SCHWARTZ CENTER FOR
ECONOMIC POLICY ANALYSIS
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STATE GUARANTEED RETIREMENT ACCOUNTS

A Low-Cost, Secure Solution to America's Retirement Crisis

The share of workers without any retirement plan at work has risen dramatically over the past decade. The percentage of workers whose employer did not sponsor any type of retirement plan rose from 39 percent to 47 percent—a 21 percent increase.[1] This alarming trend is a call to action for state and local policymakers who want to prevent old age hardship by ensuring all workers can invest adequately, efficiently, and safely for their own retirement.

We propose states offer all workers a voluntary, low-fee, low-risk, **State Guaranteed Retirement Account (State GRA)** to help boost savings for retirement. State GRAs are individual accounts where benefits at retirement are based solely on contributions and returns.

THE STATE GRA'S MAJOR FEATURES ARE:

- **Consistent contributions:** as in a 401(k)-type plan, workers and/or their employers would contribute at least 3 percent of pay into their individual State GRA. Contributions could be channeled through the already-existing payroll deduction system, reducing administrative burden and minimizing costs.

- **Pooled investments:** all individual account assets would be invested together in one large pool, with an emphasis on low-risk, long-term gains. Pooling takes advantage of economies of scale and minimizes financial risks.

- **Guaranteed returns:** each account would be guaranteed to earn a return of at least 3 percent, or about 1 percent above inflation, protecting funds from the volatility of the stock market. Because funds are invested in longer-term assets as one large pool, the risk and costs associated with insuring the minimum guarantee would be negligible, and could be backed by private insurance contracts without posing any risk to the state or employers.

- **Portable accounts:** Individual State GRAs would be portable; the account would automatically move with a worker from job to job.

- **Lifelong retirement income:** at retirement, workers would convert all or part of their State GRA balance into an annuity—a guaranteed stream of income for life—to ensure that they do not outlive their savings.

- **Independent administration:** a newly created independent board of trustees would oversee the plans' operations. The board would assume all fiduciary responsibility for the fund's investment decisions and administration.

- **Public investment management:** costs could be minimized by using the already-existing public pension infrastructure to invest the funds. State pension funds operate on a not-for-profit basis and have highly skilled, professional investment managers and administrators that are charged with overseeing and investing more than $3.1 trillion in retirement savings.[2] Assets in State GRAs would be kept in a separate investment pool from public pension fund assets.

ENDNOTES

1. Authors' calculations from the 2001 and 2011 Current Population Survey (CPS), March Supplement. Data provided by: *Integrated Public Use Microdata Series (IPUMS), Current Population Survey: Version 3.0*. **[Machine-readable database]. Minneapolis: University of Minnesota, 2010.**
2. As of Q1 2012. Board of Governors of the Federal Reserve System. "Flow of Funds Accounts, Flows and Outstandings: Z1 Statistical Release", June 7, 2012. http://www.federalreserve.gov/releases/z1/Current/.

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