

## Setting Up a Universal Retirement System in West Virginia

*West Virginia can help employees save for retirement – and local businesses cut red tape while improving benefits – by sponsoring a system of voluntary retirement plans.*

### The Pension Problem:

- Over 300,000 West Virginia workers, more than half (55%), are not covered by retirement plans at work.<sup>1</sup>
- The median balance in retirement accounts for families making between \$25,000 and \$50,000 who have defined contribution accounts is \$9,100 (a monthly annuity of \$58)
- The median balance in all defined contribution (DC) accounts is \$25,000 (a monthly annuity of \$128)
- The median value of defined contribution plans is \$60,000 for people aged 55-64 who have DC plans. This translates to a monthly annuity of \$385
- Social Security provides a necessary stable base of income, but workers also need pensions and savings for true security and comfort in old age.
- Administrative and cost hurdles prevent many small businesses from offering pension benefits to employees.<sup>2</sup> In fact, only 25% of private sector workers in businesses with fewer than 25 employees participated in a pension plan in 2005, compared with only 58% of those employed by companies with 1,000 or more employees.<sup>3</sup> This presents a particular problem for West Virginia workers, since 32 percent of West Virginians worked in businesses with fewer than 20 employees or were sole proprietors.<sup>4</sup>
- Nationally, two out of three low-wage workers lack access to a retirement plan, while only one in four high-wage workers do.<sup>5</sup>

### Why Don't People Save for Retirement?

1. It is something that is easy to put off, unlike paying the mortgage, car insurance, or health care.
2. When working for an employer without a retirement plan, the individual has to search out products in the financial services market. Workers often do not have the financial savvy, the confidence, and the motivation to sort through the different options, and may be frustrated by the complexity of choices and their own incomplete knowledge.
3. Most individuals do not save up the lump sums for investment, as is the common practice for IRAs. Inertia pushes the individual to the default or doing nothing.<sup>6</sup>

### Why Don't Employers Set Up Retirement Savings Plans?

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<sup>1</sup> Economic Policy Institute analysis of data from the U.S. Census Bureau, Current Population Survey, March Supplement 2005. Note: This statistic is measured as private-sector wage and salary workers age 18-64, who worked at least 20 hours per week and 26 weeks per year. There were 563,117 private wage and salary workers in WV in 2005. Of those workers, 253,403 had employer-provided pensions and 309,714 did not.

<sup>2</sup> Jack VanDerhei, "Findings from the 2003 Small Business Employer Retirement Survey," Employee Benefit Research Institute, EBRI Notes, No.9, September 2003.

<sup>3</sup> Ibid

<sup>4</sup> U.S. Census Bureau, Statistics of U.S. Businesses 2004: All Industries West Virginia, and Non-employer Statistics 2004: All Sectors West Virginia

<sup>5</sup> Employee Benefit Research Institute Issue Brief No. 274, October 2004

<sup>6</sup> For more discussion of savings behavior and incentives, see AARP Public Policy Institute, Issue Brief, "Designing 401(k) Plans that Encourage Retirement Savings: Lessons from Behavioral Finance," [http://www.aarp.org/research/financial/pensions/ib80\\_pension.html](http://www.aarp.org/research/financial/pensions/ib80_pension.html)

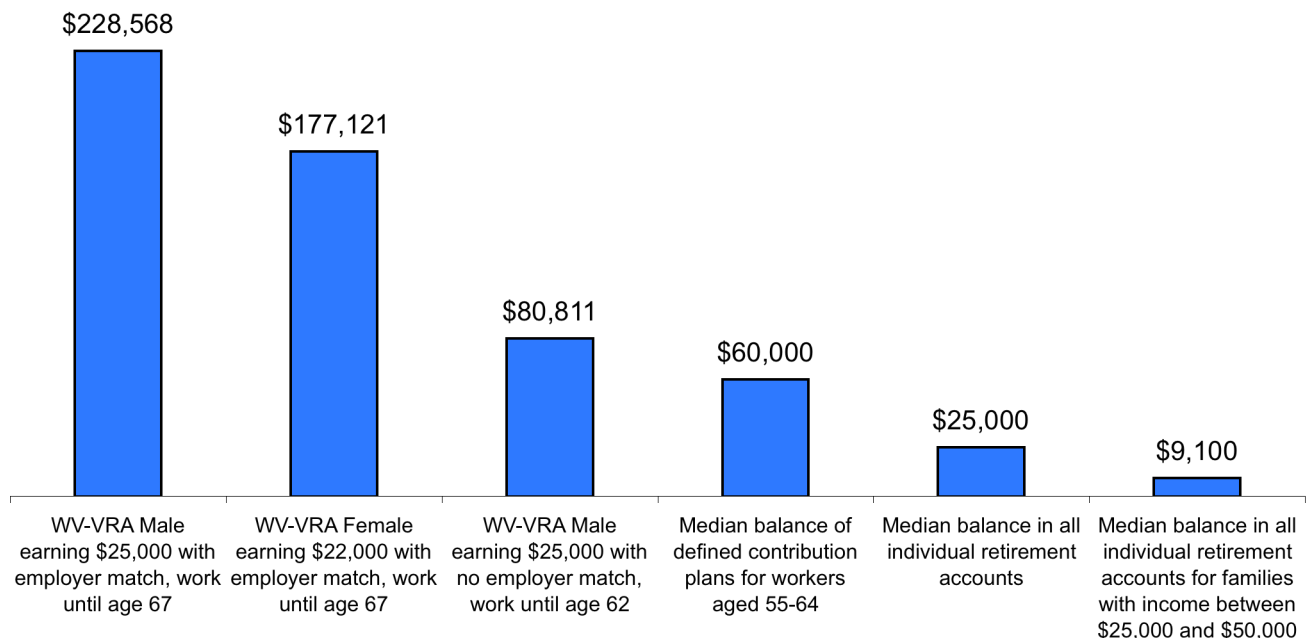
2. In order to set up a retirement savings plan, the employer has to wade through literally dozens of options, each claiming to perform better than the others. Often employers lack the time and information to sort out whose telling the truth and who isn't.
3. The employer also has to figure out how to manage and finance the set-up fees and the ongoing administrative costs.

**The Solution:** The Legislature can create system of universal voluntary retirement accounts (VRAs), utilizing the private financial services sector. Through the State Treasurer's Office, WV-VRAs will enable any private sector worker to participate in a work-based IRA and enable any business to participate in a 401(k) type deferred compensation program. This system would lower barriers to participation and overcome individual inertia. It could mirror the state's 529 program for college savings. After initial start-up cost, these accounts, like any other compensation system, would be self-supporting.

They will be completely portable from workplace to workplace, so workers never have to stop saving for retirement. They will have low administrative costs, thanks to the state's bargaining power in financial markets. They will enable all workers to save through payroll deductions, so that pre-tax wages are invested in these accounts.

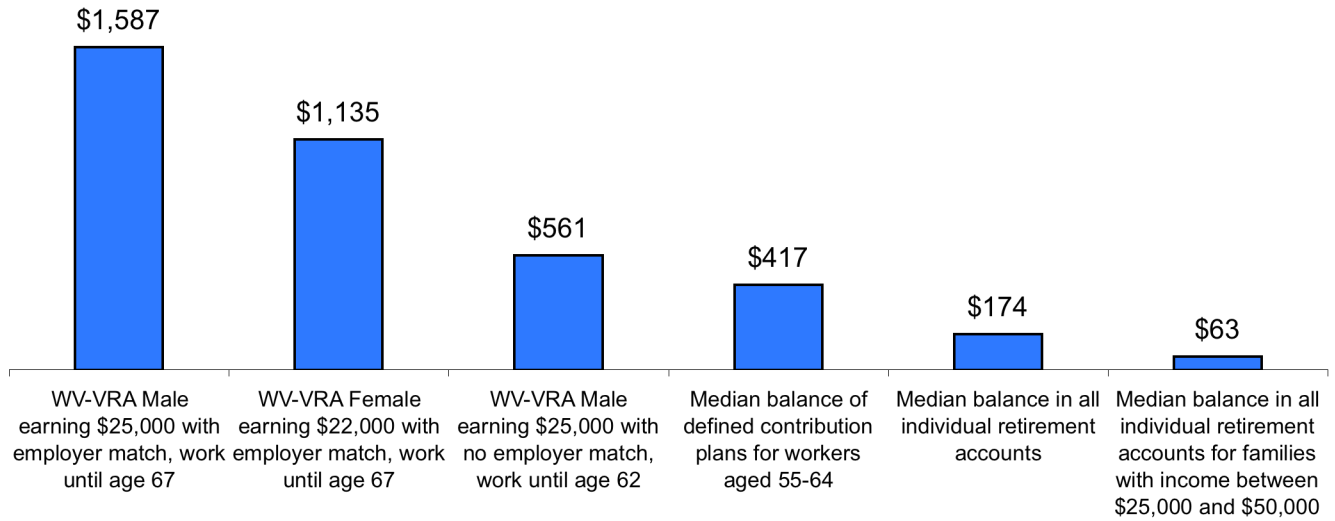
With this system in place, a low-income worker can significantly enhance retirement income. A typical twenty-five year old worker, making \$25,000 this year, putting a little less than \$15 a week into a retirement account with an employer match would have over \$200,000 saved by his retirement based on a conservative five percent interest rate. That translates to a \$1500 monthly annuity, more than doubling his Social Security check! To put this in perspective, the median value of all defined contribution accounts is only \$60,000 for people aged 55-64, which translates into a monthly annuity of \$385.<sup>7</sup>

## Savings at Retirement



<sup>7</sup> Economic Opportunity Institute analysis of Washington State Voluntary Retirement Accounts, prepared by John Burbank for WA State Legislature

# Monthly Retirement



## Features include:

- Defined contribution plan with a limited pre-selected menu of investment options
- Administration by the West Virginia Treasurer’s Office with over site by State Investment Board
- Payroll deductions and optional employer contributions
- Portability between jobs
- 2-Tier system:

