SB 322 FAV.pdf
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MARYLAND STATE TREASURER
Dereck E. Davis

Senate Bill 322: Maryland Teachers and State Employees Supplemental Retirement Plans - Automatic Enrollment

Position: Favorable

Senate Budget and Taxation Committee

February 8, 2024

Thank you for the opportunity to express my support for Senate Bill 322, which implements automatic enrollment in the Maryland Teachers and State Employees Supplemental Retirement Plans (MSRP) for employees hired on or after January 1, 2025. I write both as State Treasurer and as a member of the Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans.

It is well documented that many retirees are ill-prepared for retirement; a fact that I have testified to repeatedly since becoming Treasurer as a member of many State retirement boards. While MSRP continually strives to expand its outreach to State employees, there are still many State employees who do not utilize the Plans. As of the second quarter of 2023, only 38% of all eligible State employees were actively participating in their supplemental retirement savings by deferring/contributing to MSRP Plan accounts. This kind of underutilization is common in states with defined benefit plans, as the focus is often on those plans instead of other plans that are available.

As fiduciaries tasked with administering the Plans in the best interest of its participants, the Board of Trustees authorized MSRP to conduct a survey of existing studies to better understand employee retirement readiness and the automatic enrollment landscape. Unsurprisingly, the survey confirmed that a common impediment to retirement saving is the requirement to self-enroll. According to research compiled by the Center for State & Local Government Excellence, nearly three-quarters (74%) of working adults prefer to be automatically enrolled in a retirement savings plan by their employer.[1] Armed with this knowledge, the Board of Trustees and staff of MSRP hope to take the onus off new employees by implementing automatic enrollment. I believe that this first important step will better prepare Marylanders for retirement.

For the foregoing reasons, I respectfully request that the Committee issue a favorable report on Senate Bill 322. Please contact Laura Atas, Deputy Treasurer for Public Policy (latas@treasurer.state.md.us), with any questions.

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[1] "Automatic Enrollment Study," Maryland Teachers and State Employees Supplemental Retirement Plans, page 2 (August 2023), citing "Using Automatic Enrollment in Local Government Retirement Plans to Increase Savings," Center for State & Local Government Excellence (June 2014).

2024JacksonTestimonySB322.pdf
Uploaded by: Michael Jackson
Position: FAV

MICHAEL A. JACKSON
Legislative District 27
Calvert, Charles and
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Budget and Taxation Committee
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Chair, Pensions
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TESTIMONY – SENATE BILL 322

MARYLAND TEACHERS AND STATE EMPLOYEES SUPPLEMENTAL RETIREMENT PLANS – AUTOMATIC ENROLLMENT

BUDGET AND TAXATION COMMITTEE

FEBRUARY 8, 2024

Fellow Committee Members:

Senate Bill 322 is a very straightforward piece of legislation that requires the State Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans to implement an automatic enrollment arrangement for these State employees who are hired on or after January 1, 2025.

The belief with this legislation is that authorizing automatic enrollment will allow the Board to support all new State employee participants as they plan for retirement. It would also provide thousands of new State employees this important benefit so that they will be able to supplement their retirement income to cover the gap that will exist between pre-retirement income and post-retirement income.

The aim of this legislation is to simply create a mutually beneficial situation for both the State and State employees.

For the reasons listed above, I ask for a favorable report of Senate Bill 322.

SB0322-MSRP Testimony (Written w Study) 2-8-2024.p
Uploaded by: Ronda Bell
Position: FAV

MSRP

Maryland
Teachers & State Employees
Supplemental Retirement Plans

457 • 401(k) • 403(b) • Match

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Plan Administrator:
1-800-545-4730
marylanddc.com

Date: February 8, 2024

To: Hon. Guy Guzzone, Chair
Senate Budget and Taxation Committee

From: Hon. T. Eloise Foster, Board Chair T. Eloise Foster
Ronda Butler Bell, Executive Director & Board Secretary Ronda B. Bell
Maryland Teachers & State Employees Supplemental Retirement Plans

Re: **Position of Support – SB0322**
Maryland Teachers and State Employees Supplemental Retirement Plans – Automatic Enrollment

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Mr. Chair and members of the Committee, on behalf of the Maryland Supplemental Retirement Plans Board of Trustees (the "Board"), we submit this position of strong support for Senate Bill 322.

The Maryland Teachers & State Employees Supplemental Retirement Plans ("MSRP") administers the voluntary defined contribution supplemental retirement savings plans[1] that provide all eligible State employees with the option to enroll in: 1) the 403(b) tax sheltered annuity plan; 2) the 401(k) salary reduction savings plan; or 3) the 457(b) deferred compensation plan (the "Plans"). The Board is the fiduciary for the Plans and is legally obligated to act solely in the interest of Plan participants. State law requires that 3/9 of the Trustees be employees of certain State agencies, 3/9 be eligible to participate in the Plans, and 3/9 be members of the public.

MSRP's primary goal is to promote and provide retirement readiness for State employees. Only State employees who voluntarily enroll in the Plans can receive the significant support provided by this benefit. Thousands of eligible State employees hired each year miss out on the opportunity for a more secure retirement income. The authorization of automatic enrollment will serve to reverse this trend.

Our Member Services Team is consistently improving and expanding its outreach to State benefit coordinators and provides a variety of educational seminars and webinars to State employees each month. Despite these extensive efforts, many State employees are simply unaware that the Plans are an optional benefit. The multiple email platforms utilized by State agencies create a significant communication challenge for our agency, as it is not possible for the team to send direct emails to all eligible State employees.

Attached is MSRP's recently completed Automatic Enrollment Study (the "Study"), which provides in-depth information and research findings in support of the implementation of an automatic enrollment arrangement. The research findings contained in the Study highlight the significant disparities in the financial health, salaries, and retirement readiness of female employees and employees of color when compared to male employees and white employees. State employee demographics noted in the Study reflect a large percentage of female employees (61%) and employees of color (52.2%).

1 Md. Code Ann., State Personnel and Pensions Article §§ 35-401, 501, and 601

There is a gap that typically exists between employees' pre-retirement income and their anticipated post-retirement income, which consists of the combination of Social Security benefits and the pension administered by the Maryland State Retirement Agency ("MSRA"). The Plans are "supplemental" to employees' MSRA benefit and were created to bridge this gap to help State retirees reach their income replacement goals. The recommended income replacement percentage for State retirees is 85% of their pre-retirement income. The earlier employees participate in the Plans, the more they will be able to save toward supplementing their retirement income.

Automatic enrollment will serve to better support newly-hired eligible State employees by helping them prepare for a more secure retirement. This bill would authorize MSRP to enroll new State employees in a supplemental retirement plan as they begin State service on or after January 1, 2025 and would not affect current State employees or new employees who will be hired prior to this date.

The Board extends its sincere gratitude to Senator Michael Jackson for graciously sponsoring this important legislation and requests that the Committee submit a favorable report.

Attachment: MSRP Automatic Enrollment Study

Maryland Teachers & State Employees Supplemental Retirement Plans

Automatic Enrollment Study

August 2023

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AUTOMATIC ENROLLMENT STUDY
August 2023

EXECUTIVE SUMMARY

Historically, superior employer-sponsored benefits have served to attract and retain employees as well as provide them with essential support in the areas of health, dental, and retirement benefits. Trends in the financial planning and retirement sectors indicate that most employees, across public and private organizations, are not adequately prepared to retire. Current State of Maryland and national data further indicate that there are significant disparities in the financial health, salaries, and retirement readiness of female employees and employees of color when compared to male employees and white employees. State employee demographics reflect a large percentage of female employees and employees of color.

Defined contribution “supplemental” retirement plans were designed to supplement an eligible employee’s anticipated retirement income earned from pension and Social Security benefits. The Maryland Teachers & State Employees Supplemental Retirement Plans (“MSRP”) provides State employees with supplemental retirement savings vehicles and extensive education to help them prepare for a more secure retirement.

MSRP has conducted research and gathered data from a variety of sources, including leading authorities in the retirement and financial industry. The recommendation is to proceed with the implementation of automatic enrollment, which is supported by the research findings.

INTRODUCTION

The retirement industry has historically recognized automatic enrollment as a powerful tool for significantly increasing employees' retirement plan participation. The National Association of Government Defined Contribution Administrators ("NAGDCA") has studied and reported that the rate at which employees save for retirement is increased by automatic enrollment- so much so, that NAGDCA deems it an industry best practice. Private sector retirement plan sponsors have been deploying automatic enrollment for nearly two decades, since the Pension Protection Act of 2006 was passed[1], while public sector plans have consistently lagged behind due in large part to the need for statutory amendments. All organizations, public and private alike, should perform due diligence to ensure that everything possible is being done to offer and implement all feasible retirement resources.

On a national level, the average employee is either under-prepared or wholly unprepared to retire. In this regard, State of Maryland employees reflect the national trends. Employers have a duty to support employees by helping them retire with dignity and increase their future financial security as much as possible.

Research conducted by the Center for State & Local Government Excellence[2] indicates the following:

1. participation in employer-sponsored retirement savings plans is one of the most optimal ways to prepare for retirement, but public employees are reluctant to sign up for such plans even after undergoing education on their importance;
2. because the public sector relies so heavily on defined benefit plans, there is an erroneous and widespread perception that public employees do not need additional retirement savings and, therefore, the public sector has not adopted automatic enrollment into defined contribution plans at the same rate as the private sector;
3. a national Prudential Retirement survey revealed that 74% of working adults across all age groups would prefer that their employer automatically enroll them in their retirement savings plan rather than having to self-enroll; and
4. automatic enrollment is very effective, especially for younger employees who need to save as much as possible for as long as possible, because it does not require employees to take any action or make any investment decisions.

The State of Maryland will be able to assist all eligible newly-hired employees with immediate participation in its vital retirement savings benefit by authorizing automatic enrollment in MSRP, helping to shape the trajectory of their retirement outcomes in a meaningful way.

MARYLAND OVERVIEW

Pursuant to Md. Code Annotated, State Personnel and Pensions Article §§ 35-401, 501, and 601, MSRP administers the voluntary defined contribution supplemental retirement savings plans that provide all eligible State employees (both permanent and contractual) with the option to enroll in: 1) the 403(b) tax sheltered annuity plan; 2) the 401(k) salary reduction savings plan; or 3) the 457 deferred compensation plan (the "Plans"). State employees must elect to enroll in

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1 *Automatic Enrollment Toolkit.* National Association of Government Defined Contribution Administrators, Inc., 2022.
2 *Using Automatic Enrollment in Local Government Retirement Plans to Increase Savings.* Center for State & Local Government Excellence, June 2014.

the Plans to receive this benefit. MSRP is consistently improving and expanding its outreach to State benefit coordinators and provides a variety of educational seminars and webinars to State employees each month. Despite these efforts, there are still many State employees who are simply unaware that the Plans are an option. The multiple email platforms utilized by State agencies create a significant communication challenge to MSRP's Member Services Team, as it is not possible for the team to send direct emails to employees on all platforms.

MARYLAND STATUTORY AMENDMENT REQUIRED

Current State law does not authorize automatic enrollment in the Plans. Implementing automatic enrollment will require amendments to State Personnel and Pensions Article §§ 35-101 and 206.

MSRP – A VITAL SUPPLEMENTAL RETIREMENT SAVINGS BENEFIT

Replacement of Pre-retirement Income

MSRP's primary goal is to promote and provide retirement readiness for State employees. There is a gap that typically exists between employees' pre-retirement income and their anticipated post-retirement income, which consists of the combination of Social Security benefits and the pension administered by the Maryland State Retirement Agency ("MSRA"). The Plans are "supplemental" and were created to bridge this gap to help State retirees reach their income replacement goals. The recommended income replacement percentage for State retirees is 85% of their pre-retirement income. Only State employees who voluntarily enroll in the Plans can receive the significant support provided by this benefit. Without authorization of automatic enrollment, thousands of eligible State employees hired each year miss out on the opportunity for a more secure retirement income.

Social Security May Not Help Enough

Trends in retirement planning research show that Social Security benefits combined with a pension do not generate sufficient income to support the average State employee after s/he retires. In fact, the Congressional Budget Office's *2023 Long Term Projections for Social Security*[3] predicts that the Social Security trust funds will be depleted by 2033:

> CBO projects that if Social Security outlays were limited to what is payable from annual revenues after the combined trust funds' exhaustion in fiscal year 2033, Social Security benefits would be 25 percent smaller than scheduled benefits in 2034. They would be 30 percent smaller in 2097 and later years. After the combined trust funds' exhaustion in the payable benefits scenario, average retirement benefits in the first year of claiming resume their growth, but those benefits are smaller than scheduled benefits for people born after 1968 (that is, those who turn 65 after 2033).

3 *CBO's 2023 Long-Term Projections for Social Security*. Congressional Budget Office, June 2023.

Unforeseeable Emergencies and Hardships – Participant Access to MSRP Funds

A 2022 Voya study[4] found that 60% of employees reported that their *only* source of emergency savings is their employer-provided retirement plan. MSRP participants are able to access their funds in certain plans for unforeseeable emergency and hardship withdrawals, in accordance with IRS statutory authorizations.

MSRP'S MEMBER SERVICES EDUCATION TEAM – EMPLOYEE TRAINING AND INFORMATION

The MSRP Member Services Education ("MSE") Team provides retirement education to State employees about saving for retirement with supplemental retirement plans, and the broader topic of financial planning and wellness, via webinars, in-person seminars, new employee orientations, and one-on-one sessions. MSE Team members have extensive financial backgrounds and must hold and maintain (with annual mandatory continued education units) the Accredited Certified Retirement Counselor ® (CRC®) designation.

In 2022, approximately 21,000 State employees attended MSRP education events. So far, more than 14,000 have attended events in 2023. Webinar topics include the following:

- *Catch the Match! It's Back!* (focused on the reinstatement of the 401(a) Match Plan)
- *Success in Planning: Understanding Your MSRP Plans*
- *Social Security: One Piece of the Puzzle!*
- *Countdown to Retirement: Understanding Retirement Readiness*
- *Are you a Contractual Employee? This Webinar is for You!*
- *How Much is Enough?*
- *Borrowing Against YOUR Future: What You Need to Know*
- *Managing Market Volatility*
- *Can We Talk? A Conversation about Long-Term Care.*

The MSE Team closely coordinates with more than 700 State benefit coordinators to ensure that MSRP communications are disseminated to State employees. The MSE Team also works with the Member Services team at MSRA to ensure a free flow of vital State employee educational information between the agencies. Additionally, the MSE Team regularly works with the team assigned to MSRP accounts at the Plan Administrator (currently Nationwide Retirement Solutions) to coordinate on education campaigns and messaging to Plan participants.

Two key events are held annually. The MSRP Saving$ Symposium is a multi-day event with webinars presented by guest speakers who provide education to help State employees reach their retirement goals. Maryland State Employees Save Month is a campaign that involves creating and sending State employees short, meaningful videos designed to motivate them to act (including enrolling in the Plans, increasing deferrals/contributions, attending a webinar, or meeting with their MSRP representative) to improve their financial outcomes. Both MSRP events coincide with national events in April and October to raise awareness about the importance of financial education and saving for retirement.

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4 *Bringing Greater Financial Equity to the Workplace to Support Everyone's Opportunity for a Better Financial Future: How Diversity, Equity and Inclusion Best practices Can Help Close Retirement Savings Gaps to Improve Financial Outcomes.* Voya-Thought Leadership Council, April 2023.

MSRP is very proud of the work done by the MSE Team in support of State employees. It is high-quality work, as evidenced by the national awards that have been won for their education program content and innovation. Most recently, MSRP received an award in the 2023 Pensions & Investments Participant Education & Communication category for a very creative “How Much? How Long?” tortoise and hare themed campaign to encourage Plan participants to reach a $100k retirement milestone. This education campaign was also responsible for MSRP receiving a 2022 award from NAGDCA in its Participant Education & Communication category. The MSE Team’s partnership and collaborative work with MSRP’s Plan Administrator was a contributing factor in winning these awards.

Stakeholder Engagement

AFSCME Maryland – Largest Employee Union in Maryland

MSRP has reached out and confirmed a meeting for early September 2023 with the President of AFSCME Maryland, Council 3 to discuss the union’s perspective on automatic enrollment and ensure there are no unanswered questions. The objective is for MSRP and AFSCME to coalesce around the common goal of providing State employees with the best possible retirement savings support.

Other State Employee Unions

MSRP will be reaching out to the other State employee unions in September 2023 to gather their feedback and perspective on automatic enrollment. Meetings will be set with all unions that would like to meet.

State Employee Participation in Retirement Savings and Demographics

Active State Employee Participation in MSRA and MSRP

The current State employee contribution rate for the pension administered by MSRA is 7%.

As of the second quarter of 2023, 38% of all eligible State employees were actively participating in their supplemental retirement savings by deferring/contributing to MSRP Plan accounts. “All eligible State employees” includes the following: Executive Branch, Judicial Branch (excluding judges), Legislative Branch (excluding elected officials), State higher education employing institutions, and contractual employees.

Maryland Department of Budget and Management Employee Data

DBM Annual Statewide EEO Report FY 2022 Statistics on State Employees	
Percentage of female employees	61%
Percentage of male employees	39%
Percentage of white employees	48%
Percentage of Black/African American employees	45%
Percentage of “other ethnicity” non-white employees	7.2%
Percentage who are age 30-39	23%
Percentage who are age 40-49	24%
Percentage who are age 50-59	28%
Average employee salary across all cohorts	$68,405

STATE AND NATIONAL DATA – RACE & GENDER

Given that approximately 45% of State employees are Black, 7.2% are members of other non-white ethnicities, and 61% are female, we gathered more detailed State and national data relative to these cohorts vis-à-vis retirement savings, financial health, and overall net worth.

Maryland Data on Race

The Maryland Department of Budget and Management's Annual Statewide Equal Employment Opportunity Report for Fiscal Year 2022 (the "2022 DBM Report")[5] reported the following State employee data on race:

1. the average State salary across all cohorts was $68,405, but white employees were paid an average of $11,483 more than African American employees in FY 2022 ($71,776 was the average white employee salary and $60,293 was the average African American employee salary);
2. white male employees had an average salary of $75,452, while African American male employees had an average salary of $61,561; and
3. white female employees had an average salary of $68,100, while African American female employees had an average salary of $59,025.

Maryland Data on Gender

The 2022 DBM Report includes the following State employee data on gender:

1. the average State salary across all cohorts was $68,405, but male employees were paid an average of $6,540.00 more than female employees in FY 2022 ($71,675 was the average male salary and $65,135 was the average female salary);
2. the salary gap between men and women of the same race increased from 2017 to 2022 for white and African American employees;
3. the salary of white men exceeded the salary of white women by $5,233 in 2017 and by $7,352 in 2022; and
4. the salary gap between African American males and females rose from $1,861 in 2017 to $2,536 in 2022.

National Data on Race

1. The *2019 Survey of Consumer Finances*[6] found that white families had a median net worth of $188,200 and a mean net worth of $983,400. Black families had a median net worth of $24,100 and a mean net worth of $142,500. Hispanic families had a median net worth of $36,100 and a mean net worth of $165,500.

2. A 2021 T. Rowe Price Retirement Savings and Spending Study[7] revealed the following:

    a. 38% of white employees started saving for retirement before age 30, while18% of Black employees did the same;

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5 https://dbm.maryland.gov/eeo/Documents/Publications/AnnualEEO-ReportFY2022.pdf
6 Bhutta, Neil, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu. *Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances*. FEDS Notes. Washington: Board of Governors of the Federal Reserve System, September 28, 2020.
7 Banerjee, Sudipto, *Race, Retirement, and the Savings Gap*. T. Rowe Price, March 2022.

b. Black and Hispanic retirement plan participants have a higher probability of carrying various types of debt (*i.e.*, credit cards, student loans, medical debt, home equity loans, and payday loans) than white participants; and
c. 18% of white participants carried student loan debt, while 41% of Black participants had student loan debt.

3. An AARP report[8] disclosed that studies indicate "people of color depend disproportionally on Social Security for their retirement income and are less able to rely on family wealth transfers such as inheritances for financial support later in life." Because of this, Black and Hispanic employees will need to save for retirement independently, as the overwhelming absence of intergenerational wealth is a significant barrier to future financial health.

4. Data collected by economists from MIT, Harvard, Yale, and the U.S. Census Bureau[9] indicate that, while Black and Hispanic employees contribute a significantly smaller amount to their employer-sponsored retirement savings accounts than white employees, Black employees in particular have a greater probability of taking early withdrawals.

National Data on Gender

1. The 2022 Goldman Sachs retirement survey and insights report entitled *Navigating the Financial Vortex: Women & Retirement Security*[10] noted the following findings:

   a. working women are more likely than men to take time away from their careers to be caregivers to children or elderly family members, thereby stalling their earned income, retirement savings, and contributions to their Social Security benefits;
   b. women are more likely than men to enter into retirement early to become caregivers of family members;
   c. women are more likely than men to suspend retirement savings for a year or more due to financial strain; and
   d. 80% of retired women reported that they receive less than 70% of their pre-retirement income.

2. T. Rowe Price's 2022 Retirement Savings and Spending Study[11] revealed the following:

   a. women's median income equated to ⅔ of men's median income (the median for men was $73,700 and the median for women was $49,300);
   b. women participate in retirement plans at a rate that lags behind the rate for men;
   c. the median 401(k) balance for women was 65% lower than the median balance for men;
   d. women carry higher debt than men, across all categories examined *(i.e.*, credit cards, student loans, car loans, medical debt, payday loans, personal loans, and miscellaneous debt), with the exception being home equity loans (men were 0.4% higher than women in this category); and
   e. 25% of female retirement plan participants reported having a negative net worth compared to 10% of male retirement plan participants reporting a negative net worth.

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8 Salmon, Jacqueline, *Studies Spotlight Racial, Ethnic Gaps in Retirement Savings*. AARP, September 2022.
9 Salmon, Jacqueline, *Studies Spotlight Racial, Ethnic Gaps in Retirement Savings*. AARP, September 2022.
10 *Navigating the Financial Vortex: Women & Retirement Security*. Goldman Sachs Asset Management, 2022.
11 Banerjee, Sudipto *Closing the Gender Gap in Retirement Savings*. T. Rowe Price, March 2023.

AUTO ENROLLMENT RESEARCH FINDINGS

1. Vanguard Research conducted a 2021 study[12] focused on 813,918 new hires who had been automatically enrolled into their employers' defined contribution plans. The study noted, "Automatic enrollment triples the participation rates among new hires. Over the entire period of our study, the participation rate for new hires was 91% under automatic enrollment versus 28% under voluntary enrollment. After three years, 92% of participants hired under automatic enrollment were still participating versus 29% of participants under voluntary enrollment." Additionally, the study yielded the following:

    a. approximately ⅔ of the plans that adopted automatic enrollment without adding an annual increase designated a deferral rate of 4% or more;
    b. the rate at which employees chose to opt out was not impacted by the initial deferral rate designated by their employers - employees with annual salaries between $15,000 and $29,999 had a steady participation rate of 85% whether their introductory deferral rate was 2% or 6%;
    c. the use of automatic enrollment increases plan participation most significantly among younger employees and employees who make lower salaries – these two cohorts typically have very low participation when they must voluntarily enroll;
    d. 90% of employees who were younger than 25 participated when automatic enrollment was used versus less than 20% of employees in this age group when voluntary enrollment was required;
    e. automatic enrollment also benefits employees making higher salaries - employees with salaries in excess of $150,000 show higher rates of participation compared to voluntary enrollment;
    f. ⅓ of participants who were automatically enrolled chose to increase their deferral/contribution rate after 3 years in the plan; and
    g. ¼ of participants who were automatically enrolled made the choice to increase their deferral/contribution rate and to enroll in automatic deferral/contribution rate increases.

2. The Voya study[13] conducted in 2022 included 163,000 employees from multiple sectors (government, retail, financial services, utilities, and consumer goods) found that Black and Latino employees at employers that use automatic enrollment have rates of participation that are two to three times higher than their counterparts at employers that do not use automatic enrollment.

3. Principal Retirement Research conducted a 2021 survey[14] of 2,000 participants (employees and retirees) and found that 84% of employees indicated that being automatically enrolled in their retirement savings plan is the reason they began saving for retirement, and they would not have begun saving as soon if they would have had to enroll voluntarily.

AUTO ENROLLMENT NATIONAL LANDSCAPE

Maryland is one of 25 states that does not authorize auto enrollment in any public sector plan.[15] The table below illustrates which states authorize auto enrollment.

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12 Clark, Jeffrey W., Jean A. Young, *Automatic enrollment: The power of the default.* February 2021, The Vanguard Group, Inc.
13 *Bringing Greater Financial Equity to the Workplace to Support Everyone's Opportunity for a Better Financial Future: How Diversity, Equity and Inclusion Best practices Can Help Close Retirement Savings Gaps to Improve Financial Outcomes.* Voya-Thought Leadership Council, April 2023.
14 https://www.principal.com/about-us/news-room/news-releases/principal-survey-84-workers-say-auto-enrollment-key-saving-earlier
15 https://www.nagdca.org/data-center/ auto enrollment-map/

States that Authorize Auto Enrollment in *All* Public Sector Plans	States that Authorize Auto Enrollment in *Some* Public Sector Plans
1. Colorado	1. Arkansas
2. Connecticut	2. Illinois
3. Georgia	3. Indiana
4. Kansas	4. Iowa
5. Michigan	5. Kentucky
6. Tennessee	6. Louisiana
7. Utah	7. Maine
8. Virginia	8. Missouri
9. West Virginia	9. Nevada
	10. New Hampshire
	11. Ohio
	12. South Dakota
	13. Texas
	14. Washington
	15. Wisconsin
	16. Wyoming

STATES THAT HAVE RECENTLY AUTHORIZED AUTO ENROLLMENT FOR STATE EMPLOYEES – TWO EXAMPLES

Ohio

In 2021, the Ohio General Assembly passed Senate Bill 27, which authorized automatic enrollment of all eligible state employees in the Ohio Deferred Compensation ("ODC") benefit. The bill was signed into law by Ohio's governor on 6/8/2021 and applies to employees hired on or after 10/1/2022. ODC offers eligible employees a 457(b) supplemental retirement savings plan as the sole option. As of 1Q 2023 ODC had ≈ $17.7 billion in assets under management and a total of 264,900 participants.

Start of Auto Enrollment in Ohio Deferred Comp.	Auto Enrolled Employees Also Participate in Defined Benefit Pension?	Default Plan and Vehicle	Default Amount Deducted	Total Employees Auto Enrolled Since Start of Auto Enrollment (As of 3/31/2023)	Total of 90-day Opt-out Refunds Processed (As of 3/31/2023)	Employee Education	Annual Auto Increase Feature Included?
10/1/2022	Yes Current contribution rate is 10% (Ohio is a non-Social Security state).	457(b) Target Date Funds	$25/pay An independent consultant provided ODC guidance on the designated default amount.	3,419	270 (7.9% of all auto enrolled employees)	Worked closely with HR teams.	Yes

Kentucky

In 2019, the General Assembly of the Commonwealth of Kentucky passed Senate Bill 107, which authorized automatic enrollment of all eligible state employees in the Kentucky Public

Employees' Deferred Compensation Authority ("KDC") benefit. The bill was signed into law by Kentucky's governor on 3/22/2019 and applies to employees hired on or after 7/1/2019. KDC offers eligible employees 401(k) and 457(b) supplemental retirement savings plan options. As of 1Q 2023 KDC had ≈ $3.36 billion in assets under management and a total of 82,330 participants.

Start of Auto Enrollment in Kentucky Deferred Comp.	Auto Enrolled Employees Also Participate in Defined Benefit Pension?	Default Plan and Vehicle	Default Amount Deducted	Total Employees Auto Enrolled Since Start of Auto Enrollment (As of 3/31/2023)	Total of 90-day Opt-out Refunds Processed (As of 3/31/2023)	Employee Education	Annual Auto Increase Feature Included?
7/1/2019	Yes Current contribution rate is 9%.	401(k) Target Date Funds	$15/pay	13,989	867 (6.2% of all auto enrolled employees)	Onboarding, video, website, and employee handbook	No

STATES THAT AUTHORIZED AUTO ENROLLMENT FOR STATE EMPLOYEES AT LEAST TEN YEARS AGO – TWO EXAMPLES

South Dakota

In 2008, the South Dakota Legislative Assembly passed House Bill 1020, which authorized automatic enrollment of all eligible state employees in the South Dakota Supplemental Retirement 457 Plan ("SDSR") benefit. The bill was signed into law by South Dakota's governor on 2/6/2008 and applies to employees hired on or after 7/1/2009. SDSR offers eligible employees a 457(b) supplemental retirement savings plan as the sole option. As of 5/31/2023, SDSR had ≈ $593 million in assets under management and a total of 42,625 participants.

Start of Auto Enrollment in South Dakota Deferred Comp.	Auto Enrolled Employees Also Participate in Defined Benefit Pension?	Default Plan and Vehicle	Default Amount Deducted	Total Employees Auto Enrolled Since Start of Auto Enrollment (As of 5/31/2023)	Total of 90-day Opt-out Refunds Processed (As of 5/31/2023)	Employee Education	Annual Auto Increase Feature Included?
7/1/2009	Yes Current contribution rate is 6%.	457(b) Target Date Funds	$25/month	28,417	1,498 (5.3% of all auto enrolled employees)	Worked closely with plan administrator.	Not initially. SDSR added auto increase in 2015, so this affects employees hired on or after 7/1/2015.

Texas

In 2007, the Texas Legislature passed House Bill 957, which authorized automatic enrollment of all eligible state employees in the Texa$aver Plan ("TSP") 401(k) benefit. The bill was signed into law by Texas' governor on 6/15/2007 and applies to employees hired on or after 9/1/2008. TSP offers eligible employees 401(k) and 457(b) supplemental retirement savings plan options. As of 1Q 2023, TSP had ≈ $4.6 billion in assets under management and a total of 268,879 participants.

Start of Auto Enrollment in Texa$aver.	Auto Enrolled Employees Also Participate in Defined Benefit Pension?	Default Plan and Vehicle	Default Amount Deducted	Total Employees Auto Enrolled Since Start of Auto Enrollment (As of 3/31/2023)	Total of 90-day Opt-out Refunds Processed (As of 3/31/2023)	Employee Education	Annual Auto Increase Feature Included?
9/1/2008	Yes Current contribution rate is 6%.	401(k) Target Date Funds	1% of salary/pay	418,445	1,068 (0.26% of all auto enrolled employees)	In-house communications team. Also worked with plan administrator on messaging.	No

PROPOSED DESIGNATED MSRP DEFAULT PLAN & CONTRIBUTION AMOUNT

The proposed designated default Plan for auto-enrolled new State employees will be the 457 deferred compensation plan (the "457(b)"), and employees will be enrolled into target date fund investment vehicles that correspond to their anticipated retirement date range (which is based upon their year of birth). A 2021 Vanguard Research study[16] found that 99% of the 520 plans surveyed chose target date funds as the designated default investment vehicle for automatic enrollment. In the retirement industry, 457(b) plans are known to provide employees with a high level of flexibility. MSRP notes below the following advantages:

1. the 457(b) Plan is available to all State employees who are eligible to participate in MSRP;
2. there is no 10% IRS pre-retirement withdrawal penalty assessed to an employee who leaves State service and chooses to take a withdrawal and *not* roll the account into a new employer's 457(b) plan; and
3. there is an increased deferral/contribution limit to allow for "catch up" retirement savings during the last 3 years before the employee reaches the standard retirement age.

In designating a default deferral/contribution amount, the MSRP Board of Trustees' (the "Board") objective is to determine a balanced deferral/contribution amount that is neither burdensome to State employees nor too low to yield a meaningful amount of retirement savings. The Board has a preference to designate a percentage as a payroll deduction rather than an actual dollar amount, in recognition of the variance in State employee salaries. The State's current payroll system cannot deduct percentages, however, so for now, the deductions must be

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16 Clark, Jeffrey W., Jean A. Young, *Automatic enrollment: The power of the default.* February 2021, The Vanguard Group, Inc.

in whole-dollar form. The actual proposed deferral/contribution amount is still being considered by the Board. The chart below illustrates examples of annual payroll deduction totals at several default amounts. The default deductions would be done on a pre-tax basis, so they will reflect a slightly smaller amount deducted on employees' paystubs.

Examples of Payroll Default Deductions in Whole Dollars	**Examples of Annual Raw Totals in Whole Dollars**	**Examples of Approximate Annual Adjusted Pre-tax Totals Reflected on Paystub** ***(Examples below are based upon average State employee salary of $68,405 and aggregate of average federal, State, and local tax rates. Higher salaries will have slightly higher totals, and lower salaries will have slightly lower totals).***
$25 per paycheck x 26 checks	$650	$511.23
$30 per paycheck x 26 checks	$780	$613.47
$35 per paycheck x 26 checks	$910	$715.72

EMPLOYEE OPT-OUT FEATURE

All employees who are auto-enrolled in MSRP would have a maximum of 90-days from the date of the first automatic payroll deduction to elect to opt-out and be refunded the amount of the contribution as well as any earnings, which would then become taxable income and any State match amounts may be forfeited. The 90-day timeframe for opting out is the industry standard for automatic enrollment.

FISCAL ANALYSIS & IMPLICATIONS

Overview of Fiscal Analysis

According to Governor Moore's FY 2024 Budget Highlights, the State has a staggering 14% overall vacancy rate[17], and for some State agencies, this rate is much higher. In the Department of Health and Department Public Safety & Correctional Services, these rates exceed 20%. This fiscal analysis incorporates the Governor's priority to fill these vacant positions and the impact of auto-enrollment, if enacted. It includes the provisions of the Speaker's bill, HB 982, which was passed in the 2023 Legislative Session of the Maryland General Assembly and reinstated the State employee deferral/contribution 401(a) Match Plan for State supplemental retirement plans and also provided funding for State agencies seeking to hire high school students and others in targeted positions, by granting scholarships, internships, and other opportunities that could attract potential State employees to public service.

General Operations and Fiscal Impact

On April 24, 2023, the Governor signed HB 982. This legislation became effective on July 1, 2023. Since then, enrollment in the MSRP Plans has increased by over 1,100 individuals, not including more than 1,300 workers who decided to increase deferrals/contributions. The match program demonstrates the importance of providing employees with additional financial security during and post-State employment. If authorized, automatic enrollment will increase both the number of individuals participating in MSRP and the State's cost of matching eligible employee deferrals/contributions.

17 https://dbm.maryland.gov/budget/Documents/operbudget/2024/proposed/FY2024MarylandStateBudgetHighlights.pdf

State Revenue – Impact

There is no State revenue impact if auto-enrollment is authorized.

State Expenditures – Impact

If authorized, auto-enrollment will increase costs to the State as a direct result of matching funds for eligible employee deferrals/contributions to MSRP. The 401(a) Match Plan was reinstated by HB 0982, which authorizes a $600-per-fiscal-year State match for eligible and participating State employees. Accordingly, the State should expect to provide the dollar-for-dollar match to all eligible newly-hired State employees who will be auto-enrolled if legislation is passed by the General Assembly and approved by Governor Moore.

Basis for Assumptions and Estimated Costs

Governor Moore's Budget Highlights for FY 2024 emphasized the continued acceleration of vacancies within the State for targeted positions. The State has over 88,000[18] positions eligible for the State supplemental retirement plans deferral/contribution match; many of these eligible positions fall within the number of vacancies noted in the budget report. The Governor's priority enhances the impact of increasing participation in MSRP through auto-enrollment to leave no one behind and provide incentives to attract and retain State employees.

Assuming a 14% vacancy rate, auto-enrollment could help fill over 3,000 vacancies[19] during the next three to five fiscal years. Over time, as the State fills these vacancies, new enrollments will increase and State supplemental retirement plans deferral/contribution match contributions will also increase proportionately, except for employees who opt out within the required 90-day period. The State supplemental retirement plans deferral/contribution match for eligible employees will not exceed $600 per employee per fiscal year, in accordance with the statute. Considering the estimated vacancies of 3,000 State positions, if filled over time, the cost to the State would result in additional State supplemental retirement plans deferral/ contribution match costs of **$1.8M** annually.

MSRP's Plan administration fees would increase in direct proportion to the increase in asset values because of the automatic enrollment of eligible new State employees. MSRP collects per-account fees and asset-based fees directly from participants. These fees have no fiscal impact on the State's annual operating budget. Fees charged by MSRP to participants include 0.034% basis point fee (*value of assets at the end of each month, not to exceed $2,000 per participant each calendar year*) and a $.50 per account fee, (*waived for accounts under $500*) which resulted in $2.3M in revenues in FY 2022 and $1.6M in FY 2023. Any revenue increase from auto-enrollment is estimated to be $60,000 yearly, depending on market conditions. Auto-enrollment will increase MSRP expenditures for Plan consultants at 0.0775% basis points (based on assets under management), estimated to be $139,500 annually.

18 https://dbm.maryland.gov/budget/FY2024FiscalDigest/FY24-Fiscal-Digest.pdf
19 https://dbm.maryland.gov/budget/Documents/operbudget/2024/proposed/FY2024MarylandStateBudgetHighlights.pdf

REVENUES					
Fund	Fiscal 2025	Fiscal 2026	Fiscal 2027	Fiscal 2028	Fiscal 2029
General					
Special	60,000	60,000	60,000	60,000	60,000
Federal					
Local					
Other:					
Total	$ 60,000	$ 60,000	$ 60,000	$ 60,000	$ 60,000

Other Information

Automatic enrollment may permit the Board to consider reductions in asset-based participant fees. The Board and MSRP staff review fees each year to determine whether fee holidays are necessary to reduce the MSRP reserve amount. During the past three years, the Board approved several 3-month fee holidays, resulting in savings exceeding $500,000 to participants.

Small Business and Local Government – Impact

The auto-enrollment provision, if authorized, will not have any impact on small businesses or local governments.

FINDINGS AND RECOMMENDATIONS

Research has demonstrated that:

1. the retirement industry's best practice of automatic enrollment serves to dramatically increase employees' level of participation in employer-sponsored defined contribution plans;

2. a large majority of employees prefer being automatically enrolled by their employer versus having to voluntarily enroll;

3. employees who are automatically enrolled are not only more prone to remain in their retirement savings plans but are also prone to voluntarily increase their deferral/contribution amounts;

4. it is very likely that the combination of a State pension and Social Security will not be sufficient to provide the level of pre-retirement income replacement necessary for typical State employees to retire with dignity and a reasonable level of confidence regarding their financial future;

5. automatic enrollment has proven to work well for analogous states (where employees are deferring/contributing to defined benefit pension plans);

6. the active MSRP participation rate of 38% indicates that an overwhelming majority of State employees are not adequately prepared for retirement;

7. the current State employee demographic profile includes a high percentage of women (61%) as well as African Americans and other non-white ethnicities (52.2%), and the data have indicated that these cohorts are generally prone to have lower salaries, fewer financial resources, and lower overall levels of retirement readiness; and

8. it follows that current State employee demographics will continue to hold true for new hires, and these cohorts as well as *all* eligible new State employees are very likely to reap significant benefits by being enrolled in MSRP upon being hired into State service.

The State has an important opportunity to reverse previous financial wellness and retirement readiness trends by authorizing automatic enrollment of all eligible newly-hired State employees at a default level that will likely yield meaningful results in support of their post-retirement income. To adequately prepare State employees with every possible retirement readiness resource, it is necessary to authorize automatic enrollment in MSRP.

Maryland Teachers & State Employees Supplemental Retirement Plans
The Honorable T. Eloise Foster, Board Chair
Ronda Butler Bell, Executive Director & Board Secretary
6 St. Paul Street, Suite 200
Baltimore, MD 21202
Automatic Enrollment Study Contact: ronda.bell1@maryland.gov **Agency Website:** msrp.maryland.gov

SB 322 Maryland Teachers and State Employees Suppl

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SB 322 Maryland Teachers and State Employees Supplemental Retirement Plans – Automatic Enrollment
Senate Budget and Taxation Committee
FAVORABLE
February 8, 2024

Good afternoon, Chair Guzzone and members of the Senate Budget and Taxation Committee. I am Tammy Bresnahan, Senior Director of Advocacy for AARP MD. On behalf of our more than 850,000 members, we would like to thank you for the opportunity to speak in support of SB 322 Maryland Teachers and State Employees Supplemental Retirement Plans-Automatic Enrollment. We thank Senator Jackson for bringing SB 322 to the General Assembly introduction.

AARP is a nonpartisan, nonprofit, nationwide organization that helps people turn their goals and dreams into real possibilities, strengthens communities, and fights for the issues that matter most to families such as health care, employment and income security, retirement planning, affordable utilities, and protection from financial abuse.

SB 322 Maryland Teachers and State Employees Supplemental Retirement Plans - Automatic Enrollments requires the Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans (MSRP) to establish an automatic enrollment process for eligible employees (generally, State employees). While the bill will allow automatic enrollment, employees will also be able to opt-out and not take part should they so choose.

AARP's research shows that people are more likely to save when saving occurs automatically through mechanisms such as payroll deductions. Only about half of U.S. workers have access to an employer-sponsored retirement plan. Key provisions of this bill aim to bolster state employees' opportunities to save for retirement and to draw income from those funds later in life. Where possible, plans should use features such as automatic enrollment and payroll deduction, low-cost diversified default investments, adequate default contribution levels, automatic escalation of contributions, and periodic or guaranteed lifetime income payments. Based on our experience with automatic individual retirement accounts (Auto IRAs): the experience with auto-enrollment in some 401(k) plans has shown that requiring people to opt out, rather than opt in, can boost enrollment rates tremendously.

AARP believes that policymakers should encourage measures to increase individuals' ability to save for retirement.

AARP recognizes that automatic enrollment in retirement plans is a useful tool for significantly increasing employees' retirement plan participation. For these reasons, we support SB 322 and ask the committee for a favorable report. If you have questions or need follow up, please contact me at tbresnahan@aarp.org or by calling 410-302-8451.

2.6.2024. Senate Bill 322 Testimony_UNF.pdf
Uploaded by: Christian Gobel
Position: UNF

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UNFAVORABLE
Senate Bill 322
Maryland Teachers and State Employees Supplemental Retirement Plans – Automatic Enrollment

Senate Budget and Taxation Committee
February 8, 2024

Christian Gobel
Government Relations

The Maryland State Education Association respectfully opposes Senate Bill 322. Senate Bill 322 would require the Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans (MSRP) to auto enroll all eligible state employees hired on or after January 1, 2025 in a supplemental retirement plan. Under the bill, an eligible employer must deduct an amount from the employee's wages for a contribution to a supplemental retirement plan, unless the employee withdraws from the plan or elects to stop making contributions to the plan. The MSRP would have the authority to establish the minimum deduction amount from the employee's wages, unless the employee elects a different deduction amount, ceases all contributions to the plan, or withdraws from the plan.

MSEA represents 75,000 educators and school employees who work in Maryland's public schools, teaching and preparing our almost 900,000 students so they can pursue their dreams. MSEA also represents 39 local affiliates in every county across the state of Maryland, and our parent affiliate is the 3-million-member National Education Association (NEA).

While this legislation does not directly impact MSEA's members, our union shares the concerns raised by AFSCME regarding the detrimental impact this legislation could have on the state's public servants. MSEA appreciates the sponsor's intent with finding ways to ensure workers have savings in place for a secure retirement, however, certain public employees who are living paycheck-to-paycheck and struggling to make ends meet should not be burdened with automatic enrollment into a supplemental retirement plan that they may not be able to afford.

Rather, state employees should maintain the choice of whether they wish to opt-in to a supplemental retirement plan, which will provide more time and flexibility to make an informed decision about their personal finances. Additionally, MSEA echoes AFSCME's concerns that there are no employee representatives on the MSRP. MSEA believes that public employees' retirement interests would be better served by having employee representation on the MSRP.

We respectfully urge the committee to issue a Favorable Report on Senate Bill 322.

SB 322_AFSCME3_UNF.pdf
Uploaded by: Denise Gilmore
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Patrick Moran – President

SB 322 - Maryland Teachers and State Employees Supplemental Retirement Plans - Automatic Enrollment

Budget and Taxation Committee
February 8, 2024

UNFAVORABLE

AFSCME Council 3 opposes SB 322. This legislation requires new state employees hired on or after January 1, 2025, to have an undetermined amount automatically deducted from their paychecks for enrollment into the Maryland Teachers and State Employees Supplemental Retirement Plan (MSRP). Within 90 days of beginning employment, the Board who also determines the amount of the deduction and is funded through a fee imposed on members' accounts, must provide notice to each employee being automatically enrolled in the Plan of the process for opting out of the contribution.

Many of our members are living paycheck-to-paycheck. They already contribute to a defined benefit (DB) pension plan, and while we fully support our members having a choice to join a supplemental defined contribution (DC) plan of their choosing, this bill goes too far by requiring them to join an MRSP plan that has high fees and may not be the best deal for where the employee is with their long-term financial goals. The MSRP announced over the fall that as much as 24% of an employee's into their plan could go towards fees. If an employee invests $100,000, that means as much as $24,000 could go towards Nationwide alone under the current structure. We represent members who's starting salary is only a little over $35,000/year. Paying the equivalent of almost 70% of your yearly salary to fees is unreasonable. Further, with DC plans there's no guarantee that the amount you put in is what you will get when you retire. So in addition to paying high fees, employees may also not get their full investment in return.

AFSCME also continues to oppose automatic deductions into a Plan that employees have no voice in. Unlike the Board of Trustees for the Maryland State Retirement and Pension System (SRPS), which has employee representation both from active and retired state employees and teachers, the Board for the MSRP has no employee representatives.

We appreciate the committee's continued advocacy to make sure our members, who dedicate a career to serving Marylanders in state government, can retire with dignity someday. We also appreciate the efforts and attention the committee has shown for rebuilding our state government and improving the recruitment and retention of state employees. We agree that retirement benefits can be an important motivator for pursuing or staying in a career in state government. Unfortunately, SB 332 falls short of these goals.

In April 2023, the National Institute on Retirement Security published an extensive analysis on the effect that switching Alaska's public employees from defined benefit (DB) pension plans to 401(k)-style defined contribution (DC) accounts had on retention for public educators in the state. Their analysis found that the difference in turnover for women in the DC plan was 138% higher than in the DB plan, and for men it was 189% higher in the DC plan. The lesson in this study for Maryland is that turnover rates significantly decrease once employees are vested in a DB pension plan. Efforts to improve the pension benefit will help far more with staffing than auto-enrolling new employees into a supplemental plan they may not be able to afford and which they have no say in how the money is being invested.

For these reasons, we respectfully request an unfavorable report on SB 322.

SB 322 - Maryland Teachers and State Employees Sup

Uploaded by: Donna Edwards

Position: UNF

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SB 322 - Maryland Teachers and State Employees Supplemental Retirement Plans - Automatic Enrollment
Senate Budget and Taxation Committee

February 5, 2024

OPPOSE

Donna S. Edwards
President
Maryland State and DC AFL-CIO

Chairman and members of the Committee, thank you for the opportunity to submit testimony in opposition to SB 322 - Maryland Teachers and State Employees Supplemental Retirement Plans - Automatic Enrollment. My name is Donna S. Edwards, and I am the President of the Maryland State and District of Columbia AFL-CIO. On behalf of Maryland's 340,000 union members, I offer the following comments.

SB 322 requires all state employees hired after January 1st, 2025 to enroll into a supplemental retirement plan on top of the money they contribute to the regular retirement plan. SB 322 proposes all new employees will be automatically enrolled in the MSRP without their approval and must take on the burden of opting-out on their own. These programs should be negotiated through the collective bargaining process, not prescribed by law. Over the last half-century, workers have faced countless attacks on their ability to retire comfortably. The transition from employer sponsored defined benefit pension plans to primarily employee funded 401(k) plans has left millions of workers without enough financial security to ever consider retirement. The MSRP is a supplemental plan, meant to augment the retirements of some state employees, and should remain optional for employees.

Labor unions have seen a familiar playbook emerge regarding cuts to retirement benefits. The first step of this process is often offering supplemental or optional 401(k) plans, followed by making enrollment mandatory, eventually offering workers a choice of opting out of traditional defined benefit plans, ultimately resulting in the outright elimination of retirement plans that actually guarantee retirement security.

We ask for an unfavorable report on SB 322.