# Retirement Plans for Contingent Workers: Issues and Options

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# The Contingent Workforce

- Diverse
  - Consultants, contractors, agency temps, on-call workers, gig economy, etc.
  - Can be full-time, part-time, seasonal, first or second job
  - "Gig economy" workers have created headlines but are a small share of the total contingent workforce

- Estimates range from 8% to 40% of the US workforce!
  - Nontraditional jobs are not always clearly captured in conventional data sets
  - Different definitions of the population in question lead to different answers

- What we do know
  - A significant share of the labor force
  - A growing share
    - Katz-Krueger – more than 90% of net new jobs from 2005 to 2015
    - Many factors suggest the share will continue to rise (the 2017 tax overhaul, for example)
  - Not just a US issue
  - But plausibly a bigger concern in the US because a greater share of Americans obtain retirement and health benefits through their employer than in other OECD countries

# The Rise of the Contingent Workforce: Two Views

- Optimistic:
  - Full-time workers in traditional employment who want to supplement or smooth their income;
  - Workers who value the flexibility of contingent work (students, the elderly, parents, second-earners, etc.)
  - Trends are supply-driven; contingent because they want to be
- Pessimistic:
  - Workers who can not find full-time employment in the traditional sector and whose excess supply leads to lower wages and benefits
  - The latest manifestation of long-term trends that hurt labor
  - Trends are demand-driven; contingent because they have to be

# Characteristics of Contingent Workers

- Relative to the traditionally employed, contingent workers on average:
  - Have less formal education
  - More likely to be younger, female, Hispanic, but the biggest growth in recent years has been among older workers
  - Are more likely to be in poverty and to receive public assistance
  - More likely to work on a part-time or seasonal basis
  - Earn less, even after controlling for education, part-time and/or seasonal work

# Obstacles to Retirement Saving Among Contingent Workers

- Volatile earnings (making regular saving harder)
- Significantly less access to employer-sponsored retirement plans (e.g., 401(k)s)
  - Automatic enrollment
  - Tax-favored employer matching contributions (incidence)
  - => Much less likely to have a retirement account
- Coverage depends on employer decisions
- Leakage or lost accounts related to job changes
- Retirement system does not accommodate people who move back and forth between traditional and contingent employment (which may well become the norm in the future)

# General policy changes

- State-sponsored retirement savings plans and similar group plans
  - Automatic IRA
  - Multiple-Employer Plans
- Tax Reform
  - Boost subsidies to low-income savers (Saver’s Credit)

# Using Fintech

- Basic idea:  New technologies can make retirement plan participation much easier

- Worker needs to enroll in a plan or retirement saving account
  - Automatic enrollment?

- Automatically divert some earnings into retirement plan
  - Percentage of earnings
  - Percentage above a minimum earnings level

# New Accounts (Employer-Facilitated)

- The basic idea:  An account that
    - Attaches to the individual worker
    - Is universal:  Everyone would have their own retirement saving account
        - Automatic enrollment
    - Is portable and would accommodate:
        - Workers changing jobs within and between the traditional and contingent sectors
            - No invitation to cash-out early and no lost accounts
        - Worker having several jobs at once
    - Accepts employer contributions
    - Employers required to automatically deduct employee contributions (if desired
        - Worker contributions could be set up as an automatic (opt-out) feature
    - Like SS in these regards (except employee contributions would be voluntary)

# Interactions with Employer-Sponsored Accounts

- Option 1 (Fixed) : EF accounts would be fixed in form as employee changes jobs or employment status.
    - A payroll-deduction IRA

- Option 2 (Adjusted): EF accounts would take the form of the employer account and thus would change over time.
    - Contribution limits, Employer contributions, Withdrawal rules, Etc.
    - If there is no employer plan, the account is a payroll deduction IRA

- Option 3 (Intermediate): EF accounts would adopt the contribution limits and ability to accept employer contributions of the employer account but otherwise be fixed over time.

# Interactions with ES Accounts (2)

- Fixed
  - Simplest option for workers
  - Could be disruptive to the retirement system as it would allow EF accounts to receive contributions even if the employer offers a 401(k). This could induce firms to drop 401(k)s.
- Adjusted
  - Might be complicated for workers to understand changing rules
  - Least disruptive to the retirement system.
    - The EF account would become the 401(k) plan that the firm and worker contributed to
    - If there is no 401(k), the account is a payroll-deduction IRA
- Intermediate
  - Simpler than adjusted
  - Less disruptive than fixed

# Interactions with ES accounts (3)

- In all cases
  - Employers could offer whatever type of plan they want, including none at all
  - Employers – including those who hire contingent workers – would be required to provide workers with the ability to make payroll-deduction contributions to their retirement account
    - Worker would supply information that does not reveal anything confidential (such as, for example, in PayPal)
- A broader issue is whether policy should aim to have EF accounts supplement versus supplant employer-sponsored plans.
  - We expect that EF would eventually crowd out ES, which might be ok with employers.

# Other Concerns

- Fees:
  - Default investment options would have to be carefully regulated and limited to index fund-based vehicles.
  - Fees would be fully disclosed and compared to industry averages.

- Plans regulated by a combination of DOL, Treasury & CFPB

# Conclusion

- Contingent work is quickly altering the nature of the US labor market.
- It is only a matter of time until the retirement system has to adjust.
- For more information, please see

  Retirement plans for contingent workers: Issues and options
  William G. Gale, Sarah E. Holmes, and David C. John
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https://www.brookings.edu/research/retirement-plans-for-contingent-workers-issues-and-options