Enhancing Retirement Saving in New Hampshire

A Final Report to the New Hampshire Voluntary Retirement Project

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EXECUTIVE SUMMARY

In New Hampshire and throughout the United States, a significant portion of the population is not actively saving for retirement. Almost half of New Hampshire workers ages 21 to 64 are not enrolled in an employer-sponsored retirement savings plan.[1] The overall effect of low retirement savings is dramatic: about half of working middle-class households are projected to run out of money at some point during their retirement years.[2] This report highlights a variety of reasons why many people do not save enough for a comfortable retirement. Demographic factors that influence saving behavior include: education level, income level, age, and gender. Economic and non-economic explanations for Americans' lack of saving are also offered. For example, access to employer-sponsored plans, retirement plan design, and psychological factors all affect people's ability and decision to save for retirement.

This report presents federal, statewide, and employer-based "best practices" savings promotion efforts that have the potential to enhance retirement security in New Hampshire. Federally sponsored measures include the Saver's Credit and the Pension Protection Act of 2006. On the state level, a handful of states, including Michigan, Washington, and Vermont, have proposed legislation to create statewide retirement savings account systems. The report also references New Hampshire's 529 college tuition savings plan as an example of an existing state-sponsored savings plan. Employer practices that work to boost retirement plan participation and encourage saving include automatic plan enrollment and financial education through targeted seminars. Additionally, high school financial education programs exist to teach teenagers the basics of personal finance.

Based on considerations from academic sources, case studies, and first-hand testimonies, this report offers retirement saving policy options that the New Hampshire state government can implement within both the public and private sectors as well as through a public-private partnership. In the public sector, New Hampshire can create a statewide retirement savings account system, facilitate saving among low-income residents by modifying the asset tests of means-tested benefit programs, and utilize the services of the federal Office of Financial Education. Private sector policy options include promoting effective retirement plan designs that encourage participation and savings, and educating employees about how and why to save for retirement. Under a public-private partnership, the state legislature can work with local Chambers of Commerce to encourage best practice plan designs and initiate relationships with private foundations, organize a media campaign to promote retirement plan participation, and encourage financial education programs in high schools and universities.

1. BACKGROUND

Individuals who do not plan and save for retirement are less likely to maintain adequate living standards during retirement—an increasing concern given projections that Social Security benefits will decline relative to income as the Baby Boom Generation retires. In New Hampshire, almost half of workers ages 21 to 64 are not enrolled in an employer-sponsored retirement savings plan.[3] The failure to save for retirement is problematic not only for New Hampshire citizens, but also for the state government, which aims to promote the security and welfare of its elderly population.

Nationwide, seven out of ten workers and/or their spouses have saved money for retirement—a number that has remained fairly constant since 2001 (See Table 1.1). While most Americans do save, many are simply not saving enough: a recent analysis of the Health and Retirement Study found that, when asked to evaluate their savings, 73 percent of respondents report having saved too little over the past 20 and 30 years.[4] As depicted in Table 1.2, over half of all workers and 39 percent of workers over the age of 55 have less than $25,000 saved for retirement. Not only do households arrive at retirement with little or no wealth, their portfolios are also deficient: the main asset of families is their house and fewer than 30 percent hold stocks.[5] The overall effect of inadequate retirement savings is dramatic. According to one analysis of the Survey of Consumer Finances, about half of working middle-class households are projected to run out of money at some point during their retirement years.[6]

Table 1.1

Percentage of Workers Who Say They and/or Their Spouse Have Saved for Retirement, 1994–2005[a]

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
57%	58%	60%	66%	59%	68%	74%	65%	67%	68%	68%	69%

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1994–2005 Retirement Confidence Surveys.
[a] The addition of the phrase "and/or your spouse" to the question wording for married respondents starting in 1999 is responsible for approximately 4 to 5 percentage points of the increase between 1998 and 1999.

Table 1.2

Reported Total Savings and Investments, by Age (Not Including Value of Primary Residence)

	All Workers	Ages 25–34	Ages 35–44	Ages 45–54	Ages 55+
Less than $25,000	52%	70%	50%	41%	39%
$25,000–$49,999	13	12	15	14	12
$50,000–$99,999	11	9	14	13	7
$100,000–$249,999	12	5	10	17	23
$250,000 or more	11	4	10	16	19

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

According to economists, a comfortable retirement requires an annual income of about 70 percent of pre-retirement annual income earnings, which is considerably more than Social Security provides the average worker.[7] Relying solely on Social Security for a post-retirement income is therefore not realistic for most Americans. Yet instead of setting aside substantial funds for the future, Americans tend to over-consume and under-save right up to the time of retirement. Personal saving rates have steadily declined over the past 50 years and reached an all-time low in 2005 at -0.5 percent.[8] Those who do not set aside enough for retirement will likely be forced to reduce their consumption rates dramatically.

1.1. 401(k) and IRA Savings Plans

In 2004, 63 percent of American workers who participated in an employer-based retirement plan were enrolled solely in a defined contribution plan, in which the worker and/or the employer provides contributions to be invested within a limited range of options. This form of retirement plan offers employees flexibility that is not often found in traditional pension plans. The two most common types of defined contribution savings plans are 401(k)s and IRAs.[9]

401(k)s are employer-sponsored plans that allow employees to make investments via automatic payroll deductions. These investments are generally free from federal and state taxes. Some companies might enforce certain eligibility requirements for participation, including a minimum period of time employed at the company. The company may also choose to match part, or all, of an employee's contributions, or make an unmatched contribution. In 2004, 41.9 percent of American workers participated in 401(k)s or 401(k)-type plans, up from 37.6 percent in 1987.[10]

The second most common retirement savings plan--the Individual Retirement Account (IRA)--is available to anyone with an employment income. IRAs allow for an annual contribution of up to $4,000 per year. Contributions are tax-deferred and contribution limits are based on participants' income and marital status. Unlike a 401(k) plan, IRAs are not sponsored by an employer.[11] As anyone with an employment income can enroll in an IRA, a person participating in a 401(k) plan can also enroll in an IRA; however, the tax benefits normally received for contributions made to the IRA will be nullified. Academic research has shown that 401(k) and IRA savings arrangements exceed every other savings plan in terms of money saved over time. One recent study found that the typical 401(k) plan would fund a benefit at least as large as the traditional pensions that used to be prevalent in the form of defined benefit plans.[12]

1.2 Demographics

A variety of demographic factors come into play when accounting for a family's assets, savings, and employer-sponsored retirement plan participation.[*]

1.2.1 Education Levels

Families whose head has low education consistently report very low wealth. Less educated heads of households are not only less likely to own stocks and bonds but often do not hold very basic assets like checking and savings accounts.[13] An understanding of basic financial knowledge is also highly correlated with education levels.[14] In fact, education is a stronger predictor of retirement plan ownership than either age or family income. In 1997, fewer than 14 percent of employees with less than a high school diploma were enrolled in an employer-based retirement plan, whereas almost 64 percent of workers with a graduate or professional degree were enrolled.[15] Simply stated, education is strongly and positively correlated with retirement plan participation.

[*] In this section, employer-sponsored retirement plan participation refers to participation in any combination of defined benefit and defined contribution plans (including 401(k) plans). This does not include participation in IRAs.

1.2.2 Income Levels

A positive correlation exists between income level and participation in voluntary retirement plans: the more a person earns, the more likely he or she is to be enrolled in a plan. As noted in Table 1.3, only 22.6 percent of households with an adjusted gross income below $25,000 participated in an employer-provided retirement plan or held an IRA in 2004; of those earning under $10,000, just 10 percent were enrolled in a retirement plan.[16] These low figures are partially explained by the fact that low-income individuals are less likely to be eligible for an employer-sponsored plan. Yet of workers making $10,000 or less who were eligible for a plan in 2001, just over half took advantage of it—compared to the 85 percent of workers making $100,000 who enrolled.[17]

Table 1.3 **Retirement Plan Participation, by Family Income, 1992, 2001, and 2004**

Income Level	1992	2001	2004
Less than $10,000	8.0%	11.6%	10.3%
$10,000–$24,999	26.2	25.0	22.6
$25,000–$49,999	57.3	56.1	54.6
$50,000–$99,999	81.9	81.4	80.2
$100,000 or more	88.0	91.6	90.6

Source: *EBRI Issue Brief* no. 293, May 2006, based on Federal Reserve's 2004 Survey of Consumer Finances.

The retirement savings system is not very beneficial to lower-earning workers. Both the employer retirement plan and the IRA income tax incentives are based on deductions and exclusions that favor workers in higher tax brackets.[18] As a result, those who need to save the most are encouraged to save the least. Furthermore, means-tested federal benefit programs that low income families rely on often create barriers to saving due to their inclusion of retirement investments in the program-qualifying asset tests. Families must therefore deplete their retirement savings in order to qualify for short-term benefits. New Hampshire currently has asset tests for TANF, Food Stamps, and Medicaid that count retirement saving vehicles toward their asset limit.[19]

1.2.3 Gender

Female workers ages 21 to 64 participate in retirement plans at a lower rate than males. However, among full-time, full-year workers of these same ages, females had a higher rate of participation in an employer retirement plan. In fact, across all of the worker status classifications, females were more likely to be enrolled in a retirement plan than males. Furthermore, participation by earnings level was also higher for females than it was for males. Consequently, it appears that female workers' lower probability of participation in the aggregate was not due to their gender, but rather to their overall lower earnings and lower rates of full-time work.[20]

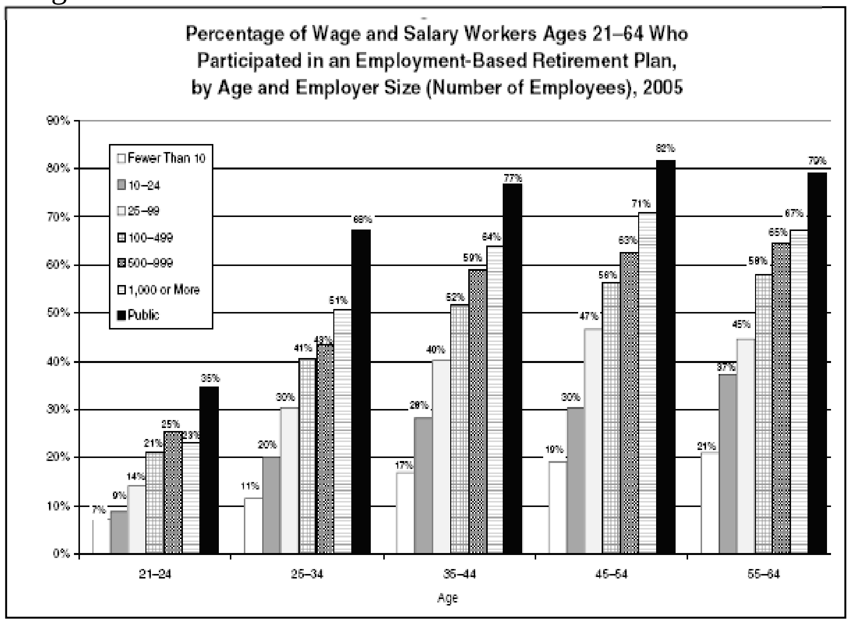
1.2.4 Age

Out of all age groups, workers ages 55 to 64 were the most likely to participate in an employer's retirement plan, with 57.8 percent of workers in this age bracket participating (See Figure 1.1). Workers ages 21 to 24 were the least likely to participate in a retirement plan at work: their participation rate was only 19.8 percent.[21] The typical worker does not begin participating in an employer-sponsored retirement plan until age 41, despite joining the workforce around age 22.[22]

1.2.5 Employment Status and Firm Size

Full-time workers are much more likely to participate in an employer retirement plan than part-time workers. In 2004, 54.8 percent of full-time, full-year workers were enrolled in a plan, as compared to 25.7 percent of part-time, full-year workers.[23] Firm size is also a key determinant of retirement plan participation. As is apparent in Figure 1.1, employees working in small businesses are substantially less likely to participate in a retirement plan than those employed by larger businesses. Even among workers making $50,000 or more, a considerable disparity in plan participation exists depending on business size: 31 percent of those working for the smallest firms participate, compared to 82 percent of those working for companies of 1,000 employees or more.[24] This low rate of participation is largely due to smaller firms not offering a retirement plan, as opposed to individuals refusing to join a plan that is offered.

Figure 1.1



2. WHY PEOPLE DO NOT SAVE

2.1 Economic Factors

Economic factors, including the availability of an employer plan and an employee's perceptions of the costs and benefits of participating in the plan, have a significant influence on participation and level of activity in a retirement savings plan.

2.1.1 Lack of Access to an Employer Plan

Employer-sponsored retirement plans play a key role in encouraging retirement savings. Most employees who are offered a retirement plan through their place of work choose to participate in it: 82 percent of eligible workers take advantage of their employer's plan.[25] However, a sizable number of workers do not have access to a retirement plan through their workplace. Of the 153 million Americans working in 2004, only 49 percent of them worked for a company that offered a 401(k).[26] Individuals who are not offered a savings plan through their employer are much less likely to contribute to any savings plan.[27] Today, fewer than one in 10 Americans eligible to contribute to an IRA actually does so.[28]

Many businesses choose to not offer plans to their employees because of the significant costs involved. Setting up and administering savings plans is expensive; for small companies, $3,500 to $5,000 is needed to maintain a savings plan for a year.[29] Furthermore, businesses must abide by strict federal regulation requirements, including extremely complicated nondiscrimination rules, and grapple with the volume and complexity of savings plans available.[30] Providing a retirement plan is especially difficult for small businesses: they have less money and manpower to put towards managing a plan, they must bear the potential burden of additional regulations, and they cannot take advantage of economies of scale. Currently, fewer than 30 percent of small businesses with 25 employees or fewer offer retirement savings plans.[31] This figure is especially notable given that more than half of all private sector workers are employed by small businesses.[32]

2.1.2 Lack of Participation in an Employer Plan

Seventeen million Americans who are eligible for an employer-sponsored retirement plan choose not to enroll.[33] One justification for this decision is that the employee finds fault with the employer's plan design, believing that it is either too complex or confusing to enroll in or that the investment options (e.g. employer matches, contribution rates) are inadequate or ill-suited to the employee. Employer-sponsored plans that offer uncomplicated investment options, automatic features, and contribution matches often see very high participation rates. Table 2.1 was constructed to highlight some of the incentives and disincentives that affect a worker's decision to enroll in an employer plan.

Table 2.1

Participation Incentives	Participation Disincentives
• Employer matching contributions	• Plan complexity
• A range of easy to understand investment options	• Benefits (tax incentives, employer matches, interest) perceived as too low
• Automatic enrollment/investment	• Too little money to invest

2.2. Non-Economic Factors

Lack of participation in a savings account cannot be explained solely through economic factors. Non-economic factors, including behavioral and psychological tendencies and a lack of financial planning and knowledge, must also be taken into account.

2.2.1 Behavioral and Psychological Factors

"Much of investing success has to do with overcoming our own worst tendencies," says Richard Thaler, a pioneer in behavioral finance.[34] A variety of behavioral and psychological factors impair people's ability or decision to save, including:

- The tendency to procrastinate or "put things off 'till tomorrow," especially when faced with a difficult task[35]
- Passivity and a bias toward the status quo[36]
- Myopic decision-making that favors immediate gratification over long-term consequence[37]
- The perception that retirement is too far in the future to worry about or properly address
- Feelings of anxiety and paralysis due to the multiple choices associated with retirement planning
- Fear of what people might find out if they calculate their savings needs[38]

2.2.2 Lack of Financial Planning and Knowledge

Planning for retirement is a complex task, and many Americans do not perform it adequately. Extensive information is required to make informed decisions, while the options and guidelines regarding savings plans are often elaborate and hard to follow. Many Americans simply do not know how to begin planning or where to find help.[39] Retirement planning is also perceived as too difficult and too complicated. As a result, only 36 percent of workers have attempted to determine their retirement savings needs. Almost one out of three households nearing retirement has done little to no planning.[40] Short interviews with Hanover business owners and employees were conducted to assess the perceptions and practices of local workers regarding retirement saving. Anecdotal evidence suggests that the reasons New Hampshire workers do not save for retirement are similar to the aforementioned national tendencies. One local employee noted that he was not using a retirement savings vehicle because his employer did not offer a plan and he was unaware of how to set up an individual account. He stated, "I would be interested in saving if there was an easy way to do it."

One main reason that many Americans do not plan for retirement is a widespread lack of financial literacy. Financial literacy—knowledge and understanding of common financial terms and practices—is strongly and positively associated with planning; it also has an effect on both savings and portfolio choice.[41] Many Americans do not understand basic financial concepts such as stocks, bonds, mutual funds, and compound interest. In one survey, one third of respondents age 50 and over could not correctly answer simple questions regarding interest compounding, inflation, and risk diversification.[42] With such limited financial literacy and understanding, the average worker cannot be expected to make the multiple and complex decisions associated with successful retirement planning, which include selecting and opening a savings vehicle, determining how much to save, and deciding on the characteristics of the plan.

3. GOVERNMENT INVOLVEMENT IN SAVINGS BEYOND 401(k)s

3.1 529 Plans

As little hard data exists pertaining to the effectiveness of statewide voluntary retirement accounts, it is important to examine other forms of state-sponsored vehicles that facilitate savings. New Hampshire's 529 College Tuition Savings plan has proven to be a popular model for state savings promotion. New Hampshire offers two different plans, one called UNIQUE which is sold directly to investors, and the other called the Fidelity Advisor 529 Plan. Combined, the two plans contain hold 446,000 accounts and maintain assets totaling approximately $5.8 billion.[43] The 529 plans generate enough fees to be financially sustainable for Fidelity Investments without the need for New Hampshire general funds. In addition, during the 2004-2005 fiscal year, the state collected $6.3 million in fees from these 529 accounts.[44] According to the New Hampshire Treasury Department, $400,000 was spent on administrative costs, while the remainder of that balance was directed to the New Hampshire Excellence in Higher Education Endowment Trust Fund, a scholarship program for New Hampshire residents attending college.[45]

Generally, the 529 plans have distinct advantages by providing investors the opportunity to invest funds in flexible accounts, without any tax liability upon withdrawal of funds (provided that the funds are used for qualified education expenses). However, a lack of awareness has been cited as a major obstacle to utilizing fully 529 plans for college savings; in a nationwide poll, 21 percent of parents saving for college stated that they had never heard of the 529 plan.[46] Any successful government sponsored savings vehicles must be marketed to the public in an effective manner.

3.2 The Saver's Credit

The Saver's Credit program, enacted in 2001, is the first and only major legislation that is directly targeted at giving saving incentives to middle and lower-income workers. Under the current system, pension tax advantages for retirement plan contributions increase as income increases. Under the Saver's Credit, unlike in the current upside-down system, people with lower incomes receive more matching funds in the form of a nonrefundable tax credit from the government for voluntary individual plan contributions. The Saver's Credit encourages participation in a retirement savings plan through employer contributions by making it easier for employers to pass the nondiscrimination test, by giving employees an incentive to demand a 401(k) plan from their employer, and by encouraging the implementation of automatic enrollment plans. The United States Treasury Department estimates that the tax expenditures associated with retirement savings in 2005 for the Saver's Credit total $1 billion (of the $150 billion going towards retirement). Due to the fact that the Saver's Credit only applies to those who pay income taxes, i.e. it is non-refundable, the program gives no incentive to the millions of low-income people who have no income tax liability. In addition, there is a lack of understanding of the program, as 34 percent of people who qualified for Saver's Credit failed to claim it.[47]

3.3 The Pension Protection Act of 2006

In 2006, the Pension Protection Act was signed into law, making permanent certain retirement savings protections and development policies that passed in 2001 but had been set to expire in 2010. Under this Act, contribution limits to IRAs, 401(k)s, and other savings plans were increased and made permanent. In addition, the Act established that contribution limits will continue to increase as the cost of living and inflation rises over time. The Pension Protection Act also allows for increased flexibility and choices within IRAs, including the option to deposit a chosen percentage of federal tax refunds directly into an IRA account, direct rollovers from 401(k)s to Roth IRAs without going through a traditional IRA, as well as the ability for non-spouse beneficiaries to inherit and participate in the IRA account. Significantly, the Pension Protection Act encourages states to assist companies in the establishment of their pension plans, including the implementation of automatic enrollment plans.[48]

4. CURRENT SAVINGS PROMOTION EFFORTS

4.1 State Development Plans

State governments are considering programs to encourage and facilitate saving for retirement. Pending federal approval, Washington, Michigan, and Vermont intend to propose legislation to offer their citizens state-sponsored retirement savings plans.

4.1.1 Washington

Washington was the first state to introduce and formalize legislation to create voluntary state-wide retirement savings accounts. For several years, legislation has moved favorably through committees to create a two-tiered system—one with IRAs (with payroll deductions as an option) and the other with employer-sponsored SIMPLE-IRAs and 401(k) plans. Private sector companies that currently do not offer retirement plans to their employees would be required to allow employees to use payroll deductions in contributing to the state's retirement system.[49]

John Burbank, executive director of the Economic Opportunity Institute, touts the Washington Voluntary Accounts as "a godsend, especially for small employers," since the state would be able to screen investment options, lower administrative costs, and allow businesses to avoid the stress of creating individual retirement plans for their employees. According to Burbank, the startup costs total $10 million, with possible assistance from the federal government. Reservations about the plan include skepticism of its effectiveness, concerns about government competition with private companies, and a general rebuffing by larger business firms who see no need for the state to offer a retirement plan.[50]

4.1.2 Michigan

Legislation has been proposed in Michigan to establish a state-wide voluntary 401(k) retirement program for residents whose employers do not offer one. The state says that $100,000 will be needed to set up the program; the money would be used to pay consultants and prepare documents for preparation to the IRS. Once in place, the program would fund itself out of fees on participants' investments.[51] Proponents contend that this state-wide savings program, named MI Retirement, can work to eliminate many of the barriers, including administrative oversight and cost, which prevent small businesses from providing a retirement plan for employees.[52] The plan would allow business owners to set up retirement pools for their workers, administered by a private company at no cost to the state.[53] Chris DeRose, Michigan's Office of Retirement Services' Director, stated, "it could cost the average business between $3,500 and $5,000 a year to [offer a retirement plan]...and we think we could get all of that cost out by using our large purchasing power to provide a conduit between businesses and retirement investment plans."[54]

4.1.3 Vermont

When Vermont State Treasurer Jeb Spaulding declared a "quiet crisis in the making," representatives from three political parties announced a proposal to establish a state-wide voluntary retirement account system, similar to a 401(k) plan. According to the State Treasurer's press release, IRAs may also be offered, targeting the self-employed and employees of companies who choose not to participate in the statewide program. This statewide initiative would offer residents the chance to opt into a state-sponsored account system, without the requirement provisions set forth in the Washington legislation. Fees would be assessed on accounts so that little or no taxpayer funds would be used.[55]

These early efforts to create state-sponsored retirement accounts have received some criticism, with opponents arguing against governmental involvement. A Michigan legislator speaking out against her state's proposed plan stated, "Government should only get involved in providing services to individuals that they can't provide for themselves. This is another layer of government to provide something the private sector already does."[56] A Pension Rights Center working report criticized the notion of mandating employers to participate in the plan. According to the report, such government mandates tend to discourage job formation and generally lead employers to reclassify workers into contract employees.[57] Lastly, some legislators in states considering a statewide retirement account system have downplayed the importance of retirement saving; they believe that other small business concerns, such as taxes and regulations, are more critical and attention-deserving issues.[58]

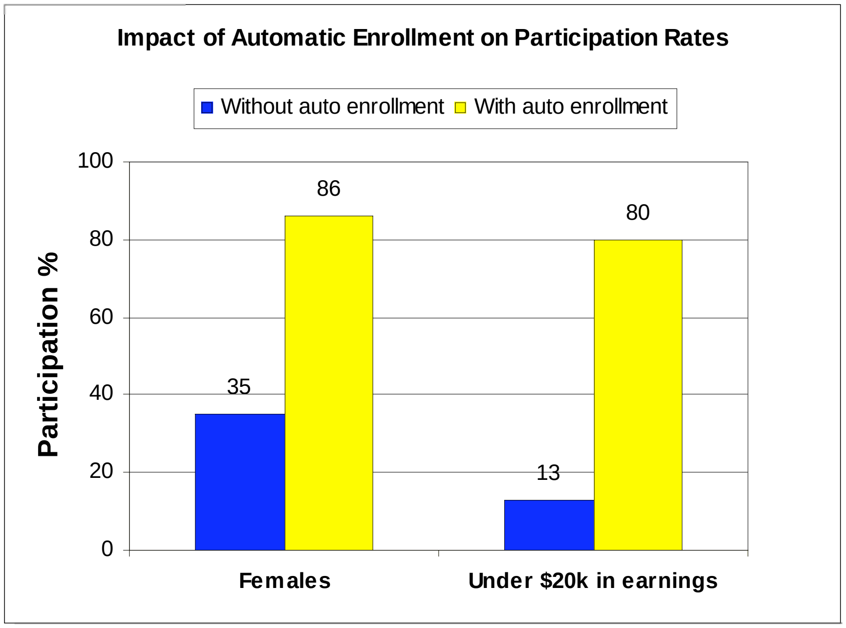
4.2 Automatic Enrollment

Over the past five years, companies have increasingly been instituting automatic enrollment features in their 401(k) plans which utilize the power of inertia to promote the participation and savings of employees in retirement plans.

4.2.1 Automatic 401(k)s

Under automatic 401(k) enrollment, new employees and those who fail to sign up for their company's plan automatically become participants, unless they explicitly opt out of the plan. The concept of making the default option enrollment is new: previously, no employee was enrolled in a plan unless he specifically signed up. After being automatically enrolled, a default payroll deduction rate would be taken from the employee and invested in a balanced and diversified, low-cost vehicle. In addition, automatic enrollment gives an employee the flexibility of increasing his contributions automatically, as well as guaranteeing the ability to roll retirement investments into an IRA or another 401(k).[59] In 2005, 10.5 percent of all businesses and 19 percent of large employers automatically enrolled workers in 401(k) plans.[60] Among businesses that have implemented automatic enrollment, retirement plan participation rates among new employees have increased dramatically, from 49 up to 90 percent.[61] Gains are especially striking among females and low-income workers (See Figure 4.1).

Figure 4.1



Actual results for employees between 3 and 15 months tenure. Study by Professor Brigitte Madrian, University of Pennsylvania's Wharton School, and Dennis Shea, United Health Group.

At the same time that automatic enrollment assists in increasing participation in retirement savings plans, it can also serve as a curb on the amount that people save. If the employer sets a default investment rate at a conservative two or three percent, the employee is likely to accept this rate (about 75 percent of automatic enrollees do) and as a result, might actually save less than he would without the default.[62]

4.2.2 The Save More Tomorrow Plan

One particular plan, developed in 2001 by economists Richard Thaler and Shlomo Benartzi, seeks to maximize the benefits of automatic enrollment while minimizing the negative aspects of low defaults. Significantly, this plan takes into account the many psychological determinants of savings, including a lack of self control to delay current consumption in favor of future consumption, as well as loss aversion, or the tendency for people to weigh losses more heavily than gains. Under the Save More Tomorrow plan, employees are asked to consider increasing their contribution rates before a scheduled pay raise. If employees enroll in the plan, their contribution rate increases at the first paycheck following a raise, eliminating the sense of loss. This pattern of coordinating the timing of increases in contribution rates with pay raises has been shown in one study to be successful in keeping participants active and in tripling the amount savings rates in a 28 month period.[63]

4.2.3 Automatic IRAs

A further method of providing automatic retirement savings to workers is through the automatic IRA. Automatic IRAs offer workers without access to an employer retirement plan the opportunity to save for retirement through automatic payroll deductions; a portion of each paycheck is automatically diverted into a low-cost, diversified individual retirement account.[64] Employers not ready or able to sponsor a 401(k) plan can offer automatic IRAs as a means of facilitating employee savings with little or no cost; they can also receive a temporary tax credit.[65] Automatic IRAs can serve as means of expanding retirement savings to millions of workers ineligible for employer-sponsored plans. They have also proven quite popular: 83 percent of respondents to one survey supported automatic IRAs.[66]

4.3 Education

Given workers' low levels of financial knowledge and general disinclination to plan and save for the future, educating Americans about saving for retirement is another possible approach to increasing retirement plan participation. Retirement savings education is generally provided through the employer via printed materials, seminars, and consultations. It has been shown that when employers offer financial education to their workers, nearly all measures of retirement accumulation increase.[67]

Example: MARKEM Corporation, Keene
1,200 employees worldwide, 89% participation rate in employer plan

"As a large company that does not employ automatic enrollment, we have a hugely successful participation rate of 89 percent. I work with every new employee and set up one-on-one financial sessions with a professional. I think the key to getting people to participate is communication and education." *–Human Resources Manager*

Example: Appledore Engineering, Inc., Portsmouth
25 employees, 100% participation rate in employer plan

"I personally sit down and help people sign up online. Once a year we have someone come in to answer questions and to act as our financial expert, explaining how much employees are actually saving and why it's important to save. Workers can also get in touch with him individually-- they have the ability to call him directly and seek his advice." *–Human Resources Manager*

About 48 percent of all U.S. workers receive retirement planning information from their place of work; those who do report better retirement planning, including increased probability of completing a retirement needs calculation.[68] Financial education has also been shown to increase worker productivity and reduces absences from work to deal with personal financial problems.[69]

4.3.1 Seminars

Whereas education efforts that rely on print media (e.g. newsletters, handouts, plan descriptions) have shown little effect on retirement savings participation or contributions rates, retirement seminars have been shown to stimulate savings for certain populations. The effect of seminars on individuals at the bottom of the wealth distribution and with low education is positive and significant: seminars are remedial and provide financial information that can reduce planning costs for these workers. Seminars have shown to have little effect on workers with higher levels of wealth and education.[70]

Example: Dartmouth College

4300 employees, over **60% participation rate**

Human Resources Department Findings:

- Attendance in "traditional" seminars is very low, no matter when or where they are held
- Seminar attendance increases substantially when targeted to certain groups, such as women
- Opportunities for one-on-one consultations are very popular

-Dartmouth Retirement Plan Administrator

Professor Annamaria Lusardi of Dartmouth College argues that offering retirement seminars is akin to "giving an aspirin to a person with pneumonia. They're a one-size-fits-all program; you can't expect people who don't know anything about retirement savings to be enlightened by a one-hour seminar." However, certain types of seminar activities have shown some positive results. Colin Camerer, a business economics professor at California Institute of Technology, has found that subjects in retirement seminars benefit from "social learning"—when participants are given specific examples of other people's retirement saving results. Camerer also discovered that computer simulation tools are highly effective at teaching the idea of an optimal saving lifecycle, as they can project people's financial futures using information about their current saving choices.[71]

To increase the overall effectiveness of seminars in stimulating retirement plan participation, Harvard Economist David Laibson suggests tailoring them to specific populations or combining education with a "mechanism that produces action." An example of such a mechanism would be to give employees attending an educational seminar the paperwork necessary to participate in that company's retirement plan and ask them to fill it out before leaving the seminar. A similar approach is to give employees 30 days to decide on a plan, thereby forcing workers to stop procrastinating and make an active "yes" or "no" decision on whether or not to enroll.[72]

4.3.2 High School Financial Education

Over the past decade, the Jump$tart Coalition for Personal Financial Literacy has conducted national surveys to assess the financial literacy rates of the country's youth population. In 2000, the average score on its high school financial literacy test was 51.9 out of 100; in 2006, the average score improved slightly to 52.4.[73] In addition, the National Council for Economic Education (NCEE) has conducted national surveys to assess the economic knowledge of adults and teenagers. In 2005, one such NCEE survey found that on quizzes testing economic principles and personal finance concepts, adults earned an average grade of "C" and teenagers an average score of "F." One out of 11 teenagers and one out of three adults earned a grade "A" or "B" on the quiz.[74] Currently, New Hampshire does not require students to complete a course or to pass a test showing mastery in financial education. Students are required to complete a course in civics, under which economics, with a focus on marketing, is included.[75]

The National Endowment for Financial Education sponsors a High School Financial Planning Program (HSFPP) that teaches high school students the basics of personal finance. This program was initiated in 1984 to increase the financial literacy of American youth. The philosophy of HSFPP is that effective money managing results from disciplined financial behavior that is most easily mastered if learned early in life. This program is available at no cost to all American high schools and has been shown to increase students' financial knowledge and their ability to save money for future purchases. The program includes unique games, case studies, interactive exercises, hands-on instruction, and lessons on money management, goal setting, budgeting, saving and investments.[76]

The Jump$tart Coalition, first convened in 1995, seeks to improve the personal financial literacy of young adults. Its objectives are to evaluate the financial literacy of primary and secondary students; develop, disseminate, and encourage the use of standards for grades K-12; and promote the teaching of personal finance. Jump$tart's national organization maintains a database of personal finance resources for teachers to use in support of their state's standards in economics, business, math and family and consumer science.[77]

New Hampshire's Jump$tart branch has been active since 2000, focusing its efforts on identifying resources and partnerships for teachers to use when instructing their students on personal finance concepts. For example, New Hampshire Jump$tart has partnered with the University of New Hampshire's Cooperative Extension to provide training in the use of the High School Financial Planning Program and has offered personal development conferences for teachers.[78]

5. CONCLUSION AND POLICY OPTIONS

5.1 Conclusion

Following the investigation of the trends and policies regarding retirement saving, several conclusions can be drawn pertaining to the demographics of savers, the reasons people do not save, and current state- and employer-based savings promotion efforts. Populations most at-risk for not saving include people of low income and education, part-time and small business workers, and younger employees. People are less likely to save if they do not have access to an employer plan or if their employer's plan is ill-designed. Non-economic factors that negatively influence saving include behavioral tendencies such as procrastination and aversion to change, as well as a lack of financial education and planning. Companies that utilize automatic enrollment practices see higher participation rates in their retirement plans. Targeted seminars and one-on-one advising sessions have also been shown to positively influence active employee participation. Various states are considering adopting measures to facilitate retirement saving through state-sponsored retirement accounts.

5.2 Policy Options

The following are best practices of current savings promotion efforts that can be applied to the public sector, the private sector, or as a public-private partnership.

5.2.1 Public Sector Options

- New Hampshire could create a statewide voluntary retirement account system. A state-sponsored retirement plan could be modeled on the following:
  - The existing UNIQUE 529 College Tuition Savings plan design, which contracts with a private company to offer a diverse array of investment options and allows employees to automatically contribute via automatic payroll deduction.
  - The UNIQUE 529 plan's statewide account system can assess fees to enable financial solvency and self-sufficiency.
  - Vermont's and Michigan's savings plan proposals, which would offer 401(k)-type retirement plans to all residents with enabling federal legislation. This plan may be easier to administer than Washington's proposal.
  - Washington's proposed "two-tier" state-sponsored retirement system. This system could offer New Hampshire residents both 401(k)-type plans and IRAs.

- New Hampshire can eliminate or modify asset rules for means-tested benefit programs to encourage retirement savings among low-income residents. Research indicates that doing this would allow more low-income families to simultaneously save and qualify for benefit programs; yet it would also increase costs to the state.

- The New Hampshire state government can work collaboratively with the National Office of Financial Education to share information, set up a financial education website, or provide state residents a way of accessing existing federally-sponsored resources. New Hampshire should also consider creating its own Office of Financial Education, using Pennsylvania's office as a model.

5.2.2 Private Sector Options

- Private employers can encourage employee savings by offering retirement savings plans with effective, user-friendly plan designs. To establish retirement plans that utilize "best practices," employers can:
  - Implement automatic features such as automatic enrollment; automatic investment in low-cost, diversified, and balanced savings vehicles; and automatic escalation, which increases an employee's contributions as their

earnings increase. Automatic features fight procrastination and the tendency to avoid change. The Save More Tomorrow plan can serve as a model.
  - Match contributions at some rate, so that compensation is actually higher for workers who choose to save.
  - Offer a limited variety of simple, easy-to-understand investment options. Decreasing plan complexity and confusion will enable less financially knowledgeable employees to participate.
  - Offer plans that allow employees to roll over 401(k) accounts into other qualified plans or an IRA upon leaving the company.
  - Provide employees with access to IRAs with automatic payroll deductions if no 401(k) plan is offered. Small businesses that cannot afford to sponsor retirement accounts can take advantage of this practice.

- Employers have the potential to enhance their employees' financial literacy and greatly increase retirement plan participation rates. They can do this by offering workplace seminars that are simple, relevant, engaging, personalized, and fun. Employers can aim to:
  - Specifically target groups with low rates of plan participation, such as low-income and part-time workers.
  - Give seminar participants the paperwork to participate in an employer plan and ask them to fill it out before they leave the seminar. Or, use an "active decision" approach that gives employees 30 days to decide on a plan.
  - Provide "social learning": give employees examples of other people's saving results
  - Use computer simulation tools to give people a feel for what their financial life might look like in 10, 20, and 30 years based on current savings choices

- One-on-one tutorials or counseling sessions can be useful in increasing employees' knowledge of and participation in retirement plans. They can specifically target new hires and young workers who otherwise may not have taken the initiative to enroll in a plan.

5.2.3 Public-Private Partnership Options

- The New Hampshire state government can reach out to local Chambers of Commerce to promote employer-level retirement saving. This collaborative partnership could allow the state government to:
  - Encourage employers to utilize best practice models, as presented in the *Private Sector Options* section
  - Seek out new corporate sponsors to finance retirement savings/education programs
  - Work with employers to engage advocacy groups and foundations that might be interested in promoting or funding retirement savings efforts

- The state government can pool resources with the private sector to implement a mass marketing campaign with the goal of raising awareness about the importance of investing in retirement accounts. To maximize impact, public service announcements could be used that are modeled on the successful health advertisement campaigns targeted to specific audiences.

- New Hampshire can promote statewide financial literacy by:
  - Sponsoring or encouraging financial education classes in high school, either through a standard economics curriculum or through courses such as the High School Financial Planning Program
  - Collaborating with New Hampshire Jump$tart to assess and improve the financial literacy of New Hampshire primary and secondary students through the creation of statewide economic standards and the dissemination of financial education materials

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