



# OFFICE OF MANAGEMENT & BUDGET

## State Budget Office

One Capitol Hill  
Providence, RI 02908-5890

Office: (401) 222-6300  
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State Fiscal Note for Bill Number:

2024-H 7127

**Date of State Budget Office Approval:** Tuesday, March 5, 2024

**Revised Submission Date of Approval:**

**Date Requested:** Monday, February 26, 2024

**Tuesday, March 26, 2024**

**Date Due:** Thursday, March 7, 2024

<i>Impact on Expenditures</i>	<i>Impact on Revenues</i>
FY 2024 \$0	FY 2024 \$0
FY 2025 \$155,393	FY 2025 \$0
FY 2026 \$155,393	FY 2026 \$0
*	**

Explanation by State Budget Office:

This fiscal note has been revised to reflect updated information provided by the Office of the General Treasurer. Prior versions of this fiscal note relied on prospective estimates of start-up costs as previously there had not been actual information available. The updated fiscal note utilizes actual program start-up expenditures of comparable Secure Choice programs such as Delaware and Maine.

This bill creates the Rhode Island Secure Choice Retirement Savings program (“RISavers”), which provides access to defined contribution plans, or individual retirement accounts (IRAs), for eligible employees who are not offered such benefits directly through their employer. Eligible employers with five or more employees are required to remit payroll deductions to IRAs for participating employees and become subject to a \$250 penalty per employee for non-compliance. All penalty proceeds collected shall be allocated for costs of the program, with enforcement performed by the board with the assistance from the Department of Labor and Training.

The Office of the General Treasurer may select a third-party administrator(s) to administer the program and provide investment options as determined by the state investment commission.

Upon establishment of the secure choice retirement savings program (“RISavers”), the bill provides eligible employers with a timeline for when they are required to allow employee enrollment and payroll deductions. The bill’s timeline is as follows for employers:

- 101 or more employees: One year (12 months).
- 51 to 100 employees: Two years (24 months).
- 5 to 50 employees: Three years (36 months).

Summary of Facts and Assumptions:

1. Pursuant to the legislation, procurement for a third-party administrator of the RISavers program must be done through the Office of the General Treasurer. Given the timing of the bill, it is assumed that eligible employees may enroll in the RISavers program beginning in January of 2026.

2. Pursuant to the legislation, all eligible employers (five or more employees) must begin the allowance of payroll deductions for employees who opt in to the RISavers program once enrollment



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is established. Assuming enrollment is available beginning in January 2026, all eligible employers would be required to accommodate payroll deductions to IRAs for participating employees no later than January 1, 2029. This estimate assumes all eligible employers, regardless of number of employees, participate beginning January 2026.

3. According to research conducted by AARP Rhode Island using 2018 -2020 U.S. Census Bureau Current Population survey statistics, approximately 40.1%, or 171,882 of RI employees between the ages of 18-64 do not have access to retirement benefits through their private employer. Below are the number of employees by income quintiles this estimate assumes:

<u>Quintile</u>	<u>Eligible Employees</u>
\$18,000 or less:	56,755 (33.0%)
\$18,001 to \$31,000:	45,773 (26.7%)
\$31,001 to \$50,000:	39,576 (23.0%)
\$50,001 to \$78,000:	16,904 (9.8%)
\$78,001 or above:	12,874 (7.5%)
Total:	171,882 (100.0%)

According to the Bureau of Labor Statistics released in March 2023, 77% of the top 25% of U.S private industry income earners have access to retirement benefits through their employer. For purposes of estimation, this estimate assumes an income of up to \$80,000 for the highest quintile (\$78,000 or above).

4. While varying based on income, age, work status (full-time or part-time), a major factor of participation levels has been automatic enrollment. According to a 2017 feasibility study published by the Boston College Center for Retirement Research on the proposed, and now implemented, State of Illinois Secure Choice program, employees in Connecticut and California's secure choice programs who had to later actively choose to opt-out of contributing to an IRA after automatic enrollment saw greater participation levels of 73% to 84%. A study published by Vanguard found similar results with an 89% participation rate with automatic enrollment and only 61% for plans without automatic enrollment. Based on this research, this estimate assumes an initial employee participation rate of 61%, or 104,848 eligible employees based on the estimated total number eligible employees (171,882 x 0.61).

### 5. Startup Costs:

Based on figures provided by the Treasurer's Office, actual start-up costs of comparable Secure Choice Programs recently enacted in Maine and Delaware in 2021 and 2022, respectively, totaled approximately \$300,000 over a timeline of 14 months.

This note utilizes the actual start-up costs of Maine's Secure Choice program incurred from October 2022 through December 2023 of approximately \$300,000 and inflates total costs to today's dollars utilizing the U.S. Bureau of Labor Statistics inflation calculator and subsequently the November





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2023's Revenue Estimating Conference's estimated inflation rate of 2.4% for FY 2025. Accordingly, the total start-up cost estimate is \$310,785 ( $\$303,501 \times 1.024 = \$310,785$ ).

Following the assumed implementation timeline discussed above, this estimate assumes that approximately half of total startup costs will be incurred during FY 2025 ( $\$310,785 \times 0.50 = \$155,393$ ) and the remainder incurred during FY 2026 ( $\$310,785 \times .50 = \$155,393$ ).

### 6. Ongoing Costs:

Estimates for ongoing costs can be calculated by multiplying the fixed cost per account times the number of accounts. Using the State's vendor TIAA CREF fee structure as a benchmark, ongoing costs amount to \$40.00 annually (\$32.00 for recordkeeping, administrative, compliance and employee services and \$8.00 plan servicing fee) for employees with incomes above \$35,000. Accordingly, the estimated ongoing costs for the RISavers program assuming an initial 61% participation rate ( $171,882 \times 0.61 = 104,848$  employees) and excluding incomes below \$35,000 would amount to approximately \$1,692,240 annually ( $\$40.00$  cost per account  $\times 42,306$  accounts = \$1,692,240). This estimate assumes ongoing costs will begin to be incurred for the second half of FY 2026 with total projected cost of \$846,120. It is assumed here that ongoing costs are borne by participants as is the case with state employees and therefore, do not have state expenditure implications.

With respect to expense ratios, fees can vary depending upon particular investment allocations that are chosen, which are affected by factors such as risk tolerance, investment mixes, and the level of activity (active versus passive management). A typical expense ratio range for passively managed investment funds following the broad-based market indices such as the S&P 500 or Dow Jones Industrial Average Index, can range from 0.50% to 0.75% of total assets, or \$5.00-\$7.50 for every \$1,000 per annum in a participating employees account.

### Comments on Sources of Funds:

Similar to state employee retirement and other Secure Choice programs, administration and program costs for RISavers "are to be paid from contributions to, or investment returns or assets of, the program or arrangements established under the program." In short, program costs are to be funded by fees and expenses borne by employees based on either a fixed fee amount or percentage-based charges on total assets under management, which is a standard practice for the retirement plan industry.

The Boston College Center for Retirement Research has provided a framework for assessing secure choice program costs based on two phases: 1. Start-up costs which establish the necessary infrastructure to operate the program for both employers and employees, and 2. Ongoing costs such as recordkeeping, compliance, general administrative/client support, and asset management services. This estimate assumes all start-up costs will require general revenues while ongoing costs are to be funded by fees levied on participant accounts.



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Summary of Fiscal Impact:

Based on the foregoing facts and assumptions, the fiscal impact presented by passage of this bill is as follows:

FY 2024 Expenditures: \$0; No impact due to timing.  
FY 2025 Expenditures: \$155,393 General Revenue.  
FY 2026 Expenditures: \$155,393 General Revenue.

FY 2024 Revenues: \$0; No impact due to timing.  
FY 2025 Revenues: \$0; No impact due to timing.  
FY 2026 Revenues: \$0; No impact due to timing.

Budget Office Signature:  Digitally signed by Joseph Codega Jr.  
Date: 2024.03.27 13:33:10 -04'00'

Fiscal Advisor Signature: 