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# Office of the Vermont State Treasurer Green Mountain Secure Retirement Plan Board Meeting

April 2, 2018



# AGENDA

## APRIL 2, 2018

- **Intro and Review**
  - Background and overview of the act and duties
  - Overview of the implementation timeline
  - Overview of feedback from public hearings
- **Board Responsibilities and Onboarding**
  - Any business before the board
  - Conflict of interest policy
  - Staff overview of process
- **Open Discussion and Next Steps**
- **Public Comment**



# WHAT IS THE NEED FOR THIS PLAN?

- 50% of households are at risk of being unable to maintain their pre-retirement standard of living in retirement according to the Center for Retirement Studies at Boston College.<sup>1</sup>
- About 90 percent of households participating in a workplace retirement plan today report that payroll deductions are very important and make it easier to save.<sup>2</sup>
- About 45 percent of Vermont's private sector employees—roughly 104,000—work for an employer that does not offer a retirement plan.<sup>2</sup>
- Small-business employees are less likely to have a plan: Workers in Vermont businesses with fewer than 100 employees are much less likely to have access to a plan (61 percent) than workers in larger businesses (29 percent).<sup>2</sup>
- Nationally, only 50% of those employed by firms with fewer than 100 workers have access to employer sponsored plans.<sup>3</sup>
- Individuals with adequate and reliable retirement income buy goods and service and contribute to the economy, creating jobs.
- Individuals who are retirement age and who have inadequate or no retirement plan would force states to dedicate higher percentages of their state budgets to social services. Moreover, with higher percentages of seniors with inadequate retirement savings, states will have smaller tax bases from which to draw to pay for services.<sup>4</sup>

1. National Retirement Risk Index, 2016  
2. AARP, Fact Sheet: Vermont, "Workplace Retirement Plans Will help Workers Build Economic Security", August 2015  
3. Bureau of Labor Statistics, 2014  
4. The Washington Post, Sept. 12, 2013, "The Northeast is getting older, and it's going to cost them"



# ***PUBLIC RETIREMENT STUDY COMMITTEE RECOMMENDATION & THE GREEN MOUNTAIN SECURE RETIREMENT PLAN***

- In 2014 the Public Retirement Study Committee was charged with completing an interim study of the feasibility of establishing a public retirement plan. Since then, reports were completed and filed with the Vermont General Assembly in 2015, 2016, and 2017.
- In 2017 the Public Retirement Study Committee, Chaired by the Treasurer, recommended that the General Assembly direct the Office of the State Treasurer to work towards implementation of a “Voluntary open multiple employer plan (MEP)” with an overarching goal of increasing retirement security for all Vermonters.
- Act 69 of 2017 set forth this directive with an implementation date of January 15, 2019. Act 69 was signed into law by the Governor on June 9, 2017 as a part of the omnibus economic development bill (S.135, 2017).



# OVERVIEW OF ACT 69 OF 2017

## THE GREEN MOUNTAIN SECURE RETIREMENT PLAN

### Act 69, Sec. C.1.

(a) The State of Vermont shall, consistent with federal law and regulation, adopt and implement a voluntary Multiple Employer Plan (MEP) public retirement plan, which shall remain in compliance with federal law and regulations once implemented, and shall be called the “Green Mountain Secure Retirement Plan.”

(b) The Plan shall be designed and implemented based upon the following guiding principles:

- (1) Simplicity: the Plan should be easy for participants to understand.
- (2) Affordability: the Plan should be administered to maximize cost effectiveness and efficiency.
- (3) Ease of access: the Plan should be easy to join.
- (4) Trustworthy oversight: the Plan should be administered by an organization with unimpeachable credentials.
- (5) Protection from exploitation: the Plan should protect its participants, particularly the elderly, from unscrupulous business practices and individuals.
- (6) Portability: the Plan should not depend upon employment with a specific firm or organization.
- (7) Choice: the Plan should provide sufficient investment alternatives to be suitable for individuals with distinct goals, but not too many options to induce analysis paralysis.
- (8) Voluntary: the Plan should not be mandatory but autoenrollment should be used to increase participation.
- (9) Financial education and financial literacy: the Plan should assist the individual in understanding his or her financial situation.
- (10) Sufficient savings: the Plan should encourage adequate savings in retirement combined with existing pension savings and Social Security.
- (11) Additive not duplicative: the Plan should not compete with existing private sector solutions.
- (12) Use of pretax dollars: contributions to the Plan should be made using pretax dollars.



## OVERVIEW ACT 69 OF 2017 CONT.

**(c) The Plan shall:**

(1) be available on a voluntary basis to:

(A) employers:

(i) with 50 employees or fewer; and

(ii) that do not currently offer a retirement plan to their employees; and

(B) self-employed individuals;

(2) automatically enroll all employees of employers that choose to participate in the MEP;

(3) allow employees the option of withdrawing their enrollment and ending their participation in the MEP;

(4) be funded by employee contributions with an option for future voluntary employer contributions;

# OVERVIEW ACT 69 OF 2017 CONT.

## BOARD RESPONSIBILITIES

(5) be overseen by a board:

**(A) that shall:**

- (i) set program terms;
- (ii) prepare and design plan documents; and
- (iii) be authorized to appoint an administrator to assist in the selection of Investments, managers, custodians, and other support services; and

**(B) that shall be composed of seven members as follows:**

- (i) an individual with investment experience, to be appointed by the Governor;
- (ii) an individual with private sector retirement plan experience, to be appointed by the Governor;
- (iii) an individual with investment experience, to be appointed by the State Treasurer;
- (iv) an individual who is an employee or retiree, to be appointed by the State Treasurer;
- (v) an individual who is an employee advocate or consumer advocate, to be appointed by the Speaker of the House;
- (vi) an individual who is an employer with 50 employees or fewer and who does not offer a retirement plan to his or her employees, to be appointed by the Committee on Committees; and
- (vii) the State Treasurer, who shall serve as chair.

# OVERVIEW ACT 69 OF 2017 CONT.

## BOARD RESPONSIBILITIES CONT.

**(C) (The Board...) shall, on or before January 15, 2020 and every year thereafter, report to the House and Senate Committees on Government Operations concerning the Green Mountain Secure Retirement Plan, including:**

- (i) the number of employers and self-employed individuals participating in the plan;
- (ii) the total number of individuals participating in the plan;
- (iii) the number of employers and self-employed individuals who are eligible to participate in the plan but who do not participate;
- (iv) the number of employers and self-employed individuals, and the number of employees of participating employers who have ended their participation during the preceding 12 months;
- (v) the total amount of funds contributed to the Plan during the preceding 12 months;
- (vi) the total amount of funds withdrawn from the Plan during the preceding 12 months;
- (vii) the total funds or assets under management by the Plan;
- (viii) the average return during the preceding 12 months;
- (ix) the costs of administering the Plan;
- (x) the Board's assessment concerning whether the Plan is sustainable and viable;
- (xi) once the marketplace is established:
  - (I) the number of individuals participating;
  - (II) the number and nature of plans offered; and
  - (III) the Board's process and criteria for vetting plans; and
  - (xii) any other information the Board considers relevant, or that the Committee requests.

**(D) for attendance at meetings, members of the Board who are not employees of the State of Vermont, and who are not otherwise compensated by their employer or other organization, shall be reimbursed at the per diem rate set in 32 V.S.A. § 1010 and shall be reimbursed for mileage and travel expenses.**

**The State of Vermont shall implement the "Green Mountain Secure Retirement Plan" on or before January 15, 2019, based on the VT LEG #326302 v.1 recommendations of the Public Retirement Plan Study Committee as set forth in 2016 Acts and Resolves No. 157, Sec. F.1.**

# PLAN DEVELOPMENT: KEY PARTICIPANTS

## Public Retirement Study Committee Members (sunset

- **Beth Pearce**, Chair, Vermont State Treasurer
- **Monica Hutt**, Commissioner, Vermont Department of Disabilities, Aging & Independent Living
- **Lindsay Kurrle**, Commissioner, Vermont Department of Labor
- **Robert Hooper**, Trustee and Board Member at Vermont Pension Investment Committee, Appointed by the legislative Committee on Committees
- **Rebecca Towne**, Vermont Gas, Appointed by the Legislative Committee on Committees
- **Russ Bennett**, founder and owner of NorthLand Visual Design & Construction Inc, Appointed by the Speaker
- **Dan Boardman**, Owner, Hickock & Boardman Retirement Solutions, Appointed by the Speaker
- **Lindsay DesLauriers**, State Director of Mainstreet Alliance of Vermont, Appointed by the State Treasurer

## Green Mountain Secure Retirement Board Members

- **Dan Boardman**, Appointed by the Governor (*Private Sector Retirement Plan Experience*)
- **Paul Dame**, Appointed by the Governor (*Investment Experience*)
- **Sivan Cotel**, Appointed by the Treasurer (*Investment Experience*)
- **Robert Hooper**, Appointed by the Treasurer (*Employee or Retiree*)
- **Margi Swett**, Appointed by the Senate Committee on Committees (*employer with 50 employees or fewer and who does not offer a retirement plan to his or her employees*)
- **Dave Reville**, Appointed by the Speaker of the House (*Employee Advocate or Consumer Advocate*)
- **Beth Pearce**, Treasurer, shall serve as chair, by statute.



# SNAPSHOT OF OTHER STATE PLANS

## Oregon Saves Retirement Plan:

Average Contribution Rates:

**Pilot 1 (started July 2017): 4.62%**

**Pilot 2 (started October 2017): 4.69%**

Standard Contribution Rate: 5% - participants can choose to save at more or less. Will be a mandatory plan for all employers.

## California Secure Choice Retirement Plan:

Standard Contribution Rate: **3%** -

**Participants can choose to contribute up to 8% of income**

Anticipated soft launch summer or fall of 2018.

Anticipated opening for statewide enrollment in early 2019.

## Illinois Secure Choice Savings Program:

Participants will have a default 5% contribution rate.

They will have the option to change their deduction amount or opt-out entirely.

1<sup>st</sup> Phase of Pilot Program to take place in 2018.

## Washington Small Business Retirement Marketplace:

Marketplace launched on January 1, 2017.

Employees can choose from a range of retirement plans offered online by the Marketplace.

In process of collecting additional data.

# WHY DID VERMONT SELECT A MEP MODEL?

- A Multiple Employer Plan or MEP is a single retirement plan adopted by two or more unrelated employers.
- Other states have enacted individual retirement accounts (IRAs) using auto-enrollment or “auto-IRAs” vs. the Multiple Employer Plan (MEP) utilized by Vermont. Each state must evaluate what is best for its needs but Vermont selected a MEP for a number of reasons.
- Participation in the MEP is **voluntary** by employers while mandated in the Auto-IRA.
- Auto enrollment for employees with opt out advantage exists for both Auto-IRAs and MEPs.
- Contribution limits are higher for MEPs.
  - For 2018, the contribution limit for employees into these types of accounts is rising from \$18,000 to \$18,500.
  - For participants who will be age 50 and older by the end of 2018, the catch-up contribution amount is \$6,000, meaning that older savers can choose to defer up to \$24,500 of their compensation into their accounts.
  - For the Auto-IRA option, participants in 2018 contribute up to \$5,500 for the 2018 tax year, with an additional \$1,000 catch-up contribution allowed for individuals age 50 or older.
- Optional employer contribution is permitted under a MEP but not under the auto-IRA plan. This provides additional flexibility in the future for employers that may wish to contribute.



# 2015 DEPARTMENT OF LABOR INTERPRETATIVE BULLETIN

- “Multiple Employer Plan (MEP)...involves a state establishing and obtaining IRS tax qualification for a ‘multiple employer’ 401(k)-type plan, defined benefit plan, or other tax-favored retirement savings program.”
- “The Department anticipates that such an approach would generally involve permitting employers that meet specified eligibility criteria to join the state multiple employer plan.”
- “The plan documents would provide that the plan is subject to Title I of ERISA and is intended to comply with Internal Revenue Code tax qualification requirements.”
- “The plan would have a separate trust holding contributions made by the participating employers, the employer’s employees, or both.”
- “The state, or a designated governmental agency or instrumentality, would be the plan sponsor under ERISA section 3(16)(B) and the named fiduciary and plan administrator responsible (either directly or through one or more contract agents, which could be private-sector providers) for administering the plan, selecting service providers, communicating with employees, paying benefits, and providing other plan services.”
- “A state could take advantage of economies of scale to lower administrative and other costs.”

**Source:** <https://www.gpo.gov/fdsys/pkg/FR-2015-11-18/html/2015-29427.htm> [Federal Register Volume 80, Number 222 (Wednesday, November 18, 2015)]



# ADVANTAGES FOR EMPLOYERS

- Many small business owners indicate that cost and administrative time/effort are the biggest barriers to offering a retirement savings plan.
- By combining assets from multiple employers, a MEP may achieve economies of scale.
  - Lower investment and administrative fees.
- Simplified turnkey option for employers.
- Heavy lifting is outsourced as the employer's fiduciary responsibility is limited to a decision as to whether to make it available to its employees and remit contributions.
  - IRS reporting (Form 5500), auditing and selection and investment managers is completed by the sponsor and third party administrators and not the employer.
  - Take advantage of add-ons like financial literacy and educational materials.



# ADVANTAGES TO EMPLOYEES

- Simple, low-cost way to save and look forward to a level of financial security in their retirement
- Easy to join: Auto enrollment with opt-out provision
- Low fees
- Well vetted, “best in class” investment options
- Pre-tax dollars
- Portability
- Choice- offer sufficient investment alternatives to be suitable for individuals with distinct goals; give participants flexibility based on their risk tolerance and their individual retirement time horizon



# DRAFT IMPLEMENTATION TIMELINE (2017-2020)

## November 2017:

- Public Retirement Study Committee (PRSC) meeting to review timeline of Secure Retirement program rollout and to review materials from Oregon's program (**November 21, 2017**)
- Discussion with outside groups with expertise regarding technical assistance that can be provided at little or no cost
- Outline scope of services for RFP consultant
- Treasury staff prepare simplified bid RFP for RFP consultant

## December 2017:

- Begin process of reaching out to invite interested parties to public hearings in January
- Issue simplified bid for RFP consultant
- Review bids, select vendor, and develop contract for RFP consultant (Segal selected as consultant)



# DRAFT IMPLEMENTATION TIMELINE (2017-2020)

## January 2018:

- Continue outreach for public hearings
- PRSC presents findings and update on the Secure Retirement plan to General Assembly (January 15, 2018)
- PRSC sunsets (January 15, 2018)
- Public hearing in Montpelier to obtain feedback and input from stakeholders on plan (January 22, 2018)
- Public hearing in Rutland to obtain feedback and input from stakeholders (January 29, 2018)
- Develop draft RFI with RFP consultant (Segal selected as consultant)

## February 2018:

- Issue RFI (February 16, 2018)
- All seven appointments made to Green Mountain Secure Retirement Board



# DRAFT IMPLEMENTATION TIMELINE (2017-2020)

## March 2018:

- RFI response due (end of month)

## April 2018:

- GMSRB/Treasury discussion & decision regarding vendor selection
- Issue RFP and release for bidding process

## May 2018:

- RFP responses due
- GMSRB discussion & decision regarding Third-Party Administrator selection

## June 2018:

- Contract negotiation and other items to be completed prior to signed contract with Third-Party Administrator
- In cooperation with Third-Party Administrator, line up implementation, outreach, marketing, and press for fall launch

## July 2018:

- Contract must be finalized and signed with vendor (**July 15, 2018**)
- Continue preparation for launch



# DRAFT IMPLEMENTATION TIMELINE (2017-2020)

## August 2018–September 2018

- Approve and finalize Adoption Agreement and Plan documents

## October 2018–November 2018

- Outreach and all other necessary steps prior to implementation

## December 2018:

- Goal for launch of the program (**December 15, 2019**)

## January 2019:

- Deadline for launch of plan (**January 15, 2019**)

## January 2020:

- First annual report due – and due every **January 15<sup>th</sup>** thereafter



# KEY QUESTIONS

## Contributions

- What options exist for contribution levels?
  - Baseline contribution for auto-enrollment
  - Auto escalation
  - Can employees opt for a different contribution amount?
    - Dollar amount vs. percentage
- What about employer contributions- when might an optional program be developed?
- Can employees opt out at any time or during certain periods?
  - On-line procedures
- Other Questions/Concerns

## Eligibility

- What is the definition of an employee?
  - Full-time, part-time and seasonal employees
  - Are you immediately eligible or is there a waiting period?
- What if you leave an employer but are hired by another participating employer?
- What if I leave and am hired by a non-participating employer
- Eligibility of self-employed individuals
- Other Questions/Concerns



# KEY QUESTIONS

## Plan Administration

- How will employees be notified about the plan?
- What type of educational materials will be provided to employees?
- How many and what types of investment options?
- How will an employee track their retirement savings?
- What about hardship withdrawals or loans?
- Beneficiaries
- Other Questions/Concerns

## Employers

- What is ERISA?
- What are employer responsibilities?
- What are issues if you do not use a payroll service?
- How do we transfer contributions?
- How is information displayed on a W-2?
- What if an employer later decides to leave and/or move to their own retirement plan?
- Other Questions/Concerns

