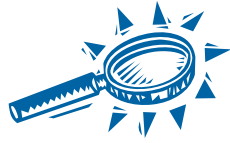




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# Blueprint Brief



A closer look at the research in  
**Blueprint for Opportunity:**  
**Issues that matter • Ideas that work**

Blueprint Brief No. 18

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## Create Colorado voluntary pension accounts

By Rich Jones

*Director of Policy and Research*

Employer sponsored pension plans play an important role in replacing earnings when people retire. However, 1.4 million Colorado workers — almost three out of five workers — are not covered by a pension plan at work.<sup>1</sup>

Whether workers have access to pension plans at work usually depends on the size of their employer's business. The smaller the business, the less likely they are to have access to a pension plan.

National data from the Employee Benefit Research Institute shows more than 75 percent of employers with less than 10 workers, and more than 60 percent with 10 to 24 workers, do not sponsor pension plans. This presents a particular problem for Colorado workers, since 34 percent of Coloradans worked in businesses with fewer than 20 employees or were sole proprietors.<sup>2</sup>

Pension coverage also varies by region. In 2004, the U.S. Bureau of Labor found only 36 percent of employers in the mountain states offered pension programs.<sup>3</sup>

Surveys show that small businesses do not provide pension plans because of the cost, complexity and time it takes administer them. The economic climate and prospects for profitability also play a role in plan sponsorship.<sup>4</sup>

The legislature could expand coverage by creating the basic infrastructure workers and small businesses could use to provide pensions. Colorado could build on current systems for offering 401(k)-type defined contribution plans to state employees.

Pooling workers and small businesses would curb costs, which would be covered by modest fees to participants. Administration could be assigned to PERA, taking advantage of its low-cost structure, or be opened up for bids from other pension providers such as TIAA-CREF.

While the state government would create the infrastructure, it would not fund the pensions nor match worker contributions. The Colorado Voluntary Pension Accounts would be defined contribution plans with a pre-selected menu of investment options, much like the 401(k) options provided to PERA members.

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*This presents a particular problem for Colorado workers, since 34 percent of Coloradans worked in businesses with fewer than 100 employees or were sole proprietors.*

*One way to overcome this pension shortfall is for the state government to create the basic infrastructure for an inexpensive, easy to administer, portable pension plan.*

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One key advantage is these accounts would be portable between jobs in Colorado. Each account would be owned by the worker, granting them power to shift investments and set payroll deductions. Like a 401(k) plan, money could be withdrawn by its owner in the form of a loan, within some limits. Unlike Individual Retirement Accounts (IRAs), the Colorado Voluntary Pension Accounts would be funded through automatic payroll deductions and have options for employer contributions.

Many Coloradans would benefit, including the self-employed, workers without workplace pension plans, part-time employees who typically do not qualify for pension benefits and those who want to add to their retirement savings. In particular, low-wage workers (earning less than \$15 per hour) would have easy access to a pension plan that would not require complicated investment decisions or expensive one-time contributions.

Washington and Michigan are looking at similar proposals. During the 2005 session, the Washington Legislature considered Substitute House Bill 1570 to create voluntary pension accounts, administered by the State Department of Retirement Systems and overseen by the State Investment Board. These defined contribution accounts would be portable between jobs and open to any employee, with optional employer contributions. The proposal garnered 82 percent support in a 2002 public opinion poll.<sup>5</sup> According to Marilyn Watkins, policy director for the Washington Economic Opportunity Institute, women's groups, small businesses, senior citizens and some big businesses support the idea.<sup>6</sup> The plan is estimated to cost between \$5 and \$10 million in start-up fees.<sup>7</sup>

In Michigan, Gov. Jennifer Granholm has called for creating the MI Retirement Plan, a 401(k)-type pension plan for workers in small businesses without pension plans.<sup>8</sup> SB 1329, directing the head of the Department of Management and Budget to develop and run the plan, is currently pending. These accounts would be portable, offer a pre-selected set of investment options and give employers the option to match employee contributions. The intent is to transfer the plan to a private or nonprofit entity within five years of its creation.<sup>9, 10</sup>

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## End Notes

<sup>1</sup> Economic Policy Institute analysis of data from the U.S. Census Bureau, Current Population Survey, March Supplement 1979-2005.

<sup>2</sup> U.S. Census Bureau, [Statistics of U.S. Businesses 2003: All Industries Colorado](#), and [Non-employer Statistics 2003: All Sectors Colorado](#).

<sup>3</sup> U.S. Bureau of Labor Statistics: [Employee Benefits In Private Industry, March 2005](#).

<sup>4</sup> Jack VanDerhei, [Findings from the 2003 Small Employer Retirement Survey](#), Employee Benefit Research Institute, EBRI Notes, No. 9, September 2003.

<sup>5</sup> [Washington Voluntary Accounts: Creating Universal Access to Retirement](#)

[Security](#), Equal Opportunity Institute, December 2003.

<sup>6</sup> Personal communication, Marilyn Watkins, policy director, Economic Opportunity Institute, June 2006.

<sup>7</sup> Office of Financial Management, [State of Washington Fiscal Notes](#).

<sup>8</sup> [2006 State of the State Address](#), Michigan Gov. Jennifer M. Granholm, Jan. 25, 2006.

<sup>9</sup> [Granholm Unveils Plan to Help Small Business Employees, Self-Employed Save for Retirement](#), Governor's press release, June 2006,

<sup>10</sup> [Senate Bill 1329](#), Michigan Senate, 2006.



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*Each account would be owned by the worker, granting them power to shift investments and set payroll deductions.*

*Accounts would be funded through automatic payroll deductions and have options for employer contributions.*

## ✓ Create Colorado voluntary pension accounts

*The Legislature should create Colorado Voluntary Pension Accounts to provide access to retirement plans for all Coloradans.*

*These plans would reduce the cost and complexity of offering pension plans for small employers and would be portable, allowing workers to contribute to the same account from each job they hold in Colorado.*