

Seattle Retirement Savings Plan: Frequently Asked Questions

What is the Seattle Retirement Savings Plan?

The Seattle Retirement Savings Plan (“Plan”) would provide Seattle workers an efficient and cost-effective way to save for retirement for those workers whose employer does not offer any workplace retirement savings plan. The Plan would be implemented by providing eligible workers with an Individual Retirement Account (“IRA”) that is funded on a tax-deferred basis through a payroll deduction. Workers will be automatically enrolled in the Plan at a default contribution rate that is expected to be 3% to 5% of pre-tax pay, but they can opt out at initiation or change their contribution rate at any time. The Plan only applies to those workers whose employers do not offer a workplace retirement savings plan.

The Seattle Retirement Savings Plan is comparable to a defined contribution structure (e.g. 401(k), 403(b), 457) where employees contribute to their own separate account and are responsible for selecting investments. Employees grow their retirement savings through additional contributions and investment performance. Accounts are portable and remain with the worker if they were to leave their job. Importantly, employees bear the risk of investment losses and benefit of investment gains. Neither the City nor the employer provide a guarantee on investment performance. In this manner, the Plan is different from a defined benefit structure (traditional pension plan) where the employer makes all investment decisions and guarantees that a pension benefit will be paid. The Plan also differs from an employer-sponsored defined contribution plan (e.g. ,401(k)) because employers will not be allowed to match employee contributions and there is a lower limit on annual savings (\$5,500 for the Plan versus \$18,000 for a 401(k)). Of course, employers could always decide to subsequently establish their own retirement savings plan if they have the resources and desire to match employee contributions.

Why is the Seattle Retirement Savings Plan needed?

An expanding population of workers in Seattle, as elsewhere in the United States, are failing to save adequately for their retirement. While Social Security does provide some basic income, it is insufficient to meet living costs during retirement and must be complemented by other sources of retirement savings. A recent survey by AARP found that 24% of Washingtonians aged 45 to 64 had less than \$25,000 in savings and that 81% had wished they would have saved more for their retirementⁱ. The growing issue of retirement security is partially due to the challenges that low and middle-income workers face with wage stagnation and increased living costs. It is also a direct result of the poor and diminishing access of many employees to workplace retirement savings plans.

It is well established that individuals are far more likely to save for retirement if an option is made available to them in their workplace, especially if they are automatically enrolled into a planⁱⁱ. Unfortunately, Pew finds that 40% of employees in the Seattle metro area do not have access to a workplace retirement savings planⁱⁱⁱ. When this figure is applied to the city, an estimated **200,000 Seattle workers lack access to a workplace retirement savings plan**^{iv}. The situation is particularly grim for employees of small businesses where, for the Seattle metro area, Pew estimates that only 18% of those at firms under 10 employees and 42% of those at firms of 10 to 49 employees have access to a workplace retirement savings plan. People of color are particularly disadvantaged with 55% of black workers, 46% of Latino workers and 53% of Asian workers having access to a workplace retirement savings plan compared to 63% for white workers.

By providing an efficient and cost-effective way to save for retirement, the Plan would provide workers the opportunity to improve their own retirement security. The Plan is also expected to protect the City's financial interest as the cost of insufficient retirement savings would be borne in part by higher future spending on social services.

What does the Seattle Retirement Savings Plan require of employers?

The Plan only applies to those employers who do not offer their own workplace retirement savings plan. These employers would perform a limited administrative function by processing payments to the Plan administrator through their existing payroll system. There is no additional responsibility for employers. Furthermore, federal law prohibits employers from matching employee IRA contributions, so there is no potential financial impact to employers.

What does the Seattle Retirement Savings Plan require of employees?

The Plan only applies to those workers whose employers do not offer a workplace retirement savings plan. These employees will be automatically enrolled in the Plan, although they can choose to opt out or stop participating at any time. Employees will contribute a percentage of their pre-tax pay to their retirement savings account and determine how to allocate between the investment products that are available within the Plan. Default options are initially set for contribution rate (expected to be 3% to 5%) and investment product, but employees can make changes at any time.

How are savings in the Seattle Retirement Savings Plan invested?

Workers determine how their account is invested by choosing from a menu of product offerings that have been screened and selected by a Seattle Retirement Savings Plan Board, which would be formed if the Plan is adopted. Employees will initially be assigned a default investment product that is appropriate for their age and corresponding risk profile, such as a low-fee target date mutual fund. Employees can change their investment selection at any time.

What allows the City to establish the Seattle Retirement Savings Plan?

The US Department of Labor recently issued a rule, expanding on an earlier rule applicable to states^y, that allows qualified political subdivisions to operate plans like the Seattle Retirement Savings Plan. Specifically, the rule grants qualified political subdivisions a safe harbor from certain provisions of the Employee Retirement Income Security Act (ERISA) that would otherwise present material hurdles for Seattle in establishing a retirement savings plan.

What risk is posed to the City by creating the Seattle Retirement Savings Plan?

The City is not responsible for the performance of investments selected by employees from the menu established by the Seattle Retirement Savings Plan Board. Unlike a defined benefit plan, there is no guaranteed return provided by the City. While there is no risk to the City from poor investment performance, there is potential legal and regulatory risk created by the US Department of Labor rule that provides the safe harbor from ERISA. It is possible that the Department's rule will be challenged in the courts or that it would be rolled back by a future administration.

What is the cost of the Seattle Retirement Savings Plan?

The Plan has one-time startup costs as well as ongoing costs. It is likely that the startup costs and some portion of the ongoing costs for the first four years would be borne by the City or donors if they can be found. After that point, the Plan is expected to be self-sustainable as ongoing costs would be covered by a small administrative fee that would be automatically deducted from each employee account. Startup

costs include developing the broad infrastructure to run the Plan and setting up each participating employer. Based on an analysis of the Oregon Retirement Savings Plan by Boston College^{vi}, these one-time costs are estimated to be \$1 million and \$200 per employer. Ongoing costs were estimated to be \$30 annually per employee account.

Have other governments enacted a similar retirement savings plan?

President Obama announced support for a federal retirement savings plan in 2009, which would have alleviated the need for states and municipalities to create their own plans. However, the federal plan was never enacted due to general opposition from Republicans who prefer fully voluntary programs and the financial services industry who are concerned about the reduced margins from a government-sponsored plan. Given the lack of federal action, California, Connecticut, Illinois, Maryland and Oregon adopted laws to create retirement savings plans with the first of these plans beginning operations in 2017. New York City, Philadelphia and many states are exploring the establishment of retirement savings plans.

How does the Seattle Retirement Savings Plan differ from the Washington State Small Business Retirement Marketplace that is expected to be operational in 2017?

The Washington State Small Business Retirement Marketplace (“Marketplace”) seeks to reduce the barriers that small businesses face in establishing their own workplace retirement savings plans by connecting businesses to private financial services firms through a web portal. The Marketplace also establishes a basic set of standards that firms must meet as it relates to fees and types of investment product offerings. Participation in the Marketplace is entirely voluntary on the part of employers, employees and financial services firms. The Marketplace will primarily function as a search tool for employers to simplify the selection of a retirement savings plan. While somewhat helpful for employers interested in sponsoring retirement savings plans, the Marketplace does not address the great needs of employees without access to those plans. All employees of employers that offer their own workplace retirement savings plan, including those that find a plan on the Marketplace, will be ineligible for the Seattle Retirement Savings Plan.

ⁱ http://www.aarp.org/content/dam/aarp/research/surveys_statistics/econ/2013/Not-Making-the-Grade-2013-Survey-Of-Financial-Decisions-Among-Washington-State-Adults%20Ages-45-64-AARP-rsa-econ.pdf

ⁱⁱ <http://www.pewtrusts.org/en/research-and-analysis/reports/2016/06/how-states-are-working-to-address-the-retirement-savings-challenge>

ⁱⁱⁱ See Pew’s Seattle Issue Brief in Section C

^{iv} Total Seattle workforce estimate by the Puget Sound Regional Council

^v <https://www.gpo.gov/fdsys/pkg/FR-2016-08-30/pdf/2016-20639.pdf>

^{vi} <http://www.oregon.gov/treasury/ORSP/Documents/DRAFT%20Feasibility%20Study%202013JULY2016.pdf>