Retirement plans for contingent workers: Issues and options

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September 23, 2016
Retirement security in the new economy

Retirement Security Project
at BROOKINGS

The contingent workforce

- Heterogeneous: Includes gig workers (e.g., Uber drivers), temps, freelancers, day laborers, and other workers without a traditional employer-employee relationship
- About 16 percent of the workforce in 2015, according to Krueger and Katz (2016)
- These workers tend to be less advantaged than those with traditional jobs. More likely to be young, uneducated, low-income, female, and/or Hispanic. More likely to work only part-time and/or to hold multiple jobs.
- Because of the diversity of these workers, they may not be fully counted in coverage statistics

Retirement security among contingent workers

- On average, earn 13 percent less annually than traditional employees, even controlling for part-time and/or seasonal work (GAO 2015).
- May have irregular earnings, making routine saving difficult.
- Tend to lack access to employer-sponsored retirement plans (e.g., 401(k)s) unless they hold a full-time traditional job in addition to their contingent work.
  - For 1 in 3, lack of benefits is their main concern
  - Could save in an IRA, but most people don't

A word on data

- Due to the diversity of both contingent jobs and workers, standard data sources are not definitive for this workforce.
- These numbers are the best estimates we could find, but as we continue in this work, we would welcome other data sources.
- As this segment continues to grow in importance, we need to develop a better understanding of contingent workers.

Using fintech to improve contingent workers' retirement security

- Lyft connection with Honest Dollar & Uber with Betterment.
- Digit.co has the ability to analyze spending & determine spare cash.
- Employment sites can offer benefits: hyr.work & peers.org
- Ability to save for several purposes at once
- Needs a retirement account

Incremental changes

- State-sponsored retirement savings plans and similar group plans
  - Automatic IRA
  - MEPs
- MyRA, strictly as a starter account
- Tax reform
  - Modify the Saver's Credit to be refundable and deposited into the account
  - Change the contribution limits and deduction allowances for married couples so both can make full contributions

Employer-*facilitated* accounts

- Characteristics of employer-*facilitated* accounts
  - Universal: For all individuals, including all contingent workers
  - Portable: Like Social Security, the account would follow workers from job-to-job throughout their career regardless of type of employee relationship
- Reasons for such a move:
  - Coverage depends solely on employer decision
  - Problem of leakage or lost accounts
  - What if individual is both employee & contingent during a career

Employer-*facilitated* accounts

- Value of facilitated plan
  - Employee: One plan with same investment option that follows from job to job, regardless of type or duration
  - Employer: Ability to offer whatever type of plan needed to attract & keep specific workforce. Lower burden
- Employee account can be IRA or 401k depending on the employer:
  - Contribution limits & ability to take employer contributions
  - Three variations of features, but changing limits with single withdrawal rule most likely.

Employer-*facilitated* accounts

- On employment, worker provides routing # for retirement account
- Divided Functions:
  - Employee: Has one account with a default investment option. May change providers & investments. Initial provider chosen by worker or through random assignment to acceptable providers whose accounts meet certain standards.
  - Employer: Decides what plan to offer & is responsible for forwarding contributions to employee's provider. Must offer some sort of plan to all regardless of whether they are employees, independent contractors, etc.
- Plans regulated by a combination of DOL, Treasury & CFPB.

Two common concerns:

- Fees on investment options:
  - Default investment options would be carefully regulated and limited to index fund-based vehicles. Fees would be fully disclosed and compared to industry averages.
- Displacement of existing employer-sponsored retirement accounts;
  - Offering retirement benefits is voluntary, and many employers do not do so now. Employer-facilitated 401k accounts will have less regulatory burden and should be cheaper for employers. Also, employers dropping plans would tend to lose their best managers to firms that retain such accounts.

As the number of contingent workers continues to grow, making retirement saving easier and more financially rewarding for these workers, who are largely left out of the current retirement system, becomes ever more compelling