



# MARYLAND SMALL BUSINESS RETIREMENT SAVINGS PROGRAM

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DECEMBER 11, 2019

BOARD MEETING



# **AGENDA**

- **Approval of Minutes**
- **Chair & Executive Director Reports**
- **Proposed Maryland\$aves Program Design**
- **Finance Committee Update**
- **New Business/Public Comment**



# **MARYLAND\$AVES**

## **RECOMMENDED PROGRAM DESIGN**

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### **PROGRAM DESIGN COMMITTEE**

**SARAH MYSIEWICZ GILL, CHAIR**

**MARIANNE MATTRAN**

**JIM ROSAPEPE**

**KATHLEEN KENNEDY TOWNSEND**

**JOSH GOTBAUM, EX OFFICIO**

# PROGRAM GOALS

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- **Enable automatic savings via payroll deduction**
- **Participants can choose savings rates and investment options, but Program will provide default options if they don't.**
- **Default goal: provide cost-effective retirement security & lifetime income if possible.**
- **Put as little burden on employers as possible:**
  - **Transfer communication & legal responsibilities from employers to Maryland\$aves**
  - **Automatic connection to payroll systems**
  - **Waiver of \$300 state annual report filing fee**
- **Portable: the accounts are owned by workers and will follow them from job to job.**

## **CHOOSING HOW MUCH TO SAVE**

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- **Participants can choose how much to save from each paycheck or to opt out entirely. *IF they don't:***
  - **Initially 5% of the employee's pay will be deducted and saved in a retirement account.**
  - **Each year a saver's contribution rate will automatically be raised by 1%, up to a maximum of 10%.**
- **Employers cannot contribute to these accounts.**
- **Participants can withdraw part or all of their contributions at any time.**



## **HOW SAVINGS WILL BE INVESTED**

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- **The Program will offer multiple investment options.**
- **All options will be professionally managed by experienced private investment management firms.**
- **Accounts will be Roth IRA's (i.e., contributions are after-tax).**  
Will explore offering a traditional IRA, too.



# **INVESTMENT PRINCIPLES**

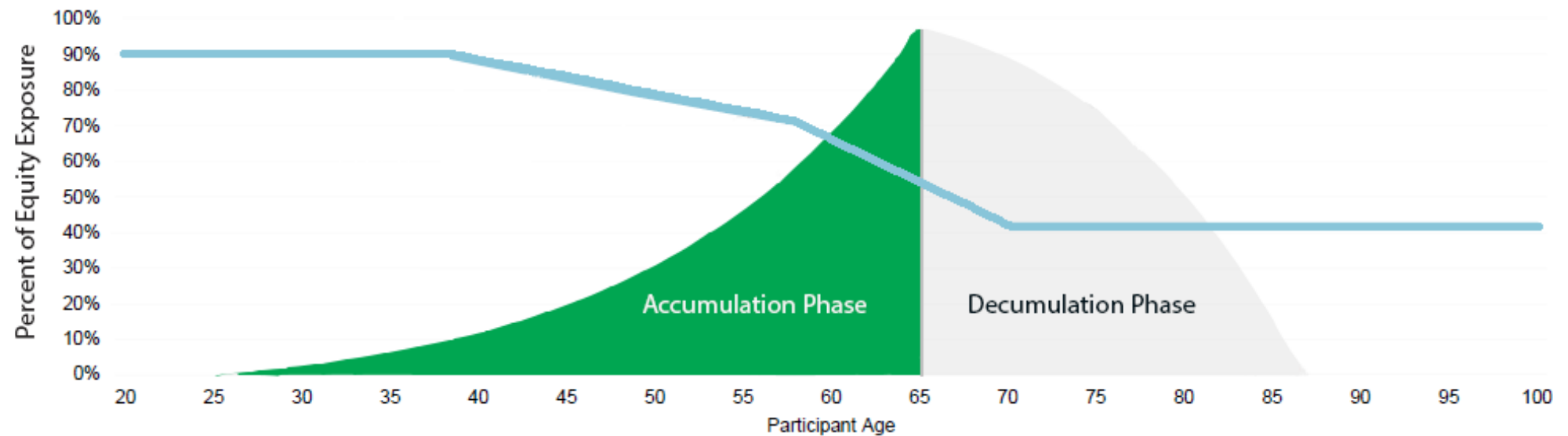
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- **Offer a default option that, as much as possible, is low cost, reliable, and prioritizes the retirement security of participants.**
- **Keep the program easy to understand and use for employees and employers.**
- **Keep the total number of investment options limited.**
- **Ensure that the program maintains the highest ethical standards.**

# DEFAULT RETIREMENT OPTION: TARGET DATE FUNDS

The default investment option will be a series of target date funds (TDFs).

## Portfolio Overview – Target Date





# **WHY TARGET DATE FUNDS AS A DEFAULT?**

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- **TDFs are the dominant investment choice in similar auto-enrolled retirement plans.**
- **They work by automatically and gradually adjusting the mix of investments based on a person's expected retirement age.**
- **Prefer a TDF that retains a substantial growth (equity) component through retirement.**
- **Although TDF approach is preferred, investment managers can propose alternatives.**

# **EMERGENCY SAVINGS ACCOUNT**

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- **Advocates believe having an emergency savings account will reduce opt outs from retirement programs.**
- **OR, CA & IL all have emergency accounts in the default. Our proposal follows Oregon & California practice.**

## **Our Proposal:**

- **First \$1,000 goes into the emergency savings account.**
- **Once \$1,000 is reached, savings go into the target date fund.**
- **Emergency account withdrawals are replenished by subsequent contributions.**
- **\$1,000 threshold based on emergency needs of low-income savers**



## **OTHER SAVINGS OPTIONS**

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**Savers who want to choose will have a range of investment options to reflect differing goals.**

- **Capital Preservation**
- **Income Funds**
- **Growth Funds**

**Providers will be asked for specific fund suggestions or alternatives.**

# WHAT HAPPENS AT RETIREMENT?

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## **Social Security Maximization (“Bridge”) Option**

- **Delaying claiming benefits from age 62 to age 70 increases monthly payments by 8% each year. Monthly benefits at 70 are 85% higher – and inflation protected for life.**
- **However, most people file at age 62 & miss out.**
- **Maryland\$aves will offer savers the chance to use their M\$aves money first, so they can delay & increase their Social Security benefit.**

## **WHAT HAPPENS AT RETIREMENT? (cont.)**

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### **Default: Monthly Payout Option**

- **The default drawdown option will be a monthly payment beginning at age 67.**
- **Monthly payment will be calculated -- but not guaranteed -- to last a saver's lifetime. (“Managed payout”)**
- **Savers will be able to change start date or withdrawals.**
- **If neither default nor SS Bridge option is selected, savers may take their money as they choose.**



## **NEXT STEPS**

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- **Staff to resume consultation with potential suppliers**
- **Formal RFP for program administrator and investment manager for board approval in January**
- **If a program design feature appears infeasible in a low-cost program, we will suggest changes in the program design.**
- **Goal is selection by mid-year and start of Program by year-end.**



# APPENDIX

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- September 9, 2019 Board Meeting Minutes**
- Budget to Actual Report**
- August, September and October Financial Statements**
- Suggested Program Design Memo**

## FY 2020 Line Item Budget vs. Actual Report - October 2019

	FY19 Budget	FY19 Expenditures	FY20 Budget	2019 July	2019 August	2019 September	2019 October	YTD Expenditures	YTD Balance	YTD % of Budget
<b>Program Development</b>										
Program Consultant	50,000		75,000					-	75,000	0%
Program Marketing	177,000	12,536	220,000	9,824	6,153	50	3,709	19,735	200,265	9%
Program Administrator/Recordkeeper	100,000		50,000					-	50,000	0%
<b>Total Program Development</b>	<b>327,000</b>	<b>12,536</b>	<b>345,000</b>	<b>9,824</b>	<b>6,153</b>	<b>50</b>	<b>3,709</b>	<b>19,735</b>	<b>325,265</b>	<b>6%</b>
<b>Travel/Expense Reimbursement</b>			<b>9,000</b>	<b>564</b>	<b>1,111</b>	<b>1,025</b>	<b>1,466</b>	<b>4,166</b>	<b>4,834</b>	<b>46%</b>
<b>Personnel</b>										
Wages	280,988	231,812	310,000	25,833	25,833	25,833	25,833	103,333	206,667	33%
Benefits (38%)	109,500	59,000	63,800	5,093	5,093	5,093	11,294	26,572	37,228	42%
Performance Comp Adjustments			75,000				6,996	6,996	68,004	9%
<b>Total Personnel</b>	<b>390,488</b>	<b>290,812</b>	<b>448,800</b>	<b>30,926</b>	<b>30,926</b>	<b>30,926</b>	<b>44,123</b>	<b>136,901</b>	<b>311,899</b>	<b>31%</b>
<b>Rent Executive Plaza</b>	<b>21,250</b>	<b>13,169</b>	<b>13,356</b>	<b>1,009</b>	<b>1,123</b>	<b>1,224</b>	<b>1,123</b>	<b>4,479</b>	<b>8,877</b>	<b>34%</b>
<b>Office Supplies/Equipment</b>	<b>15,636</b>	<b>9,371</b>	<b>6,000</b>	<b>307</b>	<b>1,221</b>	<b>574</b>	<b>280</b>	<b>2,381</b>	<b>3,619</b>	<b>40%</b>
<b>Professional Services</b>										
Legal	40,000	44,840	50,000	759	477	9,825	2,912	13,973	36,027	28%
Accounting	50,000	6,643	7,500	250	260	240	275	1,025	6,475	14%
Payroll Processing			1,200	102	77	77	102	356	844	30%
Audit	30,000	6,000	13,000		6,000			6,000	7,000	46%
Tech Support	6,700	2,732	3,000	250	250	1,644	250	2,394	606	80%
Internet/Phone	3,600	3,401	3,000	413	216	198	198	1,024	1,976	34%
D&O Insurance	20,000	20,116	20,000					-	20,000	0%
Office Insurance	2,000	1,166	1,300	1,100				1,100	200	85%
<b>Total Professional Services</b>	<b>152,300</b>	<b>84,898</b>	<b>99,000</b>	<b>2,874</b>	<b>7,280</b>	<b>11,983</b>	<b>3,736</b>	<b>25,873</b>	<b>73,127</b>	<b>26%</b>
Interest Expense		9								
Depreciation		1,546								
<b>Totals</b>	<b>906,674</b>	<b>412,341</b>	<b>921,156</b>	<b>45,504</b>	<b>47,813</b>	<b>45,782</b>	<b>54,437</b>	<b>193,535</b>	<b>727,621</b>	<b>21%</b>





## Maryland\$aves Recommended Program Design

The Program Design Committee met throughout 2019 considering the automatic IRA programs of other states, plans offered by private employers, and new offerings from the financial services industry. The Committee also reviewed studies of the financial needs of the people Maryland\$aves will serve. The proposal described below is intended to serve Marylanders who do not currently have access to a workplace retirement program while minimizing the burden on their employers. Key Committee decision points have been bolded for convenience.

Once approved, the proposal moves to the full board for consideration before being incorporated into the request for proposal (RFP). Note that providers will be requested to breakdown program features by cost. In some cases, providers will be allowed to suggest other approaches in addition to what is outlined below, particularly with regard to investment options.

### Program Goals

- Maryland\$aves will enable automatic payroll retirement savings for workers whose employers do not provide a retirement plan.
- Maryland\$aves will provide savers with the ability to choose their savings rate and a choice of professionally managed investment options. However, if employees don't want to undertake the effort involved in making these choices, the Program will provide a default savings rate and investment option.
- The default savings option should, to the extent feasible given currently available retirement offerings, provide adequate retirement security in a cost-effective manner, including lifetime income if feasible.
- Maryland\$aves will develop a program that puts as little burden on employers as possible, through a combination of:
  - Transfer of communications & legal responsibilities from employers to Maryland\$aves
  - Automatic connection to payroll systems
  - Waiver of \$300 State Annual Report filing fee
- Portable: Since the plan savings are held in an IRA, the accounts are owned by the individual workers and they don't lose them when they move from employer to employer.

## **Choosing How Much to Save**

- A person enrolled in Maryland\$aves will be able to choose how much to save from each paycheck or to opt out entirely. However, no person will be permitted to contribute more than the US Internal Revenue Code limits.
- Initially 5% of the employee's pay will be deducted and saved in a retirement account, unless the saver directs otherwise.
- Each year a saver's contribution rate will automatically be raised by 1%, up to a maximum of 10%, unless the saver directs otherwise.
- Under present law, employers cannot contribute to these accounts.
- Savers will be able to withdraw part or all of their contributions at any time, before or after retirement. Contributions can be withdrawn without IRS penalties as these accounts are post-tax. However, earnings on those contributions would be subject to income tax and a penalty if withdrawn before age 59½ or within 5 years of establishing the account. Early withdrawal from an IRA prior to age 59½ is subject to being included in gross income plus a 10 percent additional tax penalty.

## **How Savings will be Invested**

- As required by Maryland\$aves legislation, the Program will offer multiple investment options.
- All options will be professionally managed by experienced private investment management firms.
- Program accounts will be Roth IRA's (i.e., contributions will be after-tax and withdrawals of contributions not taxable). However, the Program will explore the costs and benefits of also offering a traditional IRA via the RFP.

## **Investment Principles**

As it began its work, the Committee established the principles we believe the Board should follow:

- Offer a default option that, as much as possible, is low cost, reliable, and prioritizes the retirement security of participants.
- Keep the program easy to understand and use for employees and employers.
- Keep the total number of investment options limited.
- Ensure that the Program maintains the highest ethical standards.

## **Default Retirement Savings Option**

The default investment option will be a series of target date funds (TDFs), for those who do not elect another option.

TDFs are by far the dominant investment choice in auto-enrolled retirement plans. They work by automatically and gradually adjusting the mix of investments based on a person's expected retirement age. Under the TDF approach, savers will initially be invested largely in securities whose primary purpose is growth (e.g., stock or other equity interests) but which correspondingly have greater volatility. As the person gets older and nears retirement age, the asset mix is shifted gradually to include greater portions of assets that can be relied upon for income and have less volatile value (e.g., bonds and other fixed income investments). The Committee believes that, even through retirement, a TDF that retains a substantial growth (equity) component should be used, since participants are living longer in retirement and will need their assets to continue to grow.

Although the proportions are changed over time TDFs generally include a range of asset classes including US and non-US equities, US and non-US fixed income securities, inflation protection securities and cash.

Maryland\$aves will solicit proposals from a range of money managers. Although some form of the TDF approach is preferred, the RFP will allow investment managers to propose alternatives.

### **Emergency Savings Account**

One feature that every state thus far has included in its default is a separate emergency savings account, so that people will not raid their retirement account in the event of an emergency, e.g., medical expenses, car repairs.

It might seem paradoxical to allow pre-retirement withdrawals from a program whose goal is retirement security. However, advocates think having the emergency savings account will give some savers the comfort they need to avoid withdrawing from the program entirely.

Under the default, the first \$1,000 of payroll deduction direct deposits for each participant would go into the emergency savings account. Once this limit is reached, subsequent deposits will go into the default target date fund. If withdrawals are taken from the emergency savings account, then subsequent payroll contributions will go to replenish the emergency account. The choice of the \$1,000 threshold was made based on research showing that lower income savers tend to spend around that amount on emergency outlays.

### **Other Savings Options**

For savers who are more interested in how their contributions are being invested, the Program plans to offer other investment options. The RFP for Investment Managers will request alternative investment options in Capital Preservation, Income Funds and Growth Funds, as was suggested per the Maryland\$aves investment consultant. Note that providers will be allowed to suggest alternatives in this area under the RFP.

## **What Happens at Retirement?**

### **Social Security Maximization (Bridge) Option**

Before reaching the age of 62, each saver will be offered the opportunity to maximize their Social Security benefit by choosing to draw down their Maryland\$aves account first, so they can delay applying for Social Security.

People who delay claiming Social Security from age 62 to age 70 increase their guaranteed, inflation-protected monthly payment by about 8% per year. A person who delays claiming until age 70 has 85% higher inflation adjusted payments for life. However, most people apply for social security at the earliest possible age, 62, and thereby miss the chance for a much larger payment later. Under this option, Maryland\$aves would explain the benefit of later application and enable them to defer their application by giving them reliable (but not guaranteed) monthly income in the meantime. (N.B.: Maryland\$aves would explain the benefits and offer the accelerated drawdown option, but would not be involved in a savers actual decision about applying to Social Security.)

Although this approach could improve the retirement security of many, the Committee believes it should not now be a default for several reasons. First, it involves an affirmative action that must be made by the saver alone. Studies have found that, at the time of the Social Security claiming decision, people are much more willing to consider options and solicit outside advice. In addition, taking this option would mean that an individual draws down their Maryland\$aves account more quickly. For these reasons, the Program would approach individuals and ask that they make an affirmative choice to accelerate the drawdown of their Maryland\$aves account.

### **Default: Monthly Income Payment**

For those who do not choose the Social Security maximization option or some other payout, the default drawdown option will be a managed payout: upon reaching Social Security normal retirement age (67 for most people), savers begin receiving monthly payments in an amount calculated, but not guaranteed, to last their lifetime. Under this proposal, payments would be made directly by the program administrator from a saver's retirement account. Maryland\$aves will, however, consider the alternative of using existing managed payout investment funds via the RFP.

## **Next Steps**

Discussion of the Maryland\$aves program design is the primary agenda item for the full board meeting December 11. Once a program design has been approved by the Board, Maryland\$aves staff will resume discussions with potential program administrators and investment managers. Staff expects to develop and circulate a formal RFP in January.

If, during the solicitation process, the Committee concludes that a program design feature is infeasible in a low-cost program, the Committee will return to the Board with suggestions to modify the program design.

Respectfully submitted,

*Program Design Committee*

Sarah Mysiewicz Gill, Chair

Marianne Mattran

Jim Rosapepe

Kathleen Kennedy Townsend

Josh Gotbaum, ex officio