollment:**
   Employees would enroll in the State administered retirement plan when interested in participating
5. **Automatic Enrollment:**
   Employees would be automatically enrolled in the State administered retirement plan and would need to opt out if they did not want to participate

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