

Auto-IRA rollout creates new opportunities for managers

A recent spurt in launches of state-run, auto-individual retirement account programs across the US spells an increase in opportunities for asset managers to provide equities and fixed income investment options for participants. Consultant AKF says more than 10 states currently have auto-IRA plans under development.

Auto-IRA plans act as a state-run, catch-all plan for private sector workers who are not enrolled in or not eligible for other retirement savings options. These plans offer various passive investment options for employees to select from, usually a mix of target-date funds, equity funds and fixed income options.

States that have adopted the auto-IRA framework are or will require private companies to enrol with the program, giving employees the opportunity to then register for an account and begin contributing to their plan.

Andrea Feirstein, managing director of AKF Consulting Group, a New York City-based strategic adviser to state-run investment programs, tells MandateWire that other than initial start-up costs, these state-run programs are not funded by the state, nor reliant on municipal money to survive.

Auto-IRA plans are developed to be self-funded by fees that come from the investments employees make, once enough employees are registered with the plan.

Employers who enter the program have no obligation to contribute in any way to employee IRA plans. All plans are 100 per cent employee funded.

When an employee enters the program, they are automatically enrolled into a default option – usually a money market or a target-date fund – for a 30-day, 60-day or 90-day period. After that, employees have the option to navigate investment options provided and select their choice based on their personal appetite for risk, or stay with the default option.

Market overview

Seven states, namely California, Connecticut, Colorado, Maryland, Illinois, Oregon and Virginia, have fully launched their own auto-IRA programs, with 10 more – Delaware, Hawaii, Maine, Minnesota, New Jersey, Nevada, New York State, New York City, which is expected to merge with New York State, the city of Seattle and Vermont – in various stages of development.

In the initial phases of constructing these programs, each state selects where the program will sit in terms of oversight and governance. Data provided by Feirstein highlights that out of the 17 states that have authorized the creation of auto-IRA programs, 10 have decided to house the program in their state treasurer's office, two have a dedicated entity, and one has a sole trustee.

California, Colorado, Delaware, Illinois, Maine, Nevada, New Jersey, New York, Oregon and Vermont have decided to house their plans in their respective state treasurer's offices. Connecticut has a sole trustee through the state comptroller's office. Hawaii, Virginia and the city of Seattle house their plans in another agency. Finally, Maryland and Minnesota decided to make their plans a dedicated entity.

A [monthly snapshot](#) from Georgetown University's Center for Retirement Initiatives reveals that out of the five state auto-IRA programs publicly releasing monthly data — California with CalSavers, Illinois with Illinois Secure Choice, Oregon with OregonSaves, Connecticut with MyCTSaving, and Maryland with MarylandSaves — total assets grew by about 8.7 per cent between May 2023 and June 2023, to \$913.8mn from \$840.5mn.

Also during that period, Maryland had the largest growth in its assets, followed by Connecticut. Total assets in Maryland saw an rise of 26.9 per cent, to \$2.1mn from \$1.7mn. Connecticut increased by 26 per cent, to \$6.8mn from \$5.4mn.

The number of funded accounts across all programs increased by 1.6 per cent, from 683,660 to 694,993, during the same time period.

The Georgetown report also includes information about California's CalSaver's plan, which is the largest in the country with \$569mn in assets under management, representing 62.3 per cent of the total \$913.8mn auto-IRA market.

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Investment options

CalSavers offers employees a range of investment options managed by State Street Global Advisors, including 12 target-date funds, a core bond index fund, two global equity index fund options, and a money market fund, and one option managed by Calvert Group, an environmental, social and governance index fund, which CalSavers executive director David Teykaerts tells MandateWire only 1.5 per cent of retirees choose.

Investment options provided by CalSavers were selected in order to maintain the fund's ultimate goal of getting as many Californians to save for retirement as possible, so investment options are simple and easy to understand, Teykaerts says.

Recently, the Maine Retirement Investment Trust, or MaineSaves, partnered with the Colorado SecureSavings program and began offering the same investment options to Maine residents, as [reported](#) by MandateWire.

Elizabeth Bordowitz, executive director for MaineSaves, tells MandateWire that MaineSaves will offer State Street's 12 target-date retirement funds and a bond index option.

The investment option from BlackRock is an international equity fund that is invested in the BlackRock iShares MSCI Total International Index Fund.

MaineSaves will officially launch in January 2024, with a pilot to be put out in October.

Delaware also was seeking an intra-state partnership, and on September 13, the Delaware Expanding Access for Retirement and Necessary Savings Program, or DelawareEARNs, board program and investment committee [recommended](#) that the state join the multi-state consortium led by Colorado.

To join the consortium, Delaware would have to accept Colorado's investment line-up, which consists of State Street Global Advisors' target retirement date funds, a State Street fixed income fund, a State Street capital preservation fund and a BlackRock international equity fund.

CAPTRUST, along with AKF Consulting, have been advising Delaware and assisting with the due diligence process.

The Delaware EARNs Program Board is scheduled to hear the committee's recommendation during its next meeting on October 19.

In New York State, the New York Secure Choice Savings Program will begin its [search](#) for investment managers in October, a spokesperson from the fund tells MandateWire.

The Secure Choice Program recently [concluded](#) a search for investment managers and a program administrator at the beginning of August, and will begin the manager search once the administrator has been selected.

In the RFP issued by the fund, asset managers will be expected to provide a lineup of investment options to program participants, consisting of a default of a target retirement date option, a growth option, a growth and income option, and a conservative principal protection option.

A program administrator was expected to be selected on or after September 20, the fund tells MandateWire.

According to OregonSaves, during the 2023 state legislative sessions, 22 states proposed legislation to establish new state retirement programs, amend existing programs, or form study groups to explore their options for creating auto-IRA plans of their own.

New Jersey recently released a request for quotation for a program administrator that was due on August 1.

Vermont and Hawaii recently concluded application periods for executive director positions, with [Vermont](#) set to begin requiring all employers with 25 or more to offer the program by July 25 2025 and [Hawaii](#) to be up and running by July 1 2024.

Minnesota and Nevada recently signed their programs into law, on May 19 and June 16, respectively.

The development of the New Mexico plan is currently on hold.

Sustainable investment

CalSavers is the only auto-IRA out of the seven up and running to offer an ESG-related investment option, according to Feirstein, which Teykaerts says was included because investment agencies within the state have a general desire to include a sustainable investment option. Additionally, the ESG option selected by CalSavers had to achieve fiduciary standards set by the board of trustees.

Hannah Schriner, managing principal and consultant at Meketa Investment Group, tells MandateWire that, in general, "when an ESG investment option is considered, we proceed with caution", as many plans wish to keep the focus on getting participants investing and saving for retirement.

She adds that "while we haven't seen the implementation, it is a topic that is being discussed. A conversation about including [an ESG investment option] or not is happening at all of [those states developing auto-IRA plans]".

New legislation passed in California in January 2023 requires private sector companies with just one employee to register for CalSavers or for another retirement savings option, a decrease of the previous ruling of five employees.

After the initial enrolment into the plan, however, California companies have no obligation to pay retirement benefits for employees.

MandateWire [reported](#) in May that CalSavers was expected to release an RFP for investment consulting services in August this year, with the contractual agreement tentatively set to be effective on January 10 2024 and to expire after June 30 2026.

The state of Oregon founded the first auto-IRA plan of its kind, with the pilot program of what is now known as OregonSaves launching on July 1 2017. As at June 30 2023, the Oregon plan had \$208mn in assets under management, a 6.4 per cent increase from May 31.

Similar to California, the Oregon plan was created to be a catch-all plan for private sector employees who do not have another retirement savings option. The Oregon plan has three investment options for employees, a money market fund option, target-date fund options, and an index fund option, all run by State Street Global Advisors.

Most recently, Oregon released a count of nearly 118,000 workers from more than 21,000 businesses statewide that are saving through their own IRA accounts within OregonSaves.

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