Could state-sponsored retirement plans help workers save more? Maybe, says report

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State-sponsored retirement plans could help workers save more and help retirees rely less on social services—as long as the cost-effectiveness of such plans aren't bogged down by fees—according to a new report from

Rice University's Baker Institute for Public Policy.

The federal government encourages businesses to provide retirement saving plans for their employees, but there is no mandate. A Federal Reserve study last year found that 25% of U.S. workers had no retirement savings, and 40% felt behind on preparing for retirement. Joyce Beebe, fellow in public finance at the Baker Institute, says the nation needs a more direct mechanism to help people save for retirement through work, and that the solution may be state-sponsored individual retirement accounts (IRAs).

"Supporters of state-sponsored IRAs see great benefits in bringing new savers to the retirement saving system," Beebe wrote. "They argue that retirement savings not only provide emergency financial safeguards, but also reduce savers' reliance on social services in retirement. If a significant number of retirees are unable to support themselves, there will be significant pressure on the public safety net and current workers will ultimately bear the costs."

Beebe explains that the role of Social Security has gradually shifted over the past few decades. She says it has become more important for workers to play an active role in safeguarding their retirement savings.

"This structural change means workplace saving plans have become more critical," she wrote. "Several studies find that people who have access to retirement savings through work are more likely to save; most of these plans use payroll deductions and make saving easy for workers."

Twelve states have either passed laws or implemented plans to offer state-administered IRA programs, but Beebe notes there's concern that fees associated with the plans make them too costly to be effective. There's a fee for the state to oversee the program, a fee for an asset management company and a fee for a private third party to do administration work—the highest fee of the three.

"Anyone can have access to IRAs, even if your employer does not offer any retirement plans; but if you do it yourself, you only pay for a company like Vanguard or Fidelity to manage the assets," Beebe said. "If you go through the state, you pay extra fees."

In state-sponsored plans, employers would not have any fiduciary duty to the retirement plans. They would simply act as conduits that channel funds from workers to the plans. The employer's role would be limited to simply encouraging employees to save money for retirement, Beebe says.

Small businesses cite costs and administrative burdens as the main reasons they don't offer retirement plans. State-sponsored plans could benefit the employees of small businesses as well as part-time workers and those in the gig economy, Beebe argues.

Though some are concerned that these so-called "auto-IRAs" will replace existing employer plans; employers may be incentivized to cancel their own plans and rely on state programs.

"However, preliminary analysis largely does not find substitution between state and employer plans," Beebe wrote. "A survey-based study shows that there is little evidence that state initiatives crowd out employer plans. On the contrary, some employers would rather start their own plans instead of using state-mandated plans."

More information: Considerations for State-Sponsored Retirement Plans: www.bakerinstitute.org/researc … red-retirement-plans

Provided by Rice University