

VEVA: Virginia Employee Voluntary Accounts

“The Wave of the Future”



HB 2026-VEVA

- **Sponsors: Delegate Danny Marshall and Delegate Bill Janis**
- **Virginia Employee Voluntary Accounts Program.**
- Creates the Virginia Employee Voluntary Accounts Program. Under the program, private employers with not more than 50 employees that have not offered a payroll savings deduction plan to employees in the preceding year may enroll to offer tax-deferred retirement plans to their employees. The Program will be administered by a board of directors, which is authorized to hire a director and staff, and to retain a financial institution to serve as third-party administrator for the management of the assets of the Program. The Program is not authorized to accept enrollees or funds until a plan of operation for the Program has been approved by the Internal Revenue Service

Retirement: What is the problem?

- Personal savings rates in the United States have declined steadily over the past 30 years.
- The Boomer generation, on the brink of retirement, is poorly prepared financially.
 - Nearly 50% of the US workforce has no access to employment-based retirement savings programs.
 - Forty-nine percent % of workers saving for retirement have less than \$25,000 in savings.
- The savings shortfall is particularly acute among low and moderate-income workers.

Retirement: Why aren't people saving?

- There are all sorts of products and ways to save – but people aren't using them.
- Due to difficult economic times, many people are living “in the now” – not focusing on where they may be in 25 years
- There is no major campaign, push, or incentive for saving now
- Many people cannot afford huge savings plans, and need something that can allow small deposits

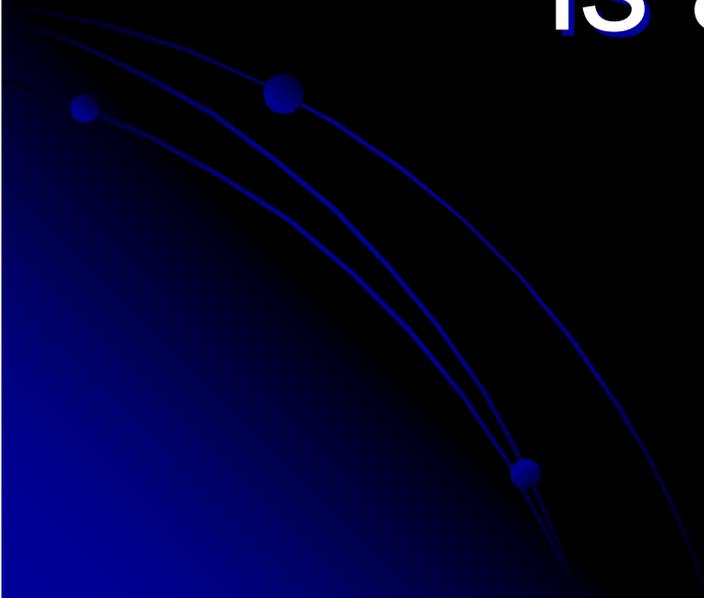
Why does AARP care?

- AARP is exploring ways to increase participation in retirement plans and foster the accumulation of retirement assets.
- We want to encourage workers to prepare for their non-working years by fostering expansion of employer-based payroll deductions for saving.
- AARP works to improve the quality of life of Americans 50+ in the areas of health and supportive services, economic security and livable communities.

VEVA

(Virginia Employee Retirement Accounts)

is a Solution!



What is VEVA?

- VEVA is a payroll savings deduction plan whereby the state government takes on the new role of facilitator of low-cost retirement savings plans for small private employers that do not currently offer a retirement plan.
- VEVA is voluntary for both employers and employees.
- VEVA would improve the financial security of low- and moderate-income workers who most need help saving for retirement.
- Research strongly indicates that employees who have automatic payroll savings deductions available to them are more likely to save than those who do not.

Pros of VEVA

- The program can help small employers by providing economies of scale from pooling assets, thereby causing fees to be reduced below where they would be for individual small employers.
- VEVA could help the pension industry and related providers penetrate the small business market, potentially creating new business for providers.
- As VEVA would be open for bids for the contract, large providers would have the opportunity for this business
- VEVA can help promote economic development in Virginia and make the state more attractive for employers.
- VEVA could call attention to the federal tax start-up credit for small employers establishing a new plan--up to \$500 per year for up to three years.
- Because Virginia will ultimately be responsible for services for seniors who were not able to save for retirement, VEVA will help lower state costs in the future.

How will it work?

- State-approved program, analogous to the 529 education savings program.
- State government promotes the plan in partnership with the business community of the Commonwealth.
- Virginia legislature and Governor approve Program, appoint Board
- Board oversees creation of pilot or Program, chooses the Director, together submit plan to IRS
- Director contracts with one investment provider
- Small employers enroll in Program.
- Employees, through payroll deduction, deposit funds in IRA accounts.
- Provider manages IRA accounts in aggregate

Why is this important?

- We are confronting a severe savings shortfall in this country, especially a shortfall in savings for retirement.
- Boomers have done a poor job of preparing for their non-working years.
- The next generation of workers needs better financial literacy and improved savings behavior.
- Fully half of workforce lacks access to workplace savings outside of Social Security.
- 49% of workers saving for retirement have savings of less than \$25,000. 7 in 10 workers own total assets of less than \$10,000.
- In Virginia, 44-45% of all workers participate in retirement plans. (Source: EBRI Calculations from U. S. Census)
- It is now predominately a do-it-yourself pension landscape, but many workers and their employers lack the tools to participate

Option for VEVA Start-up:

1 – Set up VEVA as an Authority (similar to the Housing Authority) mixed with characteristics of the 529 College Savings Plan

- Virginia College Savings Plan started with a state agency sponsorship and a loan from state government

Major Obstacles

- Convincing Public Policy Makers that VEVA is right for Virginia
- Securing funding for startup
- Obtaining critical mass participation
- Getting the message out
- Getting providers engaged
- Convincing employees to sign up
- Setting up processing operations
- Deciding on investment options
- Writing program rules for participants

What's Next?

- Open Discussion with Small Business Commission members
- Monday, August 3, 2009
- Virginia General Assembly Building SR A
- 10 a.m.