



## California Creates First State-Run Retirement Plan For Private Sector Employees

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On Sept. 28, 2012, California Governor Jerry Brown signed legislation that will create the nation's first state-run retirement plan for private sector employees. The [California Secure Choice Retirement Savings Trust](#) is targeted at the more than 6 million low-income, private sector employees whose employers do not offer retirement plans.

The plan will require all employers with more than five employees to withhold 3 percent of employees' pay unless employees opt out of the plan. The plan will be administered by a board chaired by the state treasurer, which will select either a private investment firm or the state's public pension system to invest and maintain the plan's funds.

Supporters of the legislation hail the new retirement plan as providing low-income workers with more retirement savings options. They claim that the plan will not cost California money, because it will be backed by underwriters and reinsured in order to protect returns. Critics oppose the legislation because it permits California's main pension plan, which is currently running a long-term unfunded liability of \$100 billion, to invest the plan's funds, and puts taxpayers on the hook if the investment falls short of targeted returns. They also claim that low-income workers might be better off financially if they put after-tax earnings into a Roth IRA, which would allow them to take their contributions tax-free in retirement.

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