Colorado Workers Face a Retirement Crisis

• Almost half of Colorado's private-sector workers are not offered a retirement savings plan at work.
• That leaves 753,972 Coloradans without access to the easiest and best way to save.

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Introduction

In 2014, the Bell Policy Center released a report, *Retirement at Risk*, that used 2011-2013 data to show the extent to which Colorado workers have access to and participate in retirement savings plans at work. Today, we are releasing research that reexamines the retirement issue using 2013-2015 data and finds that about half of Colorado's private sector workers in their prime working years continue to have no access to a retirement savings plan at work.

Executive Summary

Although Colorado's economy has strengthened in the past two years, and we experienced significant job growth and lower unemployment, the percentage of workers who do not have a retirement savings plan at their workplace has remained unchanged since 2014 at 45 percent. Moreover, that number has grown from 38 percent in 1997-1999.

Today, almost 900,000 Colorado private-sector workers in their prime working years are not participating in traditional pensions or 401(k)-type retirement savings plans at work. **More than 80 percent — or 753,972 Coloradans — work for employers that do not offer any form of retirement savings plan, making lack of access the top reason that Coloradans have a hard time saving for retirement.**

Most experts conclude that putting away a little money from each paycheck through workplace deductions is the most effective way to save for retirement. Not having access to this option means that a significant portion of Colorado's private-sector workers will be almost totally dependent on income from Social Security in retirement. Yet Social Security is only intended to replace about 40 percent of a worker's income.

Low-wage workers, members of minority groups, young workers and those working in small businesses are the least likely to have a retirement savings plan at work — and for some access has declined in the

two-year period since we last studied this issue — and they are less likely to participate in a plan if one is offered. White workers in Colorado are 30 percent more likely to work for an employer that offers a workplace retirement plan than are minority workers and are 40 percent more likely to participate in a plan when offered.

Those who can save adequately for retirement during their working years are more likely to be self-sufficient when they retire. They will need less help from family and social programs and be better positioned to pass assets along to the next generation. Those who are not able to save adequately are more likely to live in poverty and need help to make ends meet. Younger workers will be less able to save for their own futures as more of their resources are needed to help support their parents and grandparents.

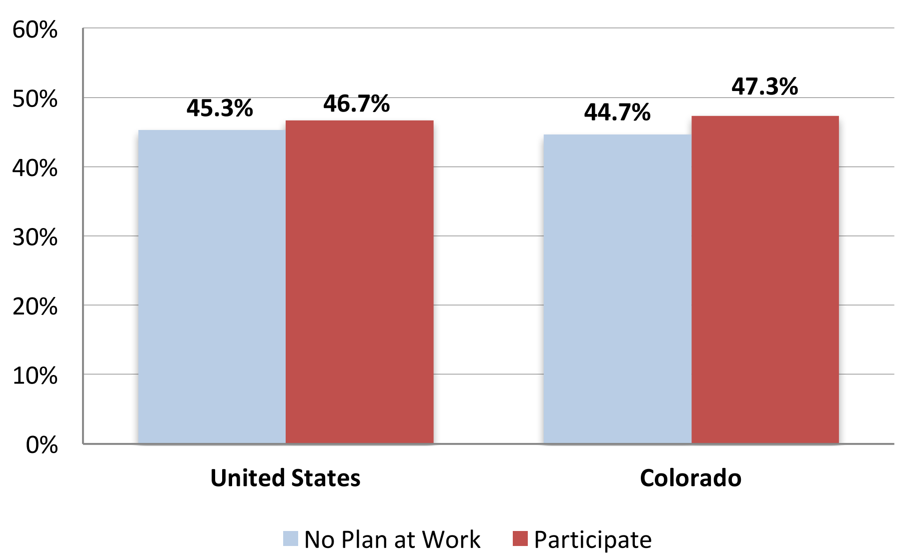
This Bell Policy Center brief uses the most recent data available to show the extent to which Colorado's private-sector workers in their prime working years have access to and participate in workplace retirement savings plans. It also describes policy initiatives being undertaken by several states to provide workplace retirement plans to private-sector workers. Finally, it lays out a proposal to create the Colorado Secure Savings Plan, a public-private partnership to provide workplace retirement savings accounts for Colorado private-sector workers who do not have access to one.

More than Half of Colorado Private-Sector Workers Do Not Participate in Workplace Retirement Plans

In Colorado, 44.7 percent of private-sector workers age 25 to 64, or 753,972 Coloradans, work for an employer that does not provide any type of retirement plan. Another 8 percent, or 137,406 Coloradans, have a plan at work but do not participate in it, some because they are not eligible and others because they choose not to join. A little more than 47 percent of Colorado private-sector workers age 25 to 64, or 778,571 Coloradans, participate in a workplace retirement plan.[1]

Colorado's rates are about the same as the national average. Nationally, 45.3 percent of private-sector workers work for an employer who does not offer a retirement plan, and 46.7 percent participate in a plan at work.

Figure 1 – Employer-Sponsored Retirement Plan Coverage
(Private sector, 2013-2015)



The portion of Colorado private-sector workers age 25-64 who work for an employer that does not provide a retirement plan has grown from 38 percent in 1997-1999 to 45 percent in 2013-2015 – an increase of 7 percentage points or an 18 percent increase. After dropping in the mid-2000s, the percentage of workers who have a plan at work but do not participate remained fairly constant over this period at about 10 percent.

Figure 2 – Access to Workplace Retirement Plans
(Private sector, Colorado, 1997-2015, three-year averages)

In contrast to those in the private sector, three-quarters of Colorado's state and local workers participate in a retirement plan at work, many in traditional defined-benefit-type pensions.

Some Workers Less Likely to Have Access to Workplace Retirement Plans

Overall, certain types of workers are more likely not to be offered retirement plans at work and are less likely to participate in plans when offered — a pattern that has existed for at least the last two years. Those workers are:

1. Low-wage workers
2. Those who work for small firms
3. Young workers
4. Members of minority groups

1. Low-wage workers not likely to be offered a retirement plan

There is a wide disparity in access to workplace retirement plans based on earnings. **In fact, those with the lowest earnings are almost 2.5 times more likely not to have a retirement plan at work than those with the highest earnings.**

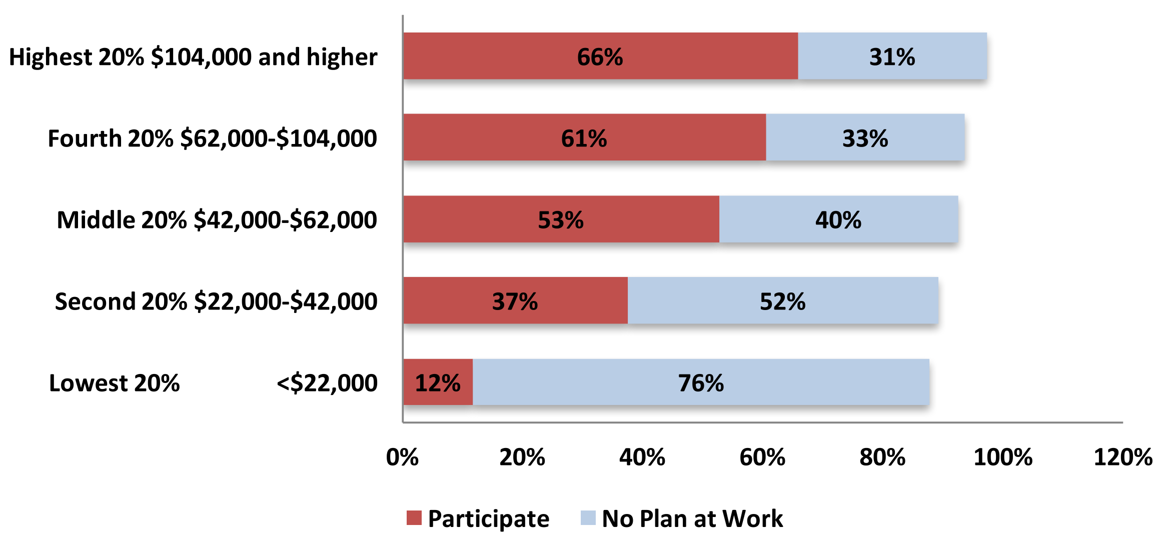
More than three-quarters of the workers in the bottom 20 percent of earnings, or those making $22,000 a year or less, work for employers that do not offer retirement plans. In addition, 12 percent of the workers in this group do not participate in available retirement plans. Only 12 percent of workers at this income level participate in a workplace retirement plan.

Slightly more than half of the workers in the next to lowest group, or those earning $22,000 to $42,000, work for an employer that does not offer a plan. Another 11 percent do not participate in available plans. Slightly more than one-third (37 percent) of workers in this group participate in a workplace retirement plan.

While Colorado is a relatively wealthy state with a large number of highly skilled people earning good salaries, there are many workers struggling to advance into the middle class. In 2013, a little more than 500,000 workers, or 22 percent of Colorado's workers, were employed in occupations whose median annual pay was below the poverty threshold for a family of four or $23,550.[2] Access to workplace retirement plans will help these low-wage workers build toward a more financially secure retirement.

The picture changes as workers' earnings increase. More than two-thirds of workers earning between $62,000 and $104,000 — the second-highest group of earners — and 69 percent of Coloradans with the highest earnings have access to workplace retirement plans, and about two-thirds of them participate. Even for these more highly compensated workers, almost one-third do not have access to a retirement plan at work.

Figure 3 – Worker Access to Workplace Retirement Plans by Earnings Quintile
(Private sector, Colorado, 2013-2015)



2. Typically, small firms do not offer retirement plans

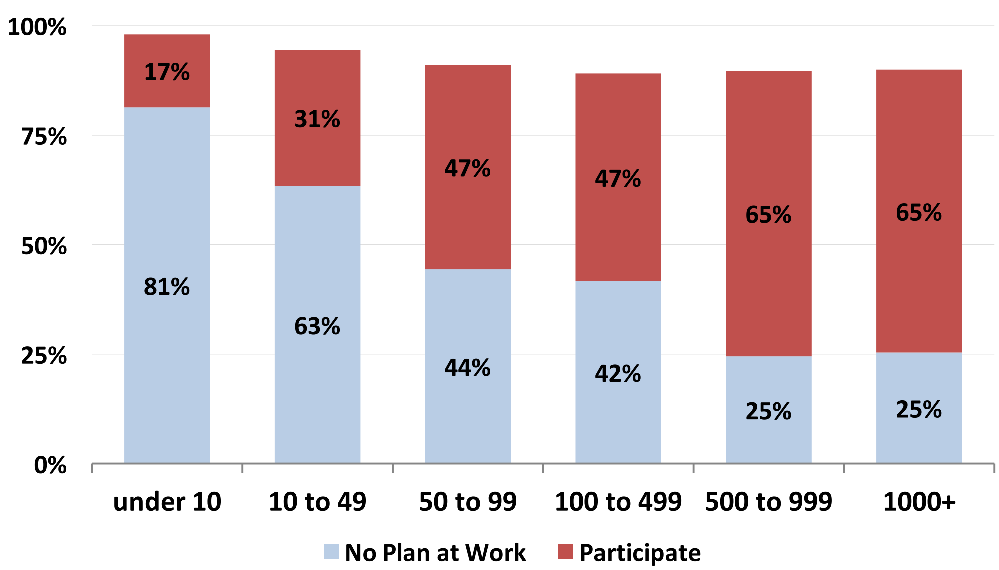
Workers in small firms are much less likely to be offered retirement plans than workers at large firms.

Eighty-one percent of workers in firms with fewer than 10 employees and 63 percent of those in firms with 10 to 49 workers have no workplace retirement plan. This stands in stark contrast to those who work for big companies (500-plus employees) where three out of four workers are offered retirement plans.

The lack of access for workers in small firms is particularly troubling given that Colorado's economy has a large number of small businesses. In 2015, three out of 10 private-sector workers in Colorado worked in firms with fewer than 50 employees and about two out of 20 were employed by firms with 19 or fewer employees.[3] This is similar to what we found in our 2014 report.

In addition, 75 percent of Coloradans who are self-employed and whose businesses are not incorporated have no retirement plan through work. Many of these are small sole proprietorships. This percentage has increased by 4 percentage points since our 2014 report.

Figure 4 – Private-Sector Workplace Retirement Plans by Size of Firm
(Private sector, Colorado, 2013-2015)

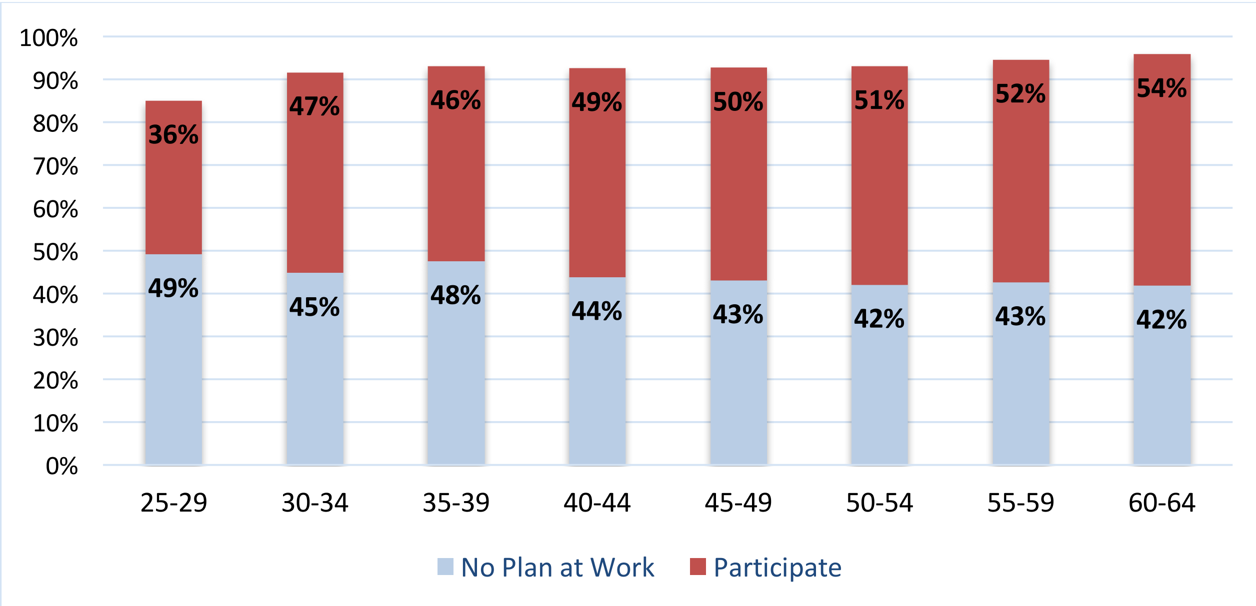


3. Young workers more likely to miss out on retirement plans

Half of Colorado workers age 25 to 34 work for an employer that does not provide a retirement plan. When a plan is offered, a little more than one-third of them participate. More specifically, half of workers age 25–29 (49 percent) are not offered a workplace retirement plan, while 36 percent participate in one that is offered. For those age 30-34, 45 percent are not offered a retirement plan at work, and 46 percent participate in plans that are offered.

A little more than half of workers age 35 to 64 are offered a retirement plan offered at work, and about half of them participate in a plan. Yet, a sizeable portion of these older and presumably more established workers lack access to a workplace retirement plan. For example, four out of every 10 private-sector workers who are closest to retirement — those age 55-59 and 60-64 — do not have access to a retirement plan at work. Only slightly more than half of these workers are participating in a plan that is offered.

Figure 5 – Private-Sector Retirement Plans by Age of Worker
(Private sector, Colorado, 2013-2015)



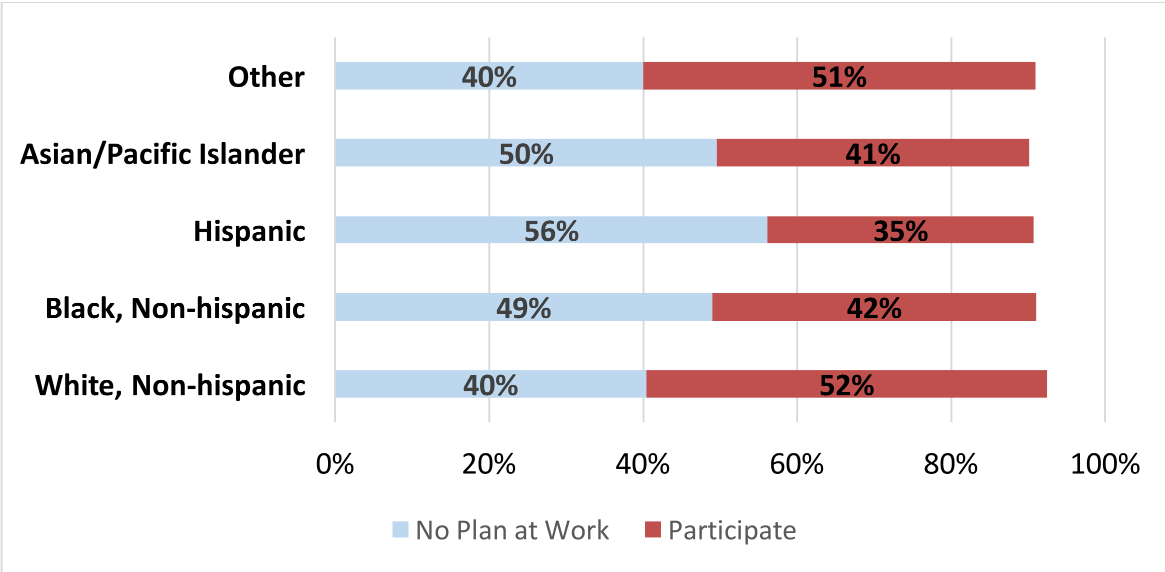
4. Hispanics least likely to be offered workplace retirement plans

On the whole, Coloradans of color are 14 percentage points less likely to be offered a retirement plan at work than whites. They are also slightly less likely to enroll when offered a plan. Blacks, Hispanics and Asian/Pacific Islanders are less likely than whites to be offered a workplace retirement plan, with Hispanics being the least likely to have access to retirement plans.

Hispanics are also the least likely to participate, with only about one-third signing up for a retirement plan at work. This is a particular problem, given that Hispanics make up 21 percent of Colorado's population and were the fastest-growing segment of our population, increasing by 50 percent between 2000 and 2013.[4]

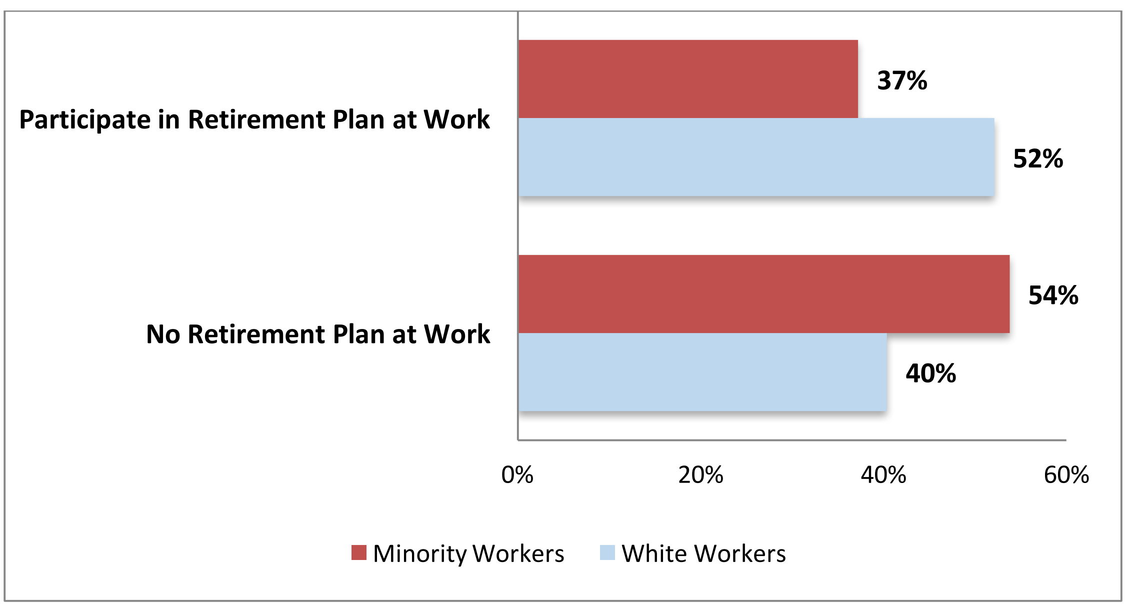
The portion of white workers who are offered a retirement plan at work has increased by about 6 percentage points since our 2014 report. The portion of black workers offered a retirement plan at work dropped by about two percentage points over the same period. While Hispanics are the least likely to be offered a retirement plan at work, the portion that work in a job with a retirement plan increased by about two percentage points since our 2014 report.

Figure 6 – Private-Sector Workplace Retirement Plans by Race and Ethnicity
(Private sector, Colorado, 2013-2015)



Again, white workers in Colorado are 30 percent more likely to be offered a workplace retirement plan than are minority workers and are 40 percent more likely to participate in one when offered.

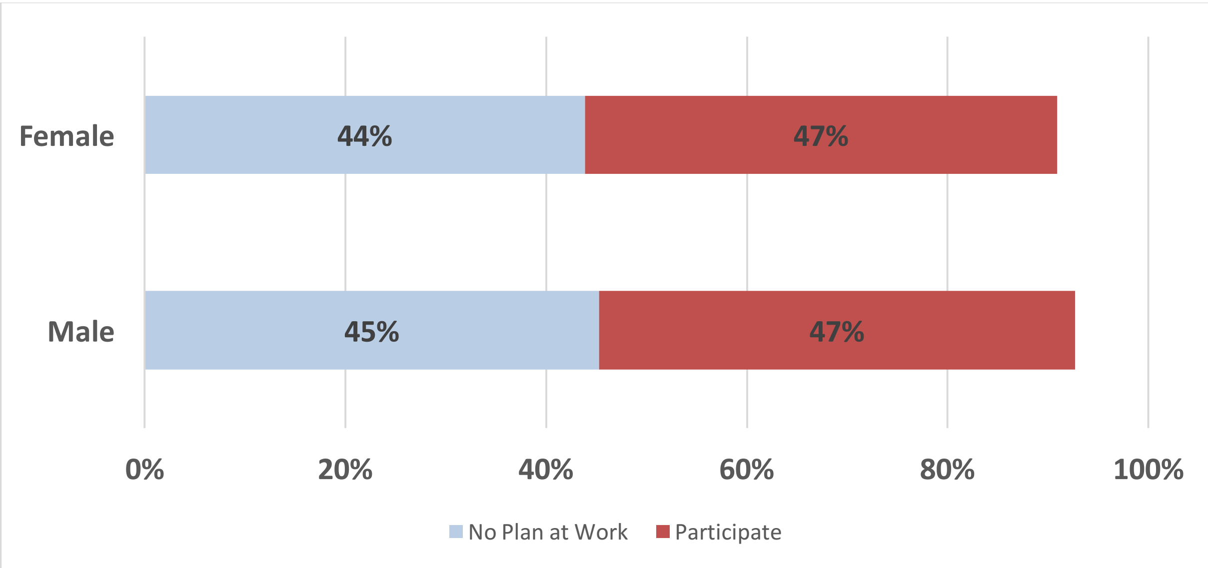
Figure 7 – Access to and Participation in Private-Sector Workplace Retirement Plans for White and Minority Workers
(Private sector, Colorado, 2013-2015)



5. Almost half of all women and men workers lack workplace retirement plans

When looking at access to workplace retirement plans by gender, we find that about half of all men and women work for employers who do not offer retirement plans**,** although men are slightly more likely to enroll in plans when offered**.** This results in less than half of all male and female private-sector workers in Colorado participating in a retirement plan at work.

Figure 8 – Private-Sector Workplace Retirement Plans by Gender
(Private sector, Colorado, 2013-2015)



Factors Affecting Access to Workplace Retirement Plans

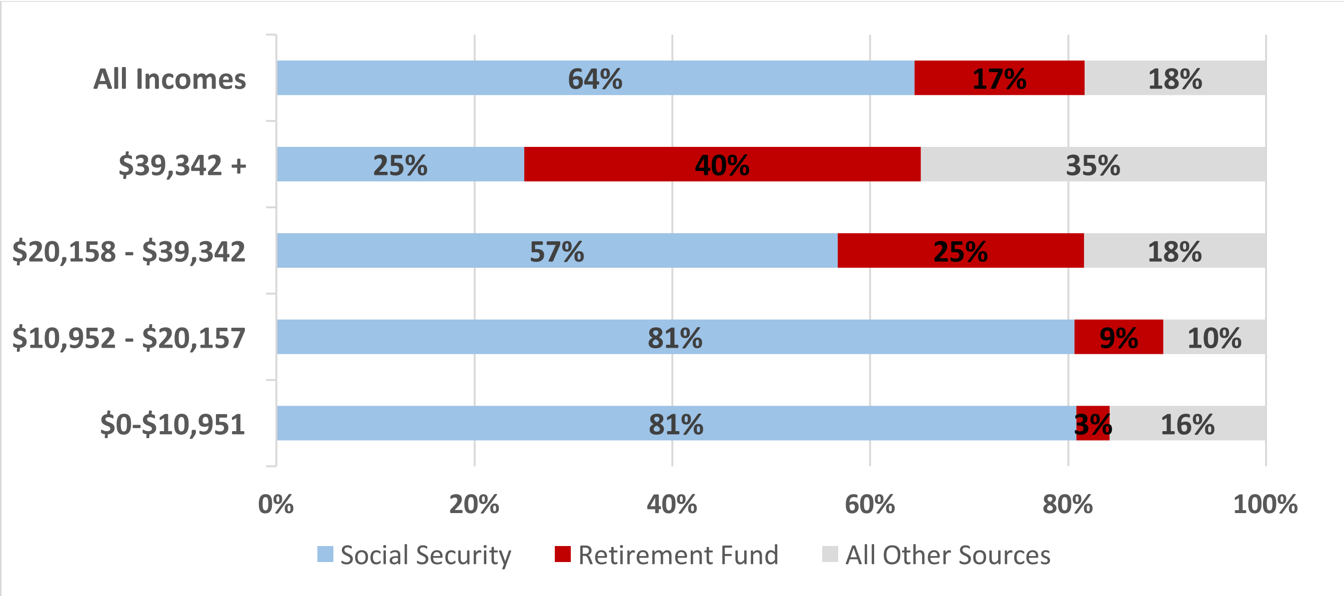
Researchers have studied access to workplace retirement plans, particularly for certain segments of the workforce, and identified several factors to explain the divergence.

The Center for Retirement Research at Boston College found that the major reason that low-income individuals do not participate in retirement plans is because they work for employers who do not offer them. These workers also tend to have periods when they are unemployed, which causes them to lose access to retirement plans. [5]

The Center for Retirement Research estimates that about one-third of U.S. households end up not being covered by any type of employer-sponsored retirement plan during their entire working careers. As a result, many low-wage workers end up depending solely on Social Security for their retirement income, even though it is intended to replace only about 40 percent of pre-retirement earnings. [6]

The lowest-income retirees in Colorado currently depend on Social Security for 80 percent of their income. This dependence lessens as retiree incomes increase. Overall, Coloradans rely on Social Security for 64 percent of their retirement income.

Figure 9 – Income Sources for Current Colorado Retirees, 2015



Increasing the retirement savings of Colorado's lowest-wage workers could save money on social services. When people retire without adequate savings, it is likely that they will turn to government programs such as Medicaid and SNAP (food stamps) to help make ends meet. A recent study conducted in Utah by economists at Brigham Young University determined that if the one-third of that state's retirees with the lowest savings could increase their savings by just 10 percent over their working careers — or about $14,000 — it would save $194 million in federal and state government spending over 15 years.[7]

As noted, many of those who lack coverage by a workplace retirement plan work for small employers. Policymakers have responded to this lack of coverage by making it easier for small businesses to offer retirement plans. However, the percentage of workers offered a workplace retirement plan nationally has hardly budged since 1979 and was actually a tad lower in 2014 than it was 35 years ago.

In the case of small firms, the costs and complexity of providing a workplace retirement plan make it difficult to offer plans. Larger firms have human resources departments and can negotiate favorable terms with the companies that sell and administer retirement plans. Because of their size and wage levels, small employers are often not attractive customers for companies that provide retirement plans. Surveys of small-business owners show that, aside from the cost, complexity and time it takes to administer plans, the economic climate and prospects for their businesses' profitability are factors in deciding whether to sponsor plans.[8]

The challenges small businesses face in providing retirement plans coupled with the data showing that 75 percent of self-employed workers do not have a retirement plan at work make it clear that small business is a major segment of Colorado's economy that lacks access to workplace retirement plans.

The researchers at the Center for Retirement Research conclude that more retirement saving is needed and also say that efforts to design simpler plans in the hope that more small businesses will offer them has not worked and is not likely to work in the future. Instead, they call for universal workplace IRA plans, in which workers are automatically enrolled with the option to drop out. In their view, the automatic enrollment feature is the key to successfully expanding coverage.[9]

Universal workplace IRAs would also help younger workers with access, meaning they could participate in a retirement plan early in their careers and build up their savings over a longer period of time.

Several States Implementing Expanded Access to Workplace Retirement Plans

A broad range of groups including President Obama, members of Congress and a number of states and public policy groups, including the conservative Heritage Foundation and liberal Center for Economic and Policy Research, have all proposed approaches that the federal government and states could take to expand access to workplace retirement plans.[10] Many of these proposals focus on removing the barriers that employers, particularly small employers, face in providing plans for their workers.

Four states — California, Connecticut, Illinois and Oregon — have enacted legislation to provide workplace retirement plans for their private-sector workers who do not have access. These states are in various stages of establishing public-private partnerships to create and run voluntary, low-cost, automatic enrollment workplace retirement savings plans. In each state, boards comprised of public officials and private citizens would oversee the plans and be responsible for hiring professionals to manage the plans' investments, establish and track the accounts, and communicate with workers who are participating. The states plans' would impose little to no requirements on employers other than to tell their employees about the plans and to send the employee's payroll contributions to the plan.

Each state would automatically enroll workers who are not covered by a workplace retirement savings plan at a set contribution rate. The workers would have the option of not participating or participating at a lower or higher contribution rate. The funds invested in the plan would be professionally managed and there would be limited investment portfolios from which workers could choose. The fees charged to workers participating in the plans would be capped and workers would be able to keep the plans if they changed jobs within the state.

California enacted its legislation in 2012 and has taken a number of steps to implement its plan. A nine-member California Secure Choice Retirement Savings Investment Board has been appointed and is developing the details for its Secure Choice Retirement Savings Plan. California's plan would be available to employees of firms with five or more employees who are not covered by a workplace retirement plan. The board recently completed a thorough market analysis and feasibility study. This study found that between 70 to 90 percent of eligible workers would participate in the plan and the plan as proposed is "financially viable and self-sustaining even under adverse conditions with poor investment returns and high opt-out rates."[11] Legislation (SB 1234) is currently pending in the California General Assembly to implement the Secure Choice Retirement Savings Plan that contains the recommendations that resulted from the board's market and financial feasibility study.

Connecticut passed legislation in 2014 to create the Connecticut Retirement Security Board charged with assessing the feasibility of creating a workplace retirement savings plan for private-sector workers who do not have access to one and to "submit evidence-based recommendations to the Legislature on the creation of a retirement program." The Board determined that a retirement savings plan that automatically enrolled employees at 6 percent of their salaries, with the option to decrease or increase their level of contribution or to drop out altogether, and invested these funds in professionally managed Individual Retirement Accounts (IRAs) would be "financially feasible under a range of market scenarios."[12] Legislation (HB 5591) is currently pending in the Connecticut Legislature to establish a public-private entity to create a workplace retirement savings plan for private-sector workers without access to one as recommended by the board.[13]

The **Oregon** Savings Board was created by its legislature in 2015 and charged with developing a defined-contribution retirement plan for workers in any sized private employer who are not covered by a workplace retirement savings plan. Eligible employees would be automatically enrolled at a contribution rate to be set by the board with the ability to opt out of the plan. The board must conduct a market and legal analysis of the plan it develops. It is currently assessing proposals from firms to conduct the market analysis of its plan and is preparing a request for proposals to hire an investment consultant. The goal is to have the plan up and running by July 2017. [14]

The **Illinois** Secure Choice Savings Board, comprised of public officials and private citizens, is charged with designing and operating a retirement savings plan. The plan would automatically enroll employees in the plan who work in private for-profit and nonprofit entities, with 25 or more employees, that have been in business for at least two years and that do not offer a workplace retirement savings plan. Employees would contribute 3 percent of their wages to the plan and have the ability to contribute less, contribute more or opt out of the plan. [15]

The Illinois plan offers Roth IRAs with the employee contributions pooled and managed by a professional investment firm selected by the board. The administrative costs are capped at .75 percent. The board is currently developing rules for the Secure Choice plan and evaluating proposals from professional investment advisors. The goal is to have the plan open for enrollment by 2017.[16]

Legislation Would Create Colorado Secure Savings Plan

Legislation (HB16-1403) has been introduced in the Colorado General Assembly to create the Colorado Secure Savings Plan, a public-private partnership to offer workplace retirement savings plans for private-sector workers without access to one. The partnership would create a plan that pools employee contributions, holds them in trust and invests them. The accounts would be Roth IRAs, portable between jobs in Colorado, and include options for disbursing the retirement benefits over a person's lifetime.[17]

Employees would be automatically enrolled in the plan at a contribution rate of 5 percent of their earnings. They would have the option of contributing more, contributing less or not contributing at all.
The funds in the plan would be professionally managed, include several investment options and the fees would be capped at no more than 1 percent.

Employers with five or more employees, who have been in business for at least two years and who do not provide a workplace retirement plan, would be required to enroll their employees in the plan. However, employers would only be required to share information about the plan and forward their employees' payroll contributions to the plan. The plan would be phased in over three years starting with firms with more than 100 employees first. Employers of any size that do not offer workplace retirement plans could participate voluntarily.

The board overseeing the plan would have to conduct a thorough economic and market analysis to ensure the plan would be financially feasible and self-sustaining before it could go forward.

Far too many Coloradans lack access to a reliable and accessible method to save for retirement while they are working. If we want all Coloradans to experience a financially secure retirement as a just reward for a life of hard work, we need to ensure there are appropriate mechanisms in place to help them save. If we do not, we will face a retirement crisis.

Coloradans take great pride in our willingness to innovate and craft solutions that are uniquely designed to meet the challenges we face. Creating the Colorado Secure Savings Plan is an opportunity we cannot afford to miss.

[1] This data is based on information from the U.S. Census Bureau's Current Population Survey. We combined data for three year periods beginning in 1997-99 and extending through 2013-2015 to increase the reliability and accuracy of the data.

[2] Working Poor Families Project, Data on the Economic Conditions in the States, Percentage of Jobs in Occupations with Median Annual Pay Below Poverty Threshold for a Family of Four, 2013, Population Reference Bureau analysis of Occupational Employment Statistics, Bureau of Labor Statistics, May 2013 http://www.workingpoorfamilies.org/indicators/

[3] Colorado Department of Labor and Employment, Colorado Labor Market Information, LEHD Colorado County Reports, Quarterly Workforce Indicators, CDLE website, accessed April 2, 2014, http://www.coworkforce.com/lmi/LED/coqwi.asp

[4] Colorado Latino, Leadership, Advocacy and Research Organization, *Snapshot of Colorado Latinos,* March 2014, *http://www.cllarocolorado.org/wp-content/uploads/2014/09/Cllaro-Snapshot-March-2014-Publication.pdf*

[5] Center for Retirement Research at Boston College, *Why Don't Lower-Income Individuals Have Pensions?,* Yanyuan Wu, Matthew S. Rutledge and Jacob Penglase, Number 14-8, April 2014, http://crr.bc.edu/wp-content/uploads/2014/04/IB_14-8.pdf

[6] Center for Retirement Research at Boston College, *State Initiatives to Cover Uncovered Private Sector Workers,* Munnell, Alicia, Anek Belbase and Geoffrey t. Sanzenbacher*,* Number 16-4, March 2016, http://crr.bc.edu/wp-content/uploads/2016/02/IB_16-4-1.pdf

[7]The Cost of Retiring Poor: Cost taxpayers of Utahans Retiring Poor, Notalys, LLC, January 2015.

[8] Reasons Cited for Not Offering a Retirement Plan in "Small Employers Without Plans," *Small Employer Retirement Survey 2003*, analysis by the Employee Benefit Research Institute, page 1.

[9] See endnote 5.

[10] The White House, FACT SHEET: Opportunity for All: Securing a Dignified Retirement for All Americans https://www.whitehouse.gov/the-press-office/2014/01/29/fact-sheet-opportunity-all-securing-dignified-retirement-all-americans; The Senate Health Education and Pensions Committee, HELP Chairman Tom Harkin Introduces the USA Retirement Funds Act, January 30, 2014; National Conference of State Legislatures, State Sponsored Retirement Savings Plans for Nonpublic Employees, State Legislation, Ron Snell, Updated October 1, 2012. http://www.ncsl.org/research/labor-andemployment/state-sponsored-retirement-plans-for-nonpublic.aspx; New America Foundation, Designing California's Secure Choice Savings Program, Michael Calabrese, Reid Cramer and Aleta Sprague, November 2013, https://www.newamerica.org/downloads/CA_Secure_Choice_Policy-Formatted.pdf; The Heritage Foundation, Pursuing Universal Retirement Security Through Automatic IRAs and Account Simplification, David C. John, April 17, 2012, http://www.heritage.org/research/testimony/2012/04/pursuing-universal-retirement-security-through-automatic-iras-and-account-simplification; Center for Economic and Policy Research, Universal Voluntary Accounts: A Step Towards Fixing the Retirement System, Dean Baker, December 2006, http://www.cepr.net/documents/publications/universal_voluntary_accounts.pdf ; American Association of Actuaries, Retirement for the Ages, Building Enduring Retirement-income Systems, January 2014, http://www.actuary.org/files/PPC-Forward_AGES-Monograph_01-16-14.pdf ; National Conference on Public Employee Retirement Systems, The Secure Choice Pension: A Way Forward for Retirement Security in the Private Sector, September 2011, http://www.retirementsecurityforall.org/document.php?f=plan

[11] Final Report to the California Secure Choice Retirement Savings Investment Board, Overture Financial, LLC, February 9, 2016, http://www.treasurer.ca.gov/scib/report.pdf

[12] Report to the Legislature, Connecticut Retirement Security Board, January 1, 2016, http://www.osc.ct.gov/crsb/docs/finalreport/CRSB_January_1_Report.pdf

[13] HB 5591, 2016 Session, https://www.cga.ct.gov/2016/TOB/h/2016HB-05591-R00-HB.htm

[14] Oregon Retirement Savings Plan, http://www.oregon.gov/treasury/ORSP/Pages/default.aspx#agenda

[15] Senate Bill 2758, Illinois Secure Choice Savings Program Act, http://ilga.gov/legislation/publicacts/98/PDF/098-1150.pdf

[16] Illinois Secure Choice, http://www.illinoistreasurer.gov/Individuals/Secure_Choice

[17] Colorado Secure Savings Plan, http://www.leg.state.co.us/clics/clics2016a/csl.nsf/fsbillcont3/7ABC338FBCFF4B5887257F240063FDE6?Open&file=1403_01.pdf