C. Market Analysis

1. Overview

i. Scope and Methodology

The Scope of Services under the Contract calls for the Market Analysis to:

> *… determine likely levels of participation and elements of the Program that could maximize participation, maximize the likelihood of private sector financial providers offering products and services necessary to the Program, and minimize inconvenience or disruptions to employers.*

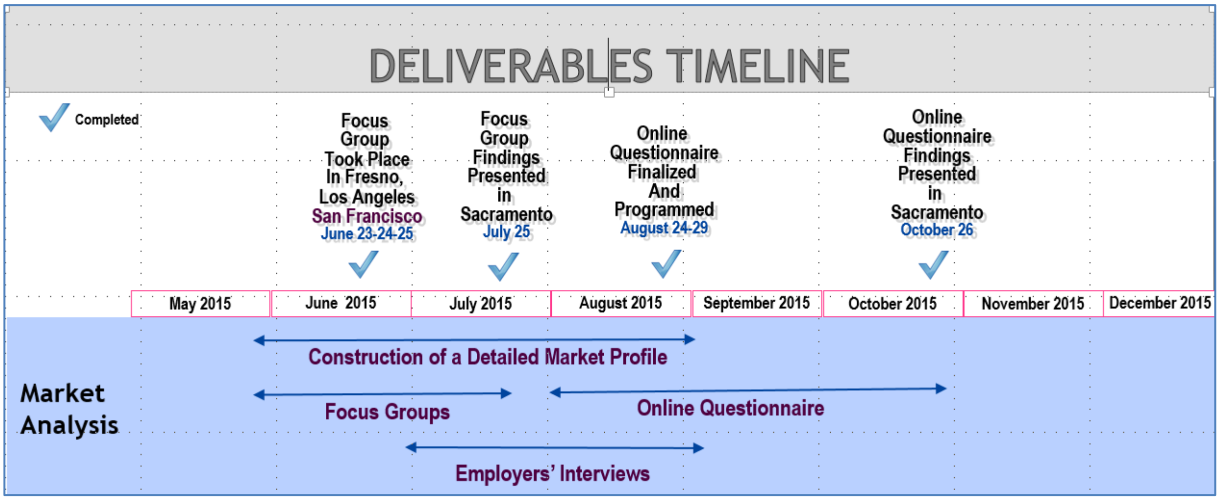
… and

> *determine whether the necessary conditions for implementation of the Program can be met, including, but not limited to, likely participation rates, participants' comfort with various investment vehicles and degree of risk, contribution levels, and the rate of account closures and rollovers.*

In order to address the above questions, the UC Berkeley Center for Labor Research and Education (CLRE) conducted the Market Analysis in collaboration with Greenwald & Associates (Greenwald), and in coordination with the Program Design and Feasibility Study processes. The Market Analysis consists of four parts:

1) **A market profile** outlining the economic and demographic characteristics of the eligible workforce, both at the individual worker level and at the household level. Data were drawn from the Current Population Survey/Annual Social and Economic Supplement (CPS ASEC). (CLRE also extracted data from CPS ASEC for integration into the benefit projection model in the Program Design Study and the revenue/expense model in the Financial Feasibility Study.)
2) **Six (6) focus groups with eligible workers—two conducted in Spanish and four conducted in English**—to provide a qualitative assessment of the target population's attitudes and preferences with regard to program features, auto-enrollment, auto-escalation, and investment risk.
3) **Online survey of 1,000 eligible workers** designed to yield reliable estimates of opt-out and contribution rates and gauge attitudes toward retirement savings, investment risk, liquidity, and account access.
4) **Stakeholder interviews** with employers and business groups, worker organizations, and consumer organizations to identify key concerns and suggestions regarding the design, rollout, and implementation of the Program.

ii. Timeline



iii. Key Findings

Highlights

- **About 6.8 million workers are potentially eligible for the California Secure Choice Retirement Savings Program.[1]**

✓ The median wage & salary income for this group is $23,000, and the mean is $35,000.
✓ 83% are full-time workers and 17% are part-time.
✓ 43% work in firms with fewer than 50 employees
✓ Two-thirds are people of color. 46% are Latino.
✓ 3 out of 5 are under the age of 40
✓ 57% are single; 43% are married and living with a spouse.
✓ 42% have incomes that fall in the 0% federal marginal tax bracket after accounting for all exemptions and deductions. Another 16% are in the 10% income bracket.

- **Likely participation rates (70-90%) are sufficiently high to enable the Program to achieve financial viability.**

✓ Based on our internal survey of eligible workers in California and other research, we estimate an opt-out rate range of 10-30%, depending on the auto-enrollment model. The upper bound applies to an active-choice model in which each employee needs to actively confirm their enrollment. The lower bound applies to a passive-choice model in which each employee is given an opportunity to opt-out, and is then enrolled if they take no action.

[1] Eligible population statistics have been updated based on the latest available data from the Current Population Survey (CPS). Income estimates have shifted upward due to economic growth and changes in CPS survey methodology. The assumptions in the Feasibility Study are more conservative.

- ✓ As we show in the Financial Feasibility Study, because of the large number of eligible workers in California, participation rates as low as 50% do not have a significant impact on the Program's financial sustainability.

- **Eligible participants in California are equally comfortable with a 3% and 5% contribution rate. The vast majority of likely participants are also comfortable with auto-escalation in 1% increments up to 10%.**

  - ✓ There is no statistically significant difference in opt-out rates between a 3% and 5% default contribution rate in our survey results. This is corroborated by a national survey conducted for Connecticut, which found no difference between 3% and 6%.[2]
  - ✓ Likely contribution rates are highly sensitive to the default rate.
    - A 5% default will lead to an average savings rate slightly higher than 5% because a majority of those who elect a different contribution rate will choose a higher rate. A 5% savings rate invested in a balanced portfolio or target date fund yields a 20-23% average income replacement rate over a full career.
    - A lower initial default (3%) will lead to lower average savings rates, and ultimately lower retirement income.
  - ✓ Auto-escalation will increase the savings rate among the majority of likely participants (59%) but may increase the opt-out rate slightly.

- **To start, the program should offer a default investment option consisting of a diversified portfolio with long-term growth potential and the choice to opt into a low-risk investment product.**

  - ✓ Most likely participants would choose a diversified portfolio with long-term growth potential over a very safe investment such as a money market fund that is very likely to yield low returns.
  - ✓ At the same time, most eligible workers are risk-averse, especially if they are Latino or low-income.
  - ✓ While guarantees are expensive in the current interest rate environment, the Board should continue to explore whether affordable guarantees—ones that do not unduly compromise overall returns—can become feasible as the Program develops.

- **Given its inherent portability, the Program should have a lower incidence of rollovers and cash-outs than in employer-sponsored 401(k) plans, which often force workers with low balances to close their accounts. At the same time, pre-retirement withdrawals are likely to be higher in the Program given eligible workers' income profile.**

  - ✓ We estimate that about 25% of job leavers will roll over or cash out their balances.
  - ✓ We also estimate that a total of 3.5% of plan assets will leak out each year through rollovers, cash-outs, and pre-retirement withdrawals combined.

[2] A. Belbase and G. Sanzenbacher, 2015 (Sep.), "Presentation to the Connecticut Retirement Security Board: Employee Enrollment Experiment," Center for Retirement Research at Boston College.

- **The Program launch should include a concerted public education campaign focused on workers and small businesses.**
  - ✓ Both small employers and low-wage and immigrant workers require aggressive outreach and education to understand their rights and responsibilities under the Program.
  - ✓ The outreach campaign should involve close collaboration with stakeholder groups that have close ties to target employers and employees: chambers of commerce, industry associations, worker centers, unions, and community based organizations, and consumer organizations and asset-building groups.
  - ✓ Outreach should also involve ethnic media to reach both ethnic employers and immigrant workers.

Summary of Findings:

Topic	Finding
Overall Demand for Program	**High** **More than sufficient to render Program financially feasible** Most uncovered workers in California, even those who are low-income, want to save for retirement and feel that they could save at least a small amount. They value payroll deduction as an easy way to save.
Estimated Opt-Out Rate	**10-30%, contingent on auto-enrollment mechanics** Default (passive) auto-enrollment should yield a 10% opt-out rate. With an active choice process in which employees must confirm participation, higher opt-out rates should be expected.
Default Contribution Rate	**No difference in opt-out rates between 3% and 5%** A 5% default will lead to significantly higher retirement incomes from the Program, compared to 3%.
Auto-Escalation	**High tolerance for auto-escalation** Overall, 8 out of 10 eligible workers surveyed said that they would stay in the program with auto-enrollment. Among likely participants (those who initially said they would stay in the Program at the beginning of the

Topic	Finding
	Greenwald online survey), 59% said they would stay with the contributions, and 35% said they would stop the increases. Only 6% said they would opt out entirely at that time.
Risk Aversion/Risk Tolerance	**Eligible workers are risk-averse, but most are willing to bear some risk in return for long-term growth in their nest eggs. They value guarantees -- but not if they preclude upside potential.** Specifically, 57% of likely participants in the Greenwald online survey said they would rather invest in a diversified portfolio (60% stocks/40% bonds) with long-term growth potential and a small chance of loss of principal over the long term. Only 27% said they would rather invest in a money market fund that guards against loss but offers little upside.
Access to Funds before Retirement	**A significant minority of eligible workers would not participate if they cannot access funds in an emergency.**
OTHER ISSUES	
Financial Literacy	The low-income segment of the eligible population has less familiarity with basic financial concepts compared to the general population.

iv. Key Recommendations

General Plan Design:

Topic	Recommendation
Default Contribution Rate	**5%** **NOTE:** The statute should be amended to allow the Board to set a default beginning contribution rate as high as 5%.
Auto-Escalation	**Implement in 1% increments up to 10%, after the program has sufficiently phased in, and only if the process can be coordinated by the Recordkeeper in lieu of the employer.**

	NOTE: The statute should be amended to allow the Board to implement auto-escalation of participants' contribution rates up to 10%, with participant option to stop auto-escalation and change their contribution rate at will.
Default Investment Vehicle	**Diversified portfolio that offers long-term growth potential.** **Insurance against loss may be purchased in the future** as participants approach retirement with substantial account balances, or earlier depending on plan design. (see Program Design study for more details)
Access to Funds before Retirement	**Limit pre-retirement withdrawals to hardship.** While the program would ideally prohibit pre-retirement withdrawals in order to maximize retirement income, survey and focus group responses indicate that a significant share of eligible workers would be disinclined to participate if they cannot access their funds in emergencies.
Account Information Access	**Electronic default with paper statement option.** While electronic statements help minimize Program costs, some low-wage employees may not have access to a computer or smartphone. Having a recordkeeper that has a good program for SMS (text) based notifications in addition to smartphone apps and web-based access may help reduce the need for paper statements.

Program Features to Minimize Inconvenience or Disruptions to Employers:

Topic	Recommendation
Driving Principle	**Minimize decision-making for employers**
Determination of Employee Eligibility	**Simple look-back formula based on Fall quarter payroll headcounts.** (See Program Design section for details)
Auto-Enrollment	**Have the Recordkeeper play the primary role in processing and tracking employee elections (including**

	opt-outs and contribution rate changes), and SSN validation for the purposes of establishing an account. **NOTE:** This requires removing the statutory requirement for employers to collect signatures to enroll employees in the program.
Auto-Escalation	**Implement only if this can be coordinated by the recordkeeper, without any need for employers to track employee hire dates.**

Outreach/Education & Employee Protections:

Topic	Recommendation
Employer Outreach	**Develop and implement early outreach campaign to employers and payroll processors** to educate them about program requirements. **Work in partnership with state, local and ethnic chambers of commerce and both ethnic and mainstream media**.
Employee Outreach	**Develop and implement a worker outreach program in partnership with worker organizations, unions, community organizations and asset building groups.** **Focus on educating employees about 1) their rights under the Program and 2) how to make an informed decision on whether to participate and how much to contribute**. Make information about investments easily available to workers who seek it out.
Employee Protections	**Institute an easy way for employees to report non-complying employers to the State.** **NOTE: Incorporate non-retaliation language into authorizing legislation**

Background on Opt-Out Rates under Auto-Enrollment:

The most important goal of the Market Analysis is to determine probable participation and contribution rates. These two factors will drive the size of the Program's asset pool and in turn impact the ability of the Program to become financially self-sustaining and attract private financial service providers. While the Market Analysis includes original research to arrive at such estimates for California, it is helpful to understand the broader dynamics of retirement plan participation documented in existing research, particularly with regard to auto-enrollment and participant retention.

To begin, there are three key models for enrollment into retirement savings plans, with different consequences for rates of employee participation: opt-in, active choice, and passive choice auto-enrollment. These are summarized in **Table C-1**.

Table C-1
Retirement Plan Enrollment Regimes

Enrollment Regime	Description	Participation Rates (shortly after hire)
Opt-In	Employees are <u>not enrolled by default</u>; must take action to opt in.	Medium (45-55%) (Low among low-wage workers)
Active Choice	Employees are forced to make a decision about whether or not to participate	Higher (~70%)
Default Auto-Enrollment (Passive Choice Auto-Enrollment)	Employees <u>enrolled by default</u>; must take action to opt out.	Highest (90%+) (Greatest difference for low-wage workers)

Most studies of enrollment regimes compare passive choice auto-enrollment with the opt-in system. For instance, 2015 Vanguard study found that "Among new hires, participation rates more than double to 91% under automatic enrollment compared with 42% under voluntary enrollment."[3] A survey of plan sponsors by the Defined Contribution Institutional Investment Association found that two-thirds of the sample had opt-out rates of 9% or less.[4]

Comparing active choice to opt-in, Caroll, Choi, and Laibson et al. found that "the fraction of employees who enroll in the 401(k) three months after hire is *28 percentage points higher under an active decision regime than under a standard opt-in enrollment regime* [emphasis added]."[5] While enrollments in an opt-in system do climb with tenure, for a given hire cohort, it takes years for participation rates to catch up to an auto-enrollment system.[6]

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[3] J.W. Clark, S.P. Utkus, and J.A. Young, 2015 (Jan.), "Automatic Enrollment: The Power of the Default," Vanguard Research, https://pressroom.vanguard.com/content/nonindexed/Automatic_enrollment_power_of_default_1.15.2015.pdf
[4] L. Lucas, P. Hess, and C. Peterson, 2011 (Mar.), "Plan Sponsor Survey: Structuring DC Plan Automatic Features to Pump Up Retirement Savings," Defined Contribution Institutional Investment Association (DCIIA), Washington, DC.
[5] G.D. Carroll, J.J. Choi, D. Laibson, B.C. Madrian, and A. Metrick, 2009, "Optimal Defaults and Active Decisions," *The Quarterly Journal of Economics* v124n4, pp. 1639-1674.
[6] Ibid.

The National Employment Savings Trust (NEST) in the United Kingdom is a key example of a government-sponsored defined-contribution retirement savings plans that uses auto-enrollment but does not compel employee-level participation. Employers that do not already sponsor a retirement plan that meets certain standards, are required to auto-enroll prime age workers who earn at least £10,000 (about $14,200) a year. The minimum employee contribution rate is 1%. In addition, employers are required to contribute 2% of pay on employee earnings between £5,824 and £42,385 (about $8,200 to $61,000) a year. After the smallest employers are phased into the program, minimum employer contributions will be increased to 5% in October 2017, and finally to 8% in October 2018. From its launch in October 2012 to August 2015, the program experienced an opt-out rate of 10% among automatically enrolled workers.[7]

2. Market Profile

i. Methodology

CLRE analyzed CPS ASEC microdata[8] to identify key characteristics of the eligible population.

Universe. The universe for this analysis was defined as follows:

- California resident
- Private sector wage & salary employee during reference period
- Reported working for an employer that did not offer a retirement plan to any of its employees at the longest job held in the calendar year
- Age 18-64. (Age bracket defined for analytical purposes only. Actual age restrictions and eligibility rules are contingent on SCIB policy and federal laws.)
- Employed in a firm with 5 or more employees.[9]

Timeframe. In order to facilitate subpopulation analysis, we combined data for multiple calendar years. Most of the following findings are based on the 2013, 2014, and 2015 CPS ASEC surveys, reflecting data for calendar years 2012-2014. Industry and occupation data were analyzed before the recent release of 2015 survey microdata, and reflect data for calendar years 2011-2013.

Note on Income Data. The CPS ASEC methodology was recently redesigned to better

[7] United Kingdom Department for Works and Pensions (DWP), 2014 (Nov.), "Automatic Enrolment Evaluation Report 2015," DWP Research Report 909, DWP, London, UK, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/477176/rr909-automatic-enrolment-evaluation-2015.pdf.

[8] Downloaded from the University of Minnesota IPUMS project.

[9] Because the smallest firm size classification in our dataset was 1 to 9 employees, we multiplied the weights for employees in this size class by 0.53, based on BLS data on employment distribution across firm sizes 1 to 4 and 5 to 9 nationally.

capture income data from different sources. In 2013, the redesigned protocol set was implemented for 3/8 of the sample, and the old protocol was implemented for 5/8 of the sample. The redesigned protocol was fully implemented beginning in 2014, and research confirms that the new methodology yields about 3% higher median income than the old methodology.[10] In addition, incomes have risen during the last few years due to stronger employment.

Consequently, the family-level income statistics presented here are significantly higher than those in earlier analyses, including CLRE's presentation to SCIB in May 2015, which used 2011, 2012, and 2013 data based on the older methodology. However, data on wage and salary income is not affected by the redesign.

ii. Key Findings

Demographic Characteristics

- **Size of eligible population: *6.8 million workers*—**55% of private sector workers age 18-64 who do not have access to a workplace retirement plan (**Figure C-1**).
- **Gender**: 55% are male, and 45% are female (**Table C-2**).
- **Marital status**: 57% are single and 43% are married and living with a spouse (**Table C-2**).
- **Age**: The eligible population skews heavily toward younger workers (**Figure C-2**). Three out of five (59%) are under the age of 40. One out of three (35%) are under the age of 30 (i.e., 18-29 years old). Older workers make up a smaller share of the eligible population because they are more likely to be offered a workplace retirement plan and because labor force participation rates begin to drop off at older ages.
- **Race/Ethnicity**: two-thirds (66%) are workers of color. Latinos alone make up 46% of the eligible population (**Figure C-3**).
- **Language**: Data about written English proficiency is not available for the eligible population. One indicator, from the Census Bureau's American Community Survey, is that about 12% of private sector employees in California have limited spoken English proficiency. CPS ASEC does not include questions about languages spoken. The American Community Survey (ACS) from the U.S. Census Bureau does not ask about retirement plans, but does have data on employment status and spoken language. According to the 2014 ACS, about 12% of California private sector employees age 18-64 have limited English proficiency; they either do not speak English or do not "speak English well."[11] Among Spanish-speaking private sector employees age 18-64, 24%

[10] J.L. Semega and E. Welniak, Jr., 2015, "The Effects of the Changes to the Current Population Survey Annual Social and Economic Supplement on Estimates of Income," Proceedings of the 2015 Allied Social Science Association (ASSA) Research Conference, https://www.census.gov/content/dam/Census/library/working-papers/2015/DEMO/ASSA-Income-CPSASEC-Red.pdf
[11] Author's analysis of 2014 ACS data from IPUMS.

have limited English proficiency. Most communication between the Program and participants will be in written form. However, it is unclear how spoken English proficiency translates into English literacy. Some fluent speakers of English as a second language may not necessarily be equally proficient in reading English. At the same time, some who are not fluent in spoken English may have an easier time reading English, depending on their educational background and literacy in their native language.

Figure C-1
Share of Private Sector Employees Age 18-64 With Access to a Workplace Retirement Plan

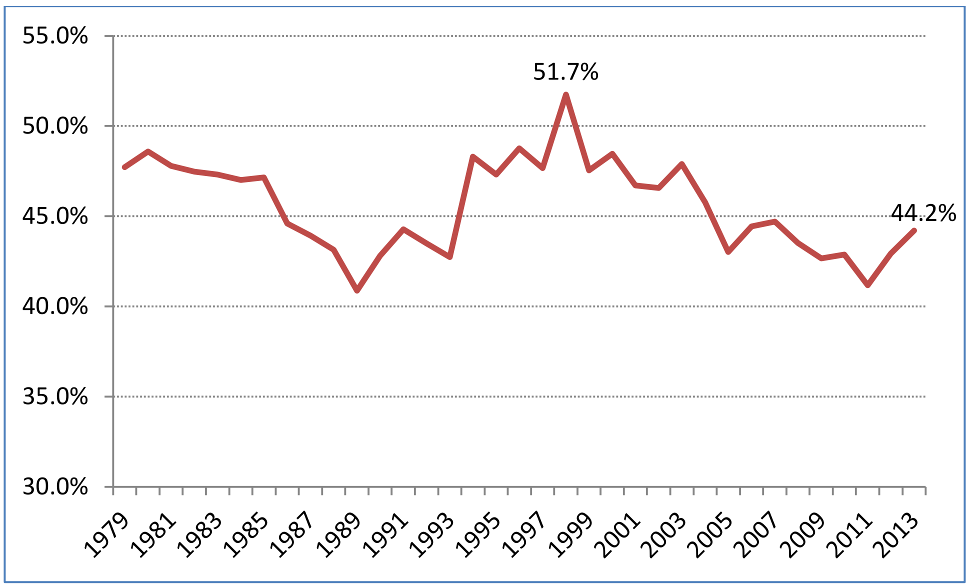


Table C-2
Gender & Marital Status of Eligible Workers, 2012-2014

Gender	
Male	54.8%
Female	45.2%
Marital Status	
Married, living with spouse	42.6%
Single	57.4%

Figure C-2
Age Profile of Eligible Workers, 2012-2014

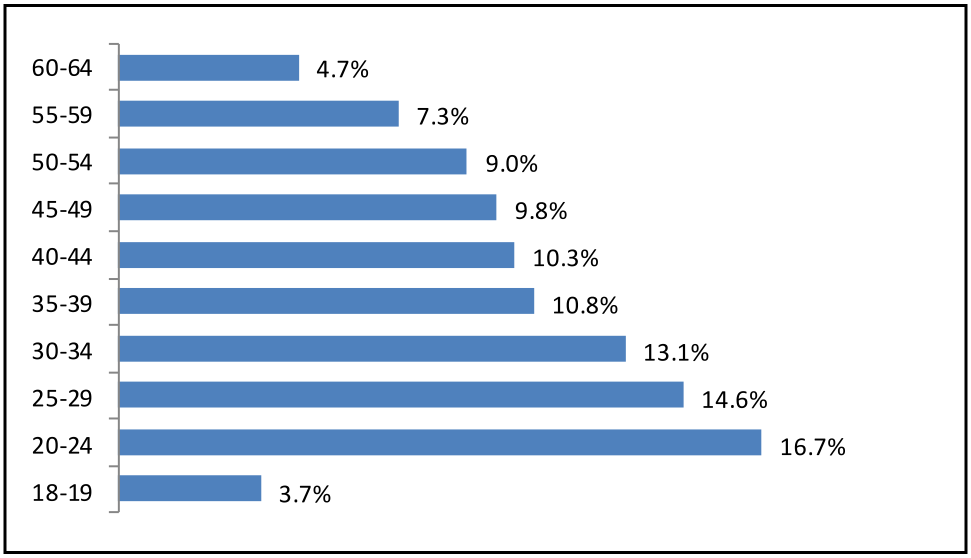
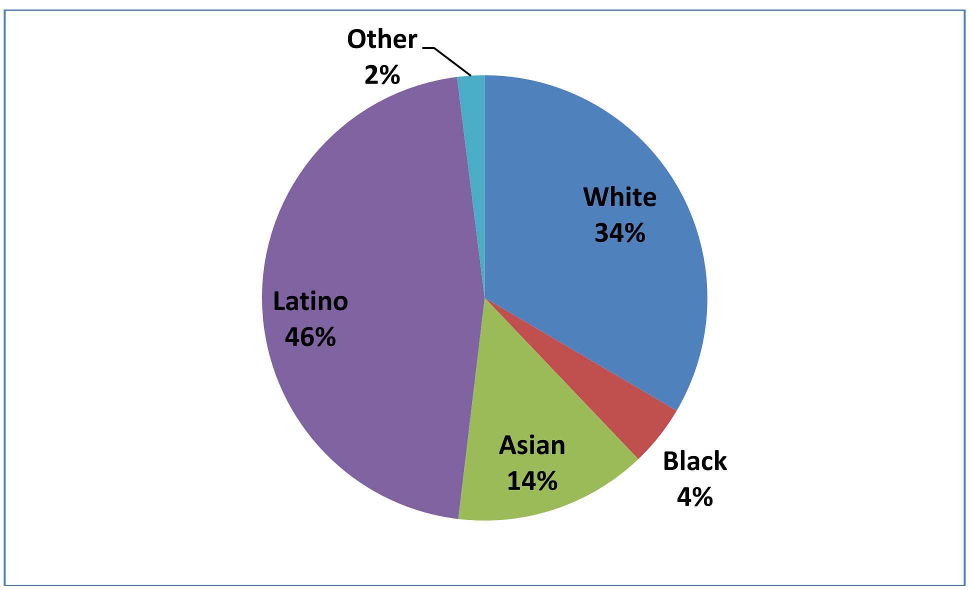


Figure C-3
Race/Ethnicity of Eligible Workers, 2012-2014



Job-Related Characteristics

- **Wage & salary income**: the median wage income of eligible workers is $23,000, and the mean is about $35,000. Four out of five earn wage income less than $50,000 a year. (**Figure C-4**). These figures accurately represent actual earnings, but somewhat under-represent annualized pay rates because about 20% of employees in the population worked less than a full year (see **Figure C-6**). Data adjusted for partial-year earnings and

- **Firm size:** A majority (54%) of eligible employees work in firms with less than 100 employees; 43% work in firms with less than 50 employees, i.e, 5-49 employees (**Figure C-5**).
- **Full-time/part-time status**: 83% of eligible workers are full-time, and 17% are part-time (**Figure C-6**). This underscores the fact that the problem of lack of retirement plan coverage is widespread.
- **Industry**: Retail, Accommodation & Food Services, Healthcare & Social Services, and Manufacturing account for nearly half (48%) of the eligible workforce. In particular, Accommodation & Food Services is over-represented (12% of eligible workers vs. 9% of private sector employment) because three out of four employees in this sector do not have access to a workplace retirement plan. Other, smaller sectors are also over-represented because of lower-than-average access: Agriculture, Construction, Management/Administrative Support/Waste Management Services, and Other Services. (See **Table C-3**.)
- **Industry & Race**: Eligible workers of color are over-represented in Agriculture, Manufacturing, Wholesale/Transportation/Warehousing, and Accommodation & Food Services. In particular, Latinos are over-represented in Agriculture, Management/Administrative Support/Waste Management Services, and Accommodation & Food Services. (See **Table C-4**.)

Figure C-4
Wage Distribution of Eligible Employees, 2012-2014

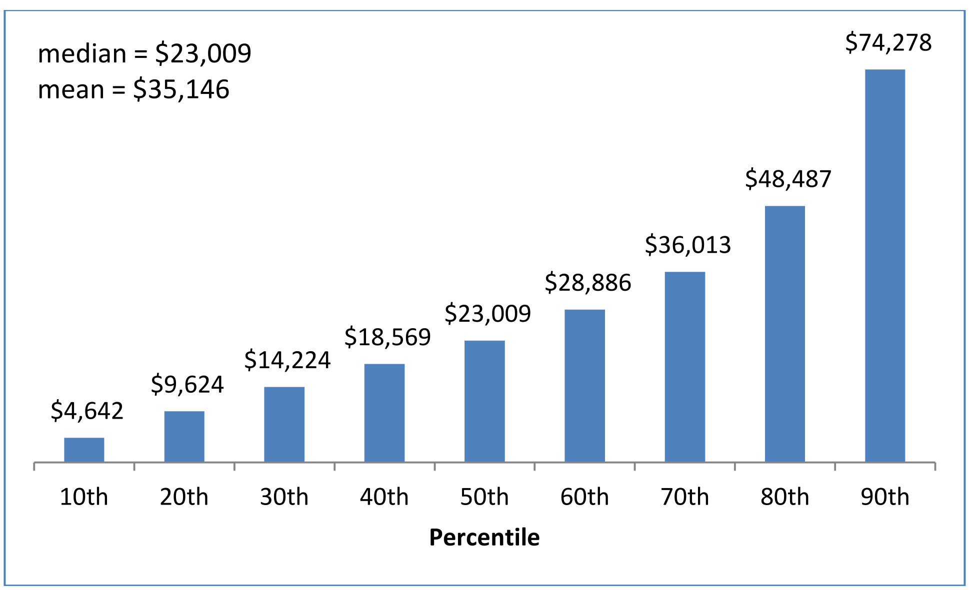


Figure C-5
Firm Size Profile of Eligible Workers, 2012-2014

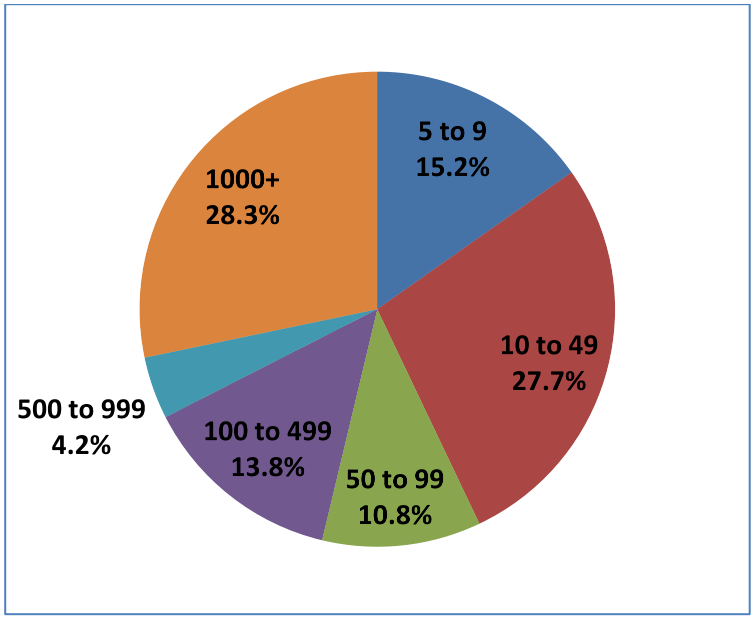


Figure C-6
Full-time/Part-time Status of Eligible Workers, 2012-2014

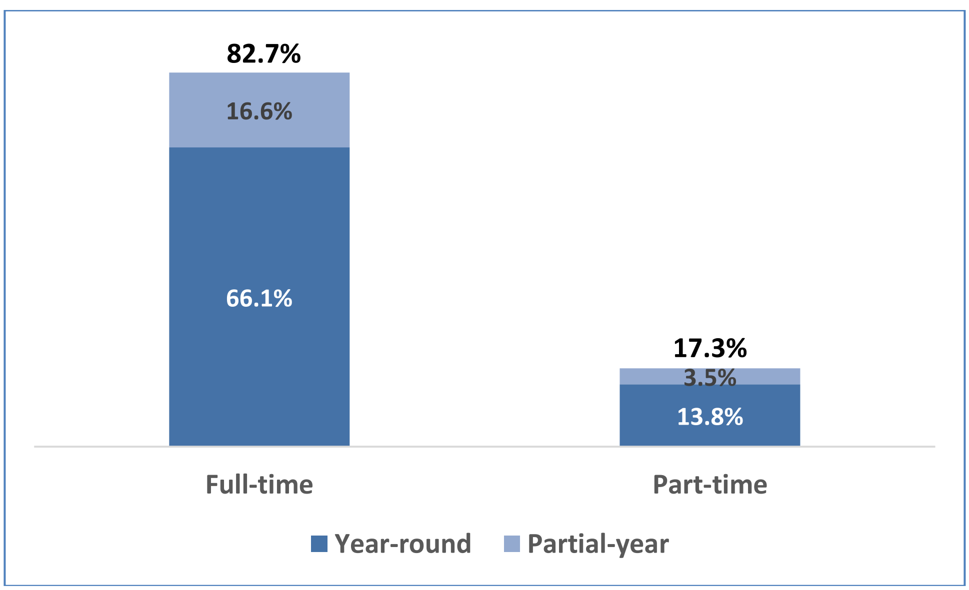


Table C-3
Distribution of Eligible Workers by Industry, 2011-2013

	% of Eligible Workers	% of Private Sector Employment
Agriculture	4.4%	2.7%
Mining & Utilities	0.5%	1.1%
Construction	7.2%	6.0%
Manufacturing	11.0%	13.1%
Retail	13.3%	13.6%
Wholesale, Transportation & Warehousing	7.3%	7.4%
Information, Finance & Insurance	5.6%	9.0%
Real Estate, Rental & Leasing	2.2%	2.0%
Professional, Scientific & Technical Svcs	6.1%	7.8%
Mgmt, Admin, Support Waste Mgmt Svcs	7.3%	5.5%
Educational Svcs	3.2%	3.7%
Health Care & Social Svcs	11.0%	12.6%
Arts, Entertainment & Recreation	2.6%	2.4%
Accommodation & Food Svcs	12.3%	8.6%
Other Svcs	6.1%	4.5%
Total	100.00%	100.0%

Table C-4
Race of Eligible Workers by Industry, 2011-2013

	White	Black	Latino	Asian	Other	Total
Agriculture	8%	0%	88%	3%	0%	100%
Mining & Utilities	44%	6%	48%	2%	0%	100%
Construction	32%	2%	61%	4%	2%	100%
Manufacturing	26%	2%	55%	15%	1%	100%
Retail	34%	4%	46%	14%	1%	100%
Wholesale, Transportation & Warehousing	29%	4%	50%	15%	1%	100%
Information, Finance & Insurance	48%	4%	30%	17%	1%	100%
Real Estate, Rental & Leasing	42%	5%	38%	13%	2%	100%
Professional, Scientific & Technical Svcs	51%	4%	17%	24%	3%	100%
Mgmt, Admin, Support Waste Mgmt Svcs	23%	6%	61%	8%	2%	100%
Educational Svcs	50%	6%	28%	13%	3%	100%
Health Care & Social Svcs	36%	8%	37%	17%	2%	100%
Arts, Entertainment & Recreation	52%	4%	27%	14%	3%	100%
Accommodation & Food Svcs	29%	3%	53%	13%	2%	100%
Other Svcs	31%	3%	50%	15%	1%	100%
Total	33%	4%	48%	13%	2%	100%

Traditional or Roth IRA? Eligible Workers' Family Income & Tax Status

We analyzed CPS ASEC data to understand the tax implications of a traditional IRA versus a Roth IRA for eligible workers. The universe for this analysis is the same as above, except for the timeframe. We used data for 2013 and 2014 to capture the income statistics using the CPS ASEC's redesigned income questionnaire.[12]

Considerations for Traditional IRA: Contributions are deducted from taxable income, and retirement withdrawals are taxed as normal income. Participants must claim the deduction on their tax return to receive the tax benefit—unlike 401(k) or pension contributions which are directly reported to the IRS by employers and excluded from wages for paycheck calculation purposes. Tax-deferred contributions are allowed for single filers of any income as long as they do not participate in an employer sponsored retirement plan. For those who do not have a workplace retirement plan, but whose spouses do, deductible contributions phase out starting at $184,000 modified adjusted gross income (MAGI), and those with MAGI above $194,000 can only make after-tax contributions.

Considerations for Roth IRA: Contributions are taxed as normal income, and retirement withdrawals are tax-free up to IRS income limits. In 2016, allowable contributions phase out starting at $117,000 modified adjusted gross income (MAGI) for single filers; those with $132,000 MAGI and above are ineligible. For married filers, the phase-out starts at $184,000 MAGI, and those with $194,000 MAGI and above are ineligible.

MAGI is Adjusted Gross Income (AGI) with the following deductions added back in:[13]

- Self-employed retirement and IRA contributions
- Half of self-employment taxes paid
- Alimony payments
- Health savings accounts or self-employed health insurance payments
- Student loan interest and qualified tuition costs

To begin, 95% of eligible workers file taxes—49% as Single, 7% as Head of Household, and 39% as Married/Filing Jointly (**Figure C-6**).

Table C-5 shows the percentile distribution of federal Adjusted Gross Income and taxable income of eligible workers by filing status. It appears that the vast majority of Single and Head of Household filers do not earn enough to trigger the Roth IRA income limit. **Up to 20% of Married/Joint filers, representing 8% of the eligible population, may have high enough incomes to trigger the Roth income limit for any contributions**, and the traditional IRA income limit if the worker's spouse is covered by a retirement plan at work. It is likely that there is heavy overlap between workers whose spouses have a retirement plan, and those whose incomes are too high to qualify for Roth IRA contributions.

[12] While the income question redesign affects total income, it does not affect wage and salary income data. Thus the earnings data presented in the previous section are for 2012-2014.

[13] IRS, "Adjusted Gross Income (AGI) vs. Modified Adjusted Gross Income (MAGI): What's the Difference Between Your AGI and MAGI?," https://www.irs.com/articles/adjusted-gross-income-agi-vs-modified-adjusted-gross-income-magi.

In the case of a traditional IRA default, very high income workers would have to be advised that if they are married and their spouse participates in a workplace retirement plan, their contributions to the Program are not tax-deductible. In the case of a Roth IRA default, these workers need to be instructed to re-characterize their contributions as a traditional IRA or to stop contributing altogether. They should be notified of these options during auto-enrollment in order to minimize recordkeeper costs. A mitigating factor is that households with such high incomes tend to closely track their tax deductions and liabilities and are far better positioned to make an opt-out decision based on tax issues than are low-income households.

A strong point in favor of a Roth IRA default is that a majority of eligible workers are subject to very low marginal federal income tax rates: nearly 42% are in the 0% federal income tax bracket, and 16% are in the 10% bracket (**Table C-6**)**.** Thus they would not reap meaningful tax benefits from a traditional IRA and stand to gain the most from a Roth IRA that assures them tax-free retirement income in the future.

Unlike high-income tax filers, low-income workers require aggressive outreach to inform them about tax issues. Ultimately low-income workers are less likely to take action to opt out of an inappropriate default based on tax implications than high-income workers. **Among married filers, those with no taxable income outnumber those with incomes approaching the limit for Roth IRAs by four to one (Table C-5).**

Finally, 19% of married filers (representing 8% of the total eligible population) have a spouse with a retirement plan, and need to be advised about potential limits on pre-tax contributions in a traditional IRA (**Table C-7**).

Figure C-6
Eligible Workers' Tax Filing Status, 2013-2014

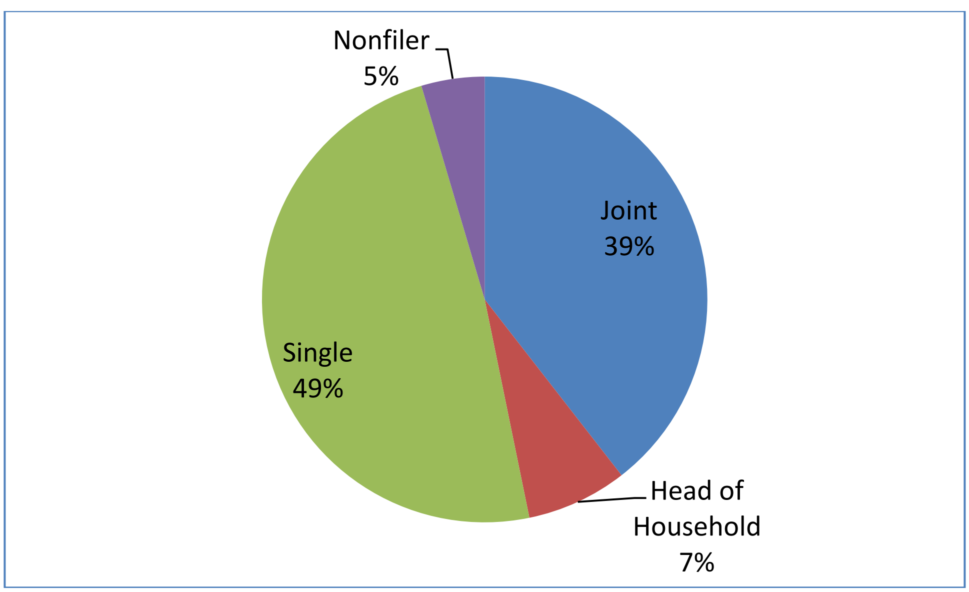


Table C-5
Adjusted Gross Income & Taxable Income by Tax Filer Status, 2013-2014

	Single/Head of Household (54% of Total)		Married Filing Joint (39% of Total)	
Percentile	AGI	Taxable Income	AGI	Taxable Income
10th	5,000	0	0	0
20th	9,000	0	0	0
30th	13,000	1,850	0	0
40th	16,000	5,000	0	0
50th	20,000	9,850	29,004	3,300
60th	25,000	14,000	52,220	25,700
70th	30,000	19,720	85,000	53,729
80th	42,000	30,000	160,680	111,688
90th	62,000	44,994	233,812	187,842

Table C-6
Eligible Workers' Federal Marginal Tax Rate, 2013-2014

Marginal Tax Rate	% of Eligible Workers
0%	41.6%
10%	16.1%
15%	28.3%
25%	10.8%
28%	2.2%
33%	0.7%
35%	0.0%
40%	0.3%
Total	100.0%

Table C.7
Spousal Retirement Plan Status of Eligible Workers, 2013-2014

	% of Married Eligible Workers	% of All Eligible Workers
No job in reference period	25.8%	10.8%
Spouses' employer does not offer retirement plan	51.7%	21.6%
Spouse's employer offers plan, but spouse not included	3.5%	1.5%
Spouse participates in employer retirement plan	18.9%	**7.9%**
Total married	100.0%	41.7%

3. Focus Groups

i. Methodology

Greenwald conducted six focus groups in Summer 2015 with other members of the study team advising on question content. The purpose of the focus groups was to yield rich, qualitative insights into the values and views of those who do not have access to retirement plans and to inform the design of the online survey instrument.

We conducted six focus groups of 6-10 workers in three regions of California – two each in Los Angeles, San Francisco and Fresno (**Table C-8**).

Because low-income participants are harder to reach via the online panel surveys, we chose to over-represent them in the focus groups. Four groups were low-income (less than $50,000 annual household income) and two groups were "higher" income ($50,000 or higher). Two of the four low income groups were held in Spanish with live translation to English provided for observers.

Focus group participants were full-time workers age 21 and older who are household decision makers and who do not have access to any type of pension or retirement plan at work.

Overall Screening Requirements:

- ✓ Age 21 to 64
- ✓ Financial decision-maker for household
- ✓ Working full-time or part-time (at least 20 hours/week)
- ✓ Not self-employed
- ✓ Employer has 5+ employees
- ✓ Does not have pension or retirement plan through employer
- ✓ Mix by gender, education and marital status
- ✓ Mix by race/ethnicity in English speaking groups

Brian Perlman moderated the English speaking groups, and Chris Bain-Borrego moderated the Spanish speaking groups.

Table C-8
Focus Group Composition Summary

Fresno (June 23rd)		Los Angeles (June 24th)		San Francisco (June 25th)	
Low-income (<$50K)	Low-income (<$50K)	Higher income ($50K+)	Low-income (<$50K)	Higher income ($50K+)	Low-income (<$50K)
English	Spanish	English	Spanish	English	English
9 participants	10 participants	8 participants	9 participants	6 participants	6 participants

ii. Overview of Moderator's Guide

The full Moderator's Guide is attached in the **Appendix**. Because it took more time than expected to help participants understand basic financial concepts related to the Program, not all questions were covered in each focus group.

Groups began with a general discussion of participants' readiness for retirement and financial realities, including:

- ✓ How they view their retirement prospects
- ✓ How well they have saved so far
- ✓ Obstacles to saving for retirement
- ✓ Familiarity/comfort with different investments and retirement savings vehicles
- ✓ Attitudes towards payroll deduction arrangements

We then introduced the proposed Program using a hand-out with a sample program description **(Exhibit C-1)**. Participants were given time to individually read the handout, and then the Moderator reviewed each of the program's seven key features. Participants were asked about:

- ✓ Their overall reaction to the program
- ✓ Reaction to key features, including
  - automatic enrollment and payroll deduction
  - a 3% vs. 5% default contribution rate, and auto-escalation
  - the IRA
  - portability
  - having professionals invest their retirement savings for them
  - being able to convert savings into lifetime income
  - online access to account information

Exhibit C-1
Focus Group Handout 1 – Program Description

Handout 1

California Secure Choice: Proposed Program

The State of California is developing a new workplace retirement savings plan for the 6 million workers in the state who currently don't have one at work. **The Secure Choice Retirement Savings Plan (Secure Choice) will offer an easy way to save for retirement directly out of your paycheck.** Key features include:

1. **Automatic enrollment, with opt-out.**
You would be automatically enrolled by your employer in the Secure Choice retirement plan, unless you chose not to participate in it.

2. **Automatic and flexible contributions.**
If you are enrolled, 3% of your pay would be automatically contributed to the plan from each paycheck. You could choose to contribute a different amount, either higher or lower.

Examples

Annual Pay	Monthly Contribution @ 3%	Annual Total
$20,000	$50	$600
$40,000	$100	$1,200
$60,000	$150	$1,800

3. **The money would be deposited in an Individual Retirement Account (IRA) in your name.**
Your contributions, plus any investment earnings, would be held in the account until you need it when you retire. **You would fully own the money in your IRA.** If you died before you used the money, it would go to your spouse (if married) or anyone you wanted to inherit it.

4. **Your Secure Choice account would stay with you from job to job.**
If you move out of state, or to a job that already offers a 401k or pension, contributions to Secure Choice would stop–but your account would keep earning investment returns.

5. **Your money would be automatically invested in a high-quality, low-cost fund that is managed by investment professionals.**
This fund will be designed for growing your retirement savings over time and will include a mix of stocks and bonds. You could also choose from other low-cost investment options.

6. **When you retire, Secure Choice would let you convert your balance into lifetime monthly income.**

7. **You could access your account information at any time using a computer or smartphone.**
A yearly statement would clearly show you the account balance, contributions, investment returns, and fees. It would also tell you how much income you can expect when you retire based on your current savings behavior.

We then gave out **Handout 2**, which illustrated the impact of steady monthly contributions on long-term asset growth, and **Handout 3**, showing the expected retirement income from those contributions in addition to Social Security, to gauge the effectiveness of different ways of illustrating program benefits. (See **Section H-Appendix** for English and Spanish versions of "Examples for Focus Groups", as well as the Spanish version of Handout 1.)

Next we probed for preferences regarding the following:

- ✓ Levels of comfort with various investment portfolios with various risk levels
- ✓ Lifetime income – tradeoffs between income and certain period returns
- ✓ Importance of access to funds before retirement and deal-breaker conditions
- ✓ Tax treatment – paying taxes on retirement contributions now versus at retirement (traditional vs. Roth IRA)

Finally, we tested various message statements regarding the plan emphasizing:

- ✓ The importance of promoting self-responsibility
- ✓ The impact of the plan on overcoming inertia in a positive way
- ✓ The important consequences of building net worth among those who have not done so before

iii. Key Findings

The following are adapted from Greenwald's final report on the focus groups, which can be found in the **Appendix**. Readers should note that while they yield rich qualitative data, **focus group findings are suggestive rather than definitive because of their small sample size**. We used these findings to inform questions in the online survey, which offers a more reliable gauge from which to infer likely behavior and preferences in the target population.

Current Environment

1. Many focus participants, especially low income ones, feel that they cannot afford to save (as expected). Many are also held back by the inertia of never getting started and fear/uncertainty about where to put their money.
2. However, most say they want to save and would do so if given the opportunity.
3. Many participants have a strong mistrust of financial institutions, fearing not only market loss but also that they cannot trust institutions to hold their money.
4. Views on government are more mixed. Some trust government and some do not. Most are at least mildly positive about California State government.
5. On balance, most are also risk averse—mostly due to fears and lack of knowledge about the investment world. These consumers do not understand realities that would

ease their mind – that money is protected from fraud, the risk-return trade-off, that risk is reasonable for someone holding money for years, and that mutual fund money is diversified. Notably, many participants believe that investment management consists of betting on individual stocks.

Reaction to California Secure Choice

1. Respondents generally have a **favorable reaction to the California Secure Choice program and its features**.
2. **Most participants like the automatic enrollment feature**. Most importantly, many feel that automatic enrollment will get them to save more.
    - They are mixed on whether 3% or 5% is an appropriate contribution, although most are fine with a 5% default if they could choose a different rate.
    - While some like automatic escalation, most are a little uncertain about committing to it and whether or not they could really do it.
3. **Portability is universally appealing.** Participants like that they can take the plan from job to job and that the account is in their name.
4. Most like the concept of converting their savings into a guaranteed income stream, more so than we see in research with 401(k) participants.
5. Most like an illustration that shows a small amount of money coming out of their paychecks leading to a significant savings later in life, and are willing to make that tradeoff.
6. It is important for participants that they can pass the money to their heirs. This is especially important to Hispanics who have a strong focus on their children.
7. The idea of having access to the account through a computer or smart phone is appealing, although most were not that clear on what types of information they would like to get.

Challenges

The focus groups revealed particular challenges that the Program should be prepared to face in communicating with the target population. Most of these challenges relate to the lack of comfort and familiarity with basic financial principles and investment options. In addition, there are particular challenges related to the low-income Spanish speaking population.

1. **The biggest challenge will be positioning and explaining investment options to potential users**, given the lack of exposure to retirement savings vehicles in particular and investment concepts in general.

2. **California will have to deal with the lack of trust that many have of financial institutions**. Most low-income participants have no idea of who holds and invests retirement plan money and that protections are in place to keep it safe.
3. **Many participants—especially those who are low-income—are overly risk-averse as a result of their limited financial literacy**, because they don't understand the relationship between risk, reward, and time, and the protection afforded by diversification.

Challenges related to the Spanish-speaking population

1. **Literacy relating to the U.S. financial system is extremely low among low-income Spanish-speaking participants.** Most barely know what IRAs are, and few have ever thought about the future value of money.
2. **Spanish-speaking participants are more risk averse** than English speaking ones.
3. **Most have strong suspicion of the government**. Many trust government less than financial institutions. Some of this is driven by anti-Hispanic political rhetoric from politicians.
4. There is a strong culture of saving and wealth-building (e.g., buying a home and saving for a business), but there is a much stronger focus on resources for one's family, especially children, than there is on retirement.
5. Some do not plan on using the U.S. retirement system.
6. The need for Social Security numbers may pose a barrier to participation. Even if the workers themselves have them, there can often be designated beneficiaries who do not.

4. Online Survey

Greenwald fielded an online survey of 1,000 California workers eligible for the Program in order gauge potential participation/opt-out rates, contribution rates, and reactions to potential program features. The survey was conducted from August 31 to September 16, 2015. The survey included a behavioral experiment designed to estimate opt-out rates with a 3% default contribution rate and a 5% default contribution rate.

i. Methodology

Sample Selection and Weighting

Respondents were selected from among members of Research Now's online research panel. Research Now has one of the largest online panels in the country. A primary reason we used this panel is that, unlike most others, it is a "by-invitation-only" panel. This means that rather than taking any individual that responds to an online promotion or purchases a product, the panel is purposefully constructed. This allows it to have a more representative nature than panels that accept volunteer participants.

To qualify, respondents were required to be:

- ✓ Age 21 to 64
- ✓ Working full-time or part-time
- ✓ Not self-employed or working for Federal, state or local government
- ✓ Working for employer with 5 or more employees
- ✓ Without a pension or retirement plan through employer

The data were weighted by gender, age, education, race/ethnicity and household income to reflect the core population of workers eligible for the Program under SB1234, as defined by CLRE's analysis of CPS ASEC data. Consistent with the composition of online survey panels in general, the unweighted sample for this survey contains greater shares of higher income, college educated, and whites than the target population. However, we used quotas to ensure sufficiently large samples of each race, gender, age, and income subgroup to weight the data to reflect the subpopulations.

In a similarly-sized random sample survey, the margin of error would be plus or minus 3.1 percentage points at the 95% confidence level.

One limitation to the survey is that it was only conducted in English. Thus Spanish-speaking participants are under-represented in the sample.

Behavioral Experiment with 3% and 5% Default Contribution Rates

Respondents were randomly split into two samples of 500 each to test the impact of two different contribution rates—3% and 5%—on participant opt-out rates. At the beginning of the survey, after the screening questions, respondents in each group were presented with a brief description of the Program highlighting a few key features. The description was identical for both groups, except for the contribution rate. Then they were asked what they would do if their employer automatically enrolled them in the program: opt out, stay in at the same contribution rate, or stay in but elect a different contribution rate. If they chose to elect a different contribution rate, they were asked what they would change it to.

This type of behavioral experiment reliably predicts participant behavior in an *active choice* context in which respondents must make an affirmative choice in order to enroll in a retirement plan. Such an approach yields significantly higher opt-out rates than a *passive choice* approach in which respondents are enrolled in the plan unless they take action to opt out.

ii. Overview of Survey Questions

The full questionnaire can be found in the **Appendix**. The survey topics were ordered as follows:

1. **Screening questions** to filter for participants who meet the criteria listed above.
2. **Reaction to Program** consisting of a brief description of the program, leading into a behavioral experiment to measure opt-out rates with a 3% versus 5% default. This was followed by questions eliciting reactions to key program features including auto-escalation, portability, and liquidity, and basic investment risk/reward strategies.
3. **Account access** questions regarding participants' preferred method of interacting with the program in key situations ranging from enrollment to divorce to retirement. (This section was informed by questions from Bridgepoint, the third party administration specialist on the consultant team, to inform recordkeeping cost estimates.)
4. **General financial situation and attitudes** toward retirement saving.
5. **Additional financial and demographic questions** regarding marital status, debt, length of current employment, and whether or not they had a retirement plan at their previous job. (The purpose of this section was to provide data to inform the financial feasibility model, as well as for general analysis.)

iii. Key Findings

Greenwald's final survey report, along with detailed tabulations of each question, can be found in the Appendix. Below is a recap of the key findings from that report:

1. **Strong support for auto-enrollment** retirement savings via payroll deduction.
   - ✓ Six in seven (84%) think this is a good idea, including 57% who say it is a *very good* idea.
   - ✓ Other key program features, such as portability and the ability to designate a beneficiary, are appealing to a large majority of workers.

2. **Most would participate in the program – only about a quarter (27%) would opt out, regardless of whether the deferral (i.e., contribution) rate is 3% or 5%.**

- ✓ There is no statistically significant difference in opt-out rates between 3% and 5% default.
- ✓ Retention rates in the program are higher for women than for men (77% vs. 71%); likelihood of staying the program also increases as personal income goes up. However, there are not statistically meaningful differences in retention rates by Hispanic status or age.
- ✓ Some (18%) would stay in the program but would ask to have their deferral rate changed. Of that group, only a minority would ask to lower their deferral rate (32% of those with a 3% deferral rate and 43% of those with a 5% deferral rate).

3. **Automatic escalation is not a deal breaker for participation for most; liquidity is a somewhat larger potential barrier.**
    - ✓ Automatically increasing contributions by 1% annually up to a maximum of 10% will not prevent most uncovered workers from participating – 81% would stay in the program if it included automatic escalation. However, 33% would ask their employer to stop the increases.
    - ✓ About a third will not participate if they cannot access their money if they become seriously ill (32%) or if their spouse dies (32%).
    - ✓ About a quarter would require, as a condition of participation, being able to access their money in the event of a job loss (28%) or a family member becoming seriously ill (26%).

4. **There is a clear preference for savings in the program to be invested for long-term growth rather than for protecting against loss.**
    - ✓ By a two to one margin, uncovered workers prefer to have their money invested in a Balanced Fund rather than a Money Market Fund.

5. **Other key features of the program are appealing – large majorities say each of seven program features tested are highly attractive.**
    - ✓ Being able to pass their savings on to a beneficiary in the event they die and being able to take their account from job to job are most highly rated.
    - ✓ Large shares also highly value having online access to their account, an annuitization option at retirement, low cost investments in the program, and having a personal account set up in their name.
    - ✓ The least attractive feature – but still considered extremely to very attractive by 73% – is having multiple investment options available.

6. **The vast majority of uncovered workers have the desire and the ability to put at least some money aside for retirement, but most have not done much, if anything, to build a retirement nest egg.**
    - ✓ They agree that saving for retirement is important (96% very or somewhat important).

- ✓ Retirement ranks second as an overall savings priority (45% rank it 1st or 2nd out of 6 potential savings needs) after having an emergency fund.
- ✓ Nearly all could save at least some amount in a retirement savings plan available at work. However, expected contributions are generally small – two-thirds feel the most they could contribute is less than $100 per month.
- ✓ Over half are currently saving less than 5% for retirement, including 29% who are not saving anything.

7. **The leading barriers for not saving more for retirement include low earnings and the debt burden they carry – these two issues are the primary reasons for over half of uncovered workers.**
   - ✓ Four in ten say a major reason is that they are more focused on their family and nearly as many (36%) report that dealing with unexpected expenses is a major reason they do not save more.

8. **Most prefer online interaction with the proposed plan through a website or email, but there is a segment who requires talking by phone to customer service.**
   - ✓ When in need of assistance, 30-40% prefer to have phone contact for various service needs.
   - ✓ Among those who prefer phone-based service, two-thirds or more would only feel comfortable using this method, especially when getting started in the program.

iv. Key Recommendations

1. **5% default contribution rate.**
   - ✓ There is no statistically significant difference in opt-out rates between a 3% and 5% default contribution rate in our survey results. This is corroborated by a national survey conducted for Connecticut, which found no difference between 3% and 6%.[14]
   - ✓ Likely contribution rates are highly sensitive to the default rate.
     - A 5% default will lead to an average savings rate slightly higher than 5% because a majority of those who elect a different contribution rate will choose a higher rate. A 5% savings rate invested in a balanced portfolio or target date fund yields a 20-23% average income replacement rate over a full career.
     - A lower initial default (3%) will lead to lower average savings rates and ultimately lower retirement income.
   - ✓ Auto-escalation will increase the savings rate among the majority of likely participants (59%) but may increase the opt-out rate slightly.

[14] Belbase & Sanzenbacher 2015, op cit.

2. **To start, the program should offer a default investment option consisting of a diversified portfolio with long-term growth potential and the choice to opt into a low-risk investment product.**
   - ✓ Most likely participants would choose a diversified portfolio with long-term growth potential over a completely safe investment such as a money market fund that is guaranteed to yield low returns.
   - ✓ At the same time, most eligible workers are risk-averse, especially if they are Latino or low-income.
   - ✓ While guarantees are expensive in the current interest rate environment, the Board should continue to explore whether affordable guarantees—ones that do not unduly compromise overall returns—can become feasible as the Program develops.

5. Rollovers and Cash-Outs

i. Overview

Because of the difficulty of gauging employee behavior with regard to rollovers and cash-outs through a survey method, we look to behavior in the 401(k) universe and adjust for differences between employer-sponsored plans and the proposed program, both in terms of overall design and participant characteristics.

Overall, about 3.5% of participants take withdrawals from 401(k) plans each year.[15] In about half of these cases, withdrawals are based on hardship. **The rate of pre-retirement withdrawals from the Program is likely to be higher than in the 401(k) world, given demographics.**

Impact of job turnover. Turnover averages 38% annually among 401(k) plans, primarily as the result of job changes and retirement. Given that most 401(k) plans are single-employer, turnover is likely to be lower for Program given its statewide coverage.

In addition, many 401(k) plans force participants with lower balances to withdraw their assets, and this is a source of a significant share of savings leakage. Current law allows active 401(k) plans to force out separating employees with less than $5,000 in their account[16], and only 7% of plan sponsors allow employees to keep their money in their 401(k) regardless of the balance at separation.[17] If the employee does not make an election on where to transfer their assets, then the employer can decide for them. Those with less than $1,000 can simply be

[15] Extrapolated from S. Holden and D. Schras, 2015 (Apr.), "Defined Contribution Plan Participants' Activities, 2014.", ICI Research Report, p. 5, Figure 3, www.ici.org/pdf/ppr_14_rec_survey.pdf.
[16] U.S. Government Accountability Office (GAO), 2014 (Nov.), "401(K) Plans: Greater Protections Needed for Forced Transfers and Inactive Accounts," GAO-15-73, GAO, Washington, DC, http://www.gao.gov/assets/670/667151.pdf.
[17] Plan Sponsor Council of America (PSCA), "55th Annual Survey of Profit Sharing and 401(k) Plans," PSCA, 2012.

cashed out.[18] This is a particular problem for young and low-income workers because they are more likely to have insufficient balances to stay with their employer plans.

Given that the Program is designed to be portable between jobs and that workers changing jobs will not be prompted to take their funds elsewhere, **we anticipate that turnover resulting from job changes will be significantly lower in the Program than in 401(k)s.**

Most IRA assets consist of rollovers from 401(k) plans. Among households that had rolled over 401(k) assets into an IRA, 24% cited wanting to consolidate assets; 24% did not want to leave money behind at the former employer; and 17% wanted more investment options.[19]

ii. Key Findings

- ✓ **The rate of pre-retirement withdrawals from the Program is likely to be higher than in the 401(k) world**, given the demographics of the population eligible for Secure Choice.
- ✓ **However, we anticipate that turnover resulting from job changes will be significantly lower in the Program than in 401(k)s** due to the portability of the Secure Choice IRA.
- ✓ Based on the above, we estimate that cash-outs and rollovers will occur with **10-25% of job leavers and 5% of continuing workers, totaling 3.5% of plan assets each year**.

6. Stakeholder Interviews (Including Employers Interviews)

i. Overview

We conducted interviews/meetings in July and August of 2015 with over 22 representatives of organizations on the implementation of the California Secure Choice Retirement Savings Program. The purpose of the interviews was to ascertain the perspectives of multiple stakeholders from three key constituencies: labor and community organizations, employers and employer organizations, and consumer associations/asset building groups. We provided a brief overview of SB 1234 and the proposed Program, then solicited questions, concerns and suggestions regarding the design and implementation of the California Secure Choice Retirement Savings Program. Interviews in the San Francisco Bay Area were conducted in person, while interviews with people outside of the Bay Area were conducted by phone. Interviews were semi-structured and typically ranged from thirty minutes to one hour in length. Interviews were conducted by Nari Rhee, Manager of the Retirement Security Program at UC Berkeley CLRE, and graduate student researcher Caitlin Fox-Hodess.

List of Interviewees

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[18] GAO, 2014 (Nov.), op cit.
[19] "The Role of IRAs in U.S. Households' Saving for Retirement, 2014," ICI Research Perspective v21n1, November 2015, https://www.ici.org/pdf/per21-01.pdf.

Constituency	Name	Organization
Business	Alice Perez	**California Hispanic Chamber of Commerce**
	Jim Lazarus	**San Francisco Chamber of Commerce**
	Nicole Rice	**California Manufacturers and Technology Association**
	Marti Fisher	**California Chamber of Commerce**
	Gwyneth Borden	**Golden Gate Restaurant Association**
	Le Tim Ly	**Chinese Progressive Association** (also interviewed as community organization)
	Jan Masaoka	**California Association of Non-Profits**
	Holly Culhane	**PAS Associates**
	Karen Bonnano	**Snelling Staffing**
	Scott Hauge	**Small Business California**
	Pete Isberg	**National Payroll Reporting Consortium** and **ADP**
	David Chase	**Small Business Majority**
Labor & Worker Organizations	Juana Flores	**Mujeres Unidas y Activas**
	Le Tim Ly	**Chinese Progressive Association** (also interviewed as employer)
	Kathy Hoang	**Restaurant Opportunity Center**
	Dave Low	**Californians for Retirement Security** and **California School Employees Association**
	Alexandra Suh	**Korean Immigrant Workers Association**
	Alexa Frankenberg & Valarie Bachelor	**SEIU California Child Care Campaign**
Consumer & Asset Building Organizations	Blanca Castro	**AARP**
	Anne Price	**Insight Center for Community Economic Development**
	Tom Rankin	**California Association of Retired Americans**
	Catherine Harvey Singley	**National Council of La Raza** (Interview + Housing/Assets Committee conference call discussion with several NCLR affiliates in CA)

ii. Summary of Feedback from Stakeholders

The following is a summary of stakeholder views and recommendations discussed in the interviews. The consultant team for this study considered stakeholder input alongside other considerations, including legal constraints, operational logistics, and extensive research on participant retirement savings behavior, in forming our final recommendations.

1) **Employers & Business Organizations**

Most of our interviews with the employer community were with business organizations representing a wide range of California employers. (Despite multiple attempts to schedule interviews with individual small employer contacts, most did not respond or did not commit to an interview.)

- ✓ **The business representatives interviewed expressed a wide range of views** on the Program, varying in the level of favorability/unfavorability.
- ✓ **Cost is a concern to some, but not the main worry** given that employers will not be required to contribute.
- ✓ **Minimizing administrative burden is the highest priority**, and interviewees offered feedback on how to decrease this burden by **minimizing complexity**.
- ✓ **Adequate outreach to small businesses and ethnic employers** is necessary to help them comply with legal requirements and avoid potential penalties.

Diversity of Views. Several employers and business associations welcomed the Program as a way to even the playing field between small and large employers, giving the former a way to easily provide retirement savings opportunities to their employees. These employers noted the cost and complexity of setting up an employer-sponsored retirement plan as a barrier for small employers.

Some were skeptical about the ability of the state government to implement the program, though in different regards—ability to enforce the mandate, ability to administer a program effectively, and exposure of investment decisions to political pressure. Two organizations were concerned about potential liabilities to employers related to ERISA.

Cost Concerns. Surprisingly, few interviewees directly raised the cost of the program as an issue, once they understood that employers would not be required to contribute. The main cost concern that was raised involved the worry that employers would be required to use payroll services in order to comply with the Program, or that employers who currently use payroll services would see an increase in fees.

Administrative Burden. Interviewees were nearly unanimous in voicing concern that the Program be structured to minimize administrative burden. Several noted that the cost of compliance would be absorbed by employers as a normal cost of doing business but that the main challenge is making sure that Program rules and procedures are simple and easy for employers to follow.

Key suggestions to reduce administrative burden include:

- ✓ **Uniform eligibility rules**. Whenever possible, avoiding rules that require employers to treat groups of employees differently—for instance, eligibility differences based on age, tenure, or hours worked.
- ✓ **No employer-level implementation of auto-escalation**, which would require employers to track hire dates and anniversaries.
- ✓ **Limited frequency of employee elections** regarding opting out/in or changing contribution rates. However, interviewees were split on whether an open enrollment period would increase or reduce the burden. [Note: Because of this concern, and the concern about auto-escalation, the Program Design study recommends that

recordkeepers, rather than employers, receive and process employee elections and implement auto-escalation.]

- ✓ **Limited employer responsibility for educating employees about the Program**. Responsibilities should be limited to distributing marketing materials as prescribed by the State and interactions regarding payroll deductions.
- ✓ **Centralized collection of enrollments and payroll deductions through EDD**. Most employers felt that that submitting enrollments and payroll deductions to EDD, with which they already have a relationship, would be easier than dealing with a third party administrator. However, one interviewee noted that this might create confusion for employers and employees on whether or not contributions are mandatory rather than voluntary.

Employer Outreach & Education. Several interviewees reflected on the successes and failures in small business outreach in the launch of other state and local mandates, including family leave, healthcare reform, and local minimum wage and sick leave laws. Noting that employer education is critical to achieve compliance, they stressed the importance of early outreach to employers and payroll processors.

Ideas on employer outreach include:

- ✓ **Early outreach to help employers understand and comply with Program requirements, and how the Program can benefit them**.
- ✓ **The state should work closely with employer organizations to conduct outreach**, including local and ethnic chambers of commerce, industry associations, and payroll processors. Key methods of outreach through these organizations include information sessions and webinars.
- ✓ One interviewee suggested the creation of a **small business advisory committee** to work with the Board.
- ✓ **Grassroots outreach campaign required for small businesses.** Often, the smallest businesses can only be effectively reached with “boots on the ground”—for instance, door-to-door outreach in neighborhood business districts.

Other Issues. Interviewees also made other suggestions that the Board should consider.

- ✓ **Voluntary employer contributions**. Several advocated that the Program allow voluntary employer contributions.
- ✓ **The Program should be open to voluntary participation by employers with less than five employees.**
- ✓ **Development and distribution of an employee education poster by EDD** to post in workplaces alongside required labor law notices.
- ✓ **Protecting employers against potential liabilities under ERISA**, even assuming clearance from the U.S. Department of Labor.

2) Worker Organizations

We focused these interviews on organizations representing low-wage workers who are most likely to benefit from this program. Interviewees included Mujeres Unidas y Activas, representing Latina immigrant women workers in San Francisco; the Chinese Progressive Association, which organizes Asian immigrant restaurant workers in San Francisco; the Restaurant Opportunity Centers United, a national organization of (mostly young) workers in the food services industry; and Koreatown Immigrant Workers Alliance, representing Korean and Latino service sector workers. We also interviewed representatives of the SEIU child care division, and Californians for Retirement Security, a coalition of unions focused on retirement and pension issues.

Interview respondents were unanimous in viewing the creation of the California Secure Choice Retirement Savings Program as an important step forward for low-wage workers.

The following are key points are described in greater detail below.

- ✓ **Strong support for the Program** in terms of offering a low-cost, high-quality, portable retirement savings option for low-wage workers.
- ✓ **Need for adequate enforcement of employee rights under the Program**.
- ✓ **Outreach and education to help low-wage workers make informed decisions about participating**, in partnership with labor and community organizations
- ✓ **Inclusion of workers who fall outside the legal mandate or as independent contractors.**

Support for the Program. Interviewees noted that the low-wage workers they represent very often are unable to retire, or retire into poverty, because of inadequate retirement savings and income.

- ✓ **Low-cost, professionally managed savings program addresses current lack of high quality retirement savings opportunities**. Many of the members of the grassroots worker organizations we interviewed rely primarily on Social Security combined with low-yield accounts or life insurance, so a well-managed program with low costs and higher payouts would be a welcome opportunity for many.
- ✓ **Portability** is an attractive feature for this workforce, which is concentrated in high-turnover industries.
- ✓ **Some concern about 3-5% default automatic contribution rate**, noting that even this modest contribution level may prove to be prohibitive for workers living paycheck to paycheck.
- ✓ **Concern about liquidity, that is, access to funds during emergencies.** Several interviewees noted that low-wage workers are asset poor and are also vulnerable to financial shocks, and not having access might prompt workers to opt out.

- ✓ **A paper statement option in addition to online access is important for many low-wage workers, and written communications should be available in many languages.**

***Adequate Enforcement*.** Organizations representing low-wage workers and immigrant workers note the widespread problem of wage-theft and benefits-theft in this labor market. While many legal protections are in place at the state and municipal laws, these rights exist *de jure* but not *de facto* because of a lack of effective enforcement mechanisms coupled with insufficient education and outreach. Some ideas for enforcement included:

- ✓ **Tax penalties for employer non-compliance**.
- ✓ **An easy way for workers to report employer non-compliance to the state**
- ✓ **Non-retaliation language in the authorizing legislation** for the Program so that workers will not be afraid to report employers who are not complying with the mandate.
- ✓ **Measures to prevent employers from encouraging workers to opt-out.**

Outreach and Education to Low-Wage Workers. Low-wage workers have **low financial literacy**, yet must navigate some complex questions to decide whether or not to participate in the program. All interviewees noted this as a key issue.

- ✓ **The state should plan a comprehensive worker outreach campaign during Program roll-out** that includes community-based organizations and both mainstream and ethnic media.
- ✓ **Education should focus on helping workers make an informed decision about whether and how much to contribute to the Program, rather than the technical details of how the Program investment management works.** Workers need clear, easy to understand information about the consequences of participating in the Program for take-home pay, retirement income, and taxes. They also need information on basic financial planning. Giving them more than the most basic information on Program investments will be confusing and overwhelming to most low-wage workers.
- ✓ **Workers also need education on the potential impact of Program participation on means-tested public benefits**, such as affordable housing, food stamps, child care assistance, and Medicaid.
- ✓ **Potential impact of immigration status on Program eligibility.** One worry is that workers without a valid Social Security Number (SSN) might contribute to the Program but not be able to collect retirement benefits. **Accepting Tax Identification Numbers (TIN) to establish a Secure Choice IRA** would help make the program more accessible to immigrant workers.

<u>Other Issues</u>

- ✓ **Opportunity for independent contractors to participate**. Many immigrant workers in the low-wage service sector are employed either under the table or as independent contractors.
- ✓ **Some immigrant communities are less trusting of government than others**. California's immigrant communities are very diverse, with different experiences with government in their countries of origin and in the US.

3) <u>Consumer organizations/Asset building groups</u>

Like the worker organizations, the representatives of consumer organizations and asset building groups that we interviewed were unanimous in viewing the creation of the California Secure Choice Retirement Savings Program as an important step forward to addressing the deficit of retirement income facing many workers.

The following is a summary of their opinions and suggestions:

- ✓ **Ease of participation and simplicity of program design** are the most important features of the program for both employers and workers.
- ✓ **3-5% is an appropriate default contribution level**, though it might be better to start at 3% and escalate up.
- ✓ **The Program needs to balance the need to preserve retirement savings with participants' need to access funds for hardship reasons.** Most agreed that not allowing hardship withdrawals would be a barrier for participants, but that withdrawals should otherwise be limited in order to preserve retirement funds. One interviewee argued that no early withdrawal should be permitted, like Social Security.
- ✓ **Paper statements must be an option** as not everyone will have access to electronic statements, and **communications should address the linguistic and cultural diversity of program participants**.
- ✓ **Properly designed outreach and education that addresses the diversity and limited financial literacy of the Program market are important.** This includes working with organizations that understand how best to communicate with distinct markets and communities and drawing lessons from the Affordable Care Act rollout to understand how to promote trust in the Program, given that many low-wage workers have had negative experiences with government and the financial system. However, while investment details should be available to those who seek it out, it should not be a part of the core outreach program because this can scare people away.

iii. Summary of Findings from Stakeholders

Employers' highest priority for the Program is the development of rules and procedures that make it simple and easy for covered employers to comply with the mandate.

The worker, union, consumer, and asset building organizations we interviewed are strongly supportive of the program. Their main concerns revolve around adequate outreach to workers. Both worker and community organizations working with low-wage employees stress that outreach should help workers make an informed decision about whether to participate but should stay away from investment details that can overwhelm or scare off participants with limited financial literacy. Such details should be available in a transparent manner to those who actively seek them out.