

Washington Voluntary Retirement Accounts

Making it easy to save for retirement

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Key Findings

The proposal for Washington Voluntary Retirement Accounts (WVRAs), HB 1893 and SB 5791, offers an easy mechanism for individuals to save for retirement. WVRAs directly address the importance of a retirement program for about half of all workers who do not have a retirement savings plan in their workplace.¹

Washington Voluntary Retirement Accounts enable individuals to invest in their future through a portable, voluntary, defined-contribution plan. The Washington State Legislature has the opportunity to establish WVRAs in 2009.

Introduction

The Economic Opportunity Institute (EOI) supports Social Security as the foundation of economic security for retirees. However, the Institute recognizes that it is important for individuals to supplement Social Security through a systematic retirement savings program. Although many workers have access to a retirement plan in their workplace, about half of all workers do not. To address the importance of saving for retirement, EOI proposes Washington Voluntary Retirement Accounts.

What Are Washington Voluntary Retirement Accounts?

Washington Voluntary Retirement Accounts give workers the chance to participate in a defined-contribution retirement savings plan at their workplace. The program will have a pre-selected menu of investment options, and is designed to be administered by the Washington State Department of Retirement Systems with investing done by the State Investment Board. It is portable and voluntary.

WVRAs give workers the convenience of payroll deductions and provide small businesses and their individual workers the economies of scale now only available to the largest investors. They increase the number of investors and the savings rate, building economic security for families and strengthening the state's economy.

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The Problem

Social Security isn't enough

Social Security alone is typically not enough to provide a comfortable and secure retirement. While few seniors collecting Social Security fall below the official poverty line, many retirees live very close to it. According to the U.S. Census Bureau, nearly 9% of Washington seniors (62,000 individuals) have incomes below the poverty line. Many more Washington seniors live just above the poverty level.

Pensions aren't available to everyone

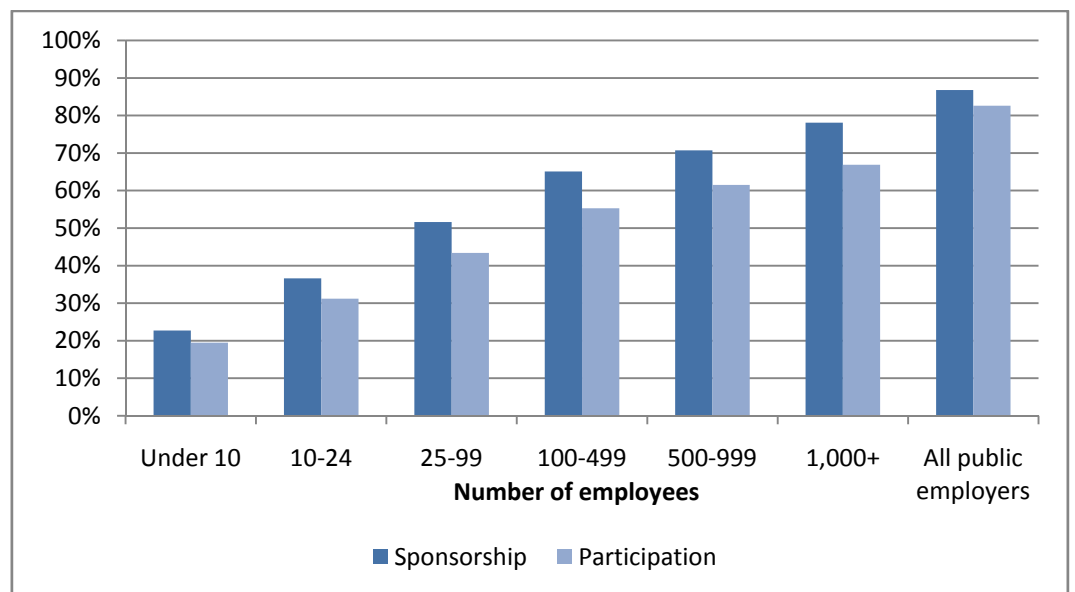
A better retirement system is critical for the welfare of Washington's citizens. Currently, half of all workers lack access to a retirement plan at their workplace. Many of these individuals are never able to accumulate pension assets.

Most affected by the lack of a retirement savings program are:

Individuals working in small businesses. Administrative and cost hurdles prevent many small businesses from offering pension benefits to employees. In fact, 76% of full-time, full-year private sector workers in businesses with fewer than 25 employees did not participate in a pension plan in 2007, compared with only 34% of those employed by companies with 500 or more employees.²

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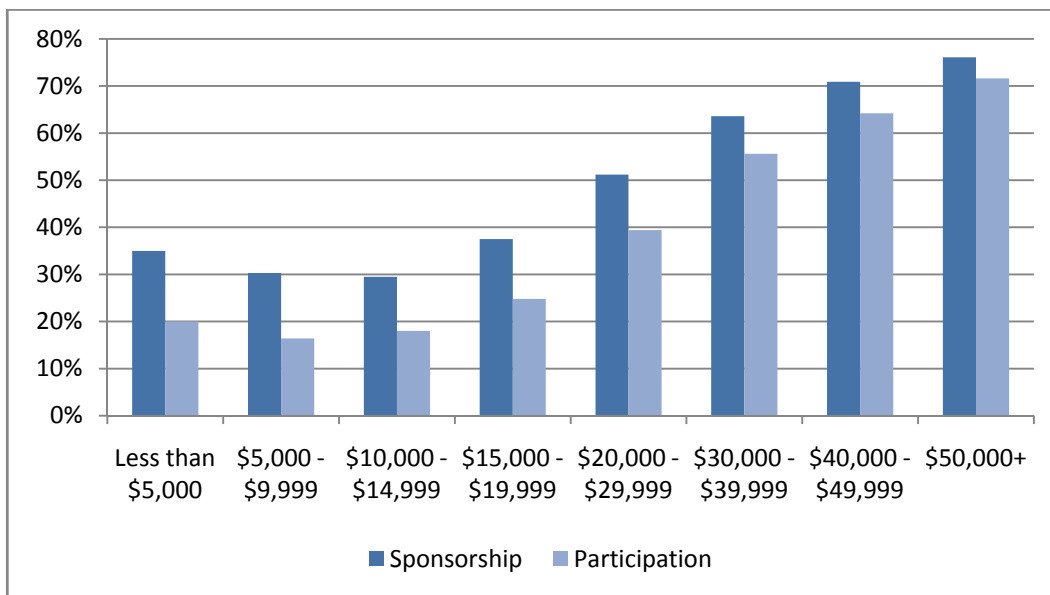
SPONSORSHIP & PARTICIPATION IN RETIREMENT PLANS BY SIZE OF FIRM



Part-time and temporary workers. Like many low-wage workers, many part-time and temporary workers are employed by companies that do not sponsor retirement plans. In fact, approximately 80% of part-time and temporary workers lack retirement coverage. Even if their company does have a retirement plan, many part-time and temporary workers may not qualify for coverage.

Low-wage workers. Nationally, two out of three low-wage workers lack access to a retirement plan, while only one in four high-wage workers lack access.³

SPONSORSHIP & PARTICIPATION IN RETIREMENT PLANS BY INCOME



The Solution

Washington Voluntary Retirement Accounts provide a simple, easy solution to the retirement savings dilemma facing today's workers. The program offers a convenient way for individuals to save for retirement and enables small businesses to remain competitive by offering a retirement savings program for their employees. WVRAs can provide IRAs for any individual worker who chooses and 401(k)s or similar plans for companies that choose to offer that option to their employees.

There are many benefits of Washington Voluntary Retirement Accounts:

For workers:

- Portability between jobs.
- Voluntary individual payroll deductions.
- Easy way to save for retirement and build assets.
- Low fees so that assets accumulate faster.

For employers:

- Optional employer contributions.
- Low-cost way to provide retirement benefits and retain workers.
- Easy to administer.

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Some common questions about WVRAs

Can't anyone open up an IRA? Why do we need WVRAs?

While any worker could open an IRA, in reality, only a few do. Barriers include the difficulty workers face saving up to make lump sum payments, high costs for the small investor, and an overwhelming array of investment options. WVRAs will provide payroll deductions, low fees, and a limited set of investment options so that workers without sophisticated knowledge can make easier selections.

How will WVRAs affect the private investment industry?

By increasing the pool of investors and providing an easy way to build assets, WVRAs will help the private investment industry. Some of these assets will be invested with financial services companies. Over time, some people will choose to roll over their WVRAs into accounts with private firms that offer a broader array of choices. In addition, the state will contract with private companies to handle some aspects of WVRA administration.

Do Americans want a state run retirement plan?

In a recent survey of 801 Americans age 25 or older, conducted on behalf of the National Institute on Retirement Security, 87% agreed that all workers should have access to a pension plan and 78% believed government should sponsor a traditional pension program for small employers and individuals.⁴

Conclusion

Retirement wealth is falling. Americans have less retirement wealth than their parents' generation. State government will face a crisis of senior poverty in coming decades unless the state takes action to promote retirement savings

Washington Voluntary Retirement Accounts is modeled after the successful deferred compensation retirement plan currently available to state employees. An administrative system is already in place at the Washington State Department of Retirement Systems, with oversight and investment provided by the State Investment Board. This retirement savings proposal offers a convenient, simple solution that helps provide long-term financial security for Washington's retirees.

Endnotes

¹ Employee Benefit Research Institute Issue Brief No. 322, Oct. 2008.

² U.S. Census Bureau, American Community Survey: Selected Economic Characteristics 2005-2007.

³ Employee Benefit Research Institute Issue Brief No. 322, Oct. 2008.

⁴ National Institute on Retirement Security, Pensions & Retirement Security: A Roadmap for Policy Makers: A Report on the American Public's Views on Pensions and Retirement Security, Jan. 2009.

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