SB 2758: Illinois Secure Choice Savings Program

Frequently Asked Questions

What is the Illinois Secure Choice Savings Program?
The Illinois Secure Choice Savings Program is a simple, safe, and affordable way to help private sector workers save their own money for retirement. Workers contribute to a Roth individual retirement account (IRA) through automatic deductions from their paychecks. Employees may select the type of investment plan and their contribution level (if they do not choose, they default into a target date fund at a 3% contribution level), and accounts follow workers from job to job. All accounts are pooled together and professionally managed, ensuring that fees are low and investment performance is competitive.

Why does Illinois need a retirement savings program?
Over 2.5 million workers in Illinois lack access to an employment-based retirement plan. That means that over half of the private sector workforce is expected to retire on Social Security (SS) alone, along with any savings they are able to accumulate without the benefit of a payroll deduction at work, because their employers don't provide access to pensions, 401(k)s or IRAs. This problem is not concentrated in one part of Illinois but is spread throughout the state, affecting at least 50% of private sector workers in every legislative district. This inability to easily save for retirement through work is contributing to increased retirement insecurity and an overreliance on SS.

SS was never intended to be the sole source, or even main source, of retirement income. However, for nearly two-thirds of today's retirees, SS provides the majority of their income, and for over one-third of retirees, it accounts for 90% of their income. Because of the growing number of workers without access to employer-sponsored plans, these already-startling numbers will increase dramatically unless we create the Secure Choice Retirement Savings Program.

Illinois workers need access to easy and convenient tools to build retirement savings. Without them, more people will experience a drastically reduced quality of life in retirement. Many will fall into poverty, creating an increased burden on families, communities, and the state.

How will workers enroll?
Workers will be automatically enrolled in the Program and can opt out at any time. During enrollment, workers may choose an account type and determine their level of contribution. For the worker who chooses the default option, she or he will contribute 3% of every paycheck to a target date life-cycle fund. A worker can change her or his investment amount at any time.

Why are workers enrolled automatically?
One of the most promising recent developments in retirement policy is the advent of "automatic" or opt-out features. Spurred both by behavioral economics research and Congressional action, private employers that offer 401(k)s have flocked to the opt-out model in the last decade, dramatically increasing employee participation rates. (Some studies show an increase from 75% of employees to 90%-95%; many show an even greater jump.) These changes are highest among lower income and minority workers. Workers will generally be invested in more appropriate and diversified funds through automatic enrollment than if they invest on their own. Through automatic enrollment, workers are enrolled at a default contribution rate, and funds are directed into balanced, prudently diversified investment accounts, unless participants affirmatively choose otherwise.

What happens if a worker leaves his/her job?
Secure Choice Savings Accounts are completely portable. This means that when a worker leaves one job s/he can simply give the account number to her or his new employer for a payroll deduction. Likewise, a person with two jobs can give the same account number for a payroll deduction at each job.

Which businesses participate in the Program?
A business that: (1) has 25 or more employees; (2) has been in business for at least two years; and (3) doesn't currently offer an employment-based retirement plan for its employees will participate in the Program. Any business that has fewer than 25 employees or has been in business for less than two years may choose to participate in the Program. Businesses already offering a retirement plan to their workers cannot participate.

What does a business have to do?
Once the Secure Choice Savings Program is open for enrollment, employers will have nine months to ensure that all employees have been automatically enrolled or have opted out. Employers will be provided with an employee information packet that they will distribute to each employee. Employers will automatically enroll each employee who has not opted out of the Program using a form provided by the Board [See: Who will administer the Program?]. Enrollment includes setting up a payroll deduction that will be deposited into the employee's account in the Program. Businesses will perform this enrollment process for all existing employees once the Program is established and thereafter for newly hired employees. Employers are not allowed to contribute to their employees' accounts and have no fiduciary responsibilities.

How much will it cost businesses to participate?
Because employers are not allowed to contribute to the retirement accounts, the cost to businesses is minimal. Employers will need to cover the cost of facilitating a payroll deduction to the retirement account. According to a 2006 survey by the National Federation of Independent Businesses (NFIB), under 4% of businesses with 20 to 249 employees completed payroll by hand. Most businesses, especially those with 25 or more employees, use electronic payroll systems that easily allow for payroll deductions and direct deposits. Since employers merely serve as pass-through entities – facilitating the required payroll deductions to the approved Secured Choice account – they bear no other financial burden.

What are the benefits to small businesses?
The Secure Choice Savings Program will help small business owners retain workers, and will allow them to compete with larger companies that already offer retirement benefits. Almost all larger companies administer retirement plans for their workers. By establishing a retirement account that Illinois businesses can successfully offer to their employees, the Program provides small employers with a competitive benefit at little to no cost.

Who will administer the Program?
The Program will be administered by a Board consisting of the State Treasurer (who will serve as chair), the Illinois Comptroller, the Director of the Governor's Office of Management and Budget (GOMB), two individuals with financial investment and/or retirement savings expertise, an individual representing employers, and an individual representing enrollees. These last four members will be appointed by the Governor, subject to the approval of both the Illinois Senate and the State Treasurer. Members will serve without compensation and will have staggered terms. The Board will make a Request for Proposals (RFP) to choose investment firms to manage the fund.

How much will the Program cost the State?
The State of Illinois will not bear any cost associated with the Program. All administrative and investment costs will be paid out of the Program assets; because contributions to the accounts are pooled and because the number of eligible participants is so large, the Program will achieve cost savings through efficiencies and economies of scale -- consequently, these fees are limited to .75% of all assets annually.

The State may, subject to appropriation, cover start-up costs associated with the Program -- but these costs must be reimbursed as soon as there are adequate assets in the plan. Moreover, the bill has been amended to ensure that the implementation of the Program may be delayed if there are insufficient state funds to cover start-up costs, and to allow for the use of private funds to pay for start-up costs.

How are the funds protected?
The Board will be required to annually prepare a written statement of investment policies that includes a risk management and oversight program. This program will be designed to monitor risk levels of the Secure Choice Savings Program and fund portfolio, ensure proper management of any assumed risks, and assess investment return and risks taken as compared to applicable performance benchmarks and standards. To ensure that administrative fees are controlled, the Board is required to consider and give weight to the investment manager’s fees and charges during the RFP process and no more than 0.75 percent of the fund can be used to cover administrative or managerial fees. The Board will be required to conduct a review of the performance of any investment vendors every 4 years, including, but not limited to, a review of returns, fees, and customer service. The results of these reviews will be made publicly available on the Program’s website.

Does the employer or State have any liability under the Secure Choice Savings Program?
The Act explicitly protects employers from liability for any investment decisions of the Board and investment firm, as well as for employees’ decisions regarding their participation in the Program. Employers are not fiduciaries of the Program, and cannot make any administrative or investment decisions on behalf of their employees.

In order to provide ironclad confidence that employers and the State are immune from these liabilities, the Board will solicit, in writing, an opinion from the Department of Labor to determine whether ERISA will apply to the Program. If the Department of Labor finds that ERISA does apply and that it subjects employers or the State to any liability, then the Illinois Secure Choice Savings Program will not move forward.

Do other states have programs like this?
While no state has implemented a program identical to this, more than a dozen states are working to implement similar programs or have pending legislation. Massachusetts, California, Connecticut and Oregon have all enacted legislation and are in the process of forming and implementing programs while Washington, Illinois, Indiana, Maryland, Minnesota, Nebraska, West Virginia, and Wisconsin introduced legislation in 2014.

For Additional Questions, Contact:
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