Retirement Marketplace

Washington State Department of Commerce

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OFFICE OF ECONOMIC DEVELOPMENT & COMPETITIVENESS

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REPORT TO THE LEGISLATURE

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Executive Summary

Background

Every two years, the Washington State Department of Commerce (Commerce) is mandated by the Legislature to submit a report on the state's Small Business Retirement Marketplace. The following report reviews the Marketplace's performance, reports performance measures, and offers strategies for improving the effectiveness or usefulness of the program.

The Retirement Marketplace was created in 2015 with the passage of ESSB 5826 and its subsequent signing into law by the Governor. The bill was modified in 2017 through SSB 5675 to make changes to the de minimis fee structure for new and/or low-balance accounts as well as some technical changes to the types of plans available.

The program was created to address the gap in savings for retirement. More than one million Washington residents do not have access to a retirement savings plan at their work. Washingtonians are significantly unprepared for retirement, which creates significant risk for an aging population regarding economic safety and security.

The Retirement Marketplace website (retirementmarketplace.com) was launched in March 2018. The site offers individuals and small businesses a means to compare and shop for low-cost, easy-to-manage retirement plans in the form of various individual and employer plans. Once a decision is made, the individual or business owner works directly with the financial partner to set up their plan. Plans cannot charge more than 1% of the account balance and cannot charge fees to employers.

Commerce and the state play no active role in managing the sign-up or maintenance process; it simply acts as an aggregator of qualifying plans from financial firms vetted and approved by the Department of Financial Institutions (DFI). As of December 2022, the Retirement Marketplace lists two providers of IRAs and 401(k) plans for a total of five available plans visitors can choose from.

Program Overview

The central components of the program are two-fold.

First, there is the financial partner side. Prospective firms apply to become part of the Retirement Marketplace and are vetted by DFI. If verified, their products are added to the website.

Second, there is demand. The website is the outward-facing portion of the exchange, allowing individuals and businesses to compare plan features and connect with their chosen financial partners. Participation in the Marketplace is entirely voluntary; there is currently no mandate to either offer a retirement plan as a business or participate in one as an individual.

The program is managed by a Program Manager housed in the Office of Economic Development & Competitiveness (OEDC), a division of the Department of Commerce. Its source of funding is GSF.

Key Findings or Highlights

Between March 2018 and December 2020, the website had 44,046 unique visitors. Financial firms have no legal obligation to report the number of leads or the number enrolled, but up until June 2020, they volunteered that there were 693 referrals, creating a conversion rate of 2.5%.

The key issues hindering increased success are outlined below:

- Marketing: One of the keys to success is ensuring people are aware of the program. The state significantly underestimated the need for marketing and outreach, both in what was appropriated in dollars and in our initial efforts.

  Early marketing was heavily focused on individuals rather than businesses. A Facebook campaign significantly increased the number of hits on the site, but no corresponding increase in referrals, mainly because businesses need to be the target, not the general public. A particularly salient target market is small businesses that are having difficulty competing for workers, as larger companies can offer such employee benefits.

  A request to increase marketing funds to boost visitors and increase enrollees has not made it through budgeting and legislation. As such, visitors find the site primarily because they are searching for a retirement plan. The audience continues to be those in the later stages of their careers, as retirement is a concern. The number of younger workers - the ideal audience for starting a low-barrier retirement plan - is much fewer. Concerns about job security, inflation and the prospect of a recession are immediate priorities, and retirement savings are a “nice to have” when considering increased costs for housing, transportation and food.

  This doesn’t mean that marketing would be ineffective regardless. The key to a marketing campaign is consistency over a period of time. One-off campaigns such as that run on Facebook do not carry long-term name recognition or spur a call to action. This becomes problematic when the program is voluntary to begin with. Other states have had a higher success rate, mainly because the state has made retirement plan enrollment mandatory. There are lessons to be learned from other states regarding marketing. One insight that was offered this year was the idea that employer engagement seems to have a greater effect than traditional marketing. It is hard to reach the targeted audience with flyers, email, mail, Facebook, LinkedIn, etc. there would need to be a significant increase in budget to have teams that are boots on the ground reaching out to underserved populations.

- Choice: The intent of the Marketplace was to offer a selection of retirement plans to consumers. While we have worked diligently to attract providers to list their products on the website, it has been difficult. The primary reason for the delay in the initial launch was because of this challenge. Since then, we have succeeded in signing just one additional provider to the site. The challenge in attracting providers to the Marketplace, specifically providers of employer-based plans, can be summarized by limitations set by the current fee structure, fund requirements, and the potential pool of accounts.

Details to address each of these are outlined in the recommendations below.

- Website: The marketing team within OEDC consequently redesigned the website in February 2020. This resulted in a far more modern site and a zeroing out of the budget for the maintenance that was previously contracted with an outside consultant. As such, the program's cost was significantly reduced, and the ability to control the user experience and build keyword wealth in search engines has increased. In 2022, 83% of visitors were first-timers and found the site exclusively through search engines. The average time on the site was 2 minutes, 5 seconds, at which point visitors could click through to a plan of their choice and work directly with the financial firm to learn more about the product and sign up if they wish.

- Model: As the nation's first to launch a voluntary marketplace, we didn't know what to expect regarding participation. The statistics are pretty consistent compared to other states with voluntary savings programs. Before Washington State's Deferred Compensation Program implemented auto-enrollment, participation was approximately 5%. When employees were enrolled automatically, even with the ability to opt out, participation rose to 90%.

  Data collected by the Center for State and Local Government Excellence found similar results with the Supplemental Retirement Savings Plan for South Dakota public employees. The percentage of employees who voluntarily enrolled was approximately 5% compared to participation rates of over 91% when automatic enrollment was instituted. It is estimated that 72,000 businesses in Washington don't currently offer a workplace retirement savings plan, which equates, on the low side, to one million workers. At 5% enrollment, a successful voluntary marketplace would have 3,600 businesses enrolled and 50,000 individual accounts over time. While we still have a ways to go to get to those numbers, it is clear a voluntary-based program may not have the intended impact of significantly moving the needle to increase retirement savings for Washingtonians.

Recommendations or Conclusions

Following is a summary of suggestions for improving the Retirement Marketplace to increase participation and provide Washingtonians with a much-needed safety net for their retirement.

- Position the Retirement Marketplace to address the implementation of the Secure 2.0 Act of 2022. Starting in 2025, the act will require businesses to automatically enroll eligible participants in a 401(k) or 403(b) plan unless they specifically opt-out. Businesses with fewer than 10 employees and new businesses less than three years old will be exempt from this requirement. Small businesses will also be able to cover 100% of their administrative costs for the first three years, an increase from 50%.

  Beginning in 2024, employers who do not already offer retirement plans will be permitted to offer a starter 401(k) plan, or safe harbor 403(b) plan to employees who meet age and service requirements. Through the starter plans, the limit on annual deferrals will be the same as the IRA contribution limit, and employers may not make matching or nonelective contributions to starter plans. The starter plan provides a great entry point for small businesses especially given that employers aren't required to match contributions, meaning that even the smallest of small businesses can offer something to their employees.

This auto-enrollment allows the Retirement Marketplace to greatly strengthen its position in the financial products market as small businesses begin finding employer and employee plans. Additional marketing to both financial firms and small businesses of the coming changes will boost traffic and clickthroughs to plan partners as it offers a one-stop shop for finding plans to be federally required in 2025 and give them a potential jumpstart on 2024 compliance.

- Change the fee structure - Several high-profile financial firms have made queries about listing products on the Marketplace, but ultimately, they decided not to move forward because of the fee structure. Current legislation does not allow providers to charge employer's fees, preventing them from covering the cost of enrollment and account maintenance. Given this, there is no financial incentive for a provider to participate. The ability for a provider to charge an employer a flat fee or a cost per participating employee fee would very likely make the Marketplace more appealing to providers, thus increasing the number of employer-based plans available to choose from.

- Change the requirement that requires providers to offer balanced and target-date funds – DFI has reported that this has been a barrier for financial firms that do not offer these types of retirement fund accounts. While the intent was to ensure relatively safe investments, these are not high-demand products in the retirement realm. The current providers had to create special products to fit the constraints of the state's legislation. Several others who have made queries have chosen not to pursue applications because of this. We recommend generalizing the language to require that at least one diversified investment product be offered rather than balanced and target-date funds.

- Change the business employment minimum - It takes as much work on the part of a financial firm to set up a small business as a large one. Removing the 100 or fewer employee minimum, or increasing the minimum, would broaden the potential pool of business accounts, making the program more attractive to financial partners. Changing legislation to match the SBA's "500 or less" definition of a small business could address this issue.

- Expand the program to allow multi-state partnerships – There is great interest nationwide in state-facilitated retirement savings opportunities, with more states introducing legislation each year. Specifically, New Mexico recently passed legislation and has expressed interest in partnering with our program. The expansion would increase the potential pool of accounts, making the program more attractive to financial firms, thereby increasing the number of available products. This could also become a source of monetization as a fee structure could be set up so other states would pay for participating, similar to existing multi-state partnerships around 529 and ABLE plans nationwide. The additional revenue could offset existing program costs or be used to expand marketing, since awareness has been an issue.

- Increase the marketing budget – This is particularly important as the state implements Secure 2.0. There will be a significant education component and an opportunity to drive small businesses to the existing Retirement Marketplace and the state's financial partners already offering qualifying programs. Along with legislative changes outlined, this should significantly increase enrollment. There are lessons to be learned from other states that have had difficulty getting enrollment. All sixteen states that participate in a state facilitated retirement program have had issues getting enrollees.

- A study needs to be done that looks at other state models. We need to explore options regarding what agency this should be in, what type of marketing or employer engagement needs to be done, are there opportunities to partner with other states, what policies need to be put in place as Secure 2.0 comes into effect.