CENTER *for* RETIREMENT RESEARCH *at* BOSTON COLLEGE

New Mexico Work and $ave

Study A: Payroll Deduction IRA

December 15, 2021

Final Report

Executive Summary

Today, roughly one-third of U.S. households arrive at retirement completely reliant on Social Security. The reason is simple: at any given time, about half of private sector workers do not have access to an employer-sponsored retirement plan; and very few workers save for retirement outside of employer-sponsored plans.[1]

In New Mexico, which has a higher share of uncovered workers than the national average, about 430,000 private sector workers do not have a retirement plan through work. Of those, 331,000 workers are with an employer that does not offer a plan. Given this large coverage gap, a state initiative to boost retirement saving offers an opportunity to improve retirement security for many workers, while requiring little from participating employers. The New Mexico Work and $ave IRA Program, however, is unique from other state programs due to its voluntary nature. To date, all other states implementing IRA programs have an employer mandate coupled with automatic enrollment to ensure adequate employer participation. Therefore, the key question is whether New Mexico's payroll deduction IRA program can succeed without a mandate.

The success of any state initiative to expand access to retirement saving through the workplace can be measured along two dimensions. The first is the extent to which employers and employees participate and employees accumulate meaningful account balances. The second is the extent to which the program provides enough revenue to attract a private sector administrator.

On the employer and employee side, experience with voluntary programs to date suggests that only about 1 percent of eligible employers will participate in the New Mexico Work and $ave IRA Program. And data from Oregon indicate that about 50-60 percent of workers whose employer signs them up will participate in the program.[2] These statistics imply that only a tiny fraction of New Mexico's uncovered workers would benefit from a voluntary payroll deduction IRA and a voluntary marketplace.[3] Models from other states that use

[1] Although IRAs are available to employees without workplace retirement plan, few workers use these vehicles to actively save. Instead, IRAs tend to be the eventual landing spot for money saved through employer-sponsored 401(k)s. See Munnell and Chen (2017).
[2] Oregon Retirement Savings Board (2021).
[3] As currently designed, the program is projected to reach only about 2,460 employees by year ten of implementation. This is based on our projection of the share of the state's population that is uncovered, the population growth rate (0.5%), the percentage of employers we think will participate in a voluntary program without

employer mandates coupled with auto-enrollment of workers have shown much more promising results.

On the financial side, under the current design the New Mexico Work and $ave IRA Program is not predicted to become cost neutral to the State or profitable to an administrator within a reasonable timeframe.[4] In fact, state costs are projected to exceed revenues for two decades.

The State has one primary lever in its control that can dramatically improve the financial feasibility and employee reach of the program: the introduction of an employer mandate and the inclusion of automatic enrollment for workers with robust default contribution rates. However, even with a mandate, New Mexico's labor force may still be too small for the administrator to recoup its startup costs within a feasible timeframe. One additional option that could improve program finances – by reducing costs and shortening the period to reach profitability for the program administrator through economies of scale – is by partnering with another state initiative, such as Colorado, which is introducing its own auto-IRA program. In addition, a partnership would give New Mexico and Colorado more leverage in negotiating fees on assets, improving asset accumulations for New Mexico's workers.

auto-enrollment (1 percent), the opt-out rate (43 percent), and accounting for the share of movers and employees that go inactive

[4] New Mexico's legislature requires the IRA program be self-financing within five years after the program is fully implemented.

An Assessment of the New Mexico Work and $ave IRA Program

The success of any payroll deduction or auto-IRA program can be measured along two dimensions. The first is the extent to which employers and employees participate and employees accumulate meaningful balances in their accounts. The second is the extent to which the program provides enough revenue to attract a private sector administrator and to reimburse the state for start-up costs. The following discussion examines each of these challenges in detail.

I. Participation of Employers and Employees

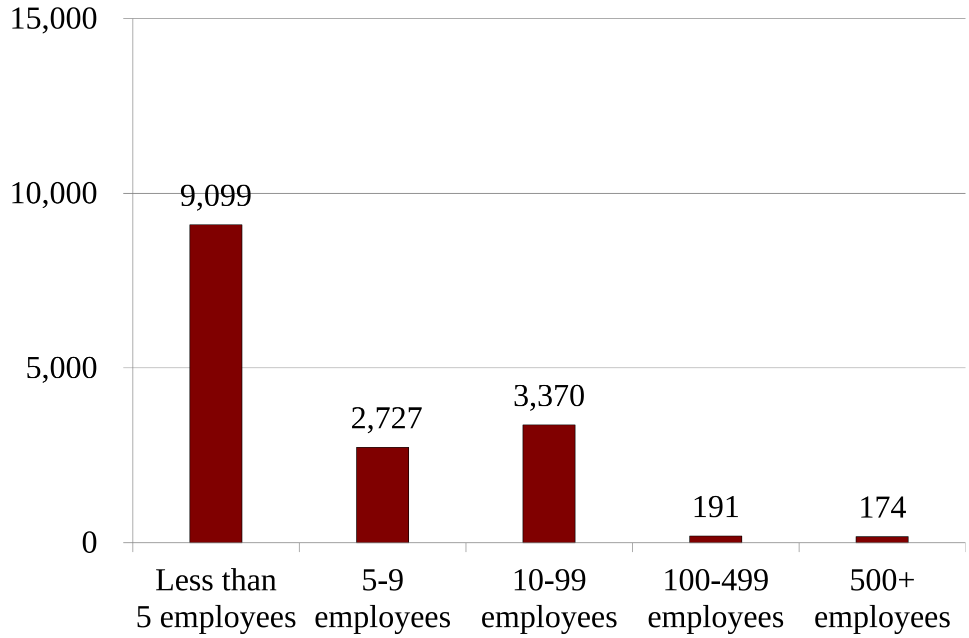
For employees to accrue meaningful account balances, employers must decide to participate. And in New Mexico, employers must also decide whether they want to auto-enroll their employees, or instead let them decide to join on their own. If employers do participate in the program, employees must decide to join the program, or if auto-enrolled, whether to opt out. This section of the report first walks through the factors that influence employer participation, and then addresses the employee side.

Employer Participation

Employer participation is essential to both the financial feasibility and employee coverage of New Mexico's IRA Program. To gauge the number of employers without a retirement plan that would be the target of the New Mexico initiative, the Center for Retirement Research (CRR) obtained data on the number of employers by firm size from the U.S. Census Bureau's *Statistics of U.S. Businesses* (SUSB) and used the *National Compensation Survey* (NCS) to determine how likely the employer was to offer a retirement plan, by firm size.[5] These data suggest that over 15,000 employers, mostly very small firms, could participate in the IRA Program (see Figure 1).

[5] The Center collaborated with the University of New Mexico's Bureau of Business and Economic Research to gather the data inputs required for our estimates and modelling.

Figure 1. *Number of Employers in New Mexico without a Retirement Savings Plan, by Number of Employees*



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

Without a mandate, all the evidence indicates that few employers are likely to participate. While employers without a retirement plan broadly express support for encouraging employee saving for retirement, in practice such support has not translated into action, particularly among small employers where the lack of coverage is concentrated. Nationwide, the percentage of employers offering a retirement plan has not budged over the past 40 years, and experts believe that extensive advertising would be needed for even 5 percent of employers to participate.[6] To ensure adequate employer participation, all other states have included statutory mandates that employers without a plan must participate.[7]

The states with auto-IRA initiatives rely on various enforcement strategies to support their employer mandate.[8] Oregon left the enforcement mechanisms open as it began to roll out

[6] Munnell, Belbase, and Sanzenbacher (2018).

[7] New York started with a voluntary system, but recently enacted legislation to switch to a mandatory system. See New York State Assembly (2021).

[8] While the legislation for MarylandSaves states that businesses without other retirement programs "should" auto-enroll employees in the program, Maryland imposes no financial penalty for not participating. Maryland intends to use a financial incentive approach, under which the State will waive the $300 annual report filing fee if an employer participates in the program or offers their employees a qualified plan.

its program, but, in 2020, instituted an annual fee for non-compliance of $100 per employee (capped at $5,000).[9] Illinois is imposing a penalty of $250-$500 per employee per calendar year during which the employee is not enrolled in the program and has not opted out.[10] California is implementing a fee of $250 per employee and an additional $500 per employee for continued noncompliance, which became effective in 2020 for employers with 100+ employees, 2021 for employers with 50+ employees, and will apply to employers with 5+ employees in 2022.[11] As the initiatives in Oregon, Illinois, and California continue to mature, researchers will be able to determine the extent to which varying enforcement mechanisms affect employer enrollment.

Experience in Oregon has provided some insights into how employers view a state auto-IRA program, including factors that are likely to affect their participation. On the benefit side, many employers like having a retirement plan without having to shop for their own plan, assume fiduciary responsibility, or make employer contributions. Auto-IRAs are viewed as a potential tool to attract and retain employees. On the downside, Oregon employers worry about data security and said the program contributes to their growing regulatory burden by requiring them to understand and comply with rules (unrelated to serving customers) under the threat of penalties. Employers are also concerned about the costs associated with participating, including the potential need to raise pay to offset retirement plan contributions.[12]

While employers are concerned about costs, experience to date suggests that they are miniscule. Table 1 lists the primary functions that employers must carry out to support New Mexico Work and $ave and summarizes factors that affect the cost associated with each function. The burden of these responsibilities is likely to vary by firm size and by how the employer's payroll is administered. Functions that require personal interactions, such as introducing the program or answering employee questions, will likely pose a greater burden for large firms. Another factor that can influence cost is the administrative and technical expertise of business owners, as well as the types of workers employed by the firm (e.g. part-time, number of shifts, and number of locations).

[9] Oregon Legislative Assembly (2020).
[10] Illinois General Assembly (2015).
[11] CalSavers (2021) and California State Assembly (2020).
[12] Conversations with OregonSaves staff.

Table 1. *Primary Functions and Costs for Employers to Support the New Mexico Work and $ave IRA Program*

Activity	Cost drivers
Introduce NM Work and $ave	
Get informed about the *NM Work and $ave IRA Program* Hand out program description and enrollment forms on-site.	Number of employees and locations, whether State provides communication materials, and whether employers or record-keeper introduces program.
Register with employer NM Work and $ave self-service portal	
Enter employer id, number of employees, contact information, and self-service preferences into online portal.	Comfort level with technology.
Provide data for initial enrollment	
Enter employee SSN, name, date of birth, and contribution percentage in *NM Work and $ave* website. Alternatively, send an electronic file (spreadsheet) or allow payroll provider to send this information.	Specific data fields needed, whether data can be updated from software or payroll vendor, whether record-keeper can accept data format.
Make payroll deductions	
Enter deduction amount into payroll system or process. Write check or send direct deposit with total deductions, or send file that lists deduction for each employee.	Payroll administration method, number of employees, familiarity of owner with payroll processes.
Internal record maintenance	
Maintain employee enrollment, and contribution rate change forms on file.	Number of employees, format in which records must be kept, length of time records need to be kept.
Other potential activities	
Respond to inquiries about employees from *NM Work and $ave* in case of data or deduction errors.	Number of issues that need to be resolved over the phone, extent to which employer is responsible for solving problems, number of employees.

A consistent theme in the research on employer costs is the importance of the way in which employers administer their payrolls. Payrolls can be: 1) outsourced to a payroll service provider; 2) administered in-house with software; or 3) administered in-house without software. Employers that administer payroll in-house without software are likely to face the highest administrative cost per employee, measured as time/money, or “hassle.” While electronic systems can be programmed to automatically exchange and validate data, tasks that involve manual procedures will remain expensive and error prone.

Oregon's experience suggests a relatively small time burden, ranging from one to three hours to set up the system, and a minimal amount of time each month for account maintenance.[13] Furthermore, that burden can be reduced for employers with payroll providers by paying $1 to $2 per employee per paycheck to have the deductions managed by the provider. In addition, employers who met with field representatives for OregonSaves completed registration faster than those that did not receive help with registration.[14] At this point, New Mexico has the opportunity to limit the role of employers to that of a conduit, through automated pre-packaged communication, and direct communication between record-keepers and participants.

Employers in Oregon have offered several concrete recommendations: 1) make communications materials easy to locate and deliver to employees; 2) make it easy for employers to determine whether they are subject to the mandate; 3) direct employees to a place other than the employer to answer questions about the plan; 4) have a record-keeper or other entity collect employee elections and send employers information on how to manage payroll deductions or provide new data; 5) leverage tools that employers are already familiar with for filing reports or providing data to the state; 6) use data that the state already has to pre-populate information about eligible employees so employers only have to validate data; and 7) allow electronic transfers of data in common file formats such as excel.

Although experience has shown employer costs to be minimal, signing up employers in Oregon has been a slow process. Since the program's launch, despite a legal mandate to participate, only 35 percent of eligible employers have registered for the program and even fewer have enrolled their employees or submitted payroll deductions.[15] Given the slow take-up of a nominally mandatory program, the key question for New Mexico is the extent to which employers will participate on a *voluntary* basis. For decades, federal policymakers have tried to solve the coverage problem by introducing simpler products that could be adopted by small businesses. The SIMPLE (Savings Incentive Match Plan for Employees of Small Employers) is

[13] Estimates from conversations with Oregon's plan administrator (2019).
[14] Belbase, Quinby, and Sanzenbacher (2020).
[15] Oregon has an estimated 49,000 employers that do not offer a retirement plan. As of October 2021, 17,012 employers in OR have registered, 14,889 have added employee data, and only 7,691 have submitted payroll deductions. See Oregon Retirement Savings Board (2021).

a prime example.[16] The SIMPLE has a number of advantages. Firms can either match the employees' contributions or contribute a fixed percentage of their payroll without a direct contribution from employees. Once established, the SIMPLE is administered by the employer's financial institution and does not even require the employer to file an annual financial report. Furthermore, most employers are eligible for tax credits for the first three years after starting the SIMPLE. The trend data on coverage, however, indicate that simplifying plan design has not led to a major expansion of coverage (see Figure 2). More recent efforts at simplification, such as the introduction of Pooled Employer Plans (PEPs) in the SECURE Act, have not been in place long enough to generate meaningful data.[17]

Figure 2. *Percentage of Workers Ages 25-64 Participating in an Employer-Sponsored Retirement Plan, 1989-2019*

Note: Data include public sector workers as well as private sector workers.
Source: U.S. Board of Governors of the Federal Reserve System, *Survey of Consumer Finances* (1989-2019).

A second piece of evidence about likely employer participation comes from the U.S. Treasury's experience with the myRA (my retirement account) – a starter account introduced in

[16] SIMPLE plans, which were introduced in 1996, generally replaced SARSEPs (Salary Reduction Simplified Employee Pensions), which were the earlier pension arrangements for small employers. (IRS 2021a).
[17] PEPs are a new variant of the traditional Multiple Employer Plan arrangement (MEPs). The provisions in the Secure Act to establish PEPs and modify the rules for MEPs went into effect in January 2021. (Webb 2020).

2015 for those without coverage at their current employer. MyRAs – which were discontinued in 2018 – were Roth IRAs, had no fees, and offered a secure investment fund that preserved principal and paid a market interest rate. To avoid placing any burden on employers, their only task under the myRA program was to decide whether to offer the accounts and then to make payroll deductions for any employee who chose to participate. The Treasury administered the accounts (in collaboration with a private sector bank) when they were small and, if the program had matured, would then have turned them over to the private sector once balances exceeded $15,000 (or after 30 years, whichever came first). People had three ways to contribute to a myRA: automatic direct deposit through their employer, one-time or recurring contributions from a checking account, or direct deposit of all or part of their tax refund. Despite myRA's multiple access points, no fees, and preservation of principal, take-up was only about 20,000 accounts before the Treasury discontinued the program.[18]

A third piece of evidence on potential employer participation comes from the voluntary retirement marketplace established in the State of Washington. The marketplace was launched in March 2018 to make it easier for small employers (those with fewer than 100 employees) to find a high-quality defined contribution plan with reasonable fees. Eventually, the program has been opened up to employers of any size. At this time, only three providers – Aspire, Finhabits and Saturna – currently offer plans. Based on the program's December 2020 report, just 16 employers have signed up and they have enrolled a total of 96 employees.[19]

In short, evidence indicates that only a very small share of employers without a plan will adopt one voluntarily. Experts therefore suggest that, without a mandate, no more than 5 percent of employers would sign up, even with a significant marketing budget. Although realistically, employer participation will be close to 1 percent.

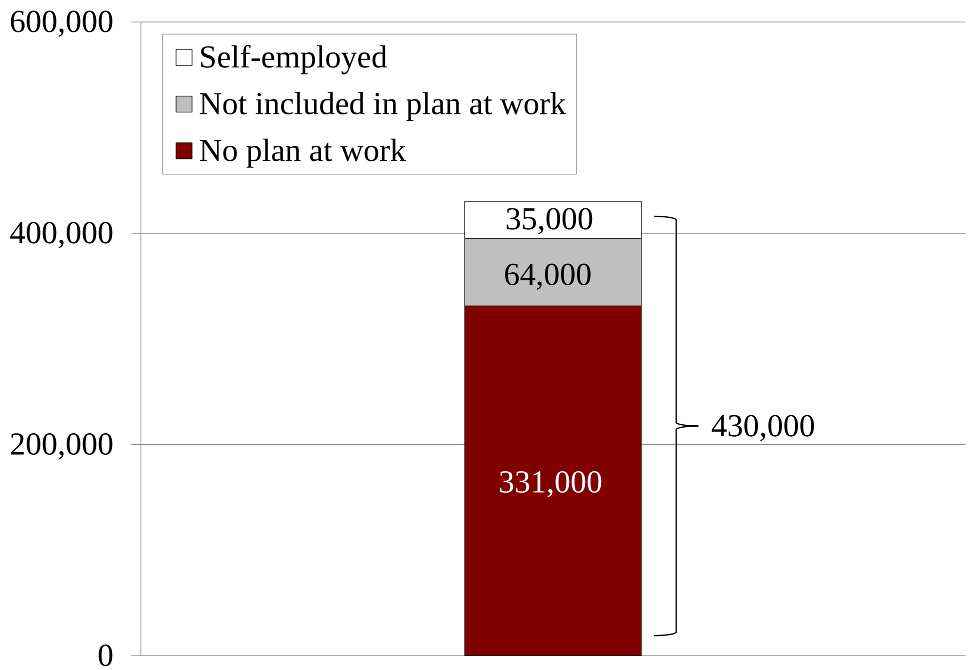
Employee Participation

Once employers sign up, the next challenge is to convince employees to join the program, which is a particular challenge in the absence of auto-enrollment. New Mexico's IRA Program has the potential to help hundreds of thousands of workers save for retirement. However, the voluntary nature of both employer and employee participation will severely limit the program's

[18] Lobosco (2017).
[19] Washington State Department of Commerce (2020).

effectiveness. Overall, estimates show that 430,000 New Mexico workers lack access to a retirement plan and, theoretically, all of these workers would be eligible for a voluntary program without auto-enrollment (see Figure 3). The focus in state programs with an employer mandate, however, has been the 331,000 workers whose employers do not offer a retirement plan. The self-employed workers (including "1099" contract workers) are generally not included because they do not show up in any employer payroll system where automatic deductions could be made; thus, they would need to save through a bank account, which is untested and logistically difficult. And the remaining group – uncovered workers who are with an employer that has a plan but are not eligible to participate – has also been excluded from mandatory programs.[20]

Figure 3. *Number of Private Sector Workers in New Mexico Without Coverage, 2020*

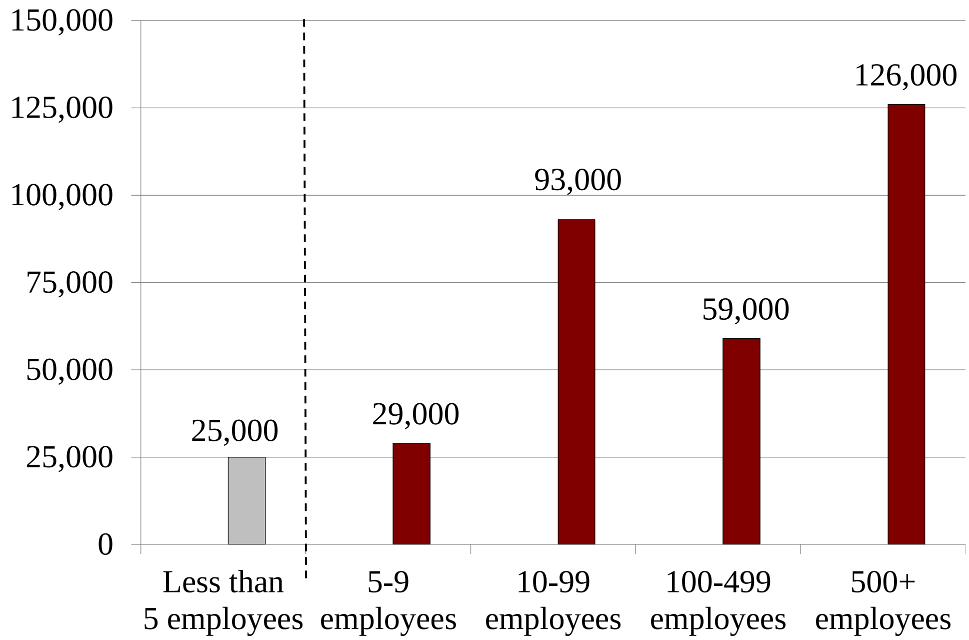


Note: The self-employed include incorporated self-employed.
Sources: CRR calculations from the U.S. Census Bureau's *Business Dynamics Statistics* (2016); *Current Employment Statistics* (2021); and *Current Population Survey* (2021).

[20] Oregon has plans for a pilot program to test voluntary efforts to reach this second group of uncovered workers.

If New Mexico were to make its IRA Program mandatory, it might follow states like California and Illinois in exempting very small firms from the requirement (e.g., firms with less than 5 workers). Even with such an exclusion, the initiative would still reach the vast majority of uncovered workers (see Figure 4). And states that have provided an exclusion to smaller employers still allow these employers to participate in the auto-IRA on a voluntary basis.

Figure 4. *Number of New Mexico Workers with No Plan at Work, by Employer Size, 2020*



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

To encourage participation by workers, it helps to understand their demographic characteristics, their labor force participation and earnings – including job mobility – and their financial knowledge and engagement with financial institutions. With this type of information, the state can craft more effective communication strategies to educate workers about New Mexico's IRA Program in order to enroll as many participants as possible. These issues are discussed below.

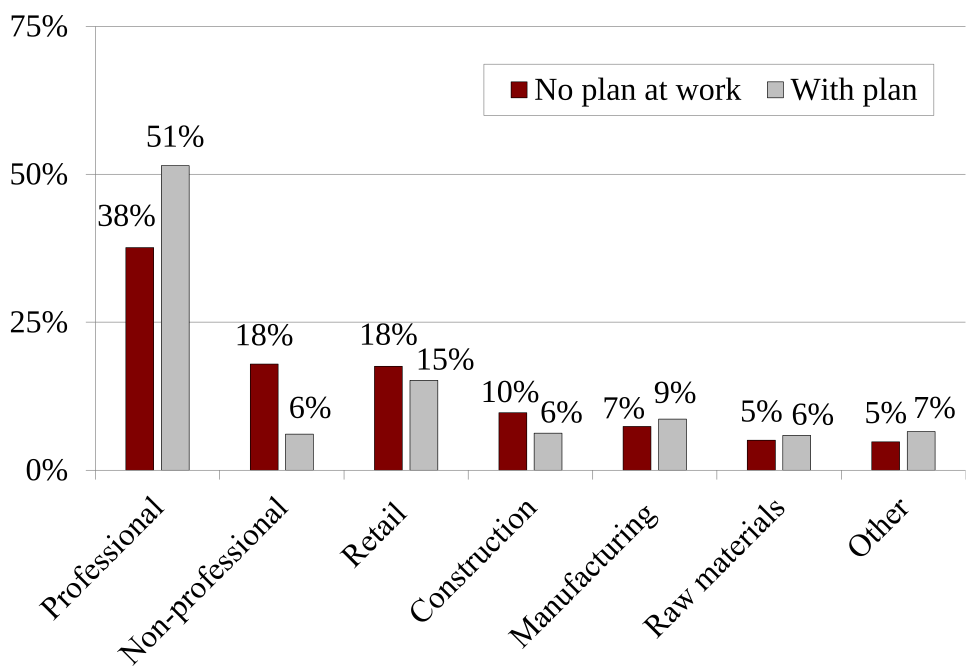
Socioeconomic Characteristics

New Mexico workers without an employer plan are different from covered workers in several ways. Education is the most significant dividing line, as only 21 percent of uncovered workers have a college degree compared to 38 percent of covered workers.[21]

Industry, Mobility, Hours Worked, and Wages

In terms of industry, New Mexico employees with no plan at work are more likely to be employed in non-professional services, retail, and construction than their counterparts with a plan (see Figure 5).

Figure 5. *Industry Distribution of New Mexico Workers by Coverage Status, 2020*



Source: CRR calculations from the U.S. Census Bureau, *Current Population Survey, March Supplement* (2021).

Another important aspect of the labor market for uncovered workers is their financial vulnerability – they are more likely to work part-time and earn less than covered workers. Part-time workers tend to be less attached to the labor force, and their lower earnings will impact program feasibility through slower growth in account balances. Sixty percent of workers in New

[21] CRR calculations from the U.S. Census Bureau, Current Population Survey (2021).

Mexico with no plan at work are employed full time, compared to 95 percent of covered workers (see Table 2). Similarly, the median earnings of workers with no plan at work is $19,935 compared to $57,450 for covered workers. This greater degree of financial vulnerability is why state IRA programs typically use Roth IRAs rather than traditional IRAs, because workers are not charged a penalty if they need to withdraw their contributions for an emergency.[22]

Table 2. *New Mexico Employee Earnings and Hours Worked by Coverage Status, 2019*

Hours	No plan at work		With plan	
	Share	Median earnings	Share	Median earnings
1-34	40%	$9,111	5%	$24,173
35+	60	27,142	95	59,147
Total	100%	$19,935	100%	$57,450

Source: CRR calculations from the U.S. Census Bureau, *Current Population Survey, March Supplement* (2020).

Job Mobility

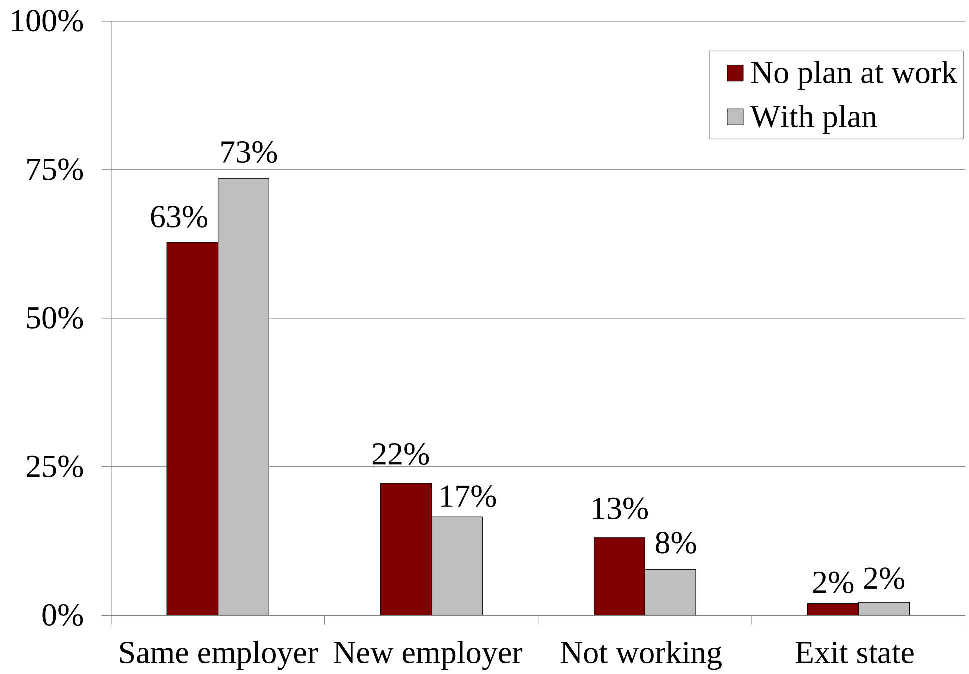
An important and often overlooked factor that will affect the success of the program is the stability of workers' employment. For example, frequent shifts from employment to non-employment will have two detrimental effects: 1) individuals will not be contributing to their accounts; and 2) some workers will need to withdraw assets to make ends meet. Workers moving from a job at one employer participating in New Mexico's IRA Program to another pose less of a problem, but still present a challenge to the program's administrator to keep track of the participant and ensure that contributions through each employer go to the same account. Frequent job changes, even between employers participating in the program could result in lapses in contributions due to delays in employee processing and payroll submission. To gauge how large of an issue work mobility is to New Mexico's IRA Program, this analysis follows the same workers over time to see if, approximately one year later, they are working at the same employer, a different employer, or not working.

The results presented in Figure 6 show that, not surprisingly, workers without a workplace retirement plan have less stable employment than covered workers. Specifically, they

[22] If workers withdraw investment earnings as well, which may occur if they take withdraw their full account balance, they may face a penalty. Therefore, if may be beneficial to make workers aware of these penalties and easily distinguish contributions from investment earnings.

are more likely to exit their current job for another job one year later and more likely to exit to non-employment. The share of workers without a plan going to a new job will likely be over 20 percent per year and the share of workers leaving work for non-employment will be over 10 percent per year. As the program ramps up, keeping an eye on what happens to accounts as workers move from employer to employer will be important. Under New Mexico's current voluntary design, these transitions could be of special concern because without a mandatory system coupled with automatic enrollment, workers who initiated an account with one employer would be more likely to stop saving when switching jobs– either because the new employer is not participating in New Mexico's IRA Program or the worker does not re-enroll.

Figure 6. *One-year Mobility Rates for Workers in New Mexico, by Coverage Status*



Source: U.S. Census Bureau, *Survey of Income and Program Participation* (1996, 2004, and 2008).

Financial Capability

Another issue to be aware of is that, like uncovered workers nationally, uncovered workers in New Mexico are under greater financial stress than workers who are covered by an employer plan. Uncovered workers are also less familiar with commercial financial products and have less understanding of investment concepts such as compound interest and portfolio diversification.

These issues show up in several ways (see Table 3). First, more than one in four uncovered workers is spending more than they make and is unlikely to be able to contribute to a retirement plan without cutting their spending or taking on more debt. Second, only about one-third of uncovered workers can come up with $2,000, which suggests that the IRA Program would be the first time many workers will have access to significant assets. Thus, agencies in the State that are involved in financial education could highlight the value of assets in the program to meet needs that occur prior to retirement and provide guidance on when it makes sense to withdraw money from the plan versus using other forms of debt.

Table 3. *Financial Status and Literacy of New Mexico Workers by Coverage Status, 2018*

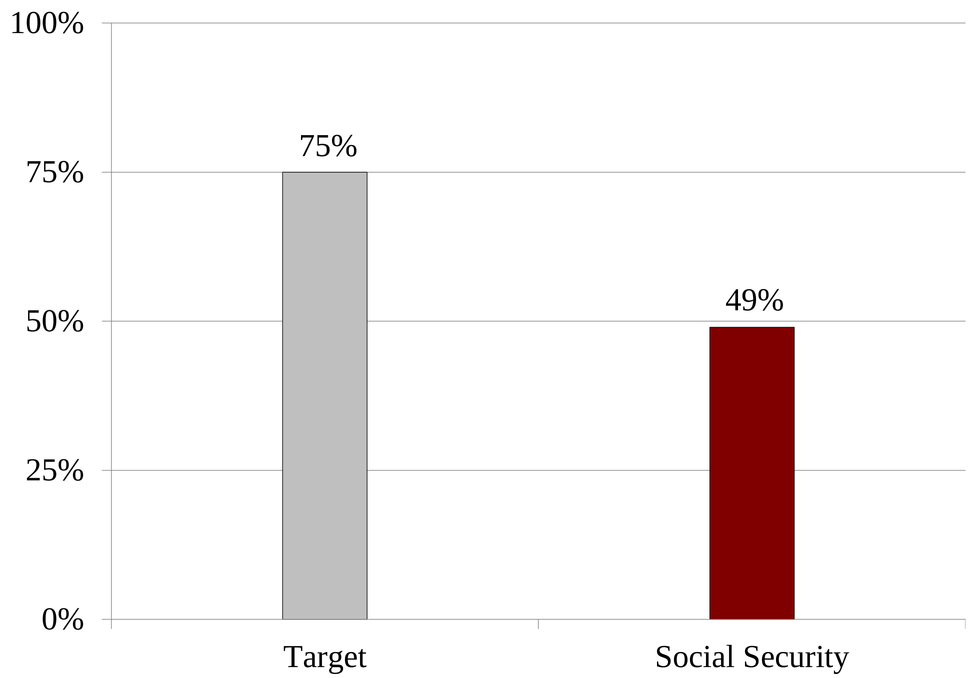
	Not covered	Covered
Financial situation		
Spend more than makes	27%	23%
Can come up with $2,000	35	75
Used unconventional credit sources	4	4
Interaction with the financial system		
Has checking account	80%	98%
Owns non-retirement investments	14	43
Owns a credit card	56	90
Uses online banking tools	79	93
Uses mobile banking tools	75	80
Financial literacy		
Understands compounding	67%	75%
Understands diversification	30	50
Learned about finance at school	15	21
Learned about finance at work	5	11

Source: CRR calculations from the Financial Industry Regulatory Authority (FINRA) *National Financial Capability Study* (2018).

Financial capability data offer other lessons for New Mexico as well. Use of financial services among uncovered workers suggests that a significant minority of participants may need help accessing their accounts and understanding how to carry out certain actions (like changing investments). One in five uncovered workers do not have a checking account and a similar share do not use online or mobile banking tools. Uncovered workers are also much less likely than covered workers to have a credit card or own any nonretirement-investments. These data support the need for a user-friendly website to access the account. In terms of financial education, most uncovered workers struggle with understanding diversification, and a third appear to have trouble answering a question about compound interest. Again, the commonly used feature of auto-enrollment could help here, as it is well-suited for an individual with low financial literacy and little engagement with the financial system.

Despite their limited financial resources and experience with financial institutions, uncovered workers do need to save additional income for retirement. While their low earnings allow them to benefit from the progressive structure of the Social Security system, Social Security alone will not provide adequate levels of replacement income. As shown in Figure 7, when a typical low-earner retires at age 65, Social Security will replace 49 percent of his pre-retirement earnings (once Social Security's Full Retirement Age reaches 67); this estimate is actually generous because it assumes continuous work from ages 25 to 65 and does not account for the fact that lower-wage workers are more likely to have gaps in their work history and claim benefits at younger ages. The 49-percent amount falls well short of a standard replacement rate target of 75 percent of pre-retirement earnings needed to maintain a typical worker's standard of living in retirement. Having access to a payroll deduction IRA provides an opportunity to help bridge the gap between Social Security benefits and target replacement rates.

Figure 7. *Target Replacement Rate and Replacement from Social Security (Assumes Continuous Work from Ages 25-65)*



Source: CRR illustrations and Clingman, Burkhalter, and Chaplain (2021).

Response of Employees to the New Mexico Work and $ave IRA Program

To accumulate meaningful retirement savings from a state-sponsored plan, employees need to join the program and participate continuously. The question is what level of participation New Mexico should expect.

Several academic studies have estimated opt-out rates across various employee groups, plan designs, and geographic areas, and these results are summarized in Table 4.[23] But it is unclear whether these results are relevant for New Mexico, with its voluntary employer-voluntary employee plan.

[23] The CRR found that automatic escalation from 6 to 10 percent did result in an approximately 5-percentage point increase in opt-out, which is statistically significant. Studies of 401(k) plans, which typically start at 3 percent, show low opt-out rates despite automatic escalation. Of course, it is possible to set default deferral rates too high: studies of plans with default contribution rates that were raised above 10 percent showed large increases in opt-out rates (Beshears et al., 2010).

Table 4. *Reported Opt-out Rates under Different Scenarios*

Source (year)	Study description	Opt-out rates
CRR (2015)	National enrollment experiment of uncovered workers under a variety of plan designs.	Approximately 20%, with little change in response to common plan design changes.
California Feasibility Study (2016)[24]	Survey of uncovered workers in California.	Approximately 25%, with no difference between a 3% and 5% contribution rate.
Beshears et al. (2007)	Study of 401(k) opt-out under different plan designs among workers in a large firm.	Average 20% opt-out rate in plans without an employer match.
Choi et al. (2001)	Analysis of opt-out in 401(k) plans at three large firms.	Opt-out rates ranged from 10-25%, depending on plan design.
Clark, Utkus, and Young (2015)	Report on opt-out rates among newly hired employees in 460 plans.	21% of workers earning under $30,000 per year with no employer match opted out when automatically enrolled.
Holden and VanDerhei (2005)	Projection model simulating auto-enrollment.	Opt-out rates of 5-10%, with wealthier individuals opting out more.
Cribb and Emmerson (2019)	Analysis of opt-out in U.K. after introduction of nationwide auto-enrollment.	Opt-out rates of 10% at medium and large employers, and 30% at small employers.

A reasonable comparison might be participation rates for SEP, SIMPLE or other forms of employer-sponsored IRAs. Recent IRS data shows that only about 2.7 percent of households participate in these plans despite having been available for decades.[25] In addition, only the employer contributes to SEP IRAs, which means that employees do not have to make an active decision of whether or not to participate, so the experience of New Mexico's voluntary employer, voluntary employee program is expected to be lower. The MA Core program, a State-run multiple-employer 401(k) plan designed for non-profits (registered 501(c) organizations) with 20 or fewer employees might be another comparison. As of June 2021, after about four years in operation, about 3.5 percent of eligible employers and 2.7 percent of eligible employees

[24] This study was prepared by Overture Financial LLC (2016).
[25] IRS SOI data (2018)

are participating.[26] The key difference between MA Core and New Mexico's IRA program is that once employers sign up, employees are auto enrolled. So, once again, participation in New Mexico will likely be lower. [27] The Washington State's Retirement Marketplace might provide a better indicator of participation in a newer plan in which both employer and employee participation is voluntary. As of December 2020, participation in the marketplace account for less than 1 percent of eligible employers and employees.[28] A voluntary program without auto-enrollment like New Mexico's IRA Program is likely to experience participation rates closer to what was observed in Washington.

The experience from California, Illinois, and Oregon show that auto-enrollment increases participation substantially, confirming results from prior studies. Although, opt out rates in these programs are higher than for workers covered by 401(k)s. Through October 2021, the reported opt-out rate in these states was consistently running at 30-35 percent, meaning that at least two-thirds of workers did not explicitly indicate they did not want to join.[29] Importantly, calculating the opt-out rate has been problematic because of uncertainty about who should count as an eligible employee. Due to high mobility and data quality issues, many employees are no longer employed by the time they receive their invitation to enroll, have invalid contact information, or do not show up on employer payroll feeds. In addition to employee opt-out rates, employer compliance issues – i.e., an employer that signs up for the program but does not register employee payrolls – deflates employee participation levels. When including missing employee data and employer compliance issues, the absolute share of employees who are actively enrolled in Oregon may be closer to 50 percent.[30] As the up-and-running programs continue to mature, it will be easier to predict what a plan administrator and a state can do to limit employee opt-out as well as encourage employer compliance.

In summary, for state retirement saving initiatives to have a substantial impact, employers must participate and auto-enrollment is essential. Evidence from California, Illinois, and Oregon suggests that the majority of employees will stay in the program once they are auto-enrolled. The key is to get the employer on board. Small employers have always had the opportunity to

[26] Personal communication with MA CORE staff (2021).
[27] Employees at non-profits tend to have higher educational attainment than the general population, further reducing the participation rate.
[28] CRR calculations from Washington State Department of Commerce (2020).
[29] California State Treasurer (2021), Illinois State Treasurer (2021), and Oregon Retirement Savings Board (2021).
[30] Quinby et al. (2020). See Figure 10 for illustration.

voluntarily enroll their employees in an IRA or to adopt one of the many plans designed for small employers by the government, but few have done so. Without a mandate, no evidence suggests that small employers will participate. Projections on the number of employee accounts and account balances under various program scenarios are presented in the section below.

II. Program Finances

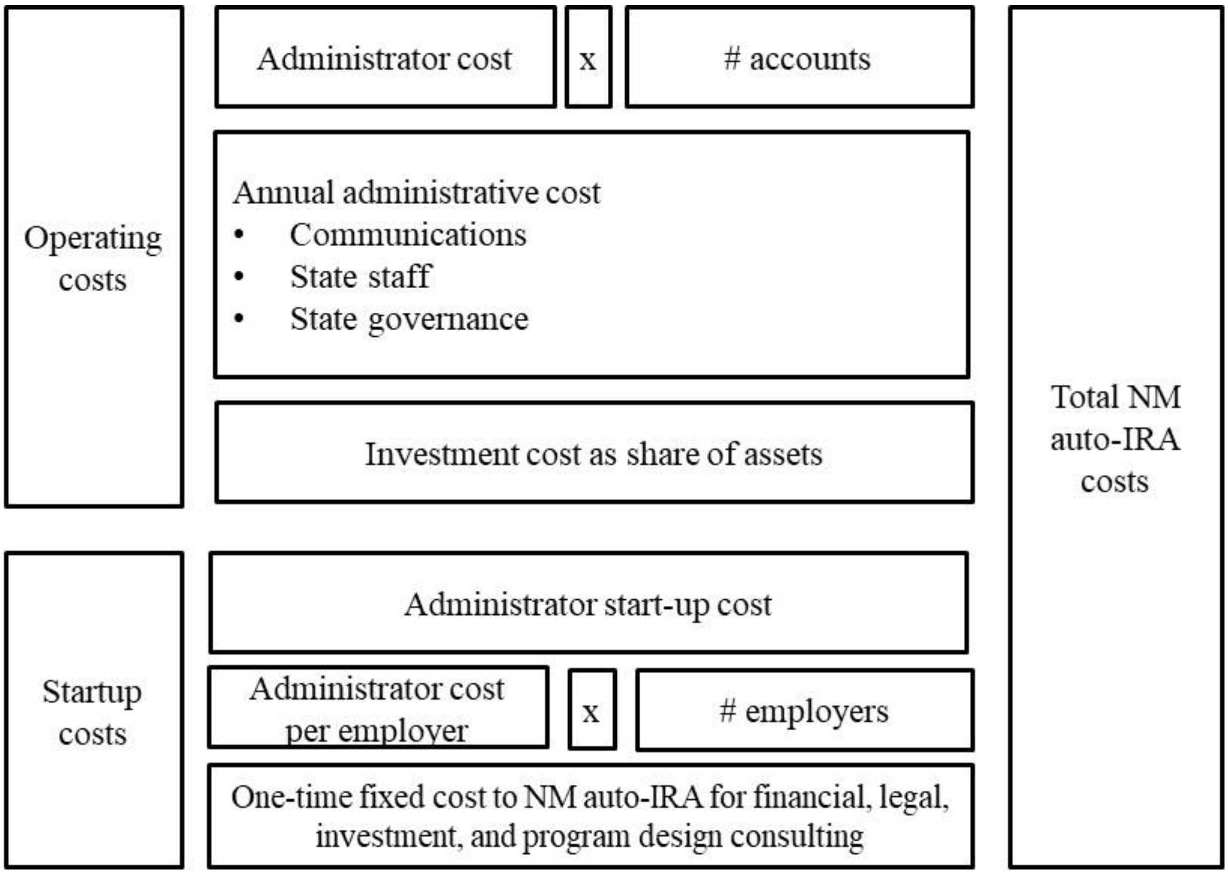
While a voluntary New Mexico Work and $ave IRA Program appears unlikely to achieve success under the first metric – broad worker participation – it is still important to assess its financial viability. To be successful, it must attract a private sector provider that can make a profit and meet the State's goals of posing no undue financial risks and meeting the State's target of breaking even within five years after full implementation. To evaluate these dual goals, the feasibility analysis uses two metrics. The first metric is the time it takes the program to cover its operating costs for the administrator and the State – i.e., to become "cash-flow positive." The second metric is the time it takes for the program to become profitable to the administrator and cost-neutral to the State – i.e., to become "net positive." This second metric considers both the start-up costs of the program and the initial shortfalls from failing to cover operating costs. Both metrics can be affected by factors currently under the State's control such as the default contribution rate, the initial fee charged on assets, and the use of an employer mandate with automatic enrollment. They also can be affected by factors outside the State's control, such as the behavior of participants regarding withdrawals.

This analysis presents the financial metrics discussed above under a set-up similar to the current Work and $ave IRA Program statute – a voluntary Roth-IRA with an assumed average contribution rate of 5 percent and an initial fee of 95 basis points – and then shows how outcomes might change under a mandatory requirement.

The Financial Model and Major Assumptions

The New Mexico Work and $ave IRA Program costs can be divided into two categories: 1) the start-up costs associated with creating the program and bringing on employers; and 2) the operating costs associated with maintaining accounts, serving participants, and managing investments. Some of these costs must be borne by the private sector administrator chosen by New Mexico and some by the State itself. Figure 8 illustrates these costs schematically.

Figure 8. *New Mexico Work and $ave IRA Program Costs*



Source: CRR illustration.

Start-up Costs. The start-up costs reflect two facts: 1) setting up a program requires work by both the administrator and the State; and 2) the administrator faces considerable costs of connecting with employers. Based on information from auto-IRAs in other states, the start-up costs are roughly $750,000 for the administrator, with an additional cost of $150 per employer.[31] On the State's side, the experience of other jurisdictions suggest that New Mexico's start-up costs will be roughly $1 million for a voluntary IRA program (see Table 5). These costs include program design, investment, and legal consultants, web development, and administration. If

[31] Prior estimates for start-up costs were $1 million for the administrator with an additional cost of $200 per employer. Conversations with BNY Mellon suggests that these represent the costs of setting up the first state auto-IRA program and the costs for subsequent programs are much lower. At the time of writing, BNY Mellon has only been live with their first state auto-IRA program, Oregon, for a few weeks. So, it is unclear whether these cost projections will reflect actual costs. We were not able confirm with Ascensus whether their start-up costs for setting up a program have also decreased. To be conservative, our baseline estimates are, in between the initial estimates and projections from BNY Mellon.

New Mexico instead opts for a mandatory model with auto enrollment, start-up costs are assumed to be $800,000. The main difference between the two costs is the higher marketing budget required for a voluntary program to get even a small numbers of employers to sign up for the IRA program. In addition to being voluntary the program does not include auto-enrollment so employees will also have to be aware of the program.

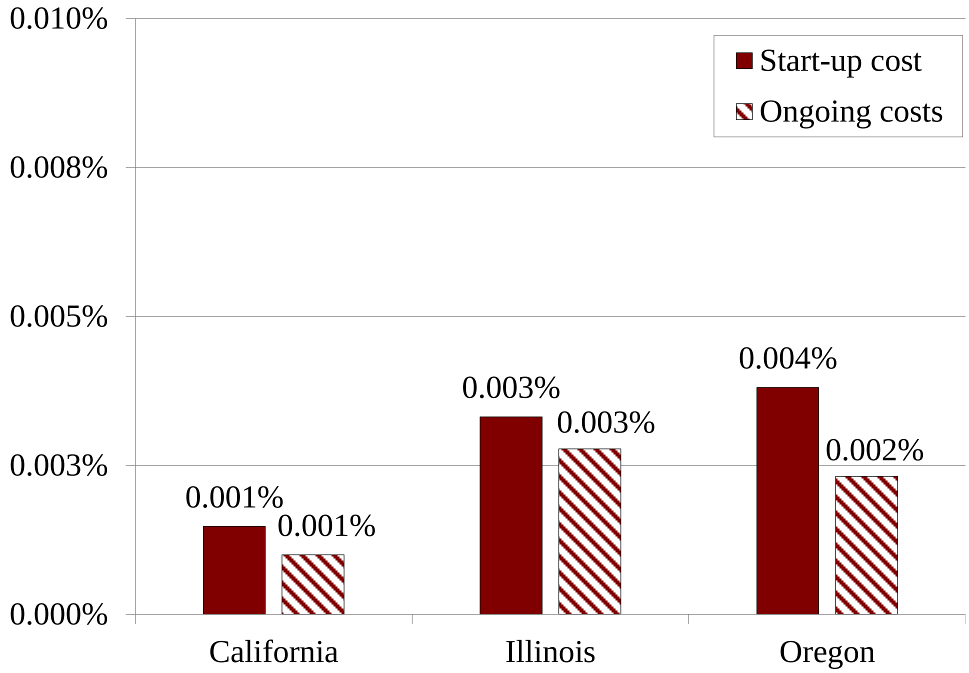
Table 5. *Actual and Budgeted Start-up Costs for State IRA Programs*

State	Years to launch	Total start-up	Pre-launch marketing	Consulting/ contracts	% consulting/ contracts
Oregon	2	$1,000,000	$110,000	$242,000	24%
Illinois	2	1,433,000		305,000	21
California	2	2,952,000	-	1,835,000	62
New Mexico*	V: 3 M: 2	V: 1,000,000 M: 800,560	V: 350,000 M: 174,750	346,250	V: 43 M: 35
Colorado*	2	1,210,000	210,000	400,000	33

Note: V represents a voluntary program with no auto-enrollment while M represents a mandatory program with auto-enrollment.
* Represents projected costs and not actual expenditures.
Sources: CRR calculations using California State Treasurer (2019); Oregon Legislative Assembly (2019); Colorado State Assembly (2019); Massena Associates (2021); and U.S. Census Bureau, *Annual Survey of State Government Finances* (2019).

While States do incur tangible costs, it is important to note that experience to date suggests they are a miniscule share of total state operating expenditures (see Figure 9).

Figure 9. *Start-up and Ongoing Costs of Auto-IRA Program as a Percentage of State 2019 Current Operating Expenditures*



Note: California financed its startup through a series of loans to the program, repayable generally within six years. These loans represent no cost to the state once repaid. Oregon and Illinois received regular, non-repayable annual appropriations.
Sources: CRR calculations using California State Assembly (2020); California State Treasurer (2019); Center for Retirement Initiatives (2018); Colorado General Assembly (2019); Massena Associates (2021); Oregon Legislative Assembly (2019); and U.S. Census Bureau, *Annual Survey of State Government Finances* (2019).

Operating Costs. From the administrator's perspective, operating costs include the per-account record-keeping cost to keep track of account funds, provide statements, cover call centers, and maintain the program's website for the account-holders. Also included are the transaction costs associated with money coming into the program and going out through distributions. Based on the experience of the auto-IRA initiatives, this report assumes a per-account cost of $20 per year.[32]

[32] Prior estimates for start-up costs were $30 per account per year. Conversations with BNY Mellon suggests their costs are much lower since they can cost-share with their ABLE and 529 accounts. At the time of writing, BNY Mellon has only been live with their first state auto-IRA program, Oregon, for a few weeks. So, it is unclear whether these cost projections will reflect actual costs. We were not able confirm updated cost estimates with Ascensus. To be conservative, our baseline estimates are, in between the initial estimates and projections from BNY Mellon.

For the administrator, the total cost of account administration therefore depends on the number of accounts, both active and inactive. An account is considered “active” when an individual is working for an employer and contributing to the plan. Inactive accounts are held by someone who is no longer employed at an eligible employer but who has not closed out his account. Importantly, both types of accounts carry a cost to the administrator, since disbursements must be made, statements provided, and either type of account-holder could need assistance through a call center.

For the State, other costs of operating the program are relatively fixed, even from its inception. Based on discussions with other state programs, the assumption for this analysis is that New Mexico will need two full-time staff to oversee the New Mexico Work and $ave IRA Program, including board oversight operations and governance; manage the relationship with the program administrator; arrange program audits; and conduct ongoing communications with employers and employees.[33] The annual costs also include payments to legal and financial firms to audit the program. If New Mexico maintains a voluntary model, ongoing costs are assumed to be $1 million reflecting the salary for two full-time program employees, administrative expense, and significant marketing and communication costs in order to continue to drum up participation and make the program viable. If New Mexico instead opts for a mandatory model with auto enrollment, ongoing costs are assumed to be $600,000.

The final operating cost is the fee that must be paid to the investment manager. This cost is simply a fraction of participants’ total account assets under management. Because New Mexico’s IRA Program will offer investment options with limited management (such as index funds or a Target Date Fund), these costs are assumed to be relatively low, at one-tenth of a percent (or 10 basis points), in line with what the other state programs are paying.

Before delving into the financial model, it is important to understand the unique nature of New Mexico’s IRA Program and how it compares with other state auto IRA programs, both those that are up and running and those in implementation status (see Table 6). New Mexico is the only state program that is completely voluntary (without a mandate or auto-enrollment) and

[33] Illinois’ program relies on 2 full-time staff members – a Director and an Outreach Coordinator. Oregon, as the pioneer in this space, has relied on 3-4 employees to handle program administration in addition to outreach and enforcement issues.

has set a relatively short timeframe to become self-financing.[34] These legislative requirements may severely limit the effectiveness of the program.

Table 6. *Comparison of State Retirement Saving Programs*

State	Employer requirement	Auto-enrollment	Covered employers	Financing requirements
California	Mandatory	Yes	5+	Loans, period extended
Colorado	Mandatory	Yes	5+	None
Connecticut	Mandatory	Yes	5+	Loans paid back within 10 years
Illinois	Mandatory	Yes	5+	Loans paid back after program becomes self-sustaining.
Maine	Mandatory	Yes	5+	None
Maryland	Mandatory	Yes	All	No explicit due date on loans
New Jersey	Mandatory	Yes	25+	No explicit due date on loans
New Mexico	Voluntary	Employer decides	All	Within five years after fully implemented
New York	Mandatory	Yes	10+	None
Oregon	Mandatory	Yes	All	No explicit due date on loans
Virginia	Mandatory	Yes	25+	None

Sources: See the enacted laws and budget reports for more information on start-up and funding requirements (since most of these programs are in the early stages, little financial information is available).

Results Under a Voluntary System

This section presents results for a voluntary system, starting with the baseline assumptions and then testing more optimistic alternatives for select design parameters.[35]

Baseline

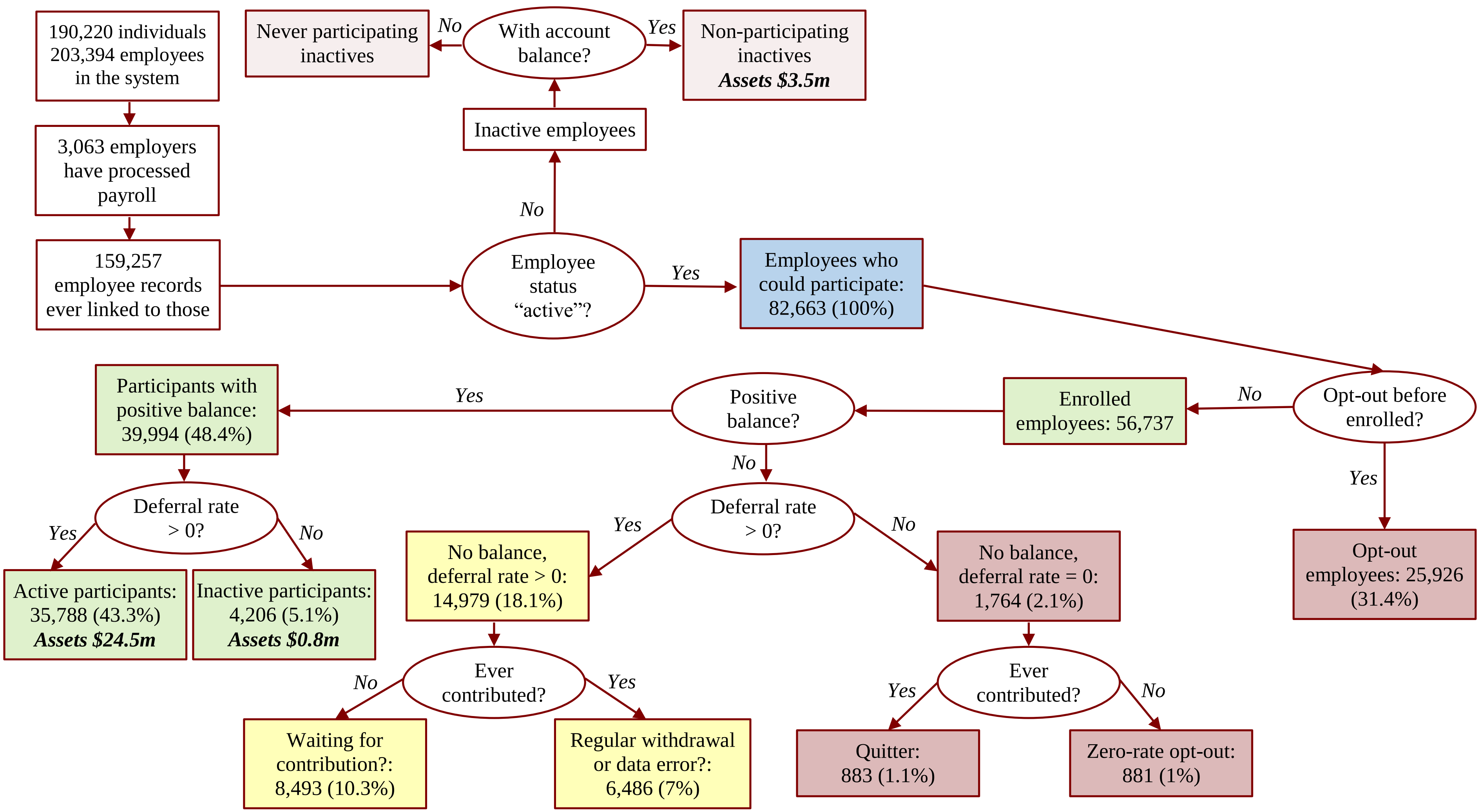
The baseline scenario assumes that 1-percent of employers participate and 43-percent of employees at participating employers have positive balances. This active employee rate is based on the roughly 30-percent of workers who explicitly opted out in Oregon, Illinois and California[36] plus another 27-percent of workers that set their contribution rate to zero, opted-out after the 30-day period, or had an account that could not be automatically established. Figure 10

[34] While other states have repayment requirements, most do not have an explicit date when the loans are required to be paid back. California has received a repayment date extension on the initial loans while Connecticut is required to pay back loans within 10 years.
[35] For more detail about how the model is constructed, see the Technical Appendix.
[36] California State Treasurer (2021), Illinois State Treasurer (2021), and Oregon Retirement Savings Board (2021).

provides a flow-chart of how active participants are determined, based on administrative data from OregonSaves as of 2019.[37]

[37] Quinby et al. (2020)

Figure 10. *Conceptual Framework for Measuring Active Participation, OregonSaves, September 2019*



Source: Quinby et al. (2020)

While the share of workers with a positive balance could increase as the program matures and as more employers process payrolls, our baseline estimates are reflective of the actual experience of Oregon, more than two years after their launch. For New Mexico's voluntary program without auto-enrollment, a 43 percent participation rate is highly unlikely, given the vast research on how defaults options affect behavior.

The average baseline contribution rate for a voluntary program without auto-enrollment is assumed to be 5 percent; state start-up costs are assumed to be $1 million and state ongoing costs are also assumed to be $1 million. Baseline fees on assets are assumed to be 95 percent, with 10 percent of fees going to the investment manager, 15 percent going to the state, and 75 percent to the administrator. The analysis will look at different contribution rates, fees and fee structures, and whether a mandatory model could help improve the financial outlook.[38] Table 7 shows the assumptions included in the voluntary program's baseline and alternative scenarios.

[38] Other important assumptions that will not be discussed but are included in the model are: rate of return on assumptions, annual in-service leakages, share of workers taking lump sum, administrator start-up costs, and administrator per-account costs.

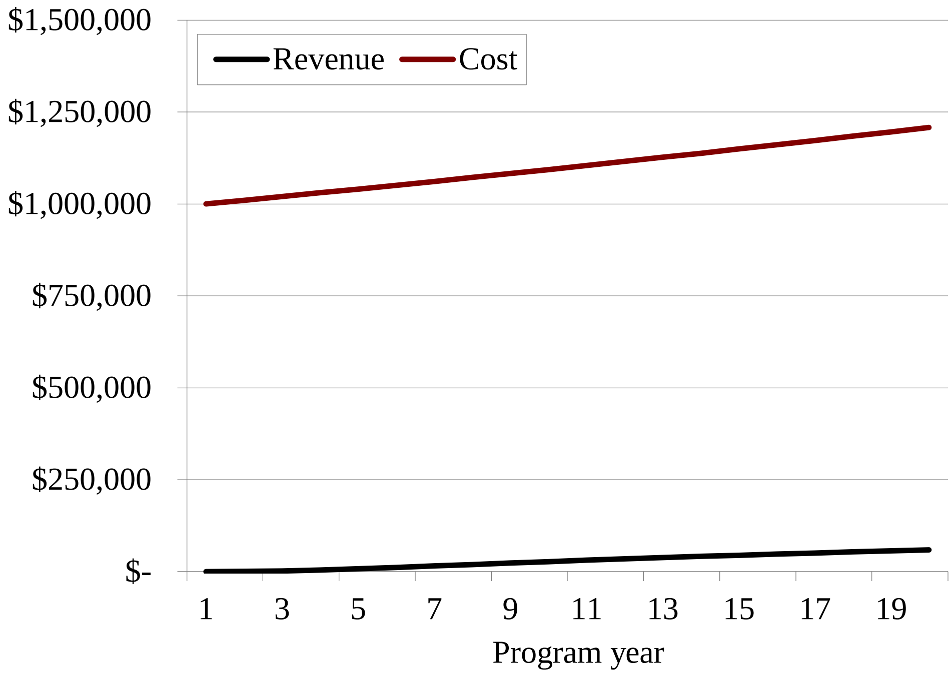
Table 7. *Inputs for Voluntary New Mexico Work and $ave IRA Program Baseline Scenario and Alternatives*

Parameter	Baseline voluntary assumptions	Mandatory with auto enrollment assumption	Model alternatives
Employer participation	1%	50%	Voluntary: 1%, 10%,15% Mandatory: 20%, 80%, 100%
Default employee contribution rate	5% fixed	5% fixed	3% -8% fixed, 5% with auto-escalation to 8%
Fees	95 bps	95 bps	Fees on net assets: 30-150 bps; Per-account fees: $0-$70
Revenue division (Invest/State/Admin)	10/15/75%	10/15/75%	Fees on net assets: 10/10/80%,10/5/85%, 5/5/90%, Per-account fees: 0/50/50%, 0/33/67%, 0/25/75%
Administrator start-up costs	$750k, $150 per emp	$750k, $150 per emp	$1.5m, $225 per employee; $2m, $250 per employee
Administrator per-account costs	$20	$20	$10-$30
Start-up costs for State	$1 million	$800k	$750,000 - $2 million
Ongoing costs	$1 million/year	$600k/year	$500,000 - $2 million

Sources: CRR assumptions based on experience of other states, research literature, and conversations with New Mexico Work and $ave staff.

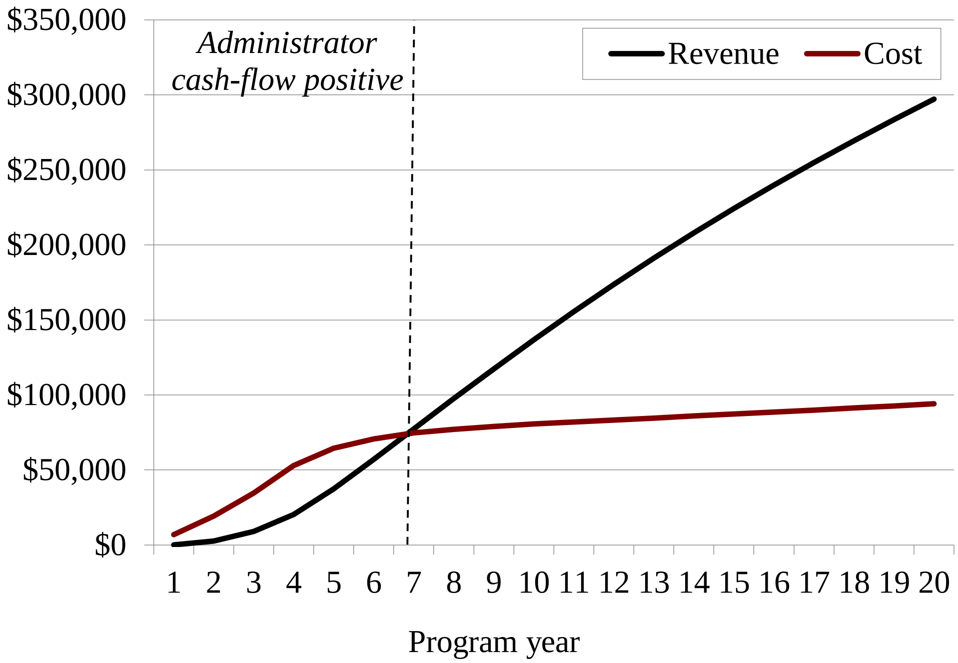
The first metric of financial feasibility is the length of time it takes for program revenue to cover operating costs – i.e., to become cash-flow positive. Under the baseline scenario for a voluntary program, the New Mexico Work and $ave IRA Program does not become cash flow positive within 20 years for the State but will become cash-flow positive in 7 years for the administrator (see Figures 11 and 12). That is, operating costs, which are relatively constant for the state, are projected to exceed revenues for over two decades. Initial revenue growth is slow because it comes from the fee charged to account balances and balances grow slowly with so few participants.

Figure 11. *Revenue and Operating Costs for State under Baseline Scenario, Year 1-20*



Note: The analysis assumes that the 1 percent of employers enroll gradually, with one-quarter in the first year, one-quarter in the second year, and the remainder in the third year.
Source: CRR projections.

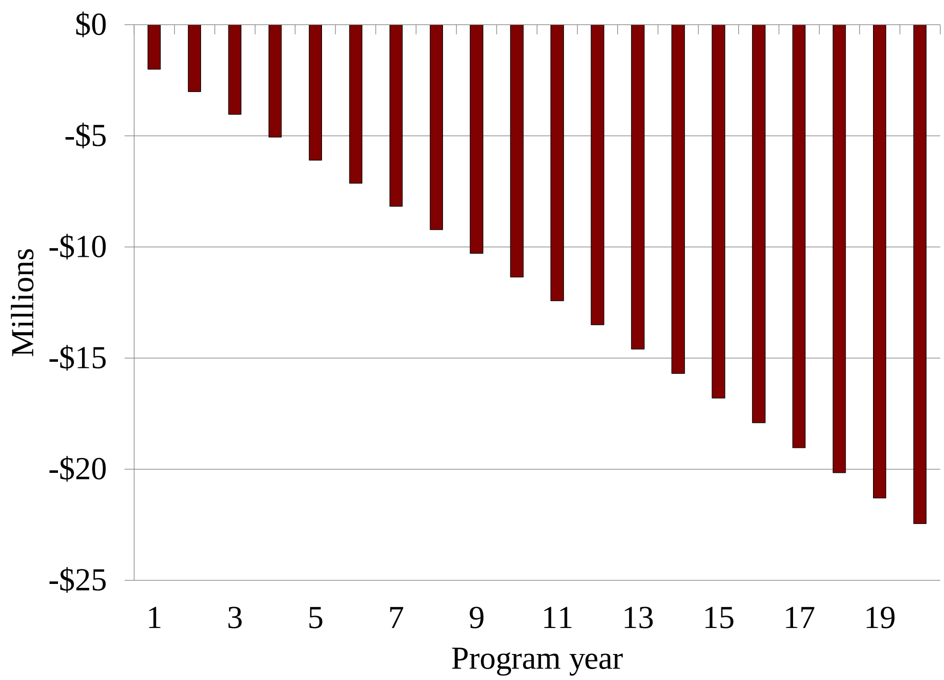
Figure 12. *Revenue and Operating Costs for Administrator under Baseline Scenario, Year 1-20*



Note: The analysis assumes that the 1 percent of employers enroll gradually, with one-quarter in the first year, one-quarter in the second year, one-quarter in the third, and the remainder in the fourth year.
Source: CRR projections.

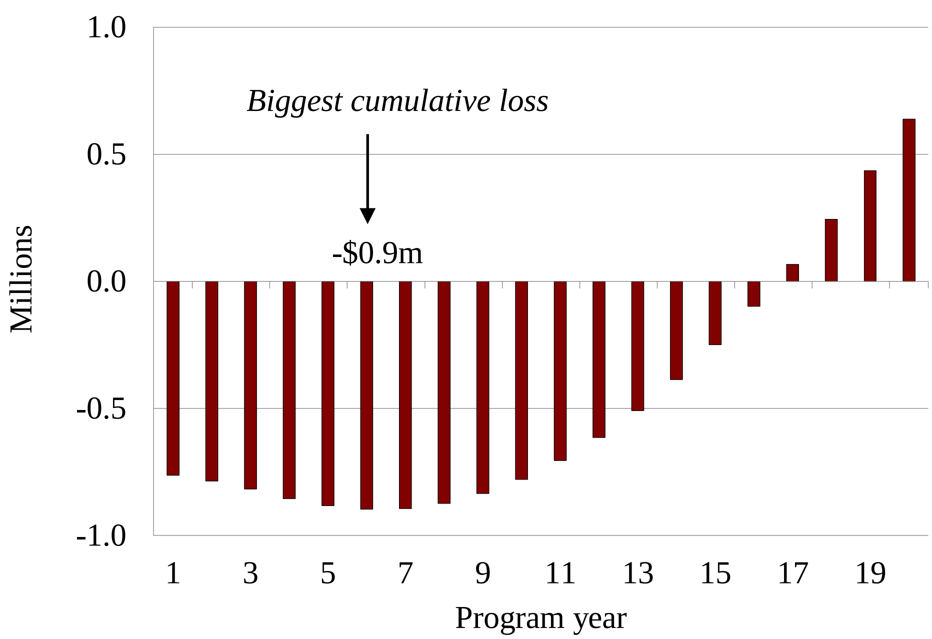
The next question is how many years it takes to recover initial losses and pay off the start-up costs – i.e., to become net positive. While New Mexico is not required to recover initial investments in the program, the projections are helpful to place the financial feasibility into context. Under its current voluntary program design, the New Mexico Work and $ave IRA Program will require more than 20 years to become net positive to the State and 17 years for the administrator. In addition, for the State, deficits continue to grow and losses continue to build up, by the 20th year total losses will accumulate to $22.5 million (see Figure 13). For the administrator, the largest deficit is observed in the 6th year and is projected to be $0.9 million and decrease thereafter (see Figure 14). This maximum deficit serves both as a measure of risk to the two parties as well as the amount of money New Mexico might need to support early operations. The intuition behind these vastly different costs between the state and administrator reflects the nature of the costs and the fee split. Ongoing costs for the state are largely fixed because they are related to staff, administrative overhead, and marketing, which remain constant even if very few employees participate in the program. Ongoing costs for the administrator are variable and scale directly with the number of accounts. Another reason that losses are much lower for the administrator is because they receive the bulk – 75 percent – of the fee revenue, while the state receives 15 percent.

Figure 13. *Cumulative Loss for the State under Baseline Scenario, Year 1-20*



Source: CRR projections.

Figure 14. *Cumulative Loss for the Administrator under Baseline Scenario, Year 1-20*

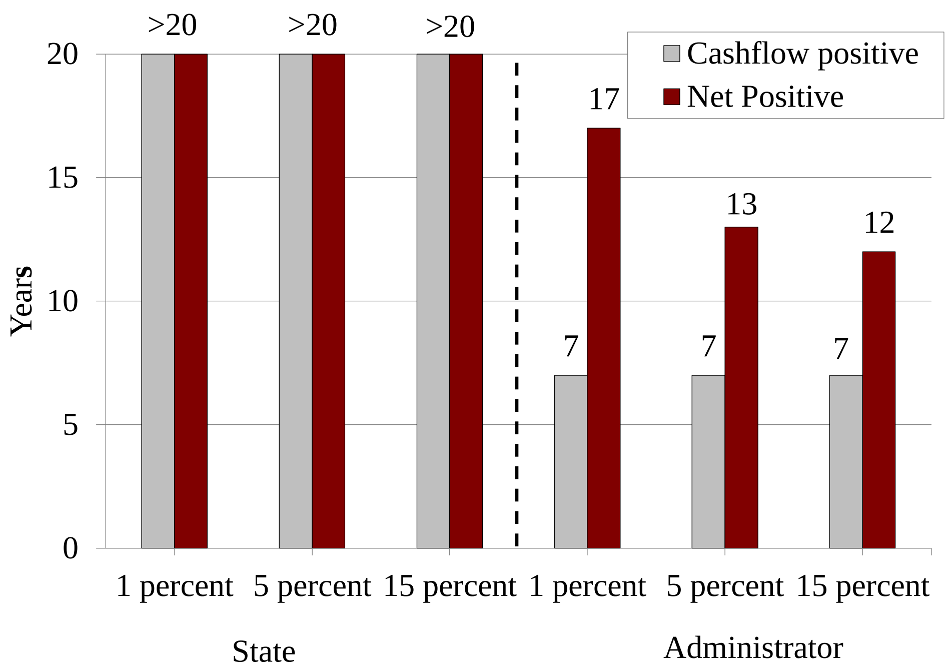


Source: CRR projections.

Sensitivity Analysis Using More Optimistic Assumptions

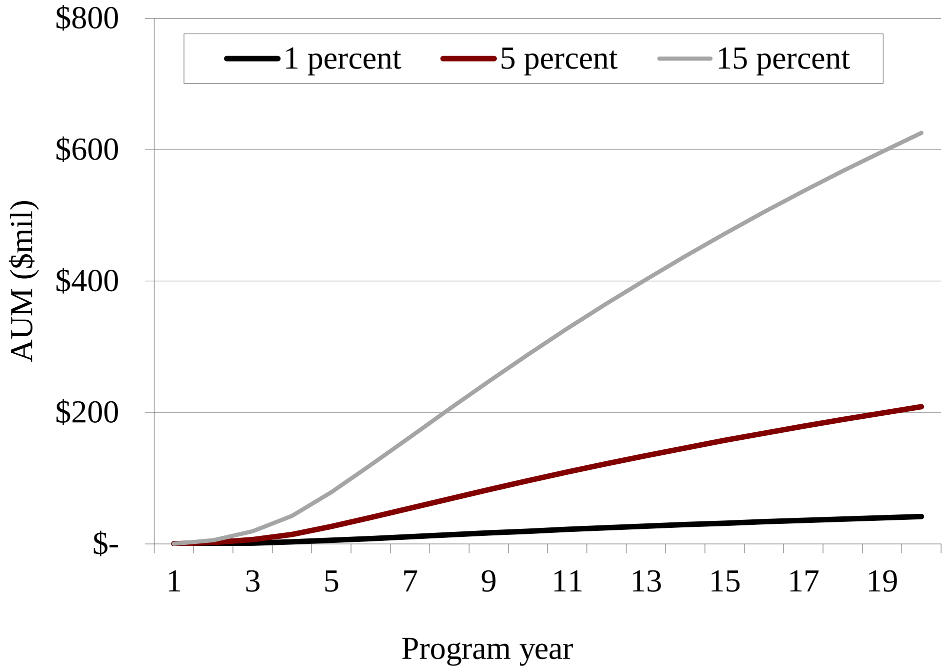
Alternative cost projections with more optimistic assumptions barely improve the picture. Even if participation in the voluntary program reached 15 percent, an extremely unlikely scenario, the state would not be able to cover ongoing costs or become net positive within 20 years. The administrator would also still need over a decade to become profitable, an untenable scenario (see Figure 15). Higher participation rates also result in higher levels of assets under management (AUM) (see Figure 16).

Figure 15. *Years until Cashflow positive and Net Positive to State and Administrator, by Employer Participation Rate*



Source: CRR projections.

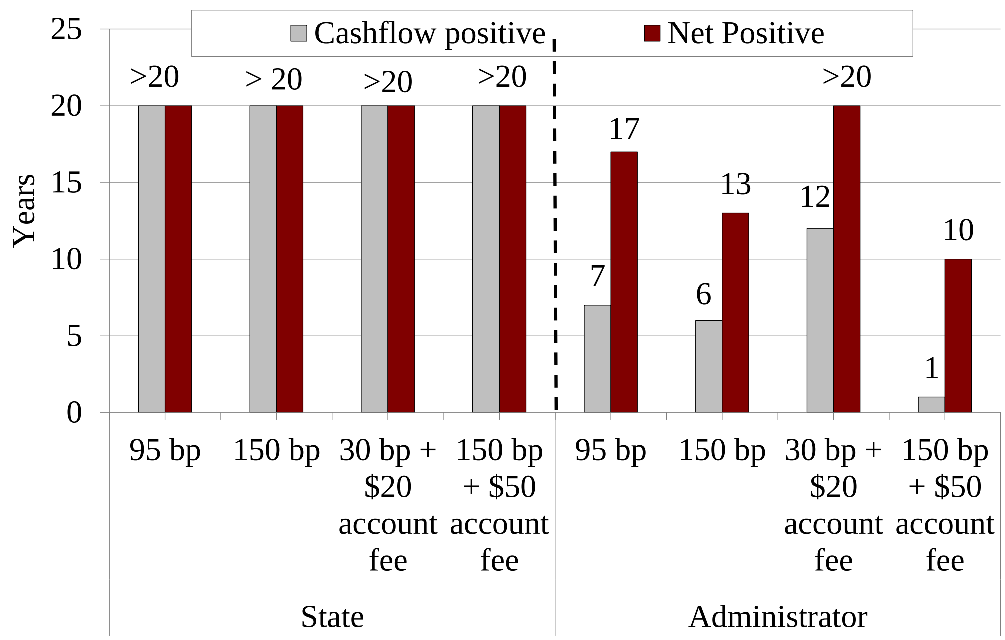
Figure 16. *Net Assets Under Management, by Employer Participation Rate*



Note: Represents assets at the beginning of the year.
Source: CRR projections.

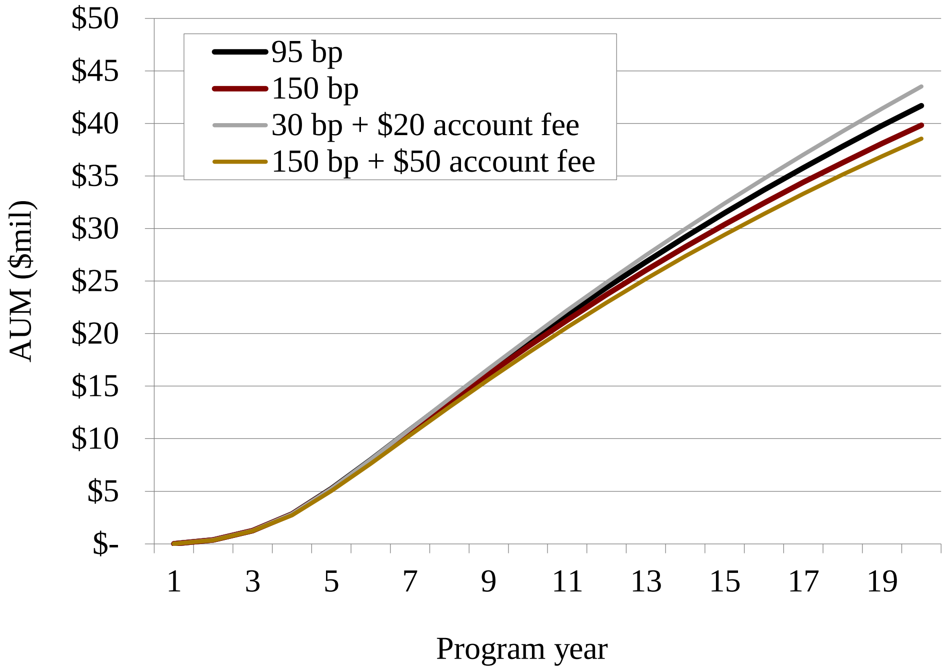
Looking at alternatives on the revenue side, the main options are setting a higher fee on assets, introducing a per-account fee, and assuming a higher average participant contribution rate. Yet even raising total fees to 150 basis points and charging a $50 per-account fee – which are exorbitant and unheard of – would not allow New Mexico to become cash flow or net-positive within 20 years, under the current voluntary design. And the administrator, while able to become cash flow positive in one year, would still not become profitable until 10 years (see Figure 17). High fees not only slows down the ability for New Mexico workers to accumulate meaningful assets, it also reduces AUM growth, which limits the future revenue for the administrator as well (see Figure 18).

Figure 17. *Years until Cashflow Positive and Net Positive to State and Administrator, by Fees Structure*



Note: For basis point fee structures, the fees are split 10 percent to the investment manager, 15 percent to the state, and 75 percent to the recordkeeper. For combination basis point and per-account fee structures, the basis point fees are split 33 percent to the investment manager, and 66 percent to the recordkeeper. The per-account fees are split 25 percent to the state and 75 percent to the recordkeeper. OregonSaves currently uses a similar fee split and currently and has a 25-basis point fee (not including what is paid to the investment manager) + an $18 annual per-account fee.
Source: CRR projections.

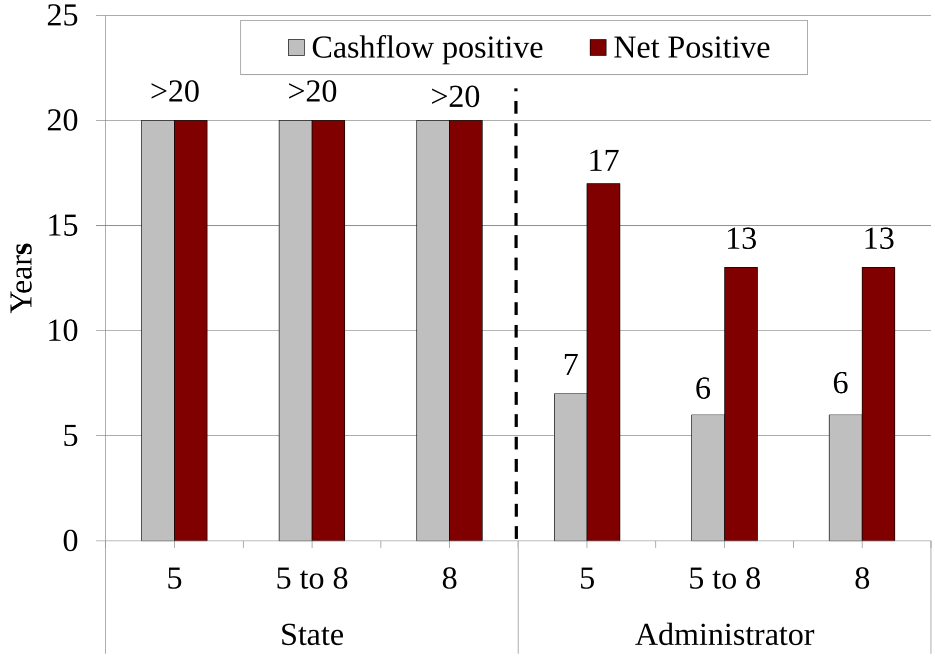
Figure 18. *Net Assets Under Management at the Beginning of the Year, by Fees Structure*



Note: Represents assets at the beginning of the year under baseline participation rates for a voluntary program with no autoenrollment.
Source: CRR projections.

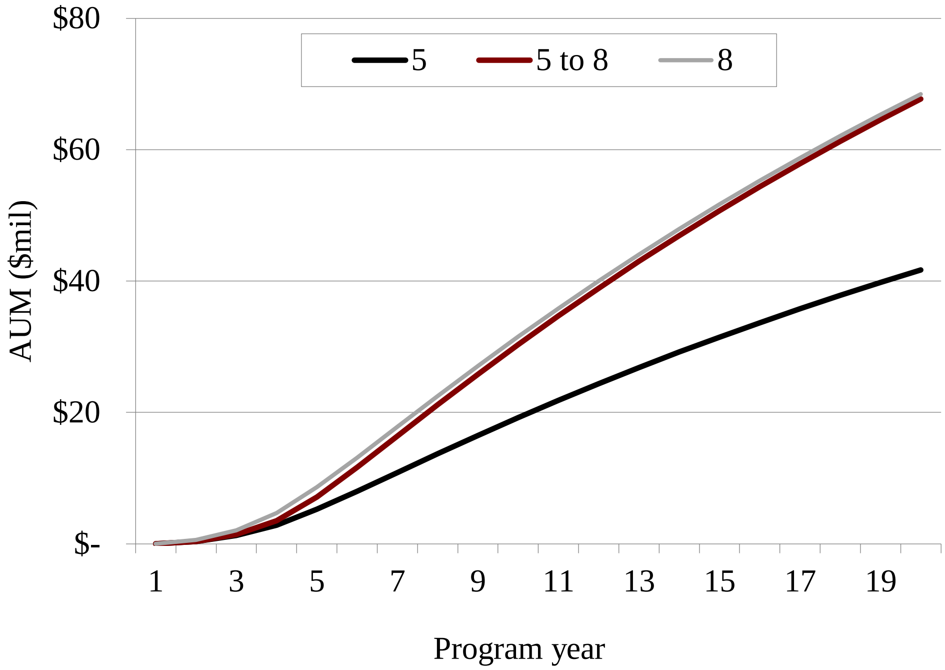
The other revenue booster would be higher employee contribution rates, in this case assuming a default rate of 5 percent with alternatives of auto-escalation to 8 percent (over 4 years) and a fixed default rate of 8 percent (see Figure 19). Higher average employee contribution rates would obviously increase the AUM (see Figure 20) and improve the financial feasibility of the program. But, again, the results do not have much impact due to the voluntary nature of the program.

Figure 19. *Years until Cashflow Positive and Net Positive to State and Administrator, by Employee Contribution Rate*



Note: Participation is set at the voluntary baseline of 1 percent.
Source: CRR projections.

Figure 20. *Net Assets Under Management at the Beginning of the Year, by Contribution Rate*



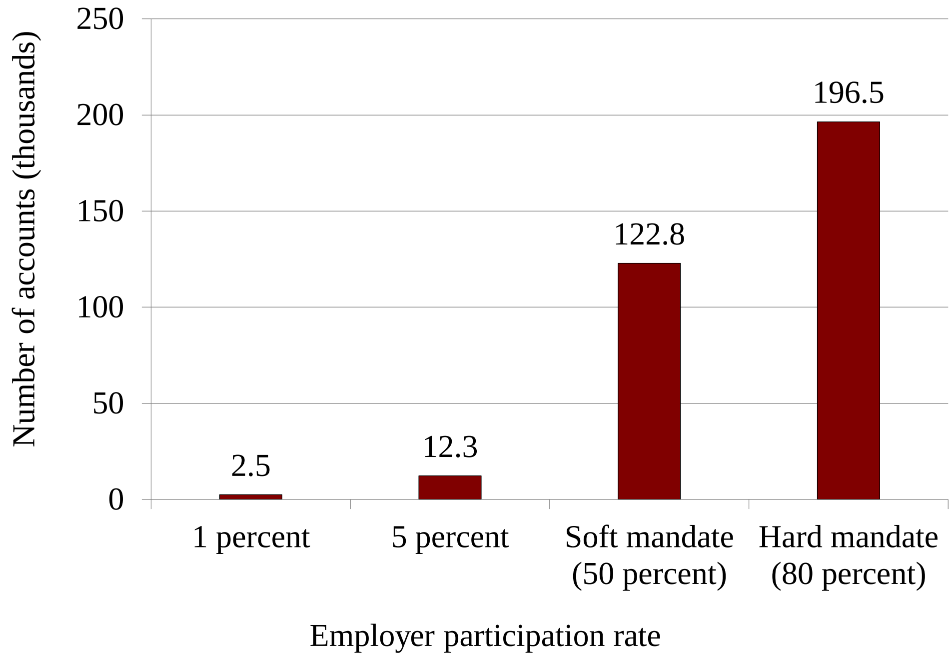
Note: Represents assets at the beginning of the year under baseline participation rates for a voluntary program with no autoenrollment.
Source: CRR projections.

Results Under an Employer Mandate and Auto-enrollment

As described in the previous section, a voluntary system – even under optimistic assumptions – falls short of New Mexico's goals for the Work and $ave IRA Program. To be financially self-sustaining within five years as required by the legislature, or even within a decade, greater employer and employee participation is needed, which can only be accomplished through an employer mandate and auto-enrollment.

A mandatory program with auto-enrollment produces a substantial change from the baseline scenario. Based on experience observed in Oregon, the assumed employer participation rate is increased from 1 to 50 percent with the addition of a mandate without penalties. If a mandate is coupled with penalties, the participation rates is assumed to be 80 percent. This scenario is also examined in the event that New Mexico introduces more stringent enforcement strategies. These options both show a quantum leap in the number of employee participants by year 10 of the program, from 2,460 under the voluntary baseline to almost 122,800 for the mandate without penalties and close to 196,500 for the mandate with penalties (see Figure 21).[39] The voluntary approach, thus, reaches only a small sliver of New Mexico's 430,000 uncovered workers, while the mandatory approach with auto-enrollment makes a substantial impact on closing the State's coverage gap. The major assumption change under a mandatory program is that New Mexico's Work and $ave IRA Program will not need to spend as much on marketing and communication, so ongoing costs can be reduced to $600,000 a year.

Figure 21. *Number of Employees Participating by Year 10 of Program, by Employer Participation Rate*



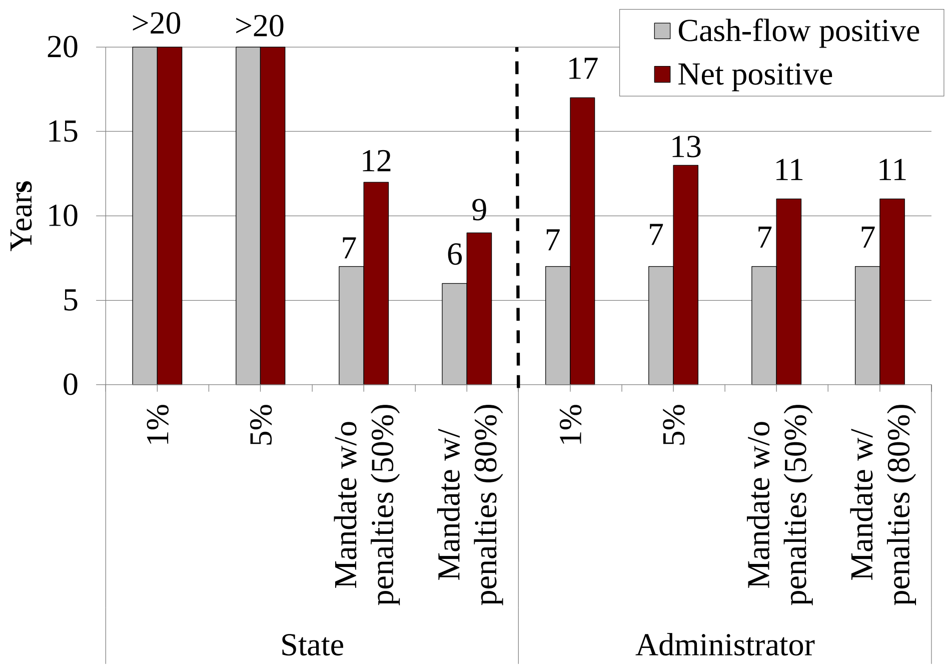
Source: CRR projections.

The large increase in employee accounts has a substantial impact on the program's financial picture. An employer mandate shortens the time it takes for both the State and the administrator to become cost neutral and net positive under the baseline scenario. A mandate significantly increases the number of accounts on which the State and the administrator can earn a fee. If a mandate with penalties were introduced together with auto-enrollment, the number of

[39] These projections are based on our estimates of the share of the New Mexico population that is uncovered, the population growth rate (0.5 percent), the percentage of employers we think will participate in a voluntary program without auto-enrollment (1 percent), and the share of workers who do not actively participate (~50 percent), accounting for the share of movers and employees that go inactive.

years to cash-flow positive status for the State would be cut to 6 years, close to the legislature's imposed self-financing timeline, and the number of years to net-positive status to 9 years (see Figure 22). Under a mandate, the administrator is projected to become cash-flow positive in 7 years and profitable in 11.

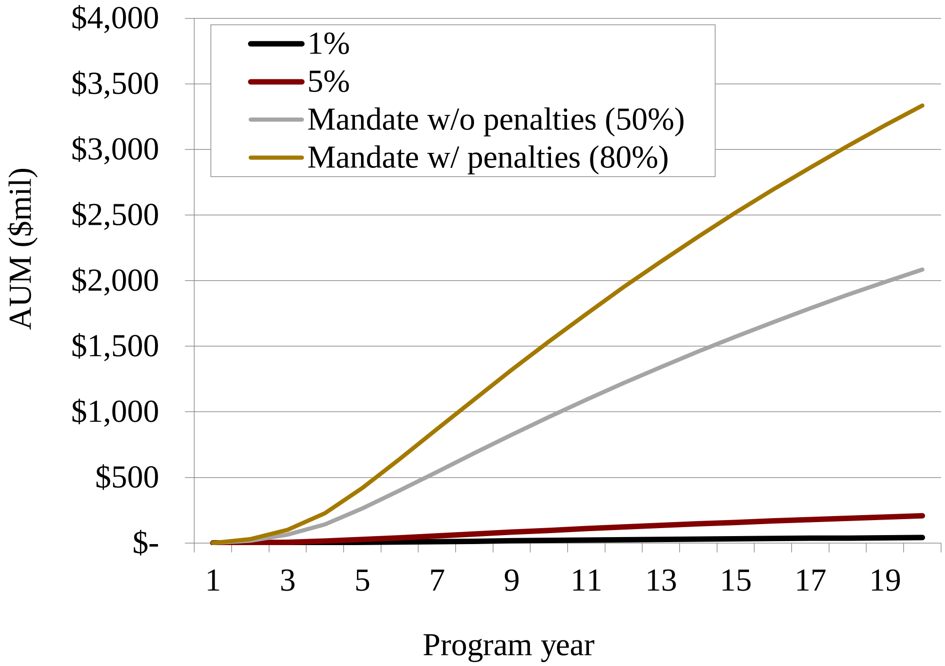
Figure 22. *Years until Cashflow positive and Net Positive to State and Administrator, by Employer Participation Rate*



Source: CRR projections.

A mandatory program is not only more financially feasible for both, it also will dramatically increase the amount of assets under management, and therefore revenue, for the administrator. The amount of AUM under a voluntary program, where the realistic employer participation rate is 1 percent, is projected to be $19 million in year 10 of the program. This is compared to $960 million in year 10 for a mandatory program without a penalty and $1.5 billion in in year 10 for a mandatory program with a penalty (see Figure 23).

Figure 23. *Net Assets Under Management, by Employer Participation Rate*

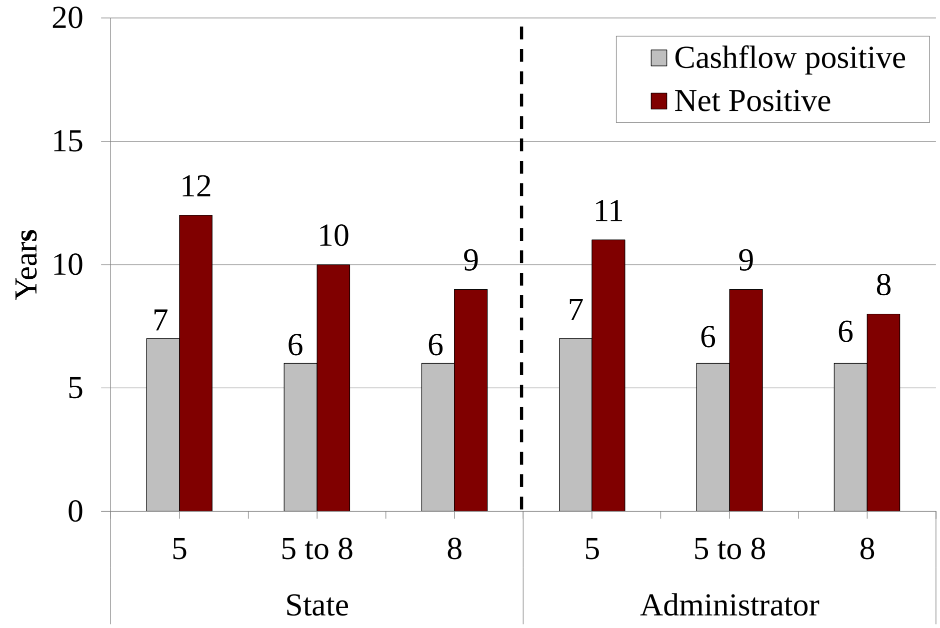


Note: Represents assets at the beginning of the year.
Source: CRR projections.

The positive financial impact of higher participation will have a larger positive effect for New Mexico than for the administrator, because, as discussed above, ongoing costs for the state are largely fixed, so more participants helps reduce the timeline to recoup costs. However, for the administrator, ongoing costs depend on the number of accounts. So as participants increase, so do their costs.

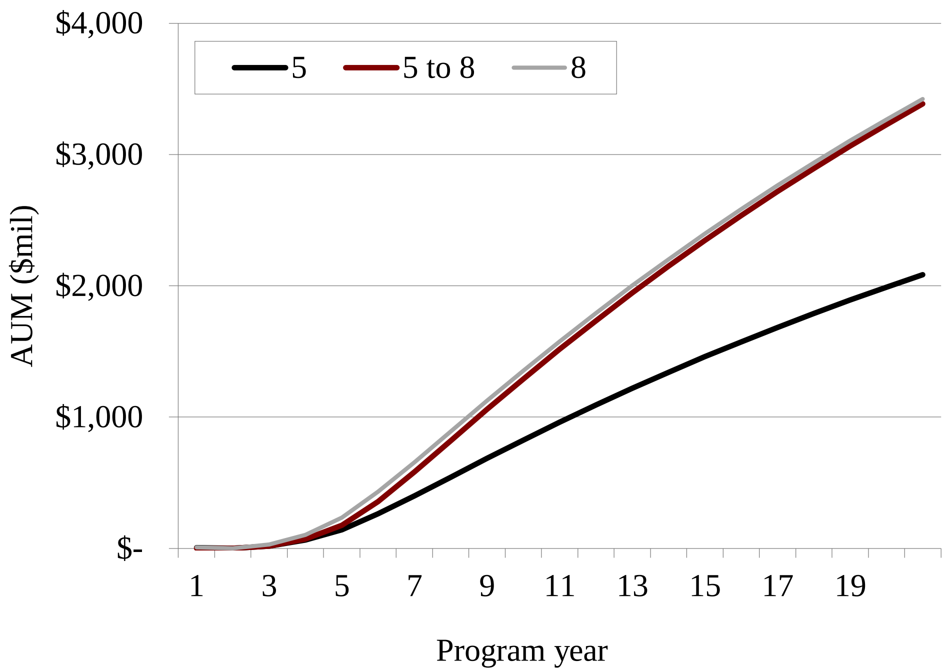
Although expanding the number of accounts dramatically improves the financial outlook of the IRA program, it will still require 6 years for the State to become cashflow positive and 11 years for the administrator to become profitable. Hence, the analysis also examines increasing the assumed employee contribution rate in the context of a mandatory environment (from a fixed rate of 5 percent to alternatives of 5 percent with auto-escalation up to 8 percent, over four years, and an 8-percent fixed rate). Figure 24 shows these results, which assume an employer participation rate of 50 percent. A higher participation rate coupled with an employer mandate improves the financial feasibility of the program and substantially improves the amount of AUM (see Figure 25); however the timeline to net-positive or profitability may still be too long, especially for the administrator.

Figure 24. *Years until Cashflow positive and Net Positive to State and Administrator Under a Mandate without Penalties, by Contribution Rate*



Source: CRR projections.

Figure 25. *Net Assets Under Management at the Beginning of the Year, by Contribution Rate*



Note: Represents assets at the beginning of the year under baseline participation rates for a mandatory program with 50% participation.
Source: CRR projections.

In summary, under the current version of New Mexico's IRA Program – as modeled in the baseline scenario – the program is not predicted to become cost neutral to the State or profitable to an administrator within a reasonable timeframe. Further, as currently enacted, the program is projected to reach only a tiny fraction of employees. The State has one main lever in its control that can dramatically improve the financial feasibility and employee reach of the program: the introduction of an employer mandate with auto-enrollment.

With a mandate and auto-enrollment, the program is projected to become self-sustaining within a decade for the State and profitable for the administrator in slightly more than a decade. And, importantly, this program design feature has the potential to reach 196,600 uncovered employees by year 10, cutting New Mexico's coverage gap in half. If, in addition to making the program mandatory with auto-enrollment, New Mexico also adopted a higher default contribution rate, the financial outlook would be even stronger.

Results from Partnering with Colorado

Since New Mexico is a small state, even a mandatory IRA program may not be able to achieve scale in time for the State to become cashflow positive within five years, as required by the legislature, and for the administrator to become profitable within four years, as often necessary. Additionally, New Mexico's workforce has lower wages, higher employee turnover, and lower retirement coverage rates than other states that have launched mandatory auto-IRA programs. Therefore, the pace of employer enrollment, employee opt-out rates, and mobility in and out of the program may create more challenges than in other states – all of which affect the financial feasibility of the program.

Partnering with another state, such as Colorado, could mitigate these risks for several reasons. The most important is that partnering dramatically increases the number of employers and employees eligible for the auto-IRA program and thereby shortens the time it takes for the program to be cash flow positive for the state and profitable for the administrator. A larger population could also help both states to reduce costs through economies of scale and enable them to negotiate lower fees or better fee sharing with plan administrators. Finally, a cross-state partnership could also help New Mexico workers who get a new job in Colorado or vice versa to continue contributing and building up savings.

The extent of the benefits and cost savings from partnering with Colorado, or any other state, depends on the level of state-specific customization that New Mexico and Colorado each require for their auto-IRA programs. If the two states want different investment options, fee structures, branding, marketing campaigns, and independent websites, the cost savings for the states would be minimal. On the other hand, a fully integrated program with limited customization could produce significant economies of scale. The ultimate desired level of customization might be somewhere in between.

Fully Customized Partnership

In a partnership in which New Mexico and Colorado want high degrees of customization for the program, the benefits from economies of scale are small and limited to the cost side. Distinctive plan features and infrastructure for the two IRA programs will require similar amounts of resources as two independent stand-alone plans. Small cost savings might still be achieved as some resources can be coordinated and shared. State start-up costs are assumed to be $700k for each state ($1.4 million total for both states) compared to the current estimated costs of $800k for a standalone mandatory program in New Mexico (see Table 8). Ongoing costs are also assumed to be slightly lower at $500k for each state ($1 million total for both states) compared to $600k if New Mexico launched a program on its own. The administrator may also achieve cost savings for on-going costs as two plans increase the number of participants and share some of the costs of providing statements, fund accounting, and additional call center personnel. Therefore, administrator ongoing costs are assumed to decrease from $20 to $10 annually per account.

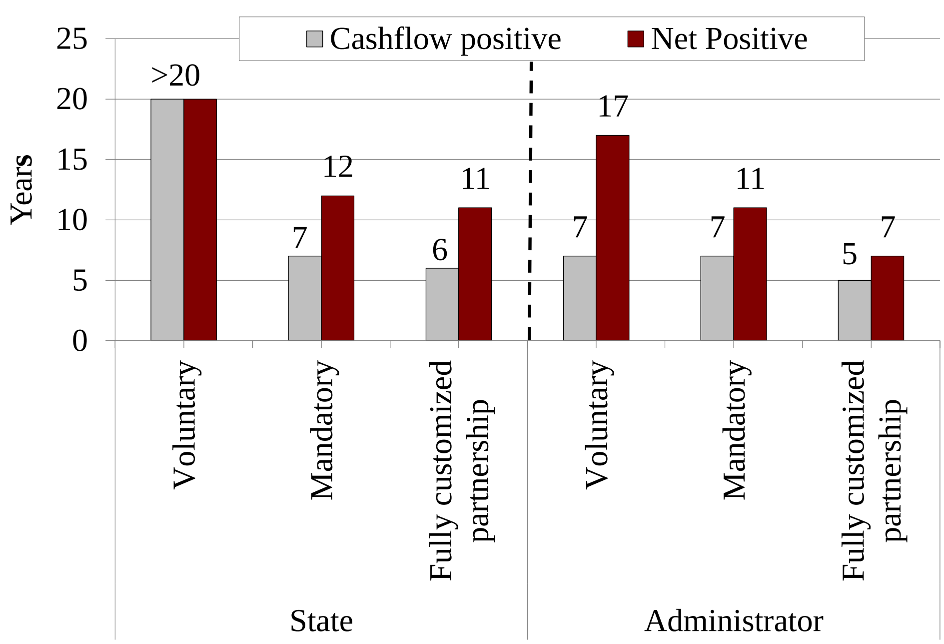
Table 8. *Baseline Inputs for New Mexico & Colorado IRA Program Partnership, by Degree of Customization*

Parameter	Stand-alone mandatory	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

Source: CRR assumptions based on experience of other states, research literature, and conversations with New Mexico Work and $ave staff.

Figure 26 shows that even small cost savings can improve the financial feasibility of the program, reducing the period for the administrator to become profitable from 8 to 7 years.

Figure 26. *Years until Cashflow positive and Net Positive to State and Administrator, by Selected Program Type*



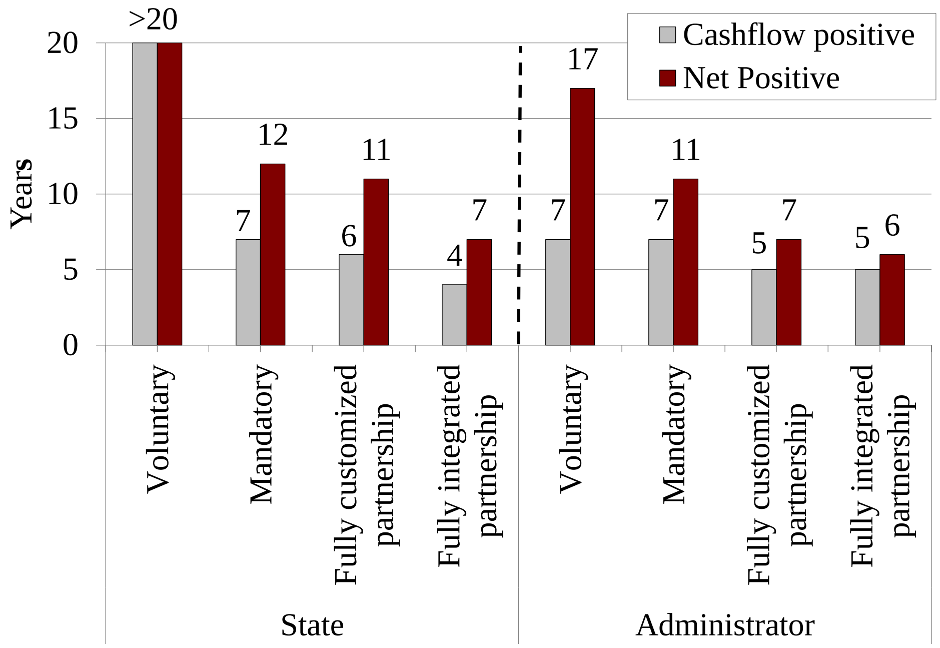
Note: Assumes a soft mandate (50-percent employer participation).
Source: CRR projections.

Fully Integrated Partnership

A fully integrated partnership would allow for economies of scale on both the cost and the revenue side. On the cost side, state start-up costs are assumed to be $900k for both states combined, compared to $1.4 million for a highly customized partnership. Ongoing costs are assumed to be $750k for both states combined, compared to $1 million in in a highly customized partnership. Costs for the administrator would also be lower, with start-up costs decreasing to $500k and an additional $100 per employer. Ongoing costs are $10 annually per account (see Table 8).

On the revenue side, a fully integrated NM/CO partnership is analogous to a larger state launching an auto-IRA program. A larger state means more employers and more participants, which reduces the time it takes for the state to become cash flow positive and the administrator to become net positive or profitable. As shown in Figure 27, a fully-integrated partnership allows New Mexico to become cash flow positive in 4 years, compared to 6 years in a highly customized partnership, and 7 years if New Mexico wanted to launch its own mandatory auto-IRA. A fully-integrated partnership would allow the administrator to become profitable in 6 years, compared to 7 years in a highly customized partnership, and 11 for a standalone program.

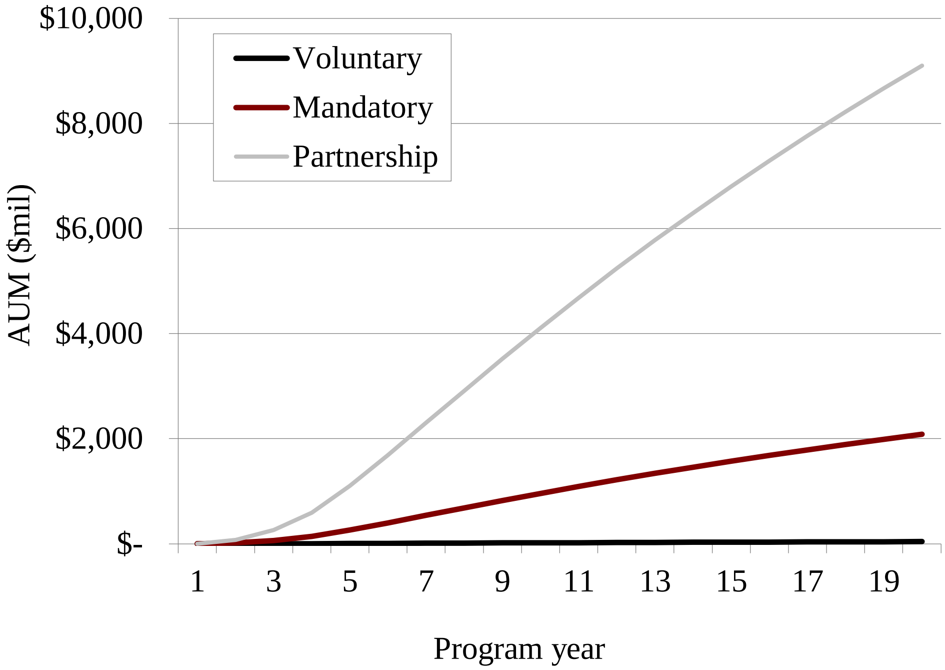
Figure 27. *Years until Cashflow positive and Net Positive to State and Administrator, by Program Type*



Note: Assumes a soft mandate (50-percent employer participation).
Source: CRR projections.

Regardless of the level of integration across the two states, a partnership program will allow the administrator to dramatically increase AUM and increase the level of revenue flow. In fact, the amount of AUM would be at least 4x higher in any given year in a NM/CO partnership than if NM launched a standalone program (see Figure 28).

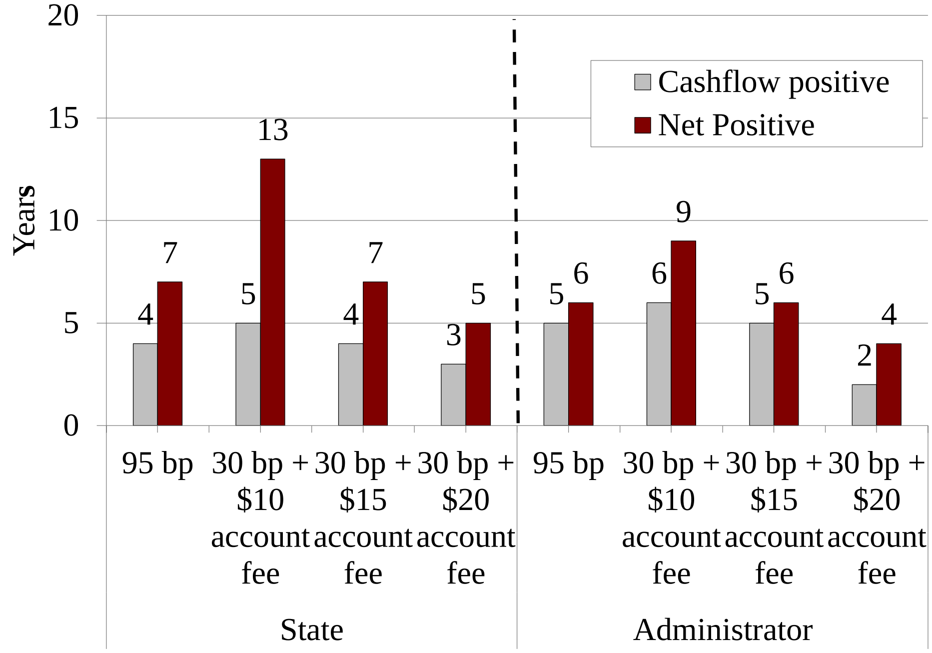
Figure 28. *Net Assets Under Management at the Beginning of the Year, by Contribution Rate*



Note: Represents assets at the beginning of the year under baseline participation rates for a mandatory program with 50% participation.
Source: CRR projections.

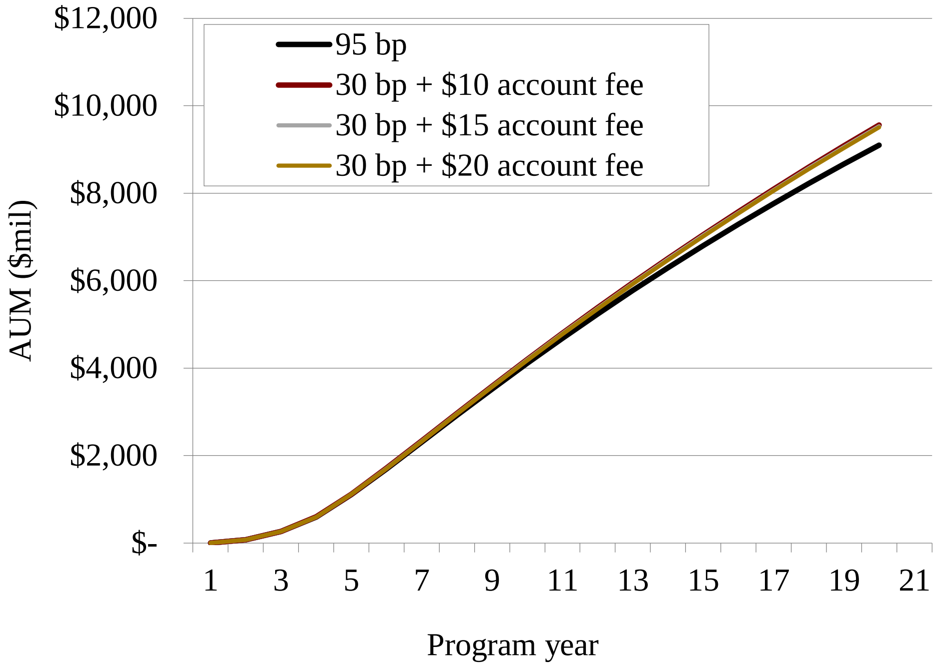
Additionally, administrators are beginning to shift their fee structure from basis points on net assets to a combination of basis point fees and a flat per-account fee. Recently OregonSaves shifted their fees to 25 basis points, not including what is paid to the investment manager, plus a $18 per-account fee ($4 of which goes to the State). If the New Mexico/ Colorado partnership program adopted a similar fee structure, the administrator would be able to be profitable by the fourth year (see Figure 29). Figure 30 shows the corresponding AUM. Any flat dollar fee structure would translate into higher fees as a percentage of assets when workers are first starting to save and account balances are small, but lower fees as a percentage of assets after workers are able to accumulate a small balance. If a flat per-account fee structure becomes standard, the more integrated the partnership, the shorter the timeline for profitability for the administrator, which would give New Mexico and Colorado more leverage in negotiating lower fees.

Figure 29. *Years until Cost Neutral to State and Profitable to Administrator, by Fee Structure*



Note: Assumes a soft mandate (50-percent employer participation). For basis point fee structures, the fees are split 10 percent to the investment manager, 15 percent to the state, and 75 percent to the recordkeeper. For combination basis point and per-account fee structures, the basis point fees are split 33% to the investment manager, and 66% to the recordkeeper. The per-account fees are split 25 percent to the state and 75 percent to the recordkeeper.
Source: CRR projections.

Figure 30. *Net Assets Under Management at the Beginning of the Year, by Contribution Rate*



Note: Represents assets at the beginning of the year under baseline participation rates for a mandatory program with 50% participation.
Source: CRR projections.

Conclusion

To ensure a secure retirement, workers need access to a savings plan through the workplace. Yet, in New Mexico, about 330,000 workers are with an employer that does not offer a retirement plan and another 64,000 work for an employer that offers a plan, but are not eligible for the plan. In response to this coverage gap, the New Mexico Work and $ave IRA Program would introduce a payroll deduction IRA for employers who do not offer a plan to any or all of their employees. While several other states have adopted and begun implementing programs to close the coverage gap, a key difference with the New Mexico Work and $ave IRA Program is that participation for employers is voluntary, rather than mandatory, and workers at participating employers are not auto-enrolled.

Success can be measured along two dimensions: 1) the level of participation by employers and employees and the amount of savings that employees accumulate; and 2) the ability to provide sufficient revenue to attract a private sector administrator and to recover the State's start-up costs in a reasonable period of time.

On the first dimension, the CRR estimates that only about 1 percent of employers will sign up for a voluntary program and, among these firms, about 50 percent of workers will have positive account balances. The implication is that New Mexico's IRA Program will find it virtually impossible to reach more than a small fraction of New Mexico workers who could benefit from a workplace savings plan if it remains a voluntary program without auto-enrollment. In contrast, the experiences of states with employer mandates and auto-enrollment have shown promising results.

On the financial dimension, the CRR baseline scenario projects that, under the current design, the New Mexico Work and $ave IRA Program would not become cost neutral to the State or profitable to an administrator within a timeframe close to the State's target of 5 years. Further, this voluntary program is projected to reach only about 2,460 employees by year 10 and is expected to generate low account balances.

However, the State does control one lever that can dramatically improve the financial feasibility and employee reach of the program: introducing an employer mandate with auto-enrollment. And, if coupled with a higher default contribution rate, these changes would further boost the program's likelihood of success in shrinking the coverage gap and strengthening the retirement security of New Mexico's workers while providing the revenue necessary to cover program costs in less than a decade.

Another way to reduce the time it takes to cover program costs is partnering with another state. A partnership auto-IRA with Colorado, which is in the process of introducing its own auto-IRA program, would allow for economies of scale and reduce the number of years required to cover start-up and operating costs considerably. A partnership, especially a fully integrated one, would also give New Mexico and Colorado more leverage in negotiating fees, which would improve asset accumulations for New Mexico's workers.

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Technical Appendix

Our feasibility model evaluates three main financial metrics for the state and the administrator: 1) the number of years until cashflow positive; 2) number of years until net positive or profitable; 3) the maximum loss. These three metrics can help the state and the administrator evaluate the revenue potential, costs, payback horizon, and risk of launching a new state IRA program.

Our feasibility model requires several data inputs, a full list can be found in Table A1. We thank the University of New Mexico Bureau of Business and Economic Research (UNM BBER) for their collaboration in processing the data inputs required for the model.

Eligible Employers

To begin, we need to determine the number of employers in New Mexico. Eligible employers are those who do not currently offer a plan. The number of employers comes from the Statistics of U.S. Businesses (SUSB) and the share that offer a retirement place comes from the National Compensation Survey (NCS). Since smaller firms are less likely to offer a retirement plan, we estimate the number of firms without a plan by firm size. Once we have the number of total employers that would be eligible, the number of employers that will participate in the plan is therefore dependent on our assumed employer participation rate. This participation rate depends on the program type (i.e. whether it is voluntary or mandatory and whether there are penalties) and is based on the prior research and the experience of other states. We build in a 4-year "ramp up" period, meaning it will take 4 years for overall employer participation to reach our ultimate assumed rate. This reflects New Mexico's plan to have a phased launch of their IRA program and also reflects the experience of other states where employer compliance has been slow.

Eligible Employees

Next, we estimate the number of eligible employees in New Mexico. Data on the size of New Mexico's workforce comes from the Bureau of Labor Statistic, Current Employment Statistics (CES). We use at 20-year average employment growth rate between 2000-2021 to project employment until 2044. Next, we estimate the number of total employees who are not covered by a retirement plan at work. The retirement plan coverage rate for New Mexico comes from the Current Population Survey Annual Social and Economic Supplement (CPS ASEC). Multiplying this coverage rate by New Mexico's total workforce gives us the size of the workforce currently without a retirement plan and likely eligible for the IRA program.[40]

Regardless of whether New Mexico launches a voluntary, stand-alone mandatory, or partnership IRA program, the employer must first enroll before their employee can participate. So, we multiply the share of eligible employers that would enroll, depending on program type, with the number employees without a plan.

Employee Mobility

Employee mobility has important implications for participation in the IRA program and, as a result, the assets in the program. Once we have the baseline total number of employees that will participate in each year, it is important to consider the share of workers who move to a job that is outside of the program (to covered employment, unemployment, retirement, or moving out of state). Accounting for workforce mobility provides us with the number of active accounts in each given year.[41] Mobility data comes from the Survey if Income and Program Participation (SIPP).

Assets Under Management

Once we have the number of active accounts, we can estimate the amount of contributions into the program. Contributions are simply a function of the number of active accounts, average wages, and the contribution rate. Wage data comes from the CPS ASEC and the average contribution rate is a program lever.[42] Once we have annual contributions, the projected assets under management is simply the total amount of assets currently in the program from prior years minus any in service leakages, lumpsum withdrawals, and fees.[43] The remaining assets is then multiplied by the assumed rate of return and current year contributions are added in.

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[40] We remove the number of workers who are under 18 or are unauthorized workers. The share of workers under 18 comes from the CPS ASEC. An estimate of the number of unauthorized workers in each state comes from PEW.

[41] Workers that move out of the program but remain in the state and not retired will be able to enter the program again in the next year.

[42] For a full list of model levers, see Table A2.

[43] Baseline annual in-service leakages ($100 per account per year) and share of leavers taking lump sum (20 percent) is based on the observed experience in OR but can be adjusted in the model levers.

State and Administrator Revenue

The amount of revenue for the State and the Administrator depends on the total level of fees charged and the fee split between the investment manager, New Mexico (and Colorado in a partnership program), and the administrator. Both the level of fees and the fee split are model levers.

State and Administrator Costs

There are two types of costs that that New Mexico and the Administrator will incur. The first type is the start-up cost, or the cost it takes to get the program up and running. The second cost is the ongoing cost to keep the program running. Both sets of costs are based on conversation with administrators, conversations with New Mexico Work and $ave, and budget reports.

Financial Metrics

The year that operating revenue (revenue from fees) exceed operating costs is the year that the program becomes cashflow positive. The number of years it takes for revenue to cover operating costs is important for both the State(s) and the administrator because it determine how long it takes for the program to be self-financing or no longer running a deficit. This timeline is different for New Mexico and the administrator because of different ongoing costs and fee splits. Once a program is cashflow positive, any revenue in addition to what is needed to cover ongoing operating costs can be used to payback initial investments. The time it takes for initial investments to be paid back is the number of years required to become net positive or profitable. This metric may not be important to the state of New Mexico as they are not required to cover initial investments but is crucially important for the administrator as that is the timeline they expect to be profitable. The final financial metric is maximum loss. This is the largest deficit that the program will incur and appears in the year right before the program becomes cashflow positive. This maximum deficit serves both as a measure of risk to the two parties as well as the amount of money New Mexico might need to support early operations.

Table A1. *Data Sources for Feasibility Model Inputs*

Model Input	Public data source
Private Sector Population and Coverage Data	
Total private sector employees in NM and CO (2000 - 2021)	BLS Current Employment Statistics (CES) State and Metro Area Employment, Hours, & Earnings Data
Percent of private sector employees incorporated self-employed; demographics; age and wage distribution by coverage status (state level)	CPS ASEC 2021
Participation and coverage rates, by firm size groups (state level)	CPS ASEC 2014
Employer Data	
Number of firms and number of employees by employment size (state level)	Statistics of U.S. Businesses (SUSB 2018)
Employers not offering a plan by employment size (national level)	National Compensation Survey (NCS) 2021
Firm size by firm age by state	Census Business Dynamics Statistics (BDS 2016)
Mobility Data (Full-time Employees)	
Employee movement, by coverage status (state level)	Survey of Income and Program Participation (SIPP) 2008, 2004, and 1996
Other	
Estimated number of unauthorized workers (state level)	Pew Research Center estimates based on augmented U.S. Census Bureau data (2019).
Program participation rates (based on Oregon Saves)	Quinby et. al (2020)

Table A2. *Feasibility Model Levers*

Model levers	Options
Eligible population	
Program type	Voluntary
	Mandatory
	Partnership w/ customization, Partnership w/o customization
Employers included	All employers
	Firm size 5+/ age 2+
	Firm size 20+ / age 2+
Employer participation rate	Voluntary: 1-15%
	Mandatory: 20 – 100%
Contributions, participation, and withdrawals	
Contribution rate	3%-8%
	5% with auto-escalation to 8%
Rate of return on investments	High blended (7 percent)
	Middle blended (5 percent)
	Low blended (3 percent)
	0 years 1-3, 3 percent after
	Adverse market early in program
	Adverse market late in program
Annual in-service leakages	$100-$500
Share of leavers taking lump-sum	10%-60%
Program costs and revenue	
Administrator startup costs	Optimistic ($500k, $100 per emp)
	Recommended ($750k, $150 per emp)
	Conservative ($1.0m, $200 per emp)
Administrator per-account cost	Optimistic ($10)
	Recommended ($20)
	Very conservative ($30)
State startup cost	$700k - $2 million
State ongoing cost	$500k - $1.5 million
Basis point fee on net asset values	30b.p- 150b.p.
Fee split on b.p fees (Invest/State/Record)	10/15/75
	10/10/80
	10/5/85
	5/5/90
	33/0/67 (net asset + per-account fees)
	25/0/75 (net asset + per-account fees)
Per-account fees	$10 - $50
Fee split on account fees (Invest/State/Record)	0/50/50
	0/33/67
	0/25/75