Ohio Secure Choice Savings Program Would Help 1.8 Million Workers Save for a More Stable Financial Future

Lack of retirement savings could otherwise lead to $11.8 billion in additional state spending by 2040

Overview

Retirement security is largely dependent on people saving money through a plan provided by their employer, but millions of Americans lack access to this important benefit. Research shows that workers are 15 times more likely to save for retirement if they can do so through payroll deductions, but many small businesses are unable to offer retirement benefits due to 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, which affects the ability of working families to plan for their financial future. The lack of access to workplace savings also affects taxpayers. A recent study by The Pew Charitable Trusts quantified the costs of insufficient retirement savings both nationally and in Ohio and found that insufficient savings results in decreased household spending and an increased demand for social assistance programs, placing an even greater burden on a shrinking tax base.

Retirement in Ohio by the numbers

- 1.8 million workers—42% of the Buckeye State's private-sector workforce—don't have access to retirement savings through their jobs.
- If the retirement savings situation in Ohio doesn't change, lack of savings will lead to $11.8 billion in increased state spending from 2021 to 2040.
- By 2040, vulnerable older households in the state will face an average income shortfall of $9,200 per year.
- From 2021 to 2040, the ratio of older households to working-age households in the state will increase by 40%, further exacerbating the burden placed on Ohio taxpayers.

Why state automated savings programs matter

But there's good news: Even small savings now could help offset the impact of this projected $11.8 billion shortfall. If Ohio households saved an average of additional $2,200 a year, about $185 a month—meaning that some households would save more and some would save less—they could erase the taxpayer burden while ensuring themselves a decent standard of living in retirement.

To spur such saving, lawmakers in 16 states have passed legislation to create automated savings programs designed to make it easier for businesses to help workers save for retirement. In these programs, variously known as "secure choice," "auto-IRA," or "work and save," employees who don't have access to employer-based benefits are automatically enrolled—and, if they don't opt out, save into an individual retirement account (IRA) at no cost to employers. Workers always control their contribution level and can opt out at any time; no one would be required to participate. Businesses would incur no costs and would simply enroll their workers and process payroll deductions. In addition, businesses could stop facilitating the program at any time by adopting an employer-sponsored plan, such as a 401(k).

If Ohio were to enact similar legislation, it would join California, Colorado, Connecticut, Delaware, Hawaii, Illinois, Maine, Maryland, Minnesota, Nevada, New Jersey, New York, Oregon, Vermont, Virginia, and Washington in expanding retirement security for its residents. Although some of the state programs are relatively new, over 800,000 savers in the seven states with active programs have already amassed $1 billion in assets. These workers are saving $168 per month on average, demonstrating that saving even $5 per day can lead to significant sums over time.

Benefits of an Ohio automated savings program

For employees:

- Workers are automatically enrolled to start saving for their futures via payroll deductions 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.
- Offering a retirement savings benefit helps small businesses compete on a more level playing field with larger businesses to recruit and retain workers.
- Any employer can start its own plan, such as a 401(k), at any time, thus replacing the state program. In fact, data from the first states to adopt an automated savings program shows that the rate at which employers have started their own plans has increased since the state programs were established.

For taxpayers:

- Like the rest of the country, Ohio 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 $11.8 billion in increased state spending.

The Pew Charitable Trusts

Contact: Omar Martinez, communications officer
Email: omartinez@pewtrusts.org
Project website: pewtrusts.org/retirementsavings