Presentation to the Connecticut Retirement Security Board

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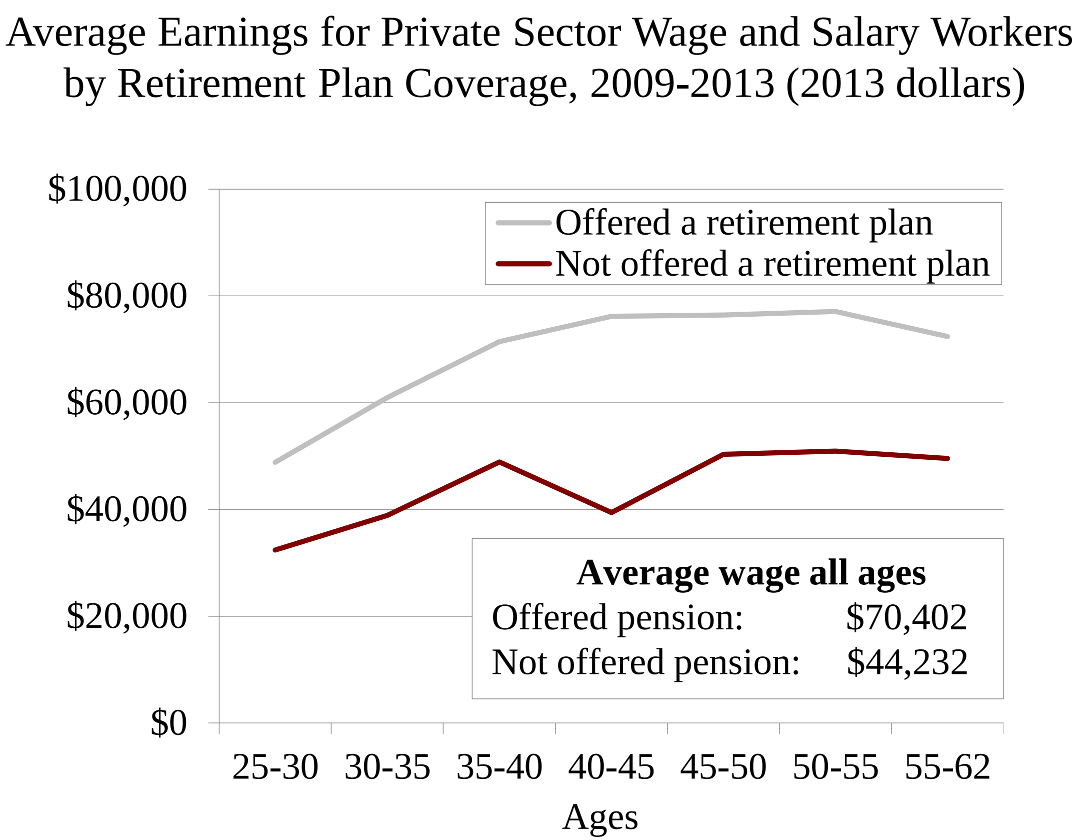
Presentation outline

- Connecticut workers and retirement needs
- Benefit enrollment experiment
- Employer focus groups

Connecticut's uncovered workers

- According to the *Current Population Survey*, compared to workers with a retirement plan, uncovered workers are:
  - less likely to be college graduates;
  - work for smaller firms;
  - work fewer hours; and
  - earn less per year.

Uncovered workers earn less than covered workers; but CT is a high-wage state.



Source: U.S. Census Bureau. *Current Population Survey March Supplement*, 2009-2013.

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As a result, Social Security benefits for CT uncovered workers are relatively low.

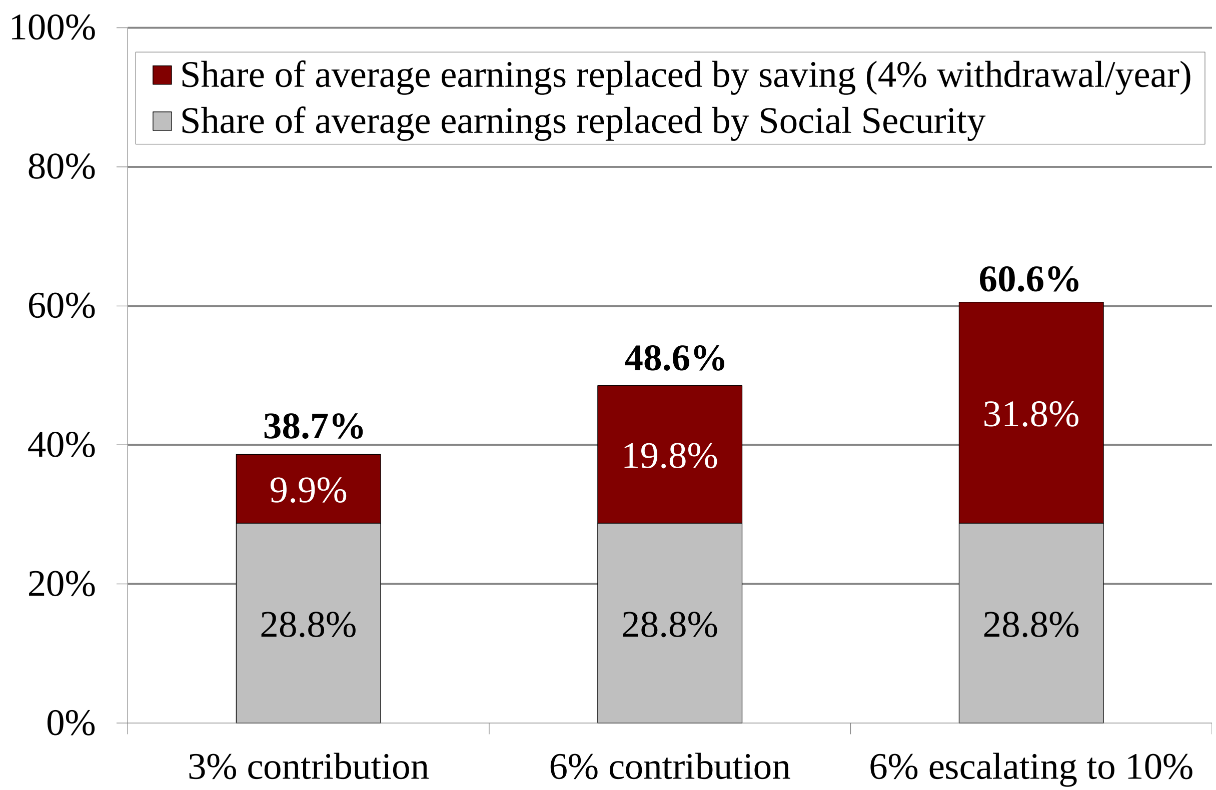
- Uncovered Connecticut workers earn close to the national average wage.

- This implies low Social Security replacement rates when they retire:
  - 29 percent of pre-retirement income at age 62; or
  - 41 percent of pre-retirement income at age 67.

- These replacement rates are well below commonly cited 70-75 percent benchmarks, so other forms of saving are required.

Uncovered workers will need more; and the CT proposal fills part of the gap.

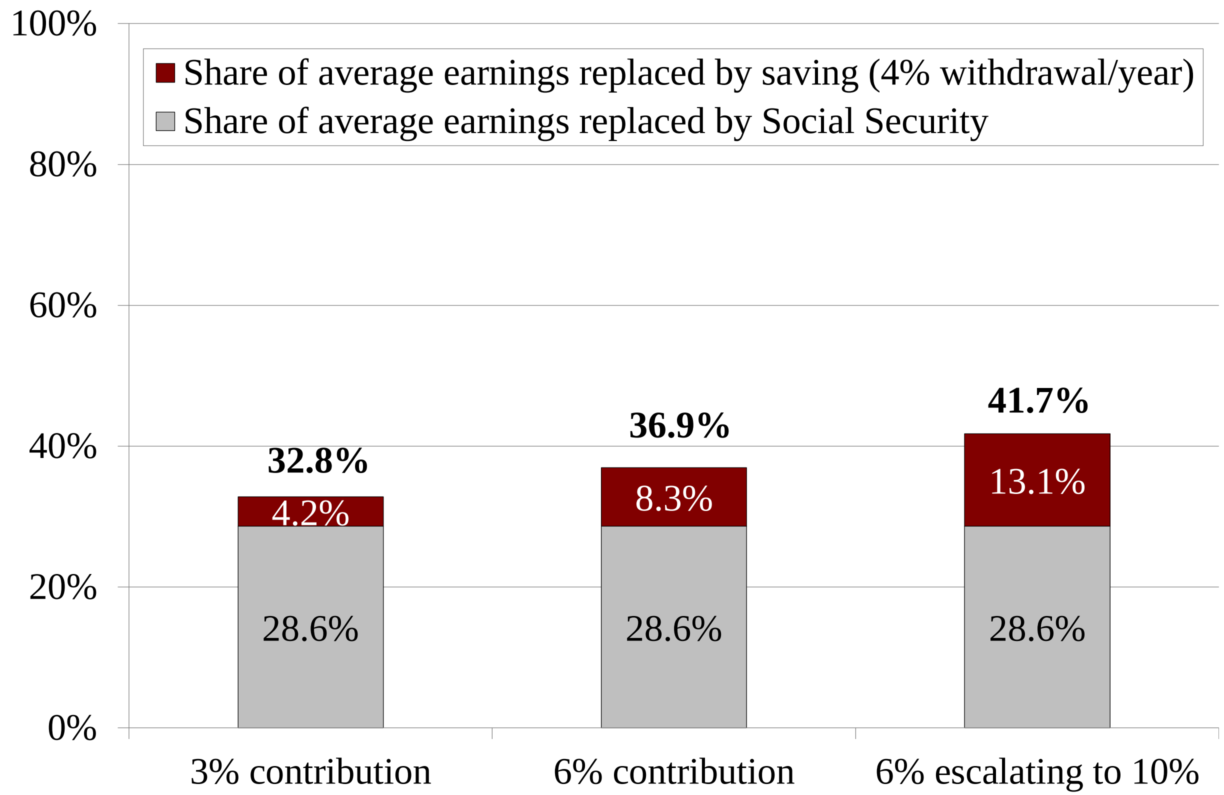
Replacement Rates for Participants Who Start at 25, Under Various Contribution Designs



Source: Authors' calculations from the U.S. Census Bureau. *Current Population Survey March Supplement*, 2009-2013.

Older savers, however, will see less improvement.

Replacement Rates for Participants Who Start at 42, Under Various Contribution Designs



Source: Authors' calculations from the U.S. Census Bureau. *Current Population Survey March Supplement*, 2009-2013.

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Summary of replacement rate analysis

- Low Social Security replacement rates translate to difficulty achieving a target replacement rate of 70-75 percent.

- More aggressive assumptions improve the picture:
  - 6-percent contribution rate but age 67 claiming – 60.9%
  - 6-percent contribution rate with 5.5% return (was 4%) – 56.0%

- Higher contribution or auto-escalation clearly part of the answer, but unclear how workers will respond.

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Benefit enrollment experiment: methodology

- Online experiment with uncovered workers
- Each respondent presented a single benefit enrollment scenario
- Respondents randomly assigned to one of eleven plan designs
- Variance in opt-out can be attributed to variance in plan design
- Results segmented by age, income, and other factors

Benefit enrollment experiment: sample

- 4,000 uncovered workers from GfK's Knowledgepanel™
- Nationally representative panel with probability-based recruitment
- Panelists offered rewards, limited to a monthly quota
- Pre-existing demographic variables including age and income

Benefit enrollment experiment: base case

1. Roth IRA tax structure and withdrawal rules
2. 6 percent contribution rate
3. Contribution rate can be changed once per year
4. No guarantee

Benefit enrollment experiment: base case

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 approximately $x per paycheck, will be deducted and deposited into your account. You can change how much you contribute to your account once a year but can stop contributing at any time by opting out of the program.
- The money will be invested into a fund appropriate for someone your age, managed by a private company selected by the State.
- 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.

Q1. If you were automatically enrolled into the program above, what would you do?

☐ Opt out of program.
☑ Stay in program.

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Benefit enrollment experiment: alternate example

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 approximately $x per paycheck, will be deducted and deposited into your account. You can change how much you contribute to your account once a year but can stop contributing at any time by opting out of the program.
- The money will be invested into a fund appropriate for someone your age, managed by a private company selected by the State.
- 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.

Q1. If you were automatically enrolled into the program above, what would you do?

☐ Opt out of program.
☑ Stay in program.

Benefit enrollment experiment: proposed tests

Contribution and basic design	Withdrawal	Guarantees
• Tax rules of conventional ○ instead of Roth IRA	• Deferred annuity at retirement	• No loss guarantee with cost
• 3-percent instead of 6-percent contribution rate	• Half of assets annuitized at retirement	• 1-percent real rate-of-return guarantee with cost
• Contribution rate escalates to 10 percent	• All assets annuitized at retirement	• No loss guarantee without cost
• Contribution rate changes quarterly, not annually	• All assets annuitized at retirement with spousal benefit	• 1-percent real rate-of-return guarantee without cost

Benefit enrollment experiment: notes

- Proposal budgeted for 10 tests, but 12 are proposed.

- Guarantees and withdrawal options dominate testing agenda.
  - Guarantees should be tested with costs.
    - Costs are significant.
    - Results will be hard to interpret without costs if higher guarantees lead to significantly lower opt-out.
  - Board is interested in several withdrawal options.

- Cost of adding two tests is $7,000 (price per panelist-minute).

Benefit enrollment experiment: existing variables

Existing variables

- Gender
- Marital status
- Education
- Age
- Race
- Children < 18
- Geographic region
- Homeownership status
- Household Income
- Internet access

Variables solicited

- Individual’s salary
- Employment status
- Other retirement accounts or pensions
- Debt, by type
- Employer firm size

Employer focus groups

- Aside from the benefit enrollment experiment, CRR will also poll employers to gather their thoughts on the State's program.
- The first step is to conduct an online focus group to inform the employer phone survey.

Employer focus groups: respondents

- The focus groups are conducted online and consist of benefit decision-makers at small firms in Connecticut
- From materials given to them, Nielsen will develop a screening questionnaire that they capture the right respondents.
- Potential respondents are called by Nielsen to verify credentials and ensure they can answer the screening questions.
- Participants are compensated with a cash incentive.

Focus group goal 1: reaction to program

- Establish "gut" reaction to the state mandate
- Probe logistical, cost, or operational concerns and impressions of employees' reaction to specific baseline features:
  - Transfer of 6 percent of salary through withholding system;
  - Required adjustments to contribution rates or opt-out;
  - Lack of an employer match;
  - Ability of employees to withdraw without penalty;
  - Limit of $5,500 on employee contributions; and
  - Lack of guarantee.

Focus group goal 1: reaction to program

- How would employers introduce the baseline program to employees?
- Are there scenarios under which employers would support, be indifferent to, or oppose the plan?
- Would any changes to program features (aside from the employer mandate) improve employers' feelings about the program?

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Focus group goal 2: employers' situation

- For employers without a retirement plan, find out why not:
  - Lack of knowledge
  - Cost concerns
  - Liability concerns
  - Perception of employee demand

- Would these employers adopt the state's plan or find a private sector plan as an alternative?

Focus group goal 2: employers' situation

- For employers who already offer a plan, find out:
  - Motivations (e.g., to attract and retain employees, to improve retirement adequacy for employees);
  - Whether the employer provides a match
  - Reason some (if any employers are not covered)
  - Percent who participate
  - Concerns about existing plan
  - Likelihood of dropping existing plan in favor of state plan

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Conclusion

What CRR needs from the Board in the near-term:

1) As soon as possible:
   - an approved employee survey including base case and list of tests
   - an approved employer focus group guide

2) In two weeks:
   - feedback on first draft of the employer survey

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