SUBJECT:	Automatic participation in 401(k) plans for state employees
COMMITTEE:	Pensions and Investments — favorable, without amendment
VOTE:	4 ayes — Truitt, McClendon, Burnam, Macias 0 nays 3 absent — Villarreal, Keffer, Rodriguez
WITNESSES:	For — Andrew Homer, Texas Public Employees Association Against — None
BACKGROUND:	Government Code, ch. 609, subch. C governs deferred compensation plans for state employees. A 401(k) plan is a deferred compensation plan governed by sec. 401(k) of the Internal Revenue Code of 1986.
DIGEST:	HB 957 would specify that state employees in agencies that offer 401(k) plans automatically would be enrolled in a 401(k) plan unless they affirmatively elected not to participate. One percent of that employee's compensation, deducted automatically through payroll deductions, would be contributed to a default investment product selected by the Employees Retirement System (ERS). An employee would not be required to participate in a 401(k) plan and could elect to end participation, contribute to a different investment product, or contribute a different amount at any time. The ERS board would have to ensure that at the time of employment, each state employee was informed about the elections the employee could make regarding 401(k) plans and the employee's responsibilities. The board would have to adopt rules to implement the program and ensure that operation of the 401(k) plan conformed with federal laws. The 401(k) deductions would not be made for payment of a debt and would not be garnishment or assignment of wages. HB 957 would apply to employees hired after January 1, 2008. The bill would take immediate effect if finally passed by a two-thirds record vote

of the membership of each house. Otherwise, it would take effect September 1, 2007.

SUPPORTERS SAY:

HB 957 would encourage all state employees to save for retirement by authorizing ERS to automatically enroll new employees in the state's 401(k) retirement savings program. Employees would not be required to participate and could opt out of the program at any time by submitting a form to ERS.

This savings incentive would not present a significant financial burden for most employees. For the average state employee with a salary of about $34,000 per year, the automatic 401(k) deduction would be about $28 per month of pretax income. In post-tax income, this would amount to slightly more than $20 per month.

The bill would benefit younger employees in particular by encouraging them to begin to save early for retirement. Employees who save even a small amount when they are relatively young could build up substantial nest eggs in their 401(k) accounts by the time they retire. The average new state employee is 34 years old, but the average age of participants in the state's 401(k) program is 47.

HB 957 would follow a pattern among both public and private employers of automatically enrolling employees in 401(k) plans. Currently, 26 percent of all employer-sponsored 401(k) plans have automatic enrollment, and another 46 percent of employers expect to switch to this system in the near future.

The cost of a state match to 401(k) contributions would be prohibitive at this time, but such an incentive could be adopted in the future as an additional incentive for employee participation.

OPPONENTS SAY:

State employees already have 6 percent of their salaries automatically withheld for retirement contributions to the ERS pension fund. Any additional retirement savings should be voluntary and not require the employee specifically to opt out. If the state wants to encourage employees to save more for retirement, it should offer an employer match or some other type of incentive for contributing to 401(k) plans.