

Market Research for Connecticut Retirement Security Program

Presentation to Connecticut State Legislature

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Background

- Connecticut seeks to significantly boost the retirement security of workers without access to a retirement plan at work.
- Success in achieving this goal depends on:
 1. Employees' participation and contribution rates;
 2. Employers' support and messaging to employees;
 3. Start-up and administrative costs of the program;
 4. The clearance of legal hurdles.
- CRR's market research shed light on the first two factors.

The research explored both employee and employer responses.

Employees

1. How many uncovered workers will opt out of a program?
2. Will program design affect opt out?

Employers

1. What factors drive employer sentiment?
2. Will employers respond by discouraging participation or switching to state program?

Employee participation was estimated using an “enrollment experiment.”

- Uncovered workers were given a description of a likely program and then asked whether they wanted to opt out.
- Then one feature of the program was changed and the program was shown to a different worker.
 - 3,044 uncovered workers completed the experiment, with an average of 338 seeing any one program design.
- If more workers opted out under one feature than another, that feature was seen as driving the difference.

Some workers saw the “base case” program design, with a 6-percent contribution rate.

Imagine you're offered the chance to participate in a retirement program at work. Please read the information about the program offered (below) and select the choice you'd likely make if this program were offered to you in reality.

Your employer will automatically deduct a contribution each paycheck (just like it does for Social Security), and deposit the money into a retirement account in your name. Your savings will be invested and grow over time to provide you with income in retirement. Some important features of this program:

- **6 percent of your pay**, or **\$60** per every \$1,000 you earn, will be deducted and deposited into your account. You can change how much you contribute to your account once a year and can stop contributing at any time by opting out of the program.
- The money will be invested in a fund appropriate for someone your age, managed by a private company selected by the State of Connecticut.
- You can withdraw your contributions without penalty at any time; you pay taxes on your contributions up front.
- You can access *all* of your account balance (contributions plus investment earnings) without penalty or taxes when you retire.

Detailed information on the program can be found [here](#).

Other workers saw the same program with a 3-percent default contribution rate.

Imagine you're offered the chance to participate in a retirement program at work. Please read the information about the program offered (below) and select the choice you'd likely make if this program were offered to you in reality.

Your employer will automatically deduct a contribution each paycheck (just like it does for Social Security), and deposit the money into a retirement account in your name. Your savings will be invested and grow over time to provide you with income in retirement. Some important features of this program:

- **3 percent** of your pay, or **\$30** per every \$1,000 you earn, will be deducted and deposited into your account. You can change how much you contribute to your account once a year and can stop contributing at any time by opting out of the program.
- The money will be invested in a fund appropriate for someone your age, managed by a private company selected by the State of Connecticut.
- You can withdraw your contributions without penalty at any time; you pay taxes on your contributions up front.
- You can access *all* of your account balance (contributions plus investment earnings) without penalty or taxes when you retire.

Detailed information on the program can be found [here](#).

While other workers saw the program with auto-escalation, or some other design.

Imagine you're offered the chance to participate in a retirement program at work. Please read the information about the program offered (below) and select the choice you'd likely make if this program were offered to you in reality.

Your employer will automatically deduct a contribution each paycheck (just like it does for Social Security), and deposit the money into a retirement account in your name. Your savings will be invested and grow over time to provide you with income in retirement. Some important features of this program:

- 6 percent of your pay, or \$60 per every \$1,000 you earn, will be deducted and deposited into your account. **This contribution rate will be increased by 1 percent each year until you are contributing 10 percent of your pay.** You can change how much you contribute to your account once a year and can stop contributing at any time by opting out of the program.
- The money will be invested in a fund appropriate for someone your age, managed by a private company selected by the State of Connecticut.
- You can withdraw your contributions without penalty at any time; you pay taxes on your contributions up front.
- You can access *all* of your account balance (contributions plus investment earnings) without penalty or taxes when you retire.

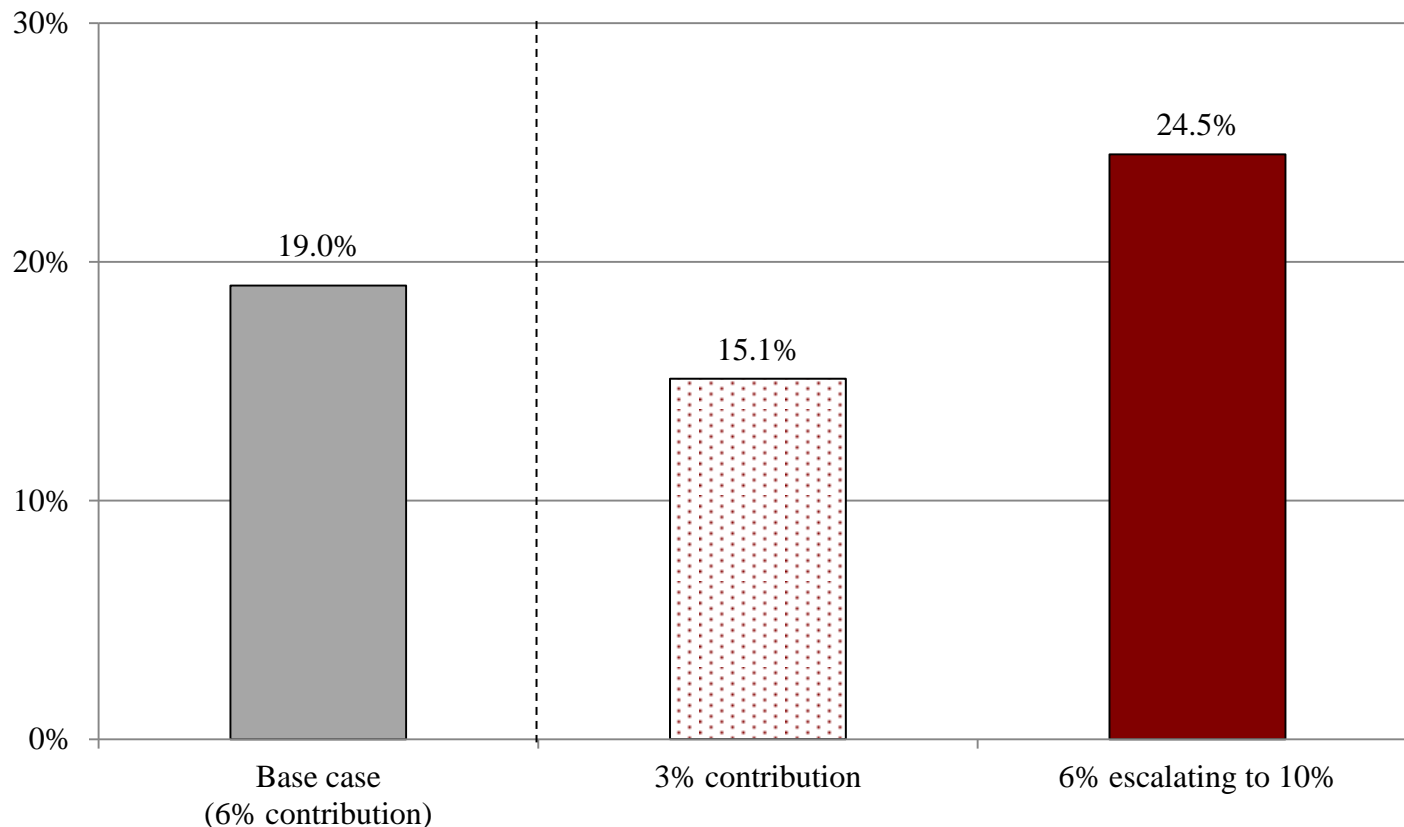
Detailed information on the program can be found [here](#).

Opt out in the experiment was relatively low, especially among vulnerable groups.

- 19 percent of uncovered workers opted out of the base case.
- This rate is just slightly higher than the opt-out rates of workers in private sector 401(k) plans.
- Minorities, women, and young workers opted out at lower rates than whites, men, and older workers.

The base case of 6% had low opt out, 3% slightly lower, and escalation to 10% higher.

Opt-out Rates Under Various Contribution Rate Options

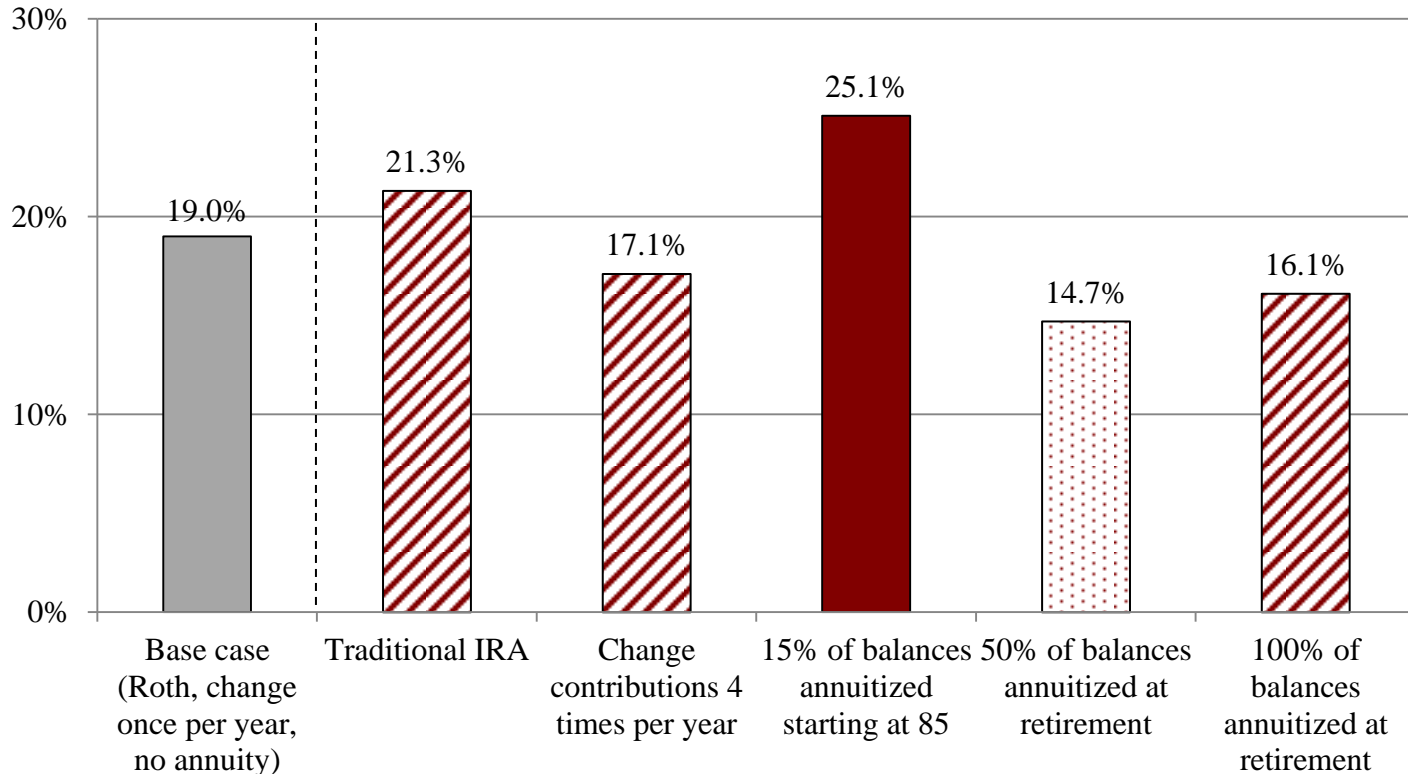


Note: Solid red bar significantly different from base case at 5-percent level; dotted bar at 10-percent level.

Source: Authors' calculation from survey of uncovered workers (conducted by Knowledge Networks).

Most other program features have a limited impact on opt-out rates.

Opt-out Rates Under Various Plan Design Options



Note: Solid red bar significantly different from base case at 5-percent level; dotted red bar significant at 10-percent level.

Source: Authors' calculation from survey of uncovered workers (conducted by Knowledge Networks).

However, a guarantee that limits returns adversely affects participation.

- To capture both the benefits and costs of offering a guarantee, some workers were told: *“Your assets will be guaranteed to grow by at least 1 percent per year. Your assets will be unlikely to grow by more than the guaranteed 1 percent per year.”*
- When this language was included, 31.9 percent of respondents indicated they would opt out of the program.

In summary, the results from the employee survey are largely positive.

Research regarding employers was conducted with the help of Nielsen.

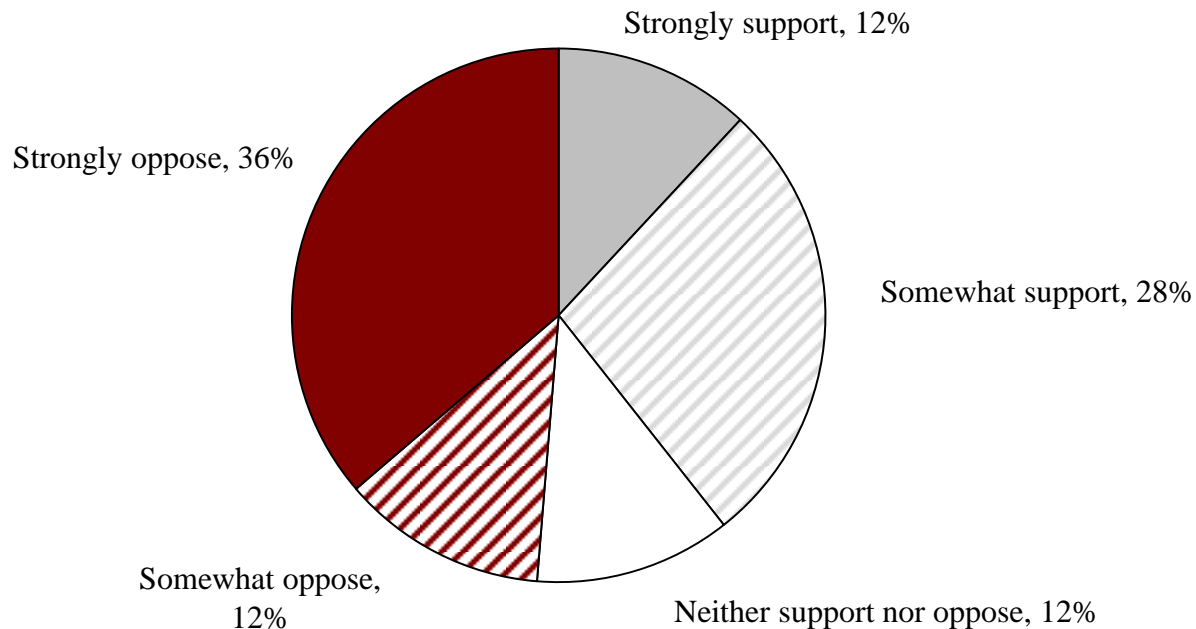
- Initially, focus groups were conducted to see how firms without retirement plans (2 groups) and firms with retirement plans (1 group) would view the likely program.
- The results of these groups were used to formulate a phone survey for a broader group of employers.

The employer phone survey was designed to study two groups of firms.

- 199 firms without retirement plans, to find out:
 - level and drivers of employer opposition to program and ultimate employer message to employees; and
 - any practical concerns for small employers involving payroll management.
- 201 firms with retirement plans, to find out:
 - desire to enroll non-eligible workers in program; and
 - likelihood to switch to the program.

Overall support for program mixed – about 50 percent of non-plan firms oppose.

Support for Program from Non-Plan Firms

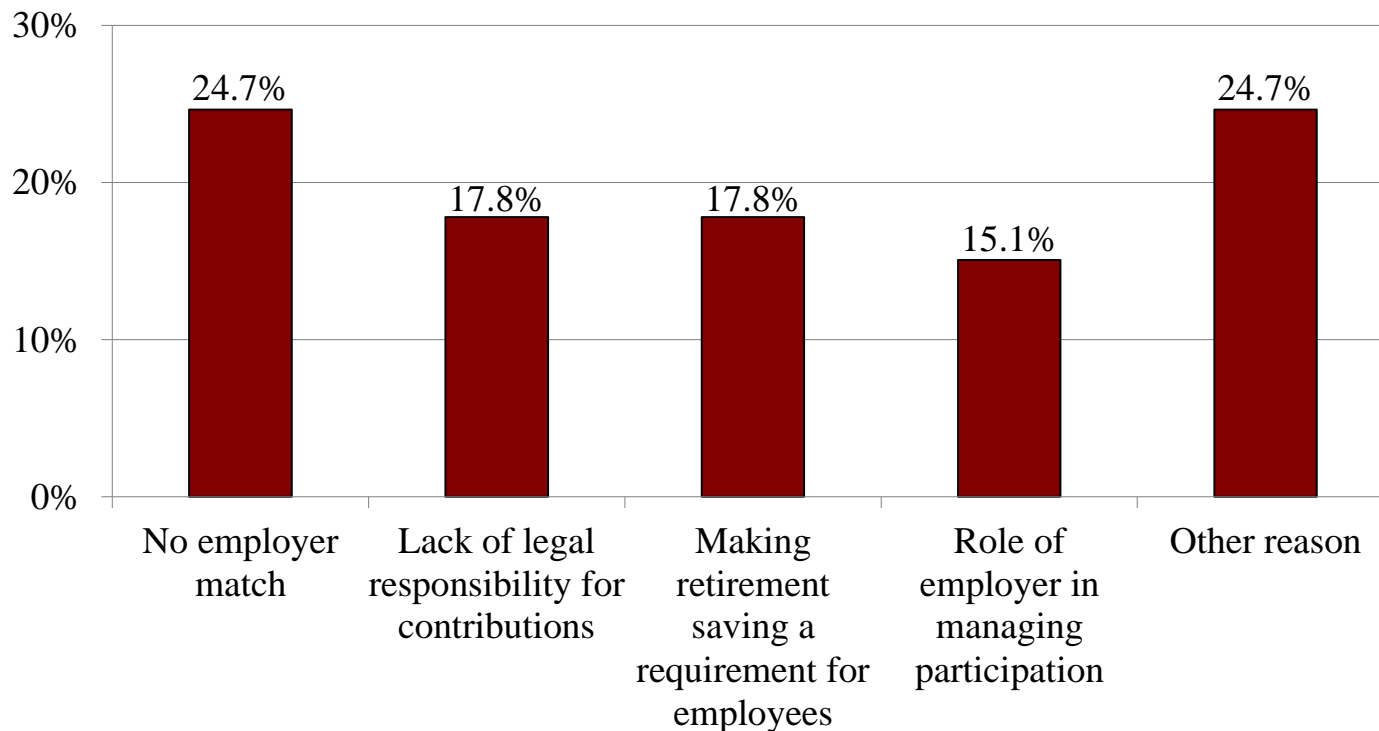


Note: Excludes six respondents who answered “don’t know” or “refuse.”

Source: Nielsen Phone Survey of Connecticut Employers.

Among those supporting, opinion was driven by limited role of employer in program.

Single Largest Reason Program Supported by Non-Plan Firms



Note: "Other" verbatim responses: "low cost/easy access for employers," "voluntary aspect of program," and "like as option for employees."

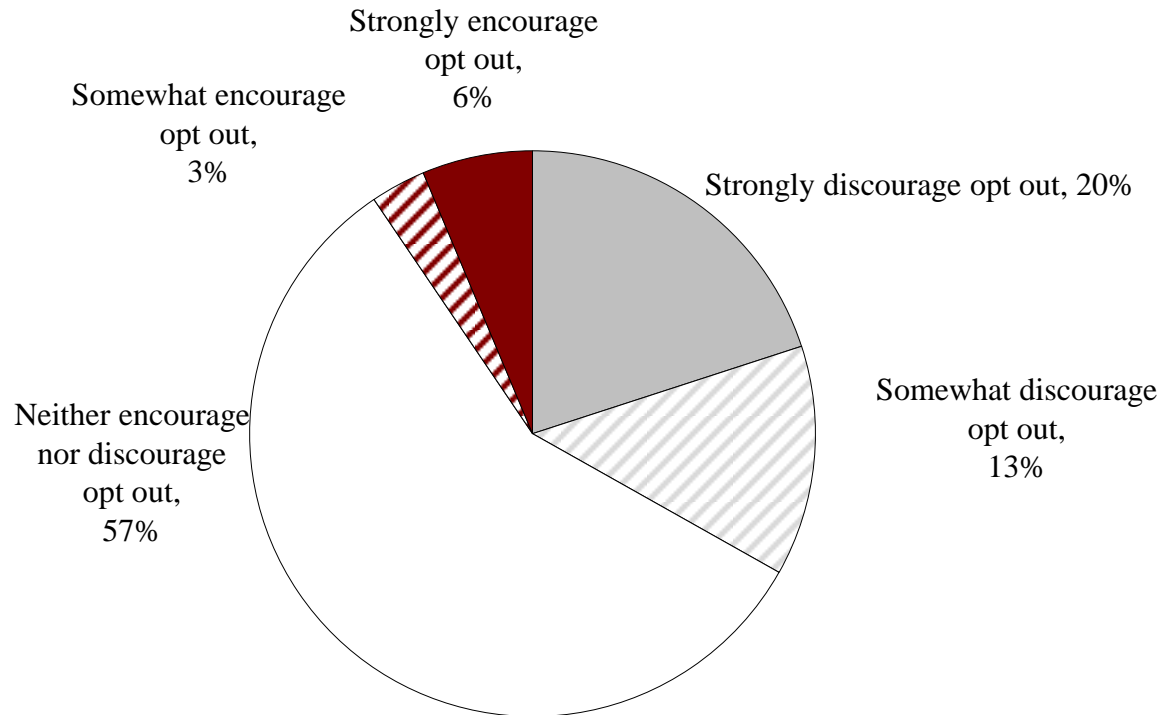
Source: Nielsen Phone Survey of Connecticut Employers.

Opposition was driven by mandate and mistrust of any state-run program.

- Almost half opposed “Making retirement savings a requirement.”
- Focus groups and verbatim responses indicated two other broad themes:
 - State should not mandate employer participation; or
 - Any state-run program will be a failure.

Opposition to program does not translate to employers encouraging opt out.

Share of Non-Plan Firms Discouraging/Encouraging Opt Out



Note: Excludes nine respondents who answered “don’t know” or “refuse.”

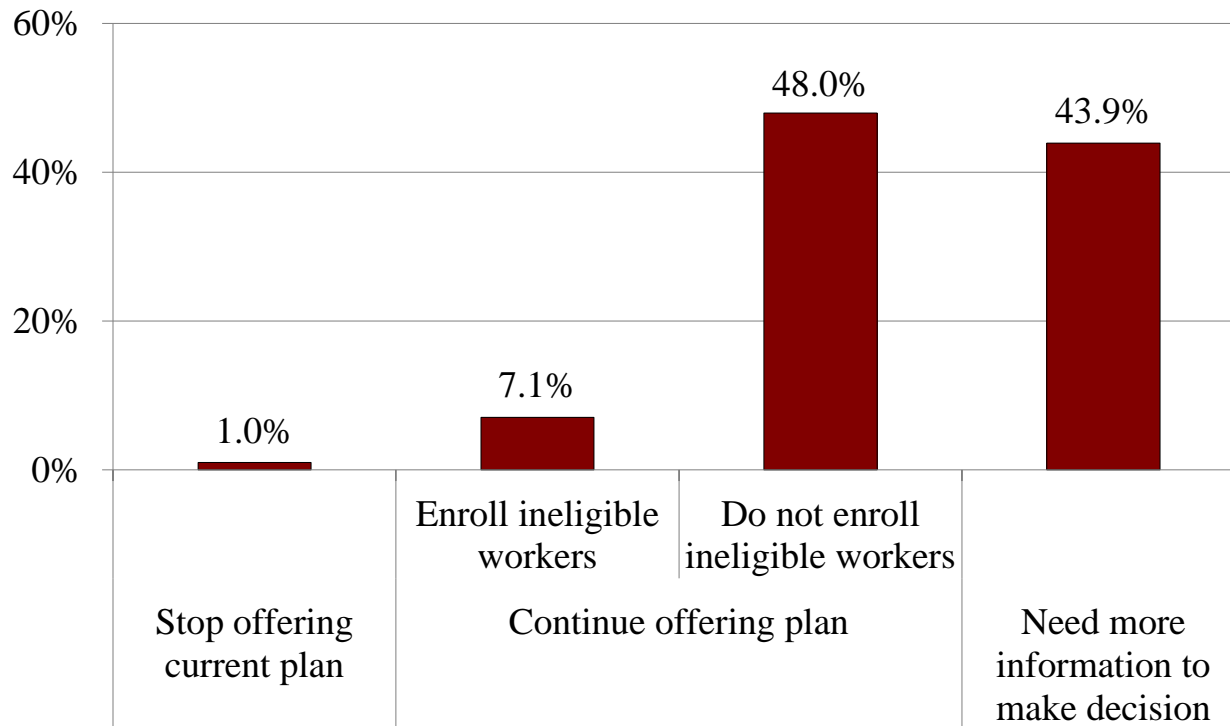
Source: Nielsen Phone Survey of Connecticut Employers.

For firms with retirement plans, focus was non-eligible workers and plan elimination.

- One issue is whether firms with plans would enroll uncovered workers in the state program.
- Another issue with offering a state savings program is that firms may drop own plan and switch to the state program.

Few firms indicated they would enroll the ineligible or stop plan.

Firms with Plan's Action If State Program Offered



Note: Excludes three respondents who answered "Don't know" or "Refuse."

Source: Nielsen Phone Survey of Connecticut Employers.

Takeaways from the employer survey

- Employers are skeptical of an employer mandate and tend to view auto-enrollment as forced retirement savings.
 - Making the program easy for employers and emphasizing it is voluntary for employees is important.
- Employers' beliefs do not translate to pushing opt out.
- Employers already offering plans unlikely to offer the State's program, although some took a "wait and see" approach.

The market research suggests a positive environment for the State's program.

- The employee survey suggests high participation under most of the program design options.
- This result should make the program more feasible by creating larger scale for the program.
- Skeptical employers are unlikely to change this outcome by encouraging their employees to opt out.