



Economic Opportunity Institute

## Washington Voluntary Accounts: A Proposal

### The Pension Problem

Social Security provides a strong foundation of a guaranteed minimum income in retirement for workers, but a comfortable and secure retirement also requires savings built up over many years. Unfortunately:

- Only about half of workers have access to a retirement savings plan at work.
- Less than 20% of employees in firms with fewer than 25 workers have a retirement plan.
- Costs per worker of administering pension plans are much higher for small businesses.
- Lower income workers are rarely covered by pensions.
- Federal rules are complex, and choices among providers are legion, creating hurdles for small businesses and individual workers interesting in starting a retirement program.

### Key Elements of Washington Voluntary Accounts

The problems of our current pension policies can be overcome. Washington Voluntary Accounts would enable far more workers to save for retirement and economic security in old age. Washington Voluntary Accounts would also allow smaller employers a simple and low cost alternative for offering a pension plan to workers.

**Defined Contribution Plan:** WVAs would be structured as a defined contribution program, with employees' contributions tax-deferrable.

**Administration:** WVAs would be administered by the Washington State Department of Retirement Systems, which already operates a number of retirement programs for state, school district, and local government workers. Oversight will be conducted by the State Investment Board and the Joint Committee on Pension Policy.

**Automatic deductions:** In WVAs, small amounts would be directly deducted from each paycheck. This is both a major convenience for workers, and an important factor in assuring workers of reaching their savings goals.

**Matching Contributions:** Employers could choose to contribute as well.

**Investment Options:** Workers could choose to invest in a pre-selected menu of stock index, bond, money market, or a combination of funds. Pre-selected investment options will reduce administrative costs of the program, and reduce the amount of time workers must spend in order to make informed decisions about their investments.

**Portability:** Workers in temporary situations or changing jobs could carry their WVA account with them, and continue investing with little or no interruption. Portability is increasingly a need for all workers as contingent work expands and length of time on any given job declines.