

MN Secure Choice Retirement Program

To: MN Secure Choice Board of Directors
From: Dave Bergstrom, Interim Executive Director
Subject: Proposal to Phase in Employer Enrollment (Agenda Item 3)

The law requires the Board to open the Mn Secure Choice Retirement Program to employers in phases. Laws of Minnesota 2023, section 10, subdivision 1, paragraph (b) states:

(b) The board of directors must open the program in phases, and the last phase must be opened no later than two years after the opening of the first phase.

Even though the Program won't be operational until the first quarter of 2026, employers will want to know when they will be required to offer the program to their employees. Also, it will determine the earliest an employer might be assessed a noncompliance penalty (See agenda item 4).

The phase in period will make administering the program more organized and allow time to help employers enroll in the program. There are 48,000 employers in Minnesota with five or more employees. However, many of them offer a retirement plan and won't be required to participate in the program. Identifying eligible employers and determining if they offer a retirement plan will be a big challenge. Employers who offer most types of retirement plan are required to file a Form 5500 with the U.S Department of Labor (DOL). DOL has a site to search to see if an employer offers a retirement plan, but the search is conducted one employer at a time. The record keeper for the consortium runs the list of eligible employers against a DOL Form 5500 data base, but the data isn't always accurate and not all retirement plans require that a Form 5500 be filed. For example a Simplified Employee Pension plan (SEP) does not require a Form 5500.

A sampling of the tasks that will be required before the program is implemented.

Identify employers that meet the minimum threshold.

Determine the number of employees for each employer.

Identify which employers already have a retirement plan.

Verify the accuracy of the data.

Develop a marketing plan to reach employers and employees.

I am proposing that the program start by enrolling larger employers first. Larger employers are more likely to hire a firm to process their payrolls and have staff dedicated to handling payrolls. In addition, enrolling companies with more employees will help build up the number of participants in the program more quickly. According to the “AARP Fact Sheet: Minnesota (August 2022) “there are approximately 718,000 employees working for employers without retirement coverage. Of that number, 315,000 employees work for employers with 100 or more employees. Based on this information, 44% of employees who do not have coverage work for 12% of the employers who might be required to participate in the MN Secure Choice program (5,500 out of 48,000 potential employers).

There are 19,000 employers that hire between five and nine employees, which is roughly 40% of the 48,000 employers who may not offer a retirement plan. It is also the group of employers less likely to offer a retirement plan. Most of these small employers will not have staff dedicated to working on payroll and are less likely to hire companies to process payroll information. By phasing in small employers last, it will give time for the staff to become more efficient or increase staff to help enroll smaller employers.

I have listed two employer enrollment phase-in possibilities below:

NOTE: The numbers listed in the tables below are the total number of potential employers and employees and includes companies that have a retirement plan. Employers who offer a retirement plan will not be required to participate in the Program. The number of employers required to participate, and the number of potential participants will be considerably lower. The data is rounded slightly up or down and is based on the U.S. Census/Statistics of U.S. Business data year 2021. I am currently researching if other state agencies have centralized information to identify employers with five or more employees and data on if the employers offer retirement plans.

Option 1: Longer employer enrollment phase in

Number of Employees	Phase in after Program Starts	Number of Employers in Phase	Number of Employees in Phase
100 and more	First 6 months	5,500	1,821,000
30 to 99	7 months to 12 months	6,500	318,000
15 to 29	13 months to 18 months	9,000	181,000
10 to 14	19 months to 24 months	8,000	92,000
5 to 9	25 months to 30 months	19,000	121,000
Total		48,000	2,533,000

Option 2: Shorter employer enrollment phase in

Number of Employees	Phase in after Program Starts	Number of Employers in Phase	Number of Employees in Phase
50 or more	First 6 months	9,000	2,000,000
20 to 49	7 months to 12 months	8,000	246,000
10 to 19	13 months to 18 months	12,000	166,000
5 to 9	19 months to 24 months	19,000	121,000
Total		48,000	2,533,000

Recommendation:

- 1) I recommend option 1. The longer phase in period will give staff and the recordkeeper more time to identify employers covered in each phase, provide employers with program information to distribute to their employees, and assist employers in automating payroll deductions and remitting these deductions to the record keeper. Some employers will be more knowledgeable and have more sophisticated payroll systems or software. Some employers will require more help in setting up an efficient way to withhold and remit payroll deductions. There will be a learning curve in how to identify and communicate with employers – starting with fewer employers will allow time to make the process more efficient. Staffing for the final phase may need to be ramped up since there are so many employers with five to nine employees.
- 2) I recommend that employers who want to enroll in the program prior to their scheduled enrollment cycle be allowed to join at any time. There is no reason for an employer to wait until their phase-in period to offer the program if they wish.
- 3) I recommend that a small group of employers, consisting of employers from each phase, be identified and used as a pilot program before the first phase is started.

Future Discussion

The Board may want to consider a timeline to contact employers who are newly started or employers who reach the five-employee threshold after the initial phase in period (employers are not considered “covered” employers if they have not been in business any time in the preceding 12 months). For example, between January 1 and March 31 each year, new employers who have been in business for more than 12 months or those who met the five-employee threshold in the past year will be contacted. The compliance penalties can then be based on the date the newly eligible employers are required to participate.

