DANA CONSULTING GROUP

memorandum

Innovative Design and
Administration of Retirement Plans

ILLINOIS SECURE CHOICE SAVINGS PROGRAM

Signed into law by Governor Pat Quinn in January 2015, the Illinois Secure Choice Savings Program requires Illinois employers with 25 or more employees to enroll their employees into a state-run savings program unless the employer already sponsors a tax-qualified retirement plan covering those employees, such as a 401(k) plan.

Q. Which employers are subject to this law?

A. Any employer that (a) has been in business for at least two years, (b) has 25 or more employees during the previous calendar year in the state of Illinois, and (c) does not sponsor a qualified retirement plan covering those employees must offer the program.

Q. What does the law require?

A. The employer must do one of the following:

a. Enroll the employees in an Illinois state-run savings program.
b. Establish a qualified retirement plan covering the employees.
c. Pay an annual penalty of $250 per employee.

Q. What contributions have to be made to the program?

A. This is a payroll deduction program and no employer contributions are made.

Q. How much is deducted from an employee's paycheck?

A. The default deduction is 3% of an employee's paycheck (up to the annual IRA deduction limit). However, an employee can elect a lower deduction or can opt out altogether.

Q. What are the costs of this program and who pays them?

A. Start-up costs are estimated to be $15 million to $20 million according to the Illinois Treasurer's office, and annual costs are estimated to be about $34.5 million. No taxpayer money is supposed to be used. The program is expected to incur large losses in the early years until a sufficient amount of money is collected to cover those costs. There are no direct costs to employers who enroll their employees in the program, but employers will need to file some kind of reports to demonstrate compliance and there will be costs to challenge any improper penalties.

Q. Who helps employees in the program select their investment options?

A. There is a default investment option but employees will be able to choose among other investment options. The new law does not contemplate that employees will have access to an investment advisor to educate them on investment options.

1539 Gamon Road - Wheaton, Illinois 60189
Phone 630-802-7644 · Fax 312-332-8814
E-mail address: leejennings@danaconsulting.com

Q. When does this law become effective?

A. Employers must begin enrolling their employees in 2018. Originally, the law contemplated that employers would need to start enrolling in June 2017 but so many issues remain to be worked out that the law has been delayed until 2018.

Q. How can I get more information about this program?

A. You can visit www.Illinoisassetbuilding.org, or google "Illinois Secure Choice Savings Plan" for information, including a fact sheet and Q&A created by the state.

Our View

1. Illinois has the second worst funded public pension system in the U.S. (as of July 2016). New Jersey has the worst now, but Illinois was worse than New Jersey for some time. We think employers have to ask themselves why the state wants to get into the private industry pension business when it cannot run its own pension system?

2. The state is expected to hire one or more asset management firms to provide the investments and platform. How are those firms going to make money (at least in the early years)? The law provides that no taxpayer money can be used. Advisory firms who are working with states like Illinois to set up these programs are in agreement that the programs are going to lose money until sufficient assets are collected to offset these costs.

3. Illinois employers who enroll employees into the program are not responsible for investment losses, but who are their employees likely to blame when their accounts are shrinking due to fees and charges? We think employees are going to ask their employers why they enrolled them in the first place, once the reality of the program becomes common knowledge.

   Employers can refuse to enroll their employees and simply pay the penalty but we think a better option is to set up a real retirement plan like a 401(k) plan. Qualified retirement plans hold the largest concentration of wealth in the U.S. and there is good reason for that. Qualified plans are the most cost-effective ways for Americans to save for retirement. Survey after survey demonstrates that workers view employer-provided plans as the most effective way to save for retirement. More and more employers have learned that attracting the workers they want demand that they offer a qualified retirement plan that includes a 401(k) savings feature.

What Does Dana Consulting Group Do?

We are a retirement plan third party administration firm that works with employers and their advisors (such as financial advisors and CPAs) to design and administer qualified retirement plans. We are NOT investment advisors and we do not sell any investment product or give investment advice.

DCG can help you design and administer a real retirement plan that allows your employees to save for retirement. We can also design the plan to offer substantial tax benefits to the company and its owners. Qualified plans are a win-win for all parties involved.

If you would like additional information, please call Lee T. Jennings at (630) 802-7644.