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GOLDEN DREAM ACCOUNTS:
A Proposal to Expand Worker Access to Retirement Savings Accounts in California

By Rourke O'Brien[1]

As the percentage of workers covered by traditional employer pension plans has plummeted in recent years, saving has become the only path to secure retirement income beyond social security. Although a significant proportion of employers now offer their workers a tax advantaged retirement savings product like the 401(k), tens of millions of workers nationwide simply do not have access to an employer sponsored retirement savings plan. In addition, IRAs and other retirement products offered by private financial institutions have failed to fill the gap in employer coverage, in part due to the high fees and complexity associated with these accounts. The time has come for government to play a role in expanding access to low-cost, high quality, retirement savings accounts.

Understanding the Problem

According to the most recent benefits survey conducted by Federal Bureau of Labor Statistics, just 61% of private sector workers have access to an employee sponsored retirement plan, including both defined benefit (pension) and defined contribution (401(k)) programs. With a take up rate of approximately 84%, just over half of our nation's private workforce is enrolled in an employer sponsored retirement plan. Author's estimates based on BLS figures indicate that approximately 6 million Californians, 43% of the state's workforce, do not have access to an employer sponsored plan.[2] Other estimates paint an even bleaker picture, with recent census numbers indicating more than 8 million California workers, 52% of all wage and salary earners in the state, lack access to an employer-based retirement plan.[3]

Individuals employed by businesses with less than 100 employees are significantly less likely to be covered by an employer-sponsored plan than those who work for larger corporations, with only 45% of small business employees having access compared with 78% of large business employees. Full time workers are also more likely to be covered by an employer plan, with 70% of the full time workforce having access compared with only 31% of part time workers. Not surprisingly, coverage is also correlated with wages,

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[2] "National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2007," U.S. Department of Labor, U.S. Bureau of Labor Statistics.
[3] "State by State: Workers Without Access to Employer-Sponsored Retirement Plan," Retirement Security Project.

as 76% of individuals who earn more than $15 an hour are covered, compared to 47% who make less.

According to a recent report by the General Accountability Office, not having access to an employer sponsored retirement plan has significant implications for worker savings and therefore on worker retirement security.[4] GAO simulations estimate that if current trends persist, fully 37% of the cohort of workers born in 1990 will retire with zero retirement savings. Without a pension or individual retirement savings, millions of actively employed Americans face a retirement of destitution.

While expanding access to low-cost, high quality retirement accounts will not completely solve the looming gap in retirement security, the GAO and others assert that expanding participation in these accounts is a critical first step. Additionally, the sheer number of workers who are not participating in a retirement plan, and the degree to which low-income, part time and small business employees are disproportionately excluded, motivates government action.

Since the creation of IRA accounts by Congress in 1974, the private sector has played an important role in providing workers with a tax advantaged retirement savings product outside of the employer based system. These private plans, however, are typically associated with relatively large fees—levied, in part, due to the high cost and low return to a private company for managing small balance, individual accounts. For any number of reasons, the private sector has been largely unable to innovate into this space and adequately serve the retirement savings needs of low-to-moderate income workers.

At the same time, employers, especially small business owners, have been increasingly reluctant to offer an employer-sponsored retirement plan to their employees. In making a basic cost-benefit analysis, many employers find it far too expensive and labor intensive to administer an employer sponsored 401(k).

With employers understandably hesitant to sponsor a retirement plan and the private sector unable to successfully fill the resulting gaps in coverage, an opportunity has emerged for government to play a constructive role in helping to ensure workers have access to quality retirement products.

The Proposal

The Golden Dream Accounts proposal is a California-specific model to expand access to low-cost, high quality retirement savings products. Based on a proposal developed by Dean Baker in a Century Foundation report, and informed by the work of J. Mark Iwry at the Retirement Security Project and existing state and federal efforts, the Golden Dream Accounts proposal takes advantage of California's unique tax filing and public pension management program to create a new model for expanding coverage.

[4] "Private Pensions: Low Defined Contribution Plan Savings May Pose Challenges to Retirement Security, Especially for Low-Income Workers," General Accountability Office, November 2007.

The California Dream Accounts proposal aims to provide a voluntary, portable retirement account for California private sector workers who do not have access to a work-based retirement savings plan or are not eligible to participate in an employer-sponsored retirement savings plan. The proposal calls for the state of California, either on its own or in cooperation with one or more private financial institutions, to offer some combination of:

- A low-cost Individual Retirement Account that can be opened directly by workers.
- A payroll deduction IRA, likely offered through employers, that allows employee contributions to be automatically deducted and deposited into the Golden Dream IRA
- A SIMPLE IRA, offered through employers, with similar features to the account above, but offered as a SIMPLE IRA, enabling employers to contribute directly to the account.

Enrollment in the California Dream Accounts is voluntary. In addition, since the accounts are IRAs held by the individual worker, they are completely portable, meaning individuals can move between employers without losing coverage. California Dream Accountholders are also able to roll their accounts into a private sector product at any time, if they so choose.

The state can either chose to administer the accounts and manage the investment directly through CalPERS or another state agency, or can work with financial institutions to administer the accounts and manage the investments. In both instances, Golden Dream Accounts can be offered at a lower cost than traditional private sector IRAs. By leveraging the potential of the EDD system (described below) to generate deposits and capitalizing on the state's ability to market these accounts to employers and workers who may be more comfortable with a state-administered or state approved product, it will be possible to generate the scale needed to offer a low-cost alternative to private IRAs.

Recognizing that workers save best when payments are automatically deducted from their paycheck and deposited directly into an account, a central component of the Golden Dream Accounts proposal is to use the state's payroll tax collection process to facilitate automatic deposits. Every employer in the state of California is required to periodically submit withheld payroll taxes to the state's Employment Development Department (EDD). Employers who chose to offer the California Golden Dream IRA to their employees will be able to use the same mechanism to automatically deduct employee contributions and send it to the EDD. The Employment Development Department will then transfer the deposits to CalPERS or the private financial provider managing the account.

California Dream Accounts will be financed entirely through fees collected from accountholders. While the state may need to allocate funding for start up costs, fees can be calibrated so that the general fund is repaid in full.

Assembly Bill 2940

Introduced by Democratic Assemblyman Kevin De Leon in 2008, Assembly Bill 2940 proposes to establish a version of the Golden Dream Accounts model as the California Employee Savings Program (CalESP).[5] The bill authorizes the California Public Employees Retirement System (CalPERS), to design and implement a program to provide low-cost Individual Retirement Accounts (IRAs) to eligible employees. The bill specifically authorizes CalPERS to offer any combination of a 1. Stand-alone IRA, 2. Payroll Deduction IRA, 3. SIMPLE IRA.

The bill does not prescribe how CalPERS should structure the accounts or manage the investments, but instead authorizes CalPERS to administer the program either on its own or through contractual arrangements with one or more private financial institutions. The bill does instruct CalPERS to take advantage of the existing payroll tax filing system through the Employment Development Department (EDD) to facilitate account deposits. The bill also limits eligibility to enroll in the CalESP to employees who are not eligible to participate in an employer sponsored retirement plan.

The bill further states that CalPERS is responsible for implementing the program in concert with federal law and is charged to proceed only after obtaining necessary clearance from relevant federal authorities (namely the Treasury and Internal Revenue Service). The program is not to interfere with or jeopardize CalPERS' existing responsibility to manage the retirement program for public employees.

Retirement Account Legislation in other States

Maryland—The legislature considered, and eventually rejected, Senate Bill 728 which calls for the creation of the Maryland Voluntary Employee Accounts Program. The program authorizes the Maryland Teachers and State Employees Supplemental Retirement Plans to offer voluntary 401 plans (including the 401(k)) for workers. The legislature instead called for a study of the potential costs and liabilities associated with implementing such a program.

Washington—House Bill 2044 calls for the creation of the Washington Voluntary Accounts Program to offer employees access to a low-cost retirement savings account either through the state or through employers. The State Treasurer is the custodian of the program, which can either be run by a state entity or contracted to a third party. The state is currently awaiting the findings of a study financed by the legislature on the costs and

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5 A more detailed discussion of AB 2940, including answers to commonly asked questions about the proposal, is available on our website, www.newamerica.net/. Bill text is available through the California State Assembly web portal, www.assembly.ca.gov./

legal issues associated with creating a state retirement account system for private employers and employees.
Vermont—House Bill 70 proposes to expand participation in state offered 457 and 403(b) plans to nonprofit institutions and others as designated by the state.

Michigan—Senate Bill 24 instructs the Michigan State Department of Management and Budget to offer a 401(a) retirement plan for employees of small businesses in the state.

Connecticut—Senate Bill 652 instructs the state controller to create a defined contribution retirement plan for employees of small businesses and nonprofit organizations. The Controller may contract all elements of program administration and management to a third party.

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