HOUSE COMMITTEE ON APPROPRIATIONS

FISCAL NOTE

HOUSE BILL NO. 577 **PRINTER'S NO. 1304** **PRIME SPONSOR: Mullins**

COST / (SAVINGS)

FUND	FY 2022/23	FY 2023/24
General Fund	$0	See Analysis

SUMMARY:

House Bill 577, Printer's Number 1304 creates the Keystone Saves program under the Pennsylvania Treasury, a retirement savings program for Pennsylvanians who do not have access to other options to save for retirement by contributing to an individual retirement account.

ANALYSIS:

The bill creates an automatic enrollment payroll deduction individual retirement account (IRA) called the Keystone Saves program. The Pennsylvania Treasury is charged with administering the program, providing information about the program to covered employees, facilitating paperwork, and conducting an annual open enrollment period for the program. Program participants will have the opportunity to contribute towards an individual retirement account (IRA) with different investment options to choose from.

Treasury will begin to implement the program 24 months after the effective date of the bill. Certain covered employers are required to participate, while others can voluntarily participate. Private sector employers who have four or fewer employees, or who are new and have not been in business for 15 consecutive months are exempt from the bill. Additionally, employers who offer tax-favored retirement plans for employees within the preceding three years are exempt.

Employer registration and participation is required to start in phases. The largest employers with more than 100 employees will start participation with the initial implementation 24 months after enactment, followed by employers with 20-99 employees at 30 months after enactment and 10-19 employees 36 months after enactment. However, the bill requires that covered employers who pay employees through a payroll system or payroll service shall register within 24 months after enactment. There is no penalty for employers who do not register and participate in the program.

Employers covered by the bill must allow employees to contribute to an IRA via payroll deduction. Covered employees will automatically be enrolled into the program, unless they opt-out. Employees can set the automatic deduction amount into their IRA. The default contribution is 4% of gross wages. The bill allows a participant to increase the deduction rate by any amount each year, up to a maximum of 10% of gross wages or the annual maximum contribution limit set by the Internal Revenue Code, whichever is greater.

Employees can completely opt out of deductions, change their deduction rate or freeze the automatic deduction rate increase.

Treasury is required to provide different options for participants to invest their account, including life-cycle funds with a target retirement date, equity index funds, bond index funds and a capital preservation fund and other options as the department determines to be necessary. The department will have the sole authority to select investment managers as options for program participants. All of the contributions, interest and investment earnings in the account will belong to the participant. The commonwealth or the employer will have no proprietary interest in the account.

Treasury will establish distribution procedures for the individual when they decide to retire, to help participants maximize financial security in retirement and assist with changes of decumulation of savings. The department shall consider lifetime investment products (annuities) as a distribution option, including ones that provide benefits to the participant's spouse.

The department shall develop educational materials related to the program for participants.

The bill creates two special funds: the Keystone Saves Administrative Fund and the Keystone Saves Program Fund. The Program fund will be used for the benefit of participants and the payment of program expenses. The Administrative fund will be held separate and apart from the Program fund and used to pay for all administrative and operating costs, fees and expenses of the department.

When fully implemented, Treasury's administrative costs will be covered by assessments on individual accounts, or other funds designated for administrative purposes. These costs will be paid from the Keystone Saves Administrative Fund. Treasury will submit an operating request to the General Assembly for approval as part of the budget process. The amount needed for the budget line item will be assessed on participant accounts, but subject to a maximum cap of 75 basis points.

During the period leading up to launch and for the first five years that participants are enrolled, the General Assembly will appropriate funds from the General Fund to cover start-up costs, which will be repaid over time. No assessments will be applied during the start-up period.

The bill takes effect immediately.

FISCAL IMPACT:

Administrative costs for the program initially would be borne by the General Fund for two years leading up to launch, and for the first five years after the first participants are enrolled. The bill provides that amounts appropriated for start up and operational costs within the first five years will be repaid "over time." The repayment duration is not specified.

The Treasury Department estimates annual costs during the two-year start-up period of $1.27 million per year, and annual operating costs thereafter of $1.30 million.

Based on this information, the General Fund would bear a cumulative cost of $9.04 million, including $1.27 million each year for years 1-2, and $1.3 million each year for years 3-7. These costs will be repaid to the General Fund; however, because of ambiguity in the repayment timeline, the flow of these dollars back to the General Fund is not fully known.

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House Appropriations Committee (D)

DATE: May 24, 2023

Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.