Andrew Bluestone, CFP

Article Share:

STATE AUTO-IRA PLANS vs Employer Sponsored Retirement Plans (ESRP)

A new report finds support for the notion that state-run IRA mandates provide a boost for employer retirement plan adoption—but there's even better news below that headline.

Up till now there's been plenty of anecdotal evidence—and **one noteworthy study**—that backs the notion that the state-run IRA mandates have been a help, rather than a hindrance, to the formation of "real" retirement plans—those that have things like the option of pre-tax savings, employer matches and institutionally priced investment options.

That's good news as there had been concerns at some point that the mandates might persuade employers that already had a plan in place to discard it in favor of the state-run "alternative".

Take-Up 'Take'

In fact, the study – titled "**Why Do Employers Establish Retirement Savings Plans? Evidence From State "Auto-Ira" Policies**" concludes that an estimated 30,000 firms were induced to offer an employer-sponsored retirement plan (ESRP) by the state policies – which it goes on to note corresponds to approximately one sixth of all firms in policy states in the affected firm size ranges.

It goes on to not only describe those effects as "substantial" (relative to the number of firms participating in the auto-IRA programs directly), but they also conclude that what they call "crowd-in"—the impact/influence of the mandate - accounts for between 27% and 45% of the total increase in employer coverage, depending on the state.

Now, that's the headline that **you've likely seen**—and it's certainly one of which to take note.

To be fair the analysis used to make the case is—complicated. There's a fair amount of discussion about the **benefit/cost trade-offs** that well all know are part of the decision to offer a plan. There's also some interesting discussion about how "rational" employers weigh those trade-offs**[i]**, and an acknowledgement that employers may be responding to marketing that ESRP administrators have undertaken in response to the auto-IRA policies.

The researchers did NOT, however find "substantial evidence" that the crowd-in was driven by any perceived low benefits of auto-IRAs relative to ESRPs (though they noted that the fact that employers might find auto-IRA participation burdensome COULD be a factor).

Complier Characteristics

That said, the report (after dividing firms into different industry types) labeled them by what struck me as corporate personality-types**[ii]**. Significantly, they found that so-called "complier" firms resemble firms that never offer an ESRP along several dimensions, including workforce and owner race, gender, wages, and sector.

In contrast, they found that similar-sized firms that already offer ESRPs tend to have much higher wages, are much more likely to offer employer-sponsored health insurance, and their workforce is less likely to be Hispanic.

The researchers found that "always-offering" firms tend to be in industries associated with higher-skilled labor, to pay substantially more in wages, and to have more employees and owners who are married—while compliers tend to have a higher share of low-wage workers, more female owners, and both owners and employees are more likely to be Hispanic.

In other words, firms with workers that were less highly paid, less likely to have health insurance, to have female owners, and more likely to be Hispanic—were now, ostensibly influenced by the mandate—to offer a "real" retirement plan.

Those type firms and the workers employed by them are a significant part of the current coverage gap. That these programs are helping close that gap—and even helping them gain access to employer-sponsored retirement plans—is an even better outcome.

- Nevin E. Adams, JD