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Submitted Electronically

Re: Maryland House Bill No. 605 – Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans - Automatic Enrollment

Mr. Chair and Members of the Appropriations Committee,

Teachers Insurance and Annuity Association of America ("TIAA") would like to express its unqualified support for House Bill No. 605 (HB 605) which requires automatic enrollment of new state employees into supplemental retirement plans starting January 1, 2026, with options to opt out or adjust contributions. Founded in 1918, TIAA is the leading provider of retirement services for those in academic, research, medical, and cultural fields. Over our century-long history, TIAA's mission has always been to aid and strengthen the institutions, retirement plan participants, and retail customers we serve and to provide financial products that meet their needs. TIAA has a long history working in partnership with the state of Maryland, where we currently manage over $30.5 billion in retirement assets for over 141,000 Maryland residents. Reflecting our commitment to ensure that all Americans have the opportunity for a dignified retirement, we believe that automatic enrollment policies like those proposed in HB 605 are key to addressing the looming retirement crisis nationwide.

Two years ago, TIAA introduced our "Retirement Bill of Rights," which crystallizes the continued need to advance changes that will help more Americans achieve a secure retirement. Despite the efforts of TIAA and the broader retirement industry, there are still many workers who do not have access to a retirement plan, sufficient savings to last them through their retirement, or reliable sources of retirement income beyond Social Security. One of our core beliefs at TIAA is that employers should make it easy for employees to enroll in workplace retirement plans and increase their savings, and that these plans should offer in-plan options that will provide participants with retirement income for life. One way that employers can make it easier for employees to enroll in workplace plans is to include auto-enrollment as a plan feature. And because we are champions of employee choice when it comes to saving for retirement, we firmly believe that workplace retirement plans should always offer employees the right to opt out, change their investments, or change their contribution amount.

The auto-enrollment feature was originally designed to significantly increase employee participation in workplace retirement savings plans by automatically enrolling them in their employer's defined contribution plan unless they actively choose to opt out. This feature effectively removes the barrier of the enrollment process, which often prevents employees from saving g enough for retirement, simply due to procrastination or lack of awareness about the existence of a workplace plan. Despite the popularity of defined contribution savings plans among employers, participation by employees has been a persistent concern for policymakers. For decades, large numbers of employees have failed to take full advantage of the chance to save for retirement that these plans offer. Not only are these workers missing out on tax-deferred opportunities to save for retirement, many are forfeiting money they could otherwise have received by not taking advantage of their employer's matching contributions.

The passage of the Pension Protection Act of 2006 (PPA) cleared the way for significant simplification and automation with respect to employee participation in defined contribution plans. The PPA included a number of fiduciary and tax incentives that were designed to encourage employers to adopt various automatic provisions, including auto-enrollment, in their retirement plans. But the PPA arguably does not go far enough. More recently, federal policymakers have focused on the need to increase participation and the benefits of auto-enrollment. In 2022, Congress continued to move forward with efforts to improve the private retirement system by passing the SECURE 2.0 Act. Among other things, SECURE 2.0 provides that starting in 2025, if an employer starts a defined contribution plan, the plan must automatically enroll eligible employees.

Studies and anecdotal accounts alike have indicated that automatic enrollment could succeed in dramatically increasing 401(k) participation. One study, for example, documented a 48-percentage point increase in 401(k) participation among newly hired employees and an 11-percentage point increase in participation overall at one large U.S. company 15 months after the adoption of automatic enrollment. The authors also noted that automatic enrollment has been particularly successful at increasing 401(k) participation among those employees least likely to participate in retirement savings plans, namely those who are young, lower-paid, Black, or Hispanic.[1]

HB 605 would automatically enroll state employees into the state's supplemental retirement plan, which provides additional savings on top of the employee's core retirement. TIAA believes there are numerous benefits to automatically enrolling employees into supplemental plans. These benefits of include:

- Helping to attract and keep talented employees.
- Increasing plan participation among rank-and-file employees.
- Allowing for salary deferrals into certain plan investments if employees do not select their own investments.
- Simplifying the selection of investments appropriate for long-term retirement savings since employees are defaulted into an appropriate investment (*i.e.*, age-based investments such as target date funds).
- Helping employees begin saving for their future.
- Offering significant tax advantages (including deduction of employee contributions and deferred taxation on contributions and earnings until distribution).

TIAA appreciates the opportunity to express our support for HB 605. We believe that automatically enrolling state workers in the state's supplemental retirement plan is an excellent public policy advancement that will significantly improve these employees' ability to save for a secure retirement. I am happy to answer any questions the Committee might have.

Sincerely,

Joshua Freely

Regional VP, State Government Relations

[1] *See* Butrica, Barbara A., Keenan Dworak-Fisher, and Pamela Perun, "Pension Plan Structures before and after the Pension Protection Act of 2006," Urban Institute (Sep. 2015), *available at*: https://www.dol.gov/sites/dolgov/files/EBSA/researchers/analysis/retirement/pension-structures-before-after-2006-act.pdf.