



## Cal ESP: California Employee Savings Program Questions and Answers

### **Q: What is the California Employee Savings Program?**

**A:** The California Employee Savings Program is a retirement savings program that offers a voluntary, universal, portable retirement account for California workers who do not have access to a retirement savings plan at their job. The account would supplement the current employer-based system and Social Security. It promotes expanded retirement security for working Californians by making it easier for them to save while providing smaller employers a basic retirement plan to offer their employees.

### **Q: Why should California create a state sponsored retirement account for private workers?**

**A:** Currently, approximately 6 million California workers, roughly 43 percent of the state's workforce, go to work at a job that does not offer them a pension or a retirement savings plan to supplement Social Security.<sup>1</sup>

As a result, 40 percent of elderly women and 30 percent of elderly men rely on Social Security benefits for more than 90 percent of their income.<sup>2</sup> However, Social Security payments alone, which average \$1,080 per month, will not be enough to sustain Californians in their retirement.<sup>3</sup> This lack of retirement savings may lead to higher costs for public services, as seniors without savings will be more likely to require government assistance with housing, medical care, and other necessities.

Moreover, there is a need to ensure more workers are saving for retirement. Providing greater access to work-based retirement savings is a good way to accomplish this. California workers need a seamless, lifelong retirement account, providing them the opportunity to build their assets and ensure their financial stability through secure, portable savings accounts.

### **Q: Who is eligible to participate and contribute to this account?**

**A:** Any worker in California who does not have access to a workplace retirement plan is eligible to open and contribute to a California Employee Savings Program.<sup>4</sup>

### **Q: What are the eligibility requirements for an employer to contribute to an employee's account?**

**A:** An employer who does not have an existing retirement plan is eligible to participate in the program and contribute to an employee account.

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<sup>1</sup> "National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2007," Bureau of Labor Statistics, August, 2007, <http://stats.bls.gov/ncs/ebs/sp/ebsm0006.pdf>

<sup>2</sup> American Academy of Actuaries. Issue Brief, "Women and Social Security"  
[http://www.actuary.org/pdf/socialsecurity/women\\_07.pdf](http://www.actuary.org/pdf/socialsecurity/women_07.pdf)

<sup>3</sup> Social Security Administration, Social Security Benefits, Retired Workers, January 2008

[http://www.ssa.gov/policy/docs/quickfacts/stat\\_snapshot/](http://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/)

<sup>4</sup> <http://www.themoneyalert.com/Retirement-Plan-Limits.html>

**Q: Who will manage the program?**

**A:** The California Public Employees Retirement System (CalPERS) will manage the program and recover its costs from accountholders. CalPERS will provide investment services and may contract out with a private provider for custodial services.

**Q: Why should this program be housed in CalPERS as opposed to the Treasurer's office?**

**A:** By establishing the program in CalPERS the state takes advantage of CalPERS huge portfolio and economies of scale to provide high quality, low-cost accounts to accountholders.

**Q: Does the California Employee Savings Program put CalPERS tax status at risk?**

**A:** No. CalPERS will not move forward with the California Employee Savings Program until it gets the approval from the IRS or any other governmental approvals deemed necessary to protect its tax status.

**Q: Does the program undermine state employees' defined benefit pension program?**

**A:** No. The California Employee Savings Program would supplement, not supplant, existing pension plans, and use exiting tools at no cost to taxpayers to augment the current employer-based and Social Security system to make retirement savings available to low-wage private sector workers who do not have access to a work based retirement savings plan. Employers with existing defined contribution retirement plans cannot participate in this program.

**Q: How much will it cost state taxpayers to implement this program?**

**A:** The California Employee Savings Program is self-financing; account administration will be paid for by fees paid by accountholders, just as in the state's 529 ScholarShare Program or traditional IRA plans administered by private providers.

**Q: Are workers in small business less likely to have access to a retirement plan?**

**A:** To a large extent, a worker's access to a job-based retirement plan depends on the size of the employer's business. Those working for small businesses are less likely to have access to retirement plans. Nationally, 60 percent of all workers participate in a retirement plans, but only 37 percent of those working at a firm with fewer than 100 employees do. In the Pacific region, which includes California, 43 percent of private workers do not have access to a workplace retirement plan.<sup>5</sup>

**Q: Why do small businesses have a hard time offering retirement plans?**

**A:** Surveys show that small businesses do not provide retirement plans because of the cost, complexity and time it takes to administer them. Moreover, most small firms struggle just to stay in business, let alone provide a retirement plan. According to federal data, about one out of every eight small businesses (fewer than 100 employees) in California dies each year. The economic climate and whether a firm's profits are likely to increase also play a role in plan sponsorship.<sup>6</sup> Some retirement savings products on the market provide tax incentives for employers and employees. Even with these tax incentives, many employers don't offer retirement plans because of the reasons previously mentioned.

**Q: How does this account benefit CA small business employees?**

**A:** The California Employee Savings Program would lower the cost and complexity for individuals to participate in a savings account by using CalPERS' high-quality investment portfolio. As individuals in CalESP would be joining CalPERS, they would be participating in a larger pool of accounts, and thus enjoy the lower fees due to economies of scale.

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<sup>5</sup> "National Compensation Survey: Employee Benefits in Private Industry in the United States, March 2007," Bureau of Labor Statistics, August, 2007, <http://stats.bls.gov/ncs/ebs/sp/ebsm0006.pdf>

<sup>6</sup> Jack VanDerhei, "Findings from 2003 Small Employer Retirement Survey (SERS)," Employee Benefit Research Institute, EBRI Notes, No. 9, September 2003.

**Q: How does this account benefit CA small business employers?**

A: Often, complexity and cost on administering retirement systems prevent many small companies from creating retirement plans for their employees. By creating the Cal-ESP, small businesses can join their employees in their savings efforts by matching their employee contributions, if they chose to do so.

**Q: Has this been done before?**

A: In 2007, the Washington State Department of Retirement Systems was tasked by the legislature to design the “Washington State Voluntary Retirement Accounts.” Several states, including Maryland, Michigan, New Hampshire, Pennsylvania, and Vermont, are considering legislation to create various forms of voluntary retirement accounts.

**Q: Is this the proper role of government?**

A: This program allows the state to take advantage of a system that the public has already put in place to ensure California families can build their retirement security.