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Fiscal Note

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S.135 (Act 43) – An act relating to the establishment of VT Saves

As Passed by the General Assembly[1]

Bill Summary

This legislation creates the VT Saves Program, which will offer expanded access to automatic retirement savings plans to covered Vermonters who do not currently have access to such a plan through their employer.

S.135 has an expected initial cost of $750,000 to establish and administer the VT Saves Program.

Once established, VT Saves will be funded by program participants, not by the State budget or covered employers.

Fiscal Impact

As introduced, S.135 included a $750,000 one-time appropriation from the General Fund to the Office of the State Treasurer to establish and administer the VT Saves Program. It also authorized the establishment of three permanent exempt positions to administer the program.[2] Ongoing administrative costs would be paid for with revenue from fees of up to $30 per year charged against participant accounts – not by the State budget or covered employers.

Background and Details on VT Saves

S.135 creates the VT Saves Program, to be administered by the Office of the State Treasurer to provide certain non-governmental employees with expanded access to retirement savings plans. VT Saves will provide covered employees with access to an Individual Retirement Account (IRA), which would facilitate portability of retirement benefits through withdrawals, rollovers, and direct transfers with economies of scale and other efficiencies to minimize costs.

VT Saves will offer employees access to a Roth IRA by default, although the State Treasurer is authorized to offer a traditional IRA, as well.[3] Participants in a Roth IRA can withdraw their contributions at any time

[1] S.135 As Passed by the General Assembly: https://legislature.vermont.gov/Documents/2024/Docs/BILLS/S-0135/S-0135%20As%20Passed%20by%20Both%20House%20and%20Senate%20Official.pdf

[2] The Senate Committee on Appropriations recommended removal of the appropriation and positions from S.135. The one-time appropriation was alternatively included in Section B.1100(cc) of H.494 (the FY 2024 "Big Bill"), and two new positions to support VT Saves were reflected in E.100(a)(2)(F) of H.494.

[3] In a Roth IRA, contributions are made after tax and the withdrawals taken later in retirement are not subject to federal income tax. In a traditional IRA, contributions are made pre-tax, and the withdrawals taken in retirement are subject to federal income tax.

without tax or penalty but may be subject to taxes and penalties for early withdrawal of investment earnings prior to age 59 ½, per the Internal Revenue Code.
Under VT Saves, an employee's future retirement benefits would be funded by the contributions they make into their IRAs and the investment gains on those contributions.[4] The program is not a defined benefit pension – it will not create any additional retirement liabilities or costs for the General Fund beyond the initial $750,000 appropriation for its establishment.

Covered Employees and Employers

S.135 requires covered employers to automatically enroll their covered employees in VT Saves, but employees could then choose to opt out of the program.

S.135 defines a covered employer as "a person, entity, or subsidiary engaged in a business, industry, profession, trade, or other enterprise in the State, whether for profit or not for profit, that has not offered to an employee, or is within a control group that maintains or contributes to, effective in form or operation at any time within the current calendar year or two preceding calendar years, a specified tax-favored retirement plan. If an employer does not maintain a specified tax-favored retirement plan for a portion of a calendar year ending on or after the effective date…but does adopt such a plan for the remainder of that calendar year, the employer is not a covered employer for the remainder of the year." This definition does *not* include governments or entities that have not been in business during both the current and preceding calendar year.

S.135 defines a covered employee as "an individual who is 18 years of age or older who is employed by a covered employer and who has wages or other compensation that are allocable to the State during a calendar year. A covered employee may include a part-time, seasonal, or temporary employee only to the extent permitted in rules adopted by the Treasurer." This definition does *not* include employees covered under the federal Railway Labor Act, government employees, or employees participating in a Taft-Hartley multiemployer pension trust fund.

Under VT Saves, employees will be enrolled to make automatic contributions of 5 percent of their salary or wages by default, with the ability to change this contribution rate (or opt out entirely) at any time. Employees may also elect to make contributions as a fixed dollar amount, rather than a percentage of pay, as permitted by the State Treasurer. The bill calls for the State Treasurer to provide, on a uniform basis, for annual increases of not less than one percent in each active participant's contribution rate up to a maximum rate of 8 percent – but employees may opt out of this, as well. In all cases, contributions are subject to the IRA eligibility limits applicable under the Internal Revenue Code.[5]

Employees may be enrolled in default investment vehicles with the ability to pick and choose how to invest their funds within a range of available options. Participating employees will own and control the contributions and earnings of their accounts – the State and covered employers will have no proprietary interest in an employee's retirement funds.

VT Saves will operate at no cost to employers and will only apply to employers who do not currently offer an existing retirement plan to their employees. An employer, therefore, could not terminate an existing employer-sponsored retirement plan to immediately transfer its employees to VT Saves to avoid the cost of contributing to employee retirement benefits. A covered employer may be subject to penalties for failure to enroll a covered employee in VT Saves without reasonable cause.[6]

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[4] S.135 stipulates that VT Saves shall not be subject to ERISA (the federal Employee Retirement Income Security Act of 1974); therefore, covered employers would be prohibited from making matching contributions to their covered employees' VT Saves accounts.
[5] https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-ira-contribution-limits
[6] Maximum penalties would be $10 per covered employee prior to October 1, 2025, increasing to $75 per covered employee on or after October 1, 2026.

Phased Implementation
Section 2 of S.135 includes a phased implementation of VT Saves:

- Beginning on July 1, 2025, all covered employers with 25 or more covered employees shall offer the program to all covered employees.

- Beginning on January 1, 2026, all covered employers with 15 to 24 covered employees shall offer the program to all covered employees.

- Beginning on July 1, 2026, all covered employers with 5 to 14 covered employees shall offer the program to all covered employees.[7]

Vermont Retirement Security Fund
To support the ongoing operations of VT Saves, S.135 establishes a Vermont Retirement Security Fund to be administered by the State Treasurer. This fund will consist of monies appropriated to it by the General Assembly; transferred to it from the federal government, State agencies, or other governmental source; payments of fees, penalties, and other monies due to the program; and any gifts, grants, or donations made to the fund or received by the Treasurer. Any earned interest or unexpended balances at the end of a fiscal year would remain in the fund.

Fiscal Impact
As introduced, S.135 included a $750,000 one-time appropriation from the General Fund to the Office of the State Treasurer to establish and administer the VT Saves Program and authorized the establishment of three permanent exempt positions to administer the program. The Legislature created two of these positions in H.494, to be initially funded by the one-time appropriation.[8] Once the program commences, these position costs and other administrative costs would be paid for with revenue from fees charged against participant accounts – not by the State budget or covered employers. S.135 caps the administrative fee at $30 per year per participant.

[7] While the VT Saves program would be open to self-employed individuals and employers with fewer than 5 covered employees, S.135 does not explicitly require their participation in VT Saves.
[8] The $750,000 one-time appropriation and two new positions to support VT Saves are reflected in H.494.