VIDEO

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Focus on Funds: New California Retirement Plan Brings Many Risks

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Workers, employers, and taxpayers in California all face risks from the state's new "Secure Choice" plan. In the October 7, 2016, edition of *Focus on Funds*, ICI Chief Economist Brian Reid gives the details.

Transcript

Stephanie Ortbals-Tibbs, ICI Director, Media Relations: Helping American workers save for retirement is a national issue and one that recently California tried to address with a new program it calls "Secure Choice." But this solution is also raising many questions—and possibly, new problems and risks. ICI Chief Economist Brian Reid offers a breakdown.

Brian Reid, ICI Chief Economist: We all want to find solutions for workers who are not participating in a retirement plan to be able to save for retirement. That's a good goal. Our concern is that the particular plan that California and other states are implementing bears a lot of risks and poses a lot of risks, not only for the workers in these plans and potentially the employers, but also the taxpayers of California. And those risks largely are unexpected costs of actually providing of providing the savings opportunities for these workers.

Ortbals-Tibbs: There's also a real risk here of a new burden on the state of California and its taxpayers.

Reid: The studies that have been done are making some pretty optimistic assumptions about how quickly the programs will grow and how much people will save in them. The more people save, those costs are spread out among those workers. If your balances are higher, you have more balances to pay for those costs.

What we're concerned about is that if the growth doesn't occur and if the accounts are much smaller, then the cost of running the program is going to be much greater than what is anticipated, and this will ultimately lead to higher fees and expenses for the workers in these plans, particularly in the early years where they're having to bear all the costs incurred by the plan.

Ortbals-Tibbs: Let's also look at the numbers around returns. What do you see there that has you concerned?

Reid: We know that returns and costs are associated, so the higher the costs, the lower the returns. In addition, the state of California is envisioning only allowing workers to invest in US government bonds initially, and these have very low returns right now. It's very possible [that] in the initial years, the workers who first participate in the program—the costs of participating could more than swamp the returns they are earning and give them very little if any return.

Ortbals-Tibbs: What's distressing is to think that this might actually ultimately discourage investors from saving for retirement, if things don't pan out according to these very optimistic projections.

Reid: Yes. This is what we don't want to happen—people participate in a plan and in this program, people become discouraged and try not to do it again. We all want people to save more for retirement.

Ortbals-Tibbs: Brian, as an economist, you also can see that there are other approaches that could be taken here that would not take on these risks, but could meet the same goals?

Reid: I think a much better solution would be, how can the federal government step in here? And how can they really help small employers band together and find ways to help bring the costs down? We think that could be a really positive solution for the marketplace.

Additional Resources

- *ICI Viewpoints*: Secure Choice Is Risky for Workers and for the State
- ICI Urges Governor Brown to Carefully Examine Legal and Economic Risks of "Secure Choice" Retirement Program