Department of Planning and Budget
2021 Special Session 1 Fiscal Impact Statement

1. **Bill Number:** HB2174-S1

House of Origin	☐	Introduced	☐	Substitute	☐	Engrossed
Second House	☐	In Committee	☒	Substitute	☐	Enrolled

2. **Patron:** Torian

3. **Committee:** Finance and Appropriations

4. **Title:** VirginiaSaves Program; establishment.

5. **Summary:** Directs the governing board of the Virginia College Savings Plan (the Board) to establish an automatic enrollment payroll deduction individual retirement account (IRA) retirement savings program, to be known as the VirginiaSaves Program (the Program). The Board shall administer the Program and develop requirements, procedures, and guidelines for the Program, including default contribution rates, procedures for enrollment and withdrawal, and procedures for noncompliance. Moneys in the Program shall be invested in a manner deemed appropriate by the Board. Participation in the Program is mandatory for eligible employers, defined in the bill as self-employed individuals, sole proprietors, and nongovernmental employers having five or more employees that do not offer a qualified retirement plan to their employees. Each eligible employee, defined generally as an individual employed by an eligible employer, shall be enrolled in the Program unless the employee elects not to participate in the Program. The bill contains provisions limiting the liability of the Board, the Plan, and the Commonwealth or any of its political subdivisions for obligations associated with the Program. The Commonwealth shall have no duty or liability to any party for the payment of any retirement savings benefits accrued by any individual under the Program. Participating employers shall not (i) have any liability for an employee's decision to participate in or opt out of the Plan, (ii) be a fiduciary over the Program, or (iii) have any liability or responsibility related to the operation of the Program. The Program shall be established, and enrollment shall begin, no later than July 1, 2023. The amended bill does not require a participating employer to make a contribution to a participating employee's account. The bill also reenacts § 23.1-701 and requires at least one of the seven nonlegislative citizen members serving on the Board to have expertise in the management and administration of private defined contribution retirement plans.

   The third enactment requires the Board to convene a work group of stakeholders to identify and make recommendations as to other amendments to the Code of Virginia necessary and prudent to effectuate the provisions of this act. The Board shall (i) recommend any technical amendments necessary to clarify the scope of the Program and ensure compliance with law, (ii) examine the experience of other states that have enacted similar legislation, (iii) assess potential incentives to encourage participation in the Program and defray the costs of participation for small businesses, and (iv) assess the costs and benefits, to employers and to the Commonwealth, of reducing the threshold number of employees of an eligible employer under the provisions of this act. The Board shall submit its findings to the Chairmen of the

House Committee on Appropriations and the Senate Committee on Finance and Appropriations no later than October 31, 2021.

6. **Budget Amendment Necessary**: Yes – Item 491 of HB 1800/SB 1100. The second enactment clause of HB 2174-S1 provides that "in accordance with the provisions of Item 4-3.02 of the appropriation act, the Virginia College Savings Plan (the Plan) shall receive a non-interest bearing treasury loan in an amount not to exceed $2 million each year of each biennium to cover the costs of designing and implementing the VirginiaSaves Program (the Program), until such time as the Program is self-sustaining. Such loan may be renegotiated, as appropriate, and the Plan shall commence repayment with Program fees and revenues once the Program has achieved at least one year of Program cash flow positivity."

7. **Fiscal Impact Estimates:** Preliminary – see Item 8.

8. **Fiscal Implications:** The most recent study of state-sponsored private retirement programs, HD12, Report on State-Facilitated Private Retirement Plan Programs: Encouraging Citizens to Save for Retirement (Chapter 506, 2020) (the Report) presented an analysis of the fiscal impact of under-saving for retirement in the Commonwealth. The "cost of doing nothing" study by Econsult Solutions, Inc. concluded that the average Virginia household with less than $75,000 in annual income could close the retirement savings gap anticipated by 2035 by contributing an additional $1,930 annually over each working year. The fiscal impact of under-saving is significant and estimated at an additional cost of $11.8 billion to Virginia taxpayers over the next 15 years. The Report also included information on the estimated costs to establish the VirginiaSaves Program and sustain it until it becomes self-sustaining. Based on data from other states which have or are implementing similar programs, with similar size and scope, the approximate cost to the Commonwealth is estimated at $1,290,000 for start-up and approximately $1,240,000 for annual operating costs with an auto-IRA model, as recommended. Revenue from program fees over time are expected to cover these costs for the state. Included in the Report is a recommendation to authorize an interest-free treasury loan, not to exceed $2 million each year of each biennium, to fund the Program's start-up and operating costs with the goal of achieving cash-flow positivity within 10 years. The costs will not be passed on to employers. Under an auto-IRA program, employers perform a light ministerial function during initial registration after which the program administrator manages communication with the employee. As for financial feasibility of an auto-IRA, the Report concludes that a conservative estimate is 10 years to achieve cash-flow positivity with an auto-IRA. This time frame is based on projected implementation and participation rates both as modeled in states with active programs, and based on their actual results. As with any new program, time is required for outreach and education of employers and employees about the benefits of the program and how to participate.

9. **Specific Agency or Political Subdivisions Affected:** Virginia College Savings Plan

10. **Technical Amendment Necessary:** No.

11. **Other Comments:** None.