Reducing Retirement Saving Barriers For Gig Workers

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It is no secret American workers are falling behind when it comes to saving for retirement. Currently, the retirement system does not provide opportunities for employees working for small business or as independent contractors to take advantage of employer-sponsored retirement plans. As an increasing number of workers continue to join the gig economy, it is imperative for lawmakers and regulators to create a new retirement system that allows for freelancers and individuals working for multiple businesses to easily save for retirement. Although the American workforce is changing, the traditional retirement system does not yet present an option for the evolving workforce. Gig workers are currently not entitled to enjoy a traditional employer-based retirement plan because such plans are subject to stringent rules and only permitted to cover employees and not independent contractors.

Congress is attempting to address this issue by seeking to modify America's retirement system via The Retirement Enhancement and Savings Act, or RESA. The bill was passed on a bipartisan, unanimous basis by the Senate Finance Committee in 2016 and was reintroduced in the Senate in early March 2018. Additionally, a House version of the bill was also introduced in March and currently has bipartisan support. RESA, if passed, will likely create access to tax-deferred savings plans for employees working for small businesses and for independent contractors. Notably, RESA would create new opportunities for the gig economy by allowing for gig workers to take advantage of tax-deferred savings plans that are currently only available to employees.

The potential impact of RESA is difficult to quantify especially when considering the impact the Employee Retirement Income Security Act and the Revenue Act of 1978 has had on retirement planning for employers and American workers. In 1974, Congress passed ERISA and the individual retirement account, or IRA, was created. Four years later, the Revenue Act of 1978 was passed and the IRS created a new section of the tax code, which led to the first 401(k) retirement plan in 1981. At the time, few people understood the impact 401(k)s would have on employers and their workers.

Today, many Americans rely on savings in 401(k)-type accounts to supplement income from Social Security in retirement. Previously many retirees could count on predictable, constant streams of income from traditional pensions that were managed by their employers. However, traditional pensions have now been replaced by IRA and 401(k) retirement accounts and workers bear the burden of managing and planning for their own retirement. Notably, employees are typically required to opt in to 401(k) retirement plans and must create an IRA on their own. It is widely reported that Americans are falling short when it comes to saving for retirement. When faced with the decision to opt in to a 401(k), employees often fail to do so. Further, employees may not be able to opt in to 401(k) plans at the inception of their employment because some plans require an employee to work for a certain amount of time prior to enrolling.

For employees who do take advantage of IRAs and 401(k)s they are able to capture tax-deferred growth and can reinvest their savings year after year. Gig economy workers and independent contractors, on the other hand, simply don't have that option, which presents grave concerns as the way Americans work changes and more workers participate in the gig economy. In fact, Intuit estimates that, while gig workers represent 34 percent of the current workforce, this number will grow to 43 percent by 2020.

RESA would create a private retirement system that addresses the needs of gig workers by providing the first viable options for gig workers to save for retirement. As it is currently drafted, RESA would create incentives for small employers who do not sponsor their own retirement plans to join a multi-employer plan, or MEP. The creation of MEPs would allow smaller employers to share the costs associated with the administration of a retirement plan. MEPs would also create incentives for gig workers to save for retirement. Gig workers, via their sole proprietorships, could elect to join an open MEP. This would allow for gig workers to make 401(k) contributions to their own retirement plans and for businesses to make matching contributions.

RESA, if passed, would modify current rules disqualifying MEPs if one company participating is noncompliant with retirement plan requirements. RESA would also eliminate the requirement mandating participating employers have a common interest, such as being part of different branches of a nonprofit or different branches of the same chain store. By improving the portability of retirement plans, MEPs will allow smaller employers to share costs associated with administering defined benefit or defined contribution retirement plans and increase access to tax deferred retirement plans. Additionally, MEPs will allow gig workers to move from project to project without worrying about losing retirement benefits and tax-deferred savings.

RESA will also incentivize employers to adopt policies for auto-enrolling workers in retirement plans by creating a new tax credit of up to $500 per employee for employers who establish a 401(k) or "SIMPLE" (Savings Incentive Match Plan for Employees) IRA plan that includes auto-enrollment. This would help eliminate barriers to retirement savings by creating additional incentives for auto-enrollment and for the creation of new plans by small businesses. By requiring workers to opt out of contributing to retirement plans instead of requiring them to opt in, auto-enrollment will likely increase participation in workplace retirement plans.

In short, RESA would expand access to tax-neutral retirement accounts and would reduce the burden of saving for retirement. Businesses that operate in the gig world should monitor the progress of RESA as it may bring new opportunities to create incentives to recruit highly skilled freelancers. RESA would also make joining the gig economy more attractive to skilled workers who freelancers. RESA would also make joining the gig economy more attractive to skilled workers who may be hesitant to leave their jobs that provide access to an employer-sponsored retirement plan. It is estimated that 10,000 Americans will turn 65 each day this year. If given the opportunity to create MEPs, businesses will be able to attract skilled experienced workers who are no longer interested in working full-time but may be interested in running their own businesses, choosing when to work, and carefully selecting which projects to accept.

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