DEPT. COMM. NO. 188

Hawaiʻi Retirement Savings Task Force
c/o Senate Committee on Labor, Culture and the Arts
Senator Brian T. Taniguchi, Chair
State Capitol, Room 219
415 South Beretania Street
Honolulu, Hawaiʻi 96813-2407

December 22, 2021

President Ronald D. Kouchi	Speaker Scott K. Saiki
The Senate	House of Representatives
State Capitol, Room 409	State Capitol, Room 431
415 South Beretania Street	415 South Beretania Street
Honolulu, Hawaiʻi 96813-2407	Honolulu, Hawaiʻi 96813-2407

RE: Submittal of the Report of the Hawaiʻi Retirement Savings Task Force to the Hawaiʻi State Legislature Pursuant to Senate Resolution 76, S.D. 1

Dear President Kouchi, Speaker Saiki, and Members of the Legislature:

For your information and consideration, I am transmitting a copy of the report requested by the Thirty-First Legislature during the regular session of 2021 by Senate Resolution 76, S.D. 1.

After posting by your Chief Clerk, the report may also be viewed electronically on the Legislature's website at https://www.capitol.hawaii.gov.

Sincerely,

Kathy Wyatt

Kathy Wyatt
Chair
Hawaiʻi Retirement Savings Task Force

Enclosure

cc: Legislative Reference Bureau Library

Retirement Security in Hawai‘i

Findings and Recommendations of the Hawai‘i Retirement Savings Task Force

DECEMBER 2021

Submitted to the Hawai‘i State Legislature pursuant to Resolution 76, Senate Draft 1, Regular Session of 2021.

Mahalo to the Hawaiʻi Retirement Savings Task Force members for their dedication and work on the 2021 Retirement Security in Hawaiʻi Report to the State:

Kathleen Wyatt, President and Owner, Hale Hauʻoli Hawaiʻi, **Chair**

Tina Yamaki, President, Retail Merchants of Hawaiʻi, **Vice Chair**

Senator Brian Taniguchi, Chair for the Senate Committee on Labor, Culture and the Arts, non-voting member of the Task Force

Representative Richard Onishi, Chair for the House Committee on Labor and Tourism, non-voting member of the Task Force

Craig Hirai, Director, Department of Budget and Finance

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Peter Tsukazaki, Managing Partner, Tao Investments Hawaiʻi

Also, thank you and our appreciation to the consultants and staff members who have contributed to the work of the Task Force:

Lisa Massena, Principal, Massena Associates

Dr. John Scott, Project Director, Retirement Savings, The Pew Charitable Trusts

Dr. Serena Shimabukuro, Administrative Facilitator

Executive Summary

Retirement insecurity is one of the most serious challenges facing states today, and Hawaiʻi is no exception. Most at risk are those private sector workers whose employers do not offer a workplace retirement savings plan. Fortunately, the Legislature of the State of Hawaiʻi has initiated action on this critical issue in addressing retirement security.

In the Regular Session of 2021, the Senate adopted Senate Resolution 76, Senate Draft 1 (SR76). Introduced by Senator Brian Taniguchi, SR76 requested the creation of a Retirement Savings Program Task Force to assess the feasibility of establishing a Hawaiʻi Retirement Savings Program for private sector employees without access to employer-sponsored retirement plans.

The Task Force convened from August to November 2021, receiving testimony and insights from local and national experts, as well as from small business owners and financial institutions in Hawaiʻi. The team's findings culminate in the issuance and submission of this Report and Recommendations for Hawaiʻi.

Retirement security in Hawaiʻi

Research shows that Hawaiʻi's population is aging and that many are not financially prepared to retire. Elderly residents are expected to represent 24% of Hawaiʻi's population by 2040 and to be the fastest growing segment of households. At the same time, the ratio of workers to older residents is shrinking.

For purposes of this analysis, satisfactory replacement rates of working-age income are defined as 75% of pre-retirement income, capped at $75,000. As of 2020, 92,000 senior households in Hawaiʻi have incomes of less than $75,000. Based on current savings and demographic trends, that number is projected to increase to 120,000, or 57% of seniors, by 2040. Many other retirees with working age incomes below $75,000 will also not achieve a 75% replacement rate.

The low levels of savings that drive these lower levels of retirement income are not just a threat to our seniors and their way of life. They are an active concern for workers who are not saving enough today who could avoid becoming part of this group. They are also an active concern for the state and taxpayers who naturally become the funders of increasing levels of social services.

Fiscal impact of low retirement savings

Those unprepared for retirement often end up needing public support. In 2020, the Department of Business, Economic Development, and Tourism undertook a study of Hawaiʻi's economy with the goal of understanding how changes in the population and its aggregate income, spending, and aging might affect economic projections for Hawaiʻi. This important piece of work noted that Hawaiʻi's demographics are changing and that the combined impact of more seniors and a relatively low-growth workforce were likely to "produce a $7.7 billion hole in our economy" and that "in the absence of major reform, large deficits would persist for the indefinite future".

Funding sources for life cycle deficits like the one described here include dedicated retirement savings, personal assets, and reductions in spending. Public social assistance fills the remaining gap. It is estimated that for Hawaiʻi taxpayers the "cost of doing nothing" about this savings gap will be more than an extra $1 billion in social assistance and loss of economic activity over the next 15 years. This burden will especially be the responsibility of younger workers.

The news is not all grim, however. Studies are showing that a small amount of consistent savings can make a significant difference in the expected retirement readiness of low- and moderate-income workers and would make a difference in the state's fiscal impact forecasts. In Hawaiʻi, personal savings of $100 per month would generate around $5,000 in additional available income each year in retirement, closing the anticipated gap significantly.

Increasing savings and family wealth, reducing tax responsibility

The Task Force looked closely at factors affecting retirement savings in the state. One important element was the ability to save for retirement at work, alongside one's paycheck. Research has shown that individuals are 15 times more likely to save for retirement when they can do so out of their regular paycheck at work. While there are Hawaiʻi employers who offer workplace retirement plans, two in three Hawaiʻi employers do not, leaving more than 200,000 workers without access to payroll deduction retirement savings.

This report details the private sector options for employers who choose to offer retirement plans but the Task Force recognizes that many Hawaiʻi employers are unable to do so. This is often because employers have determined that the cost and responsibility associated with offering a plan are greater than many employers feel they can afford, even if they are interested in providing the opportunity for workers.

Hawaiʻi employer and employee interest in retirement saving

The Task Force used two surveys to assess the views of both workers and employers in Hawaiʻi about retirement savings. These surveys engaged private sector workers and small business owners throughout the state, with the goal of better understanding the needs and thoughts of people who would be directly impacted if the state helped improve access to retirement savings options.

Overall, the majority of employers and workers reported significant concerns about a lack of retirement savings and voiced support for the state to improve employment-based savings options. The survey results suggest that people in Hawaiʻi see retirement security as critical to the wellbeing of themselves, the workforce, and the state.

Going further, the employer survey identified that the majority of small business owners agree that being able to offer a voluntary, portable retirement savings program would help local small businesses attract and retain quality employees and stay competitive. Over four in five small business owners agree that Hawaiʻi lawmakers should support a bill to make it easier for small business owners to access a way to save for retirement for themselves and their employees.

State-facilitated retirement savings

In recent years states have begun offering programs that make it easier for employers to either offer retirement plans or facilitate retirement saving. One type is a Small Business Retirement Marketplace, which gives employers the opportunity to choose from a state-vetted set of publicly offered retirement plans. Another is a state-sponsored Multiple Employer Plan, which allows employers to adopt a simple retirement plan managed as a public-private partnership which employers then offer to their employees. Both models have seen very little uptake and usage by employers in the states where they are provided.

A more promising option is a state-facilitated automatic IRA program, or Auto IRA for short. These programs are generally operated in partnership with private sector providers and create the opportunity for employees to make contributions into IRA accounts on a payroll deduction basis. IRA accounts in the program are offered a streamlined investment menu that is easy to understand. Employees are automatically enrolled at a standard savings rate, with the ability to save more, or less, or to opt out of saving altogether. Accounts are portable from one employer to the next, and may be rolled into other IRAs or retirement plans. If an employee works for multiple facilitating employers, all contributions go into a single program IRA belonging to the employee.

Because payroll deduction is used, an employer role cannot be eliminated, but the role the employer plays is extremely limited. Employers are not responsible for employee accounts and are not contributors to employee accounts, however, they are required to facilitate the program if they do not offer their own retirement plan. Importantly, where implemented, state Auto IRA programs have seen strong uptake and usage by both employers and employees. To date, nearly $400 million has been saved by participants in programs in Oregon, Illinois and California.

In November 2021, the Task Force held a small business roundtable to share information and receive comments from business owners. Employers were interested in the idea of a state-facilitated solution and appeared optimistic that it might offer them a good tool for their workforce without creating an unreasonable burden on either employers or the state.

Retirement program considerations for Hawaiʻi

In its work, the Task Force assessed the potential benefits and impacts to the state, to employers, and to employees associated with recommending any specific solution.

Among approaches considered, establishing an Auto IRA program appears to be the best course of action for achieving higher levels of funded retirement accounts with balances large enough to be meaningful to workers when they retire, and large enough to improve the state's fiscal position.

Next, the Task Force evaluated the feasibility and costs of establishing such a retirement savings program and determined both that a program can be launched and operated on a financially sound basis, and that under a reasonable set of design parameters a program can become self-sustaining within a five- to eight-year period. Important details associated with this evaluation can be found in the Feasibility and Cost Analysis section of this report.

Improving retirement security: recommendations for Hawaiʻi

Based on its analysis, this Task Force recommends that Hawaiʻi establishes an automatic enrollment retirement savings program for workers whose employers do not offer retirement plans.

The report that follows provides details on a recommended administrative framework associated with the program. It provides a draft implementation plan in outline form, including a framework for program marketing and outreach. It also provides several considerations for implementation and operation, along with proposed legislative elements to support a strong and healthy retirement savings program for Hawaiʻi.

Conclusion

It has been the pleasure of this Task Force to assess and evaluate retirement readiness in Hawaiʻi, the retirement savings gap and its impact on the state, and the ability of the workforce to readily access workplace-based retirement savings options.

Having identified significant gaps and considered which approaches and solutions would be most effective for the state, we hereby respectfully submit our findings and recommendations to the Legislature and urge that these recommendations be adopted as soon as legislatively possible.

Contents

1. Introduction

Retirement insecurity is one of the most serious challenges facing states today, and Hawaiʻi is no exception. Most at risk are those private sector workers whose employers do not offer a workplace retirement savings plan. Fortunately, the Legislature of the State of Hawaiʻi has initiated action on this critical issue in addressing retirement security.

In the Regular Session of 2021, the Senate adopted Senate Resolution 76, Senate Draft 1 (SR76). Introduced by Senator Brian Taniguchi, SR76 requested the creation of a Retirement Savings Program Task Force to assess the feasibility of establishing a Hawaiʻi Retirement Savings Program for private sector employees without access to employer-sponsored retirement plans.

The Task Force is comprised of legislators, government officials, and a diverse mix of individuals from the private sector. These include small business owners, worker representatives, and subject matter experts from the retirement planning industry. Together the Task Force was directed to research and evaluate several approaches to increase retirement savings by Hawaiʻi's private-sector workers.[1]

The Task Force convened from August to November 2021, receiving expert testimony and insights from local and national experts, as well as from small business owners and financial institutions in Hawaiʻi. The team's findings culminate in the issuance and submission of this Report and Recommendations for Hawaiʻi.

[1] Hawaiʻi Senate Resolution 76 (2021), Requesting the convening of a retirement savings task force to assess the feasibility of establishing a Hawaiʻi retirement savings program.

2. Retirement security in Hawai‘i – current status

Research shows that Hawai‘i's population is aging and that many are not financially prepared to retire (Figure 1).[2]

On an individual level, this is, naturally, an urgent concern. When viewed through a statewide lens, this growing problem is also expected to create a substantial increased need for future public support for our many unprepared residents.

Elderly residents are expected to represent 24% of Hawai‘i's population by the year 2040, up from 19% in 2020 and 13% in 2000. Household growth is also expected to be highly concentrated among elderly households (Figure 2).[3]

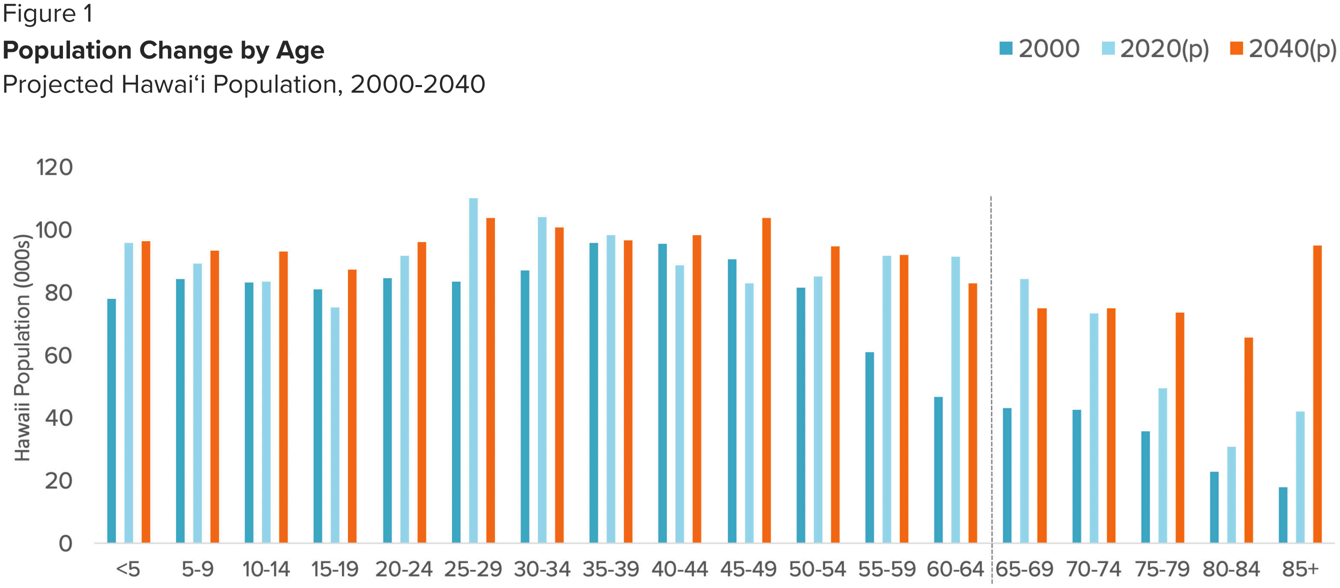
Adding to that, the ratio of workers to older residents is declining, creating a higher burden on working-age taxpayers. With fewer workers available to pay into the system, it is clear that public support systems will face increasing pressure (Figure 3).

Hawai‘i has more female residents than other states.[4] This can present an additional challenge since women tend to live longer lives. During their working lives, women on average receive less pay than men and therefore have fewer resources to save for a longer retirement. This makes getting an early start very important.

Figure 1

Population Change by Age

Projected Hawai‘i Population, 2000-2040



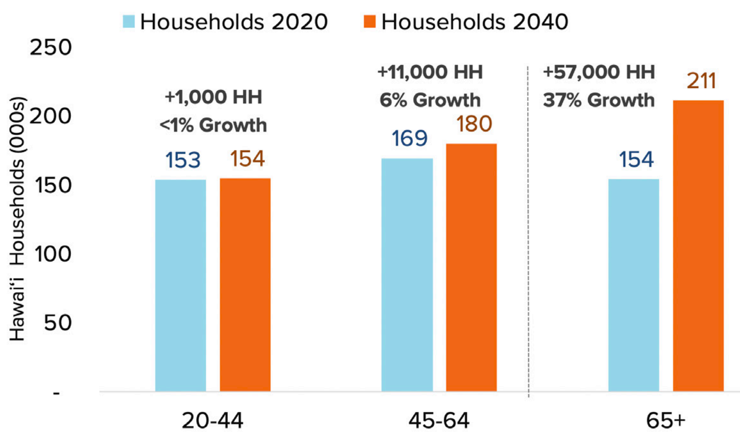
Source: Census 2000, Hawai‘i DBEDT Population Forecasts (2020-2040)

[2] The Pew Charitable Trusts presentation to the Hawai‘i Retirement Savings Task Force, 24 August 2021.

[3] Source: Census 2000, Hawai‘i DBEDT Population Forecasts (2020, 2040) and Econsult Solutions Inc. analysis of Hawai‘i DBEDT population forecasts.

[4] The Pew Charitable Trusts presentation to the Hawai‘i Retirement Savings Task Force, 24 August 2021.

Figure 2
Households by Age
Hawaiʻi Households by Age Group (in 000s), 2020-2040

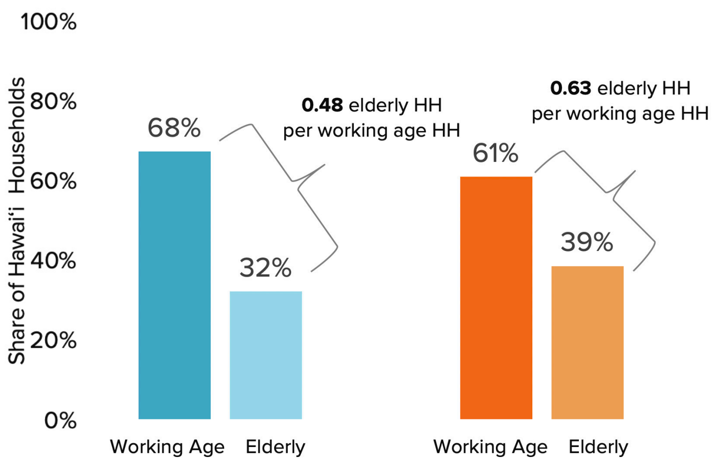


Source: ESI Analysis of Hawaiʻi DBEDT Population Forecasts

Household growth is also expected to be highly concentrated among elderly households

- Hawaiʻi is anticipated to add 57,000 senior households between 2020-2040
- Limited growth is expected in young and working age households during this time

Figure 3
Senior Dependency Ratio
Hawaiʻi Household Shares, 2020-2040



Source: ESI Analysis of Hawaiʻi DBEDT Population Forecasts

The "Dependency ratio" describes the number of elderly households for each working age household:

- Hawaiʻi's dependency ratio is projected to increase from 0.48 in 2020 to 0.63 in 2040
- Working age households are major drivers of tax base
- Therefore, this change in ratio creates fiscal pressure

3. Fiscal impact of low retirement savings

As noted earlier, those unprepared for retirement often end up needing public support. Fiscal impact studies attempt to quantify the amount of support taxpayers can collectively expect to provide.

Measuring the retirement savings gap

In 2020, the Department of Business, Economic Development, and Tourism undertook a study of Hawaiʻi's economy with the goal of understanding how changes in the population and its aggregate income, spending, and aging might affect economic projections for Hawaiʻi.

That report, *Hawaiʻi's Generational Economy*[5], found that the combined impacts of baby boomers moving out of the workforce and into retirement and the net aging of Hawaiʻi's population are driving what the study refers to as a significant "life cycle deficit." (Figure 4)

That deficit is the difference between statewide income and statewide consumption on an annual basis. When consumption is higher than income, you fund it with family savings. When savings is inadequate, you close the gap using state and federal social assistance programs. These assistance programs are effectively intergenerational transfers, because they represent spending that must be paid for by younger generations as they make their way through their working years.

The study identifies that "during the 1980s and earlier, Hawaiʻi experienced a demographic dividend because its working age population was growing more rapidly than the non-working age population."[6]

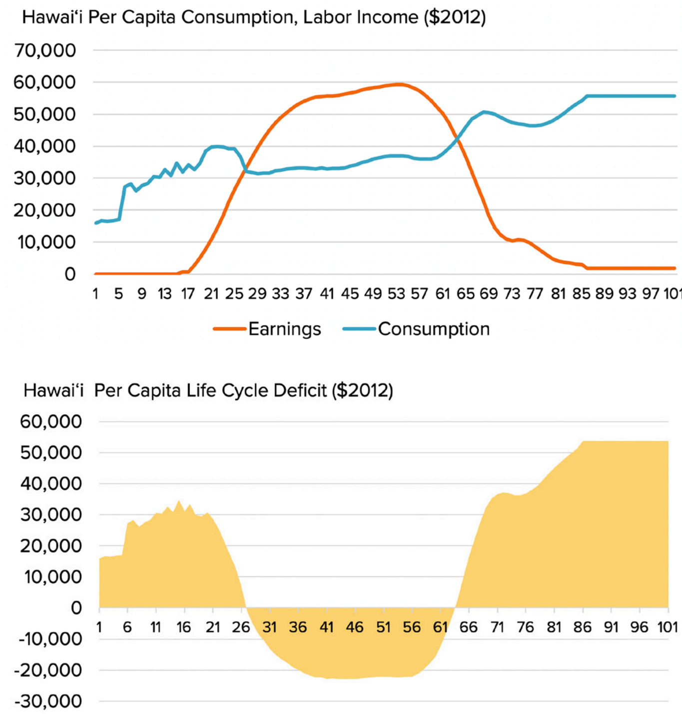
However, "Hawaiʻi reached an important turning point starting in 2010," when baby boomers began leaving the workforce. At this point the life cycle deficit started to grow significantly (Figure 5).

[5] Mason, Andrew and Michael Abrigo, Hawaiʻi's Generational Economy: Economic Impacts of Aging, prepared for The Department of Business, Economic Development, and Tourism, State of Hawaiʻi, October 2020.

[6] Ibid, page 10.

Figure 4: Hawaiʻi's financial life cycle: per capita consumption, labor income, and life cycle deficit ($2012)

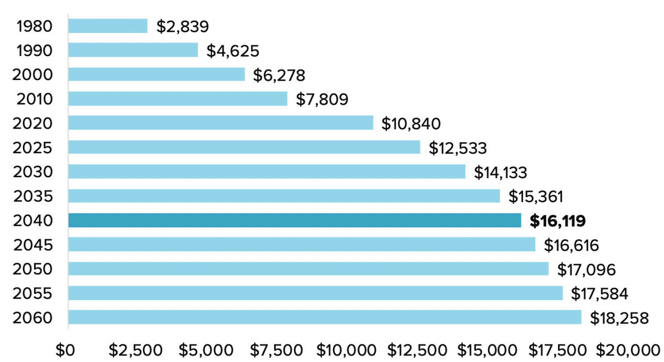
Life Cycle Deficit



Source: Estimated by Authors (*Hawaiʻi's Generational Economy*)

Figure 5

Hawaiʻi's Elderly Life Cycle Deficit



Source: Estimated by Authors (*Hawaiʻi's Generational Economy*)

The "life cycle deficit" for the elderly population is projected to increase significantly as the elderly population grows

- By 2040 the life cycle deficit among Hawaiʻi seniors is projected to grow to $16.1 billion annually
- The annual life cycle deficit for elderly Hawaiʻi residents is projected to grow by $5.3 billion from 2020 to 2040

The University of Hawaiʻi study estimated that "aging will produce a $7.7 billion hole in our [Hawaiʻi's] economy" by the year 2035. The study's authors note, "The deficit is not a one-time event. In the absence of major reform, large deficits would persist for the indefinite future. Seniors will experience the impact directly but so too will children and prime-age adults due to the deep and pervasive linkages across all generations." [7]

Financing the gap

How do populations fund life cycle deficits like these? Sources include:

- Dedicated retirement savings, such as:
  - Pensions (currently 6% of plan participants nationwide)[8]
  - Workplace retirement saving accounts
  - Retirement savings outside the workplace
- Personal assets such as home equity or other savings
- Working longer and taking later retirement, where possible
- Reductions in family spending
- Public social assistance fills the remaining gap

By definition, social assistance includes Social Security benefits. However, these benefits are limited and typically replace only a portion of a senior household's income needs.

In 2018, the average monthly Social Security check to over 211,000 retirees in Hawaiʻi was $1,452[9] – or about $17,420 a year. This is below the 2018 federal poverty level of $26,060 for an individual in Hawaiʻi. The ALICE report defines the 2018 senior survival budget as $34,308 -- almost twice the average Social Security payment.[10] When Social Security and personal savings are not enough, other public assistance programs kick in at an additional cost to taxpayers.

It is estimated that for Hawaiʻi taxpayers the "cost of doing nothing" about this savings gap will be more than an extra $1 billion in social assistance and loss of economic activity over the next 15 years[11] – this burden will especially be the responsibility of younger workers.

The role of private and workplace-based savings

Private retirement savings

It would be easy to see this challenge as potentially insurmountable for Hawaiʻi. However, it turns out that small amounts of consistent private retirement savings can make a big difference.

Recent studies in Colorado, Pennsylvania and Virginia found that a small amount of additional savings – as little as $25 a week or about $100 a month – made a significant different in the forecast retirement readiness of low- and moderate-income workers in the state and would make a difference in the states' fiscal impact forecasts. (For more information on the fiscal impacts identified in these three states please see Appendix A).

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[7] Ibid, page 9.

[8] Employee Benefits Security Administration, US Dept. of Labor, "Private Pension Plan Bulletin," September 2021, Figure B1, https://www.dol.gov/sites/dolgov/files/EBSA/researchers/statistics/retirement-bulletins/private-pension-plan-bulletins-abstract-2019.pdf.

[9] Social Security Administration, Congressional Statistics for Hawaiʻi, December 2018. https://www.ssa.gov/policy/docs/factsheets/cong_stats/2018/hi.html

[10] Aloha United Way, 2020, "*ALICE in Hawaiʻi: A financial hardship study*," pages 13 and 14. http://www.unitedforalice.org/Hawaii.

[11] The Pew Charitable Trusts Retirement Savings Project, presentation to the Hawaiʻi Retirement Savings Task Force on 21 September 2021.

A similar analysis for Hawaiʻi considered the current levels of retirement savings adequacy among senior households. As of 2020, 92,000 senior households in Hawaiʻi have incomes of less than $75,000 (Figure 6).

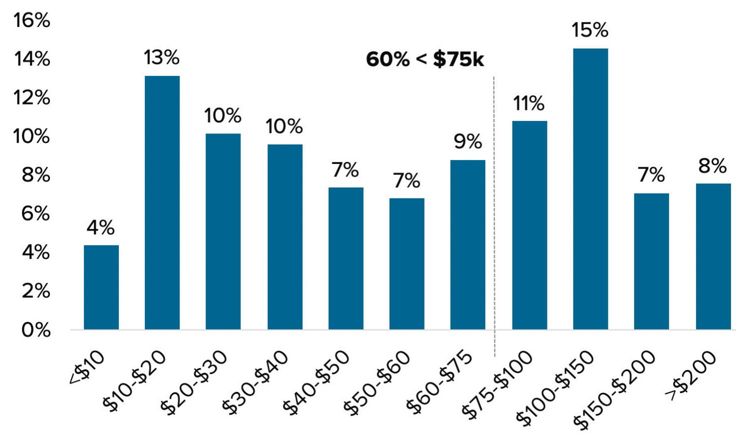
Based on current savings and demographic trends, that number is projected to increase to 120,000 by the year 2040 (Figure 7).

Using a "sufficient savings" scenario, retirees would achieve recommended replacement rates of working-age income.[12] Incomes are projected to fall short of recommended replacement rates by an average of more than $8,100 in 2040 for elderly households with incomes under $75,000 a year.

Figure 6

Hawaiʻi Senior Incomes (2020)

Estimated Income Distribution of Hawaiʻi's Seniors, 2020 ($000s)



Source: ESI Analysis of Current Population Survey (CPS) Data

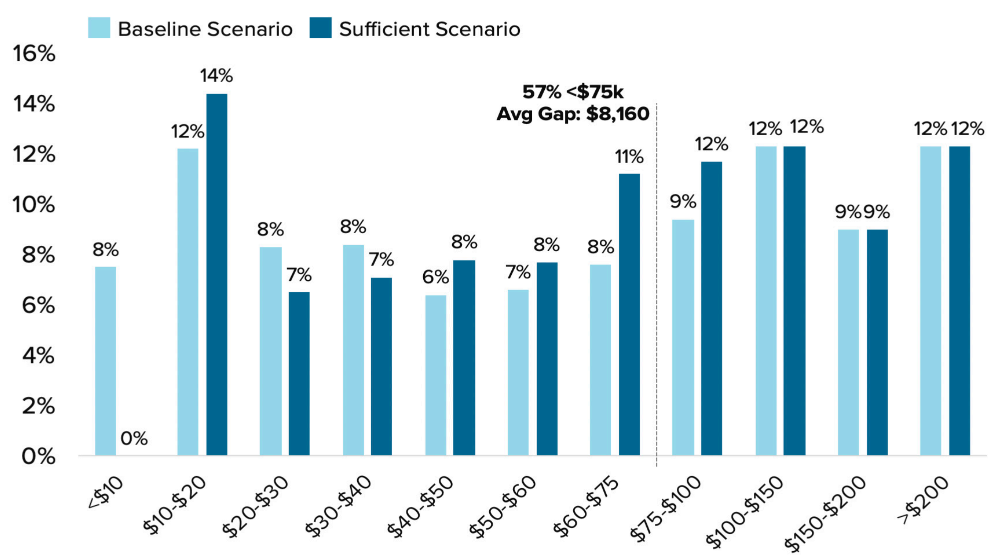
- Almost two-thirds of the population estimated to have incomes less than $75k
- Almost 50k seniors with incomes less than 20k

Figure 7

Retirement Income Gap (2040)

Income Adequacy of Hawaiʻi's Elderly Households, 2040 (in $2020)

- Under current savings trends, 57% of Hawaiʻi's senior population is projected to have incomes under $75,000 in 2040
- The average shortfall among these households relative to recommended income replacement levels grows to more than $8,100



Source: ESI Analysis of Census Bureau Income Data and Financial Modeling

[12] As defined by Econsult Solutions Inc. in its work for Hawaiʻi, recommended replacement rates of working-age incomes are a minimum of: a replacement rate of 75% of income (inflation adjusted); but not less than the minimum adequate income set at the Federal Poverty Level; and retiree incomes greater than $75,000 are considered sufficient regardless of replacement level.

At a standard market return, enhanced savings of around $160 per month (or about $1,920 per year) over a 30 year period would generate enough income to address this average gap (Figure 8).

Savings of $100 per month would generate around $5,000 in additional available income each year in retirement, closing the anticipated gap significantly.[13]

(For more detailed estimates by county in Hawai‘i, please see Appendix B.)

So what's the catch? If a small amount of regular savings can help Hawai‘i begin to address its life cycle deficit and improve retirement outcomes for our workers and seniors, getting started seems obvious. At the same time, it is important to know:

- The above improvements occur gradually and over time
- The sooner improvements begin, the more impactful they will be
- Improvements require a change in levels of retirement savings
- Maintaining the status quo is unlikely to lead to savings level changes
- Even many low-income workers will save if access to savings improves
- Taking action requires a commitment on the part of the state and the state should undertake that commitment thoughtfully

In the next section we consider how retirement savings occurs and the elements that lead to increased numbers of savers.

Figure 8

Savings to Address Income Gap

Annual Savings to Fill Retirement Income Gap, Hawai‘i HH <$75k (in $2020)

	2020	2040
Total Elderly Households	153,700	210,900
Households with <$75k Annual Income	92,300	120,200
Share of HH <$75k	60%	57%
Avg Income HH<$75k	$34,940	$32,890
Average Income Differential (HH <$75k)	$7,550	$8,160
Avg Lump Sum Savings Needed	$167,800	$181,300
Annual Savings Needed to Fill Savings Gap	**$1,820**	**$1,970**
Monthly Savings Needed	$152	$164

Source: ESI Analysis of Census Bureau Income Data and Financial Modeling

The share of elderly households <$75k is projected to decrease slightly from 2020 to 2040, but the number of households in this group is projected to grow to more than 120,000 (due to elderly population growth)

The annual income shortfall for this group is around $8,200

- At a typical rate of return, this gap could be filled by savings of $1,970 per year (or $164 per month) over 30 years
- A worker saving $100 per month would have about $5,000 in annual income available in retirement, addressing the majority of the projected retirement income gap for the average HH <$75k

Workplace-based retirement savings

In theory, accumulating retirement savings is simple. Pick a goal, calculate what you'll need to achieve that, and begin putting that money aside regularly.

In the real world, saving for retirement is anything but easy. Saving money diligently requires a level of discipline that few possess.

[13] As estimated for the Hawai‘i Retirement Savings Task Force by Econsult Solutions Inc., November 2021.

There are other hurdles too: job income may be highly variable, every day or unexpected expenses can absorb income that could be saved, experience with financial institutions and financial products may be low, and sometimes, people don't realize how important it is to start saving as early in their working lives as possible.

Fortunately, there is one savings tool that works for most people: workplace retirement plans. These plans work well since retirement savings can be put on autopilot, with contributions automatically deducted from every paycheck.

Few employees save outside of workplace savings plans

Plans in the workplace are a powerful tool: research shows that most savings occur through employer-provided retirement plans. One study found that fewer than 15% of Americans save for retirement outside of these workplace plans.[14]

While there are Hawai‘i employers who offer workplace retirement plans, nearly two in three Hawai‘i employers do not, leaving more than 200,000 workers without access to retirement savings through their paycheck (Table 1).

Table 1

Employment Characteristics of Private Sector Hawai‘i Workers by Retirement Plan at Work, 2010-2014

	Workers **without** retirement plan at work		Workers **with** retirement plan at work	
Firm size	**Number**	**Share**	**Number**	**Share**
Under 10	58,322	78%	16,535	22%
10 to 49	54,762	61%	35,615	39%
50 to 99	23,356	53%	20,638	47%
100 to 499	28,327	43%	38,053	57%
500+	50,071	32%	107,857	68%
Total	**214,837**	**50%**	**218,699**	**50%**

Table 2

Key Demographics of Hawai‘i Private Sector Workers by Coverage Status and Employer Size, 2010-2014

Gender

Character-istic	No plan, any employer size	No plan, <100 employees	With plan, any employer size
Male	52%	52%	50%
Female	48%	48%	50%

Age

Character-istic	No plan, any employer size	No plan, <100 employees	With plan, any employer size
18-29	35%	33%	22%
30-44	30%	32%	33%
45-64	35%	36%	45%

Nativity

Character-istic	No plan, any employer size	No plan, <100 employees	With plan, any employer size
Native	70%	70%	77%
Foreign-born	30%	30%	23%

Race

Character-istic	No plan, any employer size	No plan, <100 employees	With plan, any employer size
White	17%	18%	18%
Asian	41%	43%	43%
Hispanic	11%	11%	8%
Other	31%	28%	31%

Education

Character-istic	No plan, any employer size	No plan, <100 employees	With plan, any employer size
Less than high school	6%	6%	3%
High school only	38%	39%	30%
Some college	34%	33%	35%
Bachelor's or more	21%	22%	32%

[14] The Pew Charitable Trusts, Comment to Virginia529 on Retirement Security, 10 December 2020.

Here's how the numbers stack up in our state:[15]

- Only 59% of full-time workers have access to a workplace retirement plan
- The most significant gap is at smaller employers: only 30% of companies under ten employees offer a plan, and only 22% of employees are covered by these plans.

Today's economy also includes increasing numbers of part-time, self-employed, seasonal, and contingent workers. These individuals generally have bigger gaps in coverage: for example, less than a third of part-time workers have access to a retirement plan (Table 3).[16]

Table 3

Hawaiʻi Employee Earnings and Hours Worked by Coverage Status and Employer Size, 2010-2014

	No plan, any employer size		No plan, < 100 employees		With plan, any employer size	
Hours	Share	Median earnings	Share	Median earnings	Share	Median earnings
1 - 34	31%	$9,773	31%	$9,773	12%	$13,663
35+	69%	$30,000	69%	$30,000	88%	$41,000
Total	**100%**	**$21,717**	**100%**	**$21,717**	**100%**	**$38,319**

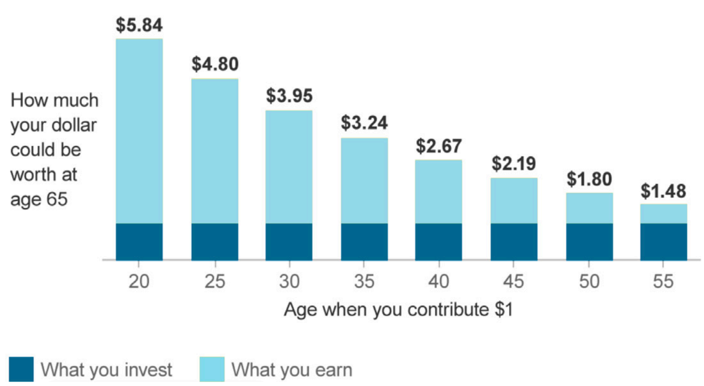
Finally, young people often wait too long to start saving: In Hawaiʻi only 41% of those in their twenties are saving versus 57% of those in their forties and fifties (Figure 9).[17]

There is some good news hidden in these statistics, however: in its annual "How America Saves" study, Vanguard finds for 2020 that when offered a plan at work, 84% of covered employees start saving.[19]

One note, the employees covered by the plans in Vanguard's study generally experience higher incomes and greater job stability than employees who are not covered by plans. They may also receive the incentive of an employer match on their savings.

Figure 9

$1 could grow to much more by retirement – but it depends what age you contribute it[18]



This hypothetical illustration assumes an annual 4% return after inflation. Figures are in today's dollars. The illustration doesn't represent any particular investment.

[15] The Pew Charitable Trusts presentation to the Hawaiʻi Retirement Savings Task Force, 24 August 2021.

[16] The Pew Charitable Trusts analysis of the Current Population Survey, US Census Bureau.

[17] The Pew Charitable Trusts presentation to the Hawaiʻi Retirement Savings Task Force, 24 August 2021.

[18] Vanguard: "When should you start saving for retirement?", Personal Investors site, accessed November 2021. https://investor.vanguard.com/retirement/savings/when-to-start

[19] Vanguard: How America Saves 2021, plan-weighted participation rates, page 31. The universe studied consists of 1,700 qualified plans,1,400 clients, and 4.7 million participants for which Vanguard directly provides recordkeeping Services. https://institutional.vanguard.com/content/dam/inst/vanguard-has/insights-pdfs/21_CIR_HAS21_HAS_FSreport.pdf

> ***I believe in the concept. There should be programs like this for all those who work. It's an opportunity for them to provide for their future, to create nest egg for future.***
>
> Small business owner, Maui

Consideration for small employers

One crucial point is that a solution for Hawaiʻi must include and work well for small employers. Because of the prevalence of small businesses in the state, nearly 2 out of 3 employers do not offer a retirement plan.[20]

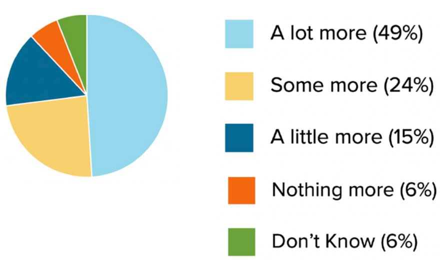
Fortunately, surveys show that these small employers would facilitate a program if it were easy to implement and affordable (Figures 10 and 11):

- ❖ 73% of Hawaiʻi small businesses think more should be done to encourage Hawaiʻi residents to save for retirement
- ❖ 82% support a public-private retirement savings option
- ❖ 83% agree that lawmakers should support a Hawaiʻi retirement savings option
- ❖ 85% say they are likely to facilitate and/or participate in such a program if offered
- ❖ 72% who do not offer plans cite cost as a concern
- ❖ 75% agree that the ability to provide retirement savings at work helps local small business attract quality workers and stay competitive

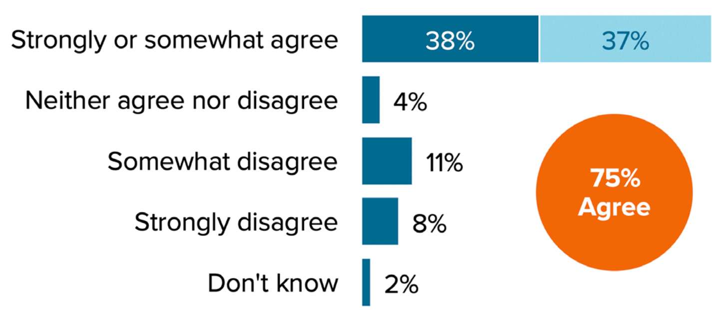
Next, the Task Force considered the currently available savings opportunities.

Figures 10 and 11: Employer Perspectives on Retirement Savings Options

More Should be Done to Encourage Hawaiʻi Residents to Save for Retirement
(n=300 Hawaiʻi Small Business Owners)



Agree/Disagree Retirement Savings Option Can Help Small Businesses Attract Employees/Stay Competitive
(n=300 Hawaiʻi Small Business Owners)



20 AARP Survey of Small Business Owners in Hawaiʻi, October 2021.

4. Federal retirement savings opportunities

When it comes to saving for retirement, Hawai‘i residents (and all Americans) have a range of options. Retirement programs like pension and 401(k) plans are sometimes offered as part of an employment benefits package, and outside of work individuals can save on their own, including through individual retirement accounts (IRAs). But most savings occurs through employer-provided retirement plans – less than 15% of Americans save for retirement outside of work.[21]

Figure 12: Retirement Plans and Accounts - Examples

IRAs and IRA-based Plans	Roth and Traditional IRAs
	Payroll Deduction IRA
	SEP IRA
	SIMPLE IRA Plan
Defined Contribution Plans	Profit Sharing Plan
	Safe Harbor 401(k)
	Automatic Enrollment 401(k)
	Traditional 401(k)
Defined Benefit Plans	

There are several reasons why employer-provided retirement plans are the main vehicle for savings:

- Employers may automatically enroll workers into a plan at hire, so it takes no effort to start saving. Conversely, an individual must take some initial steps to establish an IRA.
- As part of the enrollment process, contributions generally occur automatically and on a regular basis through payroll deduction.
- Most employers contribute to a retirement plan either with matching or discretionary contributions, which greatly increases an employee's assets.
- For the fewer and fewer workers who have a defined benefit plan, this is the most automatic form of savings, if you achieve tenure with that employer. This type of plan commits to a level of replacement income upon retirement or completion of certain service metrics.

The main drawback of employer-sponsored plans is that the system is voluntary: employers do not have to offer a retirement plan to their workers, and many do not. The lack of access to retirement benefits is chiefly concentrated among smaller employers and firms within certain industries like leisure, hospitality, construction, and others.

For a more detailed review of today's retirement plans, please see Appendix C.

Recent federal retirement savings legislation

Change is happening at the federal level, as well. Here are some recent proposals that are being tested and/or studied. Of note, while these improvements help add professionalism, choice, and even financial incentives to the current environment, they are not expected to significantly close the current retirement savings gap.

Pooled Employer Plans (PEPs). The SECURE Act of 2019 authorized pooled plans that allow unrelated employers to join plans created and maintained by pooled plan providers. Providers were allowed to start offering product in 2021 and indications are that provider interest is strong,[22] but as yet no usage data is available. Experts associated with the bill note that it was intended to provide for greater professionalization in the small plan market and may or may not result in lower costs or increased new plan formation.

Employer Tax Credits. Under current law, small employers can claim a tax credit of up to $5,000 for 50% of new retirement plan startup costs. This tax credit was increased under the SECURE Act. However, uptake on this tax credit has been low.

[21] The Pew Charitable Trusts presentation to the Hawai‘i Retirement Savings Task Force, 24 August 2021.

[22] Mercer, "DOL seeks input on pooled employer plans and open MEPs", June 2020. https://www.mercer.com/our-thinking/law-and-policy-group/dol-seeks-input-on-pooled-employer-plans-and-open-meps.html

Enrolling Long-Term Part-Time Workers. Also through the SECURE Act, employers with a 401(k) plan must now allow eligible long-term, part-time employees to contribute to their plans. This will increase coverage and use for employees of employers who offer a plan from which they have been historically excluded.

Additional Federal Proposals

In addition, some federal programs exist in the proposal stage which have not been passed into law:

Expansion of Saver's Credit

The Saver's Credit is a little-known and little-used part of the tax code that offers low- and moderate-income savers a tax credit for contributing to a retirement account. Essentially, the credit acts as a "match" to incentivize savings.

Currently, savers may claim up to 50% of retirement contributions for a maximum credit of $1,000 for single filers, or $2,000 for married couples filing jointly. There have been recent proposals by lawmakers to expand this tax credit to be more widely used to motivate savings. Proposals include:

- Expanded eligibility to more families
- Making the Saver's Credit refundable
- Enabling direct deposit into a taxpayer's IRA account.

Automatic Enrollment through employers with 6+ employees

Another proposal being discussed would require automatic enrollment into retirement plans for employees of employers with six or more employees. This proposal is accompanied by significant penalties for employers who do not comply. Employees can opt out of saving if they desire. Of all the proposals under consideration, this one has the greatest likelihood of helping to close the current retirement savings gap. However, proposals like these have been under consideration for more than a decade at the federal level and states are not counting on them as a near term solution for their residents.

Financial literacy and education

Along with savings programs, there is one more critical component to tackling retirement insecurity: education. Financial literacy efforts alone have not been found to increase savings, including retirement savings. However, financial literacy is important to overall financial well-being. Hawai‘i, like other US states, experiences lower financial literacy levels among the adult population. It may be useful to pair any program with a plan to increase financial literacy among Hawai‘i residents. It is worth noting that the act of saving for retirement through an employer-provided plan or employer-facilitated program increases financial experience, which creates a good environment for timely financial education.

Financial literacy crisis

Today, too few people understand the economics of saving and investing for the future. A National Financial Capability Study asked respondents five questions about aspects of personal finance in everyday life. **In Hawai‘i, 62% were unable to answer more than three of the five questions correctly.**

In Hawai‘i, 38% of individuals lack an emergency fund to cover three months of expenses.

This is higher than the national average of 26%.

In addition, 21% of Hawai‘i residents reported spending more than their income.

Slightly higher than the 19% national level.

Hawaiʻi includes education standards on personal finance in the K-12 curricula and since 2018 has required a standalone high school course on economics and personal finance.[23] That is useful; at the same time there is more work to do to achieve true financial proficiency.

Does Financial Literacy Change Outcomes?

Research by The Pew Charitable Trusts in its work with many states over the years provides some valuable insights. One primary finding is that financial literacy is critical to individual financial wellbeing.

In a comment letter to Virginia529 in 2020 analyzing the relationship between financial literacy and financial well-being, Pew summarizes the following insights, which were also shared with the Task Force at its meeting on August 24:

> Some research does find an association between financial literacy and behavior. In general, financial knowledge is associated with an increase in engaging in various financial activities such as paying bills on time, budgeting, paying off credit cards, and setting financial goals. Other studies have found a correlation between financial literacy and planning for retirement, savings and wealth accumulation. More specifically, financial literacy is predictive of investment behaviors, including stock market participation, choice of a low-fee investment portfolio, and better diversification and more frequent stock trading. Conversely, low financial literacy is associated with higher debt accumulation and high-cost borrowing, making poor mortgage choices, and a greater chance of mortgage delinquency and home foreclosure.[24]

At the same time, financial education on its own has not consistently shown the ability to increase savings or financial well-being. And the research is mixed on what sorts of financial education are most impactful and most likely to increase an individual's readiness for the financial decision-making that accompanies adulthood.

Pew further notes:

> While a relationship may exist between financial literacy and financial outcomes, it's not clear whether literacy affects outcomes or outcomes affect literacy. That is, does financial literacy lead to better outcomes, or does engaging in personal finance activities and decisions increase financial literacy? Some research has shown that financial knowledge increases through personal experience.

The concept of knowledge increasing with experience fits well with the concept of life-long learning. Adults who have access to retirement plans at work generally learn about those plans on the job, including the importance of retirement saving to their future well-being, and how to use a retirement account effectively as part of a personal financial plan.

Often employer-sponsored plans provide targeted financial education information that participants can use to increase their knowledge as they save. And some programs include 'nudges' with the education that encourage participants to increase their savings at key milestones, like birthdays or the turning of the new year.

For Hawaiʻi, a key takeaway is that financial education on its own is not likely to make a meaningful difference in the level of retirement savings and financial well-being. However, an increase in financial experience – provided by expanding opportunities to save for retirement in the workplace – accompanied by financial education programming and nudges, could significantly improve both financial literacy and family financial outcomes.[25]

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[23] The Pew Charitable Trusts presentation to the Hawaiʻi Retirement Savings Task Force, 21 September 2021.

[24] The Pew Charitable Trusts, Comment to Virginia529 on Retirement Security, 10 December 2020.

[25] The Pew Charitable Trusts, discussions with the Hawaiʻi Retirement Savings Task Force, 24 August 2021 and ensuing meetings.

5. State-facilitated retirement savings opportunities and models

Although retirement plans, retirement accounts, and financial literacy programs have been around for many years, the increasing lack of retirement readiness has left states to pursue other options.

There are primarily three different options that have been put into use by various states: the online marketplace, multiple employer plans, and automatic IRAs. The following is a recap of information as reviewed by the Task Force in its work. Here is a look at each of those strategies:[26]

Online Marketplace

What is it?

- ❖ An online marketplace is a website that provides access to state-curated retirement savings products such as 401(k) plans and IRAs.
- ❖ The state establishes standards for the products to be included. Private sector providers then apply to have their offerings included.
- ❖ The program is voluntary for both employers and workers.

What are the state's responsibilities?

- ❖ Determine standards for what will be approved for inclusion based on product quality, cost, and provider financial strength.
- ❖ Solicit, evaluate, and approve providers and products according to those standards.
- ❖ Develop and maintain an online platform for comparative 'shopping' by employers and employees.
- ❖ Market the platform to create awareness and drive use.
- ❖ Collect metrics for reporting on marketplace effectiveness and use.

How have these programs performed?

Overall, results to date have been disappointing, with very low usage rates. Marketing efforts required of the state are also high.

One issue is that these platforms are not providing much that is new; products offered on these platforms are also available through the private sector. The one new element associated with a state-based retirement marketplace is the standards the state applies to products offered through the marketplace.

Multiple Employer Plans (MEPs)

Another option increasingly being used by states is the Multiple Employer Plan, or MEP.

What is it?

- ❖ A Multiple Employer Plan is a 401(k) sponsored by the state which unrelated employers may join.
- ❖ The state designs and establishes the plan and makes it available to employers to adopt.
- ❖ To simplify things for employers, the state retains private sector providers to manage the plan.
- ❖ The program is voluntary for employers and workers.

What are the state's responsibilities?

- ❖ Design a plan that is flexible enough to accommodate different employer and employee preferences.

[26] Massena Associates presentation to the Hawaiʻi Retirement Savings Task Force, 5 October 2021.

- ❖ Define plan features ranging from eligibility and enrollment requirements to investment offerings.
- ❖ Seek and retain the providers needed for plan administration: recordkeeping, investment management, legal, and compliance.
- ❖ Serve as the lead plan sponsor and fiduciary.
- ❖ Market the plan to gain visibility and drive use.

How have these programs performed?

To date, usage of state-sponsored Multiple Employer Plans has been low. At the same time, marketing efforts required are high to gain visibility with employers.

As of January 2021, similar Multiple Employer Plans are now available through the private sector. One differentiating element of a state-based MEP is the state's responsibility, as a fiduciary, to operate the MEP for the sole benefit of its participating savers.

Automatic Enrollment IRA (Auto IRA)

A third state approach is the Auto IRA, designed to help make it easier for workers to save automatically.

What is it?

An Auto IRA is a retirement savings program built around personal Individual Retirement Accounts. The program is managed by the state in partnership with the private sector to accommodate savings by individuals on a payroll deduction basis. Employers facilitate those payroll deductions but do not themselves contribute to accounts. In fact, employers have very light administrative responsibilities for these programs, limited to maintaining workforce information for purposes of program enrollment, and executing payroll deductions for employees who choose to save.

A central concept is that employees are automatically enrolled, with the option to save more, or less, or opt out of the program altogether.

Employees get access to a simple investment menu where they can change investments if desired. If no other choice is made, savings are automatically invested in an appropriate age-based diversified fund to help them accumulate savings for retirement.

Automatic enrollment is a concept that has been gaining steam over the last 15 years – helped by the work of Nobel-prize winning behavioral economist Richard Thaler in the book *Nudge: Improving Decisions About Health, Wealth and Happiness*, written with Cass Sunstein in 2008. In its work on automatic enrollment from 2018 to date, financial institution Vanguard finds that automatic enrollment can increase private sector 401(k) plan participation to rates above 90%.[26] In Vanguard's 2018 study, about 75% of plan sponsors were using automatic enrollment.

The account is portable if the employee changes jobs. As an IRA, the account stays with the employee, rather than with the employer. If the employee works for multiple employers at the same time, or over time, all savings go into a single IRA account.

Auto IRAs often include automatic escalation features that allow an employee to begin saving at one level, and gradually increase to higher levels over time.

As mentioned, employers have no fiduciary liability for the program and are simply responsible for maintaining employee census information and executing and remitting savings for those employees who choose to participate.

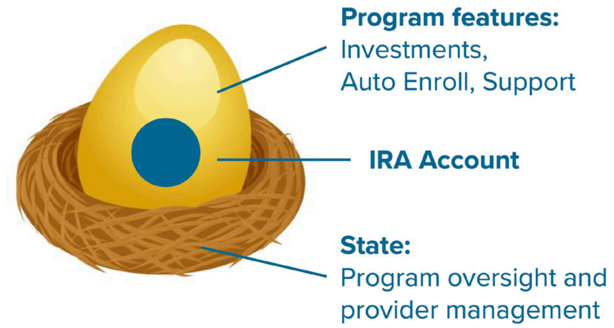
What are the state's responsibilities?

- ❖ Establish enabling legislation
- ❖ Establish program standards and provide oversight
- ❖ Retain and oversee private sector providers or establish an interstate agreement for program participation
- ❖ Where needed, establish interagency agreements for employer data
- ❖ Market the program to create community awareness and employer engagement.

How have these programs performed?

Initial usage data shows these programs are popular and usage is high. Marketing efforts are initially high to gain visibility with employers and diminish over time.

Figure 13
Auto IRA Program



- ❖ A payroll-deduction IRA provided by the state
- ❖ Employees:
  - automatic enrollment
  - simple investment menu
  - account portability
  - voluntary
- ❖ Employers: facilitate if they do not otherwise offer a retirement plan
- ❖ Usage to date: **high**

6. Perspectives – Employers and Employees

The Task Force used two surveys to assess the views of both workers and employers in Hawai‘i about retirement savings. These surveys engaged private sector workers and small business owners throughout the state, with the goal of better understanding the needs and thoughts of people who would be directly impacted if the state created a program to improve access to retirement savings options.

Overall, the majority of employers and workers reported significant concerns about a lack of retirement savings and voiced support for the state to improve employment-based savings options. The survey results suggest that people in Hawai‘i see retirement security as critical to the wellbeing of themselves, the workforce, and the state.

The Employer perspective

Hawai‘i’s employers represent the diversity of the islands and their industries. They range widely in size, from the state’s biggest employers in health, hospitality and utilities, to small retailers, restaurants and service providers with a handful of employees.

Many – if not most – of the state’s larger employers provide their workers with retirement savings plans today. 57% of employees at employers with 100+ workers, and two-thirds of employees at employers with 500+ workers, have access to a plan at work.

These employers offer plans because it makes them more competitive as employers and organizations, and because it helps them attract and retain well-qualified workers. Employers also offer plans because they feel it’s the right thing to do for their employees.

Many of the state’s smaller employers do not offer plans. Half of employees at employers with fewer than 100 workers, and 80% of employees at employers with fewer than 10 workers do not have access to a plan at work.

When employers do not offer plans, they often say they would like to but that it’s too expensive for them, or that they don’t have the administrative expertise and time to offer a plan.[27]

The perspective of employers is important because they are an essential link in the chain that enables workers to save on a payroll deduction basis.

To gather more information, the Task Force reviewed a 2021 survey of Hawai‘i small businesses. Separately the Task Force held a small business roundtable to share information and receive comments from business owners.

In survey responses, Hawai‘i’s small employers showed a clear desire to support the retirement needs of workers. The responses suggest employers as a group recognize the importance of retirement savings for the workforce.

Results of the small business owner survey showed that:[28]

- Three in five small business owners are concerned that their employees will not have enough money to cover expenses through their retirement years (Figure 14).
- Nearly half say a lot more should be done to help encourage Hawai‘i residents to save for retirement.

Figure 14: Employer Perspectives on Retirement Readiness

Over three in five small business owners are concerned that their employees will not have enough money to cover expenses through their retirement years.

63%	21%	15%
Very/somewhat concerned	Not very concerned	Not at all concerned

[27] The Pew Charitable Trusts, Employer Barriers to and Motivations for Offering Retirement Benefits, June 2017. https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/06/employer-barriers-to-and-motivations-for-offering-retirement-benefits

[28] AARP Hawai‘i Survey of Small Business Owners, October 2021. https://www.aarp.org/research/topics/economics/info-2021/Hawaii-retirement-savings-program.html

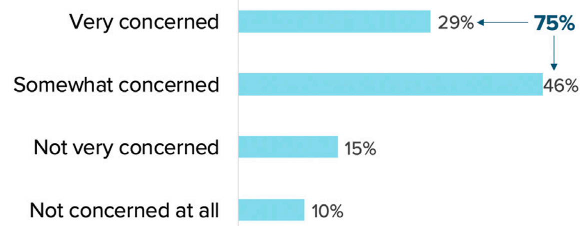
- ❖ Among small business owners in Hawaiʻi who do offer a retirement savings plan to their employees, a quarter say the main reason is because it is the right thing to do.

Most employers also recognized the impact to the state and taxpayers of a lack of retirement savings, in addition to the impacts for individuals and families.

- ❖ Three in four small business owners expressed concern as taxpayers that some Hawaiʻi residents have not saved enough for retirement and could end up being reliant on public assistance programs (Figure 15).

Figure 15: Employer Perspectives on Fiscal Impact

Three in four small business owners express concern as taxpayers that some Hawaiʻi residents have not saved enough for retirement and could end up being reliant on public assistance programs.



In terms of potential solutions, employers voiced overall support for the idea of improving workplace-based savings options and for the State of Hawaiʻi to take an active role in developing them. The responses suggest that most employers see value in potential programs like Auto IRAs for workers as well as themselves and their businesses.

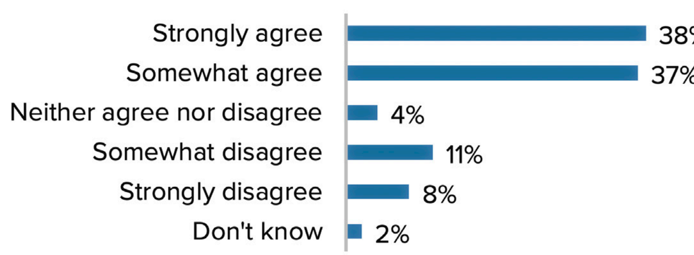
Based on these results, there appears to be the potential for approval from employers for such a program, which is important due to the limited, but essential, role that employers would play in the facilitation of a program. Employer buy-in helps maximize the positive impact and success of a program.[29]

- ❖ The majority of small business owners agree that being able to offer a voluntary, portable retirement savings program would help local small businesses attract and retain quality employees and stay competitive (Figure 16).
- ❖ Over four in five small business owners agree that Hawaiʻi lawmakers should support a bill to make it easier for small business owners to access a way to save for retirement for themselves and their employees.
- ❖ About four in five small business owners would support a public-private partnership to develop an easy, no-cost retirement savings program for small businesses.
- ❖ Of those who currently do not offer a workplace retirement plan, most (85%) say that they would likely offer the proposed plan to their employees.

A small business roundtable held by the Task Force attracted businesses from a range of industries – including a drive-in restaurant, a senior care center, and an information services company, among others. Employers were interested in the idea of a state-facilitated solution. One noted, “This is a very good idea for small businesses to consider for their employees.”

Figure 16: Employer Perspectives on Employee Retention

The majority of small business owners agree that being able to offer a voluntary, portable retirement savings program would help local small businesses attract and retain quality employees and stay competitive.



29 Ibid.

Others had questions related to program costs – both for themselves, and for the state – and about how easy or difficult it would be to sign employees up, whether employers would have access to information in different languages, and whether bookkeepers and payroll service providers could be involved in helping employers with the program.

This engagement was useful to the Task Force and it is suggested that outreach and conversations like these be an ongoing part of any program development that the state pursues.

A key consideration for the Task Force has been whether employers would experience a burden if the state were to develop a retirement savings program. The findings from a recent The Pew Charitable Trusts study of the OregonSaves auto IRA program are instructive:[30]

- ❖ A significant majority (about 80%) of OregonSaves employers did not report any out of pocket costs associated with the program.
- ❖ Among all firms, 55% reported using a payroll provider, while 44% said they handled payroll internally.

When employers did report expenses:

- ❖ The 21% of employers that did report out of pocket costs cited fees for outsourcing program contribution activity to external payroll firms or bookkeepers, wages for additional staff time to set up the program, and/or time spent registering employees with OregonSaves.
- ❖ Employers who handled payroll internally were about equally likely to report out of pocket costs as employers who outsourced their payroll management.
- ❖ When a relative few employers cited costs to providers for support, they referenced total organizational payroll-related charges ranging from $15 to $60 a month.

Separately, Pew surveyed employers about program satisfaction.[31] The OregonSaves program is a required program for covered employers.

- ❖ Overall, 73% of participating employers are satisfied or neutral (neither satisfied nor dissatisfied) with their experience in the program.
- ❖ Employers that have spent more time participating in OregonSaves are more likely to indicate higher satisfaction, which indicates that employers' increased familiarity with OregonSaves may lead to greater satisfaction with the program.

The Employee perspective

The ultimate goal of improving retirement savings options is to support the financial security needs and wellbeing of workers, their families, and their communities. It is critical for the state to hear directly from workers, to better understand their needs, gather their input and feedback, foster buy-in for a potential program, and ensure solutions are designed around the actual needs of individuals, families, and communities.

30 The Pew Charitable Trusts, "Is the OregonSaves Retirement Program Expensive for Employers?", 5 May 2021. https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2021/05/is-the-oregonsaves-retirement-program-expensive-for-employers

31 The Pew Charitable Trusts, "OregonSaves Auto IRA Program Works for Employers", 2 April 2021. https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2021/04/oregonsaves-Auto IRA-program-works-for-employers

The Task Force surveyed voters to hear their thoughts about retirement savings and potential ways to improve retirement security.[32] Based on the responses, most local residents are concerned about their retirement savings and see a need to save more, suggesting they believe retirement savings is an important part of their overall financial wellbeing.

The 2021 survey of voters found that:

- 72% of Hawai‘i’s workers are anxious about having enough money for retirement
  - Honolulu residents were the most anxious, while residents of Kauai were less so
  - Respondents who were renters, living with family, single or never married, or who were educated to the high school level were even more likely to express concern
- Homeowners were more confident than renters
- 45% of workers feel they are behind schedule on planning and saving for retirement
  - Another 15% reported that they haven’t started saving yet
  - About 30% of respondents reported that they feel they are on track, and another 6% reported that they are ahead of schedule
- 86% of workers across Hawai‘i feel it is very important for small businesses and sole business owners to have access to a workplace savings program

Workers also recognized the impact on communities and the state when people don’t save enough for retirement.

- 83% of workers are concerned that insufficient savings for Hawai‘i’s workers will lead to reliance on public assistance programs

Based on the survey results, the vast majority of workers want workplace savings options, especially ones that make it easier to save. This suggests there is considerable demand from workers for work-based solutions and the potential for worker participation and increases in savings should the state help improve access. Workers also directly voiced support for the state to help develop solutions.[33]

- Overall, 85% of workers whose employers do not offer a way to save for retirement would take advantage if their employers offered them a way to save money at work

Since the pandemic I see those who are okay and those who are in need. When I haven’t had retirement at work, I haven’t saved. I would definitely take advantage of a program like this.

Employee, retail services, O`ahu

About 51% of workers are not confident they will have enough money to cover health care expenses in their retirement years.

76% of workers aged 18 to 64 feel they do not have enough savings for retirement years

[32] Hawai‘i Workforce Preparedness for Retirement, November 2021. A survey of 700 voters conducted on behalf of the Hawai`i Retirement Savings Task Force.

[33] Ibid.

- ❖ Over 90% of workers think that portability, availability, and accessibility are the most important features for a savings program in Hawaiʻi
- ❖ 97% of workers think that it is important for people to be able to save money for their retirement while they are working
- ❖ 84% of workers agree that Hawaiʻi elected officials should support legislation to make saving out of a regular paycheck for retirement easier

Concern for lower income workers

A consistent theme during Task Force meetings has been interest in and concern for Hawaiʻi's lower income families.

A key question has been: can these workers afford to save for retirement, will they save for retirement, and if they do will they worsen their current financial circumstances by doing so. The following recaps research conducted for the Task Force by The Pew Charitable Trusts.[34]

Many workers in Hawaiʻi struggle to make ends meet in a state that has the highest cost of living in the country: by one estimate, the living hourly wage for a single adult with no children in Hawaiʻi is $19.43 while the living hourly wage for a family of 4, with two adults working, is $25.42.[35] By comparison, the wages for the same workers in a low-cost state like Mississippi are $13.43 and $18.07, respectively.

Recent research provides more detail on this struggle in Hawaiʻi where many of the more than 450,000 households in the state struggle to make ends meet.[36] Almost one in ten households are living below the federal poverty line, but an additional 33% are what are referred to as Asset Limited, Income Constrained, Employed (ALICE). ALICE status is based on an estimated household survival budget of the minimal costs of the household essentials, such as housing, transportation, and health care, among other items. The average household survival budget was $31,056 in Hawaiʻi. For a single senior, the survival budget was even higher at $34,308 per year due to higher health care costs.

In 2018, households headed by adults under the age of 25 were more likely to be below the ALICE threshold compared to other age groups in Hawaiʻi, and they often struggled to put food on the table. But a high number of seniors will also experience food insecurity in the next 30 years. Compared to other seniors, food insecure seniors have much higher rates of depression, asthma, and congestive heart failure. "Public benefits help but do not eliminate the need for emergency assistance measures, such as food pantries."[37]

With little savings, approximately 60,000 households over the age 65 are considered ALICE households. Why? A large portion (16%) of Hawaiʻi's population are 65 years or older, and the older population is expected to grow. Despite the assistance of many programs and services that financially help seniors, more seniors will become ALICE households. Finally, with housing costs rising across Hawaiʻi (and especially on O`ahu), seniors may find it increasingly difficult to make ends meet after retirement.

Can ALICE workers save, and do they want to?

The ALICE research is part of a nationwide network of studies in a range of states, including those that currently provide Auto IRA programs. Significant numbers of households in current Auto IRA states are classified as ALICE households. For example, in Oregon, 12% of households live in poverty and an additional 32% are considered ALICE households, and in Illinois 23% are ALICE households.[38]

[34] The Pew Charitable Trusts Retirement Savings Project as provided to the Task Force, November 2021.

[35] The Living Wage Calculator, Massachusetts Institute of Technology, https://livingwage.mit.edu/.

[36] Aloha United Way, 2020, "ALICE in Hawaiʻi: A financial hardship study," http://www.unitedforalice.org/Hawaiʻi.

[37] Aloha United Way, page 9.

[38] United Ways of the Pacific Northwest, 2020, "ALICE in Oregon: A financial hardship study," https://www.unitedforalice.org/Attachments/AllReports/2020ALICEReport_OR_FINAL.pdf; United Way of Illinois, 2020, "ALICE in Illinois: A financial hardship study," https://www.unitedforalice.org/Attachments/AllReports/2020ALICEReport_IL_FINAL.pdf.

Differing data sources do not permit us to link up savers in Auto IRA programs and their status as ALICE households. Yet in the Auto IRA states, approximately 68% of eligible workers are saving for retirement through an Auto IRA program with savings averaging $120 per month; assuming an average contribution rate of 5% of pay suggests a take home pay of $28,800, consistent with ALICE household income levels.

In Illinois, where a similar relationship exists between average contribution rates and suggested take home pay, Pew surveyed program participants to ask about their experience with the Illinois Secure Choice program, the Auto IRA program for that state. When asked about the Auto IRA program's impact on their household financial situation[39], 38% of participants said the program made them feel more financially secure and 49% said it made no impact. In addition, when asked about their satisfaction with the program, 33% state that they were very satisfied, 22% responded that they were somewhat satisfied, 41% were neither satisfied nor dissatisfied, and only 4% were either somewhat or very dissatisfied.

Challenges of program participation for low to moderate income workers

Not all ALICE families will have the means to build up assets through saving, even if that savings is done in very small increments. In addition to the cost of living, ALICE families also face more barriers than other families that, when compounded, create an even bigger wealth gap. These include issues like lower pay for women, racial and ethnic discrimination in homeownership, and student loan and other debt.

In addition, financial shocks can make it very difficult for families to save at all, whether for retirement or in the short term. According to Pew, 60% of American households experience a financial shock over the course of a year, and 71% reported that unexpected financial shocks make it hard for them to save at least for some months during the year.[40]

Finally, one concern expressed in relation to saving by lower income families is that workers who save several thousand dollars in a retirement account could be partially or completely disqualified from receiving public benefits for themselves or their families during spells of unemployment, disability, illness, or low earnings. Most public benefits programs—including Medicaid benefits for the disabled, blind, or elderly; Supplemental Security Income (SSI); TANF; LIHEAP; and other state-run benefits programs—evaluate eligibility and measure a potential beneficiary's resources using income and asset tests. The exact nature of these tests varies by state.

However, if low-income working households can save for retirement without having to liquidate savings to qualify for benefits during spells of unemployment or poor health, the number of households on public benefits programs during retirement would almost certainly be reduced.

ALICE and other low-income families who participate in such a program are likely also eligible for the federal Saver's Credit of up to $2,000 annually[41] — which can offset the cost of savings, or act as a match for retirement account savings.

Auto IRA programs are intended to make those who have worked for most of their adult lives more self-sufficient when they retire. Policymakers would consider the programs successful if state residents could draw on their Auto IRAs to delay or avert entry into public assistance programs. At the same time, depending on the intent of the state, legislation could be enacted that would exempt retirement savings accounts from asset tests for safety net programs. This has been done in other states, including Oregon, where goals include longer term intergenerational family wealth building.

In conclusion, some but not all ALICE families will be able to save from their earned incomes. Making the savings opportunity more readily available on a payroll deduction basis increases the opportunity for ALICE families to gradually improve their circumstances and financial security.

39 The Pew Charitable Trusts, 2021, unpublished survey results; toplines and statement of methodology available on request. The specific question asked, "How does having an Illinois Secure Choice account impact how financially secure you feel?"

40 The Pew Charitable Trusts, "Emergency Savings in Family Economic Security", February 2016. https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/10/financial-shocks-put-retirement-security-at-risk

41 IRS: Retirement Savers Contribution Credit (Saver's Credit), November 2021. https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-savings-contributions-savers-credit

7. Feasibility and cost analysis – key information

Earlier in this report, we provided the estimates for fiscal impact to the state of Hawaiʻi if current levels of retirement saving and retirement income continue without change. Next, the Task Force worked with The Pew Charitable Trusts to evaluate the feasibility and costs of establishing a retirement savings program to reduce this estimated shortfall.[42]

Understanding costs and outcomes

The goal was to estimate the costs to the state based on a range of outcomes. A model was developed to predict the number of savers that would likely use a retirement savings program, and the amount of money that would likely flow into the program (referred to as assets under management, or AUM). It also forecasts revenues from fees generated on accounts and assets, along with considering the costs of starting and running a program over a 15-year window.

Specifically, the model considered assets under management and revenue based on the expected number of savers, incomes, contribution rates, and investment return. It also compared a flat account fee with an AUM-based fee and a hybrid fee to help determine the most appropriate strategy.

The model also evaluated the costs of an Auto IRA program:

- Startup and ongoing operating costs
- Costs involved in a standalone model versus an interstate approach
- Estimation of when the program becomes self-supporting

The following assumptions were used:

- Potential users who currently do not have a workplace retirement plan: 190,000 eligible participants; and 6,950 employers without plans.[43]
- 5% contribution rate escalating to 10% in 1% annual increments
- 6% investment return
- Not all participants are full-time or full year
- The state would receive a flat annual fee of $10 per account plus 0.05% of assets for the state to cover its operating expense
- The average income used was $30,589
- 6.5% of contributed assets assumed withdrawn

Finally, the model also compared the costs of Hawaiʻi establishing a standalone program with joining an interstate alliance. For a standalone program for Hawaiʻi, estimates were a startup cost of $813,600 with ongoing costs estimated at $647,400 per year.

42 The Pew Charitable Trusts presentation to the Hawaiʻi Retirement Savings Task Force, 2 November 2021.

43 Estimates based on analyses by The Pew Charitable Trusts of Current Population Survey data showing 214,000 workers do not have access to plans. Other sources provide alternative estimates of the uncovered population. For example, AARP estimated 216,000 do not have access while Econsult Solutions, Inc., estimated that 164,000 lack a workplace plan. For modeling purposes, a more conservative assumption of 190,000 was used.

For an interstate alliance, costs were estimated to be less. Startup cost was estimated at $738,600, with ongoing costs estimated at $512,200 per year (Table 4).

Table 4: Costs of Auto IRA program, standalone and interstate alliance approaches

Standalone Program

	Startup	Ongoing
Staff, general, administrative costs	$313,600	$307,400
Consultant contracts	$150,000	$100,000
Marketing & communications	$225,000	$115,000
Legal, audit & insurance	$125,000	$125,000
Totals	**$813,600**	**$647,400**

Interstate Alliance

	Startup	Ongoing
Staff, general, administrative costs	$313,600	$222,200
Consultant contracts	$75,000	$50,000
Marketing & communications	$225,000	$115,000
Legal, audit & insurance	$125,000	$125,000
Totals	**$738,600**	**$512,200**

Note: Ongoing costs included inflation in the modeling but are not shown here

Under the scenario[44] for a standalone Auto IRA program with an employer requirement to facilitate, Pew found that the program was forecast to grow to $1.69 billion in assets and 130,000 accounts by year 15. Pew also forecasted that the program would become cash flow positive in year 7 and become net positive year 11. Under the scenario for an interstate Auto IRA program, Pew found that the program was forecast to grow to a similar size, and become cash flow positive in year 5. (Figures 17 and 18).

Figure 17

Operating costs and revenue for standalone program over 15 years

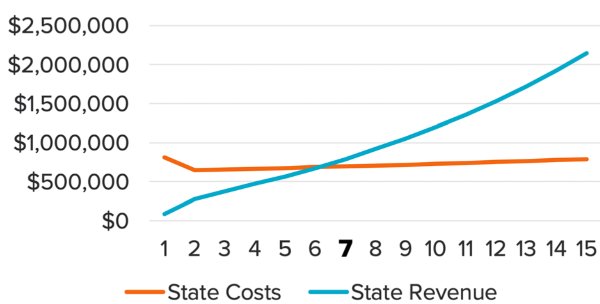
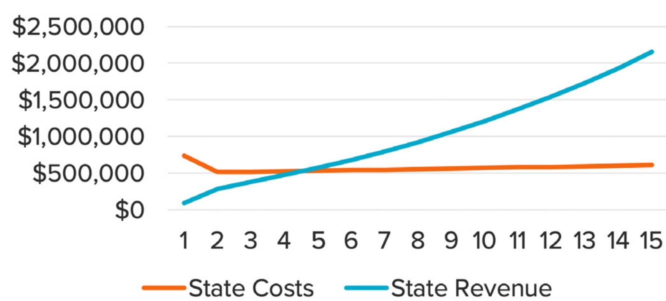


Figure 18

Operating costs and revenue for interstate alliance program over 15 years



Joining with other states

The Task Force also looked at the benefits of working with other states rather than developing its own standalone program from scratch.

As expected, the cost to start up and operate are lower in the Interstate model than for a standalone program.

- Benefits include lower costs for advisers, consultants, and auditors
- An interstate alliance also allows for faster program rollout
- Outreach to employers should not change and is not reflected as a cost savings

[44] Pew presented different scenarios to the Task Force using a variety of assumptions. Alternative scenarios are available upon request.

Under the scenario for an interstate alliance Auto IRA program with an employer requirement to facilitate, Pew found that the program was forecast to grow to $1.70 billion in assets and 131,000 accounts by year 15. The projected the program would become cash flow positive in year 5 and net positive in year 9.

Key considerations related to these estimates include these factors, many of which can be managed by the state:

- Size of the pool of eligible savers and employers
- Asset, account or hybrid fee, and fee amount
- Implementation timeline
- Staffing and marketing costs

Non-financial factors that impact program success

Based on the experience of other states, other factors were identified that help drive program success.

The first is access to high-quality employer data. This can be accomplished by working cooperatively with other state agencies.

Second, the most successful programs used shorter rollout periods to get savers participating quickly.

Third, the programs that focused on cost savings from the start performed better. Strategies such as defaulting to e-delivery and working with partners for employer and employee outreach helped improve program bottom lines.

Finally, the brief history of these programs has shown that interstate alliances can make a difference. By joining existing programs, the learning curve is abbreviated, which helps create simpler rollouts. The benefits of replication can be powerful, allowing more people to benefit more quickly while at the same time reducing costs and risks.

Feasibility of an Auto IRA program for Hawai‘i

Considered analysis indicates that a program for Hawai‘i is forecast to generate approximately 80,000 in new funded retirement accounts for the state over the next 10 years. Those accounts will have an estimated aggregate value of $828 million. Average account balances are expected to be $10,300 by year 10. Note that balances for early and steady savers should be higher, and balances for newer savers or those with a disrupted savings history will be lower.

Although these are retirement accounts, they are accessible and every participant with a program balance will have established a de facto reserve against emergency circumstances – they will have emergency savings. Every participant with savings greater than about $2,000 will be able to defer taking Social Security if they so desire, even if only by 30 days. This deferral earns them an increase in benefits of 8% for every year they defer (0.67% for every month), up to age 70. This is the equivalent of receiving an extra month's worth of Social Security every year for each year they defer.

Finally, younger participants and those with higher balances will have accumulated meaningful savings which they can use as an important source of retirement income and generational financial wealth.

The cost of a program is forecast to be about $800,000 to start up and $650,000 per year to operate. The Task Force anticipates that these costs and the time to implement can be reduced if Hawai‘i establishes its program as part of an interstate collaboration focused on efficiency with excellent local service. The program's operating costs can be offset through a hybrid fee structure that includes account- and asset-based fees. This is consistent with the structures in place in other states and settings and allows for very competitive costs to participants as their accounts grow.

Startup costs for the program can be funded a variety of ways. These include general fund loans, appropriations, and grants. Progressive states are currently using appropriations and similar sources to fund the early operation of their programs. They do this in part out of a recognition that successful programs have been shown to increase statewide savings, and an increase in statewide savings reduces the tax burden on future generations, making the investment a practical one.

Overall, the Task Force's research to date has found that a program for Hawaiʻi appears to be feasible. This conclusion is based on reasonable assumptions related to participation, savings rates, startup and operating costs, and anticipated cost offset revenue based on a hybrid approach of an account fee plus a smaller percentage-of-asset fee.

8. Improving retirement security: recommendations for Hawaiʻi

Recommendations

Following its analysis, the Task Force reports these findings and makes these recommendations:

WHEREAS

- ❖ The state of Hawaiʻi is experiencing a significant shortfall in retirement savings
- ❖ In addition to having a negative impact on Hawaiʻi's families today, this shortfall has an intergenerational impact
- ❖ Hawaiʻi has the most long-lived population in the US, and that population is aging
- ❖ As the population ages, there are fewer working-age residents to support a larger number of retired residents
- ❖ It is estimated that the retirement savings shortfall will have a fiscal impact to taxpayers of between $1 billion and $2 billion over the coming 15 years

AND HAVING FOUND THAT

- ❖ There are opportunities to close the savings gap
- ❖ It has been determined that a relatively modest savings rate – about $100 a month – can be effective at creating meaningful retirement savings that gradually eliminate this savings gap while setting Hawaiʻi's workforce on stronger financial footing
- ❖ The most effective retirement savings happens in the workplace, when savings can be done alongside the paycheck, on a payroll deduction basis
- ❖ About one out of three Hawaiʻi employers offers a retirement plan; two in three do not
- ❖ Employers who do not offer plans often have good reasons for doing so: they feel they cannot afford the cost or responsibility
- ❖ At the same time, employers know retirement savings at work is important and support the state's efforts to consider ways to make it easier
- ❖ Automatic enrollment IRA programs facilitated by states provide the lightest touch way to offer workplace-based retirement savings through employers and are effective in increasing workplace access, use, and labor force retirement savings

THE TASK FORCE RECOMMENDS

- ❖ **Following evaluation of the available solutions, the Task Force recommends that the State of Hawaiʻi adopt an automatic enrollment retirement savings program for workers whose employers do not offer retirement plans.**
- ❖ As expressed in this report, an Auto IRA program is feasible for the state. It can be initiated and operated in an efficient and cost-effective way while providing important benefits to the workforce.
- ❖ Employers retain the choice of whether to participate in the state-facilitated program or offer their own retirement plan. Other states with these programs have seen both very strong program participation and high levels of new plan formation by employers who preferred that choice.
- ❖ Financial services organizations in these states have benefited from the ability to serve employers who are starting plans without being required to service parts of the market where they would have a difficult time breaking even.
- ❖ Finally, an Auto IRA program offered by the state should also be made available on an opt-in basis to the independent workforce, such as self-employed workers and sole proprietors, and to those employees whose employer offers a plan to some, but not to them.

In support of this recommendation, we provide the following information on administrative framework, implementation planning, governance, and enabling legislation.

Administrative framework

The Task Force recommends the following administrative framework to support the program in its implementation and operation: [45]

- It is suggested that the state name an implementing State Agency and Board with responsibility for establishing and operating the retirement savings program; *for further detail, please refer to the segment on program governance that follows.*
- It is suggested that the named agency implement the program over an 18 to 24-month period following legislative approval of the program
- Legislation should include ability to partner with other states on a program for Hawai‘i
- It is suggested that the named agency and board be empowered to conduct information gathering where needed to supplement the Task Force findings and recommendations
- The agency and board should be vested with the authority for the adoption of administrative rules for the program.
- It is further suggested that the named agency and board be empowered to engage in any staffing, procurements, negotiation and partnering required to operate the program effectively.

Implementation plan

The Task Force provides the following high-level implementation plan to guide the implementing entities in their planning and activity related to startup, oversight, timeline and costs.[46]

This plan considers the estimated deadlines associated with establishing a program; the concept that the program board will likely evaluate operation of the program on both a standalone and a partnered, or interstate collaboration, basis; and the experience of states to date in establishing their Auto IRA programs.

The plan outlines multiple phases as part of an implementation process. It covers a 30-month period[47] and considers the functional areas of governance, rulemaking, marketing, stakeholder engagement, investments, program administration, and state-led support and management activities. This should not be considered an exhaustive list, but it should provide a strong frame of reference from which the implementing agency and the program's board can work.

- The anticipated startup timeline for implementation is 18-24 months. Startup is typically defined as the period from legislative approval to acceptance of first contributions and establishment of the first funded accounts. The startup period is followed by the early operating time period, where employers are invited to join the program by waves, with wave deadlines that are generally established by rule. Waves are designed to allow the program to onboard employers in group sizes that allow for thoughtful management and engagement.

[45] Task Force discussion and as presented by Massena Associates LLC, October 5, 2021.

[46] Massena Associates presentations on October 5 and 19, 2021 and November 30, 2021.

[47] A 30-month period is consistent with the rollout experience of other programs established to date, taking into account that there is now experience with state Auto IRA programs and an implementation pattern to follow. Oregon's program was authorized in June 2015, accepted its first contributions July 1 2017, and launched statewide in January 2018. Illinois' program was authorized in June 2015, accepted its first contributions July 1, 2018, and launched statewide in January 2019. California's program was authorized September 2016, and accepted its first contributions on January 1 2019, with a wave 1 employer deadline of June 2020.

Example implementation steps by stages, with typical timelines:

Stage 1 (months 0-6):

- Establish Governance, including Authorities and Staffing
- Confirm final program characteristics in preparation for rulemaking
- Procure providers and consultants: Marketing, Program, Investments
- Initiate marketing: brand/identity/landing page web site/list serv
- Begin to engage stakeholders

Stage 2 (months 6-12):

- Develop program marketing plan
- Investments: develop investment policy
- Issue Program Administration and Investment Management RFPs or RFIs
- Begin rulemaking; engage expert legal counsel as needed
- Evaluate RFP responses; select service providers; execute contracts

Stage 3 (months 12-18):

- With service providers, finalize implementation plan
- Select or confirm investments
- With service providers, develop program materials and disclosures
- With experts, consider and address needs of diverse communities
- With service providers, configure service platform for Hawaiʻi
- Market the program; identify pilot employers
- Complete rulemaking
- With service providers, prepare for program pilot

Stage 4 (months 18-21):

- Finalize all program materials and Day 1 protocols and support
- Engage and educate pilot employers
- Provide employer data to program administrator
- Execute awareness campaign – Wave 1 employers

Stage 5 (months 21-24):

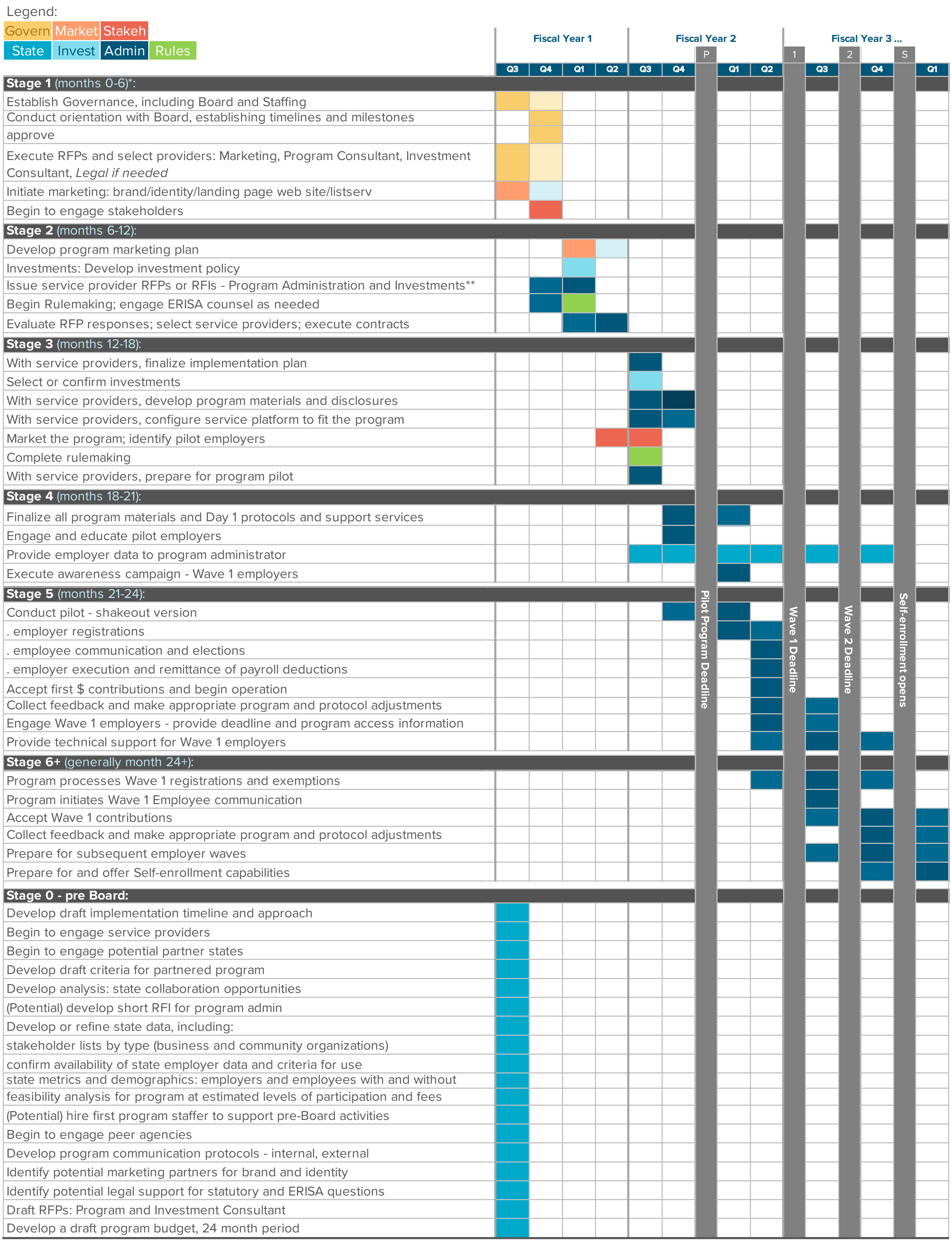
- Conduct pilot – shakeout version
- Accept first $ contributions and begin operation
- Collect feedback and make appropriate adjustments
- Engage Wave 1 employers – provide instructions and deadline
- Provide technical support for Wave 1 employers if/as needed

Stage 6 (generally month 24+)

- Program processes Wave 1 registrations and exemptions
- Program initiates Wave 1 Employee communication
- Accept Wave 1 contributions
- Collect feedback and make appropriate adjustments
- Prepare for and execute subsequent employer waves
- Prepare for and offer Self-enrollment capabilities

The following provides a view of the above implementation timeline in illustration form. The lower portion of this view includes steps that can be taken by support staff to begin gathering and preparing information for immediate and early board use as the board begins to convene:[48]

[48] Massena Associates as prepared for the Hawaiʻi Retirement Savings Task Force, November 2021.



*Typical State Duration for comparison purposes

**Objective: confirm capabilities, services, support and pricing for both standalone and partnered options

Recommendation for program governance

It is suggested that the State name an implementing State Agency and Board with responsibility for establishing and operating the retirement savings program.

Generally, the agency best positioned to implement and operate an Auto IRA program will have experience operating other public-facing retirement savings programs in the state, such as the state's college savings plan or ABLE savings program. The agency will have experience that includes working with professional service providers such as program administrators and recordkeepers, establishing investment policy and developing investment options suitable to the savers in a given program, and experience in marketing, outreach and engagement with the general public in relationship to a savings program.

Based on these criteria, the Task Force recommends that the implementing agency be the Hawai‘i Department of Budget and Finance.

The Task Force further recommends that to enable the Department to be successful in launching and operating the program, the program's authorizing legislation ensures that the program is afforded the appropriate staff and financial resources as identified in this report and as confirmed by the Department during the legislative drafting process.

Finally, the Task Force recommends that the Department and this program be supported by a program board. Composition of these boards generally includes diverse membership that reflect the stakeholders of the program and the useful expertise to guide its implementation and operation.

Suggested membership for this program board includes at least: the director of the agency implementing the program to serve as board chair, members of the public appointed by the Governor representing employees likely to be covered by the program, small employers, retirees, and member/s with experience in retirement plans and investments, a member of the Senate appointed by the President of the Senate to be a nonvoting advisory member of the board, and a member of the House of Representatives appointed by the Speaker of the House of Representatives to be a nonvoting advisory member of the board.

Marketing and outreach framework

The implementing agency will need to develop an outreach and engagement plan suitable to a public-facing savings program. Key stakeholders will include businesses in Hawai‘i, the target segment of the workforce, and the community organizations, business associations and governmental entities that support both.

The outreach plan will be multi-faceted and should include:

- ❖ Development of an informational web site or page to provide basic program information and timelines to the business community, future savers, and interested parties.
- ❖ Development of a basic communications package for using in briefing and taking comments during public engagements.
- ❖ An engagement plan that includes meetings with business organizations such as the local Chambers of Commerce, professional organizations made up of those serving employers such as payroll providers, CPAs, HR professionals, and more.
- ❖ An engagement plan that includes meetings with community organizations that serve members of the workforce and unique communities within Hawai‘i.
- ❖ A marketing plan that includes both earned and purchased media to raise awareness of and positive anticipation regarding the program, and which includes multi-cultural, multi-lingual approaches to meet the needs of diverse and ethnic communities in Hawai‘i.

Considerations for implementation and operation

The Task Force notes that the following may be challenges for a program in Hawaiʻi and urges the implementing entity to consider them carefully and apply mitigating action wherever possible:[49]

- Costs and fees should be kept low to foster account growth.
- Employers should be well supported with technical assistance.
- The program for rollout and workforce engagement should be multi-cultural, multi-lingual and where possible use the services of local community leaders.
- The likelihood for success may be significantly increased if an interstate collaboration model is used, and this option should be carefully considered.
- The program should be reviewed after a period of time, e.g. 10 years of operation, to confirm that it is meeting its intended objectives and serving the population of Hawaiʻi effectively.

Key elements for proposed legislation

The program will need to be authorized by legislation and supported by an effective rulemaking process. The legislation should include the major elements that will establish the program's foundation, including its governance, key characteristics and definitions, requirements of the governing entity in establishing and operating the program, the adoption of appropriate administrative rules, and the appropriation and/or other sources of funding that enable the state to start up and operate the program until such time as it achieves self-sufficiency.

Discretionary elements that are best determined by the implementing board with the support of its staff and experts should be established through rulemaking.

The Task Force recommends that proposed legislation include these major elements:

- Definitions, including governance; covered employer; covered employee; wages; exempting plan types; governance includes the implementing agency, the composition of the program's board, and board terms.
- Establishment and duties of the board or governing authority, including to develop, establish and maintain the program; to adopt rules for the program; to use private and public sector partnerships where available and practicable; and to develop an investment policy and arrange for pooled, professional investment management.
- A description of required program elements, including at least:
  - including to allow eligible individuals to contribute to an IRA under the program through a payroll deduction IRA arrangement;
  - requiring covered employers to offer its covered employees the choice of whether to contribute to a payroll deduction IRA by automatically enrolling them with the opportunity to opt out;
  - provide that the standard IRA offered through the program be a Roth IRA; and that when the program is able, it will offer traditional IRAs to participants who elect them;
  - provide that unless otherwise specified the standard starting participant payroll deduction contribution to the IRA will be 5% of wages with the flexibility for participants to contribute as little as 1% or as much as 100% of wages as allowable by law;
  - provide that the participant may opt out of saving at any point;
  - provide that on a uniform basis payroll deduction contribution will escalate annually by 1% to a cap determined by the board with the ability of the participant to opt out;
  - make provision for participation in the program by individuals who are not employees;

[49] Task Force discussion of program obstacles and as presented by Massena Associates, 19 October 2021.

- allow for fees in a range of structures including flat fee, asset-based fee, or a hybrid or other fee type;
- allow the program to be implemented and operated in partnership or collaboration with one or more states if the board deems this option suitable to achieving program objectives;
- establish penalties for covered employers who fail, following confirmation of covered status and the offer or provision of technical assistance, to provide their covered employees with the opportunity to save under the program;
- ensure that the program is operating and able to receive first contributions not later than 24 months following its authorization under law;
- provide for other key elements of the program related to its efficient operation in service of participating savers.

❖ Provisions for other elements as identified, including program rules, data privacy, a program administrative fund and funding by appropriation and other means as recommended by the Task Force, and annual reporting to the Governor and Legislature.

All other elements required for the operation of the program, including public-facing requirements, should be captured through a public rulemaking process or, as appropriate, through the program's own documented procedures and protocols.

Conclusion

It has been the pleasure of this Task Force to assess and evaluate retirement readiness in Hawaiʻi, the retirement savings gap and its impact on the state, and the ability of the workforce to readily access workplace-based retirement savings options.

Having identified significant gaps and considered which approaches and solutions would be most effective for the state, we hereby respectfully submit our findings and recommendations to the Legislature and urge that they be adopted as soon as legislatively possible.

9. Appendices

Appendix A: Fiscal Impact of Low Retirement Savings – Colorado, Pennsylvania and Virginia

As noted earlier, those unprepared for retirement often end up needing public support. Fiscal impact studies attempt to quantify the amount of support taxpayers can expect to provide collectively. Looked at another way, this represents the cost of doing nothing about the increasing retirement savings gap.

Size of the fiscal impact

In the last three years, various studies have been conducted to estimate the expected social support required, along with the anticipated loss of economic activity over a forward-looking 15-year period. Studies in three states have yielded the following estimates for the fiscal impact of today's insufficient retirement savings levels:

Colorado: $8.9 billion, workforce 3.2 million

Virginia: $11.8 billion, workforce 4.3 million

Pennsylvania: $14.3 billion, workforce 6.3 million

Hawaiʻi's full fiscal impact study is currently in progress. Still, if compared to these three states in proportion to employment numbers, an early estimate is in the range of a $1 billion to $2 billion shortfall. Hawaiʻi's comparable workforce size is 655,000, or about 0.6 million.[50]

These studies also sometimes estimate the additional savings per worker needed to avoid this impact. Pennsylvania researchers found just $25 per week (or $1,170 per person per year) in additional savings would, over time, erase the estimated shortfall.

[50] Civilian labor force data comes from the US Bureau of Labor Statistics, 2021. See Hawaiʻi's data here.

Appendix B: County Level Estimates - Annual Savings to Fill Retirement Income Gap

County Level Estimates

Annual Savings to Fill Retirement Income Gap in 2040, Hawaiʻi HH <$75k ($2020)

	Statewide	Hawaii County	Honolulu County	Kauai County	Maui County
Total Elderly Households	210,900	33,000	138,200	11,800	28,000
Households with <$75k Annual Income	120,200	23,400	72,700	7,100	16,800
Share of HH <$75k	57%	71%	53%	60%	60%
Avg Income HH<$75k	$32,890	$29,130	$34,100	$32,420	$33,280
Average Income Differential (HH <$75k)	$8,160	$7,760	$8,390	$6,760	$8,080
Avg Lump Sum Savings Needed	$181,300	$172,500	$186,500	$150,200	$179,500
Annual Savings Needed to Fill Savings Gap	**$1,970**	**$1,870**	**$2,030**	**$1,630**	**$1,950**
Monthly Savings Needed	$164	$156	$169	$136	$163

Source: ESI Analysis of Census Bureau Income Data and Financial Modeling

Appendix C: Comparison Chart of Major Program Types

IRAs and IRA-based plans

	IRAs	Payroll Deduction IRA	SEP	SIMPLE IRA Plan
Advantage		Easy to set up and maintain.	Easy to set up and maintain.	Salary reduction plan with little administrative paperwork.
Employer Eligibility	Employers do not set up IRAs – individuals set up their own IRAs	Any employer with one or more employees.	Any employer with one or more employees.	Any employer with 100 or fewer employees that does not currently maintain another retirement plan.
Employer's Role	None	Arrange for employees to make payroll deduction contributions. Transmit contributions for employees to IRA. No annual filing requirement for employer.	May use IRS Form 5305-SEP to set up the plan. No annual filing requirement for employer.	May use IRS Form 5304-SIMPLE or 5305-SIMPLE to set up the plan. No annual filing requirement for employer. Bank or financial institution handles most of the paperwork.
Contributors To The Plan	Employee contributions only	Employee contributions remitted through payroll deduction.	Employer contributions only.	Employee salary reduction contributions and employer contributions.
Maximum Annual Contribution (per participant)	$6,000 for 2019 and for 2020. Participants age 50 or over can make additional contributions up to $1,000.	$6,000 for 2019 and for 2020. Participants age 50 or over can make additional contributions up to $1,000.	Up to 25% of compensation1 but no more than $56,000 for 2019 and $57,000 for 2020.	Employee: $13,000 in 2019 and $13,500 in 2020. Participants age 50 or over can make additional contributions up to $3,000 in 2019 and in 2020. Employer: Either match employee contributions 100% of first 3% of compensation (can be reduced to as low as 1% in any 2 out of 5 yrs.); or contribute 2% of each eligible employee's compensation2.
Contributor's Options	Employee can decide how much to contribute at any time. Contributions can be tax deductible (traditional IRA) or made with after-tax amounts (Roth IRA).	Employee can decide how much to contribute at any time. Contributions can be tax deductible (traditional IRA) or made with after-tax amounts (Roth IRA).	Employer can decide whether to make contributions year-to-year.	Employee can decide how much to contribute. Employer must make matching contributions or contribute 2% of each employee's compensation.
Minimum Employee Coverage Requirements	Not applicable	There is no requirement. Can be made available to any employee.	Must be offered to all employees who are at least 21 years old, employed by the employer for 3 of the last 5 years and had compensation of $600 for 2019 and for 2020.	Must be offered to all employees who have compensation of at least $5,000 in any prior 2 years, and are reasonably expected to earn at least $5,000 in the current year.
Withdrawals, Loans & Payments	Withdrawals permitted anytime subject to federal income taxes; early withdrawals subject to an additional tax (special rules apply to Roth IRAs). Participant loans are not permitted.	Withdrawals permitted anytime subject to federal income taxes; early withdrawals subject to an additional tax (special rules apply to Roth IRAs). Participant loans are not permitted.	Withdrawals permitted anytime subject to federal income taxes; early withdrawals subject to an additional tax. Participants cannot take loans from their SEP–IRAs.	Withdrawals permitted anytime subject to federal income taxes; early withdrawals subject to an additional tax. Participants cannot take loans from their SIMPLE IRAs.
Vesting	Contributions are immediately 100% vested.	Contributions are immediately 100% vested.	Contributions are immediately 100% vested.	All contributions are immediately 100% vested.

Defined Contribution (DC) Plans

	Profit Sharing Plan	Safe Harbor 401(k)	Automatic Enrollment 401(k)	Traditional 401(k)
Advantage	Permits employer to make large contributions for employees.	Permits high level of salary deferrals by employees without annual nondiscrimination testing.	Provides high level of participation and permits high level of salary deferrals by employees. Affords safe harbor relief for default investments.	Permits high level of salary deferrals by employees.
Employer Eligibility	Any employer with one or more employees.	Any employer with one or more employees.	Any employer with one or more employees.	Any employer with one or more employees.
Employer's Role	No model form to establish this plan. May need advice from a financial institution or employee benefit adviser. Must file annual Form 5500.	No model form to establish this plan. May need advice from a financial institution or employee benefit adviser. A minimum amount of employer contributions is required. Must file annual Form 5500.	No model form to establish this plan. May need advice from a financial institution or employee benefit adviser. May require annual nondiscrimination testing to ensure that plan does not discriminate in favor of highly compensated employees. Must file annual Form 5500.	No model form to establish this plan. May need advice from a financial institution or employee benefit adviser. Requires annual nondiscrimination testing to ensure that plan does not discriminate in favor of highly compensated employees. Must file annual Form 5500.
Contributors To The Plan	Annual employer contribution is discretionary.	Employee salary reduction contributions and employer contributions.	Employee salary reduction contributions and maybe employer contributions.	Employee salary reduction contributions and maybe employer contributions.
Maximum Annual Contribution (per participant)	Up to the lesser of 100% of compensation1 or $56,000 for 2019 and $57,000 for 2020. Employer can deduct amounts that do not exceed 25% of aggregate compensation for all participants.	Employee: $19,000 in 2019 and $19,500 in 2020. Participants age 50 or over can make additional contributions up to $6,000 in 2019 and $6,500 in 2020.	Employee: $19,000 in 2019 and $19,500 in 2020. Participants age 50 or over can make additional contributions up to $6,000 in 2019 and $6,500 in 2020.	Employee: $19,000 in 2019 and $19,500 in 2020. Participants age 50 or over can make additional contributions up to $6,000 in 2019 and $6,500 in 2020. Employer/Employee Combined: Up to the lesser of 100% of compensation1 or $56,000 for 2019 and $57,000 for 2020. Employer can deduct (1) amounts that do not exceed 25% of aggregate compensation for all participants and (2) all salary reduction contributions.
Contributor's Options	Employer makes contribution as set by plan terms.	Employee can decide how much to contribute based on a salary reduction agreement. The employer must make either specified matching contributions or a 3% contribution to all participants.	Employees, unless they opt otherwise, must make salary reduction contributions specified by the employer. The employer can make additional contributions, including matching contributions as set by plan terms.	Employee can decide how much to contribute based on a salary reduction agreement. The employer can make additional contributions, including matching contributions as set by plan terms.
Minimum Employee Coverage Requirements	Generally, must be offered to all employees at least 21 years old who worked at least 1,000 hours in a previous year.	Generally, must be offered to all employees at least 21 years old who worked at least 1,000 hours in a previous year.	Generally, must be offered to all employees at least 21 years old who worked at least 1,000 hours in a previous year.	Generally, must be offered to all employees at least 21 years old who worked at least 1,000 hours in a previous year.

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Defined Contribution (DC) Plans

Continued

	Profit Sharing Plan	Safe Harbor 401(k)	Automatic Enrollment 401(k)	Traditional 401(k)
Withdrawals, Loans & Payments	Withdrawals permitted after a specified event occurs (retirement, plan termination, etc.) subject to federal income taxes. Plan may permit loans and hardship withdrawals; early withdrawals subject to an additional tax.	Withdrawals permitted after a specified event occurs (retirement, plan termination, etc.) subject to federal income taxes. Plan may permit loans and hardship withdrawals; early withdrawals subject to an additional tax.	Withdrawals permitted after a specified event occurs (retirement, plan termination, etc.) subject to federal income taxes. Plan may permit loans and hardship withdrawals; early withdrawals subject to an additional tax.	Withdrawals permitted after a specified event occurs (retirement, plan termination, etc.) subject to federal income taxes. Plan may permit loans and hardship withdrawals; early withdrawals subject to an additional tax.
Vesting	May vest over time according to plan terms.	Employee salary reduction contributions and all safe harbor employer contributions are immediately 100% vested. Some employer contributions may vest over time according to plan terms.	Employee salary reduction contributions are immediately 100% vested. Employer contributions may vest over time according to plan terms.	Employee salary reduction contributions are immediately 100% vested. Employer contributions may vest over time according to plan terms.

Defined Benefit (DB) Plan

	IRAs
Advantage	Provides a fixed, pre-established benefit for employees.
Employer Eligibility	Any employer with one or more employees.
Employer's Role	No model form to establish this plan. Advice from a financial institution or employee benefit adviser would be necessary. Must file annual Form 5500. An actuary must determine annual contributions.
Contributors To The Plan	Primarily funded by employer.
Maximum Annual Contribution (per participant)	"Contributions to a defined benefit plan are based on what is needed to provide definitely determinable benefits to plan participants. Actuarial assumptions and computations are required to figure these contributions. In general, the annual benefit for a participant under a defined benefit plan cannot exceed the lesser of: 1) 100% of the participant's average compensation for his or her highest 3 consecutive calendar years, or 2) $245,000 for 2022 ($230,000 for 2021 and 2020; $225,000 for 2019)"
Contributor's Options	Employer generally required to make contribution as set by plan terms.
Minimum Employee Coverage Requirements	Generally, must be offered to all employees at least 21 years old who worked at least 1,000 hours in a previous year.
Withdrawals, Loans & Payments	Payment of benefits after a specified event occurs (retirement, plan termination, etc.). Plan may permit loans; early withdrawals subject to an additional tax.
Vesting	May vest over time according to plan terms.

Appendix D: Senate Resolution 76, Senate Draft 1

THE SENATE

S.R. NO. 76

THIRTY-FIRST LEGISLATURE, 2021

S.D. 1

STATE OF HAWAIʻI

SENATE RESOLUTION

REQUESTING THE CONVENING OF A RETIREMENT SAVINGS PROGRAM TASK FORCE TO ASSESS THE FEASIBILITY OF ESTABLISHING A HAWAIʻI RETIREMENT SAVINGS PROGRAM FOR PRIVATE SECTOR EMPLOYEES WITHOUT ACCESS TO EMPLOYER-SPONSORED RETIREMENT PLANS.

WHEREAS, there is an imminent retirement security crisis in the State with many individuals without access to an employer-sponsored retirement plan; and

WHEREAS, individuals without a retirement plan are at significant risk of not having sufficient retirement income to cover their basic expenses during retirement; and

WHEREAS, a retirement plan can help employees achieve financial security, improve economic mobility, and reduce wealth disparity; and

WHEREAS, in 2017, Oregon was the first state in the nation to implement a state retirement program that covers private sector employees without access to an employer-sponsored retirement plan; and

WHEREAS, other states including California and Illinois have adopted similar programs; and

WHEREAS, individuals need a lifelong savings system that provides them with the opportunity to build their assets and attain future financial stability; and

WHEREAS, providing private sector employees with access to a payroll deduction retirement savings option is a reliable way to promote retirement savings needed for a secure retirement, improve employees' financial security, and reduce wealth disparity in society; and

WHEREAS, approximately fifty percent of the State's private sector employees work for an employer that does not offer a retirement plan or are not eligible for the plan offered; and

WHEREAS, the lack of opportunity to participate in an employer-sponsored retirement plan spans all levels of education and earnings; and

WHEREAS, an employee who is offered the opportunity to save through a payroll deduction savings plan at work is fifteen times more likely to participate and make steady contributions to build retirement savings; and

WHEREAS, the creation of a retirement savings task force is critical to defining, analyzing, assessing, and coming up with findings and recommendations related to the establishment of a retirement savings program for private sector employees in the State without access to an employer-sponsored retirement plan; now, therefore,

BE IT RESOLVED by the Senate of the Thirty-first Legislature of the State of Hawaiʻi, Regular Session of 2021, that a retirement savings program task force is requested to be convened to:

(1) Assess the feasibility of establishing a Hawaiʻi retirement savings program for private sector employees in the State without access to employer-sponsored retirement plans (Hawaiʻi Retirement Savings Program);

(2) Review the implications of the federal Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, P.L. 116-94, which was enacted on December 20, 2019; and

(3) Draft the following, if a statewide retirement savings program for private sector employees is deemed feasible for Hawaiʻi:

(A) An implementation plan that recommends the best model for Hawaiʻi;

(B) An administrative framework to provide initial start-up of the program, oversight over the program, a timeline for establishing and implementing the program, and the proposed start-up costs for the program; and

(C) A general marketing and outreach framework to encourage small business and employee participation; and

BE IT FURTHER RESOLVED that to assist in its assessment of the feasibility of a Hawaiʻi retirement savings program, the retirement savings task force is requested to review independent studies and reports and receive briefings by national and local experts in retirement savings to:

(1) Understand the fiscal implications to the State if it establishes a state-facilitated retirement program, and the implications to the State if it does not;

(2) Analyze the benefits and risks of the different state-facilitated retirement savings models of California, Illinois, Oregon, and other states that have initiated a similar retirement savings program;

(3) Explore the feasibility and benefits of inter-state partnerships and cooperative agreements with similar retirement savings programs established in other jurisdictions;

(4) Be informed of the implications and current findings of the federal SECURE Act and to describe benefits and limitations of the Act; and

(5) Review the efficacy of current financial literacy educational outreach and marketing to individual consumers and the impact on retirement savings; and

BE IT FURTHER RESOLVED that the retirement savings program task force is requested to comprise the following members, or their designees:

(1) One member of the Senate to be appointed by the President of the Senate, who shall convene the task force, and who is requested to serve as:

(A) A non-voting member of the task force; and

(B) A co-chair pro tempore of the task force until the members of the task force elect a chair and vice chair of the task force; and

(2) One member of the House of Representatives to be appointed by the Speaker of the House of Representatives, and who is requested to serve as:

(A) A non-voting member of the task force; and

(B) A co-chair pro tempore of the task force until the members of the task force elect a chair and vice chair of the task force; and

(3) The Director of Finance;

(4) The Director of Labor and Industrial Relations;

(5) One member representing small business organizations in Hawaiʻi without an employer-sponsored retirement plan to be selected by the President of the Senate;

(6) One member representing non-profit organizations in Hawaiʻi without an employer-sponsored retirement plan to be selected by the Speaker of the House of Representatives;

(7) One member representing employees who lack access to employer-sponsored retirement plans to be appointed by the Speaker of the House of Representatives;

(8) One member who is an attorney with professional knowledge and experience in retirement plans, to be selected by the President of the Senate;

(9) One member who is an investment or financial advisor with professional knowledge and experience in private-sector retirement planning to be selected by the President of the Senate;

(10) One member who is a third-party retirement plan administrator to be selected by the Speaker of the House of Representatives;

(11) One member representing organizations in Hawaiʻi that work with low-income and working families to achieve and sustain economic self-sufficiency to be selected by the President of the Senate; and

(12) One member representing organizations in Hawaiʻi that represent older adults and retirees to be selected by the Speaker of the House of Representatives; and

BE IT FURTHER RESOLVED that the members of the retirement savings program task force are requested to elect a chair and vice chair of the task force from amongst themselves to replace the co-chairs pro tempore; and

BE IT FURTHER RESOLVED that the retirement savings program task force may request and utilize an independent consultant or administrative facilitator to assist the task force in carrying out its activities, including but not limited to:

(1) Coordinating meeting logistics;

(2) Preparing agenda;

(3) Obtaining independent studies and reports;

(4) Planning and coordinating local and national experts for briefings per request of the retirement savings task force;

(5) Notetaking; and

(6) Preparing the final report to the Legislature; and

BE IT FURTHER RESOLVED that the retirement savings program task force is requested to submit a report of its findings, recommendations, an implementation plan of a retirement savings program model deemed feasible for Hawaiʻi, and any proposed legislation, to the Legislature no later than forty days prior to the convening of the Regular Session of 2022; and

BE IT FURTHER RESOLVED that the retirement savings program task force is requested to dissolve on September 30, 2022; and

BE IT FURTHER RESOLVED that certified copies of this Resolution be transmitted to the Director of Finance and Director of Labor and Industrial Relations.

Retirement Savings Task Force; Hawaiʻi Retirement Savings Program

Retirement Security in Hawaiʻi

December 2021

Findings and Recommendations of the Hawaiʻi Retirement Savings Task Force

Submitted to the Hawaiʻi State Legislature pursuant to Resolution 76,

Senate Draft 1, Regular Session of 2021.