

State of Rhode Island
 Budget
 Office
 Department of Administration

**State Fiscal Note for Bill
 Number: 2020-H-7461**

Date of State Budget Office Approval:

Date Requested: Wednesday, February 12, 2020

Date Due: Saturday, February 22, 2020

| <i>Impact on Expenditures</i> | | <i>Impact on Revenues</i> | |
|-------------------------------|---------------|---------------------------|-----|
| FY 2020 | \$0 | FY 2020 | \$0 |
| FY 2021 | \$1.2 million | FY 2021 | \$0 |
| FY 2022 | \$1.2 million | FY 2022 | \$0 |

*Explanation by State
 Budget Office:*

This bill would establish the Rhode Island Secure Choice Retirement Savings Trust as a public corporation of the State. A Board of nine (9) members would also be created to oversee the operations of the Trust, with the General Treasurer as Chairperson. The intent of the Trust is to promote greater retirement savings for Rhode Island private sector employees who do not currently have a retirement savings option with their employer in a convenient, voluntary, low-cost, and portable manner. Administrative expenses of the Trust, including hiring of staff, may be funded from an allocation from the Trust Fund each year. After the fund has been in existence for six (6) years, funds allocated from the Trust Fund for administrative expenses shall not exceed one percent (1.0%) of the total program fund.

*Comments on
 Sources of Funds:*

The bill allows for receipt of state appropriations by the Trust Fund. Because the Trust Fund will take time to be established and begin receiving contributions from employees, there will be limited ability to assess an administrative charge to the fund in the first several years of its existence. As such, general revenue appropriations are assumed to be required through at least FY 2022 to support staff and other costs of establishing and managing the Trust Fund. After FY 2022, an administrative assessment on the Trust Fund should be established and these revenues would likely be deposited to a restricted receipt account, like the method used with the Employee Retirement System. Revenue losses shown above are the general revenue impact from lower personal income taxes paid by RI residents because of the pre-tax deposit to the new retirement fund.

*Summary of Facts
 and Assumptions:*

According to data provided by the General Treasurer's Office, 10 other states have enacted state-facilitated retirement savings programs for private sector workers. Many states required feasibility studies and/or established a task force to examine access and participation in employer-sponsored retirement plans and the lack of such plans for certain private sector workers, prior to enacting legislation. The State of Oregon completed its analysis in 2013 and is the farthest along in establishing a state-facilitated retirement savings program for private sector workers. To get the program up and running, the State of Oregon appropriated \$1.25 million in state funds annually for the first four years to cover legal, marketing, audit and staffing costs of the new entity set up to establish the program. A similar program in Rhode Island is estimated to require a minimum of 4 new FTE positions, including an Executive Director (grade 44), a Public Engagement Manager (grade 34), a Compliance Manager (grade 31) and an Executive Support Specialist (grade 18). With benefits, these new positions are estimated to cost \$521,668 in FY 2021 and \$538,997 in FY 2022 (note: timing of hiring could reduce first year costs).

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Monday, August 10, 2020

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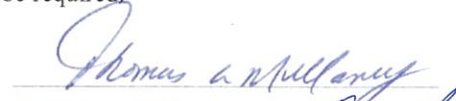
Additional contracted services for legal, audit and marketing would be required to get the new program started and to publicize the program to Rhode Island employers and employees. Costs are estimated for FY 2021 at \$150,000 for legal and \$500,000 for marketing; in FY 2022, costs are estimated at \$120,000 for legal, \$500,000 for marketing and \$10,000 for audit. Finally, \$30,000 is estimated in each year for other operating costs of the new entity. Cost estimates assume that state-owned space would be made available to the new entity and thus no rental costs would be required.

All revenues received from participating employees would be deposited to the Trust Fund and would not be available to the State for expenditure and as such are not reflected in the revenue estimate for this note. Because the legislation requires the program established to have favorable federal tax treatment, it is assumed that any contributions made by employees under this new program would be on a pre-tax basis and therefore would impact the employees' income for state tax purposes. As reflected on the attached document, data provided by the Department of Labor and Training shows the number of employees working for employers with 100 or more employees, 51 -100 employees and 5 – 50 employees, along with the average salary for each of these groups. The General Treasurer's office obtained data from Oregon on the number of employers who provide some form of retirement benefit (45%) and the number of employees who have opted out of the new state-run program (30%). Using this data, OMB estimates that in Year 1, \$120.1 million would be deposited to the new state-run trust fund from the employees working for businesses with over 100 employees. In Year 2, employees of businesses with 51 – 100 employees would deposit \$22.8 million. In Year 3, employees of businesses with 5 – 50 employees would deposit \$58.3 million.

Summary of Fiscal
Impact:

General revenue appropriations of approximately \$1.2 million are estimated to be required in both FY 2021 and FY 2022 to implement this new program. After FY 2022, administrative expenses could likely be assessed against program funds and thus further state appropriations would not be required.

Budget Office Signature:



Fiscal Advisor Signature:



RI Secure Choice Retirement Savings Trust

| | FY 2021 | FY 2022 |
|--------------------------------------|-------------------|-------------------|
| Staff | | |
| Executive Director (gr 44) | 121,324.00 | 126,461.00 |
| Public Engagement Manager (gr 34) | 80,247.00 | 83,174.00 |
| Compliance Manager (gr 31) | 71,856.00 | 74,473.00 |
| Executive Support Specialist (gr 18) | 44,047.00 | 45,232.00 |
| | <u>317,474.00</u> | <u>329,340.00</u> |
| Estimated Benefits | 204,194.00 | 209,657.00 |
| | <u>521,668.00</u> | <u>538,997.00</u> |
| Contracted Services | | |
| Legal | 150,000.00 | 120,000.00 |
| Audit | - | 10,000.00 |
| Marketing | 500,000.00 | 500,000.00 |
| | <u>650,000.00</u> | <u>630,000.00</u> |
| Operating | 30,000.00 | 30,000.00 |
| Total Costs | 1,201,668.00 | 1,198,997.00 |

Participation

| | |
|---|---------------------|
| Year 1 - more than 100 employees (# of employees) | 198,632 |
| 45% without existing retirement option | 89,384 |
| 30% of employees opt-out | (26,815) |
| Net employee participation | 62,569 |
| Average Salary | \$ 63,991.00 |
| Total Salary Base | \$ 4,003,852,879.00 |
| 3% of income deposited to retirement fund | \$ 120,115,586.37 |

| | |
|---|-------------------|
| Year 2 - 51 to 100 employees (# of employees) | 47,347 |
| 45% without existing retirement option | 21,306 |
| 30% of employees opt-out | (6,392) |
| Net employee participation | 14,914 |
| Average Salary | \$ 51,010.00 |
| Total Salary Base | \$ 760,763,140.00 |
| 3% of income deposited to retirement fund | \$ 22,822,894.20 |

| | |
|---|----------|
| Year 3 - 5 to 50 employees (# of employees) | 134,779 |
| 45% without existing retirement option | 60,651 |
| 30% of employees opt-out | (18,195) |

| | | |
|---|----|------------------|
| Net employee participation | | 42,456 |
| Average Salary | \$ | 45,738.00 |
| Total Salary Base | \$ | 1,941,852,528.00 |
| 3% of income deposited to retirement fund | \$ | 58,255,575.84 |