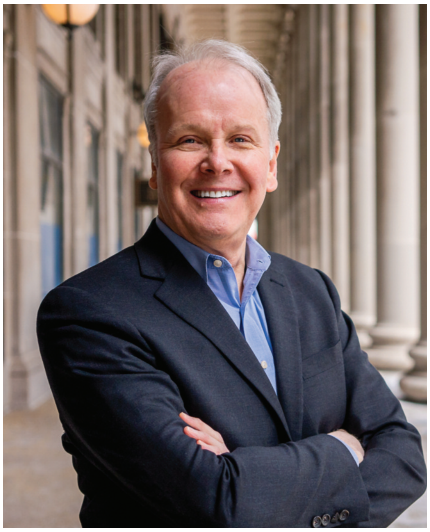

Mark J. Gilbert, CPA/PFS, MBA
President, Reason Financial Advisors
mgilbert@reasonfinancial.com
ICPAS member since 1982

Can Secure Choice Secure Illinoisans' Retirements?

As America's savings crisis persists, Illinois acts to move employers and employees toward secure savings habits.

You've probably heard the startling statistics on Americans' savings for retirement so many times that you've become numb to them. But I'll put some out there anyway. A 2018 study by Northwestern Mutual found that 31 percent of Americans have $5,000 or less in savings. The same study discovered that 33 percent of baby boomers, the working generation closest to retirement age, have $25,000 or less in savings. A 2016 survey of baby boomers by the Insured Retirement Institute found that among those with little confidence in their retirement plans, 68 percent wished they saved more money, and 67 percent wished they had started saving earlier in their lives.

Clearly the need and desire to save for retirement is great. And IRAs and employer-sponsored plans like 401(k) plans, in their present formats, have been around for at least 30 years. Yet, statistics like these prove something is lacking.

We know one problem. People save best when their funds are withheld from their paychecks and are deposited into appropriate savings accounts before they have access to those funds. That is an inherent weakness of saving through most personal IRAs. 401(k) plans are funded largely by salary deduction contributions, which solve the problem with most IRAs, but a 401(k) plan is costly for an employer to administer and is still an elective for employees. Perhaps that is why, according to a 2018 report from the Stanford (University) Center on Longevity, only about half of American workers are participating in a retirement plan at work.

The long-term consequences of this failure to save might be dramatic. Not only could one's standard of living be negatively affected, but overall U.S. and global economic consumption and GDP growth could stall, impacting the saving and investment goals of even those who have been able to accumulate savings.

It stands to reason that if saving for retirement could be made easier for both employers and employees, the severity of the problem could be lessened. In Illinois, one such solution has been available since November 2018: Secure Choice.

THE BASICS

Secure Choice has been designed as a simple-to-administer program for employers, as well as an easy-to-access savings program for employees for whom an employer-sponsored retirement plan is not available. The program, enacted through state legislation in 2015, is overseen by the Illinois state treasurer and managed by a selected program administrator. Under the Secure Choice law, Illinois employers with at least 25 employees (generally) must offer eligible employees participation in either an employer-sponsored retirement plan (like a 401(k) plan) or in the Secure Choice plan, which is a Roth IRA.

Under Secure Choice, employers must withhold five percent of an employee's gross pay and remit the funds to the program administrator for further deposit into investment accounts established by the employees, unless the employee elects a different percentage or opts out of the program altogether. Unlike qualified employer retirement plans, Secure Choice is not preempted by ERISA. This means that there is substantially no liability on the part of the employer to educate participants or monitor investment fund performance.

FOR EMPLOYERS

Employers are required to participate in Secure Choice if they (a) employ at least 25 employees as reported to Illinois Department of Employment Security for unemployment insurance purposes, (b) have been operating for at least two years, and (c) do not offer an employer-sponsored retirement plan.

The state has organized employers into three groups for purposes of getting the program up and running. The first group consists of employers with at least 500 employees. This group was mandated to register with the program by Nov. 1, 2018 and commence payroll deductions for enrolled employees in January 2019. The second group, consisting of employers with 100-499 employees, was required to register with the program by July 1, 2019 and commence payroll deductions for enrolled employees in September 2019. The third group, which includes employers with 25-99 employees, must register with the program by Nov. 1, 2019 and commence payroll deductions for enrolled employees in January 2020.

The treasurer's office has already notified, and will continue to notify, employers about the program and their required participation. In most cases, eligible employers have received multiple notices, according to a timeline prior to the employer's registration deadline. Generally, notices have been prepared and sent to those employers for whom the office believes there are no employer retirement plans in place as evidenced by a lack of a Form 5500 filed with the IRS in recent years.

FOR EMPLOYEES

Employees are eligible for Secure Choice if they (a) are at least 18 years old, (b) are working in Illinois, (c) are not offered an employer-sponsored retirement plan through their employer, and (d) are full-time or part-time employees but not full-time students in a work-study program.

Employees can direct the rate at which contributions are withheld, including 0 percent. Because Secure Choice is a Roth IRA, annual contributions are limited to $6,000 in 2019 or $7,000 when the employee is at least age 50. In addition, income limits (defined as modified adjusted gross income) apply to further limit the maximum contribution amount to an employee's Secure Choice account. For single filers, a full Secure Choice contribution is allowed if MAGI falls below $122,000 in 2019. For married filing jointly, a full contribution is allowed for MAGI of up to $193,000 in 2019.

Employees also direct how their contributions are invested. There are four broad investment categories to choose from: The Target Retirement Fund (consisting of 11 BlackRock target date mutual funds,) the Capital Preservation Fund (including two money market funds), the Conservative Fund (1 mutual fund), and the Growth Fund (1 mutual fund). The default investment options under the Secure Choice program include one of the money market funds (from day 1-89 after the initial contribution) and the age-appropriate target date fund for the employee (90 days after the initial contribution).

Secure Choice represents a commonsense solution to the growing problem of Americans saving too little for retirement. From the employer's perspective, after registering the company and enrolling the employee in the program, ongoing maintenance is about the same as any other payroll withholding or deduction. Most importantly, there are none of the ERISA responsibilities as with qualified employer retirement plans or testing requirements as with 401(k) plans. From the employee's perspective, retirement savings funds are withheld from payroll and deposited in appropriate investment funds that do not require employee direction unless desired. Thus, Secure Choice features some of the best characteristics of retirement plans while avoiding some of the most burdensome regulations.

I believe Secure Choice will provide a meaningful portion of the retirement savings for many Illinois workers in the years to come. While Secure Choice is not a substitute for a well-thought personal retirement savings plan, it can be one component of that plan — a component that is often missing for many Americans.