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# Ascensus Making Long-Term Play in State IRA Market

By Emile Hallez January 25, 2017

An emerging state-sponsored IRA market for private workers could lead to big business for some recordkeepers, though it could take years for it to become profitable.

The first entrant to this market, Ascensus, was awarded a contract in December with Oregon for the administration of that state's plan, which is expected to launch in July.

Like the relatively new 529 college-savings market, savers' accounts will start from scratch and could build up assets slowly. That, combined with notoriously thin margins in the retirement plan recordkeeping business, means that attaining scale could be particularly important for recordkeepers and other service providers catering to the market.

"We're investing in this business," says Peg Creonte, senior VP and head of business development at Ascensus College Savings. "These accounts are all starting at zero. We expect fees to be primarily asset-driven and to be lower, generally, than 401(k)s'. [With] those two factors combined, certainly in the early years, there will be low revenue associated with these."

But working in recordkeepers' favor is that the current defined contribution system excludes millions of people — workers whose employers do not currently provide access to plans. And unlike the participants in 529 plans, those in state-sponsored IRAs for private sector workers could benefit from plan design components that have had dramatic effects in the 401(k) world: automatic enrollment and automatic contribution escalation.

"Even a state like Oregon, you're now looking at upwards [of] a million investors. The investors may be people without other investment accounts," Creonte says. "The profile of the saver may be different. We think because states want to keep expenses very low for participants, there is a real focus on how we can use technology to service millions of accounts in an efficient way."

And Ascensus has been making investments in technology aimed at making the account service more efficient, she says.

Oregon has not yet disclosed the investment structure of its program, though it will almost certainly default investors into target-date portfolios, she says.

According to the website the state has established for its plan, all eligible workers in the state will be automatically enrolled in a Roth IRA at a 5% contribution rate, with the contribution rate increasing by 1 percentage point per year, until the rate hits 10%. All workers age 18 or older who do not have a retirement plan available through their employer would be automatically enrolled in Oregon's plan, though they have the ability to opt out completely. Workers could also select the option of a traditional IRA, rather than the default Roth IRA.

However, those earning $133,000 as individuals or $196,000 as joint tax filers would be ineligible for the program. And because the program includes IRAs, annual contribution limits are lower than those of 401(k)s and other DC plans — at $5,500 for people under 50 and $6,500 for those over that age, for 2017. By comparison, annual contribution limits set by the IRS for DC plans are currently $18,000, with an additional $6,000 for people over 50.

"These programs can succeed and thrive, particularly looking at the example of 529s, which we think is very analogous," Creonte says. "[529 programs] have grown into meaningful balances that can be profitable for administrators."

In winning Oregon's business, Ascensus approached the request-for-proposal process similarly to how it does with 529 plans, she notes.

That state is the only one to have completed the process of issuing request for proposals, vetting those it received and selecting a recordkeeper.

Illinois's Secure Choice program board, which issued its RFP in 2015, held a meeting in 2016 with presentations by BNY Mellon, Ubiquity, Ascensus and Honest Dollar. During that board's December meeting, it heard a finalist presentation from **Segal Rogerscasey** (now **Segal Marco Advisors**) as a candidate for advisor to that program.

Illinois's Secure Choice is expected to begin its pilot program in 2018, according to the state treasurer's website.

"We're going to learn a lot from these early-mover states in terms of the percentage of people that opt out, what the deferral rates look like," Ascensus's Creonte says.

"In every state there aren't enough people with retirement plans," she says. "Oregon is the early mover, but we see the potential for up to every state having a similar plan."

There are reportedly dozens of states that are at least considering such plans, although just a few, such as Oregon, Illinois and California, are far along in the process of implementing them.

In the 529 market, Ascensus was the largest program manager by total assets under administration as of the end of third quarter of 2016, at $61.8 billion, or about 25% of the market share, according to data from Strategic Insight. The other top-five largest program managers at the time were American Funds ($52 billion), TIAA ($22.8 billion), Fidelity ($16.9 billion) and T. Rowe Price ($10.4 billion).

It is unclear whether those firms anticipate substantial business in the emerging state-sponsored IRA market.

The investment management industry was in general not supportive last year of the Department of Labor's proposed regulations for state plans, at least inasmuch as the state plans would not be subject to the Employee Retirement Income Security Act.

Industry lobbying groups, including the Investment Company Institute, Insured Retirement Institute and American Benefits Council, were among those writing in opposition to the Erisa exemption for state IRAs.

TIAA, however, advocated for the system in its letter, though it encouraged the DOL to allow states to hand off administrative and investment-management responsibility to private firms.

Fidelity, which did not write directly to the DOL on the subject, said in a statement to *Ignites* that it supports private retirement plans.

"We help thousands of small businesses offer savings plans to their employees," a Fidelity spokesman said in a statement. "We believe that people need access to high-quality savings programs, and the best approach is to enhance private retirement options to help people achieve greater retirement security."