Retirement Security in Wisconsin

Jessie Gibbons
legislative analyst

Mary Alice McGreevy
legislative attorney
Overview

Wisconsin’s population is aging. Due to advances in medicine and healthier lifestyles, more Wisconsinites than ever are living 15, 20, or even 30 years after retiring; however, many retirees are not financially prepared for extended retirements. Only 52 percent of American families have savings in retirement accounts, and those accounts have a median value of $60,000. Significantly, the median retirement account balance of working-age Americans is $0.

Traditional employer-sponsored pension plans, which guarantee lifetime benefits, are now uncommon in the private sector. Instead, employers have moved to personal retirement accounts such as 401(k)s, and many offer no retirement savings plan at all. Instead, millions of retirees rely solely upon Social Security benefits to support themselves. Those modest benefits, averaging just $1,443 per month for the typical Social Security beneficiary in Wisconsin, do not cover the significant health care and housing expenses most face in retirement. In this state, the average Social Security check would cover the cost of only ten days in an assisted living facility. Longer retirements and inadequate savings are contributing to a rise in elder poverty.

This report examines financial security in retirement and discusses the policy solutions that could improve the retirement preparedness of today’s workers. Part I explains the rise in elder poverty and the aging of Wisconsin’s population. Part II discusses the most common sources of retirement income: Social Security, defined benefit plans, defined contribution plans, and personal savings. Part III focuses on retirement savings laws and incentives at the federal and state levels, and Part IV summarizes legislative action in Wisconsin.

I. Elder poverty in Wisconsin

In Wisconsin, elder poverty is on the rise because of the significant expenses retirees face compared to their relatively flat income. When workers retire, they generally do not need to replace 100 percent of their prior income because they spend less on child care, groceries, gasoline, travel, and entertainment. However, retirees spend significantly more on housing and health care. While approximately 80 percent of those over age 65 own their home and no longer have monthly mortgage payments, many rent housing or

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5. Details on various retirement savings plans can be found in appendix A on page 18.
move to retirement communities, assisted living facilities, or long-term care facilities. These costs are significant. In Wisconsin, the median cost of an assisted living facility is $51,600 per year. Median nursing home care for one year in Wisconsin is $100,010 for a semi-private room, or $112,146 for a private room.

Seventy percent of 65-year-olds will require long-term care services. On average, men who utilize long-term care services need them for 2.2 years and women need them for 3.7 years. Twenty percent of people receiving long-term care will require it for longer than five years. In Wisconsin, a five-year stay in an assisted living facility would cost $258,000, while five years in a nursing home would cost half a million dollars—far more than most have saved for retirement expenses.

The cost of health care in retirement is also a significant expense. Medicare is a comprehensive health insurance program, but it does not cover the cost of most long-term care, dental care, hearing care, or vision care. As a result, most retirees must pay out of pocket for dentures, hearing aids, and eyeglasses.

Medicare beneficiaries must also pay, monthly and out of pocket, their Part B (outpatient and preventive care medical insurance) and Part D (prescription drug insurance) premiums, in addition to deductibles, coinsurances, and copayments. And while many purchase private supplemental insurance to help cover these out-of-pocket costs, the premiums for those supplemental plans are an additional expense every month. Prescription drugs are a major additional expense in retirement, as many Part D plans do not cover all prescriptions and charge more for brand-name medicines. According to the AARP, in 2013, the median share of retirement income spent on out-of-pocket health care costs was 17.2 percent. In fact, one in ten Medicare beneficiaries spent nearly 75 percent of their total retirement income on out-of-pocket health care costs.

According to the Institute for Research on Poverty at the University of Wisconsin–Madison, 9.5 percent of older Wisconsinites were living in poverty in 2017, up from 9 percent in 2016. Poverty dropped in 2017 for all other demographic groups, but elder

12. AARP Public Policy Institute, “Medicare Beneficiaries’ Out-of-Pocket Spending for Health Care,” 1.
14. AARP Public Policy Institute, “Medicare Beneficiaries’ Out-of-Pocket Spending for Health Care,” 5.
poverty continued a rising trend that began in 2015, due in large part to rising out-of-pocket health care costs.\textsuperscript{16}

The high costs of health care, housing, and other basic necessities combined with inadequate retirement savings are driving an increase in elder poverty. As of 2016, poverty rates were highest for women, the oldest retirees, and minorities nationwide (see figures 1 and 2).

Women and minorities receive less in retirement income than other retirees. They also generally have longer life expectancies. In Wisconsin, women who live to age 65 can expect to live an average of 2.6 years longer than men. Hispanic men and women in Wisconsin have the longest life expectancy on average at 86.9 years, followed by Asian men and women at 83.5 years, white men and women at 79.8 years, black men and women at 73.8 years, and American Indian men and women at 72.8 years. In Wisconsin, 13 percent of those 65 and older have annual incomes below $15,000, and 30 percent have annual incomes below $25,000. The median household income of those 65 and older in Wisconsin is $38,753—lower than the $41,876 national average. Wisconsinites should plan financially for retirements lasting 20 years or longer.

Another contributor to the growing elder poverty rate is that most retirement income does not grow at the rate of inflation. Social Security beneficiaries receive annual cost-of-living adjustments, but the increases do not reflect the inflation experienced by all retirees because they are based upon the inflation experienced by working Americans, who have different spending patterns. The cost-of-living adjustments are also frequently offset by increases in Medicare Part B premiums, which are automatically deducted from the Social Security checks of most beneficiaries. The result is that over time the purchasing power of retirement income slowly erodes, and retirees are increasingly likely to rely on benefit programs administered by the State of Wisconsin, such as Medicaid, the Elderly Nutrition Program, the SeniorCare Prescription Drug Assistance Program, the Specified Low Income Medicare Beneficiary Program, the Qualified Medicare Beneficiary Program, and the Wisconsin Home Energy Assistance Program.

With Baby Boomers—those born between 1946 and 1964—aging rapidly and most workers saving for retirement at inadequate rates, elder poverty will continue to grow in Wisconsin. Before potential policy solutions to this problem can be compared, it is essential to understand the several sources of retirement income.

II. Income in retirement

Most Americans retire in their 60s, at which point they no longer receive regular income from employment. In retirement, individuals typically receive income from four primary

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20. Wisconsin Department of Health Services, “State of Wisconsin Profile of Persons Ages 65 and Older, P-01213A.”
sources: Social Security; employer-sponsored “defined benefit” (DB) pension plans; employer-sponsored “defined contribution” (DC) retirement plans; and personal savings in Individual Retirement Accounts (IRAs) or other savings accounts. Ideally, retirees will receive income from multiple sources to support themselves. However, that is rarely the case today, as DB plans are increasingly uncommon in the private sector and many workers fail to set aside any savings for retirement.

Social Security

Under the Old-Age and Survivors Insurance (OASI) program, working individuals who earn 40 Social Security credits—typically earned in ten years of full-time work—are eligible to receive Social Security benefits when they reach age 62. Those who do not earn 40 Social Security credits may be eligible for spousal benefits at age 62 or survivors’ benefits at age 60. As of 2018, 43.7 million retired workers were collecting Social Security benefits nationwide; in Wisconsin, 896,146 retirees were collecting benefits.

Social Security is a pay-as-you-go program, which means that today’s working individuals are funding the benefits of today’s retirees. Workers and employers contribute to the program through Federal Insurance Contributions Act payroll tax deductions. These total 12.4 percent of an individual's salary and are split evenly between workers and employers, with each contributing 6.2 percent. This payroll tax is paid on all income up to the taxable maximum, which is $132,900 in 2019.

Social Security benefits are based on lifetime earnings, using the highest 35 years of earnings to calculate the basic benefit. Those who wait until their full retirement age—currently between 66 and 67, depending on birth year—to collect benefits receive their full basic benefit. Those who file for benefits at 62 or any time before their full retirement age receive reduced benefits. Likewise, those who delay claiming their benefits receive increased benefits until they reach age 70 when they receive their maximum Social Security benefit.

Social Security benefits are modest and are not intended to be the sole source of income in retirement. In Wisconsin, the average retiree receives $1,443 from Social Security each month. Nationally, the average monthly Social Security benefit in 2019 is $1,461; the average for a retired couple who both receive benefits is $2,448; and the average benefit for a retired widow or widower is $1,386.

23. Details on various retirement savings accounts can be found in appendix A on page 18.
For the typical retiree, Social Security benefits replace just 36 percent of prior income when compared to a worker’s 35 years of wage-adjusted earnings.29 Yet for over half of the retired population as of 2017, Social Security benefits comprise at least 50 percent of retirement income; for around one-quarter of the population, it provides at least 90 percent of retirement income.30 Social Security benefits are more likely to account for at least 90 percent of retirement income among women, unmarried individuals, minorities, and the oldest retirees (see table 1).

Social Security is the foundation of financial security in retirement, providing 84 percent of all retired Americans with reliable, guaranteed income every month.31 Without Social Security, millions more retirees would live in poverty.

Despite the critical role Social Security plays in ensuring financial security, the program is facing significant financing problems. According to the Social Security Trustees, program costs are expected to exceed program income beginning in 2020, and the OASI Trust Fund reserves are projected to become depleted in 2034, just 15 years from now.32 Without legislative action at the federal level, Social Security beneficiaries will face an across-the-board 17 percent cut in benefits in 2034.33 A cut of that size would significantly affect the financial security of millions of retirees.

Table 1. Population percentages for Social Security benefit contributions to retirement income

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>≥50% of income</th>
<th>≥90% of income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sex</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Women</td>
<td>55.2</td>
<td>27.4</td>
</tr>
<tr>
<td>Men</td>
<td>47.5</td>
<td>21.3</td>
</tr>
<tr>
<td><strong>Marital status</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Married</td>
<td>45.9</td>
<td>18.7</td>
</tr>
<tr>
<td>Not married</td>
<td>59.6</td>
<td>32.6</td>
</tr>
<tr>
<td><strong>Race/ethnicity</strong></td>
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<td></td>
</tr>
<tr>
<td>White</td>
<td>51.8</td>
<td>24.1</td>
</tr>
<tr>
<td>Black</td>
<td>56.9</td>
<td>32.5</td>
</tr>
<tr>
<td>Hispanic</td>
<td>51.5</td>
<td>31.2</td>
</tr>
<tr>
<td>Other</td>
<td>43.7</td>
<td>22.7</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>65–69</td>
<td>41.7</td>
<td>18.3</td>
</tr>
<tr>
<td>70–74</td>
<td>51.1</td>
<td>23.3</td>
</tr>
<tr>
<td>75–79</td>
<td>57.0</td>
<td>26.8</td>
</tr>
<tr>
<td>80 or older</td>
<td>61.4</td>
<td>32.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>51.8%</td>
<td>24.7%</td>
</tr>
</tbody>
</table>

Source: Social Security Administration, 2017

Defined benefit plans

DB plans are employer-sponsored pension plans that typically provide workers with fixed, monthly benefits in retirement guaranteed for life and often feature a survivor benefit. Unlike Social Security, DB plans are not pay-as-you-go plans, but are funded in three ways: employer contributions, employee contributions, and earnings on investments. Between 1993 and 2016, roughly 25 percent of all state and local pension fund revenue came from employer contributions, 12 percent came from employee contributions, and 63 percent came from earnings on investments.34

With nearly two-thirds of funding coming from earnings on investments, these plans are relatively affordable for employers to sponsor. However, they are the most risky and complex plans for employers to administer.35 That is because employers who offer DB plans are responsible for managing the investments, and when shortfalls occur, they are obligated to contribute all amounts necessary to ensure that retirees receive the promised benefits.

Provisions of the Internal Revenue Code, regulations from the Department of the Treasury, and guidance from the Internal Revenue Service govern DB plans in the public sector. In the private sector, the Employee Retirement Income Security Act of 1974 (ERISA) heavily regulates DB plans. Private employers who offer them must purchase pension insurance from the Pension Benefit Guaranty Corporation (PBGC), an agency of the federal government that protects private-sector pensions. If an employer terminates a plan and is unable to fulfill its pension obligations, the PBGC assumes responsibility for providing the pension. When that occurs, the benefits received by retirees may be lower than originally promised, according to limitations set by law. In 2019, the maximum guaranteed amount a 65-year-old can receive from PBGC is $5,607.95 per month, or $67,295.40 per year.36

In 2016, only 17 percent of workers whose employers offered retirement benefits had the option to participate in DB plans, a significant drop from 62 percent in 1983.37 Today, DB pension plans are available primarily to public employees and union workers. Nearly 75 percent of state and local government employees participated in a DB pension plan in 2016, however, due to the problems inherent in administering these plans, many public employers have frozen participation in DB plans in favor of DC plans.38 In 2016, only 43 percent of DB pension plans offered by state and local governments were open to new public-sector employees.39

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Data show that access to DB plans varies depending on several job and employer characteristics (see figure 3). In the private sector, DB plans are more likely to be available to full-time workers, union workers, and those working for larger companies that can take on the risk and the administrative burden.\textsuperscript{40} Access also increases with income. In 2017, 9 percent of those with wages in the lowest quartile had access; 22 percent of those in the second quartile had access; 36 percent of those in the third quartile had access; and 50 percent of those with wages in the top quartile had access to a DB plan.\textsuperscript{41}

\textsuperscript{40} United States Bureau of Labor Statistics, ”51 percent of private industry workers had access to only defined contribution retirement plans,” October 2, 2018, www.bls.gov.

For workers with access to DB pension plans, benefits are a guaranteed source of financial security in retirement since they are backed by employers and, in the private sector, by the PBGC. The benefits of public sector employees are often protected by state laws or constitutions.

**Defined contribution plans**

DC retirement plans, including 401(a), 401(k), 403(b), and 457 retirement savings plans, are employer-sponsored plans that allow employees to contribute a percentage of their income to personal retirement accounts through tax-deferred payroll deductions. Contributions may be made up to an annual limit, set at $19,000 in 2019 for most DC plan types. Contributions to these individual accounts are frequently matched to a certain point—often between 3 and 6 percent—by employer contributions. These employer matches encourage workers to save for retirement. They also contribute significantly to growth in account balances, often doubling a worker's monthly contributions.

Like DB plans, DC retirement savings plans are highly regulated. While traditional DB plans place most of the risk and administrative burden on employers, DC plans transfer much of it onto workers. Employees manage individual accounts and choose whether

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**Figure 4. Defined contribution plan access and participation rates for private sector workers by income level, March 2018**

![Bar chart showing defined contribution plan access and participation rates for private sector workers by income level, March 2018. Source: Bureau of Labor Statistics, 2018.]

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42. Details on various plans can be found in appendix A on page 18.

they will participate, how much they will contribute, and how they will invest their retirement funds. Employers who sponsor DC accounts can choose to automatically enroll their employees in retirement plans and to apply a uniform default deferral percentage, which may not exceed 10 percent of pay.\textsuperscript{44} In most DC plans, workers have the option to not participate.

Because enrolling in DC plans is optional, many employees choose not to participate or to take only employer contributions. In 2016, 62 percent of all private-sector employees had access to DC plans, but only 44 percent actually participated.\textsuperscript{45} Data show that access and participation rates increase significantly with income (see figure 4). Workers who have access but choose not to participate may be unaware of the benefits of saving in DC plans or they may have other financial obligations, such as student debt, health care costs, or child care expenses, that makes saving for retirement prohibitive.

According to the Federal Reserve’s \textit{Survey of Consumer Finances}, just over half of households—52.1 percent—had balances in DC retirement accounts in 2016, and average account assets were around $60,000.\textsuperscript{46} Financial planners recommend that workers save 8 to 12 times their annual income in retirement accounts in order to achieve an 85 percent replacement rate.\textsuperscript{47} That means a worker nearing retirement who earns $50,000 per year should have at least $400,000 saved in a retirement account before retiring. Most Americans are nowhere close to having accumulated this amount in their retirement account.\textsuperscript{48}

**Personal savings**

Personal savings are the fourth source of income in retirement. Checking or savings accounts are the most popular savings tools among Americans, with an ownership rate of 98 percent.\textsuperscript{49} However, funds in these accounts do not provide a significant amount of retirement security. In 2016, the median American family’s bank account balance was $4,500.\textsuperscript{50} Certificates of deposit, savings bonds, and stocks are other personal savings instruments and contribute some income in retirement, but ownership of these assets is less common. In 2016, 6.5 percent of American families owned certificates of deposit, 8.6 percent owned savings bonds, and 13.9 percent owned stocks.\textsuperscript{51} Families with these assets are typically high earners with significant additional savings in retirement accounts.

\textsuperscript{46} Bricker et al., “\textit{Changes in U.S. Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances},” 19.
\textsuperscript{47} Brown et al., \textit{Retirement in America: Out of Reach for Working Americans}, 2.
\textsuperscript{48} Nearly one-third of those nearing retirement in 2016 had no retirement savings at all, and, of those who did, the average account balance was just $135,000. The average worker nearing retirement would need to triple that $135,000 account balance to reach an adequate level of retirement savings.
\textsuperscript{49} Bricker et al., “\textit{Changes in U.S. Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances},” 19.
\textsuperscript{50} Bricker et al., “\textit{Changes in U.S. Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances},” 19.
\textsuperscript{51} Bricker et al., “\textit{Changes in U.S. Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances},” 18.
Individual Retirement Accounts (IRAs) are a personal savings tool that can contribute income in retirement if individuals make the maximum allowable contributions. Individuals can open IRAs through banks and other financial institutions, or through some employers. When employers establish IRAs for their employees, they can set up recurring payroll deduction contributions, but for most IRAs, employers cannot make contributions to their employees’ accounts.\(^{52}\)

Like DC retirement plans, IRAs allow individual workers to save for retirement with certain tax advantages, depending on the type of IRA the individual selects. However, the contribution limitations for IRAs are much lower than for DC retirement plans, making it more difficult for account balances to grow quickly. In 2019, a worker can contribute $6,000—less than a third of the maximum amount most workers can contribute to a 401(k) plan—or 100 percent of his or her salary, whichever is less.\(^{53}\)

III. Retirement savings laws and incentives

Laws and incentives at the federal and state levels encourage employers to offer retirement plans and encourage employees to participate in them.

Federal laws and incentives

Federal tax law encourages employer participation in several ways. Employers who sponsor retirement plans and match employees’ contributions can deduct from their business income the contributions they make. Employers also benefit financially by avoiding paying the 6.2 percent FICA payroll tax on the contributions they make. Employers may also be eligible for the Credit for Small Employer Pension Plan Startup Costs when they establish retirement plans. This federal tax credit is available to small businesses with 100 or fewer employees and covers 50 percent of eligible startup costs up to a maximum of $500 per year for three years.\(^{54}\)

Workers also receive federal tax advantages when they contribute to retirement accounts. They can reduce their taxable income when they contribute to 401(k), 403(b), and most 457 accounts. In 2019, the annual limit was $19,000 for workers under age 50 and $25,000 for those over age 50. In 2019, for employees covered by a 401(a) plan, the employer and employee may make up to $56,000 in contributions or 100 percent of the employee’s salary, whichever is less. Taxes on that income are deferred until distributions begin in retirement.

Additionally, the federal government provides incentives for retirement savings by

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\(^{52}\) See appendix A on page 18 for details on the various types of accounts.


low-income and moderate-income individuals through the Retirement Savings Contribution Credit. This tax credit, known as the Saver’s Credit, allows eligible low-income and moderate-income individuals to receive a $1,000 nonrefundable tax credit (or $2,000 for married couples filing jointly) when they contribute to a DC plan.55

Federal incentives under consideration

Congress is considering legislation called the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 (H.R. 1994). The House of Representatives passed the SECURE Act in May 2019 with a bipartisan vote of 417–3, and as of October 2019, the Senate has not acted on it.

The SECURE Act would provide incentives to increase participation in retirement savings plans in the following ways:56

- Eliminating barriers that make it difficult for small companies to participate in more affordable and efficient multiple employer plans (MEPs);
- Increasing the existing Credit for Small Employer Pension Plan Startup Costs from a maximum of $500 per year for three years to a maximum of $5,000 per year for three years;
- Creating a Small Employer Automatic Enrollment Credit for employers who use automatic enrollment when they begin offering their employees 401(k) or SIMPLE IRA plans;
- Allowing individuals to make penalty-free withdrawals from retirement plans following the birth or adoption of a child;
- Requiring that benefit statements include annual lifetime income disclosures that estimate an individual’s projected monthly income from the retirement account.

State laws and incentives

Wisconsin law reduces the tax burden on retirement income by excluding Social Security income from taxable state income, granting a higher personal exemption to individuals over age 65, and providing a homestead credit for low-income renters or homeowners.57 Wisconsin law does not exempt other retirement income from taxation, but Wisconsin is one of many states currently examining the ways in which it can facilitate retirement savings for private-sector employees who do not have access to employer-sponsored plans either by tax incentives or state programs to encourage retirement savings.

As of October 2019, 10 states have enacted laws to encourage or require retirement savings plan participation. Six states (California, Connecticut, Illinois, Maryland, New Jersey, and Oregon) have adopted Automatic IRA (Auto-IRA) Plans; one state (New

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57. Wis. Stat. § 71.05.
York) has adopted a Voluntary IRA Plan; two states (Massachusetts and Vermont) have adopted Multiple Employer Plans (MEPs); and one state (Washington) has adopted a marketplace plan.

**Auto-IRA plans**

Over half of the states that have enacted laws to create state-administered retirement savings plans have adopted Auto-IRA plans. Under this model, certain employers—typically those who do not already offer qualifying retirement plans—are required to participate. Employees working for participating employers are enrolled in IRAs automatically, frequently at a default contribution rate of around 5 percent of income, with the option to decline participation or to select a different contribution rate.

Auto-IRAs are not regulated by ERISA as employer-sponsored plans. In 1975, the federal Department of Labor issued safe harbor regulations for these plans. The regulations require that:

- The plan not allow contributions by the employer;
- Participation is completely voluntary for employees;
- The employer's role is purely administrative;
- The employer may not endorse the plan, but may publicize the plan to employees and collect contributions through payroll deductions;
- The employer may receive compensation only for services actually rendered in connection with payroll deductions.

Features of statewide Auto-IRA plans typically include an initial study to determine the feasibility of a plan; a board with broad authority to select vendors for any aspect of administering the plan; a trust established and administered by the board; an initial outlay by the employer for start-up costs; employee-paid fees for administration of the plan; board and staff immunity for investment returns; no guarantee of money in the funds; minimum contribution percentages; annual automatic escalation of employee contributions; a waiting period during which employees can opt out; lifetime payment options; and reports to the state's legislature.

Auto-IRA plans are popular among states because participation is straightforward for employees, who may already be familiar with IRAs, and essentially free for employers, who already deduct and remit payroll taxes. Business owners overwhelmingly support Auto-IRAs: when a sample of small-business owners and medium-business owners without retirement plans were asked in a national survey whether they would support state-sponsored Auto-IRAs, 86 percent said they would.

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58. 29 USC § 2510.3-2(d).
Initial results from one statewide auto-enroll program—OregonSaves—show that Auto-IRAs can be successful. In Oregon, all employers with no qualifying retirement plan must participate in the program, and employees are enrolled automatically in Roth IRAs at a 5 percent default contribution rate, with the option to decline participation or select a different contribution rate. Implementation of OregonSaves began in 2017 in several phases, and full implementation is expected by the end of 2020. In the first 17 months of operation, over 1,800 employers enrolled in the program.\(^{60}\) As of December 2018, there were approximately 22,000 individual accounts and over $10,000,000 held in these accounts.\(^{61}\)

Five other Auto-IRA programs are currently being implemented in California, Connecticut, Illinois, Maryland, and New Jersey. New York is also implementing a statewide IRA plan that allows all employers to participate on a voluntary basis.\(^{62}\)

**Multiple-employer plans**

MEPs are less common than Auto-IRAs in states but are currently being implemented in Massachusetts and Vermont. MEPs allow multiple private-sector businesses to offer their employees one common retirement savings account, making it more affordable and efficient for each employer to offer retirement benefits.

In Massachusetts, the statewide MEP is available only to nonprofit employers with 20 or fewer employees. In Vermont, the MEP is open to small businesses with fewer than 50 employees. State agencies assume the administrative and investment responsibilities of these plans, reducing the burden on employers. Unlike Auto-IRAs, MEPs are regulated by ERISA. As such, employers cannot be mandated to participate, and those who do choose to participate may make contributions to the retirement accounts of their employees. In Massachusetts and Vermont, employees are enrolled in 401(k)s, which have higher maximum contribution limits than IRAs and allow employer contributions. Individuals can opt out if desired.

Because participation in Massachusetts and Vermont MEPs is voluntary and is limited to certain small or nonprofit businesses, the plans will benefit fewer employees than the Auto-IRA plans. However, plan participants in Massachusetts and Vermont will likely see higher retirement account balances since they may receive employer matches and can contribute to 401(k)s, which have contribution limits that are over three times higher than the limits on IRA contributions.

Because the MEP in Vermont has not yet been implemented, and it is too early to determine the success of the plan in Massachusetts, time will tell whether these plans will achieve their intended goals.\(^{63}\)

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62. More information about these statewide plans can be found in appendix B on page 19.

63. Details on both statewide plans can be found in appendix B on page 19.
Marketplace plans

One other state, Washington, is implementing a statewide marketplace plan. Marketplace models do not require participation by employers or employees. Instead, they connect existing financial services providers with employers. Marketplaces feature a variety of retirement plans, including 401(k)s, SIMPLE, and Roth and Traditional IRAs. Employers can choose the plans they will offer to their employees. If they select ERISA plans like 401(k)s, they may make contributions to the retirement accounts for their employees.

In Washington, the marketplace is open only to employers with 100 or fewer employees. The state-run marketplace website allows employers to compare approved retirement plans. The plans cannot charge administrative fees to employers and cannot charge employees more than 1 percent in administrative fees. Since participation in this model is voluntary and is available only to certain employers, it is unclear if it will lead to significant retirement savings for private-sector employees. Importantly, the marketplace plan in Washington does eliminate some barriers for small businesses that are struggling to select and offer retirement plans.

IV. Recent legislative action in Wisconsin

As of October 2019, Wisconsin has not enacted legislation that would create a state-administered retirement savings plan program for private employers. In the past three legislative sessions, legislation has been proposed that would create the Wisconsin Private Retirement Security Board that would ultimately establish a private retirement security plan for interested state residents. The bills (2017 Senate Bill 302 and 2017 Assembly Bill 403; 2015 Senate Bill 45 and 2015 Assembly Bill 70; and 2013 Senate Bill 611 and 2013 Assembly Bill 838) would require the Department of Employee Trust Funds, which administers the Wisconsin Retirement System for most public employees, to create the board and provide the staff, resources, and assistance necessary for the board to perform its duties. Under the bill, the state would provide funding for the project to the Department of Employee Trust Funds.

In August 2019, State Representative Cindi Duchow and several other legislators released a proposal that would create a new “REvest” (Wisconsin Retirement Investment) program.64 Under the plan, all working Wisconsinites who do not currently have an employer-sponsored retirement account would have access to a retirement investment plan funded by payroll deductions.65 According to State Representative Jon Plumer, the REvest program would be similar to Wisconsin’s Edvest program.66 In a statement, he

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said, “REvest will help people save for retirement much the same way that Edvest helps people save for a college education. This program, optional to employees, would be a great way to start saving for retirement at a young age.”67

The Edvest College Savings Plan is a state-sponsored, tax-advantaged 529 investment account that is available to all Wisconsin taxpayers. The funds in Edvest plans can be used at most accredited college and universities in the United States, and up to $10,000 per year can be spent on K–12 education.68 The REvest program would likely create a similar optional, state-sponsored, tax-advantaged retirement savings plan available to all working Wisconsinites. In a statement released on August 22, 2019, Representative Duchow said that she would meet with business leaders and others to gather input and encouraged stakeholders to contribute.69 At the time of this report, October 2019, the proposal has not been formally introduced in the state legislature.

In September 2019, Governor Evers issued Executive Order No. 45, creating the Task Force on Retirement Security.70 The task force, chaired by State Treasurer Sarah Godlewski, will meet for one year before making retirement plan policy recommendations to the governor and the state legislature. The task force is charged with evaluating the current retirement systems in the state, identifying the obstacles that prevent workers from saving, and providing guidance on the amount workers should aim to save for retirement.71 Task force members will consider the plans currently being implemented in other states and recommend a path for Wisconsin to provide a possible state-administered retirement savings vehicle for workers. Upon signing the executive order, Governor Evers said, “We need to make sure that the state is playing a proactive role in helping Wisconsinites get ahead in saving for their futures, so they can enjoy those years in financial security with their friends and family.”72

Conclusion

Wisconsin is facing several retirement challenges, including a rising elder poverty rate and current workers’ inadequate retirement savings. The typical retiree today does not have the financial resources to afford an extended retirement lasting 15, 20, or 30 years. That is especially true for the 70 percent of retirees who will require costly long-term care services at some point.


Improving retirement savings rates is a critical task that will likely require legislative action. Ten states are already implementing programs that can serve as models for Wisconsin legislators. While it is too early to determine whether these retirement savings programs are successful, initial data suggest that employers and employees are enrolling and actively participating, particularly in Oregon’s Auto-IRA plan. A similar program in Wisconsin could lead to increased savings among those who do not currently have access to employer-sponsored DB or DC plans.

Each of the private-sector models discussed in this report has strengths and weaknesses. An Auto-IRA program would affect the greatest number of working Wisconsinites, but the limitations on IRA plans—including lower annual contribution limits and restrictions on employer matches—would limit the growth of account balances. An MEP program similar to the programs adopted in Massachusetts and Vermont would allow workers to contribute to 401(k)s and other accounts that allow larger annual contributions and employer matches; however, MEPs are designed to be available only to a limited group of employers, benefitting far fewer employees. And while a marketplace program like the one in Washington would be relatively easy to adopt and implement, its impact is unknown at this time.

Retirement security is a national problem, but one that can be at least partially addressed at the state level. State legislators are best positioned for understanding what retirement security proposals are best suited for their states and most likely to enhance the retirement security of their residents. Legislators considering the adoption of state-sponsored retirement savings plans in Wisconsin face important decisions related to plan design. However, any legislative action that encourages or requires plan participation in the private sector will lead to improved retirement savings rates and decreased elder poverty in the decades ahead. This will benefit all Wisconsinites.
### Characteristics of common retirement savings plans

<table>
<thead>
<tr>
<th>Plan name</th>
<th>Plan characteristics</th>
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| 401(k)    | • Tax-deferred with optional employee participation  
           • Sponsored by private-sector employers  
           • Employers can make contributions  
           • 2019 annual employee contribution limit of $19,000 for workers under age 50; $25,000 limit for those over age 50¹ |
| 401(a)    | • Defined benefit plan sponsored by employers, now mostly in the public sector  
           • Employers are required to contribute; plans may require employee contributions  
           • Depending on the employer, employee contributions may be made on a pre-tax or post-tax basis  
           • 2019 annual benefit limit is $225,000 |
| 403(b)    | • Tax-deferred with optional employee participation  
           • Sponsored by public-sector employers and certain nonprofit organizations  
           • Employers can make contributions  
           • 2019 annual employee contribution limit of $19,000 for workers under age 50; $25,000 limit for those over age 50¹ |
| 457(b)    | • Tax-deferred with optional employee participation  
           • Sponsored by public-sector employers and certain nonprofit organizations  
           • Employers can make contributions  
           • 2019 annual contribution limit of $19,000 for workers under age 50; $25,000 limit for those over age 50; $38,000 limit for those close to retirement age |
| Roth IRA  | • Individual contributions made with after-tax dollars  
           • Those with incomes below $137,000 (or $203,000 for married couples filing jointly) in 2019 may contribute  
           • In most cases, individuals can make withdrawals that comply with certain requirements tax-free and penalty-free  
           • 2019 annual contribution limit of $6,000 for those under age 50; $7,000 limit for those over age 50 |
| Traditional IRA | • Tax-deferred individual account that may or may not be sponsored by an employer  
                        • Depending on several factors, a percentage of or all contributions may be tax-deductible  
                        • 2019 annual contribution limit of $6,000 for those under age 50; $7,000 limit for those over age 50 |
| SIMPLE IRA | • Tax-deferred with optional employee participation  
           • Sponsored by employers with 100 or fewer employees  
           • Employers must make matching contributions or non-elective contributions  
           • 2019 annual employee contribution limit of $13,000 for those under age 50; $16,000 limit for those over age 50  
           • 2019 annual employer contribution limit of 3% of the employee's contribution if matching, or up to 2% of the employee's salary, limited to $5,600 if making non-elective contributions |

Note: This table highlights some characteristics of common retirement savings accounts. It is not an exhaustive guide, nor is it meant to serve as legal advice.

1. For certain types of plans, the maximum amount that may be contributed by the employer and employee in 2019 is $56,000 (not including a catch-up contribution by an employee over age 50). There are differences in the ways the various contribution limitations interact across the types of plans.

### Appendix B

#### State-sponsored retirement savings programs for private-sector employers and employees in ten states

<table>
<thead>
<tr>
<th>State</th>
<th>Program name (type)</th>
<th>Statute</th>
<th>Administering board (chair)</th>
<th>Program characteristics</th>
<th>Implementation status</th>
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<tbody>
<tr>
<td>CA</td>
<td>CalSavers (auto-IRA)</td>
<td>Cal Gov Code § 100000–100050</td>
<td>California Secure Choice Retirement Savings Investment Board (state treasurer)</td>
<td>• Employers with 5+ employees who use a payroll system and those who have no qualifying plan must participate&lt;br&gt;• Employees are automatically enrolled in Roth IRAs or traditional IRAs at 5% rate with auto-escalation (can opt out or select other rate)&lt;br&gt;• Employers can make contributions if ERISA is not triggered</td>
<td>• Pilot program launched in November 2018&lt;br&gt;• Enrollment open to all eligible employers on July 1, 2019&lt;br&gt;• Full implementation scheduled to occur by June 30, 2022</td>
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<tr>
<td>CT</td>
<td>Connecticut Retirement Security Authority (auto-IRA)</td>
<td>Conn. Gen. Stat. §§ 31-410–31-429</td>
<td>Connecticut Retirement Security Authority (chair appointed by governor)</td>
<td>• Employers with 5+ employees and no qualifying plan must participate&lt;br&gt;• Employees automatically enrolled in Roth IRAs at 3% default contribution rate (can opt out or select other rate)&lt;br&gt;• Employers cannot make contributions</td>
<td>• Implementation expected to begin with pilot program by early 2020&lt;br&gt;• Full implementation timeline not yet available</td>
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<tr>
<td>IL</td>
<td>Illinois Secure Choice (auto-IRA)</td>
<td>820 ILCS §§ 80/1–80/500</td>
<td>Illinois Secure Choice Savings Board (state treasurer)</td>
<td>• Employers with 25+ employees and no qualifying plan must participate&lt;br&gt;• Employees automatically enrolled in Roth IRAs at 5% default contribution rate (can opt out or choose other rate)&lt;br&gt;• Employers cannot make contributions</td>
<td>• Implementation began in July 2018 and will have three phases&lt;br&gt;• Full implementation scheduled to occur by December 31, 2019</td>
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<td>MA</td>
<td>Massachusetts Defined Contribution CORE Plan (multiple employer plan)</td>
<td>ALM GL ch. 29, § 64E</td>
<td>Committee established within the Office of the State Treasurer and Receiver General</td>
<td>• Nonprofits with 20 or fewer employees may voluntarily participate (other employers not eligible)&lt;br&gt;• Employees automatically enrolled in 401(k) plans at a 6% default contribution rate with automatic escalation (can opt out or select other rate)&lt;br&gt;• Employers can make contributions</td>
<td>• Implementation began in October 2017&lt;br&gt;• Enrollment is open to all eligible employers</td>
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<tr>
<td>State</td>
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| MD    | Maryland$aves (auto-IRA) | Md. Labor and Employment Code Ann. §§ 12-101–12-502 | Maryland Small Business Retirement Savings Board (chair elected by board members) | • Employers with payroll system and no qualifying plan must participate  
• Employees automatically enrolled in IRAs at undetermined default contribution rate (can opt out or select other rate)  
• Employers cannot make contributions | • Operations expected to begin by December 31, 2019  
• Enrollment expected to begin by mid-2020  
• Finalized timeline not yet available |
| NJ    | Secure Choice Retirement Savings Program (auto-IRA) | N.J. Stat. § 43:23-15 | New Jersey Secure Choice Savings Board (state treasurer) | • Employers with 25+ employees and no qualifying plan must participate (those with fewer than 25 may participate voluntarily)  
• Employees automatically enrolled in IRAs at 3% default contribution rate (can opt out or select other rate)  
• Employers cannot make contributions | • Implementation expected to begin by March 2021  
• Full enrollment expected by December 2021 |
| NY    | Secure Choice Savings Program (voluntary IRA) | NY Cls. Gen Bus §§ 1300–1316 | New York State Secure Choice Savings Program Board (commissioner of taxation and finance) | • Employers with no qualifying plan may participate voluntarily  
• Employees automatically enrolled in Roth IRAs at 3% default contribution rate (can opt out or select other rate)  
• Employers cannot make contributions | • Implementation scheduled to begin in April 2020  
• Board may delay implementation by 12 months if necessary |
| OR    | OregonSaves (auto-IRA) | ORS §§ 178.010–178.385 | Oregon Retirement Savings Board (state treasurer) | • Employers with no qualifying plan must participate  
• Employees automatically enrolled in Roth IRAs (traditional IRAs also offered) at 5% default contribution rate with auto-escalation (can opt out or choose other rate)  
• Employers cannot make contributions | • Implementation began in 2017 in several phases  
• Full implementation scheduled to occur by December 31, 2020 |
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</table>
| VT    | Vermont Green Mountain Secure Retirement Plan (multiple employer plan) | Sec. C.1. of 2017 Vermont Act 69 | Green Mountain Secure Retirement Board (state treasurer) | • Employers with 50 or fewer employees and no qualifying plan may participate voluntarily (other employers ineligible)  
• Employees automatically enrolled in 401(k)s at undetermined default contribution rate (can opt out or select other rate)  
• Employers can make contributions | • Scheduled implementation to begin in January 2019 has been delayed indefinitely  
• Revised timeline not yet available |
| WA    | Washington State Retirement Marketplace (marketplace) | Rev. Code Wash. §§ 43.330.730–43.330.750 | Washington State Department of Commerce | • Employers with 100 or fewer employees may participate voluntarily (other employers ineligible)  
• Employees may enroll in IRAs or 401(k)s voluntarily and employers may auto-enroll employees (can opt out or choose other rate)  
• Employers can make contributions to 401(k)s | • Implementation began in March 2018  
• Enrollment open to all eligible employers |