# 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 then $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.