

The cover page features a layout of colored rectangular blocks. At the top is a solid orange block. Below it, the page is split into a large gray block on the left and a green block on the right. The gray block contains the title text. Below the gray and green blocks is a row of four orange blocks; the rightmost one contains the year '2018'. Below this row is a large orange block on the left and a blue block on the right. At the very bottom is a solid orange block.

Feasibility Study of South Carolina's Voluntary Multi-Employer Plan

2018

Feasibility Study of South Carolina's Voluntary Multi-Employer Plan (SCVs)

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Executive Summary

The goal of South Carolina's Voluntary Multiple Employer Plan (SCVMEP) is to provide increased retirement stability and security of the estimated 70% of South Carolina workers who do not have a retirement savings plan available to them through their employer. To do this, the program must achieve several short- and medium-term goals:

- 1) a large percentage of eligible workers must participate in the program and remain enrolled over time;
- 2) enrolled workers must contribute enough to meet a significant portion of their retirement income needs and to build up enough assets in SCVMEP to make the program financially feasible for the state to operate; and
- 3) South Carolina employers must be able to comply with program requirements without incurring significant costs.

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Below is a summary of our main findings and projections. We provide the details behind these estimates in the main body of the report.

1. Estimated market size: The market analysis provides a detailed assessment of both the employee and employer markets for SCVMEP. Of all employers in South Carolina – about 72,000, almost 60 percent of them (almost 42,000 employers) currently do not offer a retirement savings plan to their employees and will be eligible for SCVMEP. Approximately 70 percent of the South Carolina workforce – approximately 1.5 million workers – do not have access to an employer-based retirement savings plan. Of these 1.5 million, we estimated an opt-out rate of 20%, resulting in an adjusted potential market size of 1.2 million employees.

2. Projection of account openings over time.

Projected employee adoptions of SCVMEP starting with the year of inception

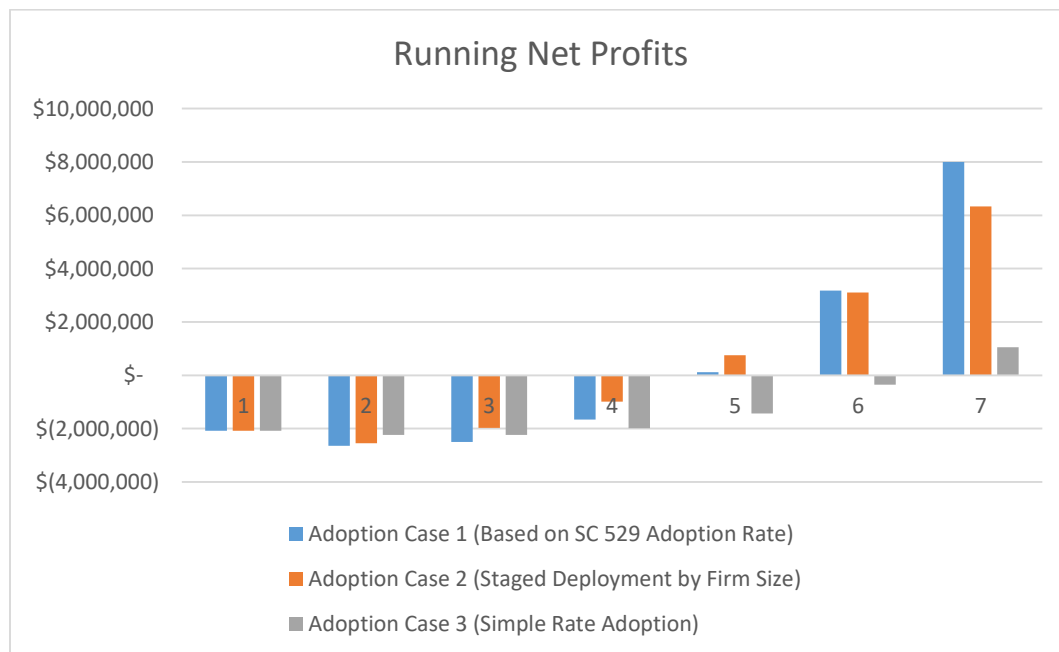
Year	2019	2020	2021	2022	2023
Adoption (Cum)	171,936	304,344	447,408	595,032	720,000

3. Estimates on cost to start-up a voluntary MEP, 401k program. The estimated start-up cost includes the cost to hire a consultant, choose a record keeper, choose an investment firm and advertise and promote the program. The start-up costs will be absorbed by the State of South Carolina and the record keeper (who has the incentive to absorb these costs in anticipation of future profits). The share of start up costs between the state and the chosen record keeper will play an important role in the terms of the contract for the record keeper. Thus, we estimate a range of \$1M to \$5M in start-up costs for the state.
4. Estimates on the cost to do Request for Proposals – RFPs. (Assumes two RFPs – one for an investment consultant and one for a record keeper). We estimate a cost of approximately \$80,000 for an outside consultant to help design the RFPs and evaluate the submitted proposals. The actual cost of conducting the RFPs will depend on which state agencies are assigned this task, but these costs are assumed to be small in comparison to the cost of the consultant.
5. Estimates on cost to run program after start-up. The cost to run SCVMEP after start-up include the overhead costs (the per account record, the ongoing cost of staffing the program at the government level) and the investment management costs. (The per-account cost is borne by the record keeper, the cost of staffing is typically shared by the government and the record keeper, and the investment management cost are borne by the investment manager.) We estimate the total cost to be 100 basis points, split as follows: 10 basis points for the investment management firm, 10 basis points for the state agency overseeing the SCVMEP and 80 basis points for the record keeper.
6. Estimates on the administrative cost to employer to set up program/payroll deduction. These include costs for small employers not using a payroll service as well as larger employers who are using such a service. For cost planning purposes we are assuming that any employer that has a payroll service will be able to add the MEP program at little or no cost. Any employer that does not have a service will need to create a work around. For the companies without a payroll service there will need to be some effort taken to set up a payroll deduction or additional costs to sign up with a payroll service to allow for an automatic payroll deduction. The costs should be minimal and we would suggest that the record keeper offer support for employer setup as the record keeper has a

tangible incentive to sign up additional employers (as record keepers collect more fees as the plan grows).

7. Estimates on when program will become self-sustaining. The projected time to financial self-sufficiency depends on many assumptions. Among the main ones are the start-up costs (who absorbs this cost – the state or the record keeper), the terms of the agreement with the record keeper, the adoption rate over time of both employers and employees, the salary of the employees that adopt the plan, the investment percentage of the employees that adopt the plan, and the rate of return of their investments and the withdrawal rate of the participating employees. Rather than provide a static estimate in this report, the consultants have provided an interactive dashboard where the estimates for these assumptions can be adjusted and the corresponding time to break-even is shown on a graph.

Based on some initial scenarios (detailed in section 7) using the dashboard we expect a time to break-even to be between five to 7 years.



8. Consultants' recommendation as to whether the investments should be bundled with the record keeper or separate. Based on our evaluation of the structure of similar plans at other states, we did not find any other state that has bundled these two functions. This may be for several reasons. One is simple economics as there are a larger set of providers by separating the two functions. There are also cost implications as the low cost providers could be chosen for each of the separate services. A primary concern of bundling is that the independence of the record keeper could be lost. There have been cases where secret fees were uncovered, thus undermining the confidence in the overall program. Thus, it is our opinion that such a bundling could lead to either a direct reduction in fiduciary oversight, an appearance of the possibility of such an oversight, or both.

9. Benchmark of state-facilitated plans from other states. This section includes benchmark comparisons of similar state-facilitated plans or marketplaces. The state most advanced in its implementation is Oregon, which had a soft start of their OregonSaves program in the fall of 2017 and an official start in January 2018. While OregonSaves is an IRA plan, and SCVMEP is a 401(k) plan, the target populations are similar.

1. Estimated Market Size⁴

Approximately 1.5 million workers in South Carolina are without access to a retirement plan through their employment and can be grouped into three broad categories: 1) 1.25 million workers whose employers do not currently offer a plan to any workers; 2) 258,000 workers whose employers offer a plan for which they are ineligible; and 3) approximately 8,600 workers who are self-employed (see Table 1). The proposed program calls for employers who do not currently offer a plan to participate in SCVMEP on a volunteer basis, and those that do participate will automatically enroll their employees.

Detailed Employee Market Analysis

The objective of the Employee Market Analysis is to describe the number and characteristics of the employees most likely to be affected by the SCVMEP and their probable responses to the program. Both the size of SCVMEP's market and the participation rate will help determine if the program will increase retirement security and be financially practical to operate. This market analysis describes the number of employees, their geographic distribution across South Carolina, and their demographic information. Most of this information was gathered from the U.S. Census Bureau's *Current Population Survey March Supplement*, a widely-accepted economic dataset with information about retirement savings coverage, employment, and demographics. Using the *Financial Industry Regulatory Authority (FINRA) National Financial Capability Study*, this market analysis also examines the financial and technological capabilities of affected workers, as these competencies will affect how the state chooses to communicate with eligible participants. Finally, the market analysis will estimate likely participation in the program, with separate analyses for automatically-enrolled participants and those who would have to opt in.

As Table 1 shows, 70 percent of the South Carolina workforce – approximately 1.5 million workers – do not have access to an employer-based retirement savings plan. There are different reasons for this lack of coverage, which will impact how these workers will interact with the SCVMEP. Approximately 1.25 million of these workers – or 82 percent of them – work for an employer who does not offer a retirement plan; should these employers sign up with SCVMEP under the proposed legislation then their employees would be enrolled automatically in SCVMEP. Within the remaining 267,000 uncovered workers, 258,000 (17 percent of total uncovered workers) do not qualify for a plan their employer offers, and 8,600 (.6 percent of total uncovered workers) are self-employed and do not administer a plan themselves. Eventually, these two groups should become eligible for SCVMEP as well. Initially, the focus will be on the group of uncovered workers whose employer does not offer a plan.

⁴ The material in this section borrows from the Market Research Report: Oregon Retirement Savings Plan conducted by the Center for Retirement Research at Boston College.

The following table provides an estimate of the total percentage of South Carolina workers that do not currently have access to a retirement plan through their employer.⁵

Table 1. *Uncovered Workers in South Carolina by Reason for Lack of Coverage, (2017 Estimates)*

Reason for not having coverage	Number of workers	Share of total workforce
All South Carolina workers	2,152,817	100%
Uncovered workers	1,515,583	70
Employer does not offer plan	1,248,634	58
Employer offers plan, not included	258,338	12
Self-employed without plan	8,611	.4

Note: Weighted using the *Current Population Survey March Supplement* weights. Includes both private and public sector workers. All public sector workers are considered as working for an employer offering a plan in which they are not included.

Source: *Current Population Survey, March Supplement 2016* (reflecting 2015 calendar year data).

Table 2 compares workers covered by a retirement plan at work and those uncovered regardless of why they are uncovered. The most significant finding in Table 2 is that uncovered workers, when compared to workers with access to a retirement plan, tend to be female, be of prime working age, and not have any college education. Additionally, these workers generally are white and American-born.

⁵ *Uncovered Workers in South Carolina by Reason for Lack of Coverage, (2017 Estimates)*. Note: Number of workers are calculated by weighted 2017 population estimation of SC using the *Current Population Survey March Supplement 2016* weights. There is some controversy about the current CPS numbers with a belief that they may understate coverage. See for example: https://www.ici.org/pressroom/news/18_news_plan_participation. We use these figures however as they represent a conservative estimate on the potential market size.

Table 2. *Key Demographics of Uncovered Workers by Coverage, (2017 Estimates)*

Characteristic	Covered by a plan		Not covered by a plan	
	Number	Share	Number	Share
Total	645,845	100%	1,506,972	100%
<i>Gender</i>				
Male	324,833	50.3%	687,711	45.6%
Female	321,012	49.7%	819,261	54.4%
<i>Age</i>				
Under 18	-	0.0%	85,507	5.7%
18-24	-	0.0%	157,859	10.5%
25-54	30,573	4.7%	837,531	55.6%
55-64	133,755	20.7%	224,365	14.9%
64+	481,518	74.6%	201,709	13.4%
<i>Race</i>				
White	527,376	81.7%	930,413	61.7%
Black	107,004	16.6%	409,009	27.1%
Asian	-	0.0%	23,942	1.6%
Hispanic	11,465	1.8%	98,662	6.5%
Other	-	0.0%	45,209	3.0%
<i>Nativity</i>				
Native	626,737	97.0%	1,392,962	92.4%
Foreign-born	19,108	3.0%	114,010	7.6%
<i>Education</i>				
Less than HS	53,502	8.3%	304,756	20.2%
High school only	217,829	33.7%	475,770	31.6%
Some college	191,078	29.6%	408,534	27.1%
Bachelor's or more	183,435	28.4%	317,911	21.1%
<i>Number of employers</i>				
Not in universe	481,518	74.6%	554,700	36.8%

Single employer	160,506	24.9%	856,533	56.8%
Multiple employers	3,822	0.59%	95,739	6.35%

Source: Current Population Survey, March Supplement 2016 (reflecting 2015 calendar year data).

Geographic distribution

Understanding the geographic distribution of SC employment can help target communications messages more effectively to publicize the SCVMEP. Most workers in South Carolina are in one of three major metropolitan areas: Columbia-Lexington, Charleston, or Greenville-Spartanburg. Most uncovered workers eligible for automatic enrollment follow the same population pattern. The largest of these metropolitan areas is Columbia-Lexington (see Table 3), but almost 20% live outside the largest metro areas of the state. Notably, those self-employed workers who will most likely be required to opt into the plan are concentrated outside of the two largest metro areas compared to other uncovered workers. The geographic distribution of these employers who will opt-in should be kept in mind, since a primary goal of the program is to provide all workers in South Carolina with access to a high-quality retirement savings program that they can contribute to through automatic payroll deductions.

Table 3. *Distribution of Workers by Employment and Retirement Savings Plan Coverage, 2015*

All workers		Employer does not offer a plan		Employer offers plan, not eligible		Self-employed without plan	
Metro area	Number	Number	Share	Number	Share	Number	Share
Total	2,152,817	1,248,634	100%	258,338	100%	8,611	100%
<i>By metro area</i>							
Anderson, SC	57,048	30,533	2.4%	3,974	2.3%	-	0.0%
Augusta-Richmond County, GA-SC	61,552	11,249	0.9%	35,770	1.5%	-	0.0%
Charleston-North Charleston, SC	303,256	192,839	15.4%	29,808	13.8%	-	0.0%
Charlotte-Concord-Gastonia, NC-SC	149,376	91,599	7.3%	49,680	11.5%	1,722	20.0%
Columbia, SC	334,783	163,913	13.1%	-	19.2%	-	0.0%
Florence, SC	89,325	57,852	4.6%	43,719	0.0%	-	0.0%
Greenville, SC	383,574	252,298	20.2%	5,962	16.9%	5,167	60.0%
Hilton Head Island-Bluffton-Beaufort, SC	49,542	25,712	2.1%	13,911	2.3%	-	0.0%

Myrtle Beach-Conway- North Myrtle Beach, SC- NC	124,605	80,350	6.4%	25,834	5.4%	1,722	20.0%
Spartanburg, SC	120,852	53,031	4.2%	-	10.0%	-	0.0%
Other	478,904	289,259	23.2%	5,962	16.9%	-	0.0%

Source: Current Population Survey, March Supplement 2016 (reflecting 2015 calendar year data).

Anticipated Employee Response to SCVMEP

Sources suggest that between 70 and 80 percent of workers automatically enrolled into SCVMEP are likely to remain in the program, while the balance will probably opt out. The low projected opt-out rate is due primarily to automatic enrollment and is unlikely to change by more than 5 percentage points based on the proposed plan. With a contribution rate between three and six percent of pay - regardless of whether contribution is before or after tax, the number of investment choices, and the presence of a default annuity withdrawal option upon retirement, the opt-out rate is expected to remain low.

While differences in the proposed plan are unlikely to affect opt-out rates, communication can potentially increase participation and deferral rates. Customer retention best practices require personalized communications campaigns for each segment of the market and the use of simple, culturally relevant content to delivery important, key message over different communication channels during different time frames, such as initial enrollment. Communications should include simple messages that suggest expert-recommended savings rates to participants.

It is expected that participation rates among workers eligible for SCVMEP but not automatically enrolled will be significantly lower – possibly in the 20-30 percent range. The difficulty of the enrollment process, user interface, plan design, and advertising and communications will all affect membership. The easier it is to enroll – and possibly preselecting the contribution rate and investment vehicle – can dramatically increase participation among those who will opt-in to the plan. Also making employees choose – to either enroll or not enroll – can increase participation rates based on the experience of some 401(k) plans that use this “active choice” approach. Also, targeted communications can boost enrollment of those who must opt in, particularly among younger workers.

Job mobility is one issue that will affect the program’s success. In any given year, almost one-third of uncovered workers move. Twenty to 25 percent are likely to switch employers and eight to ten percent are likely to become unemployed. It is difficult to anticipate the effect of worker mobility on participation until the plan is implemented, but it is logical to assume changing employers may create gaps of non-participation if the new employer does not start deductions quickly. Additionally, unemployment may cause participants to leave the program or account balances to fall below levels that will cover fixed administrative costs.

Market Response to SCVMEP

As state-facilitated retirement plans with automatic enrollment do not currently exist on a large scale, the anticipated market response to SCVMEP must be deduced from other sources: 1) online surveys and experiments with uncovered workers; 2) 401(k) participant behavior; 3) automatic enrollment response in programs in the United Kingdom; and 4) observed participation rates in the OregonSaves Auto IRA plan. Each source has its own strengths and weaknesses. Online surveys and experiments can estimate opt-out rates in a variety of plan designs, but real world results may be different, as the sample of uncovered workers is not using real money and the participants are not actually automatically enrolled in a savings plan. Studying the behavior of 401(k) participants is helpful because the data will reflect real-world behavior, but uncovered workers may not react to an auto-IRA the same way covered workers react to a 401(k). Observing the behavior of U.K. workers may be useful, as workers covered by bodies such as the U.K.'s National Employment Savings Trust (NEST), are similar to uncovered U.S. workers. However, the U.K.'s system is structured more like a 401(k) plan, so British workers have access to a national pension, which is different from Social Security, and therefore may not behave like workers in the U.S. While the OregonSaves program is an Auto-IRA plan and SCVMEP is a 401(k) plan, the target populations are similar, so their experienced opt-out rates may serve as good estimates for the opt-out rate of SCVMEP. In its first six months of implementation, OregonSaves has experienced a 20 - 25% employee opt-out rate.⁶

Based on personal communications with Lisa Messina, Executive Director of Oregon's state-facilitated plan, Office of the Treasury for the state of Oregon, the experience from the roll-out of the OregonSaves plan is as follows. Oregon started mandating their plan with the firms employing the largest number of people, although any size firm is welcome to join before their mandated date. The plan requires auto-enrollment of employees at a default rate of five percent of pay. Employees can change their withholding rate or opt-out of the plan completely. The firms already participating in the plan are experiencing approximately a 20 percent opt-out rate at five percent of pay. For those who stay in, 20 percent make changes. Of these 20 percent, 33 percent increase their withholding rate, while remaining 66 percent decrease their withholding rate. The result has been a savings rate of approximately 4.5 percent.

Projected opt-out rate

Aggregating the results from all four sources above indicates a maximum of 20 to 30 percent of workers will opt out of SCVMEP. This assumes the plan will automatically enroll workers with a contribution rate of two to six percent initially and an investment choice of a target date fund. Automatic enrollment is the primary contributor of the low opt-out rate, and has proved to be successful in increasing participation rates to over 80 percent across a variety of firms, employee groups, plan designs, and geographic areas, as seen in Table 4. Perhaps unexpectedly, NEST data indicate opt-out rates are significantly lower for employees starting a new job compared to existing employees of an employer who has offered access to NEST for the first time.

⁶ Minutes from the Oregon Retirement Savings Board Meeting, March 13, 2018

Table 4. *Opt-Out Rates in Different Contexts*

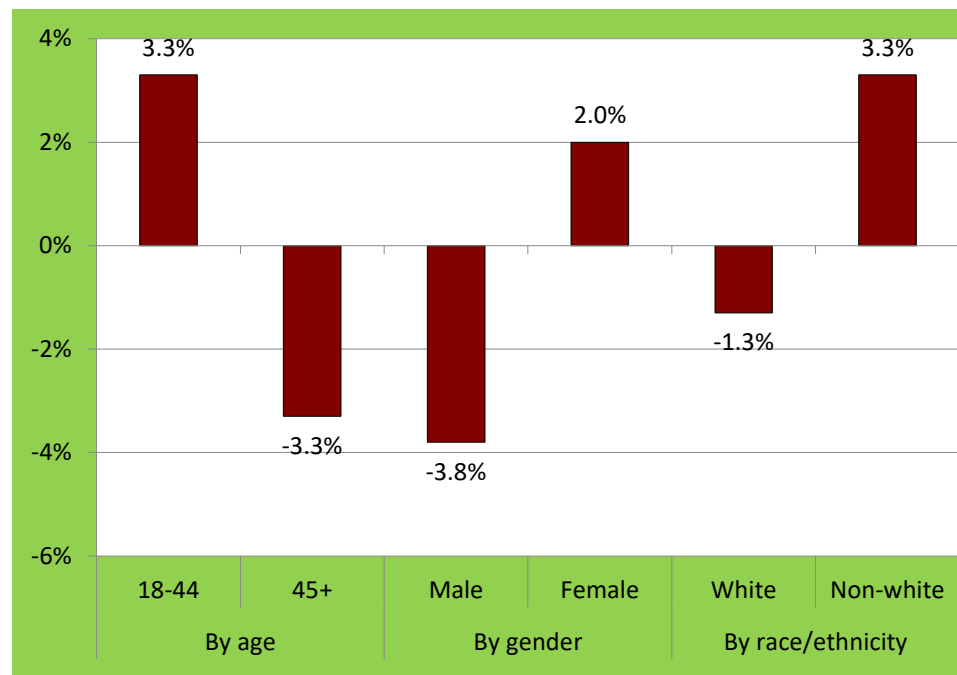
Source (year)	Study description	Participation rate
CRR (2015)	National enrollment experiment of uncovered workers under a variety of plan designs.	Approximately 80%, with little change in response to common plan design changes.
California Feasibility Study (2015)	Survey of uncovered workers in California.	Approximately 75%, with no difference between a 3% and 5% contribution rate.
Choi, James J., David Laibson, and Brigitte C. Madrian (2007)	Study of 401(k) participation under different plan designs among workers in a large firm.	Average 80% participation rate in plans without an employer match.
Choi, James J., David Laibson, Brigitte C. Madrian, and Andrew Metrick (2001)	Analysis of participation in the 401(k) plans at three large firms.	Participation rates ranged between 75% and 90%, depending on plan design.
Vanguard (2014)	Report on opt-out rates among newly hired employees in 460 plans.	79% of workers earning under \$30,000 per year with no employer match participated when automatically enrolled.
EBRI (2005)	Projection model simulating automatic enrollment	Participation rates of 90-94%, with wealthier individuals opting out more.
NEST (2013)	Survey of 50 UK employers and opt-out rates within the first six months	Participation rates hover around 91%. Rates are even lower for new employees joining employers in NEST.

Various data show opt-outs in plans with automatic enrollment change as a function of age, income, gender, and race. The most clear-cut finding is that opt-out is directly related to age: a larger share of workers over the age of 50 opt out than younger workers (Clark et al. 2012);⁷ this correlation is supported by experiments and 401(k) and NEST data. Data from experiments and 401(k) accounts also indicate minorities and women opt out at lower rates than whites and men (Copeland 2012).⁸ Interestingly, there is conflicting evidence regarding low-income versus high-income opt-out rates. Demographic differences in opt-out rates examined in a national experiment of uncovered workers is found in Figure 1 below.

⁷ Clark, Robert L., Melinda Sandler Morrill, and Steven G. Allen. 2012. "Effectiveness of Employer-Provided Financial Information: Hiring to Retiring." *The American Economic Review* 102(3): 314-318.

⁸ Craig Copeland. 2012. "Individual Account Retirement Plans: An Analysis of the 2010 Survey of Consumer Finances," *Issue Brief* 375. Washington, DC: Employee Benefit Research Institute.

Figure 1. *Change in Participation by Demographics, National Enrollment Experiment*



Source: CRR calculations from Knowledge Networks Survey (2015).

Participation rates are harder to predict among workers who are not automatically enrolled in a retirement savings plan. According to studies on 401(k) participation, an estimated 20-40 percent of eligible workers will opt into a plan within the first few years of employment (Choi et al., 2004 and 2007)⁹. If workers are forced to make a choice – “active choice” – participation increases, in some instances up to 70 percent (Carroll et al. 2005, Keller et al. 2011).¹⁰ Another factor shown to increase participation rates in savings plans without automatic enrollment is a simple enrollment process (Choi,

⁹ Choi, James J., David Laibson, Brigitte C. Madrian, and Andrew Metrick. 2004. “For Better or for Worse: Default Effects and 401(k) Savings Behavior.” In *Perspectives on the Economics of Aging*, 81-126. Chicago, IL: University of Chicago Press.
Choi, James J., David Laibson, and Brigitte C. Madrian. 2007. “Reducing the Complexity Costs of 401(k) Participation Through Quick Enrollment.” In *Developments in the Economics of Aging*, edited by David A. Wise, 57-82. Chicago, IL: University of Chicago Press.

¹⁰ Carroll, Gabriel D., James J. Choi, David Laibson, Brigitte C. Madrian, and Andrew Metrick. 2005. “Optimal Defaults and Active Decisions.” Working Paper No. 11074. Cambridge, MA: National Bureau of Economic Research.
Keller, Punam Anand, Bari Harlam, George Loewenstein, and Kevin G. Volpp. 2011. “Enhanced active choice: A New Method to Motivate Behavior Change.” *Journal of Consumer Psychology* 21 (4): 376-83.

Laibson, and Madrian 2007).¹¹ It is possible participation rates will be different in the SCVMEP, however, because the behavior of covered workers choosing to participate in a 401(k) could be very different than uncovered workers opting into the state program. For example, an employer with a 401(k) may have staff dedicated to enrolling employees, so these observations should be used as guidelines, not predictors of participation.

Effect of plan and program design on opt-out

The lowest opt-out rates and highest participation rates have resulted from automatic enrollment, as described above in a variety of different plan designs. One important element of plan design which greatly affects retirement income and the financial sustainability of the program is the initial (or default) salary contribution rate (or deferral rate). Data gathered from 401(k) participant behavior, experimental evidence, and NEST suggest South Carolina can adopt a beginning deferral rate of up to six percent or a lower initial contribution rate with automatic escalation to as high as 10 percent without drastically increasing opt-outs (Beshears et al. 2004).¹² It is certainly possible to set default deferral rates too high, though. Studies of plans with default contribution rates higher than 10 percent showed large increases in opt-out rates (Beshears et al. 2010).¹³

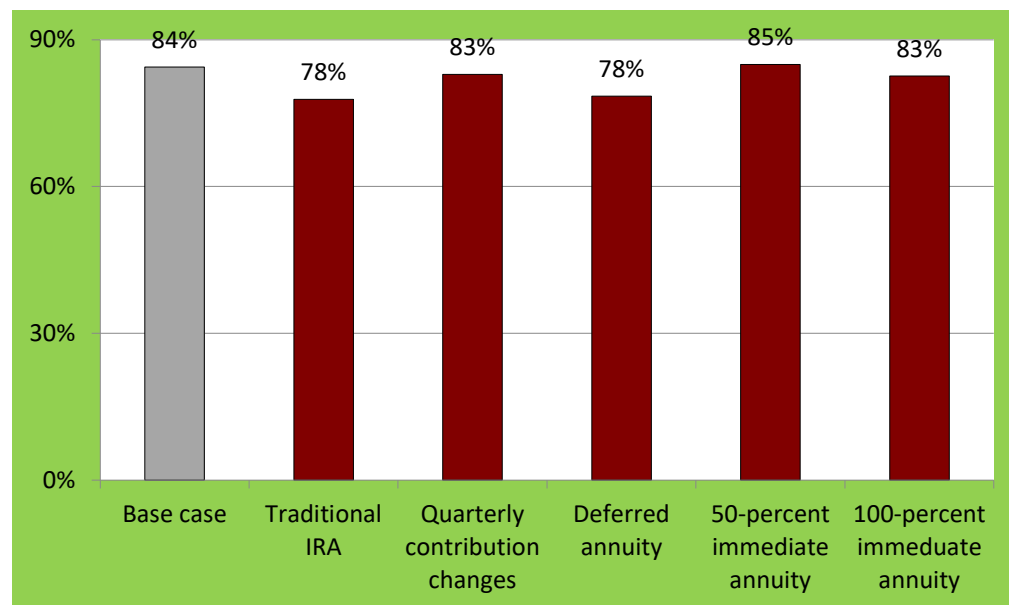
¹¹ Choi, James J., David Laibson, and Brigitte C. Madrian. 2007. "Reducing the Complexity Costs of 401(k) Participation Through Quick Enrollment." In *Developments in the Economics of Aging*, edited by David A. Wise, 57-82. Chicago, IL: University of Chicago Press.

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¹³ Beshears, John, James J. Choi, David Laibson, and Brigitte C. Madrian. 2010. "The Impact of Employer Matching on Savings Plan Participation under Automatic Enrollment." In *Research Findings in the Economics of Aging*, 311-327. Chicago, IL: University of Chicago Press.

Other plan and program designs could also have a minor impact on opt-out rates. The tax structure of the savings vehicle (Roth vs. conventional IRA), frequency of contribution rate changes allowed, default withdrawal options upon retirement, and number and type of investment options do not appear to greatly affect opt-out rates in a plan with automatic enrollment. Figure 3 below shows differences in opt-out rates under a variety of plan designs compared to a base-case scenario where participants are enrolled into a Roth IRA with a 6-percent deferral rate, annual contribution rate changes, a default withdrawal option of a lump sum, and a target date fund as the investment vehicle.

Figure 2. *Predicted Participation Rates under Various Plan Designs*



Source: CRR calculations from Knowledge Networks Nationwide Survey (2015).

Although the program design may not be a significant driver of opt-out rates, it could influence self-employed workers opting into the plan. Generally, workers will be less likely to opt into a plan which requires more decisions to be made. 401(k) plan participation has been shown to be inversely related to investment choice and decisions when employees have to opt in (Beshears et al. 2013).¹⁴ Conversely, participation greatly increases if employees can sign up using preselected deferral rates and investment options (Beshears et al. 2013).¹⁵

How communication can affect participation

Successful communications programs tend to have four defining characteristics. They:

1. Segment participants into groups with relatively similar needs and preferences;
2. Deliver personalized information to individuals within each segment;
3. Push communication when and where recipients are receptive; and

¹⁴ Beshears, John, James J. Choi, David Laibson, and Brigitte C. Madrian. "Simplification and Saving." *Journal of Economic Behavior & Organization* 95 (November 2013): 130–145.

¹⁵ *ibid*

4. Reach participants in different channels.

Segments are typically grouped by life stage (or age), income, family structure, ethnicity, and gender. The information is generally personalized based on dominant language, cultural references, financial priorities, and financial sophistication or literacy of the typical member of each segment (Clark et al. 2012).¹⁶ Employees have been shown to be receptive to advice and communication during initial enrollment, annual enrollment, and retirement. During these periods, best practices indicate information should be pushed through multiple channels, such as email, text messages, pamphlets, phone calls, and in-person counseling.

Regarding the content of the most effective communications, four characteristics stand out. Content should be simple; content should be fact-based; content should offer expert advice; and content should use narratives and storytelling where possible. Language at an 8th grade level or below is recommended, as well as avoiding jargon. Additionally, expert recommendations at the decision point and relatable, real-life examples can successfully guide participants through the decision-making process.

Studies examining the relationship between communications methods and participant behavior have focused on finding ways to increase deferral rates and participation through “nudges.” The most effective technique to increase participation rates rely on presenting participants with a high deferral rate – the maximum deferral rate or the rate recommended by experts – rather than a lower contribution rate. Table 5 looks at several academic studies assessing the impact of communication methods on savings behavior.

Table 5. *Academic Studies Investigating Communication and Savings Behavior*

Authors (year of publication)	Study results
Choi et al. (2016)	Short email messages that anchored recipients to high savings rates increased deferral rates in 401(k) plans by up to 2.9% of income.
Clark, Maki, and Sandler Morrill (2012)	Sending fliers with financial information encouraging retirement saving increased 401(k) plan participation by 14 percentage points among young workers.
Gunaratne and Oded (2015)	A website with simple, expert guidance led 401(k) plan participants to pick contribution rates and investment allocations consistent with expert advice compared to participants who used websites lacking guidance.
Beshears et al. (2015)	A randomized experiment showed new hires were less likely to enroll in a 401(k) plan when they were given the enrollment rate of their peers.

¹⁶ Clark, Robert L., Melinda Sandler Morrill, and Steven G. Allen. 2012. “Effectiveness of Employer-Provided Financial Information: Hiring to Retiring.” *The American Economic Review* 102(3): 314-318.

Detailed Employer Market Analysis

The two goals of the employer market analysis are to evaluate the characteristics of the market as it relates to size of firm, location, years in business, and payroll management structure; and to determine costs and barriers employers will face in program implementation. This analysis was completed by combining data from the South Carolina Employment Department, the U.S. Census Bureau, and interviews and a survey from South Carolina employers. Data from employer focus groups and national surveys help put the South Carolina interviews in context.

Please note, the term “affected employers” refers to employers who do not offer a retirement plan to any of their workers, as these will be the first employers affected by the program.

Market Size and Profile

Of all employers in South Carolina – about 72,000, almost 60 percent (42,000 employers) currently do not offer a retirement savings plan to their employees, thus will be eligible for SCVMEP. The majority of uncovered workers are employed by smaller firms and the percentage of employers not offering a plan is higher than the percentage of employers offering a plan. Most employers who do not offer a plan are domiciled in one of the five major metropolitan areas. Just over 20 percent of the affected firms exist outside of the three largest metropolitan areas (see Table 6).

Table 6. *Number of Affected Firms by Metro Area*

Metro area	Number of firms	Estimated share not offering plan	Affected firms	Share of affected firms
Total	71,794	58%	41,641	100.0%
<i>By metro area</i>				
Anderson, SC	1,902	1.5%	1070	2.6%
Augusta-Richmond County	2,053	1.7%	1212	2.9%
Charleston-North Charleston	10,113	8.2%	5897	14.2%
Charlotte-Concord-Gastonia	4,982	4.2%	2989	7.2%
Columbia, SC	11,165	9.6%	6927	16.6%
Florence, SC	2,979	2.3%	1656	4.0%
Greenville, SC	12,792	10.1%	7270	17.5%
Hilton Head Island-Bluffton	1,652	1.5%	1050	2.5%
Myrtle Beach-Conway	4,155	3.2%	2282	5.5%
Spartanburg, SC	4,030	2.9%	2060	4.9%
Other/Non-metro	15,971	12.9%	9229	22.2%

Note: Number of affected firms is estimated by applying non-coverage rates from the *Current Population Survey March Supplement* within each metro area by firm size. Excludes firms with zero employment.

Sources: U.S. Census Longitudinal Business Database, 2014; South Carolina Employment Division, 2015; and *Current Population Survey March Supplement* 2016 (representing calendar year 2015). Data are based on the 2012 Economic Census,

The major difference between firms that do and do not offer a retirement savings plan is their payroll size. Firms with more than 100 employees are twice as likely to offer a plan compared to firms with less than 100 employees. However, firms that do not offer a plan – affected by SCVMEP – come in various sizes. While only five percent of these firms have more than 100 employees, almost half of all uncovered workers are employed by large firms (see Table 7).

Table 7. *Number of South Carolina Firms Not Offering Retirement Plans by Size and Income, 2017 Est.*

Employees	Employee Salary < \$25,000			Employee Salary is \$25,000 or higher		
	Firms	Affected firms	Affected employees	Firms	Affected firms	Affected employees
Total	29,010	15,917	477,277	42,784	25,724	771,357
Less than 10 employees	7,662	4,930	147,843	10,179	6,967	208,909
10 to 49 employees	5,661	3,323	99,634	7,704	4,770	143,022
50 to 99 employees	2,145	1,179	35,354	3,972	2,465	73,922
100 to 499 employees	2,885	1,501	44,996	5,939	3,055	91,599
500 to 999 employees	1,765	911	27,319	2,912	1,661	49,817
1000+ employees	8,892	4,073	122,132	12,078	6,806	204,088

Note: Number of affected firms is estimated by applying only no-pension-plan rates from the *Current Population Survey March Supplement* by firm size. Excludes firms with zero employment.

Sources: U.S. Census Longitudinal Business Database, 2014; South Carolina Employment Division, 2015; and *Current Population Survey March Supplement* 2016 (representing calendar year 2015). Data are based on the 2012 Economic Census,

Employer Market Analysis

It is critical the program be easy to use and readily available for both small and large employers. Of the approximately 42,000 employers who do not currently offer a retirement savings plan, only about 29 percent of them have fewer than 10 employees. Conversely, employees who work for organizations with more than 10 employees make up about 70 percent of all employees affected by the SCVMEP.

Employer size, industry, and wages

Another important piece of information as it relates to effective communication about the SCVMEP is the type of employer who has uncovered workers. Generally, uncovered workers are more likely to work for small firms, but firms which do not offer any retirement plan are almost as likely to have more than 100 employees as they are to have less than 100 employees. On the other hand, workers ineligible for a retirement plan are concentrated in firms with more than 100 employees.

Communication with ineligible workers can most likely occur through large employers. However, most self-employed workers either do not have employees or employ less than 10 people, making communication to these workers more difficult.

Table 8. *Distribution of Uncovered Workers by Firm Size, 2017 Est.*

Number of employees	Employer does not offer a plan		Employer offers plan, not included		Self-employed without plan	
	Number	Share	Number	Share	Number	Share
Total	1,248,634	100%	258,338	100%	8,611	100%
<i>By firm size</i>						
Less than 10 employees	356,753	28.6%	19,872	7.7%	-	0.0%
10 to 49 employees	242,656	19.4%	37,757	14.6%	1,722	20.0%
50 to 99 employees	109,276	8.8%	19,872	7.7%	-	0.0%
100 to 499 employees	136,594	10.9%	49,680	19.2%	-	0.0%
500 to 999 employees	77,136	6.2%	19,872	7.7%	1,722	20.0%
1000+ employees	326,220	26.1%	111,284	43.1%	5,167	60.0%

Source: *Current Population Survey, March Supplement 2016* (reflecting 2015 calendar year data).

Why a worker lacks coverage varies based on industry. Workers in South Carolina without a plan offered are more likely to work in professional services (e.g., legal, health, financial, educational, etc.), retail, or non-professional services (e.g., hospitality, home cleaning, etc.). Ineligible workers tend to be overwhelmingly concentrated in professional services. The self-employed are also more likely to work in professional services. Table 9 provides a breakdown of uncovered workers by industry.

Table 9. *Uncovered Workers by Industry, 2017 Est.*

Industry	Employer does not offer a plan		Employer offers plan, not included		Self-employed without plan	
	Number	Share	Number	Share	Number	Share
Total	1,248,634	100%	258,338	100%	8,611	100%
n/a	80,350	6.4%	17,885	6.9%	-	0.0%
<i>By industry</i>						
Raw materials	16,070	1.3%	-	0.0%	-	0.0%
Construction	94,813	7.6%	5,962	2.3%	-	0.0%
Manufacturing	125,345	10.0%	39,744	15.4%	1,722	20.0%
Retail/wholesale	173,555	13.9%	53,655	20.8%	-	0.0%
Transport/utilities	51,424	4.1%	9,936	3.8%	-	0.0%
Professional services	440,316	35.3%	87,437	33.8%	6,889	80.0%
Non-professional services	234,621	18.8%	37,757	14.6%	-	0.0%
Public administration	32,140	2.6%	5,962	2.3%	-	0.0%

Source: *Current Population Survey, March Supplement 2016* (reflecting 2015 calendar year data).

Another important factor to consider of SCVMEP's market is the full- or part-time status and earnings of workers. Part-time workers, not surprisingly, are less attached to the labor force than full-time workers, while earnings will impact the sustainability and feasibility of the program through the growth of account balances. Uncovered workers in South Carolina share similar characteristics with uncovered workers elsewhere in the country – they work fewer hours and have lower incomes than covered workers. Of those workers whose employers do not offer a plan, almost 68 percent of them work more than 40 hours per week with a median income of approximately \$45,000. These numbers

hold true regardless of the reason for being an uncovered worker. See Table 10 for uncovered workers; covered workers are not shown.

Table 10. *Hours Worked per Week and Median Wages of Uncovered Workers, 2017 Est.*

Usual hours	Employer does not offer a plan			Employer offers plan, not included			Self-employed without plan		
	Number	Share	Median wage	Number	Share	Median wage	Number	Share	Median wage
Total	1,248,634	100	36,739	258,338	100	36,216	8,611	100	479,011
<i>Hours</i>									
1-9	35,354	2.8%	3,305	3,974	1.5%	10,577	-	0.0%	-
10-19	62,673	5.0%	13,561	25,834	10.0%	11,155	-	0.0%	-
20-29	125,345	10.0%	20,242	37,757	14.6%	11,455	-	0.0%	-
30-39	171,948	13.8%	34,888	49,680	19.2%	28,654	-	0.0%	-
40+	853,314	68.3%	44,924	141,092	54.6%	50,833	8,611	100.0%	479,011

Source: Current Population Survey, March Supplement 2016 (reflecting 2015 calendar year data).

As the SCVMEP will need to be effectively marketed and promoted to ensure sufficient levels of adoption by eligible employers, a geographic breakdown by region is provided in Table 11.

Table 11. *Number of Affected Firms by Metro Area*

Metro area	Number of firms	Estimated share not offering plan	Affected firms	Share of affected firms
Total	71,794	58%	41,641	100.0%
<i>By metro area</i>				
Anderson, SC	1,902	1.5%	1070	2.6%
Augusta-Richmond County	2,053	1.7%	1212	2.9%
Charleston-North Charleston	10,113	8.2%	5897	14.2%
Charlotte-Concord-Gastonia	4,982	4.2%	2989	7.2%
Columbia, SC	11,165	9.6%	6927	16.6%
Florence, SC	2,979	2.3%	1656	4.0%
Greenville, SC	12,792	10.1%	7270	17.5%
Hilton Head Island-Bluffton	1,652	1.5%	1050	2.5%
Myrtle Beach-Conway	4,155	3.2%	2282	5.5%
Spartanburg, SC	4,030	2.9%	2060	4.9%
Other/Non-metro	15,971	12.9%	9229	22.2%

Note: Number of affected firms is estimated by applying non-coverage rates from the *Current Population Survey March Supplement* within each metro area by firm size. Excludes firms with zero employment.

Sources: U.S. Census Longitudinal Business Database, 2014; South Carolina Employment Division, 2015; and *Current Population Survey March Supplement* 2015 (representing calendar year 2014). Data are based on the 2012 Economic Census,

2. Projections of Employee Enrollments over Time

Projections for enrollment are a combination of several separate estimates. Since SCVMEP is intended to be a voluntary plan for SC employers, an estimate of the rate employers will sign up for SCVMEP is needed. The second estimate required is an estimate for the number of employees employed by the firms who choose to join SCVMEP. Since SCVMEP is intending to use an opt-out option for employees of firms that join the program, the last estimate required is the number of employees who will completely opt-out of the program once their employer auto enrolls them into it. The yearly rate of new enrollments over time (year 1, year 2, etc.) can be calculated as follows:

Number of enrolled employees for year n , $n = 1, 2, \dots$, = (rate of employer enrollment for year n) \times (number of employees per enrolled employer) \times (percent of employees of enrolled employers that choose to remain enrolled)

Estimate for the rate that employers will sign up for SCVMEP (by year). As there are no direct comparisons for this estimate, a range of estimates are provided, based on different adoption models.

It has been estimated that 63 percent of small employers in the state of South Carolina would like to offer a retirement plan¹⁷ but are hesitant to do so for three main reasons in order of importance; costs, complexity and the amount of time it would take¹⁸. Based on this estimate, an expected 60 percent of the eligible 42,000 small- to medium-sized firms in South Carolina currently not offering a retirement plan¹⁹ will sign up for SCVMEP within the first four years, resulting in 25,000 firms signed up.

Estimate for number of employees per enrolled employer (by year).

Since an estimated 25,000 firms are interested in offering a retirement plan, it is expected this number of firms will join SCVMEP within the first four years. Once a critical mass of small- and medium-sized firms join SCVMEP, it is expected there will be competitive pressure to attract good employees for the remaining firms to join SCVMEP. It is estimated another 5,000 firms will join within three to five years of the program becoming available, resulting in a total of 30,000 firms joining within the first five years of the program. Estimating the yearly rate of firms joining SCVMEP is more difficult, as there is not any data longer than six-months from adoption of these rates from other similar programs at other states. A potentially relevant comparison is the rate of adoption for the State of South Carolina's 529 plans. If the same advertising and outreach effort is expended for SCVMEP as was done for the 529 plans, one can expect a similar rate of adoption. Below are adoption rates of 529 plans after they were first made available in 2002²⁰.

Personal adoptions in South Carolina 529 plans starting with the year of inception

Year	2002	2003	2004	2005	2006
Adoption (Cum)	2973	5263	7715	10285	12425
% Incr (yr prior)		77	47	33	21

If these adoption rates are used with the estimates of 25,000 firms at four years and 35,000 firms at five years, one can project the following cumulative number of firms for 2019 – 2023.

Projected firm adoptions of SCVMEP starting with the year of inception

Year	2019	2020	2021	2022	2023
Adoption (Cum)	7164	12681	18642	24793	30000
% Incr (yr prior)		77	47	33	21

¹⁷ National Conference on Public Employee Retirement System, Findings from a Survey of 500 Small Business Owners Nationwide (September 14-22, 2011). <http://www.retirementsecurityforall.org/document.php?f=small-biz>

¹⁸ AARP 2016 South Carolina Small Business Owner Work and Save Study

¹⁹ Census 2011 Employment Statistics

²⁰ Information provided by Edward Frazier from the South Carolina State Treasury Office

Estimate for the percent of employees who will opt-out of the SCVMEP.²¹ The experience from the roll-out of the OregonSaves plan is as follows. Oregon started mandating their plan with the firms employing the largest number of people, although any size firm is welcome to join before their mandated date. The plan requires auto-enrollment of employees at a default rate of five percent of pay. Employees can change their withholding rate or opt-out of the plan completely. Of the firms that are already participating in the plan, they are experiencing around a 20 percent opt-out rate at five percent of pay. For those who stay in, 20 percent make changes. Of these 20 percent, 33 percent increase their withholding rate while remaining 66 percent decrease their withholding rate. The result has been an average savings rate around 4.5 percent. Based on these actuals from the state of Oregon, the following for SCVMEP has been assumed:

Of all employees auto enrolled into SCVMEP, 80% will remain enrolled in the plan for an average savings rate of 4.5%

The average number of employees per firm (using data from Table 15) = $771,357/25,724 = 30$ employees/firm. Thus, the expected number of eligible employees that will be auto-enrolled and opt to stay in the program can be calculated as the number of firms * average number of employees per firm * 80% expected to remain in the plan. This gives the following estimates of the number of employees expected to join SCVMEP for each of the next five years:

Projected employee adoptions of SCVMEP starting with the year of inception

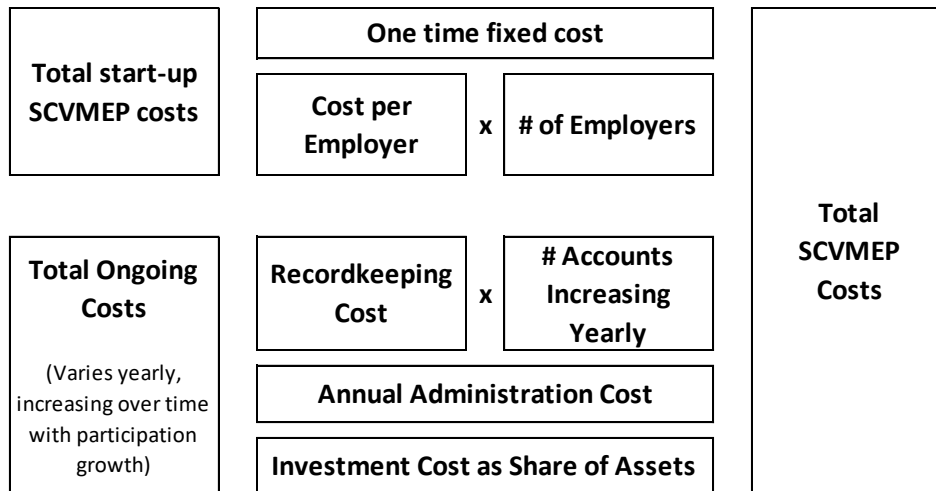
Year	2019	2020	2021	2022	2023
Adoption (Cum)	171936	304344	447408	595032	720000
% Incr (yr prior)		77	47	33	21

3. Estimated Start-Up Costs

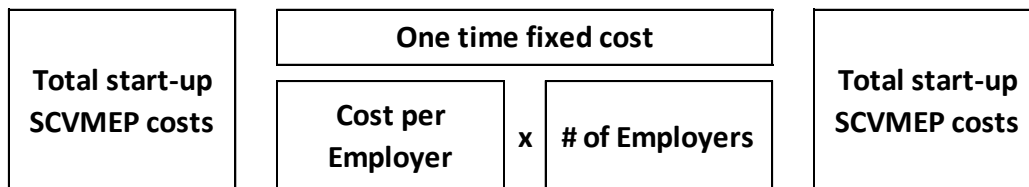
Estimates will depend on whether or not the state of South Carolina assumes the role of advertising and outreach for the SCVMEP, creating a website for SCVMEP, and provides a call center to assist employers to sign up for SCVMEP.

SCVMEP's costs fall into two broad categories: 1) the start-up costs associated with creating the program and bringing on employers; and 2) the ongoing administrative costs associated with maintaining accounts, serving participants, and managing investments, depicted below.

²¹ Personal conversation with Lisa Messina, Executive Director of the Oregon state-facilitated plan, Office of the Treasury for the state of Oregon



The figure below illustrates these costs schematically, highlighting two drivers of start-up costs: 1) the number of employers that must be brought into SCVMEP; and 2) the number of accounts that must be administered.



Start-up costs reflect two realities: 1) presently, a program like the SCVMEP does not exist in South Carolina; and 2) one of third-party record keepers' biggest costs is connecting to individual employers. The first fact means an initial fixed cost of developing the program's required infrastructure will need to be paid by the SCVMEP or borne by a record keeper. Based on information from the OregonSaves feasibility study, the fixed cost of developing the infrastructure to run the program was assumed to be approximately \$1 million. The second fact means that an additional charge must be anticipated by the record keeper to enroll each employer. The OregonSaves feasibility study also assumed a marginal cost of \$200 per employer to reflect the average cost of bringing on new employers.

A summary of the estimated start-up costs included in the justifications for the establishment of state-facilitated plans in other states follows. Authors' notes regarding these estimates are included in italics:

Connecticut's House Bill 5591 establishes the Connecticut Retirement Security Program. The program is not expected to result in a cost the state unless it loans funds to the program. The bill estimates the startup costs to range from \$500,000 to \$1million. At a three percent contribution rate, the program is expected to begin generating sufficient funds to cover its own costs within three to four years after the program is implemented. Any startup money that was borrowed must be repaid within five to eight years after the start of the program.

Illinois' Senate Bill 2758 establishes the Illinois Secure Choice Savings Program Act. The bill estimated the startup costs to range from \$15million to \$20million during the first two years. In the current fiscal year, a total of \$2.1 million were provided for startup costs. Any startup money that was borrowed from

the state must be repaid after the program is self-sustaining. However, the program can be delayed if the state can't provide enough startup costs and would have to depend on private funds.

Maryland's Senate Bill 1007 establishes the Maryland Small Business Retirement Savings Program Trust. The bill estimated the startup costs to be \$1.6 million. Year two of the operation is expected to cost \$426,600, followed by \$440,000 in 2019 and \$454,000 in 2020. The program is expected to begin generating sufficient funds to cover its own costs by 2021. Any startup money that was borrowed must be repaid.

West Virginia's House Bill 4375 proposed to establish the West Virginia Voluntary Employee Retirement Accounts Program. The bill estimated the startup costs to be around \$3 million over a period of five to six years. Year one of the operation expected \$325,000 to be borrowed from the trust fund. Costs in the following years were expected to increase due to contracts and the opening of the program. The program expected to begin generating sufficient funds to cover its own costs within five to six years after the program was implemented. Any startup funds borrowed were to be paid back by June 30, 2024. This bill did not pass.

Washington's Senate Bill 5791 establishes the Washington Voluntary Retirement Accounts Program Principal Account and the Washington Voluntary Retirement Accounts Program Administrative Account. The bill estimates the startup costs to be \$4,405,507 from 2009 to 2011, \$4,790,333 from 2011 to 2013, and \$4,790,333 from 2013 to 2015. Federal or private funds will pay for the startup costs and administration of the program until the program is self-sufficient. If the program is not self-sufficient at the end of years three or six, the program will be terminated. *(Authors Note: The state of Washington did not pursue an Auto-IRA and went with a retirement marketplace instead – see next item.)*

Washington's Senate Bill 5826 establishes the Washington Small Business Retirement Marketplace. The bill estimates the startup costs to be \$255,515 in 2016, \$268,338 in 2017, \$171,588 in 2018, \$171,588 in 2019, \$173,606 in 2020 and \$171,588 in 2021. The Department of Commerce will only implement the marketplace if it secures enough federal or private grants and may not expend new state funds on the development of the marketplace.

Oregon House Bill 2960 establishes the Oregon Retirement Savings Plan. The bill has allocated \$993,541 to set up the program by July, 2017. The program is expected to begin generating funds by 2019. *(Authors Note: The actual start-up cost ended up being much higher for the OregonSaves program. Approximately \$5M was loaned to the program from the state's general fund over the first four years of the program's implementation)²²*

4. Estimated Costs to do Request-For-Proposals

Two RFPs are assumed – one for an investment consultant and one for a record keeper – with an estimated cost of approximately \$80,000 to hire an outside consultant to help design the RFPs and evaluate the two submitted proposals. The actual cost of conducting the RFPs will depend on which state agencies are assigned this task, but these costs are assumed insignificant in comparison to the cost

²² Personal correspondence with Lisa Messina, Executive Director of OregonSaves, on April, 2018

of the consultant. The hiring of an outside consultant was recommended by several of the directors of other state programs in discussions due to the intricacies of how costs can be hidden or obscured in a record keeper's proposal.

5. Estimated Ongoing Operating Costs

The main driver of ongoing operating costs are the record keeping costs. These costs include the per-account administration cost, which the record keeper charges to keep track of account funds, providing statements, covering call centers, and maintaining the program's website for account holders. The administration cost also covers transaction costs associated with money coming into the program and money going out of the program through distributions. The OregonSaves feasibility study assumed a per-account cost of \$30 per year. In this study, two types of accounts exist: active and inactive. In active accounts, an individual is employed at an employer without a plan and is contributing to the plan. Inactive accounts are maintained by someone who is no longer employed at an eligible employer but still has an open account.

The total ongoing operating costs also include plan oversight (borne by the record keeper and the state agency that oversees the SCVMEP), and the investment management costs (borne by the investment management firm). Based on the actual costs observed in the OregonSaves program, total ongoing operating costs are estimated to be 100 basis points, split as follows: 10 basis points for the investment management firm, 10 basis points for the state agency overseeing the SCVMEP and 80 basis points for the record keeper.²³

6. Estimates on the administrative cost to employer to set up program/payroll deduction

Employers could be tasked with a variety of responsibilities, depending on the operating model selected by the Board. There is the potential for employers to be responsible for:

1. Introducing SCVMEP to employees;
2. Providing data to enroll employees automatically in the system;
3. Collecting opt-out decisions;
4. Processing and funding payroll deductions;
5. Keeping records to show compliance;
6. Resolving errors

The Center for Retirement Research (CRR) conducted in-depth interviews with 14 employers to understand better how these activities may inconvenience or affect employers. Not surprisingly, employer costs will differ greatly based on several factors. Actions requiring interpersonal and tailored

²³ Minutes from the Oregon Retirement Savings Board Meeting, March 13, 2018

communication, such as introducing SCVMEP or answering questions, will create a greater burden for large firms than smaller firms, particularly if the organization does not have a dedicated human resources staff. Similarly, the administrative and technical expertise of business owners also appears to influence employer cost estimates. Functions involving computers to transmit data will create less burden for those employers relying on software or outsourcing to administer their payroll and maintain employee records. Fortunately, through automation, pre-packaged communications, and direct communication between record keepers and employees, SCVMEP may be able to limit the role of (and thus the burden on) employers.

In addition to increased well-defined administration costs, employers also anticipate intangible costs and benefits associated with running a retirement plan. They fear that the program will add to a growing regulatory burden on the employers of South Carolina. They will need to understand and comply with rules which are unrelated to their core business of serving customers or face the threat of legal penalties. Another very real concern among employers is data security and the possibility of having to increase pay to compensate for contributions to the retirement plan. One of the major advantages of SCVMEP, however, is the ability for employers to be able to provide a retirement plan without assuming the responsibility of creating their own, assuming fiduciary responsibility, or making employer contributions. SCVMEP can be an attractive benefit to potential employees, while minimizing employer risk.

A critical success factor for a state-facilitated program is limiting the resources (time and money) required by the employer. The process should be made as seamless as possible. The administrative costs to set up the state-facilitated program should be minimized. The main cost is signing up and setting up a payroll deduction. As the bulk of the record keeping will be out of the employer's hands, initial setup should be as simple as providing employer and employee information and setting up a payroll deduction. For companies with a payroll service there would be virtually no cost to setting up the payroll deduction, as the payroll companies generally offer this service. Companies without a payroll service will undergo some initial effort to set up a payroll deduction or incur costs to sign up with a payroll service to allow for an automatic payroll deduction. The costs should be minimal and we would suggest that the record keeper offer support for employer setup as the record keeper has a tangible incentive to sign up additional employers (as record keepers collect more fees as the plan grows).

7. Projected Time to Financial Self-Sufficiency

The projected time to financial self-sufficiency depends on many assumptions, among the main ones are the start-up costs (who absorbs this cost – the state or the record keeper), the terms of the agreement with the record keeper, the adoption rate over time for both employers and employees, the salaries of the employees that adopt the plan, the investment percentage of the employees that adopt the plan, as well as the rate of return on investments and the withdrawal rate of the participating employees. Rather than provide a static estimate in this report, the consultants will provide an interactive dashboard where the estimates for these assumptions can be adjusted and the corresponding time to break-even can be shown graphically.

Based on two initial scenarios tested on this tool, we expect the time to break-even to be between five to seven years.

Scenario One

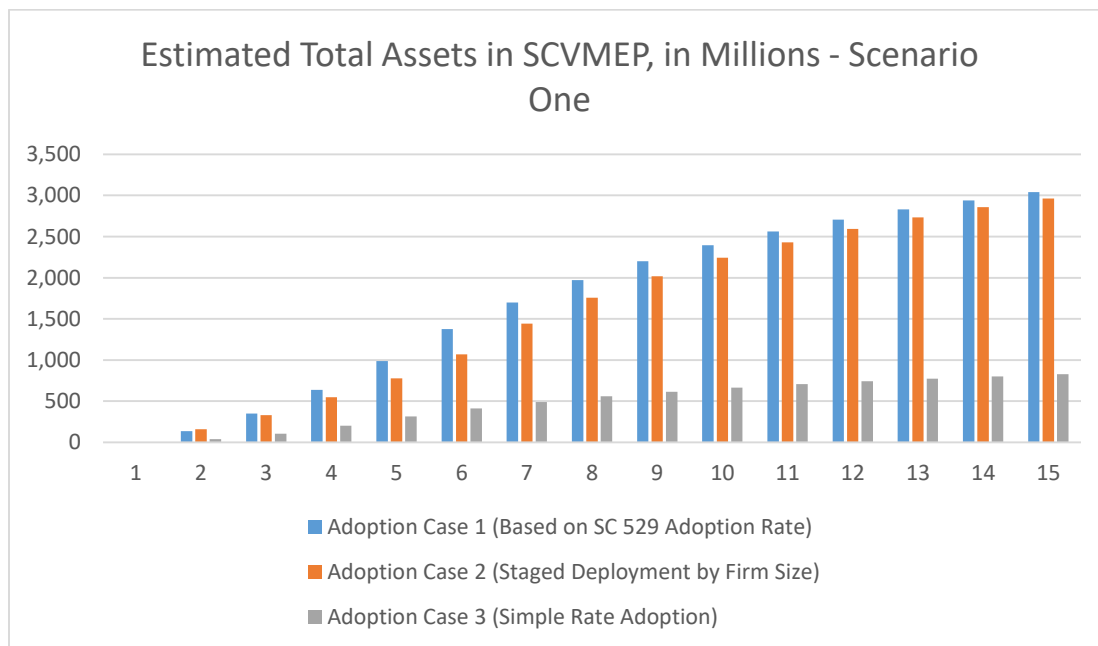
In scenario one we assume that we are targeting employees that are making over \$25,000 in annual income to participate in the SCVMEP and that SC economic outlook for the next 15 years is stable.

Scenario one specific assumptions are as follows:

:

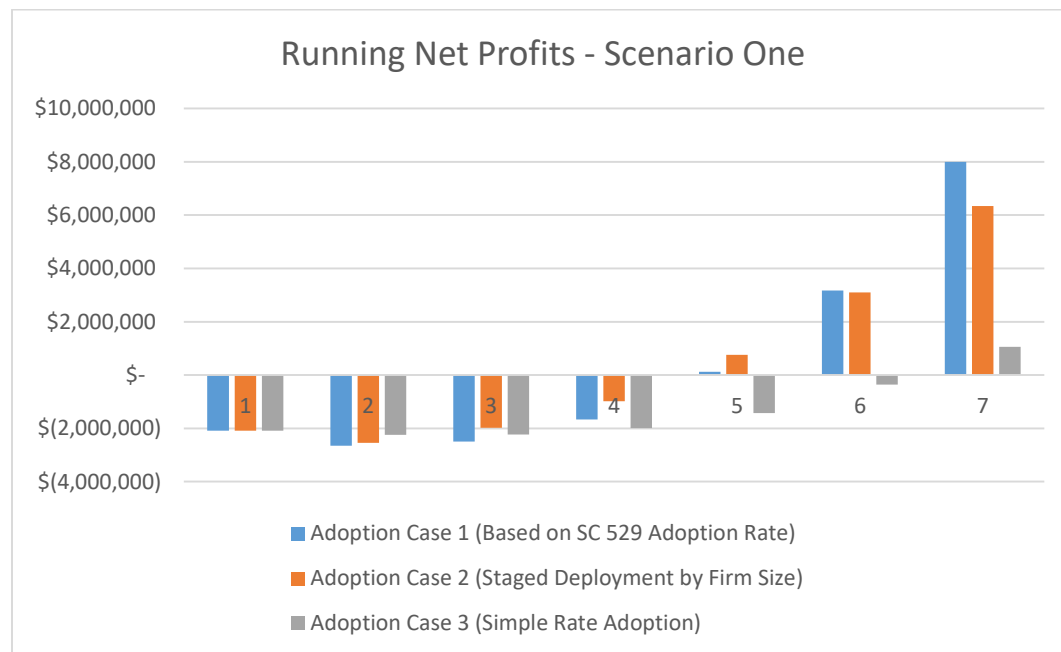
- Number of employees per firm: 30
- Opt-out rate: 20%
- Average annual income per employee: \$24,596
- Average saving (contribution) rate to SCVMEP: 4.5%
- Annual economy growth rate in SC (income growth rate): 3%
- Money in the SCVMEP is invested in a fund with an average rate of return of: 5% (annually)
- Expense ratio (a profit margin points for the SCVMEP): 1.0% (100 points)
- Job mobility rate (withdrawals and account closer): 10%
- One time fixed cost: \$2,080,000
- Cost per employer: \$120
- Ongoing operating costs: an expense fee level of 85 basis points (0.85 %)

These give the following estimates of the total assets under SCVMEP for each of the next fifteen years:



Adoption Case 1 projects firm and employee adoptions of SCVMEP based upon the rate of adoption for the State of South Carolina's 529 plans. Adoption Case 2 uses the staged deployment of SCVMEP by firm size. In the case, firms with 1000+ employees will be targeted for the first year of deployment followed by firm with 500 to 999 employees, 100 to 499 employees, 50 to 99 employees, 10 to 49 employees, and less than 10 employees. Adoption Case 3 uses a simple rate adoption model. In this case, an increment

of 2,000 firms are added per year to SCVMEP up to four years and then the number of participating firms is weighted out based upon our predictions of the total number of affected firms in SC. Generally speaking, the number of participating firms decreases about 3.5% annually. Under the assumptions and the three types of adoption cases, the program achieves a positive running profit between years 5 and 7 (year 5 for Adoption Cases 1 and 2 and year 7 for Adoption Case 3).

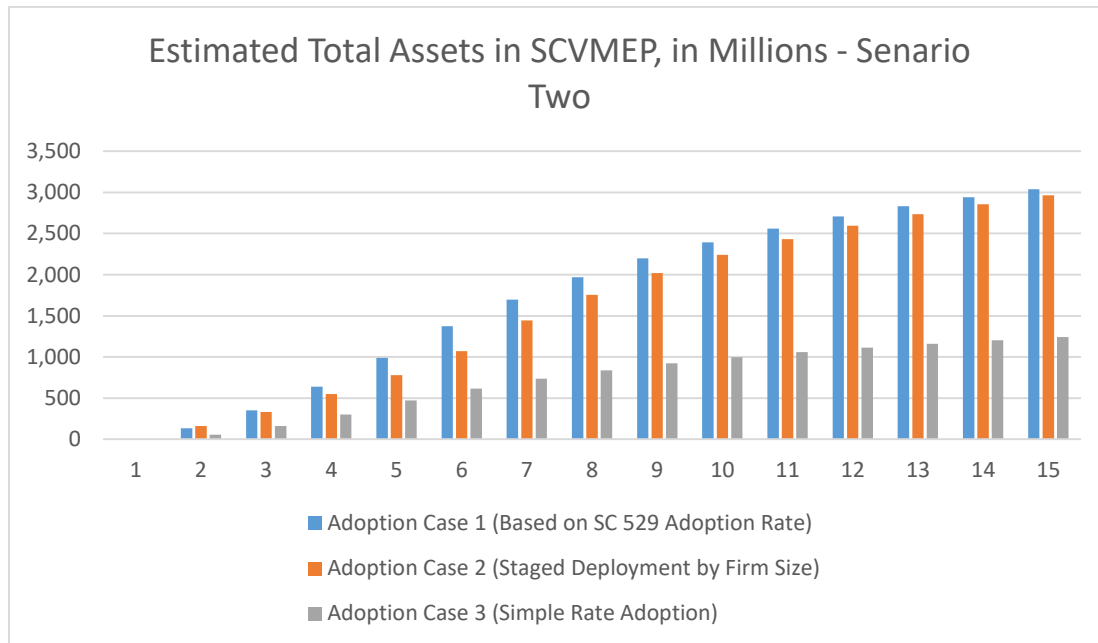


Scenario Two

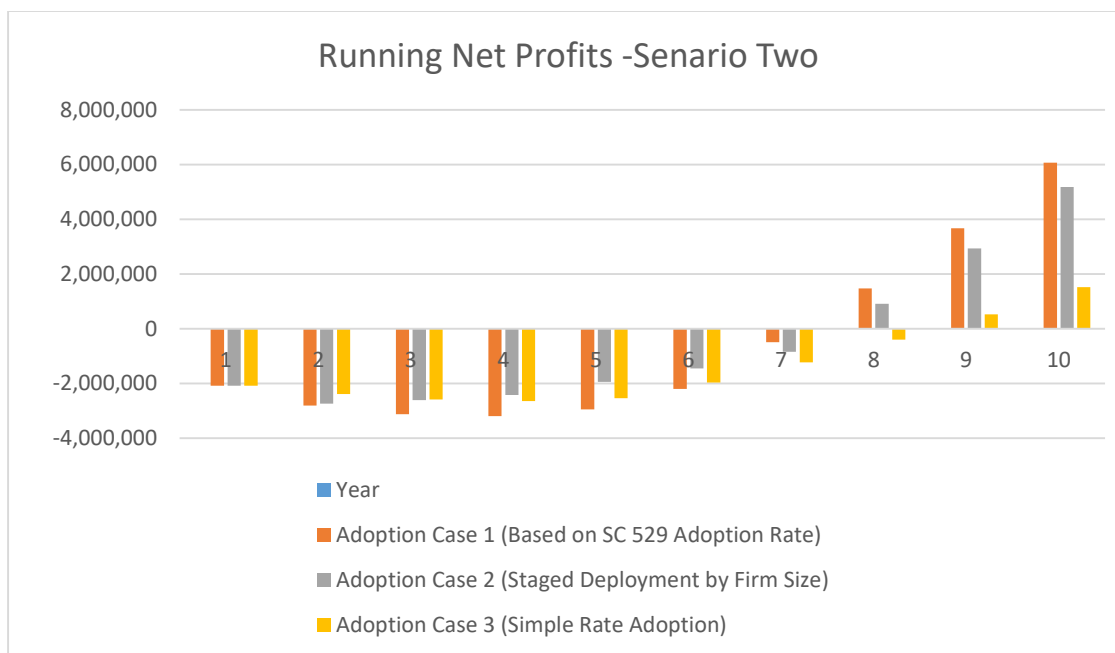
In scenario two we are targeting employees that make under \$25,000 in annual income to participate in the SCVMEP and the SC economic outlook for the next 15 years is poor. Scenario two specific assumptions are as follows:

- Number of employees per firm: 30
- Opt-out rate: 40%
- Average annual income per employee: \$23,000
- Average saving (contribution) rate to SCVMEP: 4.5%
- Annual economy growth rate in SC (income growth rate): 1%
- Money in the SCVMEP is invested in a fund with an average rate of return of: 2% (annually)
- Expense ratio (a profit margin points for the SCVMEP): 1.1% (110 points)
- Job mobility rate (withdrawals and account closer): 20%
- One time fixed cost: \$2,080,000
- Cost per employer: \$120
- Ongoing operating costs: an expense fee level of 100 basis points (1%)

These give the following estimates of the total assets under SCVMEP for each of the next fifteen years:



Adoption Cases 1 & 2 are using the same projected firm and employee adoptions as in Scenario One. Adoption Case 3 is using a simple rate adoption model. In the case, an increment of 3,000 firms per year are added to SCVMEP for up to four years. Under the assumptions, the program achieves a positive running profit between years 8 and 9 (year 8 for Adoption Cases 1 and 2 and year 9 for Adoption Case 3).



8. Should Investments be Bundled with the Record Keeper?

Bundling could make the plan more attractive to providers because it gives the provider two sources of potential income, lowering the risk that the contract will not be profitable.²⁴ Bundling combined with a long-term contract may provide the most attractive option to a provider. However, there are additional risks borne by the provider of both services. According to ERISA laws, self-dealing is strictly prohibited for a fiduciary.²⁵ Even if fees borne by the plan are commercially reasonable and the plan participants receive valuable services and are not demonstrably harmed, if it is determined that self-dealing has occurred, the fiduciary will be in violation of ERISA laws. Just the appearance of bundling abuses could cause concerns, especially for a plan at the state level. The standard in private industry is to separate the two functions. For the state-facilitated plans reviewed, none of them were bundled. One final reason to forego bundling is economic in nature, as keeping the RFPs separate allows for low-cost providers to be chosen for each separate service. It is believed the potential risks of bundling would outweigh the potential cost savings.

²⁴ The Great Bundled vs. Unbundled 401(k) Provider Debate, Ary Rosenbaum, Esq., www.jdsupra.com, November 13, 2015

²⁵ Bundling 401k services with other corporate services can result in fiduciary liability, Eric Droblyen, www.employeebenefitslaw.com, May 6, 2015.

9. Benchmark of Plans from other States

Below is a summary of MEP plans that have been approved at other states

	Massachusetts	Vermont
Name of Program	Massachusetts Defined Contribution CORE Plan	Vermont Green Mountain Secure Retirement Plan
Type of Plan	MEP	MEP
Legislation Passed	2012	2017
ERISA Applicability	Yes	Yes
Employer Participation	Voluntary	Voluntary. Board may study and make recommendations on methods to increase participation if, after 3 years, there are significant numbers of residents not covered by a retirement plan.
Employers Affected	Non-profits with 20 or fewer employees. Employers must use third-party payroll services.	Employers with 50 employees or fewer that do not currently offer a plan.
Administrative Entity	A not-for-profit defined contribution committee, within the Office of the State Treasurer and Receiver General.	Green Mountain Secure Retirement Board, chaired by the Treasurer
Structure of Accounts	Defined contribution 401(k) plan	Defined contribution 401(k) plan up to \$18000 – this is the current cap, tied to the federal cap and may fluctuate in the future.
Automatic Enrollment	Yes	Permissible. Auto-enrollment of employees will occur once an employer opts to join the MEP.
Employee Opt-Out	Yes	Yes
Default Contribution Rate	6% with an annual auto escalation of 1% or 2%, up to 12%	Not specified
Employer Contribution	Permitted	Permitted
Availability to Other Employers	No	Yes. The self-employed are eligible to participate. No earlier than one year after implementation, the Board intends to provide options via a clearinghouse/ marketplace to individuals who are not eligible to participate in or choose not to participate in the MEP or whose employer opted not to join the MEP.

Investment of Assets	The Plan offers 11 CORE default target date funds based on expected retirement age and 4 objective base funds.	Not specified
Fees	<p>Employer pays one-time fee of \$2500. For the participant, there is a \$65 annual fee, deducted automatically from participant accounts and other administrative fees depending on plan elected. For the employer, there is an annual administrative service fee. Employers who offer safe harbor (matching option up to 3%) pay \$150 per employee, but pay \$750 per year per employee if non safe harbor. The law specifies the following fee ranges: Custom Target Date Funds: 22-86 bps; Growth: 60 bps; Income: 40 bps; Capital Preservation: 40 bps; and Inflation Protected: 86 bps</p>	Not specified
Implementation Timeline	Open for enrollment	On or before January 15, 2019

Below is a summary of retirement plan marketplaces that have been approved at other states

	New Jersey	Washington
Name of Program	New Jersey Small Business Retirement Marketplace	Washington Small Business Retirement Marketplace
Type of Plan	Marketplace	Marketplace
Legislation Passed	2016	2015
ERISA Applicability	ERISA cannot apply to the state for operating the marketplace, but ERISA plans are allowed in the marketplace and normal ERISA requirements apply to participating employers	ERISA cannot apply to the state for operating the marketplace, but ERISA plans are allowed in the marketplace and normal ERISA requirements apply to participating employers
Employer Participation	Voluntary	Voluntary
Employers Affected	Fewer than 100 employees	Fewer than 100 employees
Administrative Entity	Office of the State Treasurer	State Department of Commerce
Structure of Accounts	Simple IRA; payroll deduction IRA and others can be added. Will also offer "life insurance plans designed for retirement purposes."	Simple IRA, payroll deduction IRA and ERISA plans can be added. May also offer "life insurance plans designed for retirement purposes."
Automatic Enrollment	No state requirement, but employers may auto enroll as IRS rules allow.	No state requirement, but employers may auto enroll as IRS rules allow.
Employee Opt-Out	Voluntary employee participation	Voluntary employee participation
Default Contribution Rate	Not specified	Not specified
Employer Contribution	Permitted if an ERISA plan option.	Permitted if an ERISA plan option
Availability to Other Employers	Yes. Self-employed and sole proprietors are eligible to participate.	Yes. Self-employed and sole proprietors are eligible to participate.
Investment of Assets	Firms participating in the marketplace shall offer a minimum of two product options, including a target date or other similar fund and a balanced fund.	The marketplace will initially offer one or more of the following: IRA, traditional 401(k), with a SEP-IRA to be added later. It will continue to work with financial services firms to increase variety of plans.

Fees	No more than 1% in total annual fees to enrollees. Participating employers may not be charged an administrative fee.	No more than 1% in total annual fees to investors. Participating employers may not be charged an administrative fee. Financial services firms may charge enrollees a de minimis fee for new and/or low balance accounts in amounts negotiated and agreed upon by the Department and financial services firms. No later than September 2020, the department will evaluate the ongoing need to allow de minimis fees to be charged to enrollees.
Implementation Timeline	TBD	Open for enrollment

Below is a summary of state-wide IRA plans that have been approved at other states

	California	Connecticut
Name of Program	CalSavers	Connecticut Retirement Security Authority
Type of Plan	IRA	IRA
Legislation Passed	2016	2016
ERISA Applicability	N/A	N/A
Employer Participation	Mandatory. Employers have the option of providing an alternative qualified retirement plans through the private market.	Mandatory. Employers retain option of providing a plan available through private market.
Employers Affected	Employers with 5 or more employees that do not already provide a qualified retirement plan and satisfy requirements for a payroll deposit retirement savings arrangement; and an employer of a provider of in-home supportive services, if determined to be eligible.	Qualified employers with 5 or more employees that do not currently offer a plan.
Administrative Entity	California Secure Choice Retirement Savings Investment Board, chaired by the Treasurer	Connecticut Retirement Security Authority, chair appointed by the Governor
Structure of Accounts	Roth IRA is default, but employees can make contributions to a traditional IRA	Roth IRA
Automatic Enrollment	Board will disseminate information on the program and appropriate disclosures including how to make contributions to the program. Employees must acknowledge they have read all the disclosures and understand their content.	Yes
Employee Opt-Out	Yes	Yes
Default Contribution Rate	5% with potential auto-escalation of 1% per year to be capped at 8% of salary. Employee may opt out of auto-escalation and set his own rate.	3%
Employer Contribution	Not permitted	Not permitted
Availability to Other Employers	Yes. Employees of non-participating employers and self-employed workers can participate.	Yes. A private employer with 4 or fewer employees may choose to make the program available.

Investment of Assets	Considering an investment policy with options that may include: 1) capital preservation fund; 2) core bond fund; 3) global equity fund; 4) a risk-based or age-based suite of funds; and 5) an Environmental, Social and Governance (ESG) fund. Also considering policy of investing the first \$1,000 in contributions in the capital preservation fund.	Each account will be invested in a target-date fund with vendor selected by participant (or program default option). Will offer qualified retirement investment choices from multiple vendors. Once participant reaches normal retirement age, 50% of the account will be invested in the lifetime income investment. Participants may invest a higher percentage of account balances in the lifetime income investment. The Authority will designate a lifetime income investment option intended to provide participants with a source of retirement income for life.
Fees	On or after 6 years from the effective program date, expenditures from the Administrative Fund cannot exceed 1% of the total Program Fund annually.	After completion of the fourth calendar year following the program effective date, total annual fees associated with the program cannot exceed 0.75% of total value of program assets.
Implementation Timeline	Program launch projected by the end of 2018 which could take the form of a pilot or “soft” launch.	TBD

The IRA plans summary continues below.

	Illinois	Maryland	Oregon
Name of Program	Illinois Secure Choice Retirement Savings Program	Maryland Small Business Retirement Savings Program and Trust	OregonSaves
Type of Plan	IRA	IRA	IRA
Legislation Passed	2015	2016	2015
ERISA Applicability	N/A	N/A	N/A
Employer Participation	Mandatory for certain employers, with a 2-year deferral for new business. Employers have the option of providing an alternative qualified retirement plans through the private market.	Mandatory for all employers that pay employees through a payroll system or service, with a 2-year deferral for new businesses. Employers retain option of providing a plan available through the private market.	Mandatory. Employers retain the option of providing an alternative qualified retirement plan from the private market.
Employers Affected	Employers with 25 or more employees that have not offered a qualifying retirement plan in the last 2 years.	Employers that do not currently offer qualified plans.	Employers that do not currently offer qualified plans.
Administrative Entity	Illinois Secure Choice Savings Board, chaired by the Treasurer	Maryland Small Business Retirement Savings Board, chair elected by Board members	The Oregon Savings Board, chaired by the Treasurer
Structure of Accounts	Roth IRA	One or more payroll deposit IRA arrangements	Roth IRA with a traditional IRA possibly offered in the future as an elective participant choice. Limited to contributions up to \$5500 – this is the current cap, tied to the federal cap, and may fluctuate in the future.
Automatic Enrollment	Yes	Yes	Yes
Employee Opt-Out	Yes	Yes	Yes

Default Contribution Rate	5%	Board will set default, minimum, and maximum employee contribution levels	5% with auto-escalation of an additional annual 1% until a maximum of 10% is reached
Employer Contribution	Not permitted	Not permitted	Not permitted
Availability to Other Employers	Yes. Employers with fewer than 25 employees can choose to participate in the program.	Yes, The board may evaluate and establish the process by which an employee of a non-participating employer may participate.	Program is available to employers with no employees.
Investment of Assets	Investment options to be considered include target date/life cycle index funds, an equity index fund, a bond index fund, and a capital preservation fund.	Board will establish a range of investment options, including a default selection for employees' payroll deposit IRAs. Board cannot offer options that could result in liability to the state or its taxpayers. Board will consider methods to minimize the risk of significant losses at the time of an employee's retirement. Board will consider options to minimize administrative expenses and may provide an investment option that provides an assured lifetime income.	Program offers 3 types of investment options: 1) aged-based/target date funds; 2) a capital preservation fund; and 3) a growth fund. The first \$1,000 in contributions will be invested in the Capital Preservation Fund with all subsequent contributions invested in the Target Retirement Fund based on the participant's age and year of retirement.
Fees	Total expenses cannot exceed 0.75% of total trust balance.	Administrative expenses may not exceed 0.5% of assets under management in the program.	Board will charge each IRA a program administrative fee not to exceed the rate of 1.05% per year.
Implementation Timeline	Pilot program is currently scheduled for mid-2018, with phased enrollment in 2019. All employees must be enrolled by December 31, 2020.	TBD	May 15, 2020.

Conclusion

This report aims to assess the feasibility of bringing a state-facilitated plan to South Carolina. The population in South Carolina is in desperate need of a boost to retirement savings. A voluntary state-facilitated plan that takes the regulatory burden off employers could help to boost savings. A plan that removes the employer match will further lower the hurdle to getting employers to sign on. The proposed SCVMEP plan would both take the regulatory burdens and the matching costs off of employers. This feasibility study was developed to bring out realistic projections of enrollments and

costs. These projections and costs were built based on the best available data. The findings suggest that with an initial program investment the state would be able to afford such a plan and be net positive in cash flow in approximately five to seven years. Since there are so many assumptions that have to be made in this type of forward-looking analysis we have provided AARP with a dashboard tool that will allow for easy “what-if” calculations by changing major assumptions.

An obvious limitation in our study is the limited historical data available for state-facilitated programs. This data is coming available more each day. For example, Oregon’s program will be releasing quarterly numbers going forward so tightening up forecasts based on actual data will become a reality as the process moves forward in South Carolina.

From our research it is clear that state-facilitated programs are becoming more common as new states are adopting them every year. Combine this with proposed MEP favorable legislation at the federal level and it seems like the trend is positive for these programs. In several of our interviews for this project the 529 plan came up as a possible model. That plan was new twenty years ago and now all states offer a version of it. Given the state of South Carolina’s position as the lowest in retirement savings and the potential for these programs to become common going forward it would be wise to consider this type of plan in the near future as a way for the state to remain competitive.