

# *Presentation to the Connecticut Retirement Security Board: Employer Focus Groups*

Anek Belbase and Geoffrey Sanzenbacher  
Center for Retirement Research at Boston College

July 1, 2015

# Background

- On June 24<sup>th</sup>, Nielsen administered three employer focus groups with small business executives regarding the proposed program:
  - Two of the groups, with a total of nine participants, represented companies with no retirement plan.
  - One group, with seven participants, represented companies that offer a retirement plan.

# Gut reaction

- Participants agreed that their employees need help to save for retirement.
- State involvement is viewed positively if the State will “chip in,” provide a tax incentive, or provide a cheap plan to small employers.
- The initial reaction included many questions and concerns:
  - Knee-jerk reaction to additional regulation (mandate).
  - Skepticism regarding the State’s role (outside of providing incentives).
  - Questions about program design.

# Concerns about cost

- Most participants anticipated significant start-up costs – both to the State and to employers. After learning that the program would not be funded by taxpayers, they feared the cost would be borne by their employees and themselves.
- Perception of ongoing employer costs was driven by paperwork, compliance with payroll deduction and the employer mandate, and employee education.
- Employers wanted to be reimbursed for administration costs (especially start-up costs).

# Specific features: auto-enrollment at 6 percent

- Participants did not appreciate the benefit of auto-enrollment:
  - Belief that, since IRAs exist, if employees aren't already saving they must not want to and would just opt out.
  - Little recognition of behavioral inertia.
- Employers who already offered plans believed 6 percent was too high of an initial rate.

# Specific features: fiduciary responsibility

- Participants did not seem aware that many employers who offer retirement plans have fiduciary responsibility:
  - This lack of awareness implied that the employers surveyed did not place a high level of emphasis on this plan feature.

# Specific features: employees opting out and changing contribution rates

- The ability of employees to opt out generated a mixed reaction:
  - Some felt this was good and participation should be voluntary.
  - Others felt ability to opt out reduced the value of the program.
  - One questioned why employees could not be mandated to open an IRA (like the mandate to have health insurance).
- This feature generated worry about extra paperwork and cost.
  - Worry about administration cost was not reduced by limiting contribution-rate-changes to one change per year.

# Specific features: employer contributions

- This feature was perceived as keeping costs down, and received positively.
  - Little mention of desire to provide a match.
- Some viewed the employer match as a way for the State to gain support among employers by offering a tax credit or subsidy for employer contributions.



# Specific features: Roth IRA plan structure

- Only a few participants understood that the program would use existing retirement savings products.
- Many employers expressed concern that lack of penalty would lead to high withdrawal rates – similar to concerns about opt out.
- Many also thought pre-tax contributions would increase participation, although some of this view came from own preferences.

# Specific features: contribution rate and limit

- The \$5,500 limit on IRAs concerned some – if limit was higher some owners thought they themselves would participate in the program.
  - Positive interest in fact that even business owners could participate.
  - On the other hand, a 6-percent contribution rate was considered high for employees.

# Specific features: guarantees

- The issue of guarantees (or lack of) did not register with the participants as they assumed guarantees would not be part of plan.

# Common questions

- Which employees would be covered? Would uncovered employees (e.g., part-time, new) at firms offering a plan be enrolled?
- How will the plan actually be implemented and administered at no cost to taxpayers? Are costs borne by participants or employers?
- How many investment options will be available and how will they be chosen?
- Why not just educate people about IRAs?

# Common concerns

- The State cannot run an effective retirement savings program.
  - Participants cited recent pension funding problems and poor implementation of ACA as examples.
- The program is not without cost to Connecticut business owners.
  - Specific concerns included compliance costs, administrative costs, and time to explain program to employees.
- The program is likely to cost taxpayers something – insisting the State will not spend any money might undermine the program.
- The program allows employees to opt out and withdraw contributions without penalty, so how will employees be better off?

# Overall support

- Employers not already offering a plan expressed skepticism.
  - One focus group opposed the program while the other took a neutral stance.
  - At least one participant in each group strongly supported the program.
- Employers who already offer a plan were more supportive.
  - Two of seven employers would consider using the program.
- Employers thought about half of their employees would opt out.

# Takeaways

- Employers think topic is important to address. Many, however, think that financial education is the answer.
- People are engaged but have concerns that need to be addressed.
  - The value added by the plan and cost to employers must be clear when the program is first communicated.
  - Program start-up costs are perceived to be significant, so insisting that the program will not cost taxpayers anything might undermine support.
- Employers are skeptical of state involvement and certain words trigger resistance:
  - “Mandate”, “state administered”, “requirement”, etc.

# Next steps

- CRR will prepare a written report.
- CRR will submit a revised employer phone survey for review.  
Changes include:
  - A revised description of program features to clarify the value added by the program and cost to employers.
  - More specific answer choices for several questions
  - A question on what employers have done to encourage retirement saving rather than barriers to offering a savings plan.
- CRR will submit employer phone survey to our IRB for approval.