COLORADO SECURE SAVINGS PLAN BOARD

Report to Governor Polis and the General Assembly

Recommendations to Increase Retirement Savings in Colorado

February 2020

RECOMMENDATIONS TO INCREASE RETIREMENT SAVINGS IN COLORADO

This Report is presented to the Governor and General Assembly by the Colorado Secure Savings Plan Board:

Treasurer Dave Young, Chair

Kameron Haake, Medical Assistant

Demetrius Johnson, DSquared Financial

Rich Jones, Retiree

Quentin Leighty, First National Bank of Las Animas

Amy McGarrity, PERA

Carolyn Paul, ANB Bank

Pete Turner, Illegal Pete's

Sean Wood, Clear Creek County Commissioner and Stewardship CO

Members of the Board were appointed by the Governor in compliance with SB19-173: the State Treasurer; five public representatives with expertise in investment or retirement savings plan administration, including the day-to-day operations of plans, maintaining individual accounts, investing assets in a retirement savings plan, and individual financial planning, at least one of whom shall be a representative of a federally chartered bank and at least one of whom shall be a representative of a state chartered bank; a representative of employers; a representative of employees; and a retired Colorado resident.

EXECUTIVE SUMMARY

The Colorado General Assembly created the Colorado Secure Savings Plan Board in May 2019 to study approaches to increase the amount of retirement savings by Colorado's private sector workers. Governor Polis appointed the Board's members on July 3, 2019; State Treasurer Dave Young serves as the Board's Chair. The Board is responsible for presenting a final report to the Governor and the General Assembly on its findings on or before February 28, 2020.

As required by the Legislature, the Board evaluated three approaches to expand coverage and increase retirement savings for the more than one million Coloradans who currently lack access to a work-based retirement plan: establishing a retirement savings marketplace, establishing a payroll deduction Auto IRA, and increasing financial education in the state.

Colorado Should Adopt a State Facilitated Auto IRA Program

Based on its analysis and information developed by its experts, the Board recommends that Colorado establish a privately administered, revenue neutral Auto IRA program and create a statewide, coordinated approach to financial education to raise the level of financial knowledge among state residents.

Development of This Recommendation

To carry out its responsibilities, the Board analyzed current circumstances in Colorado and evaluated alternative solutions. In doing so, the Board learned the following:

- At least 40% of the state's workforce does not have access to a retirement savings plan at work; currently more than half of the state's small employers do not offer retirement plans.
- Many other workers are not covered by an employer's plan because they work part time, are in an uncovered classification or are independent contractors
- Without work-based access, people are generally slow to start, or do not start, saving for retirement on their own. In fact, workers with access to a workplace retirement plan are 15 times more likely to save for retirement
- Because too many are not saving for retirement, Colorado faces a fiscal impact of nearly $10 billion over the next 15 years attributable to savings shortfalls. The federal impact due to insufficient retirement savings by Coloradans is estimated at nearly $9 billion and the impact to Colorado's local governments is more than $280 million
- A modest level of annual retirement savings, about $1,200 a year over a person's working career, would significantly increase retirement savings in the state and improve the state's fiscal outlook

Auto IRAs: Retirement Coverage That Works

Auto IRAs are the most effective way to significantly expand coverage and savings for Coloradans. Auto IRAs in other states have increased coverage and savings relatively quickly because of their simplicity for both employers and employees. State Auto IRA programs like OregonSaves are relatively new, but their use is expanding across the country and these programs are adding thousands of new savers every month.

The experience of existing Auto IRAs demonstrates their ability to address the need to increase retirement savings in Colorado: the average saver in current programs contributes over $100 a month and more than $1,200 a year. Even this modest amount, especially for workers who begin to save consistently over their working lives, can do a lot to help reduce costs to the state over the next several decades caused by insufficient retirement savings.

These programs are designed to be simple, low cost and easily accessible for employers and employees. They use IRA accounts and thoughtfully designed features like automatic enrollment, payroll deduction, and automatic, gradual savings increases. Features like these are commonly used by today's employer sponsored retirement plans because they are effective in boosting participation and savings. With Auto IRAs, workers have the flexibility to change investments, and to save more, or less. They can opt out of saving altogether or withdraw their savings at any time.

Because savings are made through payroll deductions employers play a role by facilitating employees' contributions into the program. The Board has carefully considered the impacts to businesses and recommends that the employer's role be limited to a small number of simple facilitative steps and that the Auto IRA program administrator selected be tasked with providing an adequate amount of support to enable employers to understand and fulfill their new responsibilities.

In addition, workers not eligible for automatic enrollment, like independent contractors and workers who are not covered by their employers' plans, can opt in to the Auto IRA program and begin saving into their own retirement accounts using direct deposit and other methods.

The characteristics of an Auto IRA program make it a good fit for uncovered Coloradans: Auto IRAs are accessible, portable, simple to facilitate and use, and effective at generating savings.

The program would be launched in partnership with private sector providers for program administration, investments management, and other essential services. The feasibility study conducted indicates that under a range of assumptions the program is expected to be cash-flow positive to the state within five years and overall cost-neutral to the state within ten years.

Financial Education is More Effective When Paired with Active Saving

Financial education programs on their own have not demonstrated the ability to meaningfully increase savings rates and levels. There are many financial education initiatives active nationally and across Colorado, and yet significant retirement savings shortfalls persist. At the same time the Board finds that, coupled with the expanded retirement coverage and access offered by an Auto IRA, increasing financial education is an important component of the comprehensive approach it recommends for increasing retirement savings and financial capability for Coloradans.

Voluntary Retirement Marketplaces Have Not Meaningfully Expanded Savings

Retirement marketplaces and similar voluntary approaches, where implemented, have not expanded retirement savings to any meaningful extent. Washington State created the Washington Retirement Marketplace in 2017 to provide retirement plan access to the 131,000 Washington businesses that do not offer a workplace retirement plan. Yet as of the end of 2019, this program added less than 200 total new savers. In contrast, neighboring state Oregon's auto-IRA program OregonSaves has documented that approximately 70% of eligible savers are participating. The Board believes the numbers in Colorado will be similar.

CONTENTS

Introduction	**1**
Retirement (In)Security in Colorado – Significant and Growing	**2**
Fiscal Impact of Insufficient Savings – The Cost of Doing Nothing	**7**
Improving Outcomes in Colorado – Models & Opportunities	**14**
Automatic Enrollment Payroll Deduction IRA Program	14
Improving Financial Education	20
Small Business Retirement Marketplace	22
Employer Response to a Retirement Security Program for Colorado	**24**
Improving Retirement Security – These Solutions Fall Short	**28**
Feasibility of an Automatic IRA Payroll Deduction Program in Colorado	**29**
Improving Retirement Security – Recommendations for Colorado	**34**
Implementation Timeline & Program Expectations	**37**
References & Appendices	**39**

INTRODUCTION

Signed into law on May 20, 2019, Senate Bill 19-173 created the Colorado Secure Savings Plan Board to study appropriate approaches to increase the amount of retirement savings by Colorado's private sector workers. The Board is required to present a final report on its findings to the Governor and the General Assembly on or before February 28, 2020. For the 2019-20 state fiscal year, $800,000 was appropriated to the Department of Treasury for operating expenses related to fulfilling the Board's responsibilities under the Act. The Board completed its work in a fiscally responsible fashion and ahead of schedule.[1]

Specific study requirements of the Board included:

- Execution of a detailed market and financial analysis to determine the financial feasibility and effectiveness of creating a retirement savings plan in the form of an automatic enrollment payroll deduction IRA, characteristics as described in section 24-54.3-104 (2)
- Execution of a detailed market and financial analysis to determine the financial feasibility and effectiveness of a small business marketplace plan, characteristics as described in section 24-54.3-104 (3)
- Assessment of the effects that greater financial education among Colorado residents would have on increasing their retirement savings
- Execution of an analysis assessing the effects that not increasing Coloradans' retirement savings would have on current and future state and local government expenditures

The Board executed a public procurement process and retained three sets of experts to support its study activity:

- **Corona Insights**, to conduct public savings research assessing the effects that greater financial education among Colorado residents would have on increasing their retirement savings. Corona Insights, a Colorado-based market research, evaluation, and strategic consulting firm offers twenty years' experience in understanding and measuring public attitudes, behaviors, and beliefs. Approximately 75% of the company's 1,400+ research, evaluation, and strategy projects have taken place in Colorado
- **Econsult Solutions, Inc. (ESI)** to analyze the fiscal impact of insufficient retirement savings on the state of Colorado. ESI has served a wide range of state governments and others, conducting numerous studies and analyses involving estimating economic and fiscal impacts of proposed programs, policies, and initiatives, quantifying and evaluating real estate market trends, and performing financial-feasibility assessments. ESI has recently conducted similar studies for states like Pennsylvania and brings current expertise to bear in Colorado
- **The Center for Retirement Research at Boston College** (CRR) to evaluate the feasibility and effectiveness of a) an automatic enrollment payroll deduction IRA program, and b) a small business retirement marketplace. CRR is the most experienced provider in this space, having conducted analytical work and research for a wide range of states evaluating in-state population characteristics and the efficacy of proposed programs

A more detailed description of these organizations and their relevant work can be found in Appendix C.

The following summarizes the findings and recommendations of the Board based on its deliberations and inclusive of the analysis of its experts.

[1] For detail please see Appendix A.

RETIREMENT (IN)SECURITY IN COLORADO – SIGNIFICANT AND GROWING

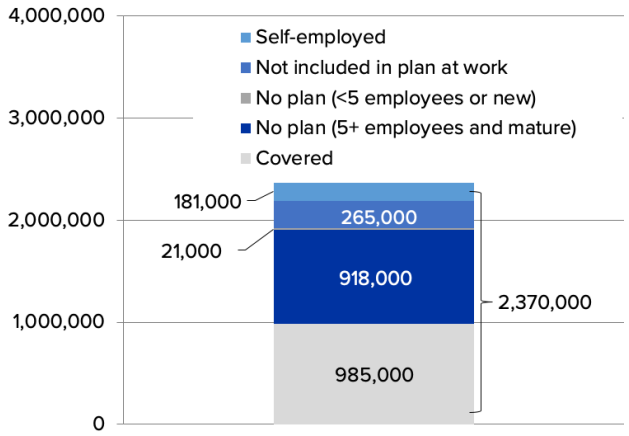
Very few workers save for retirement outside of work-based retirement savings plans.[2] Even when alternatives exist, the barriers to use can be significant for a workforce that is not made up of financial services experts.[3] For these two reasons, it is important to understand the scope and characteristics of workers in Colorado who are, and aren't, covered by retirement plans at work.

Retirement Plan Coverage: Understanding Colorado's Workforce

Figure 1 gives some size and shape to Colorado's private sector workforce of nearly 2.4 million people.[4] This view shows the breakdown between those that are covered by a retirement plan at work, and those that are not.

First, the good news. Over 40% of working Coloradans – nearly a million people – are covered by a retirement plan at work. While their characteristics vary widely, as a group they tend to have higher earnings, higher levels of education, and more stable employment than those who are not covered by a plan at work. They are more likely to be employed in professional occupations and manufacturing and to work full time. As a group they also experience higher levels of financial education: they regularly engage with the financial system, are more likely to understand key financial concepts, and are far more likely to be able to come up with a few hundred or a few thousand dollars in case of a financial emergency.[5] This puts them in a position of greater financial capability and resilience.

Figure 1: Number of Colorado Workers by Coverage Status, 2019



Sources: CRR calculations from U.S. Census Bureau, *Current Employment Statistics* (2019)*; Current Population Survey* (2014, 2018); and *Business Dynamic Statistics* (2019)

More than 40% of working Coloradans do not have access to a retirement plan at work.

Regrettably, another 40% of working Coloradans are not in the same position. More than 939,000 workers work for an employer that does not offer a retirement plan:

- 918,000 of these workers work for employers with 5 or more employees
- 21,000 of these workers work for employers that are smaller or have been in business less than two years

[2] Center for Retirement Research at Boston College (CRR), Study A: Colorado Secure Savings Plan (2020), 2.
[3] Corona Insights, Retirement Savings Research for the Colorado Secure Savings Plan Board (2019), 50-58.
[4] Private sector workers are defined as those who do not work for a public sector entity such as federal, state or municipal employers.
[5] CRR, Study A: Colorado Secure Savings Plan, 4-9.

Another 20% of working Coloradans fall somewhere in between:

- 265,000 workers are not participating in a retirement plan at work. Many of these individuals work for an employer who offers a plan, but not to them (part time workers and other categories). Others are eligible to participate, but don't, for a range of reasons
- 152,000 workers are self-employed or independent contractors who do not have a retirement plan[6]

Characteristics of Uncovered Workers in Colorado

Individual circumstances vary widely, but it is useful to understand some of the characteristics associated with the uncovered portion of the workforce. As a population, uncovered Coloradans are more likely to be employed in services jobs (restaurant, food service and hospitality; craftspeople, plumbers, electricians, and installers), in construction, and in the raw materials industries (agriculture, mining, forestry).[7] They are also more likely to earn less, experience more job transition or to be more mobile, are somewhat more likely to work part time, and tend to have less financial experience and capability.[8] These characteristics do not change the importance of retirement and other savings – and in fact may make having some savings even more important as a source of resilience against natural volatility in income and circumstances.

Figure 2 provides a more detailed view of the characteristics of Colorado's workforce, separated into those who are covered by a retirement plan at work and those who are not.

Figure 2: Key Demographics of Colorado Workers by Coverage Status, 2019

Characteristic	No plan at work		With plan	
	Number	Share	Number	Share
Gender				
Male	510,391	54%	538,549	55%
Female	429,007	46	446,147	45
Age				
Under 18	16,017	2	4,693	0.5
18-24	133,849	14	46,786	5
25-54	643,313	68	700,373	71
55-64	115,094	12	190,415	19
65+	31,127	3	42,429	4
Race				
White	611,331	65	739,712	75
Black	39,220	4	37,415	4
Asian	30,410	3	38,097	4
Hispanic	240,828	26	152,823	16
Other	17,610	2	16,649	2
Nativity				
Native	765,877	82	878,445	89
Foreign-born	173,522	18	106,251	11
Education				
Less than high school	111,764	12	14,245	1
High school only	191,922	20	156,694	16
Some college	263,097	28	268,525	27
Bachelor's or more	372,616	40	545,232	55
Total	939,398	100%	984,696	100%

Note: The 939,398 reflects all employees without a plan at work, regardless of firm size or age.
Sources: CRR calculations from Current Employment Statistics (2019); and Current Population Survey (2014, 2018).

[6] CRR, Study A: Colorado Secure Savings Plan, 3-4.
[7] Ibid, 5.
[8] Ibid, 4.

Another important aspect of the workforce is workers' earnings and full or part-time status. In general, workers without a plan in Colorado, like uncovered workers elsewhere in the country, work fewer hours and earn much less than covered workers. 82% of workers with no plan at work are employed full time, compared to 95% of workers with a plan (see Figure 3). Part-time workers tend to be less attached to the labor force, and to experience more job mobility. Across full- and part-time workers, the median earnings of workers with no plan at work is $34,669 compared to $60,849 for workers with a plan.

Figure 3: Colorado Employee Earnings and Hours Worked by Coverage Status, 2014

Hours	No plan at work		With plan	
	Share	Median earnings	Share	Median earnings
1-34	18%	$13,274	5%	$35,027
35+	82	$39,296	95	$62,165
Total	100%	$34,669	100%	$60,849

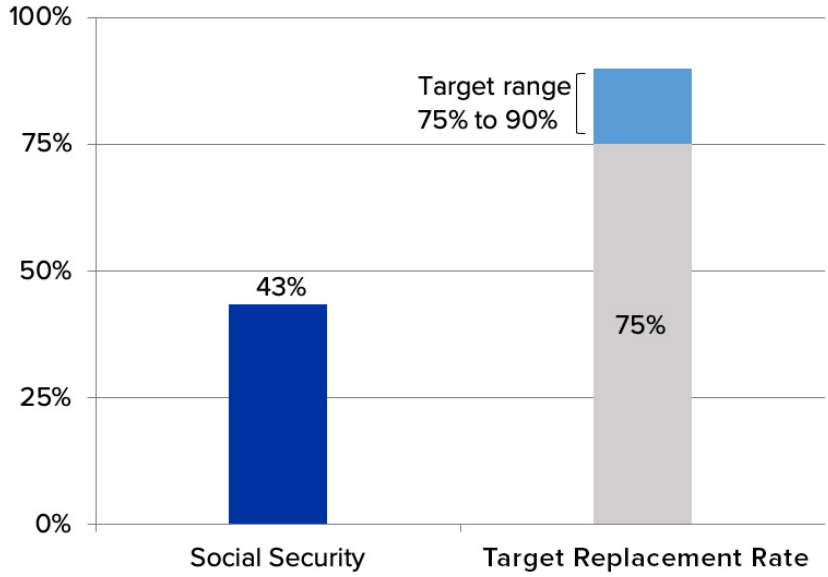
Source: CRR calculations from *Current Population Survey* (2014).

Importantly, even though Social Security is progressive and generally provides a higher level of income replacement for lower income workers, as a population uncovered workers in Colorado can expect to experience a meaningful income gap if they have not saved independently for their retirement.[9]

As shown in Figure 4, when a worker in a low-wage job retires at age 65 (assuming Social Security's Full Retirement Age for these workers is age 67), Social Security will replace 43% of his or her pre-retirement earnings. Standard benchmarks indicate that workers in low-wage jobs need 75 to 90 percent of previous earnings to maintain their standard of living.[10]

Social Security will not provide adequate retirement income, even for most low income workers.

Figure 4: Replacement Rate from Social Security and Target Replacement Rate



Source: CRR calculations from *Current Population Survey, March Supplement* (2018)

[9] CRR, Study A: Colorado Secure Savings Plan, 9-10.
[10] CRR notes: the 75% - 90% replacement rate range is driven by some factors that are the same for everyone - like payroll taxes, which do not apply to income in retirement. However, other factors affecting the replacement rate can vary widely by individual - like how much people can save by shifting to home production (e.g. not eating lunch at work), savings on work related expenses, and health-specific medical expenses they can expect in retirement.

Uncovered workers in Colorado, like uncovered workers nationally, are under greater financial stress than workers who are covered by an employer plan. Uncovered workers are often less familiar with commercial financial products and have a less comprehensive understanding of basic concepts like compound interest and portfolio diversification. **Uncovered workers are under greater financial stress.**

These issues show up in several ways (see Figure 5). First, only 38% of uncovered workers say they can come up with $2,000 on short notice. A Colorado Secure Savings program would be the first opportunity many workers have to access significant assets. Second, 34% of uncovered workers appear to be using unconventional, high-interest credit sources like pawn shops and payday lenders. Agencies in the state that are involved in financial education have the opportunity to highlight the value of using these accounts to meet needs that occur prior to retirement and to provide guidance on when it makes sense to withdraw money from a retirement account versus using other forms of debt.

Figure 5: Financial Situation, Interaction, and Literacy by Retirement Plan Coverage in Colorado and the United States, 2015

	Colorado		United States	
	Not covered	Covered	Not covered	Covered
Financial situation				
Spend more than makes	19%	21%	20%	18%
Can come up with $2,000	38	78	38	79
Receives government transfer	18	13	20	13
Receives money from family	21	22	27	18
Used unconventional credit sources	34	24	32	23
Interaction with the financial system				
Has checking account	90%	99%	81%	98%
Owns non-retirement investments	12	49	9	44
Gets paid in cash or by check	48	20	46	20
Uses credit cards to purchase things	51	86	48	82
Uses debit cards to purchase things	68	72	69	74
Pays for things online	56	88	55	81
Financial literacy				
Understands compounding	64%	79%	67%	83%
Understands diversification	26	57	32	56
Learned about finance at school	11	20	16	21
Learned about finance at work	3	12	4	12

Note: A respondent is covered when they have a retirement plan through their employer or acquire one privately.

Uses 2012 data for certain elements, including: gets paid in cash or by check; uses credit or debit cards to purchase things; and pays for things online.

Sources: CRR calculations from Financial Industry Regulatory Authority (FINRA) National Financial Capability Study (2012, 2015).

Across the workforce, there is a significant gap between the level of savings required to generate enough income to maintain living standards in retirement, and the current level of savings people have.

Financial capability data offer other lessons for Colorado. Relative to covered workers, uncovered workers are less likely to have a checking account or to pay for things online. These data support the need for a user-friendly website where they can access and navigate their account. In terms of traditional financial education, most uncovered workers struggle with understanding diversification, and over a third appear to have trouble answering a question about compounding interest. These data highlight the importance of offering simple investment options such as target date funds, in addition to simple and concrete educational materials.

The Challenges of an Aging Population

The gap identified above is expected to worsen: **the average age of Colorado's population is rising** and at the same time elderly households are becoming a larger proportion of the population. As the baby boom generation ages, more residents will qualify for public assistance programs that service and support seniors.[11]

The following figures illustrate the projected growth in Colorado's elderly population and households, as well as the projected elderly share of households, which is also rising.

Notice in Figure 6 that the population of Colorado's elderly and elderly households are both expected to grow by 50% from 2020 (in dark blue) to 2035 (in light blue). At the same time, see in Figure 7 that elderly households – those headed by individuals who are age 65 or older – are growing. In 2020, just under 24% of households are elderly and just over 76% are not – for a ratio of three working households to every elderly household. By 2035, nearly 28% of households will be elderly, for a ratio of 2.4 working households for every elderly household. As residents age, there will be fewer working Coloradans to support those who have retired – including those who are retiring with insufficient savings.

Figure 6: Projected Growth in Colorado's Elderly Population and Households, 2020-2035

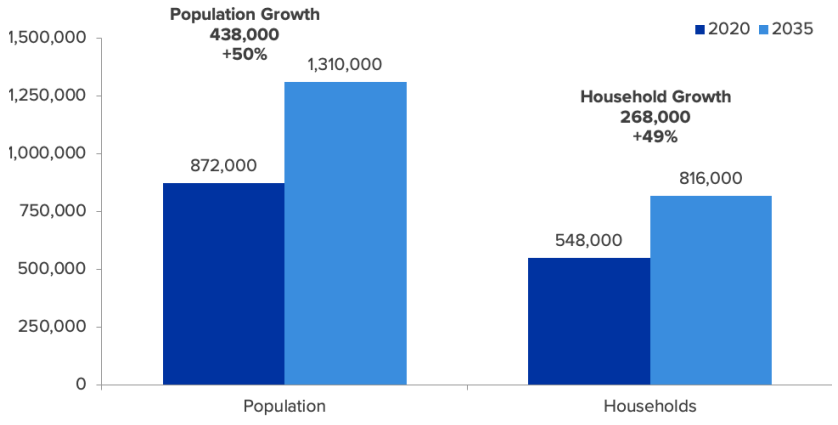
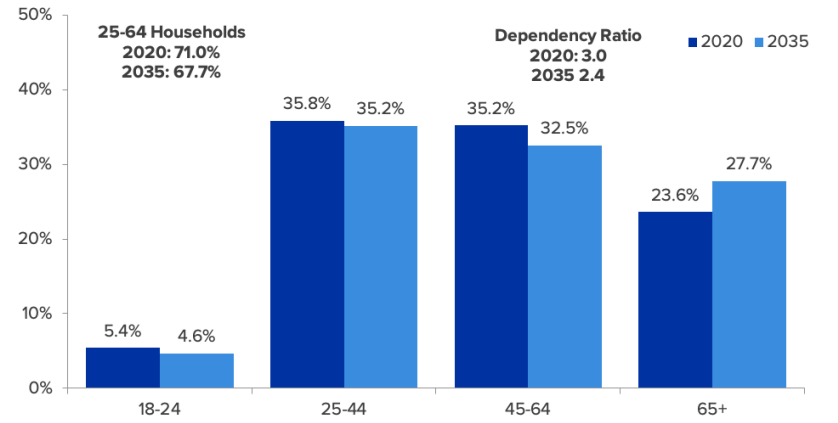


Figure 7: Projected Elderly Share of Colorado Households, 2020-2035



Source: Colorado State Demography Office (2018)

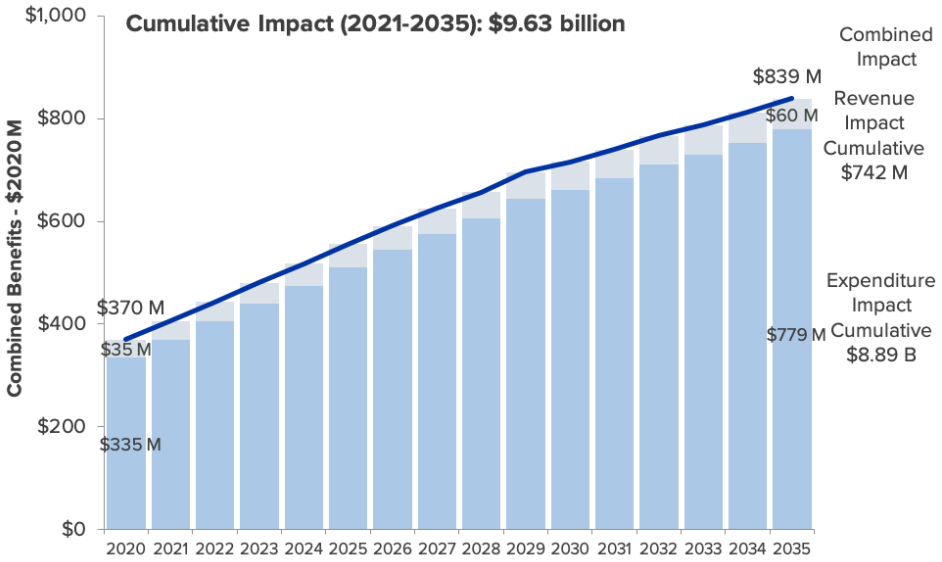
[11] Econsult Solutions, Inc., The Fiscal Impacts of Insufficient Retirement Savings in Colorado (2020), 4.

FISCAL IMPACT OF INSUFFICIENT SAVINGS – THE COST OF DOING NOTHING

A significant portion of Coloradans have insufficient savings to generate enough income to maintain their living standards in retirement. An analysis of state expenditures and revenue projections highlights how this will increase the cost to the state over time. This analysis estimates that the combined budget and revenue impact in 2020 is $370 million. That impact more than doubles to $839 million by the year 2035, and the **cumulative fiscal impact to the state from insufficient retiree savings will be nearly $10 billion** over the fifteen year period from 2021-2035 (Figure 8).[12]

A significant portion of Coloradans have insufficient savings.

Figure 8: State Fiscal Impacts from Insufficient Savings, 2020-2035 ($2020)



Source: ESI

It's helpful to understand how this forecast was developed.

To begin, the net fiscal impact of insufficient retiree savings is made up of two elements associated with lower savings levels and lower income and expenditure levels of elderly Coloradans:

- Expenditures: Current and expected expenditures on assistance programs, and
- Revenue: Foregone tax revenues that would occur with higher incomes and spending

To measure how higher and lower levels of savings change expenditures and tax revenues, ESI took a look at two different savings scenarios for Colorado's current and future elderly households:

- A "baseline" scenario where retirement savings levels remain consistent with today's levels
- A "sufficient savings" scenario in which retirement savings rise to recommended levels (for this analysis, defined as replacing 75% of working age incomes)

In the next section we look at how sufficient and insufficient savings affects the state's budget, and spillover effects that impact local and federal budgets as well. We start by looking at expenditures.

[12] ESI, Fiscal Impacts, 9. Please note, as with any analysis relying on projections and extrapolations, precise impacts are uncertain. Calculations shown represent a best estimate of future outcomes, which could in practice be higher or lower than the estimates shown. The order of magnitude indicates that the fiscal impact of this issue for the state is significant.

Expenditure Impacts – Current and Expected

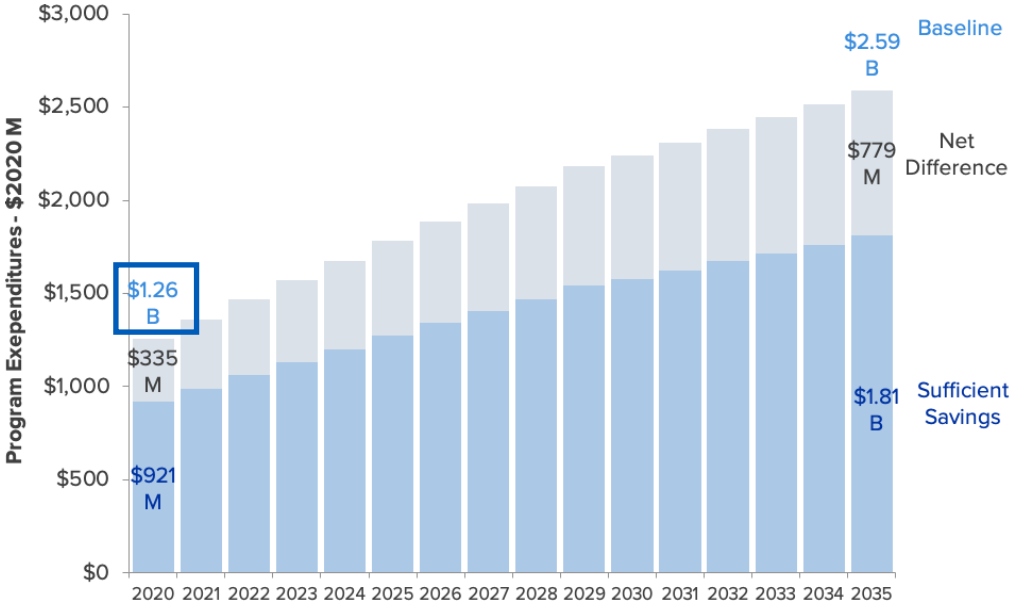
Colorado operates a number of assistance programs for elderly residents which will face an increase in demand as the elderly population grows. In addition, many of these programs (such as Medicaid) are means-tested for eligibility and/or benefit levels, meaning that the level of income available to the state's elderly population has significant impacts on state and federal program costs.

As shown below (Figure 9), Colorado's current state-funded expenditure on the elderly population in 2020 will be $1.26 billion. This figure comes from analysis of the current state budget and is expected to grow as the senior population grows. By 2035, total expenditure is expected to double to $2.59 billion.[13] This $2.59 billion represents the "baseline" scenario – it's what is expected to happen if savings levels in the state continue on their current course.

Retirement savings will have an impact on this expenditure. Under the sufficient savings scenario, these costs are substantially lower, totaling $921 million in 2020 and rising to $1.81 billion in 2035 (as shown in blue, below).

So why is there still a $921 million cost in 2020 even under a "sufficient savings" scenario? Even when 75% of working income is replaced, some of the population will still need assistance. But a growing share of senior retirees would not require assistance if they were able to save modest amounts more easily over the course of their working careers. Taken over 15 years, the cumulative state expenditure difference between sufficient and insufficient savings is nearly $9 billion from 2021-2035.

Figure 9: State Expenditures on Senior Population by Scenario, 2020-2035 ($2020)



Source: ESI

[13] ESI, Fiscal Impacts, 41.

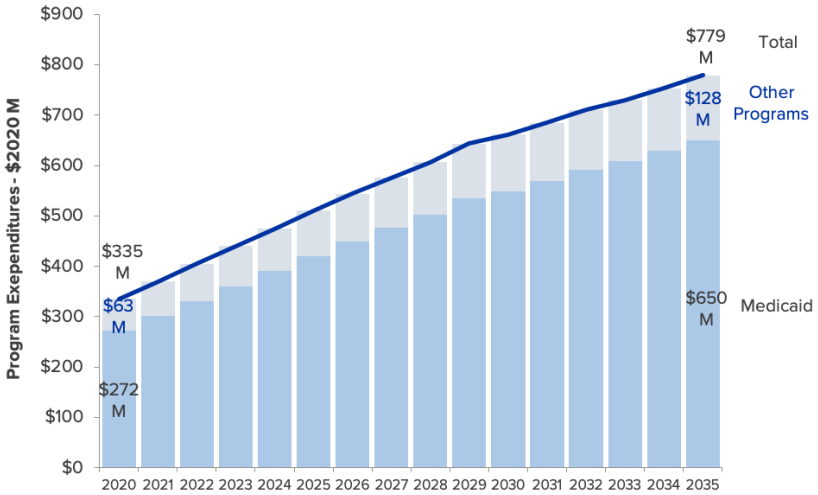
HOW WE DEVELOPED THESE ESTIMATES

ESI's study identifies means-tested and senior-targeted programs that will be impacted by changing characteristics of the elderly population. Using the state's budgeted expenditures for Fiscal Year 2019-2020, state-funded expenditures on the elderly population are isolated from total expenditures for these programs.

This analysis builds on a study by the Governor's Office of State Planning and Budgeting that defined program expenditures for the elderly population as of FY 2018, and other sources.[14] Program eligibility requirements and anonymized participant data provided by the state are used to model the proportion of state expenditures on elderly households within various income bands.

Program assistance costs are then matched to the demographic and income scenarios to produce estimates of state assistance costs over the period from 2020 to 2035 under "baseline" and "sufficient savings" income scenarios.[15] The net differential in state costs between scenarios represents the incremental state spending attributable to insufficient savings, when holding constant the level of services or benefits for each household at a given income level.

Figure 10: State Program Costs Impacts from Insufficient Savings, 2020-2035 ($2020)



Source: ESI

Figure 10 shows the annual incremental state spending attributable to insufficient savings over this time period in more detail, including the breakdown of expenditures on Medicaid programs versus other assistance programs. Expenditures for Medicaid programs (shown in blue) make up the majority of state program costs from insufficient savings. By 2035 Medicaid expenses are projected to grow to $650 million of the total $779 million in expenses on programs for seniors.[16]

[14] A list of identified means-tested assistance programs can be found in Appendix B. Additional source information used in this analysis is listed in References and Appendices, page 39.

[16] Note, a "sufficient savings" scenario is one in which Colorado's current and future retiree households achieve recommended levels of retiree savings as a function of their working age incomes, enabling households to maintain their living standards during their retirement years.

[16] ESI, Fiscal Impacts, 6. Note: the ESI study quantifies the magnitude of the potential benefit of achieving increased savings across the full population of Colorado retirees – it does not reflect the anticipated benefit of any specific program. However, the magnitude of the state fiscal impact indicates that there is an opportunity for significant financial and economic benefits to the state from improving savings outcomes.

Together, the additional state spending on Medicaid and non-Medicaid programs attributable to insufficient retiree savings is estimated at nearly $9 billion over the fifteen-year period from 2021-2035:

- $7.36 billion - projected state Medicaid expenditures on elderly households
- $1.53 billion - projected state non-Medicaid program expenditures for elderly households (energy assistance, home care allowance, supplemental old age pension payments)[17]

The Board also considered the fiscal impact on local expenditures. With the exception of the Senior Property Tax Exemption (which is actually paid for with state funds and listed under senior-targeted non-Medicaid programs), ESI was not able to identify significant expenditures associated with senior-targeted assistance programs at the local level.

There is one other level at which insufficient savings in Colorado has an impact. At the federal level, while costs accrue only indirectly to Colorado taxpayers, they are significant. Figure 11 shows that cumulative federal level spending due to insufficient savings in Colorado is estimated at over $8 billion.

Figure 11: Net Federal Program Spending due to Insufficient Savings ($2020)

Program	2020	2035	Cumulative
Medicaid			
Home and Community-Based Services	$75 M	$183 M	$2.06 billion
Long Term Care	$133 M	$291 M	$3.36 billion
Medicaid Dental	$9 M	$24 M	$261 million
Other Medicaid	$71 M	$202 M	$2.21 billion
Sub-Total - Medicaid	**$288 M**	**$699 M**	**$7.89 billion**
Other Programs			
Energy Assistance	$1 M	$2 M	$23 million
Older Americans Act	$3 M	$7 M	$82 million
Adult Protective Services	$0.4 M	$1 M	$10 million
Veterans Community Living	$6 M	$9 M	$115 million
Sub-Total - Other Programs	**$11 M**	**$19 M**	**$230 million**
Total	**$299 million**	**$718 million**	**$8.12 billion**

Source: ESI

Next, we take a look at the impact of insufficient savings on tax revenue in Colorado.

[17] ESI, Fiscal Impacts, 43-44.

Revenue impacts – Current and Expected

The income level of Colorado's elderly households determines their level of spending on a variety of goods and services each year. While more modest than the expenditure impacts, differences in household spending have ripple effects throughout the economy, impacting economic activity and employment statewide. This activity in turn impacts tax revenue collections for the state and other jurisdictions.

Accumulating more savings during working years means that Coloradans have more money to spend both on necessities and at their discretion when they retire. These increases in retirement savings increase the expected levels of spending by Coloradans in retirement, driving both increases in state revenue, and job formation, as described below and reflected in Figures 12 and 13.[18]

- Increased spending associated with sufficient savings is estimated at $724 million by 2035, creating over 6,130 jobs that generate $241 million in earnings
- Cumulatively from 2021-2035 this represents over:
  - $9 billion in total economic impact
  - 5,100 new jobs per year on average (76,000 over the period)
  - $3 billion in job-related earnings
  - $742 million in additional net state tax revenue

Figure 12: Economic Impact from Household Spending with Increased Retirement Savings

Impact Type	2020	2035	Cumulative
Direct Output ($M)	$218	$363	$4.55 billion
Indirect & Induced Output ($M)	$213	$361	$4.51 billion
Total Impact	**$431 million**	**$724 million**	**$9.06 billion**
Employment (FTE)	**3,570 jobs**	**6,130 jobs**	**76,160 job-years**
Employee Compensation	**$141 million**	**$241 million**	**$3.00 billion**

Figure 13: State Revenue Impacts with Increased Retirement Savings ($2020)

Tax Type	2020	2035	Cumulative
Personal Income Tax ($M)	$31.3	$54.7	$676 million
Sales and Use Tax ($M)	$2.7	$4.3	$54 million
Corporate Income Tax ($M)	$0.4	$0.7	$8 million
Motor Fuels Tax ($M)	$0.1	$0.2	$3 million
Total State Tax ($M)	**$35 million**	**$60 million**	**$742 million**

Source: ESI

The income level of Colorado's elderly households determines their level of spending on a variety of goods and services each year.

[18] ESI, Fiscal Impacts, 7-8. Please note, to avoid double counting, ESI has made an adjustment to consider reductions in spending by working age households who increase their savings during working years.

Fiscal Impact – Local Revenue

Significant local revenues are derived by Colorado's municipalities and county governments through the sales tax. Changes in incomes and spending will also affect local tax revenues.

Figure 14 presents estimates of municipal and county sales tax collections. Local sales tax revenue from the incremental economic activity associated with spending by elderly households is estimated to total $9.8 million in 2020. This figure grows to $16.7 million in 2035, and totals $209 million over the fifteen year period from 2021-2035.

Accounting for the increased savings of near-retiree households, net local sales tax revenue is estimated to total $3.6 million in 2020. This figure grows to $5.9 million in 2035, and totals $75 million over the fifteen year period from 2021-2035.

Figure 14: Local Revenue Impacts from Retirement Savings ($2020)

Elderly Households Only

Tax Type	2020	2035	Cumulative
Municipal Sales Tax ($M)	$6.0	$10.1	$126 million
County Sales Tax ($M)	$3.9	$6.6	$82 million
Total Local Tax ($M)	**$9.8 million**	**$16.7 million**	**$209 million**

Accounting for Near-Retiree Savings

Tax Type	2020	2035	Cumulative
Municipal Sales Tax ($M)	$2.2	$3.6	$45 million
County Sales Tax ($M)	$1.4	$2.3	$29 million
Total Local Tax ($M)	**$3.6 million**	**$5.9 million**	**$75 million**

Source: *ESI Modeling using IMPLAN and Colorado Revenue Department Data*

Property taxes represent the primary funding mechanism for local governments across Colorado. The relationship between retirement savings levels and property taxes is not well defined, and no impacts on property values (and therefore property tax revenues) between the income scenarios are included in this analysis. Notably, however, the interaction between state and local revenues under Colorado's Taxpayer Bill of Rights (TABOR) means that state revenues levels are potentially relevant to the revenue levels of local governments.[19]

HOW WE COMPUTE LOCAL CHANGES IN TAX REVENUE

Once we have computed sales tax impact at the state level, the relationship between incremental state and local sales tax can be used to estimate the incremental local sales tax from additional economic activity.

Data available through the Colorado Department of Revenue provides information on the taxable base of sales taking place within each jurisdiction. This information is matched with the relevant tax rates to estimate local sales tax collections. Through this approach, it is estimated that each dollar of additional state sales tax corresponds with $0.85 in municipal sales tax collections and $0.55 in county sales tax collections, or $1.40 in total per dollar collections.

[19] ESI, Fiscal Impacts, 67-68.

Combined State, Local and Federal Impacts

In this section we have examined the state-level impact of insufficient retirement savings on state expenditures and on state revenues. As shown, the cumulative fiscal impact to the state is estimated at nearly $10 billion for the fifteen year period from 2021-2035.

The related Federal impact is nearly $9 billion, shown here in Figure 15. The local impact is $284 million as shown in Figure 15. ($209 million + $75 million = $284 million).[20]

Addressing the need for greater retirement savings sufficiency will have a significant impact on state finances going forward,

Figure 15: Federal Fiscal Impacts from Insufficient Savings, 2020-2035 ($2020)

Federal Impact Type	2020	2035	Cumulative
Program Expenditure Impact	$299 million	$718 million	$8.12 billion
Revenue Impact	$39 million	$66 million	$824 million
Total State Tax ($M)	**$338 million**	**$784 million**	**$8.95 billion**

Source: ESI

The combined state, local and federal impact of insufficient retirement savings for this period is **over $18 billion**.

Addressing the need for greater retirement savings sufficiency will have a significant impact on state finances going forward, if the state is able to meet key assumptions, as discussed shortly.

[20] ESI, Fiscal Impacts, 10.

IMPROVING OUTCOMES IN COLORADO – MODELS AND OPPORTUNITIES

As directed by SB19-173, the Board studied two approaches to increasing the amount of retirement savings by Colorado's private sector workers:

- An automatic enrollment payroll deduction IRA program
- A small business marketplace

The Board also studied the potential impact of greater financial education on increasing retirement savings.

Automatic Enrollment Payroll Deduction IRA Program

What is an Auto IRA?

An automatic enrollment payroll deduction IRA program (Auto IRA) is designed to provide work-based access to retirement savings accounts for employees whose employers do not offer plans. For workers, programs like these offer the simplicity of automatic features like automatic enrollment and auto-escalation of contributions over time. They also offer the flexibility to make adjustments to savings rates (from 0% to 100%) and to choose from a limited menu of diversified investment choices. And of course, they offer the ability to opt out of savings altogether, and to opt back in at a later time if desired.

For employers, Auto IRAs serve as a stepping-stone between offering a traditional retirement plan and not providing any form of retirement access. As mentioned in the next section, employers express an interest in helping employees save for retirement, but natural barriers exist. Auto IRAs are arguably the simplest way to provide access to work-based retirement savings with minimal employer impact. Because they are not plan sponsors, facilitating employers are not fiduciaries and are not responsible for program-related decisions or provider monitoring. Employers do not contribute to Auto IRA accounts or provide account-related reporting. Employer roles are restricted to administrative functions, which generally include enrolling in or confirming exemption from the state's program, providing workforce contact information, and facilitating a saver's payroll deductions into the program.

Auto IRA programs provide work-based access to retirement savings.

Program Characteristics

For purposes of this analysis, the Center for Retirement Research (CRR) generally modeled its study on the program characteristics outlined in SB19-173. The core characteristics of Auto IRA programs include:

- Contributions:
  - A standard savings rate – 5% is the level used by the existing Auto IRA programs
  - Auto-escalation – existing programs increase saver contributions by 1% a year to a maximum level such as 8% (California) or 10% (Oregon)
  - Ability to contribute more or less – any whole percent from 1% to 100%
  - Dollar caps on contributions in line with federal annual limits
- Investments:
  - Target Date Funds (diversified balanced funds aligned with retirement ages)
  - Capital Preservation Fund
  - One or more additional funds as established in the program's investment policy
- Account types:
  - Roth IRAs as a standard
  - Traditional IRAs as an election
- Withdrawals
  - Upon retirement and at any time
  - Consistent with the requirements of the account type

Standard Characteristics

- Contributions by payroll deduction
- Automatic enrollment with opt-out
- A starting savings rate escalating at 1% a year
- Simple, inexpensive investments
- Using IRAs
- Flexible savings, investments and participation

Relevant Population – Employers and Workers

For purposes of the following analysis, CRR assumed the program, as outlined in SB19-173, would be facilitated by employers with five or more employees that have been in business for at least two years. Estimates show that approximately 21,000 employers and 918,000 employees could be directly impacted by the program.[21]

If the program is also made available on an opt-in basis, an additional 467,000 workers could be provided with easy access to a retirement program in use by their peers in the state. For purposes of computing fiscal impact, these workers have not been included. However, they could benefit from a state-sponsored program:[22]

- 21,000 workers whose employer offers no plan and has been in business less than two years
- 152,000 self-employed workers (independent contractors) without a plan
- 265,000 workers whose employer offers a plan, but not to them (part time workers and other categories)

[21] CRR, Study A: Colorado Secure Savings Plan, 2.
[22] Ibid, 2-3.

Characteristics of Colorado Workers Affected by the Auto IRA Program

As noted earlier, employees without a plan at work are different from covered workers in many ways.

Uncovered workers are disproportionately less educated, young, latinx, and foreign-born. They are more likely to be employed in service occupations, construction, and raw materials industries. In general, workers without a plan in Colorado, like uncovered workers elsewhere in the country, are more likely to work fewer hours, work part time, and earn less than covered workers. Uncovered workers are under greater financial stress and are also less familiar with commercial financial products and have less understanding of financial concepts like compound interest and portfolio diversification. Relative to covered workers, uncovered workers are less likely to have a checking account or to pay for things online.[23]

Auto IRAs can help bridge the gap to Social Security's Full Retirement Age, increasing lifetime retirement income.

The Need for Savings in Addition to Social Security

Despite their limited financial resources and lack of experience with financial institutions, uncovered workers need to save additional income for retirement. While lower earnings allow many to benefit from the progressive structure of the Social Security system, Social Security alone will not provide adequate levels of replacement income. Additional savings through Auto IRAs can help bridge the gap between Social Security benefits and target replacement rates.[24]

In fact, workers born after 1943 can increase their final Social Security payments by 8% for each year they are able to delay taking Social Security, from full retirement age to age 70. For most, full retirement age starts between the ages of 65 and 67. For workers who are contemplating taking Social Security early, say at age 62, the ability to delay to age 70 makes an even bigger difference and could result in a monthly check that is 2/3 greater for the rest of the worker's life.[25] Using a dollar-based example, a difference like this could result in a monthly check that is $2,650 instead of $1,500. Of course, actual benefits will vary based on the earnings history of each individual retiree.

[23] CRR, Study A: Colorado Secure Savings Plan, 4-8.
[24] Ibid, 9.
[25] Social Security, Benefits Planner: Retirement, and Social Security, Effect of Early or Delayed Retirement on Retirement Benefits. Accessed January 2020.

Usefulness of Auto IRAs for Uncovered Workers

The design features of Auto IRAs – accessibility, simplicity and portability - work well for this population for a number of reasons:

- First, availability at work with a payroll deduction, coupled with automatic enrollment, makes it easy for workers to start saving and to make adjustments later, if needed. In addition to simplifying the enrollment process, auto-enrollment tends to increase program participation by harnessing inertia; once people are saving in these programs, they tend to stay. Limiting the number and complexity of funds offered makes the program more approachable to workers once enrolled and can help in the process of improving financial education.
- Second, a Roth IRA offers employees access to account balances should funds be needed before retirement. Given that employees without a plan tend to be lower income, one key advantage of a Roth IRA is the lack of penalties for early withdrawals of contributions. While these savings are intended to be used during retirement, an important goal is that workers achieve better income security. Therefore, the use of these accounts during financial emergencies that would otherwise result in debt is consistent with ultimate program goals.
- Third, the saver's IRA account is portable across any employer in the state who facilitates Secure Savings. Because workers without a plan tend to change jobs more frequently, plan portability helps workers consistently save for retirement as they move from one facilitating employer to the next. Workers are able to continue saving into their accounts even if they are not at a facilitating employer – for example, if they spend time as independent contractors, or go to work for an employer who offers a plan but has an eligibility waiting period, as many do. Savers who prefer are also able to transfer their accounts out of the Program to any financial institution that offers IRAs.[26]

Involvement of Colorado Employers

It is important to understand the implications for employers in Colorado. The data suggest that approximately 21,000 employers have five or more employees and have been in business at least two years – and would be covered as facilitating employers under this program.[27]

Employers would be required to perform certain functions in association with the program, including:

- enroll in the program
- provide the program with a limited set of information on employees for the purpose of initiating communication and setting up accounts
- execute payroll deductions for participating employees, and
- add new employees to the program when they become eligible

Employer experience calls for simplicity of program design, good engagement, and ease of use.

Employer experience will be impacted by the simplicity of program design, engagement, and the ease of use of any program-related tools and interfaces. Since programs rely on payroll deductions as the means for most contributions, the program should also accommodate a range of payroll administration approaches. These include payrolls outsourced to a service provider, administered in-house with software, and administered in-house without software.

[26] CRR, Study A: Colorado Secure Savings Plan, 10-11.
[27] Ibid, 12.

A number of other simple factors can also minimize employer effort and increase satisfaction, including making program ambassadors or field representatives available, providing clear instructions and information, and leveraging the capabilities of the program's administrator to minimize the employer's role.[28]

Workers are enrolling, are saving, and are expressing their appreciation for the opportunity to save for retirement at work.

Do Auto IRAs Expand Coverage - Experience in the U.S.

As with any other solution proposed, the important question is – will it meaningfully increase coverage and retirement savings in Colorado?

Existing programs serve as a useful guide, even though they are still in very early stages of implementation and all are working to complete initial statewide rollout.

Despite their newness, programs are seeing that workers are enrolling, are saving, and are expressing their appreciation for the opportunity to save for retirement at work.[29]

Early results show Auto IRA participation rates of between half and two-thirds of eligible employees, as follows:[30]

- About two-thirds of employees stay in the program while a third explicitly opt out, based on data from the longest running program
- Additional factors appear to affect how many accounts are actually funded – including employee mobility, employer timeliness in executing payroll deductions, and more

As a new Auto IRA program is established, it takes time for both employers and workers to become familiar with the program. As the program rolls out around the state, awareness and engagement increase.

Defining Success for Existing Auto IRA Programs

Recognizing that current data is not yet final, the question is whether a participation rate of one-half to two-thirds, as referenced above, constitutes "successful participation."

While a federal Auto IRA program does not exist, IRAs are available to any individual wishing to open a retirement account. As of 2016, only 14% of U.S. households had contributed to an IRA.[31]

- These 14% tend to have a college education, additional retirement savings such as a 401(k) through an employer, and higher household earnings
- Today, of the population currently targeted by Auto IRA programs, very few voluntarily enroll in an IRA

Relative to this baseline, a 50% to 70% participation rate in a state-administered Auto IRA program represents a meaningful expansion of retirement coverage.

[28] CRR, Study A: Colorado Secure Savings Plan, 14-16.
[29] Oregon State Treasurer Tobias Read and OregonSaves Executive Director Michael Parker in comments to the Colorado Secure Savings Plan Board on January 15, 2020.
[30] CRR, Study A: Colorado Secure Savings Plan, 11-12.
[31] Ibid, 12.

Usefulness of an Auto IRA for Colorado

Importantly, could a 50% to 70% expansion in coverage and participation be enough to generate the sort of positive fiscal impacts intended?

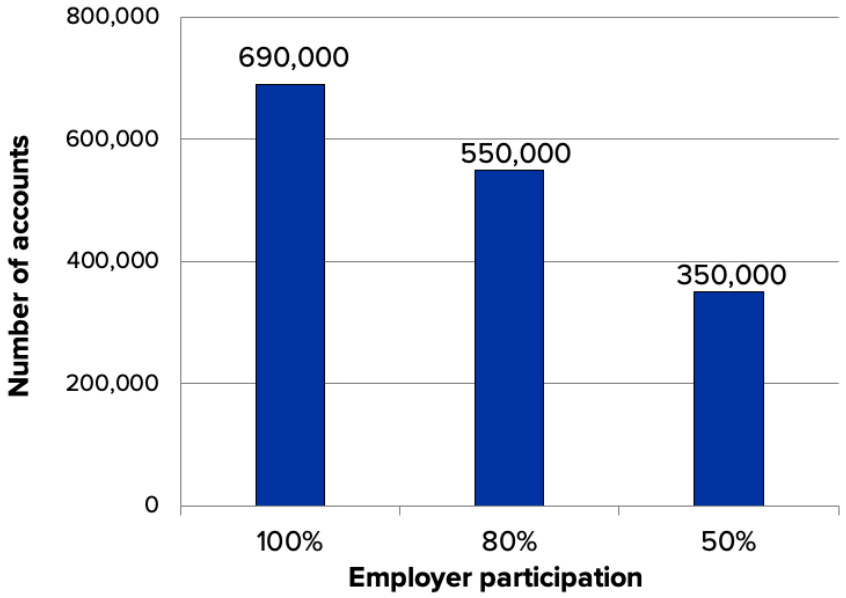
Data from ESI's financial impact study show that to close the average household retirement savings gap in Colorado over time would require additional annual savings of about $1,200 under moderate return assumptions for savings contributed over 30 years.[32] This is consistent with the early results experienced by OregonSaves and CalSavers, where average savings rates are over $100 a month – and more than $1,200 a year.

Data from CRR's analysis shows that under a range of scenarios, a Colorado Secure Savings Program could lead to the establishment of funded retirement accounts for 550,000 to 690,000 workers by Year 20, depending on how many employers ultimately facilitate (Figure 16).[33]

While it is recognized that not all eligible Coloradans will participate, those who do are likely to significantly change their own retirement readiness.

The program also has the ability to positively impact near-retirement workers, by allowing them to defer the start of their Social Security payments. **Up to age 70, the average retiree who delays taking Social Security can increase their lifetime benefit by between 5% and 8% a year.[34]**

Figure 16. Number of Accounts in Year 20 across Employer Participation Rates



Source: CRR calculations.

[32] ESI, Fiscal Impacts, 53.
[33] CRR, Study A: Colorado Secure Savings Plan, 35.
[34] Social Security Administration, Benefits Planner: Retirement, (February 2020).

Improving Financial Education

In addition to taking a close look at possible retirement savings programs for the state, The Board also studied the potential impact of greater financial education on increasing retirement savings.

Colorado has a history of taking an active role with regard to financial education in the state.

The Board retained Corona Insights to take a fresh look at financial education and empowerment in the state. Corona's research process included a review of existing literature and state data, focus groups and a panel survey with residents of both the Front Range and other parts of the state, and interviews with financial planning experts and practitioners.

Corona's work identified several interesting characteristics of Coloradans:[35]

- Most see themselves as responsible for their own retirement savings
- Many respondents expressed nervousness and anxiety about retirement planning
- Many found fear of making the wrong choice paralyzing and overwhelming
- Savings strategies that require minimal action are viewed as more successful and more likely to make retirement savings easy for people
- Those without employer sponsored retirement savings plans experience higher levels of difficulty saving for retirement

As part of their research, Corona identified five types of barriers to expanded savings in Colorado, including:[36]

- Planning Barriers: challenges that prevent people from understanding their needs and developing a plan for retirement saving
- Execution Barriers: challenges in taking advantage of the long-term beneficial effects of saving over one's earnings lifetime
- Systemic Barriers: challenges in opening a retirement account
- Resource Barriers: lacking specific skills or income to effectively save money
- Persistence Barriers: an inability to maintain long-term gains due to a lack of consistent saving and/or prematurely withdrawing money from retirement savings for other purposes

Savings strategies that require minimal action are viewed as more successful and more likely to make retirement savings easy for people.

An analysis of these barriers led to a series of conclusions and recommendations as follows:[37]

- Conclusion 1: Coloradans recognize that retirement is an important topic that is not top of mind
  - Recommendation: Get people thinking about retirement savings
    - Implement a broad messaging campaign to discuss the benefits of retirement savings, regardless of age or amount saved
    - Support development of financial socialization among youth, including teaching personal finance in schools and training parents in how help their children learn financial concepts within the family

[35] Corona Insights, Retirement Savings Research (2019), 41-48
[36] Ibid, 50-59.
[37] Ibid, 10-25.

- Conclusion 2: Savings systems need to be available, simple, automated, and back of mind
  - Recommendation: expand access to workplace retirement plans with features that include opt-out, standard and easy investment choices, savings auto-increase, and matching contributions
- Conclusion 3: Coloradans do not know how to get information about saving for retirement
  - Recommendation: give people an unbiased, credible source for financial learning
- Conclusion 4: Coloradans need help thinking about investing, and not just about saving
  - Recommendation: educate – possibly through a broad campaign to help Coloradans understand and use financial investments, including in workplace plans

Coloradans recognize that retirement is an important topic that is not top of mind

- Conclusion 5: Some Coloradans realistically cannot save for retirement (right now) because of low income
  - Recommendation: combine efforts with other programs to serve low-income Coloradans
- Conclusion 6: Coloradans are generally interested in receiving financial education information via employers
  - Recommendation: in conjunction with recommendations above, make information available to and through employers where it makes sense

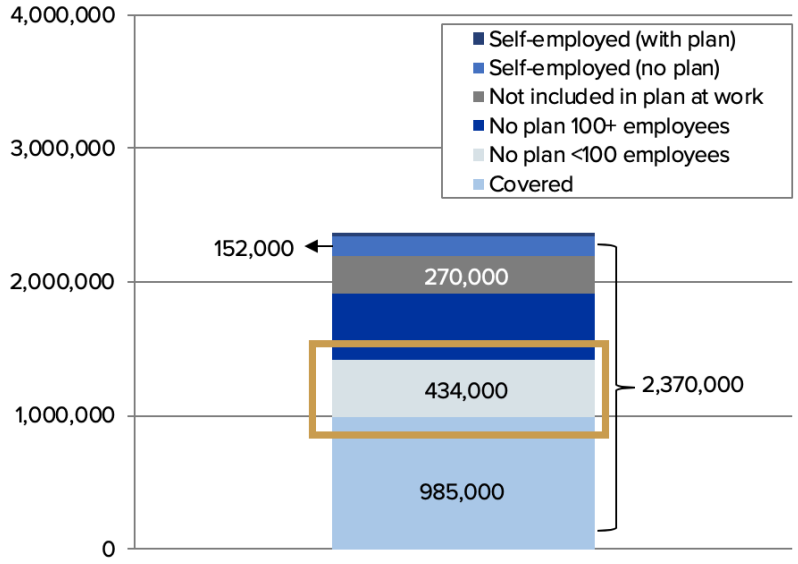
Small Business Retirement Marketplace

A Small Business Retirement Marketplace would be designed to provide employer access to low-cost retirement plans through an online portal. It would be available to employers with fewer than 100 employees. It could also be made available to independent contractors and other workers. The state would take on a number of administrative tasks to reduce the responsibilities required of the employer in offering a retirement plan.

Importantly, the state would want to understand in advance how many employers would be likely to use a Marketplace, if offered, and how much additional retirement coverage and savings might be achieved.

In Colorado, an estimated 434,000 employees work for small businesses that do not offer a retirement plan.

Figure 17. Number of Colorado Workers by Coverage Status, 2019



Sources: CRR calculations from U.S. Census Bureau, Current Employment Statistics (2019); Current Population Survey (2014, 2018); and Business Dynamics Statistics (2016).

Evidence suggests that few employers are likely to participate in Marketplace plans.

Characteristics of Colorado Workers Affected by the Small Business Marketplace Plan

Workers at these businesses differ from covered workers in significant and meaningful ways.

As a population uncovered workers at small businesses are more likely to be employed in services jobs (restaurant, food service and hospitality; craftspeople, plumbers, electricians, installers), in construction, and in the raw materials industries (agriculture, mining, forestry).[38] On average, they are younger and a smaller proportion have achieved some college education or completed a degree program. They are also more likely to earn less, experience more job transition or to be more mobile, are somewhat more likely to work part time, and tend to have less financial experience and capability.[39]

[38] Center for Retirement Research at Boston College (CRR), Study B: Colorado Small Business Marketplace, 4-5.
[39] Ibid, 3-8.

Marketplace programs have not led to significantly more coverage.

The data suggest that approximately 66,000 employers have fewer than 100 employees and do not currently offer a retirement plan. Two-thirds of the employers that would be targeted by the Small Business Marketplace are extremely small, with fewer than 5 employees.[40]

The success of a Colorado retirement marketplace hinges on employer adoption and use. Surveys of employers indicate general interest in helping employees save for retirement. However, employer interest has not translated into action: evidence from prior initiatives to help employers offer retirement plans suggests that few employers are likely to participate voluntarily.

Four recent initiatives provide insight into expected take-up rates by employers when simpler and lower cost retirement options are offered:

- Federal programs for small employers (SARSEPs, SIMPLEs, and MEPs)
- U.S. Treasury's My Retirement Account (MyRA)
- Washington State's Retirement Marketplace
- Massachusetts' Connecting Organizations to Retirement (CORE) plan

Despite the effort and innovation – leading to simpler plans, lower costs, lower risk, multiple points of access, and in one case very safe and stable investments, the trend data on coverage indicate that these programs **have not led** to a significant expansion of coverage on either a nationwide or state-wide basis.

For Coloradans, results from federal initiatives, Washington state's retirement marketplace, and other retirement programs suggest that few employers are likely to voluntarily participate in a marketplace plan. Preliminary outcomes from Washington's marketplace and Massachusetts' CORE plan indicate that just a few hundred savers, less than 1 percent of employees working for eligible employers, are currently enrolled.[41]

The Center for Retirement Research states, "Results from national programs validate these findings and suggest that employers have little interest in voluntarily starting a plan, even when minimal responsibility is required."[42]

The outcome of these voluntary studies is not surprising given that – in addition to cost and administrative concerns – other challenges stop small businesses from offering plans.

- Employee-related concerns include having too few employees and a perceived lack of employee interest
- Business-related concerns include the length of time in business, uncertain profitability, and the expense of providing an employer match

The evidence to date suggests that employer participation in a marketplace will not be substantial enough to measurably increase the level of retirement savings by workers in Colorado.[43]

[40] CRR, Study B: Small Business Marketplace, 12-13.
[41] Ibid, 18.
[42] Ibid, 20.
[43] Ibid, 19.

EMPLOYER RESPONSE TO A RETIREMENT SECURITY PROGRAM FOR COLORADO

To better understand the thinking of employers who could be covered by a retirement security program in Colorado, the Board engaged Corona Insights to undertake further analysis.

In January 2020, Corona conducted 58 interviews with Colorado business owners that were not currently offering retirement benefits. Business owners in 57 of Colorado's 64 counties participated. When possible, Corona targeted businesses with five or more full time employees (all but five interviews met this qualification, and all businesses had paid full-time employees). While Corona aimed to capture the geographic and industrial diversity of the state's employers, the primary purpose of this research was to collect in-depth feedback from business owners.

Figure 14 provides a profile of these participating employers.

	FULL TIME EMPLOYEES	YEARS IN BUSINESS
Median	7.5	15.5
Mean	12.5	23.3
Minimum	2	1
Maximum	40	100

SECTOR	COUNT
Private	52
Nonprofit	5
Public	1**

*NAICS: North American Industry Classification System
**The public agency was a special district that did not have a retirement program and reported that they were not eligible for PERA.

Source: Corona Insights.

2-DIGIT NAICS* CODE	COUNT
Accommodation & Food Services	9
Agriculture, Forestry, Fishing & Hunting	2
Arts, Entertainment & Recreation	5
Construction	5
Environmental Services	1
Health Care & Social Assistance	6
Information	1
Manufacturing	2
Mining, Quarrying, & Oil & Gas Extractions	1
Other Services (except Public Administration)	7
Professional, Scientific & Technical Services	5
Real Estate & Rental & Leasing	2
Retail Trade	7
Transportation & Warehousing	3
Wholesale Trade	2

Not surprisingly, interviews showed that Colorado employers genuinely want to help their employees thrive and most see retirement benefits as one way to do that. Many owners articulated a family-like connection to their employees and a desire to offer retirement benefits in support of their staff. In fact, employers said:

"I've just always believed that ... you've got to do right by your staff."

– Nonprofit Executive

"I think it'd be a good thing because it gives the people the chance wherever they're working... to start saving. To get that in their head for later on in life."

– Food Service Owner

"The benefit would just be feeling like I'm taking care of my staff or just doing my due diligence and to making sure that we're just all more stable in the future."

– Pharmacy Owner

In interviews, these employers shared some of their current perspectives, including why they don't offer retirement benefits, the circumstances under which they would be more likely to offer benefits, and what they would like to see in a state program, if one is offered.

Employers offered a number of reasons for not offering benefits today, including:

- They worry about the time commitment to start and administer a program
- They cannot afford to start their own plan
- They prioritize healthcare as a potential benefit
- They have high amounts of turnover
- They believe there is little demand or interest from their employees
- It's not expected in their field

In their own words, these employers said:

"The biggest barrier to (offering retirement) is the administrative piece of it is just too much for me right now and would probably put me over with the new business."

– Chief Executive, Urgent Care Company

"The process (of starting a retirement benefits) would be easy, we would just meet with our financial advisor in town. But it's hard to find the time with all we have to manage as owners, and we can't afford the cost."

– Owner, HVAC Company

"Employees don't think to ask about retirement because working here isn't a career. If they were lawyers or doctors they would get benefits, but there is not a lot of money in this job and not many people expect benefits out here."

– Pharmacy Owner

Three-quarters of business owners who do not offer a plan said that under current circumstances, they would be no more likely to offer one in the next two years than they are now.

Corona's results are consistent with findings cited earlier from work by The Pew Charitable Trusts in a national survey of over 1,600 small- and medium-sized business owners and managers , whose major findings noted that:

- Employers most often cited expense, limited administrative resources, and lack of employee interest as main reasons for not offering retirement plans
- Three-quarters of business owners who do not offer a plan said that under current circumstances, they would be no more likely to offer one in the next two years than they are now[44]

In Corona's work in Colorado, employers commented that they would be more likely to offer retirement benefits if:

- It would help them recruit and retain qualified employees
- It allowed them to take care of their employees
- There was little financial or administrative burden
- It provided them with a tax incentive
- They employed individuals in "professional" or "career" positions where plans are the norm

Most employers recognize retirement benefits as a tool to recruit and retain quality employees. Employers said:

"From a small business perspective, if we can offer a (similar) benefit as a large organization, I mean honestly that's a big win for us because most small businesses can't compete with benefit packages of large corporations."

– Owner, Software Company

"I never had an issue (before) with potential employees saying, 'if you don't offer retirement, I'll go somewhere else,' but in attracting high-quality hires (now), they are asking those kind of questions – what retirement do you have to offer me?"

– Owner, Car Dealership

[44] The Pew Charitable Trusts, Small Business Views on Retirement Savings Plans, January 2017.

Finally, when asked in general terms how they might feel about a state-based retirement savings programs, employers expressed interest and a desire that a state offering be:

- Streamlined and simple
- Compatible with payroll software
- Stable and long lasting
- Portable across jobs
- Customizable based on business characteristics and employee desires
- Able to provide employees with a significant return
- Not mandatory

In their own words:

"State involvement would make offering retirement benefits easier, because I know what's going on with the state and their programs because I deal with the state so much. They have simplified things on their websites. If you could go to a website and sign up and bang! If it were a big pool, then it doesn't have to be just us."

– Owner, Recreation Company

"What I like about (a state-administered program) is the state's doing the due diligence on which firm to use."

– Nonprofit Chief Executive

"I think it's a good thing as long as you don't lose your individual choice to do it. It's an opportunity probably for more education and it's a very simple … I'm assuming a very simple way to begin participating in your savings."

– Owner, Agricultural Business

The concept of voluntary participation was a consistent theme. All agree that savings should be voluntary at the employee level, giving workers the ability to decide whether to save, or not, and the flexibility to determine how much to save.

As the Board's analysis has shown, where implemented, employer-voluntary approaches have not expanded retirement savings to any meaningful extent and if the program is voluntary for employers, it is not expected to have enough uptake to make a difference in retirement security in the state. In support of facilitating employers, it is important that the program works with employers to ensure their role is as minimal as possible. The program should also take a flexible approach to implementation, phasing in smaller employers over time.

It should be noted that not all employers in the state favored the state's sponsorship of a retirement savings program. Some of these employers were concerned about any sort of program that might place requirements on them. Some see this as an area that should be left completely to the private sector. (One objector said, "I'm not much of a big government guy, I don't think the state would do as good of a job as the private sector. But it might push me into getting something.") Others wanted to see that a state program could be cost effective, simple to use, and well-managed by the state.

IMPROVING RETIREMENT SECURITY – THESE SOLUTIONS FALL SHORT

Following the Board's analysis, it has determined that these solutions will not help the state achieve a measurable difference in retirement savings sufficiency:

The Small Business Retirement Marketplace. It is anticipated that a marketplace would require meaningful cost to develop, implement and maintain for very little impact. It may be possible to partner with an existing state's marketplace – still at some cost to the state. Most importantly, such platforms have not shown themselves to be effective at increasing savings rates.

Financial education initiatives on their own. As seen in the outcome of the efforts identified above, these have also not shown that they are able to significantly increase savings rates.

FEASIBILITY OF AN AUTOMATIC IRA PAYROLL DEDUCTION PROGRAM IN COLORADO

The Board asked Boston College's Center for Retirement Research (CRR) to evaluate the feasibility of an Auto IRA program in Colorado.

First, CRR developed a baseline scenario and a set of alternatives to forecast how the program would perform under various sets of assumptions.

DESCRIBING THE BASELINE SCENARIO

As outlined in SB19-173, the baseline scenario assumes that covered employers are those with five or more employees and two or more years of active business. It also assumes a 5% default employee contribution rate and that all-in program fees are capped at 1% a year (100 basis points) in Years 1-5 and three-quarters of 1% (75 basis points) starting in Year 6. The baseline scenario also assumes the program is phased in over a four year period.

The baseline scenario assumes fees are split to support operating and service costs of the investment manager, the state, and the program administrator, with the state getting 15% of the fees to defray its cost of operation. Start-up costs and annual ongoing costs are estimated to be $730,000 based on an existing model and scaled up to reflect Colorado's program size. The baseline scenario assumes no reimbursement for small employers.

A range of alternative scenarios were also tested, with higher and lower savings rates and participation, higher costs, the use of account fees to defray costs, the inclusion of small employer reimbursement, and other variations in cost splits between the investment manager(s), the state, and the Program Administrator.

Figure 16 provides a summary of the inputs for scenarios tested:

Figure 16. Inputs for Colorado Secure Savings Baseline Scenario and Alternatives

Parameter	Baseline assumption	Alternatives
Employer participation	100%	80%; 50%
Default employee contribution rate	5% fixed	3% fixed, 5% with auto-escalation to 8%
Fee structure	Year 1-5: 100 bps; Year 6+: 75 bps	Year 1-5: $25/account; Year 6+: 75 bps
Revenue division (Invest/State/Admin)	10/15/75%	10/5/85%; 5/5/90%
Start-up costs for State	$730k	1.5x; 2.0x
Ongoing costs	$730k/year	1.5x; 2.0x
Small employer reimbursement		
• Start-up	None	$200; $600
• Ongoing	None	$20; $40/month

In addition to the participation of both employees and employers, a successful Auto IRA program must be attractive to a program administrator and must not create undue financial risks to the state.

To evaluate these dual goals, CRR's feasibility analysis uses two key metrics. The first metric is the time it takes the program to cover its operating costs for the administrator and the state – i.e., to become "cash-flow positive." The second metric is the time it takes for the program to become profitable to the administrator and cost-neutral to the state – i.e., to become "net positive." This second metric considers both the start-up costs of the program and initial operating cost shortfalls.

Both metrics can be affected by factors within the state's control such as the default contribution rate, the initial fee charged on assets, whether the program uses account fees, and the availability of startup funding for the program, if any. They also can be affected by factors outside the state's control, such as ultimate employer eligibility or program costs.

CRR evaluated both the baseline and alternative scenarios above to provide a range of estimates about when the program could become cash flow positive and net positive.

Results

Under the baseline scenario, Colorado Secure Savings is forecast to reach breakeven and begin to be cash-flow positive within four years for the state and nine years for the program administrator. That is, operating costs are projected to exceed revenues until the fourth year of the program for the state, and the ninth year for the administrator. Initial revenue growth is slow because it is generated from a fee as a percentage of assets under management, and account balances are low at the outset of the program.

Figures 17 and 18 provide an illustration of program revenue and cost to the state and to the Program Administrator over time. Note, that under any scenario and in actual operation, as state program revenues exceed costs, the likelihood is that this savings would be passed directly on to savers.

Under this scenario the program is also forecast to become **net cash flow positive** to the state in 6 years, and to the administrator in 15 years. During this process, the largest potential deficit is projected to be $2.4 million for the state and $55.1 million for the administrator.

Figure 17. Revenue and Operating Costs for State under Baseline Scenario, Years 1-15

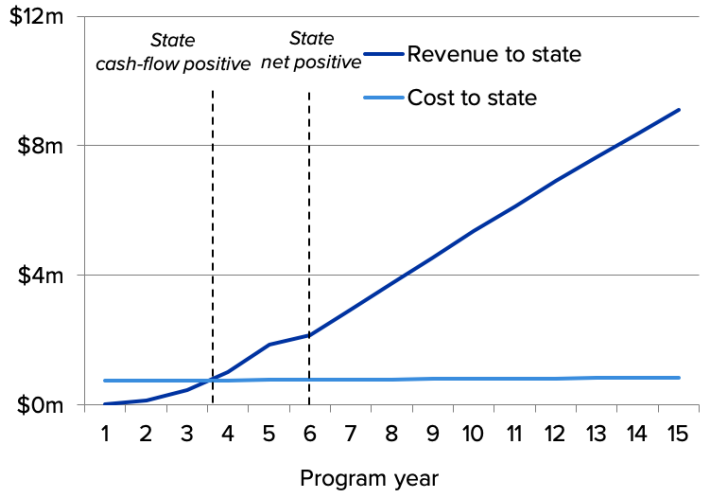
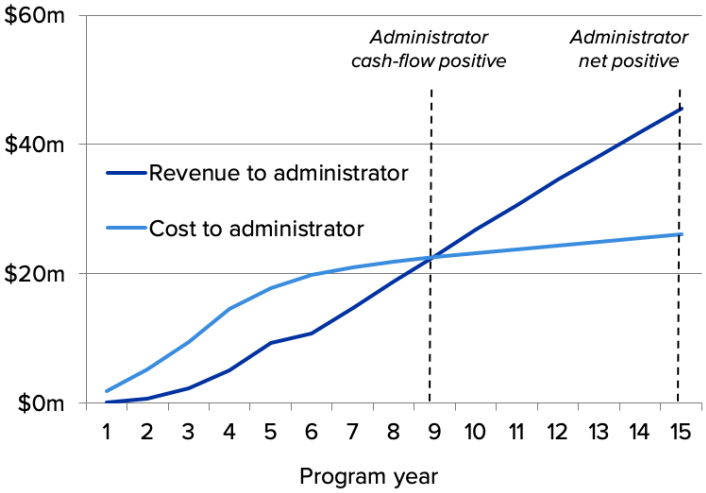


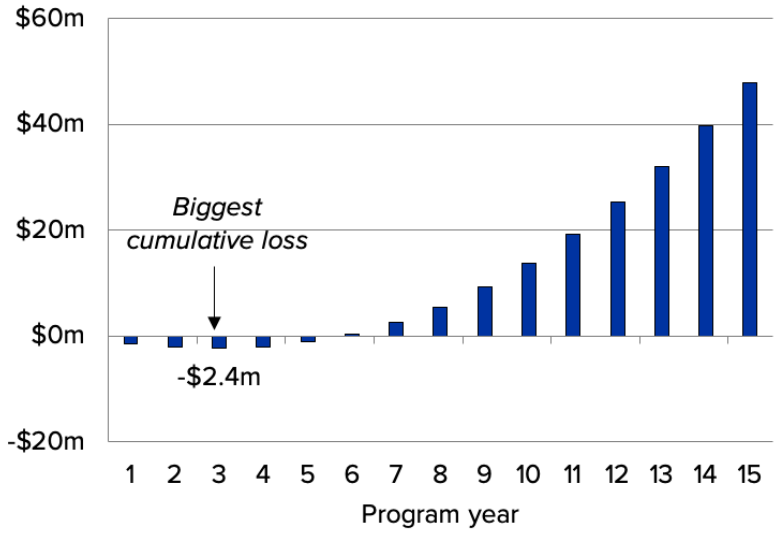
Figure 18. Revenue and Operating Costs for State under Baseline Scenario, Years 1-15



Note: The analysis assumes that employers are enrolled equally across the first four years of the program.
Source: CRR calculations

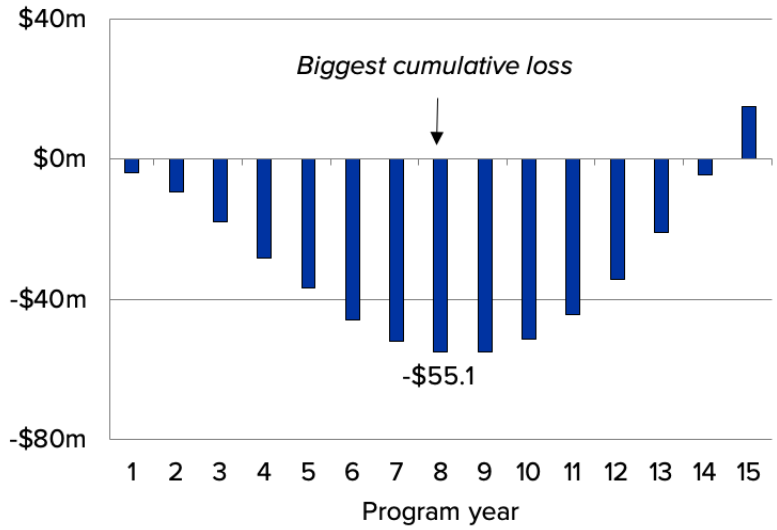
This maximum deficit serves both as a measure of risk to the two parties as well as the size of funding the program might require to support early operations. See Figures 19 and 20 for an illustration of how this works.

Figure 19. Net Revenue for the State under Baseline Scenario, Years 1-15



Source: CRR calculations.

Figure 20. Net Revenue for the Administrator under Baseline Scenario, Years 1-15



Source: CRR calculations.

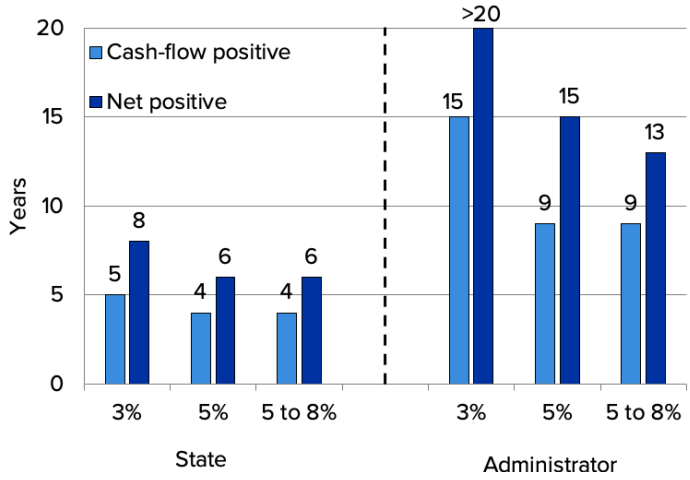
To attract administrators capable of meeting Colorado's needs, Colorado's program should become cash flow positive in reasonable period with cumulative deficits that can be profitably financed by an administrator. Alternative financial arrangements, such as a revenue split weighted more to the administrator, or per-account fees, can be used to reduce the administrator's largest deficit and timeline to breakeven. However, under an alternative financial arrangement, the state's finances become more sensitive to changes in employer participation, program costs, and particularly the level and type of small employer reimbursement introduced.

The state has additional tools it can use to tune program outcomes. Adding auto-escalation to the program increases saver balances and also improves the long-term financials for the state and the provider. The following illustration shows how breakeven and net positive timing improves as savings rates increase from 3% to 5%, and to 5% escalating to 8%:

Since Auto-IRAs are new and the program administration landscape is continuing to evolve, it is anticipated that an implementing Program Board would work closely with administrators to understand optimal and equitable pricing models that take into account the needs of savers with small dollar balances, especially in the early years of saving. As needed the state can consider different cost and revenue sharing arrangements between the state and its investment and administrative providers, as well as whether the program uses account fees, and the availability of startup funding for the program.

Adding auto-escalation to the program increases saver balances and also improves the long-term financials.

Figure 21. Years until Cash-flow Positive and Net Positive for State and Administrator by Default Employee Contribution Rate



Source: CRR calculations.

Reimbursing Employers

SB19-173 directed the Board to review the average costs of enrolling employers in the Colorado Secure Savings Program and determine a maximum amount that would be payable to employers with fewer than 50 employees to reimburse them for implementing the program.

CRR analyzed available information to determine employer impact. While employer roles are limited to facilitating the program, in general covered employers must complete certain key steps, including:

1. Enroll in the program – a few minutes to enter or confirm basic employer information and account preferences
2. Employer account setup - create a payroll list and add employees. Employers can add delegates or payroll representatives to assist with this task
3. Execute payroll deductions for savers – compute and submit contributions each pay period and add new employees to the system

While related costs appear to be minimal and the review did not lead to a specific forecast cost for employers of various circumstances and sizes, CRR did estimate the impact to the state of various levels of one-time reimbursement. Assuming that only one quarter of small employers pay out-of-pocket costs, a reimbursement level of up to $600 per affected employer extends the timeline to cost neutrality for the state by two years and would grow the largest one year Program loss in the baseline scenario from $2.4 million to $5.0 million. A reimbursement level of up to $200 would grow the largest one year program loss to $3.1 million.

In conclusion

In all cases, estimates show that state costs would amount to a very small fraction of total state expenditures – representing a low-risk proposition to improve the retirement security of hundreds of thousands of Colorado workers. Experience to date shows that even in early stages of rollout Auto IRAs have successfully created more than 100,000 employee accounts across the three states with implemented programs. Once mature, these programs are designed to be self-sustaining and to recoup start-up costs. Overall, Secure Savings would be well positioned to achieve its goals of helping people build their own assets for retirement at a minimal cost and risk to both employers and the state.[45]

In all cases, estimates show that State costs would amount to a very small fraction of total State expenditures – representing a low-risk proposition to improve the retirement security of hundreds of thousands of Colorado workers.

[45] CRR, Study A: Colorado Secure Savings Plan, 36-37.

IMPROVING RETIREMENT SECURITY - RECOMMENDATIONS FOR COLORADO

Evidence from state Auto IRA initiatives that have already been launched suggest that these programs have great potential to provide uncovered private sector workers with access to a simple and effective workplace-based retirement savings vehicle. Two years into its rollout, OregonSaves has over 60,000 funded accounts and about $40 million in total account balances. Early savers in Oregon now have balances in excess of $2,000 – well over the threshold that allows them to stave off a short term emergency, and well on their way to accumulating balances that will increase their retirement security permanently. Within a single year of operation, Illinois has 42,000 funded accounts (totaling $11 million) and, in less than a year, California has close to 4,000 funded accounts (totaling $1.4 million). While these data are very preliminary, these accounts and account balances represent savings for retirement that almost certainly would not have been accumulated in the absence of an Auto IRA program.

Evidence shows Auto IRA programs have great potential to provide uncovered workers with access to simple and effective workplace-based retirement savings.

Colorado Secure Savings is an opportunity to expand retirement access to hundreds of thousands of uncovered workers in Colorado, building on the lessons learned from early live programs. The proposed design features are well-suited to meet the needs of targeted employees because Auto IRA programs are accessible, portable, and simple to facilitate and use.[46] Despite interest and good intentions, many employers fail to start or provide retirement saving plans for their workers. An Auto IRA program provides the simplest alternative, quickly expanding coverage and use, and setting workers on the road to real savings and real financial resilience.

Through its work in 2019 and 2020 the Colorado Secure Savings Plan Board finds and determines that there are approaches to increasing retirement savings for private sector employees in a convenient, low-cost, and portable manner that are financially feasible and self-sustaining. The Board therefore makes the following recommendations and plan to implement its findings to the Governor and General Assembly.

[46] CRR, Study A: Colorado Secure Savings Plan, 10.

Recommendation 1
Establish the Colorado Secure Savings Program

(a) to be overseen by a Board appointed by the Governor for purposes of implanting and operating the Program (the "Program Board").[47]

(b) the Program recommended should conform with these characteristics, except as refined by the Program Board in the interest of being better positioned to achieve retirement security for Coloradans:

(1) automatically enroll private sector employees who work for employers in order to maximize simplicity of the program, maximize participation by private sector workers in a retirement savings plan, and increase the retirement savings of Colorado's private sector workers;

(2) begin employee contributions at 5% of their gross wages, with the contributions automatically escalating by 1% a year to a maximum rate of between 8% and 10%;

(3) permit employees to opt out of the Colorado Secure Savings Program or to select a different level of contribution;

(4) retain a third-party administrator to administer the Program;

(5) provide the following investment options:

> (i) a low-risk investment portfolio that offers both high credit quality and high liquidity;
>
> (ii) target date funds; and
>
> (iii) other investment funds as determined by the Program Board;

(6) minimize and limit total annual fees paid by savers who participate in the Colorado Secure Savings Program;

(7) implement processes that reduce the actions required by employers;

(8) ensure the portability of benefits by permitting the employee to make contributions to her plan even if the employee changes employers and/or no longer works for an employer who participates in the Program;

(9) ensure that employers in all of Colorado's industries who do not offer plans are covered by the Colorado Secure Savings Program and that employees in all of Colorado's industries can participate in the Program;

(10) as feasible, provide for the investment and deaccumulation of enrollee assets in a manner that maximizes financial security in retirement;

(11) as feasible, allow employers who are not covered by the Colorado Secure Savings Program to facilitate employee payroll deductions into the Program;

(12) allow individuals who meet the qualifications to open an IRA to voluntarily participate in the Program;

(13) ensure that, under reasonable financial assumptions, the Program will be cash flow positive to the state within five years; and,

(14) establish the Program so that savers are able to contribute within 24 months of ratification of enabling legislation.

[47] For clarity, throughout this Report the term "Board" refers to the Colorado Secure Savings Plan Board created under SB19-173, except where the term "Program Board" is specifically used.

Recommendation 2

Support Financial Education initiatives that build on the foundation that currently exists in the State

(a) as noted earlier, participation in retirement savings – including through an Auto IRA – can improve financial education. It provides a place and a purpose for relevant information that begins to expand a saver's financial experience and empowerment;

(b) The Colorado Secure Savings Plan Board recommends that alongside the establishment of an Auto IRA program, the Program Board and state work with program participants and existing organizations to increase financial awareness and education as it relates to the Colorado Secure Savings Program. The state should utilize existing financial education platforms to incorporate retirement savings financial education, including but not limited to:

- AARP Elderwatch
- The Consumer Financial Protection Bureau (CFPB)
- Denver Office of Financial Empowerment
- Economic Literacy Colorado
- EverFi Financial Literacy
- The Federal Reserve
- Financial Industry Regulatory Authority (FINRA) Foundation
- Financial Planning Association of Colorado
- Financial Security Coalition – a joint effort of the Office of the Attorney General, the Office of the Governor and the Office of the Treasurer
- Investor Protection Trust
- Jump$tart Coalition (Colorado and National)
- MoneyWi$er Teach Training Workshops — a partnership of the Office of the Attorney General, Colorado Department of Education, Economic Literacy Colorado, and Office of the Treasurer
- National Endowment for Financial Education
- National Financial Educators Council
- Securities & Exchange Commission Office of Investor Education
- Young Americans Center for Financial Education

(c) The Program Board should also explore alternative ways to pay for broad based financial education programs. Fees associated with the Colorado Secure Savings Auto IRA plan should only be used for financial education for plan participants

IMPLEMENTATION TIMELINE & PROGRAM EXPECTATIONS

Establishing a Secure Savings Program for Colorado will call for the involvement of a number of stakeholders and will take some time. Colorado can also benefit from and improve on the experience of states who have gone before.

In order to begin to benefit workers and to get on a path of fiscal improvement for the state, the Program should be implemented as soon as possible following legislative authorization. The legislation of other states has called for implementation within 24 months of bill passage.

Key steps in implementation include the following:

Establishing program governance and resourcing by appointing a Program Board and establishing staffing for the Program. Following the model of other successful states, a program for Colorado could be governed by a Program Board appointed by the Governor with membership including representation for employers and employees, along with expertise in investments or retirement savings program administration, and chaired by the State Treasurer. The Program Board would be staffed out of the Treasurer's office, generally by a program Director and other support staff as required to implement and operate the program. Advice received from other states suggests it is important to give the Program Board flexibility to use its best judgment in the establishment, implementation and operation of the program within the parameters defined by statute.

Engaging in-state agencies and key stakeholders. Collaboration with related agencies will be important to a Colorado Secure Savings Program. Agencies can help with the sourcing of employer data for use in direct contact regarding the program. Related agencies can also help with communication and awareness. Typically state agencies have well-established communication pathways with their constituents that enable them to share messaging about important state programs and upcoming deadlines. Example agencies include:

- Department of Labor and Employment
- Department of Revenue
- Secretary of State

Key stakeholders for the program will include the organizations and associations in the state that work most closely with employers and workers, such as Colorado's Chambers of Commerce, the wide range of associations of professionals working with employers (CPAs, HR professionals, and more), those representing small businesses and those focused on financial capability and asset building.

Completing any final analysis required for program establishment; confirm program design; evaluate readiness for launch and operation. With the benefit of statute, expert information and resources, the Program Board will confirm the final characteristics of the program. These include elements such as contributions and withdrawals, account types, target investment types; employer responsibilities, engagement and support; and how employees and workers will save into the program.

Initiating Rulemaking. Once the program design and operating model are confirmed, rulemaking can begin. Intended to create the regulations under which the program will operate, the rulemaking process provides an additional opportunity for the Program Board to engage with the public and stakeholders regarding how the program will ultimately function in Colorado.

Sequentially issuing RFPs for and retain program service providers for: legal, marketing, program administration, investments.

- Legal and Compliance – supplemental services as required to support program operation and review and approval of program-related materials
- Marketing – establishment of program identity and activity to increase awareness of the program on a statewide basis
- Program and Investment Consulting – support for program implementation and refinement, provider selection and monitoring, and investment selection and monitoring
- Program Administration – securing services of a provider who will operate the program on the state's behalf

Developing detailed implementation plan and approach, including program rollout schedule. Working with the program's administrator, the Program Board and its staff will establish the detailed rollout schedule for the program. Typically, programs are rolled out in waves, beginning with larger employers and rolling down to smaller employers over time. Programs also usually start with a 4-6 month pilot period which provides an opportunity to work with a small number of early-adopting employers to test and refine how the program is operating ahead of statewide rollout.

During this period, the program staff, administrator and affiliated agencies work together to ensure program-related employer data and communications are in place; the program will also engage in awareness, marketing and stakeholder information meetings on a statewide basis. This step provides an opportunity for in-state stakeholders to get to know the program and to share their perspectives – this two-way communication strengthens program operations for all involved.

Launching program; receiving first contributions. While this is the final milestone of an implementation plan, it is the first step of ongoing program operation. From this point forward the program's Board, staff, administrator and service providers will work together to ensure the program and its rollout are operating effectively, that employer and saver experience is positive and productive, and that all is functioning as intended – adjusting as needed.

Ongoing program operation. In normal operating mode, the program's Board and staff enter more of a monitoring and incremental improvement phase – adding features where it is shown that they can add value to the program and its users, tracking program metrics, monitoring investment performance and use, and continuing to engage and communicate with users. Rulemaking adjustments may be made to facilitate some of these changes.

The above assumes that Colorado is establishing a stand-alone program. Colorado could also elect to partner with another state to enter into an existing program. Under this scenario implementation steps would be similar, but both implementation and operation could benefit from state-level simplicity and efficiency in the areas described above, if a compatible Auto IRA program were identified.

Colorado could also establish its program in such a way that it would be attractive to other states, with the intent of achieving scale efficiencies for Colorado and partner states.

REFERENCES & APPENDICES

Center for Retirement Research at Boston College, Study A: Colorado Secure Savings Plan, February 2020.

Center for Retirement Research at Boston College, Study B: Colorado Secure Savings Plan, February 2020.

Corona Insights, Employer Input Research: Colorado Secure Savings Plan Board, January 2020.

Corona Insights, Retirement Savings Research: Colorado Secure Savings Plan Board, December 2019.

Econsult Solutions Inc., The Fiscal Impacts of Insufficient Retirement Savings in Colorado: a report to the Colorado Secure Savings Plan Board, February 2020.

Senate Bill 19-173: Colorado Secure Savings Plan Board.

Stated in the Executive Summary, "workers with access to a workplace retirement plan are 15 times more likely to save for retirement", Employee Benefit Research Institute. 2006. Unpublished estimates of the 2004 Survey of Income and Program Participation Wave 7 Topical Module (2006 data). Data are for workers earning between $30,000 and $50,000.

Select sources used in the development of fiscal impact estimates and other analysis for this Report:

Joint Budget Committee, Colorado Budget Package & Long Bill Narrative, FY 2019-20.

Colorado Future's Center. "The Effects of Aging on Colorado's Revenues and Expenditures: A View to 2030."

Department of Health Care Policy and Financing. "Improving Health & Quality to Help Coloradans Thrive (FY 2017-2018 Annual Report)."

Governor's Office of State Planning and Budgeting. "Colorado's State Budget on Aging." (2018)

Medicaid and component program data (anonymized) as provided by the state's Department of Health Care Policy and Finance (2015-2019)

Appendix A

RECAP OF EXPENDITURES BY THE COLORADO SECURE SAVINGS PLAN BOARD

Signed into law on May 20, 2019, Senate Bill 19-173 created the Colorado Secure Savings Plan Board to study appropriate approaches to increase the amount of retirement savings by Colorado's private sector workers. The Board is required to present a final report on its findings to the Governor and the General Assembly on or before February 28, 2020. For the 2019-20 state fiscal year, $800,000 was appropriated to the Department of Treasury for operating expenses related to fulfilling the Board's responsibilities under the Act. The Board completed its work in a fiscally responsible fashion and ahead of schedule.

$800,000	**Appropriation**
	Expenditure:
$194,000	Analysis – Corona Insights
$121,500	Analysis – Center for Retirement Research at Boston College
$60,000	Analysis – Econsult Solutions, Inc.
$19,000	Report Development and Publication
$3,800	Board Education
$398,300	**Total Expenditure**

Appendix B

PROGRAM EXPENDITURES FOR ELDERLY HOUSEHOLDS

The first step to quantify the impact of retirement savings levels on public assistance costs is to identify the assistance programs that would be impacted by changes in the characteristics of Colorado's elderly population. This analysis is most focused on means-tested programs, for which eligibility and state outlays are directly impacted by the level of savings held by households as reflected in their annual income. Most notably among these categories is Medicaid, a program jointly funded by federal and state governments that provides additional health insurance coverage beyond Medicare to many lower-income seniors. Additional programs were identified that were not means-tested, but were targeted specifically to seniors. In some cases, these programs disproportionately serve a lower income population, and accordingly would be impacted by changes in savings and income, while in other cases changes in program demand are correlated with the size of the senior population. This framework excludes general state services used by both the senior and non-senior populations (such as programs related transportation, corrections, housing, etc.) which are not materially impacted by senior income levels. This analysis also excludes programs that are entirely federally funded. Expenditure categories were identified using a mix of state budgetary information13 and a number of recent studies which identified key expenditure implications of the anticipated aging of Colorado's population. The identified means-tested programs and senior-targeted programs are outlined in Figures B.1 and B.2, following.

B.1: Identified Means-Tested Assistance Programs

Program (Agency)	Eligibility
Medicaid (DHS)	
Home and Community-Based Services (HCBS)	Colorado residents that demonstrate a need for nursing home level of care, earn less than $2,313 per month, and have less than $2,000 in assets can receive benefits from the Medicaid waivers programs, HCBS, or the nursing Medicaid programs. If the applicant is applying with a spouse, the income limit doubles to $4,626 per month and the asset limit increases to $3,000 ($4,000 if a couple plans on staying in the same nursing room). If the applicant is married but only one person is applying, the income limit is $2,313 and the asset level reverts to $2,000, but an addition asset level of $126,420 is included for the non-applicant.
Long-Term Care	
Medicaid - Dental Care	
Medicaid – Other	Single Colorado residents with a monthly income (countable income includes wages, pension payments, Social Security, Disability Income, veteran's benefits, IRA withdrawals, and stock dividends) of less than $771 and with less than $2,000 in assets (countable assets include cash, ownership of stocks and bonds, and savings and checking accounts; cars, a primary home, and personal belongs are not countable) are eligible for Medicaid. If the applicant is married, the income limit shifts to $1,157 per month and the asset limit increases to $3,000. The same requirements follow if the applicant is married but only one person is applying, except the asset level falls back to $2,000.
Medicaid Modernization Payments	Each state is mandated to make a payment to the federal government to reduce Medicare Part D (prescription drug) costs. The state payment is determined by a formula that takes into account the number of Medicare and Medicaid dual enrollees participating in the Part D program. Therefore, eligibility standards for Medicaid and senior income levels impact state costs for this payment.

Program (Agency)	Eligibility
Other Programs	
Old Age Pension (DHS)	Colorado residents 60 years or older whose monthly income is deemed less than established minimum acceptable level of monthly income for a particular year. In 2019, eligible applicants must have a monthly income of less than $809 and resources valued at less than $2,000 per individual or $3,000 per married household. The monthly payment amount is determined based on the difference between the established minimum income ($809) and the applicant's total gross income and is thus capped at a maximum benefit payment of $809
Old Age Pension – Medical (DHS)	Beyond the standard OAP program, the state also provides a smaller health and medical care program for Colorado residents that receive OAP payments but do not qualify for Medicaid.
Home Care Allowance (DHS)	Colorado residents 18 years or older who receive Supplemental Security Income (SSI) or are in the Colorado Aid to the Needy Disabled (AND) program. The Colorado AND program serves Coloradans aged 18-59, so the relevant eligibility requirements for seniors are those required to receive SSI. As of 2019, to be eligible for SSI, applicants can have a maximum individual monthly income of up to $771 and countable resources not exceeding $2,000 per individual or $3,000 per married household.
Dental Care for Low-Income Seniors (HCPF)	Colorado residents 60 years or older who have a maximum income of up to 250% of the most current published Federal Poverty Level (FPL) and who do not have or qualify for any other dental insurance such as Medicaid. According to 2019 FPL guidelines, the maximum income for eligible applicants is $2,602 per individual or $3,523 per 2-person household.

Source: ESI analysis of program information

B.2: Identified Senior-Targeted Assistance Programs

Program	Program Description
Senior Property Tax Exemption (Treasury)	The Property Tax Exemption program allows seniors to reduce their local property tax bill. Qualified applicants – a senior who is 65 or older or a surviving spouse of a senior who previously qualified – receive an exemption from taxation on 50 percent of the first $200,000 in actual value of their primary residence.
Older American Act Programs (DHS)	The federal Older Americans Act created an "Aging Network" of 16 Area Agencies on Aging (AAAs) around the state that contract with local service providers to offer an array of support services to older Colorado residents, such as transportation, legal assistance, and personal care. In order to direct additional resources to the AAAs, the Older Coloradans Cash Fund was created to provide state funding support for AAAs, referred to as State Funding for Senior Services (SFSS). To be eligible for the program, applicants must be 60 years or older. While the program is not means tested, its resources are targeted to participants with the greatest demonstrated social and economic need.
Adult Protective Services (DHS)	The Adult Protective Services program provides protective services to prevent, reduce, or eliminate the existing or potential risk of mistreatment or self-neglect of at-risk adults. To be eligible for the program, applicants must be adults 18 years or older (76 percent of participants are over 60) and susceptible to mistreatment or self-neglect due to inability to perform or obtain necessary services because they lack sufficient understanding or capacity to make or communicate responsible decisions.
Veterans Community Living Centers (DHS)	Veterans Community Living Centers are a state-supervised system of nursing homes for veterans and families of veterans offering long-term care, short-term rehabilitation, assisted living, and other services. Honorably-discharged veterans, spouses/widows of veterans, and Gold Star parents (of children who died while serving in the Armed Forces) are eligible for services. Of the population served by the program, 98 percent are over 60 years old. Currently, state Division of Veterans Affairs operates five locations throughout the state.

Source: ESI analysis of program information

Appendix C

CREDENTIALS – STUDY PROVIDERS

Corona Insights. Corona Insights is a Colorado-based small business with twenty years' experience in understanding and measuring public attitudes, behaviors, and beliefs. Approximately 75 percent of the company's 1,400+ research, evaluation, and strategy projects have taken place in Colorado. Corona's seasoned and experienced team includes demographers, psychologists, MBAs, marketing people, political scientists, and others.

Corona has provided services to a number of Colorado state government agencies in recent years. Corona has worked with CollegeInvest, the state's 529 education savings program, for nearly a decade, and their recent work with the Denver Office of Financial Empowerment to examine the personal and societal impacts of having a savings account provided a head start in understanding some of the key issues involved with retirement savings in Colorado. Corona has also worked on the Colorado Nonprofit Association's studies of philanthropy, which target (among other things) understanding how Colorado residents choose to spend their discretionary income.

Corona Insights serves as a resource for organizations who need to make decisions on a wide variety of topics, blending research and consulting to develop research and analysis. Corona's services are outlined here:

Market Research

- Scientific surveys (all modes)
- Focus groups (in-person and online)
- Multilingual research
- In-depth interviews
- On-site data collection
- Observational research
- Demographic research
- GIS
- Statistical analysis and modeling
- Campaign evaluation
- Usability testing
- Secondary data analysis

Evaluation

- Program outcomes evaluation
- Process implementation evaluation
- Needs assessments
- Cost-benefit analyses
- Economic impact studies
- Social and fiscal impact studies
- Feasibility studies

Strategic Consulting

- Business and marketing planning
- Program evaluation
- Data inventories and frameworks
- Strategic planning
- Strategy development
- Business model design for nonprofits

Econsult Solutions, Inc. (ESI). Headquartered in Philadelphia, Pennsylvania, ESI recently undertook a similar analysis of future statewide economic and fiscal impacts of insufficient retirement savings for the Pennsylvania Treasury. This study and ESI's extensive track record of economic, public policy and public finance analyses demonstrated the firm's modeling, research and report production capacity. ESI is already deeply familiar with the policy and economic considerations around the issue of private sector retirements savings, and had thought carefully about the key conceptual and analytical issues relevant to Colorado's analysis in advance of retention. Because of their experience and readiness, ESI was able to efficiently and reliably produce the requested analysis within the time frame specified by Colorado.

About the company: Econsult Solutions, Inc. (ESI) provides businesses and public policy makers with consulting services in urban economics, real estate, transportation, public infrastructure, development, public policy and finance, community and neighborhood development, planning, as well as expert witness services for litigation support.

ESI's team combines robust quantitative analysis with trusted expert insights to create tailored solutions for clients. ESI has the capability to engage in projects of various sizes, from comprehensive long-term studies involving complicated economic arguments and extensive data analysis to short-term advisory support. The 'Econsult' business has operated continuously since 1979; it was incorporated in December of 2012 as Econsult Solutions, Inc. ESI is a certified small business and an S-Corporation organized under the laws of the Commonwealth of Pennsylvania. The firm works nationally and internationally to offer a blend of cross-discipline experience and strategy.

ESI has conducted detailed research analysis on the scale of retirement insecurity among private sector workers and evaluated policy and economic considerations associated with state and local programs to help address this issue. This expertise, in combination with the company's deep experience in public finance and policy analysis, lead to the understanding that complex policy issues and proposed interventions often have a range of fiscal and economic consequences requiring careful quantification and attribution. Colorado's service requirements aligned with ESI's expertise at the intersection of public policy, data-based analytics and economic analysis.

Related experience: In 2018, the Pennsylvania Treasury commissioned ESI to conduct an analysis of the impact of insufficient retirement savings on the economic and fiscal health of the Commonwealth. The study was released at a January 25, 2018 hearing of the Treasurer's Private Sector Retirement Security Task Force.

Considerable discussion has focused on the financial capacity of elderly households to maintain their living standards during retirement. This issue is increasingly being understood as a public policy challenge, given its significant (and growing) implications for the economy and for public finance. The report quantifies two categories of public impact from insufficient savings for elderly Pennsylvanians:

- Current and future costs to the state for public assistance programs for elderly residents.
- Current and future loss of economic activity due to reduced household spending by elderly households, and associated impacts on state tax revenues.

Using a mix of budgetary, survey and economic data, ESI quantified current and projected fiscal and economic impacts from the state's elderly (age 65+) population, and modeled what those impacts would be if the state's elderly population was able to save sufficiently to achieve recommended levels of retirement income. The net difference between these scenarios isolates the impact of insufficient savings on the state's fiscal and economic health:

- Assistance Costs: The state spent an estimated $4.2 billion in state assistance costs for elderly residents, $700 million more than the estimated $3.5 billion it would have spent if these residents had sufficient savings. This net difference is projected to grow to $1.1 billion by 2030, totaling a cumulative $14.3 billion over the 2015-2030 period
- Household Spending: Pennsylvania's elderly households spent an estimated $49.8 billion in 2015, $2 billion less than the estimated $51.8 billion they would have spent given sufficient savings. This net expenditure loss is projected to grow to $3.1 billion by 2030, totaling a cumulative $40.0 billion over the 2015-2030 period
- Economic Activity and Jobs: The reduced economic activity means a loss of total economic impact of $2.8 billion in 2015, growing to $4.3 billion in 2030 and totaling a cumulative $55.8 billion over the 2015-2030 period. This lost activity leads to a loss in employment of more than 20,000 FTE jobs in 2015 to nearly 32,000 in 2030 as well as a loss of associated earnings
- Tax Revenue: The lost economic activity also means a reduction in state revenues. The fiscal cost to the state will grow from $70 million in foregone tax revenues in 2015, to $106 million in 2030, totaling a cumulative $1.4 billion over the 2015-2030 period

The Center for Retirement Research at Boston College

The Center for Retirement Research at Boston College (CRR) was established in 1998 through a grant from the U.S. Social Security Administration (SSA). The CRR's mission is to produce first-class research and educational tools and forge a strong link between the academic community and decision-makers in the public and private sectors around an issue of critical importance to the nation's future. Since its inception, the CRR has established a reputation as an authoritative source of information on all major aspects of the retirement income debate.

As a Center within the Boston College community, the CRR has all the benefits and resources of an established institution of higher education. It also receives institutional support from Boston College as a department under the Carroll School of Management. This support takes the form of office space and equipment, computers and network services through its Information Technology (IT) department, and an Institutional Review Board (IRB) office that allows access to secure data as required.

The CRR has been primarily grant-funded, with support from various government, non-profit, and private sources. The CRR has had anywhere from eight to twenty active grants during any given year. The CRR maintains an impressive track record of carrying out funded research projects on time and within budget. Examples of continuous support are grants from the SSA, which has funded the CRR for the last 21 years, and also the Center for State and Local Government Excellence, which has funded the CRR for the last 15 years. Other current funding sources include the Sloan Foundation, The Laura and John Arnold Foundation, the state of Rhode Island, The PEW Charitable Trusts Foundation, and The Ashurst Foundation, among others, as a result of our proven ability to conduct research projects within scope and budget.