



Illinois Voluntary Accounts

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Of Americans who have assets, the biggest is usually home equity, followed by retirement savings. But according to CFED's Assets & Opportunity Scorecard,² one out of five households in America is asset poor and most of those households are in the lowest income brackets, especially people of color, people with disabilities, and elderly women. The Scorecard defines asset poverty as lacking sufficient net worth to survive at the federal poverty level for three months. Many in that asset poor category not only lack net worth, but they have negative net worth—they are in debt.

One of the reasons lower income households lack net worth, including retirement savings, is that they do not participate in the automatic savings that are available to people at higher incomes, such as employer-provided 401ks and pensions. Currently, less than 50 percent of Illinois workers have access to a retirement plan sponsored by their employer. However, many employees of all income levels who do have options to save for retirement do not take advantage of them either. The big reason is INERTIA.

Traditional economists predict that individuals act in rational ways to maximize their assets. Behavioral economists are showing that we do not always act in our own best interest and tend to put off or avoid difficult or unpleasant tasks such as selecting and monitoring investments, reallocating portfolios to achieve diversification, and delaying immediate gratification to save for the future. That is why it is necessary to create systemic structures that make it easier for people of all income levels to start saving early, and saving automatically, without having to make weekly or monthly decisions. The Congress recently made it easier for employers to facilitate employees' retirement savings by allowing employers to auto-enroll employees in retirement plans, subject to opt out instead of the traditional opt-in programs in which few employees participated.

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² <http://www.cfed.org/focus.m?parentid=31&siteid=504&id=505>.

One problem with employer-provided retirement programs is that employees often cash them out when they change jobs instead of rolling them over. Due to changes in the workplace that make it unlikely that employees will remain with the same employer, it is necessary to have saving and investment vehicles that are easily portable.

Some people may question whether it really makes sense for government or employers to offer retirement plans for low-wage workers who struggle to make ends meet already. How much could they save and make a difference in their retirement security? Actually, the accumulation of even very small savings over a lifetime of work can make a very big difference.

Our pro bono attorney, Andrew Douglass of the Seyfarth Shaw law firm, produced the two spreadsheet tables on pages 3 and 4 below to show how Jane and Joe could significantly increase their retirement security by saving as little as two percent of their income a year. These are conservative estimates taking into consideration periods of unemployment, time off for child rearing, no increase in salary or increase in percentage of income saved, a conservative rate of return, and actuarial factors. Thus, Joe could easily save \$115,392 between age 25 and retirement at 67, increasing his income over Social Security benefits by 88 percent. Even with fewer years of work due to child rearing and a longer life expectancy, Jane could easily save \$103,868 between age 25 and age 67 and increase retirement income over Social Security by 85 percent.

John Bouman and I discussed options for supporting such a portable retirement account plan with the Illinois Governor's policy and legal staff after we met at a meeting in St. Louis that EOI sponsored. They expressed interest, however, they also expressed a strong desire to avoid having the State assume the role of plan sponsor or fiduciary (even though it has this role with the state-sponsored plans). I'm no ERISA expert but, generally, the more involved an entity gets with managing a retirement plan's assets, the more it is subject to liability for mismanagement of the fund. So, even if a state contracts with a third party to administer a retirement plan, the state still bears fiduciary responsibility and legal liability. One reason that states may believe there is greater risk of liability with portable accounts is that the state would have less control over the data than it does in administering its own plan for state employees because the state would be relying on the employers to timely and accurately remit contributions to the master plan.

So we tried to come up with some alternative ways that Illinois could support the portable retirement account option. Our handout on Illinois voluntary accounts represents a very "hands off" approach whereby the state would promote employee investments in IRAs through a social marketing campaign but would not have any direct role in establishing or administering the plan or encouraging employers to contribute to employees' plans. The plan could include a list of approved portable plan providers, website information, printed materials, public service announcements, and advertisements.

Another option would be for the state to promote use of IRS pre-approved "turn-key" retirement plans by employers, including a broader range of investment options than IRAs (401k, SEP, Simple IRA, etc.). These plans would create opportunities for employers to use the auto-enroll option and

make employer contributions to some of the plans. This would still be a hands off approach that would protect the state from liability.

The problem with either of these hands off options is that without the state actively establishing, administering, and monitoring the plans, there is less momentum to overcome INERTIA and more reliance on individuals and employers to opt in.

11. Dory Rand--IVA spreadsheet Jane 011806.XLS

	A	B	C	D	E	F	G	H
1	Estimate of Retirement Savings Under Illinois Voluntary Accounts Plan for a Low-Wage Worker							
2		Joe	Year	Age	Salary	Annual Contribution	Account Balance	(End of Year)
3	Age:	25	2007	25	25,000	450	466	
4	2007 Wages:	25,000	2008	26	25,000	450	964	
5	Contribution Percentage:	2%	2009	27	25,000	450	1,497	
6	Annual Salary Increase:	0%	2010	28	25,000	450	2,068	
7	Investment Return:	7%	2011	29	25,000	450	2,679	
8	Unemployment Adjustment:	10%	2012	30	25,000	450	3,332	
9			2013	31	25,000	450	4,031	
10	Estimated Account Balance at Age 67:	115,392	2014	32	25,000	450	4,779	
11	Estimated Actuarial Factor:	12	2015	33	25,000	450	5,579	
12			2016	34	25,000	450	6,435	
13	Additional Monthly Retirement Income at Age 67:	801	2017	35	25,000	450	7,351	
14			2018	36	25,000	450	8,331	
15	Estimated Social Security Benefit (in today's dollars at age 67):	913	2019	37	25,000	450	9,380	
16			2020	38	25,000	450	10,502	
17	Increase in Retirement Income:	88%	2021	39	25,000	450	11,703	
18			2022	40	25,000	450	12,988	
19			2023	41	25,000	450	14,363	
20			2024	42	25,000	450	15,834	
21			2025	43	25,000	450	17,408	
22			2026	44	25,000	450	19,092	
23			2027	45	25,000	450	20,894	
24			2028	46	25,000	450	22,822	
25			2029	47	25,000	450	24,885	
26			2030	48	25,000	450	27,093	
27			2031	49	25,000	450	29,455	
28			2032	50	25,000	450	31,983	
29			2033	51	25,000	450	34,688	
30			2034	52	25,000	450	37,582	
31			2035	53	25,000	450	40,678	
32			2036	54	25,000	450	43,991	
33			2037	55	25,000	450	47,536	
34			2038	56	25,000	450	51,329	
35			2039	57	25,000	450	55,388	
36			2040	58	25,000	450	59,731	
37			2041	59	25,000	450	64,378	
38			2042	60	25,000	450	69,350	
39			2043	61	25,000	450	74,670	
40			2044	62	25,000	450	80,363	
41			2045	63	25,000	450	86,454	
42			2046	64	25,000	450	92,972	
43			2047	65	25,000	450	99,946	
44			2048	66	25,000	450	107,408	
45			2049	67	25,000	450	115,392	

Joe Jane

	A	B	C	D	E	F	G	H
1	Estimate of Retirement Savings Under Illinois Voluntary Accounts Plan for a Low-Wage Worker with Adjustment for Unpaid Leave Due to Child Rearing							
2		Jane	Year	Age	Salary	Annual Contribution	Account Balance (End of Year)	
3	Age:	25	2007	25	25,000	405	419	
4	2007 Wages:	25,000	2008	26	25,000	405	868	
5	Contribution Percentage:	2%	2009	27	25,000	405	1,348	
6	Annual Salary Increase:	0%	2010	28	25,000	405	1,862	
7	Investment Return:	7%	2011	29	25,000	405	2,412	
8	Unemployment Adjustment:	10%	2012	30	25,000	405	3,000	
9	Childbearing / Leave of Absence Adjustment:	10%	2013	31	25,000	405	3,629	
10			2014	32	25,000	405	4,302	
11	Estimated Account Balance at Age 67:	103,868	2015	33	25,000	405	5,022	
12	Estimated Actuarial Factor:	13	2016	34	25,000	405	5,793	
13			2017	35	25,000	405	6,618	
14	Additional Monthly Retirement Income at Age 67:	666	2018	36	25,000	405	7,500	
15			2019	37	25,000	405	8,444	
16	Estimated Social Security Benefit (in today's dollars at age 67):	780	2020	38	25,000	405	9,454	
17			2021	39	25,000	405	10,535	
18	Increase in Retirement Income:	85%	2022	40	25,000	405	11,692	
19			2023	41	25,000	405	12,930	
20			2024	42	25,000	405	14,254	
21			2025	43	25,000	405	15,671	
22			2026	44	25,000	405	17,187	
23			2027	45	25,000	405	18,809	
24			2028	46	25,000	405	20,545	
25			2029	47	25,000	405	22,402	
26			2030	48	25,000	405	24,389	
27			2031	49	25,000	405	26,515	
28			2032	50	25,000	405	28,790	
29			2033	51	25,000	405	31,224	
30			2034	52	25,000	405	33,829	
31			2035	53	25,000	405	36,616	
32			2036	54	25,000	405	39,598	
33			2037	55	25,000	405	42,789	
34			2038	56	25,000	405	46,203	
35			2039	57	25,000	405	49,856	
36			2040	58	25,000	405	53,765	
37			2041	59	25,000	405	57,948	
38			2042	60	25,000	405	62,424	
39			2043	61	25,000	405	67,213	
40			2044	62	25,000	405	72,337	
41			2045	63	25,000	405	77,820	
42			2046	64	25,000	405	83,687	
43			2047	65	25,000	405	89,964	
44			2048	66	25,000	405	96,681	
45			2049	67	25,000	405	103,868	



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