

Thank you to the members of the State Government Administration Committee for the opportunity this afternoon to discuss H.B. 4497, the Illinois Automatic IRA Act of 2012. My name is Spencer Cowan, vice president of Woodstock Institute, a leading nonprofit research and policy organization in the areas of fair lending, wealth creation, and financial systems reform.

We are concerned about the growing number of older Americans who are not saving enough for a financially secure retirement. The high level of retirement insecurity is due, in part, to the fact that many workers of all ages, particularly those in industries with large concentrations of low-wealth workers, do not have access to employment-based retirement savings plans.

Sources of retirement income

Retirement income comes from four main sources: Social Security, employment-based retirement plans, assets, and earnings. Income from earnings and assets represent only a small fraction of retirement income, less than 15 percent for most retirees. Home equity is the largest asset and source of retirement support for most people, but as home values across Illinois have fallen substantially over the course of the foreclosure crisis, the wealth that many older Illinoisans counted on has been diminished. Social Security and employment-based retirement plans provide the only significant sources of income for the vast majority of older persons.

Social Security income comprises a smaller fraction of retirement income today than it did in previous decades because many workers retire before they reach the age limit for receiving full benefits. Given current federal fiscal and political realities, an increase in Social Security retirement benefits appears highly unlikely. In fact, it is more likely that the Congress will enact changes to Social Security that will increase the eligibility age and/or reduce such benefits for today's workers. This makes access to employment-based retirement plans critically important.

Access to employment-based retirement plans in Illinois

Woodstock Institute recently analyzed employment and retirement plan sponsorship rates in Illinois. We found that:

Over half of private sector Illinois workers do not have access to an employment-based retirement plan. Only 2.2 million private sector workers in Illinois have access to an employment-based retirement plan, while 2.5 million do not. Similarly, over half of Chicago region workers do not have access to an employment-based retirement plan. In the 79th House District, 53.3 percent of private sector workers lack access to employment-based retirement plans, while that figure is 52.8 percent in the 70th District, 52.4 percent in the 56th District, and 52.3 percent in the 55th District.

Our research also shows that industries that tend to employ low-wage workers are less likely to offer retirement savings plans than are other industries. Nearly 859,000 of the 1.2 million workers, over 72 percent, in Administrative and Support, Education Services, Arts, Entertainment and Recreation, Accommodation and Food Services, and Other Services industries did not have access to an employment-based retirement savings plan.

Recommendations

These trends demonstrate that many Illinois private sector workers need help to reduce the retirement income gap and save for a more economically secure future. One public policy solution would be to increase the number of Illinois workers who have access to employment-based retirement plans. Given that today's workers frequently change jobs, such plans should not require long vesting periods and should be portable, allowing workers to move

savings when they change jobs. In order to maximize participation and savings, employers should enroll workers in a retirement plan by default, with an option to opt out.

The Illinois Automatic IRA Act of 2012 would expand access for Illinois workers to employment-based retirement plans that enroll workers by default and allow for portability of savings. We strongly urge the Committee to favorably consider HB 4497 so that more Illinoisans can achieve economic security in retirement. Thank you, and I am happy to answer any questions.