A Review of Employee Supplemental Retirement Savings

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A Review of Employee Supplemental Retirement Savings

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Department of Legislative Services
Office of Policy Analysis
Maryland General Assembly

Warren G. Deschenaux
Executive Director

January 2017

The Honorable Thomas V. Mike Miller, Jr., President of the Senate
The Honorable Michael E. Busch, Speaker of the House of Delegates
Members of the General Assembly

Ladies and Gentlemen:

During the 2016 interim, the Department of Legislative Services (DLS) reviewed issues related to supplemental retirement plans. This review resulted in the enclosed report, *A Review of Employee Supplemental Retirement Savings,* which reviews supplemental retirement plans offered by other states and the federal government to assess what strategies are being used to encourage employees to save.

Retirement experts generally agree that employees should have personal retirement savings, even when expecting to receive pension benefits, in order to ensure a secure retirement. The State previously offered its employees a dollar-for-dollar match of up to $600 until fiscal 2010; however, the program was made discretionary as a cost containment measure in fiscal 2011 and has not been funded since.

As of fiscal 2016, only 43.7% of eligible State employees were actively deferring into these plans. Based on self-reported active deferral rates, states that utilized matching contributions and/or automatic enrollment experienced higher active deferral rates than states that did not. The options that the State could pursue to encourage employees to save for retirement include:

- establish matching contributions based on a percent of salary, similar to the federal government;
- reinstitute a flat dollar-for-dollar match; or
- implement automatic enrollment with or without a matching contribution component.

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Laura M. Vykol wrote the report, which was reviewed by Patrick S. Frank, David B. Juppe, and David C. Romans. Maureen R. Merzlak was responsible for production of the manuscript and Annette K. Haldeman provided research support. DLS trusts that this report will be useful to members of the General Assembly in future deliberations regarding State employee supplemental retirement plans.

Sincerely,

Warren G. Deschenaux
Executive Director

WGD/LMV/mrm

Executive Summary

Retirement experts generally agree that employees should have personal retirement savings, even when expecting to receive pension benefits, in order to ensure a secure retirement. An employee with the State of Maryland hired after July 1, 2011, can expect a defined retirement benefit equal to 45% of salary, in addition to 25% from Social Security, which combined equals 70% of their pre-retirement earning level. A comfortable retirement is thought to equate to 80% of salary; thus, an additional 10% of salary needs to be provided by employee's personal retirement savings to ensure retirement readiness. An average State employee earning $55,182 would have to save approximately $1,500 per year, assuming 30 years of service, to attain this 10% of salary segment.

As of fiscal 2016, only 43.7% of State employees were actively deferring money into supplemental retirement plans offered by the State. The percentage of State employees saving money into supplemental retirement plans was higher in the years that the State offered matching contributions, with a high of 51.5% of eligible employees saving in fiscal 2007. Since the State last provided matching contributions in fiscal 2009, the percentage of employees who are actively deferring money has steadily dropped. This report reviews supplemental retirement plans offered by other states and the federal government to assess what strategies are being used to encourage employees to save. Several options are recommended that the State should consider to improve employee savings.

There are six states that offer a defined benefit retirement plan in addition to matching contributions to a supplemental savings plan as an incentive to employees. Based on responses submitted via survey, states that offer matching contributions generally report higher active deferral rates among employees than states that do not, indicating that providing matching contributions does incentivize employees to save. Additionally, states that previously provided matching contributions but ceased, experienced declines in active deferral rates similar to Maryland. States that eliminated previous matching contributions generally did so in response to budget constraints and economic hardships.

Another strategy in use by selected states is automatic enrollment of new employees into supplemental retirement plans at a pre-set deferral rate, usually 1% of salary. Automatic enrollment encourages employees to save through inertia, since it requires the employee to make an effort to opt out of supplemental retirement savings rather than having to opt in. Several states have experienced an increase in actively deferring employees since implementing automatic enrollment. For instance, Texas and Missouri saw bumps of 16.5 and 14.0 percentage points, respectively, in employees actively deferring since implementing automatic enrollment.

The federal government utilizes both matching contributions and automatic enrollment to encourage employees' savings and, as a result, boasts a high employee active deferral rate of 89.3%. Matching contributions are provided as a percent of salary, which encourages a federal employee to save more money as salary grows. Additionally, federal agencies offer an automatic contribution of 1.0% regardless of employee contribution; thus, resulting in all enrolled employees saving something for retirement even if they are not personally contributing, but only 10.7% of employees choose not to personally contribute on top of the agency automatic contribution.

There are three options the State could pursue to encourage employees to save for retirement.

- Establishing matching contributions based on percent of salary, similar to the federal government. The State could provide a base contribution with no employee match, weighted to provide a higher funding level for employees earning less than $50,000, then provide graduated matching up to 5% or 6% of an employee's salary, as illustrated in **Table 1.** The State could also provide a dollar-for-dollar match up to 5% of an employee's salary without automatic contributions or weighted contributions based on salary level.

  Based on similar participation rates seen at the federal level, the cost range for these options are shown in **Table 2.**

- Reinstituting a flat dollar-for-dollar match. The State could provide a flat dollar match similar to what was provided through fiscal 2009, when the State offered a match up to $600 per employee. Options include restoration of the $600 match, provision of a $750 match, which would better position employees to raise 10% of their retirement need, or a $1,000 match in recognition that Maryland has a higher cost of living, and employees frequently do not save consistently for 30 years of service. **Table 3** shows the estimated cost for each option, based on participation at the level last seen when the State funded the matching program and up to 100% participation.

- Implementing automatic enrollment with or without a matching contribution component.

Providing a percent of salary match, combined with automatic enrollment, would yield the best results in regard to improving how many employees are saving and how much employees are saving for retirement. Providing a flat dollar-for-dollar match would be the next best option, and less financially prohibitive than a salary percent match. Implementing automatic enrollment without providing matching contributions would be the least costly option and would improve employee participation in supplemental retirement savings, but does not necessarily encourage an employee to save a sufficient amount of money to ensure a comfortable retirement, the way financial inducements would.

Table 1
Matching Contributions as a Percent of Salary Scenario
Automatic Contributions Weighted By Salary

	Employee Contribution Level	State Contribution (Employee Salary Under $50,000)	State Contribution (Employee Salary Over $50,000)
	0.0%	2.0%	1.0%
	1.0%	1.0%	1.0%
	1.0%	1.0%	1.0%
	1.0%	1.0%	1.0%
	1.0%	0.5%	0.5%
	1.0%	0.5%	0.5%
Total % Contributed	**5.0%**	**6.0%**	**5.0%**

Source: Department of Legislative Services

Table 2
Estimated Costs of Percent of Salary State Match Scenarios
($ in Millions)

		89.3% Participation Cost		100% Participation Cost	
Scenario	**Matching Amount**	**General Funds**	**All Funds**	**General Funds**	**All Funds**
1	Percent of Salary with Weighted Automatic Contribution	$81.2	$153.2	$88.2	$166.4
2	Percent of Salary Dollar-for-dollar	72.9	137.8	81.7	154.3

Source: Department of Legislative Services

Table 3

Estimated Costs For Flat Dollar-for-dollar State Match Scenarios

($ in Millions)

		51.5% Participation Cost		100.0% Participation Cost	
Scenario	**Matching Amount**	**General Funds**	**All Funds**	**General Funds**	**All Funds**
1	$600 annually	$9.2	$17.6	$17.9	$34.1
2	$750 annually	11.5	22.0	22.4	42.7
3	$1,000 annually	15.4	29.3	29.9	56.9

Source: Department of Legislative Services

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A Review of Employee Supplemental Retirement Savings

The State of Maryland offers its employees a defined benefit (DB) retirement plan, which means employees receive a specified pension payment upon retirement that is predetermined by a formula based on the employee's earnings history, tenure of service, and age, rather than depending directly on individual investment returns. Additionally, State employees are eligible for the federal Social Security program and can participate in Maryland's voluntary supplemental retirement savings plans.

Retirement experts generally agree that employees should have personal retirement savings, even when expecting to receive pension benefits, in order to have a secure retirement. This report will review supplemental retirement plans offered by other states and the federal government. In order to provide a like comparison, states that will be compared with Maryland will be those that have a base DB retirement plan as well as supplemental retirement plans. Specifically, this report will assess what strategies appear to be most effective in encouraging employees to save and highlight actions that the State could take to promote supplemental retirement savings.

Background

In response to difficult economic times, employers nationwide have been restructuring or eliminating retirement benefit plans, placing a greater burden on employees to invest and set aside personal savings. According to the National Conference of State Legislatures, 43 state legislatures enacted significant changes to their retirement systems between the post-recession years of 2009 to 2011, including the State of Maryland.[1] Some of the major reforms in the State's restructured pension plan include increased member contributions and vesting eligibility and a decreased multiplier used to calculate benefits. As a result of changes to benefits, employees hired in Maryland on or after July 1, 2011, can expect to receive approximately 45% salary replacement when retiring with 30 years of eligible service. **Exhibit 1** provides estimated retirement income based on the salary of an average State employee hired after the pension reform.

[1] Chapter 484 of 2010, the Budget Reconciliation and Financing Act.

Exhibit 1
Estimated Retirement Income
State Employee Hired after 2010 Session Pension Reform

Salary of Average State Employee	**$55,182**
Pension (45% of Salary)	$24,832
Social Security (25% of Salary)	13,796
Retirement Savings (10% of Salary)	5,518
Total (80% of Salary)	**$44,146**

Note: The average State employee salary is provided by the Department of Budget and Management's *Annual Personnel Report* for fiscal 2015. Pension calculation assumes an employee who is hired on or after July 1, 2011, after the most recent pension reform. Estimates assume a Social Security benefit that provides 25% salary replacement, employee savings over 30 years of service, and retirement readiness is considered 80% salary replacement.

Source: Department of Budget and Management; State Retirement Agency; Maryland Supplemental Retirement Plans

This scenario assumes that 80% of salary is a reasonably secure retirement annuity, but many retirement experts argue that 90% to 100% of salary is necessary to retire comfortably, especially considering other long-term liabilities, health care costs, and cost of living. Based on an average State employee salary of $55,182, an employee would need to save enough to cover 10% of annual salary each year in retirement ($5,518).[2] Under this scenario, an employee would need to contribute approximately $1,500 per year to supplemental retirement plans over 30 years of service to address the retirement readiness gap and ensure a reasonably secure retirement.[3] As of fiscal 2016, only 43.7% of eligible State employees were deferring money into supplemental retirement plans; however, the employees who were actively deferring contributed an average of $4,600 in a year, indicating the employees who are saving now are most likely the most motivated to save. Given the recent reductions in benefits, having personal retirement savings is essential for employees to avoid a reduction in lifestyle in retirement.

Maryland Supplemental Retirement Plans

The State currently has three supplemental defined contribution plans that accept pre-tax contributions directly from payroll for employees' personal retirement savings; starting in

[2] The average salary of a State employee is provided by the Department of Budget and Management's fiscal 2015 *Annual Personnel Report*.

[3] Estimates of necessary employee contributions to address the retirement readiness gap was provided by the Maryland Supplemental Retirement Plans and assumes a 6.5% rate of return for earnings invested and no reduced benefits for spousal coverage.

April 2011, after-tax Roth contributions are also permitted. These defined contribution plans authorized by the State include:

- Deferred Compensation Plan operated pursuant to Internal Revenue Code Section 457(b);
- Savings and Investment Plan under Internal Revenue Code Section 401(k); and
- Employer Matching Plan operated under Internal Revenue code Section 401(a).

These plans are not part of the State Retirement and Pension System, but they provide an increasingly important supplemental benefit for eligible employees who elect to participate. Supplemental retirement plans offered by the State have the added benefit of being portable, meaning an employee can take these retirement savings with them should they leave State service and can add to them by a rollover from another eligible retirement account, such as a 401(k). Since vesting eligibility now requires 10 years of service, it is likely more employees will leave State service before vesting, making the portability of retirement savings crucial to retirement stability.

The 401(a) employer matching plan became operational in fiscal 2000 and was open to all State employee members of the Employee Pension System (EPS) and certain members of the Employee Retirement System (ERS).[4] Chapter 530 of 1998 required the State to contribute a dollar-for-dollar amount, not to exceed $600 in a year, for each participant who actively contributed to one of the employer-sponsored supplemental retirement accounts. The match has been reduced and eliminated in various years due to fiscal constraints, as shown on **Exhibit 2**. The match has not been funded since fiscal 2009 and was made discretionary starting in fiscal 2011, meaning the Governor is no longer required in statute to provide funding in the budget for the match.

The years in which a State match of any amount (from $400 to $600) was provided resulted in the highest percentage of eligible members actively deferring, with a high of 51.5% of members in fiscal 2007, as demonstrated in **Exhibit 3.**[5] Since fiscal 2009, when the State match was last provided, the percentage of actively deferring employees has steadily decreased, down to 43.7% of members in fiscal 2016. However, it should be noted that elimination of the State match occurred at the same time that employees were furloughed for cost containment (fiscal 2009 to 2011), and employee increments were postponed. These factors would also have an impact on employee supplemental retirement savings.

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[4] ERS, established on October 1, 1941, was closed to new membership on January 1, 1980. Eligible employees hired on or after January 1, 1980, are required to participate in EPS as a condition of employment; prior to January 1, 2005, members in ERS were eligible to transfer to EPS. ERS and EPS were combined in 1984 to establish a single annual contribution rate for all State employees.

[5] Active deferral data for the State was not available prior to fiscal 2005.

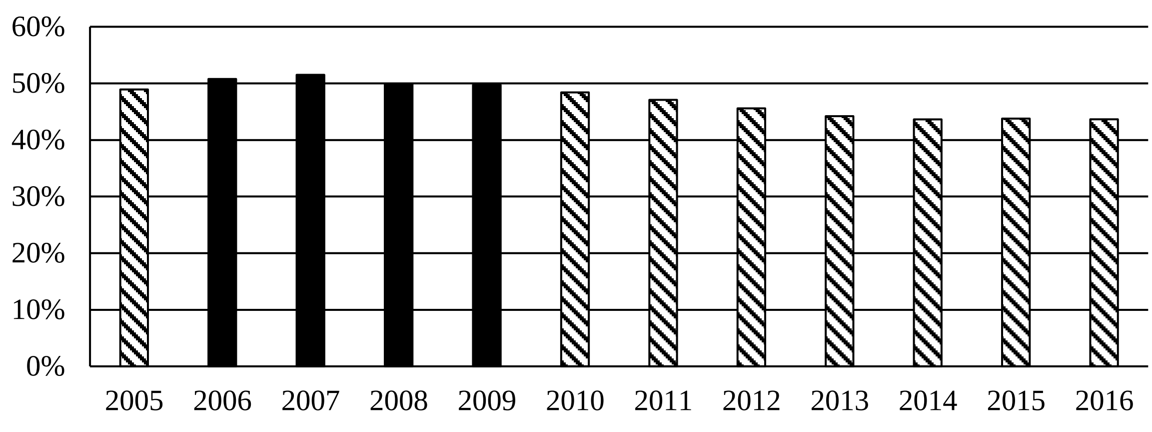
Exhibit 2
History of State Matching Contributions to Maryland Supplemental Retirement Plans
Fiscal 2000-2016

Fiscal Year	State Matching Contribution
2000 to 2002	$600
2003	500
2004 to 2005	0
2006	400
2007 to 2009	600
2010 to 2016	0

Note: Chapter 530 of 1998 required the State to contribute a dollar-for-dollar amount to employee supplemental retirement savings, not to exceed $600 in a year. Chapter 484 of 2010 removed the mandate and made this match discretionary instead.

Source: Department of Legislative Services

Exhibit 3
Percent of State Employees Actively Deferring
Fiscal 2005-2016



Note: Bars with pattern indicate fiscal year without a State match. Matching contributions were eliminated due to budget constraints in response to economic hardship, which would also have an impact on employee supplemental retirement savings.

Source: Maryland Supplemental Retirement Plans

Supplemental Retirement Plans Offered by Other States

Including Maryland, 45 state governments provide employees with a base DB retirement plan and supplemental retirement savings options. Only 6 of these states currently offer matching contributions into supplemental retirement accounts; these states and corresponding matches are shown in **Exhibit 4**. Matching contributions for these states range from $240 to $900 annually.

Exhibit 4
States That Provide Matching Contributions to Supplemental Retirement Plans
Calendar 2016

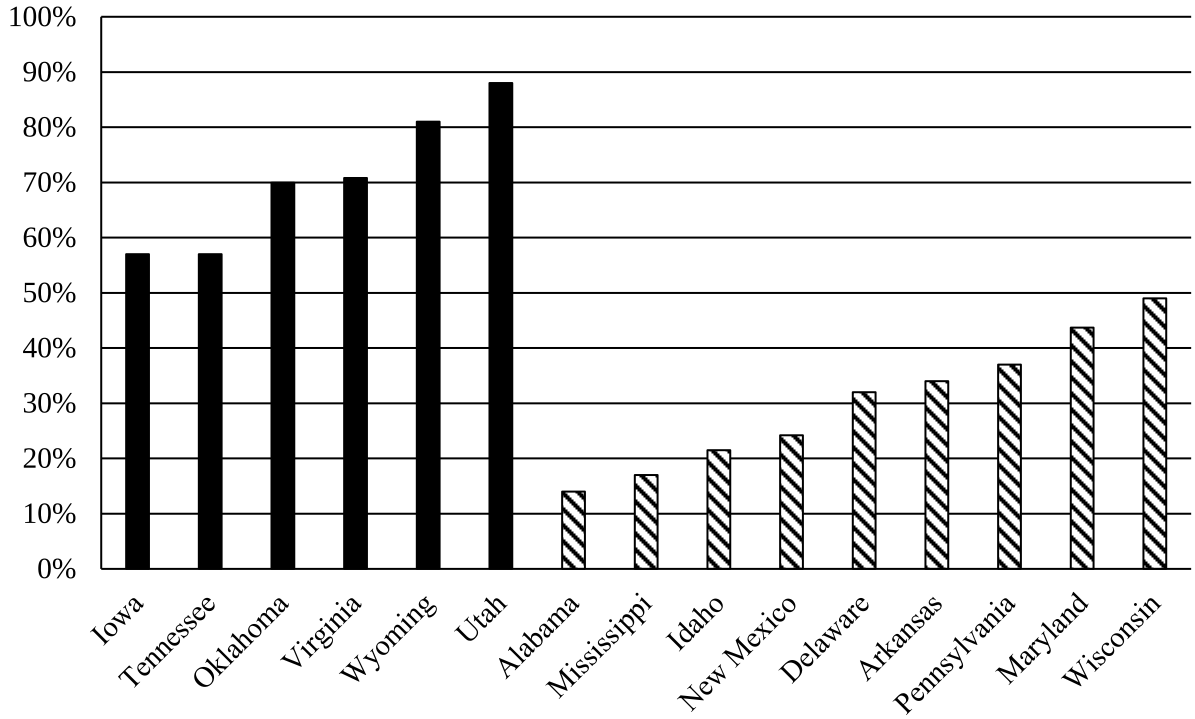
State	Annual Match
Wyoming	$240
Oklahoma	300
Virginia	520
Tennessee	600
Utah	676
Iowa	900

Source: National Association of Government Defined Contribution Administrators, Inc.; Maryland Supplemental Retirement Plans

Wyoming and Oklahoma offer the lowest annual matches at $240 and $300 per year, respectively, when compared to the other states that offer matching contributions into supplemental retirement plans, but employees from these states can also expect to receive 60.0% salary replacement from pension benefits in retirement; comparable state employees in Virginia can expect to receive 49.5% salary replacement and employees from Maryland hired after the 2011 pension reform can expect to receive 45.0% salary replacement from pension benefits.

When comparing states that currently offer matching contributions to states that do not, states that offer a match tend to have a higher percentage of employees actively deferring money into retirement savings, as shown on **Exhibit 5**. The average active deferral rate of the six states that currently provide a match was 70.6% while the average active deferral rate of the subset of states that do not offer a match was 30.3%.[6]

Exhibit 5
Percent of Actively Deferring Employees



Note: Bars with patterns indicate a state that does not provide matching contributions into employee supplemental retirement accounts.

Source: 50-state Survey Conducted by the Department of Legislative Services; responses received by states from September to December 2016

States that implemented matching contributions to employee supplemental retirement plans experienced an increase in active deferral rates in comparison to years the match was not provided. For instance, Virginia saw an increase in the active deferral rate from 31.0% to 44.0% after matching contributions were provided, and Wyoming saw an increase of 45 percentage points after instituting a match. Similarly, states that ceased matching contributions experienced a decrease in active deferral rates in comparison to years the match was provided. Missouri saw a drop from 65.0% to 60.0% in active deferral rates when matching contributions were suspended;

[6] Active deferral rates were self-reported by the states in response to a survey distributed in fall/winter 2016; therefore, data is limited to states that responded and/or had data available. The states included in average active deferral rate calculations are shown on Exhibit 5.

Maryland's active deferral rates dropped from a high of 51.5% when matching contributions were provided down to 43.7% in fiscal 2016.

Supplemental Retirement Plans Offered by the Federal Government

Given its proximity to the District of Columbia and the many federal institutions within Maryland, the State often competes with the federal government to recruit and retain employees. Benefits packages, including retirement and health insurance coverage, are often a way to attract employees to civil service. The federal government offers employees a similar three-tier retirement plan that Maryland offers (1) a DB plan; (2) federal Social Security eligibility; and (3) the Thrift Savings Plan (TSP), which is a voluntary supplemental retirement savings plan that features automatic enrollment.

Federal agencies provide an automatic contribution equivalent to 1% of basic pay earned for a pay period, regardless of employee contribution into TSP. Employees are also allowed to make their own contributions into the account, and agencies will match these additional contributions up to 5% of pay contributed every pay period. The first 3% is matched dollar-for-dollar by the agency. The next 2% is matched at 50 cents on the dollar; this means that when an employee contributes 5% of basic pay, the agency contributes another 4% to the TSP account. Together with the agency automatic 1% contribution, an employee can receive up to a 5% contribution from the agency. **Exhibit 6** provides the breakdown of federal agency and employee contributions into the TSP. Combining agency and employee contributions results in an employee deferring the equivalent of 10% of salary annually if the employee contributes enough to receive the maximum agency matching contribution.

Exhibit 6
Federal Government Thrift Savings Plan Contributions
(% of Salary)

	Employee Contribution	Agency Contribution	Combined Contribution
	0.0%	1.0%	1.0%
	1.0%	1.0%	2.0%
	1.0%	1.0%	2.0%
	1.0%	1.0%	2.0%
	1.0%	0.5%	1.5%
	1.0%	0.5%	1.5%
Total % Contributed	**5.0%**	**5.0%**	**10.0%**

Source: Thrift Savings Plan

Given that TSP members receive an automatic agency contribution regardless of their own contributions, 100.0% of members are saving money in supplemental retirement accounts; however, 89.3% of members are actively contributing their own money in addition to receiving the automatic 1.0% agency contribution (*i.e.*, 10.7% of employees are receiving only the automatic agency contribution), indicating that agency contributions as a percent of employee salary is successful at encouraging employees to save for retirement. It should be noted that the average salary of a civilian federal employee is $83,133, much higher than the State of Maryland employee average salary of $55,182[7]. Higher salaried employees have more financial flexibility, which would also have an impact on active deferral into supplemental retirement savings.

Automatic Enrollment of Employees into Supplemental Retirement Plans

Besides matching contributions, another option being utilized to encourage retirement savings among employees is automatic enrollment. An employee is automatically enrolled in a supplemental retirement plan at a default contribution rate and investment option with the intention to increase the number of employees saving for retirement. Employees would need to take action to opt out of the plan rather than taking action to opt in. Automatic enrollment usually results in more employees staying in supplemental retirement plans due to inertia. For example, Wyoming and South Dakota have experienced retention rates of 97.0% and 91.3%, respectively, since implementing automatic enrollment programs, according to a case study conducted by the National Association of Government Defined Contribution Administrators.[8]

Active deferral rates generally increase with implementation of automatic enrollment. Looking at two states that only implement automatic enrollment (no current matching contributions), Texas and Missouri boast high active deferral rates of 50.5% and 74.0%, respectively. Similar to matching contributions, states that implemented automatic enrollment saw an increase in actively deferring employees in comparison to years without automatic enrollment. For example, Texas experienced an increase of 16.5 percentage points after implementing automatic enrollment, and Missouri increased from 60.0% to 74.0% of employees actively deferring (after the elimination of matching contributions).

Options to Encourage Employee Retirement Savings

The State should encourage employees to save enough to bridge the retirement readiness gap, which ranges from 10.0% to 20.0% salary replacement, according to retirement experts; however, as of fiscal 2016, only 43.7% of Maryland State employees were saving in supplemental

[7] The average salary of a civilian federal employee is calculated using the Office of Personnel and Management Fedscope tool. The data includes cabinet level agencies and independent agencies across the United States from March 2016. A comprehensive list of agencies that are not included in Fedscope data can be found at https://www.fedscope.opm.gov/datadefn/aehri_sdm.asp#cpdf3.

[8] Wyoming implemented automatic enrollment of employees starting in 2015, and South Dakota's automatic enrollment program began in 2009.

retirement plans. The State could pursue several options to increase both the number of employees saving and total contributions into supplemental retirement accounts.

Option 1: Establish Matching Contributions Based on Percent of Salary

As discussed previously, the federal government offers employees matching contributions as a percent of salary and has an active deferral rate of 89.3% of employees contributing. Providing matching contributions to employees as a percent of salary has the benefits of incentivizing employees across all salary levels to save and ensuring that employees increase contributions over time as salaries increase. A disadvantage with a percent of salary match is that it provides greater incentive and financial gain to higher salaried employees versus lower salaried employees. This includes newer and younger employees who should be encouraged to start saving early in their careers to ensure a comfortable retirement.

The State could implement a matching contribution model similar to the federal government's TSP to encourage employee retirement savings. The State could provide an automatic contribution, followed by a dollar-for-dollar match for the next 3% of contributions, then a 50 cents on the dollar match for the following 2% of contributions. In order to provide greater incentive to lower salaried employees to save for retirement, the State could provide a 2% automatic contribution to employees who earn under $50,000 and 1% to employees who earn $50,000 or more, instead of providing a 1% automatic contribution to all employees. **Exhibit 7** provides the employee and State contribution breakdown if this type of match was implemented. Under this scenario, employees that earn less than $50,000 could receive a maximum State match of 6% of salary while employees earning $50,000 or more could receive a maximum match of 5%; combined, this would result in employees making under $50,000 saving 11% of salary and employees at or over $50,000 saving 10% of salary each year for retirement. This scenario could create difficulties when considering employees just above or below the salary line. For instance, an employee making $49,999 would receive an automatic State matching contribution of 2% of salary, but after receiving a raise that bumps the employee over $50,000, the State matching contribution would drop to 1% of salary. Determining an employee's salary who is eligible for overtime would also create complications.

Implementing this type of match, assuming all employees in EPS or ERS would be eligible, could cost the State from $153.2 million ($81.2 million in general funds) up to $166.4 million ($88.2 million in general funds) annually, assuming an active deferral rate ranging from 89.3% to 100.0%, respectively. Comparatively, implementing a dollar-for-dollar match up to 5.0% without an automatic contribution would cost from $137.8 to $154.3 million ($72.9 to $81.7 million in general funds). **Exhibit 8** provides the cost range for these two scenarios. These costs could be less if not all actively deferring employees contribute enough to receive the maximum State match. State costs will increase over time with employee salary enhancements.

Exhibit 7
Matching Contributions as a Percent of Salary Scenario

	Employee Contribution	State Contribution (Employee Salary Under $50,000)	State Contribution (Employee Salary $50,000 or More)
	0.0%	2.0%	1.0%
	1.0%	1.0%	1.0%
	1.0%	1.0%	1.0%
	1.0%	1.0%	1.0%
	1.0%	0.5%	0.5%
	1.0%	0.5%	0.5%
Total % Contributed	**5.0%**	**6.0%**	**5.0%**

Note: State employees making under $50,000 receive an agency contribution of 2% of salary, regardless of the employee's contribution while employees making $50,000 or more receive 1%. The first 3% contributed by the employee is matched dollar-for-dollar by the State, then the next 2% is matched 50 cents on the dollar.

Source: Department of Legislative Services

Exhibit 8
Estimated Costs of Percent of Salary State Match Scenarios
($ in Millions)

		89.3% Participation Cost		100% Participation Cost	
Scenario	**Matching Amount**	**General Funds**	**All Funds**	**General Funds**	**All Funds**
1	Percent of Salary with Weighted Automatic Contribution	$81.2	$153.2	$88.2	$166.4
2	Percent of Salary Dollar-for-dollar	72.9	137.8	81.7	154.3

Source: Department of Legislative Services

Option 2: Reinstitute a Flat Dollar-for-dollar State Matching Contribution

As shown previously in Exhibit 2, reinstituting a flat dollar-for-dollar State match led to more employees saving for retirement, with a high of 51.5% of employees actively deferring into supplemental retirement accounts in fiscal 2007 when the match was at its peak of $600 per year. A flat dollar-for-dollar match should be high enough to both encourage employees to save and to save enough to be comfortable in retirement, particularly taking into consideration the State's cost of living. **Exhibit 9** compares states that currently offer flat dollar-for-dollar matching contributions and their per capita income to the match previously offered by Maryland ($600 annually). Of the states in Exhibit 9, Maryland has the second highest per capita income, but when comparing the percentage ratio of matching contributions to per capita income, Maryland is fourth. Three states with lower per capita incomes offer the same or higher match to employees than Maryland's prior match: Tennessee; Utah; and Iowa. This demonstrates that employees who retire from the State face a higher cost of living, and a $600 match does not have the same purchasing power in Maryland that it does in states that have a lower cost of living.

Exhibit 9

Maryland versus States That Provide Flat Dollar-for-dollar Matching Contributions

Comparison of Per Capita Income

State	Annual $ Match	Per Capita Income	Ratio of Match to Per Capita Income
Maryland	$600	$55,972	1.1%
Wyoming	240	56,081	0.4%
Virginia	520	52,052	1.0%
Iowa	900	45,902	2.0%
Oklahoma	300	45,573	0.7%
Tennessee	600	42,044	1.4%
Utah	676	39,308	1.7%

Note: Maryland no longer offers matching contributions. Fiscal 2009 was the last year the $600 annual match was provided.

Source: National Association of Government Defined Contribution Administrators; U.S. Bureau of Economic Analysis 2015 Annual Personal Income Data

Maryland could pursue the following options in regard to reinstituting a flat dollar-for-dollar State matching contribution:

- **$600 Match Option:** If the State were to reinstitute the $600 annual matching contribution for employees in the Employee Pension or Retirement System, it could cost from $17.6 million ($9.2 million in general funds) if the active deferral rate is at least the State's previous high of 51.5%, up to $34.1 million ($17.9 million in general funds) annually if 100.0% of eligible employees took advantage of the match For comparison, in fiscal 2007, with a match of $600 and active deferral rate of 51.5%, the State paid $16.4 million in matching contributions ($8.9 million in general funds);

- **$750 Match Option:** Providing a match of $750 annually would encourage an employee to save approximately $1,500 per year, which is approximately what an average State employee would need to save based on the estimated retirement income discussed previously in order to close the retirement readiness gap. Implementing a $750 annual matching contribution for all employees in the Employee Pension and Retirement System could cost the State from $22.0 million ($11.5 million in general funds) to $42.7 million ($22.4 million in general funds) annually, assuming an active deferral rate ranging from 51.5% to 100.0%; and

- **$1,000 Match Option:** Since many employees do not save consistently for 30 years of service, instituting a higher match would be beneficial to help employees make up for lost time. Providing a match of $1,000 per year could cost the State from $29.3 million ($15.4 million in general funds) to $56.9 million ($29.9 million in general funds) annually, assuming an active deferral rate ranging from 51.5% to 100.0%.

Exhibit 10 shows the range of costs for the three flat dollar-for-dollar matching contribution scenarios, assuming an active deferral rate range of 51.5% to 100.0% of eligible employees.

Exhibit 10

Estimated Costs for Flat Dollar-for-dollar State Match Scenarios

($ in Millions)

		51.5% Participation Cost		**100.0% Participation Cost**	
Scenario	**Matching Contribution**	**General Funds**	**All Funds**	**General Funds**	**All Funds**
1	$600 annually	$9.2	$17.6	$17.9	$34.1
2	$750 annually	11.5	22.0	22.4	42.7
3	$1,000 annually	15.4	29.3	29.9	56.9

Source: Department of Legislative Services

Option 3: Automatic Enrollment

As discussed previously, automatically enrolling employees into a supplemental retirement plan when hired has been shown to be effective at increasing the number of employees who are saving for retirement. Employees who may not have voluntarily opted into supplemental retirement savings end up saving money due to inertia, making the employee more ready for retirement than if the employee had not saved at all. Automatic enrollment is an effective strategy to increase active deferrals into retirement plans; however, automatic enrollment does not guarantee an employee is saving enough to be comfortable in retirement. For instance, implementing a policy to automatically enroll new employees at 1% of salary means more employees are saving some money, but 1% is not a sufficient contribution rate to address the retirement readiness gap most employees face. Automatically enrolled employees may assume the State has enrolled them at a rate that will result in retirement readiness and take no action to increase contributions over time. One way that the State can avoid this issue is by providing matching contributions to encourage employees to defer at least enough to receive a maximum State match, as discussed previously. Instituting automatic enrollment and/or automatic escalation would require a change in current State statute. Estimated costs to implement such a change are not known as this time, but would most likely require changes in human resources' and Maryland State Retirement Plan's procedures and training.

Conclusion

This report reviewed supplemental retirement plans offered by other states and the federal government to assess what strategies are being used to encourage employees to save. Three options were reviewed that the State could consider to improve employee savings. Providing a percent of salary match, combined with automatic enrollment, would yield the best results in regard to increasing the number of employees actively saving for retirement and increasing how much employees are saving. Providing a flat dollar-for-dollar match would be the next best option, and far less financially prohibitive than a salary percent match. Given inflation of costs since fiscal 2009 when the match was last provided, a flat dollar-for-dollar match should be higher than $600 to encourage employee savings to have sufficient impact on behavior. A $750 match would encourage employees to save at least $1,500 per year, which is approximately what an average State employee would need to save to provide for 10% of post-retirement income. Finally, implementing automatic enrollment without providing matching contributions would be the least costly option and would improve employee participation in supplemental retirement savings but does not necessarily encourage an employee to save a sufficient amount of money to ensure a comfortable retirement, the way financial inducements would.