

Overview

While 80% of Americans would choose a secure pension or health care over a guaranteed job, many independent workers or employees of small businesses are in the precarious position of lacking benefits as well as job security. Independent workers and employees of small businesses face unique challenges when planning for retirement because they do not have access to employer-sponsored retirement programs. Employer-sponsored programs analyze investment portfolios, pool employee assets to lower administrative costs, and provide simple and easy enrollment mechanisms. In addition, automatic payroll deductions facilitate saving the appropriate amount of money to meet an individual's needs. Without access to this retirement system, independent workers are faced with a decentralized and often confusing market of retirement options that requires a high degree of financial literacy. Independent workers must learn to avoid hidden, back-end fees and expensive funds. Coupled with minimum contribution requirements in order to purchase funds and the lack of payroll deductions, these challenges often result in insufficient retirement saving.

Independent Worker & Small Business Employee Access to Retirement Options: Exclusion from “traditional” employer-sponsored pension

A national survey commissioned by the Rockefeller Foundation found that two-thirds of all respondents would choose a job with a guaranteed pension over a job that pays more. However, while a majority of Americans would choose a guaranteed pension over higher income, a staggering 59% of American workers lack an employer-sponsored retirement savings plan.² Even those who have employer-sponsored plans report reduced confidence in the traditional system's ability to guarantee adequate retirement savings.³ As employers continue to cut back on pension plans and other benefits, American workers will have to rely increasingly on personal savings and individual retirement funds.

This, of course, has always been the case for independent workers, who lack access to a “traditional” retirement plan. Aside from retirement savings that may have been accumulated in employer-sponsored plans during periods of standard employment, independent workers are left planning and saving for

retirement on their own. Because independent workers typically do not work for one employer, they are legally unable to access the benefits of an employer-sponsored program—guaranteed pensions or matching contributions to a 401(k)-style group retirement fund. In a recent survey conducted, 94% of respondents reported that independent workers need streamlined retirement savings options because they don't have access to simple employer plans. Without access to automatic and cost-advantaged retirement options, independent workers plan for retirement without any employer or public support.

Problems Saving for Retirement: Erratic income and complex individual retirement plans

Another barrier particularly affecting independent workers arises when their saving for retirement is tied to the nature of their work: many have inconsistent income levels. Variable sources and amounts of income make it difficult for them to plan and execute a successful retirement plan. As income fluctuates from month to month, individuals may have to choose between saving for retirement and maintaining their standards of living.

The pressure to maintain a standard of living often wins out against saving for retirement. Nearly 50% of respondents to the survey cited uneven income and the resulting cash flow challenges as major obstacles to saving for retirement, while two-thirds felt they earn too little to save sufficiently for retirement.⁵

The survey results show just how grave this problem is: 28% of respondents have no retirement savings whatsoever, and 53% do not save any money each month for retirement. Of those that have saved for retirement, the numbers are not promising; one-third of respondents have less than \$1,000 saved for retirement, and half have less than \$10,000, with much of the retirement savings accumulated in employer-sponsored plans during periods spent working as full-time employees.⁶

While retirement plans for individuals do exist, IRAs, Roth IRAs, SEPs, Keoghs, and Self-Employed 401(k)s often do not present a viable solution for the independent workforce. To manage an individual retirement plan effectively requires a high level of financial literacy, and the market is awash in complex plan options with varying contribution levels, tax implications, and restrictions. As a result, the search for the best retirement plan is often intimidating, confusing, and costly.

Retirement Needs of the Workforce: Education, ease of use, and intermediaries

Independent workers and those that don't receive assistance from their employer need a retirement program that will overcome these challenges by mimicking the benefits of an employer-sponsored plan, which vets investment options, pools assets, and simplifies the enrollment process. Traditional employees often have access to 401(k) plans that allow them to make pre-tax contributions through payroll deductions. The benefits of employer-based 401(k)s—tax advantages, professionally-selected financial products, asset-pooling, and easy enrollment—need to be available to independent workers if they are to save adequately for retirement.

Intermediary organizations can help facilitate retirement savings in some of the same ways employers do. Professional associations and unions can aggregate workers to spread the cost of professional financial planning and to bargain for lower-fee retirement plans. Such plans should eliminate minimum contribution requirements, making it possible for the self-employed to diversify their portfolios even with a low initial balance. Perhaps most importantly, independent workers need a simple enrollment process, financial education and counseling, and a flexible contribution schedule so that they can understand and manage their retirement plans.

Financial education and counseling are crucial for these Americans. These might include:

- Online financial education, including tools for enrollment and calculating asset allocations
- Group seminars on retirement planning, including personal help with paperwork for enrollment and investment selection
- Group seminars on budgeting and financial literacy

Recommended Policies: Changes necessary to achieve a mobile and affordable retirement option for the independent workforce

In order to sufficiently save for retirement, independent workers need a new model of retirement savings, one that will have to exist outside the employer-sponsored benefit system. Achieving this requires immediate policy changes to retirement regulations.

The Association recommends the following policy changes to create a fair and affordable system of retirement:

- Encourage intermediaries such as professional associations, nonprofits, community groups, churches, and unions to use the power of their numbers to offer consumers reasonably-priced group retirement plans.
- Enable intermediaries to sponsor portable 401(k)-style retirement plans for their members, thereby giving people options for retirement saving beyond the employer model.
- Simplify retirement vehicles for the self-employed to encourage savings.
- Raise maximum contributions for the self-employed to match the levels allowed for traditional employees.
- Reverse ERISA to allow non-employer intermediary organizations to offer workers retirement plans with the same group structure afforded to large employers.

With these policy changes, intermediary organizations such as the association can facilitate retirement savings for independent workers. While they cannot offer pensions or matching contributions, intermediaries can work with financial institutions to provide financial education while encouraging enrollment in easy-to-access, affordable, and portable retirement options.

Retirement for the Independent Workforce

With the proper regulatory adjustments, intermediary organizations would be able to set up a pool to manage retirement savings contributions for their members. A group plan would allow independent workers to pay fees lower than those for individual investors. At the same time, it could reduce the complicated paperwork and legal requirements associated with retirement plans. In essence, the plan would mimic that of an employer by providing members with a vetted menu of options while allowing

personalized investment choices. In addition, an intermediary organization would centralize plan administration, lowering fees to members through bulk recordkeeping and processing of transactions.

Overcoming Obstacles to Saving: A model that encourages enrollment and responsible saving

Even when individuals do have access to a retirement plan and appropriate education, many put off enrolling or fail to do so altogether. They perceive enrollment as daunting—often rightly. A successful retirement program should be designed to overcome this and other behavioral obstacles. To begin with, enrollment in the process should be streamlined and largely paperless. The retirement program should offer in-person enrollment seminars and phone support, and should impose enrollment deadlines.

Creating a quarterly enrollment deadline would ensure that enrollees do not put off until tomorrow what could be done today.

Once enrollees have signed up, the program could be designed so that the path of least resistance leads to an optimal savings plan. Choosing smart savings decisions would be easy and automatic, with features like default high savings rates and annual escalation of savings rates. At the same time, decisions with less desirable outcomes, like low savings rates, non-diversification, loans, and early withdrawals, would be designed to require more effort. Enrollees who desire a more active decision-making role would still be able to fully direct their plans as they wish. At the same time, those enrollees who prefer to use the program's default settings would be placed in a plan that encourages positive results.

Conclusion

The independent workforce cannot rely on the outdated employer-sponsored retirement system. Instead, market innovations and public policy should adapt to the needs of the growing independent workforce and not just allow, but encourage access to retirement benefits that are uncoupled from employers.

Retirement benefits must be tied to the individual so that they are mobile and flexible, just like the independent workforce. To achieve this, intermediary organizations must be empowered to provide access to affordable and portable retirement options for their members.