

Massachusetts Secure Choice Savings Program Would Help 1.2 Million Workers Save for a More Secure Financial Future

If retirement savings stay at current low levels, cost to MA taxpayers will be \$13.9 billion by 2040

Overview

Retirement security is dependent on people saving for their future, but millions of Americans lack access to an employer-provided savings plan. Research shows that workers are 15 times more likely to save for retirement if they can do so through payroll deduction; many small businesses, however, are unable to offer retirement benefits because of high startup costs and a lack of administrative capacity.

Nationally, 56 million workers—nearly half of the private-sector workforce—don't have retirement benefits at their workplaces. This lack of access to workplace savings not only impedes workers' ability to plan for their financial future but also places the burden on taxpayers. A recent study by The Pew Charitable Trusts quantified the costs of insufficient retirement savings both nationally and in Massachusetts. Pew found that insufficient savings results in decreased household spending and increased demand for social assistance programs, placing an even greater burden on a shrinking tax base.

Retirement in Massachusetts by the numbers

- 1.2 million workers—43% of the Bay State's private sector workforce—do not have access to retirement savings through their jobs.
- The ratio of older households to working-age households will increase 41% by 2040.
- If the retirement savings situation doesn't change:
 - Lack of savings will lead to \$13.9 billion in increased state spending from 2021 to 2040.
 - Vulnerable older households will face an average income shortfall of \$10,820 per year by 2040.

Call to action

But there's good news: Even small savings now could help offset the impact of this projected shortfall. If each Massachusetts household saved an additional \$2,585 a year—about \$215 a month—they could erase the additional \$13.9 billion burden on taxpayers and prevent any decreases in their own standard of living in retirement.

Earlier this year, lawmakers introduced the Massachusetts Secure Choice Savings Program Act (H. 998 and S. 624) to create an automated savings program that would make it easier for businesses to help workers save for retirement. The bill would create an individual retirement account (IRA) program—at no cost to employers—that would automatically enroll workers who don't have access to employer-based retirement benefits. Businesses that

have more than five employees and that don't currently offer a retirement savings plan would be required only to facilitate the program by enrolling their workers and processing payroll deductions. Businesses could stop facilitating the program at any time by adopting an employer-sponsored plan, such as a 401(k). Workers participating in the program would always control their contribution level and could opt out at any time.

If Massachusetts enacts this legislation, it will join 15 states that have passed similar secure choice bills: California, Colorado, Connecticut, Delaware, Hawaii, Illinois, Maine, Maryland, Minnesota, Nevada, New Jersey, New York, Oregon, Vermont, and Virginia. As of August 2023, more than 715,000 savers in the seven states with active programs had already amassed nearly \$1 billion in assets.

Benefits of the Massachusetts Secure Choice Savings Program Act (H. 998 and S. 624)

For workers:

- Workers are automatically enrolled to start saving for their future via payroll deduction but may opt out or change their contributions at any time.
- Contributions are deposited into a post-tax Roth IRA, owned by the worker, who can access contributions at any time with no penalty, including for unexpected financial emergencies.
- The IRA moves with workers if they change jobs.

For employers:

- The program is provided at no cost to employers, and setup is simple.
- Businesses enroll their workers and process payroll deductions; they are not plan sponsors and are not legally liable for the accounts. Reporting and administration are handled by a financial services firm hired and overseen by the state.
- An automated savings program allows small businesses to compete on a more level playing field with larger businesses to recruit and retain workers.
- An employer can start its own plan, such as a 401(k), at any time; in fact, data from the first states to adopt a secure choice program shows that the rate at which employers have started their own private plans has increased since the state programs were established.

For taxpayers:

- Like the rest of the country, Massachusetts faces the fiscal strain of an increasingly older population. Making it easier for people to set aside even modest levels of savings during their working years will pay dividends for workers and taxpayers in the long run and help erase the looming \$13.9 billion in increased state spending.

The Pew Charitable Trusts

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