

Economic Opportunity Institute Blueprint

WASHINGTON VOLUNTARY ACCOUNTS:

Making it easy to save for retirement

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by
Marilyn P. Watkins,
Ph.D.
Policy Director

Key Findings

The proposal for Washington Voluntary Accounts (WVAs) offers an easy mechanism for individuals to save for retirement. WVAs directly address the importance of a retirement program for about half of all workers who do not have a retirement savings plan in their workplace.¹

- ▶ Social Security provides a foundation for retirement, but Social Security alone is not enough for a comfortable retirement.
- ▶ Too many workers do not have access to a systematic retirement savings program in their workplace.
- ▶ Retirement savings are an important component for the long-term financial security of individuals and families.
- ▶ Existing options have high barriers for small businesses and lower-income workers.

Washington Voluntary Accounts enables individuals to invest in their future through a portable, voluntary, defined-contribution plan. The Washington State Legislature has the opportunity to enact WVAs in 2005.

Introduction

The Economic Opportunity Institute (EOI) supports Social Security as the foundation of economic security for retirees. However, the institute recognizes that it is important for individuals to supplement Social Security through a systematic retirement savings program. Although many workers have access to a retirement plan in their workplace, about half of all workers do not. To address the importance of saving for retirement, EOI proposes Washington Voluntary Accounts.

What Are Washington Voluntary Accounts?

Washington Voluntary Accounts give workers the chance to participate in a defined-contribution retirement savings plan at their workplace. The program has a pre-selected menu of investment options, and is designed to be administered by the Washington State Department of Retirement Systems with oversight by the State Investment Board. It is portable and voluntary.

Economic Opportunity
Institute
1900 N. Northlake Way,
Suite 237
Seattle, WA 98103
(206) 633-6580



www.EOlonline.org

WVAs give workers the convenience of payroll deductions and provide small businesses and their individual workers the economies of scale now only available to

the largest investors. They increase the number of investors and the savings rate, building economic security for families and strengthening the state's economy. ◀

The Problem

Social Security isn't enough

Social Security alone is typically not enough to provide a comfortable and secure retirement. While few seniors collecting Social Security fall below the official poverty line, many retirees live very close to it. According to the U.S. Census Bureau, nearly 9% of Washington seniors (56,000 individuals) have incomes below the poverty line, while approximately 23% of Washington seniors (153,000 individuals) have incomes below 160% of the poverty level.

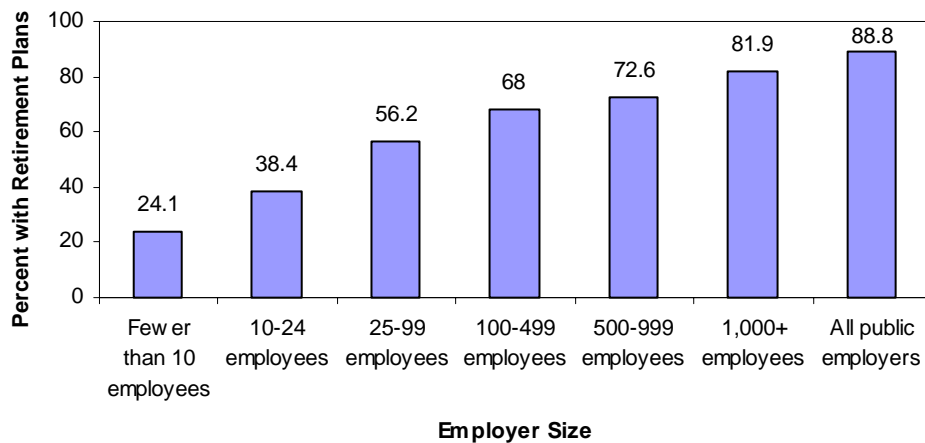
Pensions aren't available to everyone

A healthy pension system to augment Social Security is critical for the long-term health of Washington's seniors. Currently, half of workers do not have access to a retirement plan at their workplace at any given time. Many of these individuals are never able to accumulate pension assets.

Most affected by the lack of a retirement savings program are:

- ▶ *Individuals working in small businesses.*
Administrative and cost hurdles prevent many small businesses from offering pension benefits to employees. In fact, 74% of full-time, full-year private sector workers in businesses with fewer than 25 employees did not participate in a pension plan in 2004, compared with only 31% of those employed by companies with 500 or more employees.²
- ▶ *Low-wage workers.*
Nationally, two out of three low-wage workers lack access to a retirement plan, while only one in four high-wage workers do.³

Availability of Workplace Retirement Plan for Full-Time, Full-Year Workers, by Size of Employer

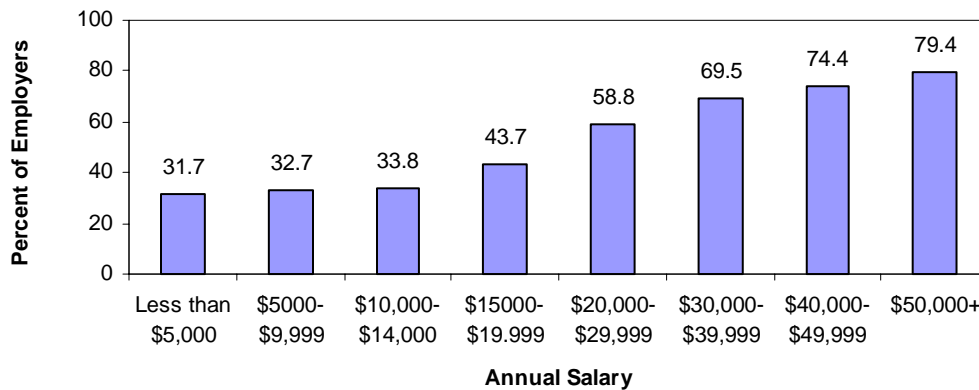


Source: Employee Benefit Research Institute Issue Brief No. 274, October 2004.

► *Part-time and temporary workers.*
Like many low-wage workers, many part-time and temporary workers are employed by companies that do not sponsor retirement plans. In fact, approximately 80% of part-time and temporary workers lack retirement coverage. Even if their company does have a retirement plan, many part-time and temporary workers may not qualify for coverage.

In addition, retirement wealth is falling. Even before the crash of the stock market in 2001, Americans in their 50s had less retirement wealth than their parents' generation. State government will face a crisis of senior poverty in coming decades unless the state takes action to promote retirement savings.◀

Availability of Workplace Retirement Plan for Full-Time, Full-Year Workers, by Income



Source: Employee Benefit Research Institute Issue Brief No. 274, October 2004.

Washington Voluntary Accounts provide a simple, easy solution to the retirement savings dilemma facing today's workers. The program offers a convenient way for individuals to save for retirement and enables small businesses to remain competitive by offering a retirement savings program for their employees.

WVAs can provide IRAs for any individual worker who chooses and 401(k)s or similar plans for companies that choose to offer that option to their employees.

There are many benefits of Washington Voluntary Accounts:

For workers:

- Portability between jobs.
- Voluntary individual payroll deductions.

- Easy way to save for retirement and build assets.
- Low fees so that assets accumulate faster.

For employers:

- Optional employer contributions.
- Low-cost way to provide retirement benefits and retain workers.
- Easy to administer.

Some common questions about WVAs

Couldn't anyone who wanted open up an IRA? Why do we need WVAs?

In theory, any worker could open an IRA, but in reality only a handful do. Barriers include the difficulty most workers face

The Solution

saving up to make lump sum payments, high costs for the small investor, and an overwhelming array of investment options. WVAs will provide payroll deductions, low fees, and a pre-screened set of investment options so that workers without sophisticated knowledge can have confidence in their selections.

How will WVAs affect the private investment industry?

By increasing the pool of investors and providing an easy way to build assets, WVAs will help the private investment industry. Over time, some people will

choose to roll over their WVAs into accounts with private firms. In addition, the state will contract with private companies to handle some aspects of WVA administration.

Are other states doing this?

As of January 2005, no state has implemented a voluntary retirement plan like WVAs, but several are considering this commonsense approach to a looming problem. Pension experts believe IRS and Labor Department rules do allow states to enact these accounts.◀

Conclusion

Washington Voluntary Accounts is molded after the successful deferred compensation retirement plan currently available to state employees. An administrative system is already in place at the Washington State Department of Retirement Systems, and

oversight is provided by the State Investment Board. This retirement savings proposal offers a convenient, simple solution that helps provide long-term financial security for Washington's retirees.◀◀◀

Notes

¹Employee Benefit Reserch Institute Issue Brief No. 274, Oct. 2004.

²U.S. Census Bureau, "People 65 Yeras and Over by Ratio of Income to Poverty and State, Three-Year Average 1999-2001," <http://www.census.gov/hhes/poverty/65+inctopov.htm>.

³Employee Benefit Reserch Institute Issue Brief No. 274, Oct. 2004.