Presentation to the Board of New Mexico Work and $ave

Study A and B

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Study A: Payroll Deduction IRA

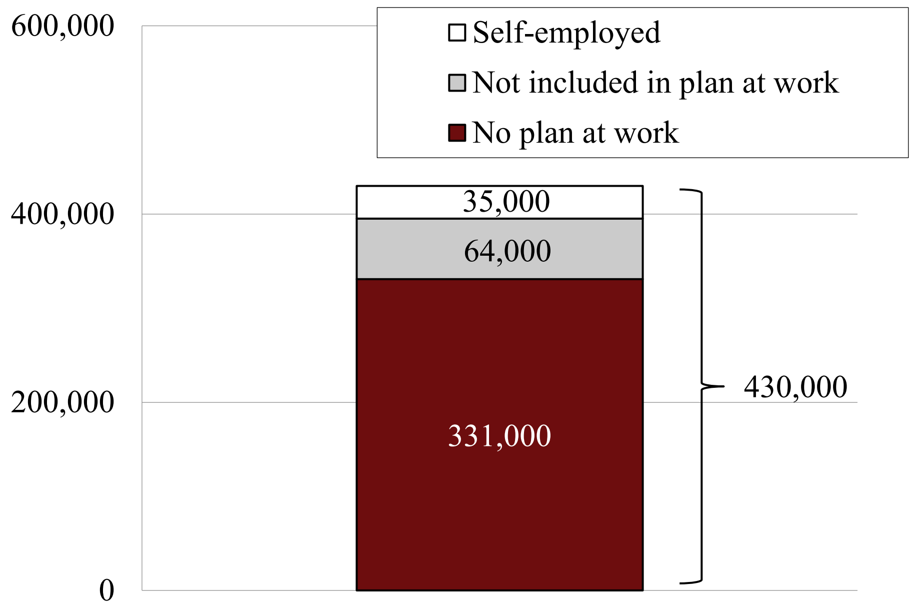
Overview

- Expanding workplace retirement can bridge the gap between Social Security and needs.

- For any payroll-deduction IRA program to be successful:
  a) Employees must participate and save enough to accumulate meaningful balances;
  b) The program must be self-sustaining for the state and profitable for a program administrator within a reasonable period.

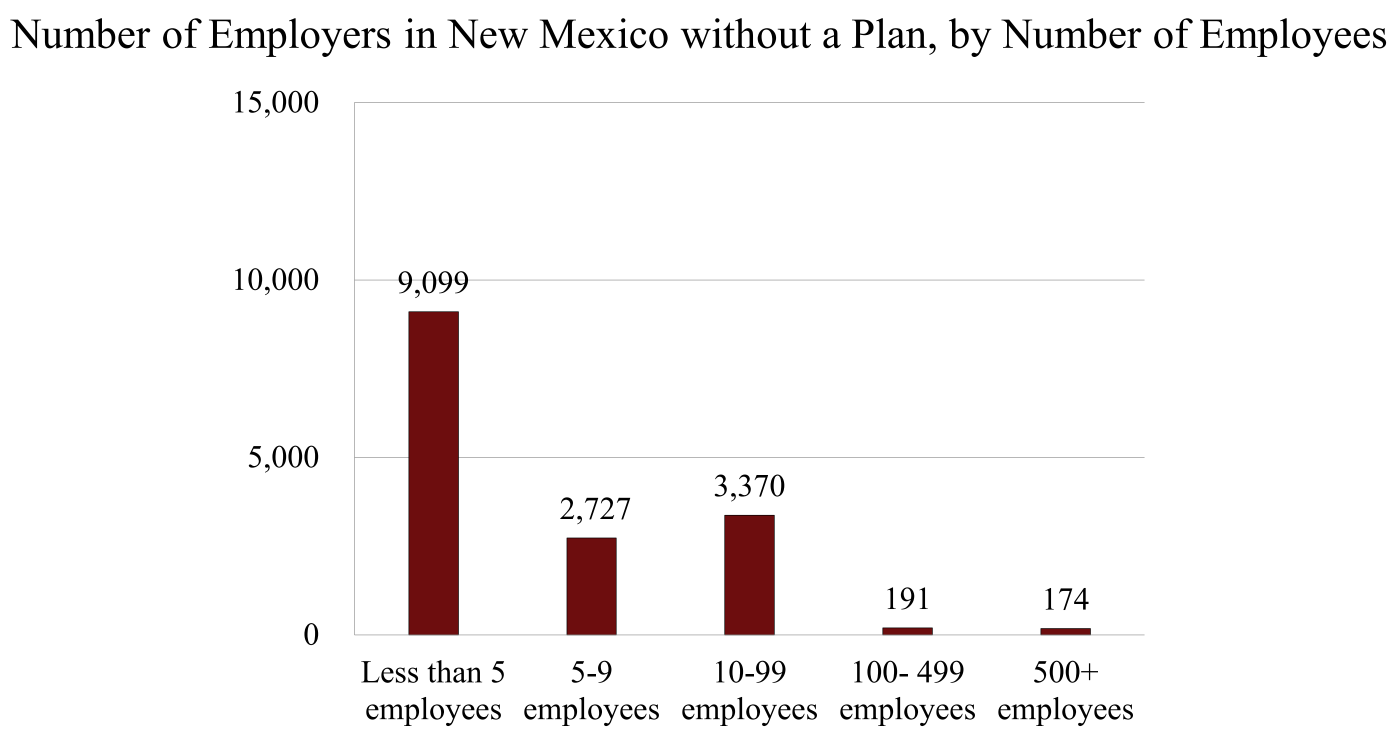
New Mexico's IRA Program could help up to 430,000 workers save for retirement.

Number of Private Sector Workers in NM Without Coverage, 2020



Note: The self-employed include incorporated self-employed.
Sources: Authors' calculations from the U.S. Census Bureau's *Business Dynamics Statistics* (2016); *Current Employment Statistics* (2021); and the *Current Population Survey* (2021).

Employer participation is essential for the success of New Mexico's IRA program.



Sources: CRR calculations from the U.S. Census Bureau's *Statistics of U.S. Businesses* (2018); and the *National Compensation Survey* (2021).

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What level of employer participation should New Mexico expect for a voluntary scheme?

- SEP/SIMPLE: 2.7 percent of households
- MA Core: 3.5 percent of eligible employees
- WA State Marketplace: less than 1 percent.

The CRR analysis relies on three main metrics of financial performance.

1. Years to Positive Cash-flow: When does the program cover the ongoing costs of the State and a private sector administrator?

2. Years to Net Positive: When can the program repay start-up costs (both from fixed start-up costs and operating costs) for both the State and the administrator?

3. Largest Cumulative Costs: How large are the start-up costs and the initial operating costs for the State and the administrator?

This financial model is tailored for NM.

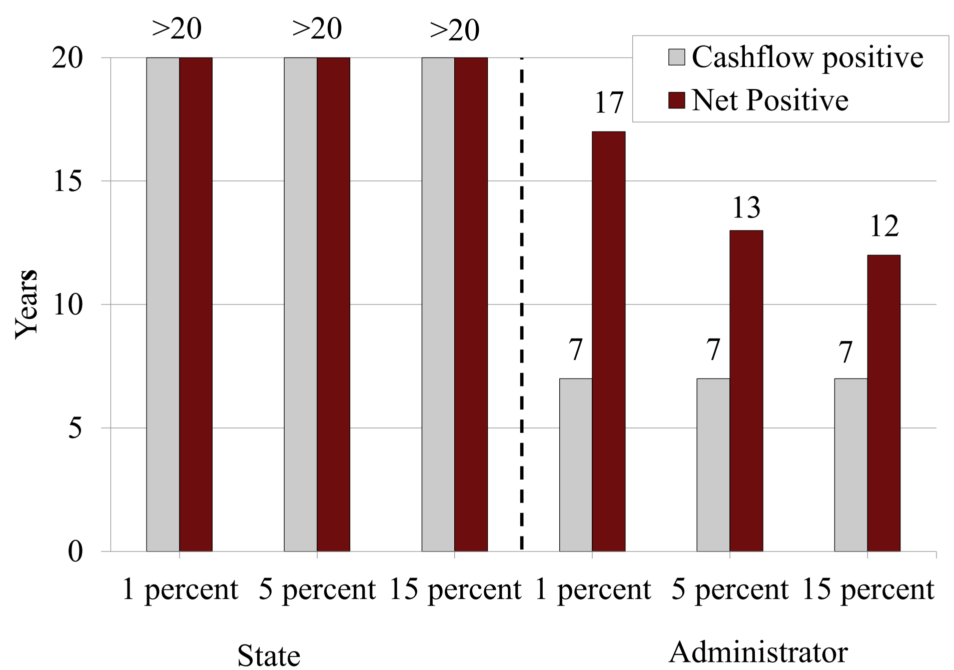
- The model reflects the number of uncovered workers in NM.
- The model uses NM workers' annual incomes, which determine how much they contribute, and ultimately how much revenue the program generates.
- The model also reflects unique aspects of NM's program – namely voluntary employer and employee participation.
- We are cognizant of the goal that the program be self-financing within five years of full implementation.

Model Assumptions

Parameter	Baseline voluntary participation	Employer requirement with auto enrollment
Employer participation	1%	50%
Default employee contribution rate	5% fixed	5% fixed
Fees	95 bps	95 bps
Revenue division (Invest/State/Admin)	10/15/75%	10/15/75%
Administrator start-up costs	$750k, $150 per emp	$750k, $150 per emp
Administrator per-account costs	$20	$20
Start-up costs for State	$1 million	$800k
Ongoing costs	$1 million/year	$600k/year

A higher participation rate is crucial for the financial feasibility of the program.

Years until Cashflow positive and Net Positive to State and Administrator, by Employer Participation Rate



Source: CRR projections.

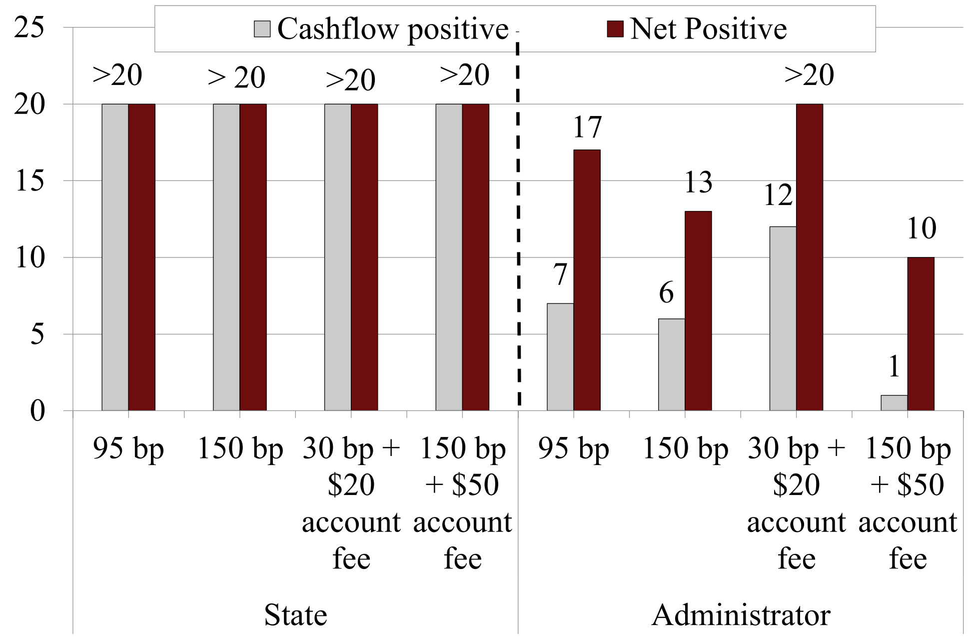
Outside of an employer requirement and auto-enrollment, few options would raise employee participation.

- Programs without an employer requirement, like myRAs, marketplaces and MEPs, have experienced very low take-up.

- Some are optimistic about PEPs. But, so far only 50 entities have filed to form a PEP, and the CBO estimates that this will have very little impact on participation.

Higher fees improves cashflow and reduces administrator timeline for profit, but not state.

Years until Cashflow Positive and Net Positive to State and Administrator, by Fees Structure



Source: CRR projections.

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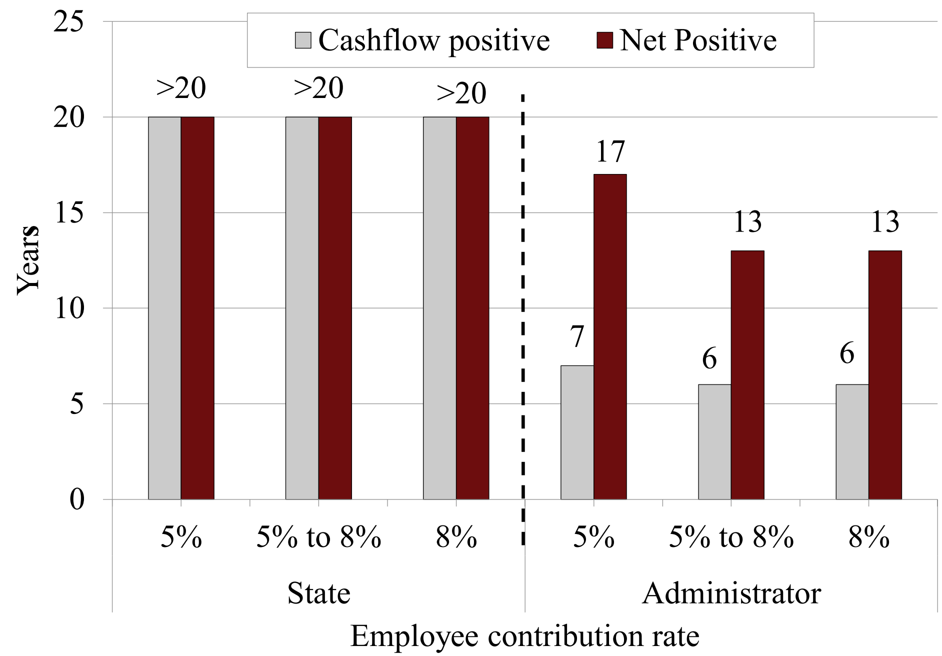
Higher default contributions can also improve timeline for profit, but still long.

Years until Cashflow Positive and Net Positive to State and Administrator, by Employee Contribution Rate



Source: CRR projections.

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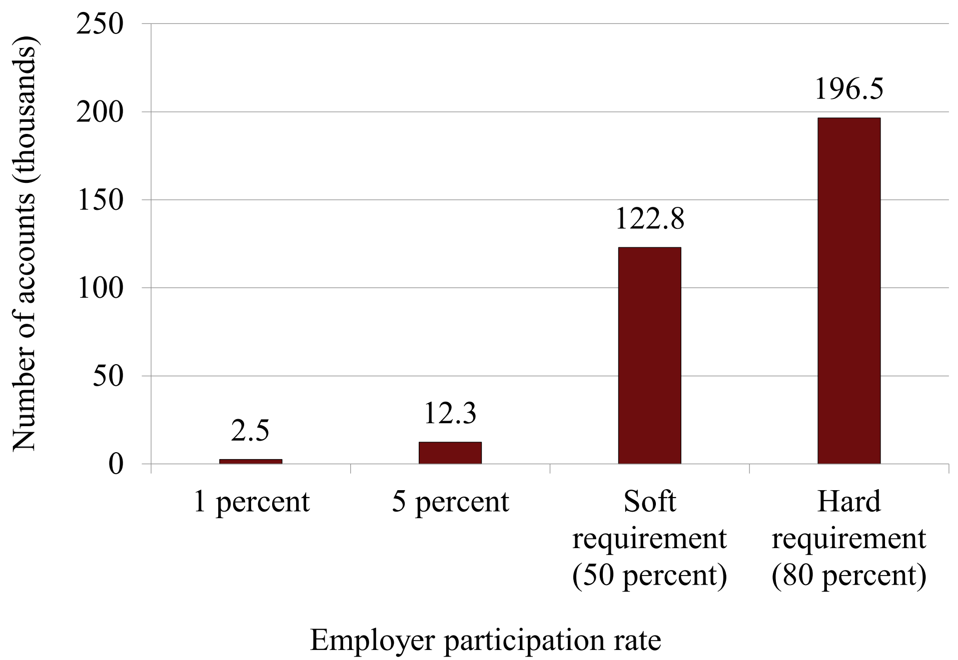
An employer requirement is crucial for both employee participation…

Number of Employees Participating by Year 10 of Program, by Employer Participation Rate



Source: CRR projections.

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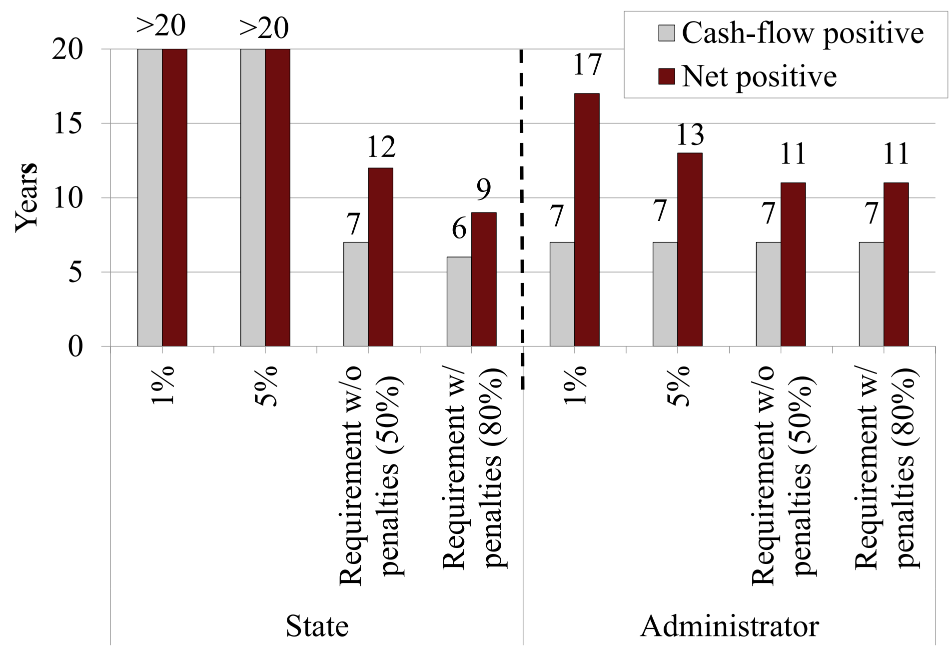
…and program finances.

Years until Cashflow positive and Net Positive to State and Administrator, by Employer Participation Rate



Source: CRR projections.

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Partnering with another state could reduce costs and financial risks of the program.

Baseline Inputs for New Mexico & Colorado IRA Program Partnership, by Degree of Customization

Parameter	Stand-alone program w/ employer requirement	Partnership w/ extensive customization	Fully integrated partnership
States start-up costs	$800k	$700k per state ($1.4m total)	$900k for both states
State ongoing costs	$600k	$500k/year per state ($1m total)	$750k/year for both states
Administrator start-up costs	$750k, $150 per emp	$750k, $150 per emp	$500k, $100 per emp
Administrator per-account costs	$20	$10	$10

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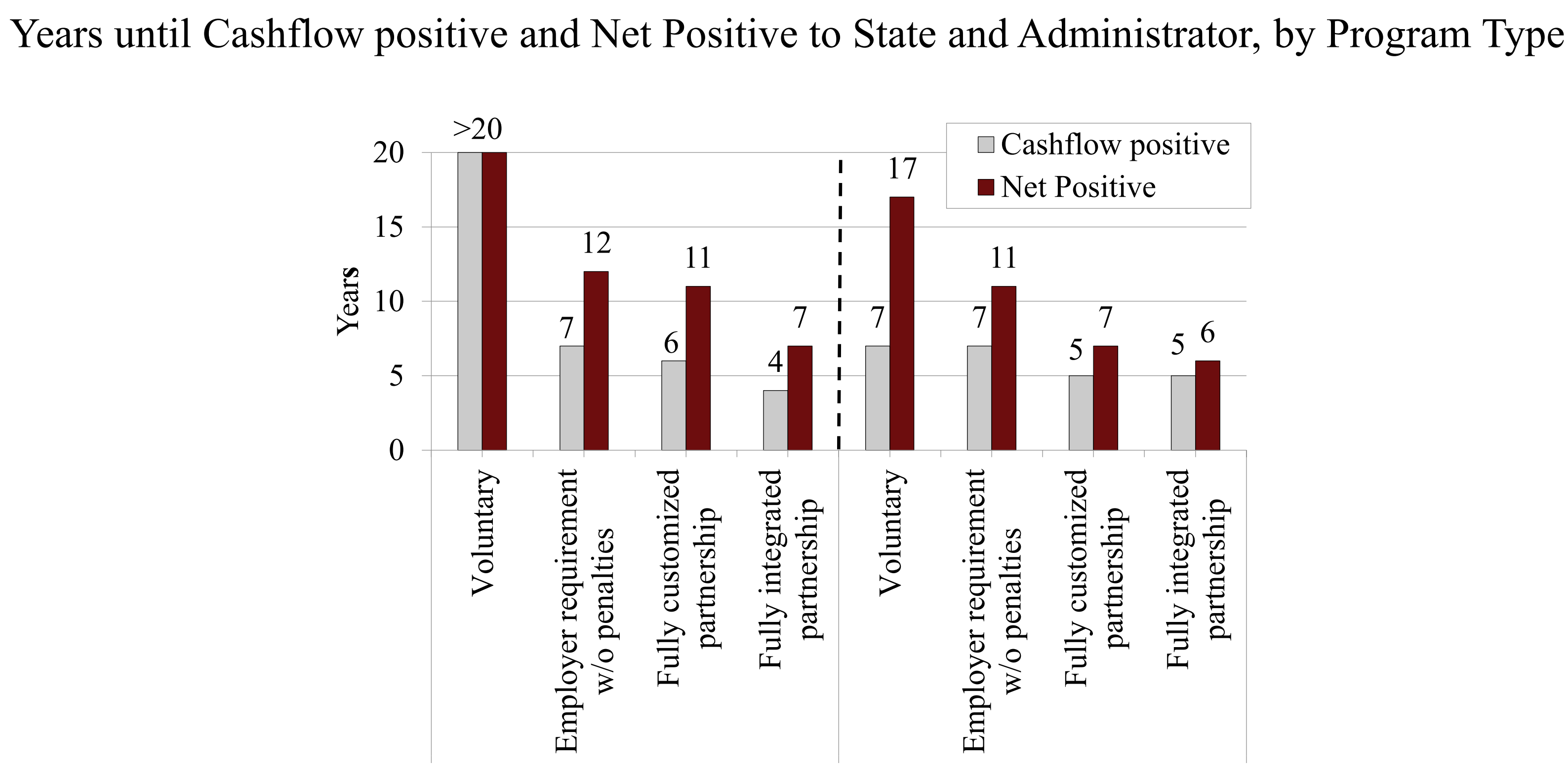
The extent of the benefits from partnering depends on the level of state-specific customization.



Source: CRR projections.

Study B: Marketplace

The success of a New Mexico retirement marketplace hinges on employer participation.

Unfortunately, case studies of four voluntary retirement programs suggest that few employers are likely to participate:

1. Federal programs for small employers (e.g., SIMPLE);

2. U.S. Treasury's My Retirement Account (MyRA);

3. Washington State's Retirement Marketplace; and

4. Massachusetts' Connecting Organizations to Retirement (CORE) plan.

Federal policymakers tried to solve the coverage problem by introducing programs like the SARSEP, SIMPLE, and MEP.

- All three initiatives have focused on minimizing costs and administrative burden.

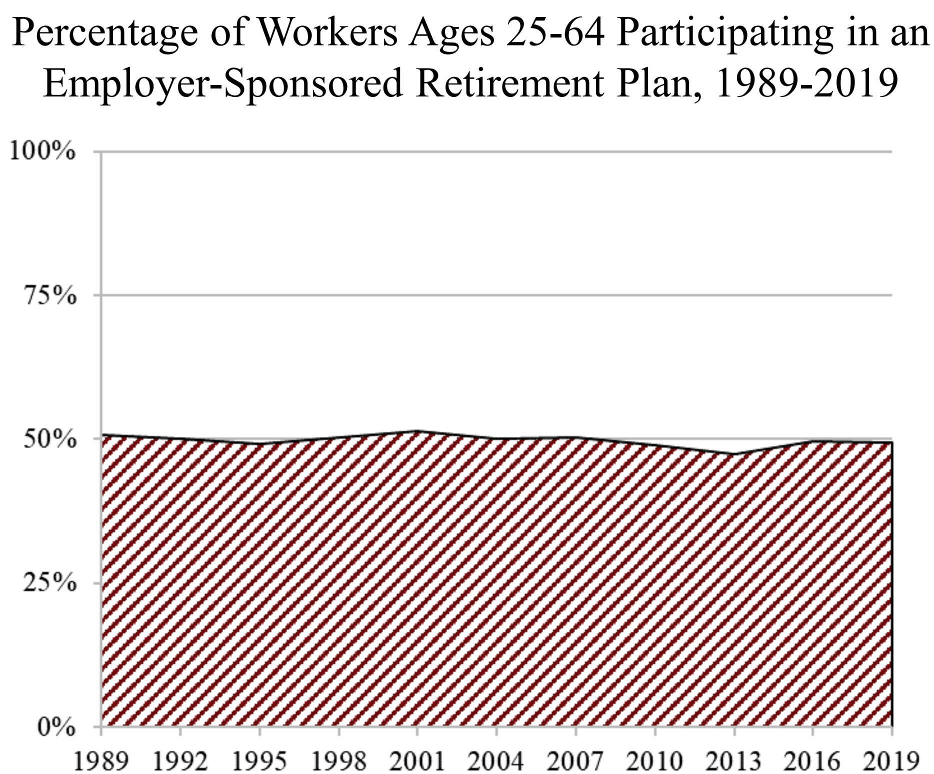
- However, the trend data on coverage indicate that these programs did not lead to a major expansion of coverage.

- Too early to tell with PEPs but early indicators show increases in coverage may be small.

A second piece of evidence comes from the U.S. Treasury's MyRA.

- MyRAs were Roth-IRAs introduced in 2015 for any employee without a retirement plan at their current employer.
- Employers' only tasks were to decide whether to offer the account and to set up payroll deduction.
- By 2018, only about 30,000 accounts were registered, and MyRAs were discontinued.

These federal initiatives have done little to improve the coverage gap.



Source: U.S. Federal Reserve Board of Governors. *Survey of Consumer Finance,* 1989-2019.

Experience in Washington State also suggests a low level of employer participation.

- WA launched a retirement marketplace in 2018 to help employers with fewer than 100 employees find a high quality retirement plan with reasonable fees.

- Based on their December 2020 report, 16 employers have signed up enrolling 96 employees.

- At this time, the marketplace has only three providers – Aspire, Finhabits, and Saturna – currently offer plans.

A final example of the limited success of voluntary initiatives comes from the MA CORE program.

- CORE is a state-run multiple employer 401(k) plan designed for non-profits with 20 or fewer employees.

- The notion is that the state takes on a number of administrative tasks to reduce the cost of the program to employers.

- As of June, 2021 after two years of operation, 110 employers and 750 employees are in the program, representing 3.5 percent of eligible employers and 2.7 percent of eligible employees.

The low take-up of voluntary programs is not surprising since it does not address main employer concerns.

- Large portion of workers are seasonal, part-time or have high turnover
- Employees prefer higher wages
- Uncertain profitability

A marketplace also do not address these concerns and would be more of the same.

Administrators may also be reluctant to join a marketplace.

- Many providers are opposed to fee caps.
- Large providers who offer low fee options may have no incentive to join since they already own a large share of the market.

Certain designs could improve marketplace, but lag behind an employer requirement.

- Retirement plans need to be “sold” to employers, so increases in marketing budgets are required to gain meaningful signups.
- A marketplace in conjunction with a mandatory Auto-IRA could incentivize administrators to cross-sell their 401(k), but this could also increase the payback timeline for Auto-IRA.
- Local smaller plan administrator who specializes in providing plans to small employers may be more willing to engage.

Establishing a marketplace can be costly with limited success.

Total Projected Startup Costs for New Mexico Work and $ave IRA Program and Marketplace

	IRA program	Marketplace
Marketing/outreach	$174,750	$174,750
Program consultant	165,000	60,000
ERISA attorney	38,000	2,000
Web developer/operator	12,000	113,000
Investment consultant	120,000	17,500
Other/ contracts	11,250	11,250
Salaries	279,560	279,560
Total	$800,560	$658,060

Conclusion.

- Success of an IRA program can be measured by: 1) level of participation; and 2) financial feasibility.
- A voluntary program would neither increase participation or be financially feasible.
- An employer requirement could meet both goals and partnering with another state could reduce revenue risks.
- Similarly, a marketplace is also unlikely to increase coverage because it does not address the reasons for employer hesitancy.