Retirement Plans for Contingent Workers:

Issues and Options

William G. Gale, Sarah E. Holmes, and David C. John[1]

September 23, 2016

I. Introduction

In the traditional employer-employee relationship, workers earn a salary or hourly wage and receive fringe benefits. Today, however, many workers have alternative work arrangements. In recent years, the rise of the so-called gig economy – which allows people to hail cabs through Uber, find household help through TaskRabbit, and book lodging through Airbnb, among other applications – has brought contingent workers into the spotlight. But similar issues have been present for the last several decades, as employers have substituted independent contractors or firms employing them for traditional employees. Few of these workers receive health or retirement benefits, and as a group, they are often overlooked in policy debates.

The contingent workforce is diverse and large. The sector includes full-time workers as well as part-time or seasonal workers. It includes white-collar consultants and independent contractors, some of whom are highly paid, as well as blue-collar workers such as printers, security guards, maintenance professionals and factory workers, a significant number of whom

[1] Retirement Security Project, Brookings Institution. We thank Debbie Chalfie, Derek Dorn, Jason Fichtner, John Friedman, Hilary Gelfond, Joshua Gotbaum, Aaron Krupkin, Robert Toth, and Christian Weller for helpful comments. We thank the Laura and John Arnold Foundation for funding this work. The findings and conclusions are the responsibility of the authors and do not necessarily reflect positions or policies of the Brookings Institution, its funders, or any other organization.

were once regular employees. Some contingent workers, including many in the gig economy, also work in traditional jobs and use contingent work to supplement their other earnings. Some people do contingent work because they cannot find traditional employment, while others choose it because they prefer the flexibility of the hours or other aspects of the job.

Using the most widely accepted definition, there were nearly 11 million contingent workers in 2010, about 8 percent of the employed labor force.[2] On average, these workers earned almost 13 percent less annually (even controlling for the effects of working part-time or seasonally) and were two-thirds less likely to have access to a work-provided retirement plan than their traditionally-employed counterparts.[3] More generally, scattered evidence discussed below suggests that retirement saving is low among these workers.

This paper explores options for helping contingent workers to save for retirement. This is a particularly daunting challenge for at least two reasons. First, conventional retirement saving mechanisms are usually not available to this segment of the workforce unless they are also working as a traditional employee at another job. Thus, they tend to miss out on provisions that encourage retirement wealth accumulation, such as payroll deductions, automatic enrollment, and employer matching contributions. Of course, anyone with earnings can contribute to Individual Retirement Accounts (IRAs), but only a very small percentage of those without an employer plan do so on a regular basis. Second, the diversity of contingent workers means that it is very unlikely that any single approach will be suitable for the entire group. Full- and part-time workers are likely to have differing needs, especially if the part-timers are working more than one job. Similarly, a proposal that fits the needs of a professional consultant on a

[2] GAO (2015), Bureau of Labor Statistics (2016).

[3] GAO (2015).

long-term project may not be suitable for a blue collar worker with sporadic hours or an Uber driver who works only when he or she wants to. For this reason, we offer a number of ideas for enabling these workers to build a more secure retirement. We discuss several incremental solutions designed to improve access to and increase participation in retirement savings vehicles. We also discuss a more comprehensive solution that would decouple retirement saving plans from the employer, so that individuals would have retirement accounts – much like their Social Security accounts – that follow them across employers and across various work arrangements.

Section II provides background on the contingent workforce. Section III discusses what is known about the current retirement security position of contingent workers. Section IV explores several options – as opposed to advocating a single idea – for improving independent workers' retirement security. Section V concludes.

II. The contingent workforce

In traditional employment situations, workers are salaried, or they work specific hours or shifts. In contrast, contingent workers work on an *ad hoc* basis and are paid by the service or good they provide. In theory, contingent workers have more flexibility than their traditionally employed peers and may be able to choose when they work and from where. For example, an Uber driver need not commit to driving 8 hours per day. However, many other contingent workers are at the mercy of their employers and earn income only when they are needed. Some have regular hours, but others are on call and get work sporadically. These workers could arrive at their job to find that the employer's needs have changed and they will not be able to work or receive pay for that day.

Many contingent workers occupy a nebulous space between "employee" and

"independent contractor." The Internal Revenue Service offers three criteria employers must consider when determining a worker's status: (1) The extent to which the employer controls how a worker does his or her work; (2) The extent to which the business aspects of the work are controlled by the employer; and (3) The existence of written contracts and/or benefits, as well as the nature of the employer-worker relationship and the importance of the work to the employer.[4] The Department of Labor (2015) issued guidelines saying that workers who rely on a single stream of income should be formally considered employees. Some contingent workers, however, have characteristics of an employee *and* a contractor; this is especially true for gig workers. For example, a dog walker who uses Rover as an intermediary can choose when to work and what to charge (like an independent contractor), but must still provide walks of a certain basic length and quality (like an employee). Harris and Krueger (2015) propose to address these issues by creating a new category of worker – "independent workers" – for people who are neither fully employees nor fully contractors.

The narrowest measure of the contingent work force includes only workers with temporary employment arrangements and excludes self-employed workers. Roughly 2.5 million workers, or about 1.8 percent of the working labor force, fell into this category in 2005, the latest year for which such information is available.[5] Given the changes in the economy since then, it seems reasonable to believe that the figure is significantly higher now. The broadest definition includes all workers with nonstandard work arrangements, from day laborers and agency temps to consultants and independent contractors. Just over 40 percent of all workers – including

[4] IRS (2015a)

[5] GAO (2015). This figure was calculated by the Bureau of Labor Statistics' Contingent Work Supplement (CWS); The CWS was reintroduced in early 2016, so additional information is forthcoming (Perez 2016).

seasonal and part-time workers – fell into this category in 2010.[6]

Between those two extremes lies the "core contingent" work force – defined as those who lack job security and have variable and/or unpredictable work schedules – and which accounted for almost 8 percent of workers in 2010.[7] By comparison, around 1 percent of adults earn money through the online on-demand economy, receiving income through Airbnb, Amazon, Instacart, Lyft, Rover, TaskRabbit, and Uber, to name just a few. This suggests that the gig economy, while visible, is only a small part of the contingent work force.[8]

A separate study found that contingent workers grew from 10.1 percent of workers in 2005 to 15.8 percent in 2015.[9] This growth accounted for effectively all of the job gains during that decade. The percentage of workers employed through a contract employer grew from 0.6 percent of the work force in 2005 to 3.1 percent ten years later. Gig economy workers accounted for 0.5 percent of the workforce in 2015.

Contingent workers tend to be younger and less educated than their counterparts in the traditional workforce. They are also more likely to live in poverty and to receive public

---

[6] This information is based on data from the General Social Survey (GSS) administered by the National Opinion Research Center at the University of Chicago (GAO 2015).

[7] GAO (2015). This figure relies on analyses of the CWS, the GSS, the Current Population Survey, and the Survey of Income and Program Participation (GAO 2015).

[8] JPMorgan Chase & Co. Institute (2016) estimates that the gig economy contained 2.5 million workers in September 2015. This is probably an underestimate because the calculation is based only on Chase bank account holders who earned income from among 30 different gig platforms. Chase does not offer a truly free checking account and so may miss lower income households, and the list of 30 platforms is likely to be non-exhaustive. QuickBooks (2015) estimates there were 3.2 million gig economy workers in 2015. This is probably an overestimate, since it is based on an on-line survey, and both respondents and gig economy workers are likely to be more tech-savvy than average. Manyika et al. (2015) and Katz and Krueger (2016) obtain smaller numbers than the other studies, but they count only labor platform workers, not capital platform workers.

[9] Krueger and Katz (2016).

assistance.[10] As a group, contingent workers are twice as likely to have part-time employment and are more likely to be women, multiple jobholders, and Hispanic.[11] However, recently the biggest growth in contingent workers has come from older Americans. For example, in 2010, 13.5 percent of workers 65 and over were self-employed in non-agricultural industries, compared to just 6.4 percent of workers between 16 and 65.[12]

The average contingent worker earns over 10 percent less per hour than the average traditional worker and almost 50 percent less per year.[13] Overall weekly earnings are also lower because they work fewer hours per week than traditionally employed workers do in comparable jobs.[14] Undoubtedly many of these workers prefer fewer hours and flexibility. However, even after controlling for the effects of part-time or seasonal work, the average contingent worker earners approximately 13 percent less per year.[15] As we address in Section III, the typical contingent worker earns a median annual personal income that is roughly $20,000 lower than that earned by a traditional worker. Additionally, these workers are about two-thirds less likely to have access to an employer-provided retirement plan than their traditionally-employed counterparts.[16]

---

[10] GAO (2015).

[11] Krueger and Katz (2016).

[12] Census (2014).

[13] GAO (2015).

[14] Krueger and Katz (2016).

[15] GAO (2015).

[16] GAO (2015).

III. Retirement security for contingent workers

There is little specific evidence about the retirement security preparedness of contingent workers in general, and even less on the growing category of gig workers. Based on the limited data available, it appears that contingent workers are generally unprepared for retirement. In 2012, contingent workers earned a median personal annual income of just under $15,000, compared to the $35,000 earned by standard workers.[17] Nationally, 75 percent of traditional employees with incomes under $14,000 annually and 62 percent of those with incomes between $14,000 and $25,000 are not offered a payroll deduction retirement savings or pension plan at work.[18] We believe that the percentage for contingent workers without such a benefit is likely to be higher. While certain low-earning contingent workers share finances with a traditionally employed spouse or partner, many others are supporting themselves on modest and/or irregular pay. For example, just under half of gig workers are married .[19] Krueger and Katz (2016) find significant variation in wages across types of contingent worker, with independent contractors most likely to fall into the highest earning quintile, temporary workers most likely to fall into the lowest earning quintile, and the distributions for other categories remaining relatively flat.

About 3 out of 10 gig economy workers also have a traditional full-time job.[20] In 2015, just over half of full-time civilian workers participated in employer-sponsored retirement benefits.[21] Both coverage and participation vary depending on employees' income and industry,

[17] GAO (2015).

[18] John and Koenig (2015).

[19] QuickBooks (2016).

[20] QuickBooks (2016).

[21] Bureau of Labor Statistics (2016b).

with those with higher incomes much more likely to be offered a retirement benefit and to participate in the plan. We assume that contingent workers who also hold a traditional full time job will have the same likelihood of being offered and participating in a retirement plan as traditional employees with the same income and employment industry have. Those that are moonlighting in the contingent economy may participate in a retirement plan through their traditional employer; those that make a living entirely from contingent work, however, almost certainly do not.

Non-employer-sponsored retirement solutions are available, but less than 14 percent of all individuals contribute to an Individual Retirement Account (IRA) in a given year[22], and fewer than 10 percent make the consistent contributions necessary to build retirement security.[23] Even if contingent workers contributed to IRAs at the same rate as the general population – which seems unlikely, given their lower-than-average income, relatively few would have any significant balances in them.

While the biggest concern of many contingent workers is an inconsistent income flow, a significant proportion is also concerned about lack of benefits. GAO (2015) found that over 28 percent of contingent workers disagreed with the statement "my fringe benefits are good" and another 8 percent said that the statement about their fringe benefits being good was "not too true." Similarly, a more recent survey indicated that 31 percent of the users of a specific software product said that their main concern as an independent worker was a lack of employer-sponsored benefits.[24]

---

[22] Copeland (2015).

[23] Iams, Dushi and Lichtenstein (2015).

[24] Lacy (2016).

IV. Mechanisms for improving contingent workers' retirement security

Independent workers lack access to an employer-sponsored retirement account that makes saving easier through mechanisms such as payroll deduction, employer contributions, automatic enrollment and automatic escalation of contributions. Without this access – or other alternatives – this population may face retirement with little more than Social Security.

We consider several different ways to improve contingent workers' retirement security. Because of the diversity of this workforce, no single option will work for all of them. As more researchers focus on this question and with continuing rapid advances in technology, we anticipate that additional solutions will be developed. For example, Harris and Krueger's (2015) proposal to create a new category of "independent workers" could pave the way towards improved retirement security for certain contingent workers. Similarly, Choitz and Conway (2015) offer a series of policies that include using state-sponsored retirement savings plans to improve contingent and lower income workers' retirement outcomes. In any case, as the number of contingent workers grows and the average American lifespan extends, it is essential to begin to address these issues quickly. We discuss several potential incremental changes and then one sweeping change. The comprehensive change we describe at the end of this section addresses both access and participation issues, while potentially also improving portability and decreasing leakage.

A. Incremental Changes

- *Saving through new technology and automatic transfer.*

Some contingent workers are not paid through a corporate payroll system or on a regular schedule. For example, after accumulating $50 or more in earnings, Lyft drivers have the option

to “cash out” and receive those earnings immediately, instead of waiting for their weekly paycheck.[25] In other cases, a worker is paid after a task via a payment platform such as Braintree or Stripe.[26] Independent contractors may work a different number of hours each week, which results in an income stream that may considerably vary over time. None of these situations make it easy for the worker to use a traditional payroll deduction retirement savings model.

Recent technological advances and savings apps may provide an answer, however. Lyft drivers are currently being offered a payroll deduction IRA through the financial technology (fintech) firm Honest Dollar. Other fintech firms offer similar savings opportunities, with Uber recently announcing that it was partnering with Betterment to provide its drivers with access to an IRA and financial counseling.[27] To compensate for irregular payment amounts and schedules, savers can choose to save a pre-set amount each month, save a percentage of each payment, or to only save when a payment is over a certain amount. Another option leaves it to the saver to decide when and how much to save, but sends text messages to encourage saving and reminders when deposits have not been made on schedule.

In addition, Digit and other similar fintech companies offer smartphone applications that analyze a participant’s bank account and, when it detects that the account contains money that is not needed for immediate expenses, automatically sweeps it into a savings account. Finally, some employers offer workers the option to split their pay between a checking account and a retirement savings account with either a set amount or a percentage of income being saved. Honest Dollar has a patent application that would allow individuals to save for several

[25] Lyft (2015).

[26] (Fitchard 2013)

[27] Marte (2016).

individually chosen goals and receive regular updates on their progress towards meeting the goal.

These and other automated systems could allow contingent workers to save routinely without having to take any specific action. A key feature is the ability to choose the system that best meets their circumstances and income stream. These benefits would be intensified if the workers were also automatically enrolled in the system upon hire. Certain employment platforms such as peers.org and hyr.work are now including benefits or the opportunity to have them as a feature of their systems.

These models do require the contingent workers to have a retirement account. Workers with pre-existing IRAs or other accounts can simply connect to the account in the same way they direct payments to their checking accounts. Workers without such an account would have to set up a new account or have their employers or the fintech provider do so. Fortunately, technology makes this an easy task. Honest Dollar, for example, advertises that it can connect an entire firm's employees into accounts that it creates in 90 seconds or less.[28] These accounts can also be integrated with payroll, assuming the firm using an eligible payroll provider.[29] In general, an increase in fintech companies and users can be expected to drive down the costs of these services.

- *State-sponsored retirement saving plans and other group plans*

Contingent workers may be able to take advantage of group retirement plans such as the new state-sponsored proposals being developed by a growing number of states for workers who do not have an employer-sponsored retirement savings or pension plan. These accounts could take the form of Automatic IRAs or Multiple Employer Plans (MEPs). Initially, state-sponsored

[28] Sharf (2016).

[29] Honest Dollar (2016).

plans will be offered through an employer, but some states are also considering making them available to contingent workers as well.

As of this writing, California, Illinois, Oregon, Maryland and Connecticut are setting up plans based on the Automatic IRA, while New Jersey and Washington are implementing marketplaces that will offer pre-screened plans through private providers. Both models will offer simple, low cost accounts suitable for independent workers.

The Automatic IRA model allows workers without access to a 401(k) or other employer-sponsored plan to nonetheless benefit from automatic enrollment, payroll deduction, and sensible default investments. New hires automatically start making contributions to an IRA, unless they actively opt out. These contributions are usually made via direct deposit and sent to a single IRA provider, thus easing the administrative burden for the employer.

MEPs are a type of group 401(k) plan where a number of employers join together to offer a plan with more features and consumer protections than a typical Automatic IRA. MEPs have lower administrative costs and a simpler regulatory structure than a 401(k), and could be offered to independent workers as well as traditional employees if Congress and regulators approve. Currently, MEPs can only be offered through state plans, but Congress could also allow them to be offered by private providers.

- *MyRA*

A MyRA is a starter Roth IRA offered through the US Treasury that has no fees and is invested exclusively in US Treasury bonds. The program is targeted at workers who don't have access to a 401(k) or other employer-sponsored retirement plan, and it is designed to help non-savers start to build a retirement nest egg. Participants can either save through their employers using payroll deduction or as an individual using direct debit from their checking accounts. An

individually owned MyRA is well suited to travel with a contingent worker from job to job since the contributions come from the owner's bank account rather than the employer's. Savers can also direct all or a proportion of their income tax refunds directly into their MyRA.

MyRA users can save up to $15,000 in those accounts; once they hit the $15,000 threshold, they have the option to roll their savings over into a private sector Roth IRA and continue saving.[30] The long-term effect of MyRA will depend to a large extent on Treasury's decision about whether to automatically roll accounts that reach the $15,000 maximum to a private provider. If this step is taken, employers of contingent workers could offer the program with direct payroll deductions. Alternately, these workers could decide to open an account and save on their own.

- *Improved tax benefits*

While the tax system may have a limited effect on households' overall level of saving, two simple changes to tax benefits would enable independent workers to increase their retirement balances. The most direct way would be to modify the savers credit, which helps low- and moderate-income workers offset retirement savings to make it both refundable and deposited directly into the taxpayer's retirement account. As described in Gale, Gruber, and Orszag (2006) and proposed in both legislation and early Obama Administration budgets, the credit could also be reimagined as a government match; instead of receiving the credit as part of their refund where it is likely to be spent, individuals would have their contributions matched (up to a certain threshold) directly into their retirement account. The rest of their refund would be treated just as it is currently. The restructured savers credit would encourage retirement saving and help people who qualify for it to build their retirement balances much faster than they could otherwise.

[30] Gale and John (2015).

Currently, the savers credit is little known and largely ineffective. Only about 3 out of every 10 American workers know about the saver's credit.[31] In 2015, individuals with earnings of $30,500 or less, and married couples with incomes of $61,000 or less, were eligible for up to $1,000 or $2,000, respectively if they made contributions to a retirement account.[32] In 2012, the mean saver's credit that was received was only $127 for individuals and $215 for married couples.[33] This is largely due to the credit's nonrefundability; it can be used to reduce a filer's tax liability to zero, but any "extra" is lost to the filer.[34] By making the savers credit refundable and directly deposited into an account, all eligible taxpayers would be able to benefit from it. In addition, the savers credit should be able to be claimed on all tax forms. Currently, it is only available on longer tax forms that are not widely used by its target population.

A second tax change that could benefit independent workers would be to ensure that spouses who are employed could contribute the full amount to a retirement account regardless of marital status. Currently, individuals may contribute up to $5,500 per year to an IRA ($6,500 per year for individuals aged 50 and over).[35] Traditional IRA contributions - but not Roth IRA contributions - are deductible, but if an individual or his/her spouse has an employer-sponsored retirement plan, these deductions may be limited.[36]

The net effect of tax incentives is subject to debate. Chetty et al. (2013), using data on

---

[31] Transamerica Center for Retirement Studies (2015).

[32] IRS (2014).

[33] IRS (2014).

[34] For example, if an individual has a tax liability of $800 and is eligible for the maximum saver's credit of $1,000, his or her tax liability would be reduced to $0, but the remaining $200 would not be refunded to him or her. (Bell (2015).

[35] IRS (2015b).

[36] IRS (2015c).

households from Denmark, find that reducing the tax benefits in one tax-preferred saving account caused high-income households to substitute saving into a different tax-preferred saving account rather than reduce their overall saving. Research that focuses on low-income households, however, generally finds larger impacts of saving incentives on net saving.[37] In addition, if the saver's credit is reformed so that it is refundable directly into the account, its value would be as much to improve savings balances for eligible taxpayers as to incentivize participation.

B. A Comprehensive Approach: Employer-facilitated retirement accounts.

We now turn to a more far-reaching idea, restructuring retirement accounts so that they follow workers from job-to-job. We refer to these as employer-*facilitated* accounts, as opposed to the current system, which features employer-*sponsored* accounts.

This idea is motivated by several factors. First, the current retirement system depends critically on employer-sponsored plans, and that dependence can create problems. For example, most payroll deduction retirement savings plans are only offered to workers through their employers. This effectively leaves out independent contractors, gig workers, most part-time employees, and many others. If the employer chooses not to offer such a plan, even the firm's full-time workers are denied access to this effective retirement savings method. They have the option to open an IRA, but only a tiny fraction will actually contribute to such an account regularly in the absence of payroll deduction.

Second, under the current system, job changes can create problems for retirement saving. In many cases, when an employee leaves a job with a retirement savings account, the funds are either rolled into an IRA, which may have significantly higher fees than the 401(k) plan the

[37] Benjamin (2003), Engen and Gale (2000).

worker just left, or the funds are cashed out.[38] In an increasingly mobile and diverse workforce, this model is sub-optimal for both workers and employers. It introduces significant administrative burdens and increases opportunities for "leakage."[39]

Third, it is likely that in the future, an increasing number of individuals will spend time as both an employee and as an independent/contingent worker, and their retirement arrangements should work for both types of employment status.

A sweeping way to address all of these issues would be to attach the retirement account to the worker rather than depending on the employer to offer a retirement benefit. In an employer-facilitated model – as opposed to the current employer-sponsored model – every person would have a retirement savings account that travels with him or her from job to job. Employers, including those that utilize contingent workers, would be required to provide workers the ability to make payroll deduction contributions to their retirement accounts and to have state and federal tax withheld. This would apply to full- and part-time employees as well as contingent workers of all types. Employers would not be required to offer a retirement account, although they could decide to do so to attract and keep the kind of workforce they desire just as they do now.[40] This idea is a departure from the current system, which relies on employer-sponsored accounts. At the same time, the idea of an account that travels with the worker from

[38] The Department of Labor's new fiduciary rule will have some effect on the fees charged to IRA owners, but rollovers from a 401(k) plan are likely to remain higher than those charged by the plan. An important distinction is that a payroll deduction IRA will not have the same fee structure as a retail IRA as this is a group product with a simple structure and index fund investments.

[39] According to Munnell and Webb (2015), a leakage occurs when funds are permanently withdrawn from a 401(k) or IRA before retirement.

[40] Implementing this proposal would require that the IRS definition of "employee" change so that providing access to a retirement savings account, regardless of type, would not in itself make a contingent worker become an employee. The effect of these changes could be significant, but are outside of the scope of this paper.

job to job, and which is able to receive employer contributions, should be quite familiar, since Social Security has those features.[41]

A similar model – the Universal Retirement Security Account (URSA) – has been proposed as a way to reduce costs and simplify the retirement savings paradigm .[42] More recently, some have called for a universal, portable, and pro-rated system that works with – rather than against – the frequent job and careers changes workers make today.[43]

At the time of hire, the worker would supply a Social Security number for tax purposes, a bank account number for direct deposit, and a retirement account number. The worker would also notify the new employer what level of "employee" contributions to collect.[44] Workers with volatile incomes may not want to commit to a retirement contribution amount in advance. To remedy this concern, these workers could be offered the option to connect to the retirement account through an app such as those offered by Digit or a similar provider. They could have the option to make their contributions by committing to contribute a set amount each month or on a discretionary basis through an app such as those offered by Digit or a similar provider rather than

[41] Of course, there are also many differences between Social Security, a public, defined-benefit, pay-as-you-go system, and the idea considered here, which is for private, defined-contribution, fully funded accounts.

[42] Friedman (2015).

[43] The concept of pro-rating in this context is simple: It means that the amount workers contribute to their retirement is determined by the number of hours they work, dollars they earn, or some combination thereof (Foster et al. 2016). See also Harkin (2014).

[44] This notification could be a form from the past employer that includes both the routing number and the level of past contributions. That way the level of contributions would be at least the same from employer to employer. We strongly believe that employee contributions should be greater than the 3 percent level often found in today's automatic enrollment plans, and encourage employers with a 401(k)-type plan to use automatic escalation to increase the initial employee contribution level to a higher amount. We use the term "employee contributions" here to mean contributions from any worker's pay.

through automatic payroll deduction.[45]

An open question is whether the account should change form and to what extent when the worker moves from employers that offer one type of retirement plan to a company that offers a different type of plan.

Under one approach (the "fixed approach"), the employee's account would remain fixed in form and contribution limit as he or she changes jobs. In a second approach (the "adjustable approach"), the account could be adjusted so that when the worker is employed by a firm with a 401(k) plan, it would be subject to all 401(k) rules, with the same contribution limit, withdrawal rules, etc. that apply to that type of account along with whatever employer match that company offers. As with the first approach, when the employee moves to a company that does not offer a 401(k), the account would become a payroll deduction IRA with all of the rules currently attached to that type of account.

Under a third approach (the "intermediate approach"), the employee's account would have the contribution limits and ability to receive an employer match adjust to those of whatever type of plan the employer offers, but otherwise, all employee accounts would have uniform rules for distributions, withdrawal options, etc. In this approach, the account would be adjusted so that when the worker is employed by a firm with a 401(k) plan, it would be subject to 401(k) contribution limits along with whatever employer match that company offers.[46] When a firm that

---

[45] In such a case, the employee's retirement account would be directly connected to his or her checking account, and this employer would not be forwarding retirement saving. However, if the employee later has a job that does have a steady income stream, the employer would become involved.

[46] Legally, a 401(k)-type plan would continue to be defined as an employer-sponsored plan since it is being offered at the employer's discretion. As is the case today, an employer is not required to offer such a plan. A key difference would be that employers would no longer be responsible for investment choices since they would be chosen by the employee and would apply to his or her account regardless of where they are employed. However, anti-discrimination tests would still be applied and would be expanded to cover both those who qualify as employees and those who are contingent workers.

does not offer another type of retirement account employs the worker, the retirement account would be a payroll deduction IRA with the same contribution limits that apply to that type of account. When the period of employment ends, contributions stop until a different firm employs the worker.

The fixed approach would be the simplest option for workers, but it could be disruptive to the existing retirement savings system as it would create one uniform contribution limit and enable these accounts to receive an employer contribution even when the account is not part of a 401(k)-type plan. This approach may also discourage some employers from deciding to offer a 401(k) plan that offers additional features to a payroll deduction IRA. Indeed, it may encourage some companies that now offer a 401(k) to drop that plan in favor of the simpler IRA-based alternative.

Relative to the fixed approach, the adjustable approach is less disruptive to the existing retirement savings system and might provide more encouragement to employers to offer a 401(k)-type plan with employer matching contributions. Most employees contribute less than the $5,500 annual IRA contribution limits, but the higher contribution limits for 401(k) plans make them more attractive to senior management. The higher limits for a 401(k)-type account would encourage employers to start such a plan. In order to take advantage of those higher limits, 401(k) anti-discrimination tests require that the plan be offered and utilized by lower paid employees also.[47]

The intermediate approach could be both less disruptive to the current retirement savings

---

[47] However, those accounts will always have the same type of tax treatment as the worker moves from employer to employer. The individual would have the opportunity to choose which type of tax treatment when they are first employed or be automatically enrolled in one type of account of the other. If the employee is in a traditional account where contributions are deducted from taxable income, he or she could move to a Roth by paying back the tax preference just as they can today

system than the first approach and easier for both employers and employees to administer than the second approach. We expect that this version would be most acceptable to both employers and employees.

Under any approach, contingent workers and regular employees who prefer to have a 401(k) plan would continue to be able to seek jobs in companies that offer them, but will be able to avoid a break in contributions when jobs with such a company are not available. In addition, all types of workers will be able to avoid the hassle of combining different accounts of potentially different types from a number of employers over the course of a career. Workers will have the benefit of having one account throughout their careers without accidental leakage or periods of no savings when firms without a plan employ them.

Employers would have the flexibility to offer whatever type of retirement plan they believe is necessary to attract and retain the type of employee they need to be competitive. Each approach also retains the private sector nature of the retirement savings system. Private funds management firms would handle employees' accounts, and private entities would continue to be able to offer different types of plans to employers. However, the two functions would be separate with account management firms only serving individual savers, while plan managers would serve employers. This would enhance consumer protections by avoiding potential conflicts of interest. While this would require a change from the current system, it is also likely to eliminate certain hidden charges and subsidies that are often present in today's combined

system.[48] Otherwise, transitioning to the new system would be fairly simple.[49]

Workers could either choose an investment management firm when they start their career or more likely, be assigned a provider whose accounts meet certain specifications at random through an automatic enrollment arrangement using either a national or state mechanism.[50] In order to ensure that savers are not charged high fees or placed in inappropriate investments, the initial investment choice would be required to meet certain criteria such as low overall fees and being invested in low cost index funds, probably as part of a target date fund.[51] The worker would always be free to change investments or investment management firms, but in order to promote safe decision-making, they would be encouraged to stay in low-cost, buy-and-hold strategies. Enhanced consumer protections would help keep workers' nest eggs safe for the duration of their careers. The Consumer Financial Protection Bureau and U.S. Treasury Department would be natural candidates along with the Department of Labor to serve as

---

[48] This change approach has the advantage that the funds manager is working directly for the saver – the ultimate customer – rather than indirectly through the saver's employer in the current system. In the process, the responsibilities and administrative burdens for employers that offer a 401(k)-type account are sharply reduced. Savers could be protected against predatory fees and inappropriate investment choices through safe harbors and appropriate default funds.

[49] In the initial stages of the transition, employers that do not offer another retirement savings or pension plan would automatically enroll their existing employees into a payroll deduction IRA, while neither employers that do offer such a plan nor their employees would be affected. However, all employers would also enroll contingent employees, and we would encourage them to re-enroll existing employees who are not participating in the plan. Once all accounts have an individual routing number so that they could accept direct transfers of deposits, the new system could go fully into effect.

[50] New savers could be placed in state-sponsored retirement savings plans available in the state in which they reside or a national mechanism that places savers randomly with a provider who meets certain specific standards as to fees and investment choices. New Zealand's KiwiSaver plan uses such a system. Of course, savers would have the ability to choose their own provider or to change providers at any time.

[51] Of course, upper income and high balance retirement savers could always choose to have a more sophisticated or actively managed investment choice. Our reform would allow investment firms that prefer these savers to serve them only rather than having to accept a mixture of balances as they do through the current system. However, they would have to meet suitability standards to ensure that higher cost investments are not sold to savers who will not benefit from them. We anticipate that investment options would be commodity-like standardized funds that all have the same basic investments. One option to keep costs low would be to use professionally managed pooled funds. Savers would retain the option to have more actively managed investments.

regulators, ensuring respectively that savers have a reasonable menu of portfolios to choose from and that account management carries out its fiduciary responsibility.[52]

V. Conclusion

As the American workforce continues to age, it will be even more important that everyone has the opportunity to build a retirement nest egg to supplement Social Security benefits. Currently, less than half of Americans are enrolled in a workplace retirement savings or pension plan. There are a number of efforts to expand this proportion, but almost all of them focus solely on workers who are classified as employees. Efforts to help other types of workers save for retirement are not as common.

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. As mentioned, the diversity of this workforce means that no one solution will apply to every worker. Luckily, a burst of innovative internet-based and other solutions offers answers that were not even dreamed of several years ago.

An examination of the problems in the current system and the characteristics of growing contingent employment also provide an impetus to consider decoupling retirement savings plans from employers. The reform we discuss would enable every worker to have one retirement plan that they could carry from employer to employer, just like their Social Security account. It would still enable employers to select the type of retirement plan they need to attract and retain good quality employees, would reduce leakage when workers change jobs, and would preserve the private sector nature of our retirement system.

---

[52] Friedman (2015).

References

Abraham, Katharine G. and Benjamin H. Harris. 2014. “Better Financial Security in Retirement? Realizing the Promise of Longevity Annuities,” Brookings (Nov 6).

Bell, Kay. 2015. “Tax credit for savings made for retirement,” *Bankrate.com* (Apr 1).

Benjamin, Daniel J. 2003. “Does 401(k) Eligibility Increase Saving? Evidence from Propensity Score Subclassification.” *Journal of Public Economics* 87: 1259-1290.

Bureau of Labor Statistics. 2016. “Labor Force Statistics from the Current Population Survey (Series IDs LNS12500000 and LNS12600000).” Retrieved from data.bls.gov/cgi-bin/surveymost?ln on June 11, 2016.

California Senate. 2012. Bill 1234, Chapter 734. Retrieved from http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201120120SB1234 on Mar 29, 2016.

Chase. 2016. “All Chase checking accounts,” accessed via https://www.chase.com/checking on Mar 22, 2016.

Chetty, Raj, John N. Friedman, Soren Leth-Petersen, Torben Heien Nielsen, and Tore Olson. 2013. “Active v. Passive Decisions and Crowd-Out in Retirement Savings Accounts: Evidence from Denmark” (Dec), retrieved from www.rajchetty.com/chettyfiles/crowdout.pdf on Aug 14, 2016.

Choitz, Vickie and Maureen Conway. 2015. “The Future of Work for Low-Income Workers and Families,” *The Working Poor Families Project* (Fall/Winter). Retrieved from http://www.workingpoorfamilies.org/wp-content/uploads/2015/12/WPFP-Fall_Winter-2015-Brief.pdf on June 29, 2016.

Clinton, Hillary. 2015. “Transcript: Building the ‘Growth and Fairness Economy,” *Wall Street*

Journal (July 13).

Copeland, Craig. 2015. "Individual Retirement Account Balances, Contributions, and Rollovers, 2013; With Longitudinal Results 2010-2013: The EBRI IRA Database," Employee Benefit Research Institute (May).

Dokko, Jane, Megan Mumford, and Diane Whitmore Schanzenbach. 2015. "Workers and the Online Gig Economy," the Hamilton Project, the Brookings Institution (December).

Edelman Berland for Freelancers Union and Elance-oDesk. 2014. "Freelancing in America: A National Survey of the New Workforce." Retrieved from fu-web-storage-prod.s3.amazonaws.com/content/filer_public/c2/06/c2065a8a-7f00-46db-915a-2122965df7d9/fu_freelancinginamericareport_v3-rgb.pdf on June 5, 2016.

Elance. 2016. "Elance Talent Around the Globe." Accessed via https://www.elance.com/trends/talent-available on June 5, 2016.

Engen and Gale. 2000. "The Effects of 401(k) Plans on Household Wealth: Differences Across Earnings Groups." National Bureau of Economic Research Working Paper 8032.

Fidelity. 2015. "The Snowball Effect: How $50 Today can Grow Into Big Retirement Bucks for Tomorrow," accessed via https://www.fidelity.com/about-fidelity/individual-investing/the-snowball-effect on Apr 1, 2016.

Fitchard, Kevin. 2013. "Braintree launches Marketplace, a payments system for collaborative consumption apps," *GigaOM* (Aug 14).

Foster, Natalie, Greg Nelson, and Libber Reder. 2016. "Portable Benefits Resource Guide," The Aspen Institute (July 13).

Friedman, John N. 2015. "Building on What Works: A Proposal to Modernize Retirement Savings," The Hamilton Project (June 23).

Gale, William G. and David C. John. 2015. "Two Important New Retirement Savings Initiatives from the Obama Administration," *TaxVox*, Tax Policy Center (Nov 19).

Griswold Alison. 2015. "Why it matters that a big, class-action lawsuit against Uber will be tried in front of a jury," *Quartz* (Dec 24).

Harkin, Tom. 2014. "HELP Chairman Tom Harkin Introduces the USA Retirement Funds Act – Bill Summary." United States Senate: Health, Education, Labor and Pensions Committee.

Harris, Seth D., and Alan B. Krueger. 2015. "A Proposal for Modernizing Labor Laws for Twenty-First Century Work: The 'Independent Worker'," the Hamilton Project, the Brookings Institution (Dec 7).

Hern, Alex. 2015. "Uber driver declared employee as the company loses another ruling," *The Guardian* (Sept 11).

Hill, Steven. 2015. "How Big Is the Gig Economy?" *Huffington Post* (Sept 16).

Honest Dollar. 2016. "Does Honest Dollar integrate with payroll?" Accessed via https://help.honestdollar.com/hc/en-us/articles/213564318-Does-Honest-Dollar-integrate-with-payroll- on Aug 14, 2016.

Iams, Howard, Irena Dushi, and Jules Lichtenstein, "Retirement Plan Coverage by Firm Size: An Update," *Social Security Bulletin 75*, no. 2 (2015): 41–55, Accessed via http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2604116 - on Aug 29, 2016.

Illinois General Assembly. 2015. Public Act 098-1150. Retrieved from http://www.ilga.gov/legislation/publicacts/98/PDF/098-1150.pdf on Mar 29, 2016.

Internal Revenue Service. 2014. "Plan Now to Get Full Benefit of Saver's Credit; Tax Credit Helps Low- and Moderate-Income Workers Save for Retirement" (Nov 3).

Internal Revenue Service. 2015a. "Independent Contractor (Self-Employed) or Employee?"

accessed via https://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Independent-Contractor-Self-Employed-or-Employee on Mar 23, 2016.

Internal Revenue Service. 2015b. "Retirement Topics - IRA Contribution Limits," accessed via https://www.irs.gov/Retirement-Plans/Plan-Participant,-Employee/Retirement-Topics-IRA-Contribution-Limits on April 1, 2016.

Internal Revenue Service. 2015c. "IRA Deduction Limits," accessed via https://www.irs.gov/Retirement-Plans/IRA-Deduction-Limits on Apr 1, 2016.

Internal Revenue Service. 2015d. "SEP Plan FAQs - Contributions," accessed via https://www.irs.gov/Retirement-Plans/Retirement-Plans-FAQs-regarding-SEPs-Contributions on Apr 1, 2016.

Intuit Inc. 2015. "Intuit Forecast: 7.6 Million People in On-Demand Economy by 2020," accessed via http://investors.intuit.com/press-releases/press-release-details/2015/Intuit-Forecast-76-Million-People-in-On-Demand-Economy-by-2020/default.aspx on Mar 24, 2016.

Isaac, Mike, and Natasha Singer. 2015. "California Says Uber Driver Is Employee, Not a Contractor," *New York Times* (June 17).

Lacy, Lina 2016, "Micro Businesses Need a Voice of their Own this National Small Business Week," Invoice2go blog, May 2, 2016, accessed via https://blog.2go.com/micro-businesses-need-voice-national-small-business-week/ on July 6, 2016.

JPMorgan Chase & Co. Institute. 2016. "Paychecks, Paydays, and the Online Platform Economy" (February).

Katz, Lawrence F., and Alan B. Krueger. 2016. "The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015," retrieved from

http://krueger.princeton.edu/sites/default/files/akrueger/files/katz_krueger_cws_-_april_26_2016.pdf on June 28, 2016.

Lyft. 2015. “Express Pay -- Lyft Help,” accessed via https://help.lyft.com/hc/en-us/articles/213830188-Express-Pay- on Mar 28, 2016.

MacMillan, Douglas. 2015. “Another Uber Driver in California Ruled an Employee, Not Contractor,” *Wall Street Journal* (Sept 10).

Manyika, James, Susan Lund, Kelsey Robinson, John Valentino, and Richard Dobbs. 2015. “A Labor Market That Works: Connecting Talent with Opportunity in the Digital Age,” McKinsey Global Institute (June).

Marcus, Samantha. 2016. “Christie signs law creating small biz retirement marketplace,” *NJ.com* (Jan 19).

Marte, Jonnelle. 2016. “Uber is Tackling One of the Biggest Challenges for Workers in the Gig Economy.” *The Washington Post*. (August 24).

Munnell, Alicia H. and Anthony Webb. 2015. “The Impact of Leakages of 401(k)/IRA Assets,” Center for Retirement Research at Boston College, Number 15-2. Retrieved from crr.bc.edu/wp-content/uploads/2015/01/IB_15-2.pdf on June 29, 2016.

Perez, Secretary Tom. 2016. “Innovation and the Contingent Workforce,” U.S. Department of Labor Blog. Accessed via blog.dol.gov/2016/01/25/innovation-and-the-contingent-workforce/ on June 11, 2016.

QuickBooks. 2016. “Dispatches from the New Economy: The On-Demand Workforce,” retrieved from http://www.slideshare.net/IntuitInc/dispatches-from-the-new-economy-the-ondemand-workforce-57613212/4-the_majority_of_ondemand_economyproviders on Mar 24, 2016.

Rhee, Nari, and Ilana Boivie. 2015. "The Continuing Retirement Savings Crisis," National Institute on Retirement Security, retrieved from http://www.nirsonline.org/index.php?option=content&task=view&id=882 on Mar 24, 2016.

Robinson, Judah. 2015. "Labor Secretary Perez: We Need A Safety Net For Gig Economy Workers," *Huffington Post* (Oct 9).

Sharf, Samantha. 2016. "Goldman Sachs To Acquire Fledgling Retirement Savings Startup Honest Dollar," *Forbes* (Mar 14).

Transamerica Center for Retirement Studies. 2015. "16th Annual Transamerica Retirement Survey: A Compendium of Findings About American Workers," retrieved from http://www.transamericacenter.org/docs/default-source/resources/center-research/16th-annual/tcrs2015_sr_16th_compendium_of_workers.pdf on Mar 29, 2016.

U.S. Bureau of Labor Statistics. 2016a. "Labor Force Statistics from the Current Population Survey," retrieved from http://data.bls.gov/pdq/SurveyOutputServlet?request_action=wh&graph_name=LN_cpsbref1 on Mar 22, 2016.

U.S. Bureau of Labor Statistics. 2016b. "National Compensation Survey-Benefits," retrieved from http://data.bls.gov/cgi-bin/dsrv?nb on Mar 25, 2016.

U.S. Bureau of Labor Statistics. 2016c. "Table 5. Quartiles and selected deciles of usual weekly earnings of full-time wage and salary workers by selected characteristics, fourth quarter 2015 averages, not seasonally adjusted," accessed via http://www.bls.gov/news.release/wkyeng.t05.htm on Mar 24, 2016.

U.S. Census Bureau. 2014. "65+ in the United States: 2010" (June), retrieved from

https://www.census.gov/content/dam/Census/library/publications/2014/demo/p23-212.pdf on Aug 14, 2016.

U.S. Department of Labor. 2015. "Administrator's Interpretation No. 2015-1" (July 15), retrieved from http://www.dol.gov/whd/workers/Misclassification/AI-2015_1.htm on Mar 1, 2016.

U.S. Government Accountability Office. 2015. "Contingent Workforce: Size, Characteristics, Earnings, and Benefits" (Apr 20), retrieved from http://www.gao.gov/assets/670/669766.pdf on Mar 1, 2016.

VanDerhei, Jack. 2014. "Threats to Retirement Security: Longevity, Long-Term Care and Leakage," Remarks at the Bipartisan Policy Center (Nov 20).

Warner, Mark R. 2015. "Asking the tough questions about the gig economy," *Washington Post* (June 18).

Washington State, Department of Financial Institutions. 2015. "Small Business Retirement Marketplace," accessed via http://www.dfi.wa.gov/rulemaking/small-business-retirement-marketplace on Mar 29, 2016.

Zumbrun, Josh, and Anna Louie Sussman. 2015. "Proof of a 'Gig Economy' Revolution is Hard to Find," *Wall Street Journal* (July 26).