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The Changing Nature of Work: More Can Be Done to Help Contingent Workers Save for Retirement

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The nature of how we work today is rapidly changing. A growing segment of today's workforce no longer enjoys what many consider to be a traditional work arrangement in which a worker is a full-time employee with salary and benefits, such as health care and retirement savings, as well as other workplace protections. Instead, many more employers today are meeting their staffing needs through alternative work arrangements often characterized by a lack of a stable work schedule and little or no benefits. We all know people who are in these roles, such as independent contract workers and temporary employees. Some do it for the flexibility and others out of necessity. As technological innovation and other economic drivers are transforming how we work, policymakers need to carefully consider what this means for the financial and economic well-being of workers and the nation's economy.

The Rise of the "Contingent" Worker Brings Greater Financial Vulnerability

According to a study published by Princeton University, an astounding 94 percent of net employment growth between 2005 and 2015 is estimated to have been through alternative work arrangements. Agency temps, on-call workers, freelancers, and independent contractors are examples of those who make up the alternative labor market. Technological innovations have led to the creation of business platforms through companies such as Uber, Handy, and Priv that enable "gig" work, just one component of this workforce.

The term "contingent worker" is often broadly used to describe all workers in alternative work arrangements. However, these two terms are not synonymous. The composition of the contingent labor market and its distinction from the alternative labor market is ambiguous because there is no standard definition of a contingent worker. Estimates of the percentage of contingent workers in the labor force today range from less than five percent to almost forty percent depending on worker classifications. The general consensus among labor experts is the lack of a stable or predictable work schedule and the lack of job security is what distinguishes contingent workers from those in all other alternative work arrangements. The U.S. Government Accountability Office (GAO) estimated about 8.0 percent of the entire labor force to be contingent workers in 2010.

Contingent workers face a set of challenges that increase their financial vulnerability compared to traditional, full-time employees. These include:

Little or No Job Security or Income Stability. The contingent labor market is not homogeneous and consists of both white-collar and blue-collar workers. While some of the high skilled workers in the contingent labor market are also high wage earners, the GAO estimates that contingent workers on average earn 27.5 percent less per week and 47.9 percent less per year than noncontingent workers. Contingent workers are less likely to have full-time work and work fewer weeks over the course of a year. Contingent workers are seen as a way to quickly meet labor needs because they help firms cut costs and allow for seasonal flexibility, but this leads to workers often having unstable and irregular work hours. In general, contingent workers are three times more likely than standard full-time workers and nearly five times more likely than standard part-time workers to be laid off or let go during an economic downturn.

No Access to Retirement Savings Plans. The lack of access to work-provided benefits, including retirement plans and health care, is a challenge for contingent workers. How employers classify employees can be a major obstacle preventing contingent workers from accessing or receiving retirement benefits. Contingent workers are often categorized in a way that excludes them from participating in employer-sponsored benefits and other worker protections. Contingent workers are significantly less likely to be included in an employer-provided retirement plan compared to workers in traditional employment arrangements. While anyone can set up and contribute to an individual retirement account (IRA), only a small percentage of workers without a work-provided retirement plan actually take that step.

More Can Be Done to Help Contingent Workers Save for Retirement

As the increasingly mobile and contingent workforce continues to grow, new approaches are needed to help these workers save for retirement. The traditional employer-sponsored system must adapt to this new reality. There are some innovative steps being taken to help make it easier for workers to access ways to save for retirement, including:

Simple, Easily Accessible Technology Solutions ("FinTech"). Several new financial technology ("FinTech") firms have been coming into the market to deliver low-cost retirement savings products for workers. Firms are using an interactive platform, for example, to make it easy for workers to determine how much they need to save and set funds aside on a regular basis into a retirement account. For example, Guideline is just one example of a platform that allows small and medium sized businesses to set up an automatic enrollment plan for their employees. The easily navigable online platform allows employees to go in and manage their own accounts to maximize transparency and efficiency. Honest Dollar and Betterment are other examples of firms that have recently begun to work with internet-based businesses to offer workers ways to save.

State-Sponsored Retirement Savings Programs. Several states, such as California, Connecticut, Illinois, Maryland, Oregon, Vermont and Washington are working to implement programs to provide private sector workers with retirement savings plans if they do not have access to one through their employer. These programs offer IRAs, 401(k)s, or a marketplace of products for workers, and incorporate tools such as auto-enrollment to help encourage overall participation and overcome the inertia that can keep workers from beginning to save. These states are also exploring ways to make their programs accessible to contingent workers.

In addition to providing simpler and more easily accessible ways to save, policymakers also can and should do more to recognize the increasingly fluid nature of employment relationships and make it easier for workers to manage their own retirement accounts, including:

Simplify and Improve Retirement Account Reporting and Tracking. According to the GAO, between 2004 and 2014, 25 million participants in workplace plans left at least one account and millions left two or more accounts behind when separating from employers. Tracking and managing multiple retirement accounts can be difficult and, as a result, some of these accounts are forever lost or forgotten. This problem is exacerbated among contingent workers. There is much more that can be done to reduce the risks to workers by improving the portability and consolidation of retirement accounts. The DOL's ERISA Advisory Council made several recommendations for addressing these challenges, including employers doing a better job of communicating options to employees; better regulatory guidance to reduce fiduciary liability risks; standardizing data to facilitate platforms that can help process rollovers; and better coordination across federal regulators to eliminate needless regulatory barriers that would impede portability across programs and plans.

Consider Attaching Accounts and Information to Workers Instead of Employers. To help make it easier for workers to take their retirement accounts with them as they change employers, an idea proposed by the Brookings Institution is attaching the retirement account to the worker instead of the employer so "every person would have a retirement savings account that travels with him or her from job to job." Another idea is the creation of a central retirement registry that can either be publicly or privately maintained. The GAO has recommended that the U.S. Department of Labor (DOL) create a taskforce to consider a national pension registry. A registry would help ensure that individuals have access to consolidated online information regarding their retirement accounts. This approach is being used in other countries to help individuals more easily track and consolidate all of their retirement accounts.

Conclusion

The rise of the contingent workforce represents a more permanent change in the nature of how we work today. Because of the lack of access to employer-based retirement plans and the reality that most individuals do not take action on their own to save if their employer does not provide a plan, policymakers need to explore new and innovative ways to make it easier for contingent workers to save and manage their money for a secure retirement.

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Additional Resources:

ERISA Advisory Council, "Participant Plan Transfers and Account Consolidation for the Advancement of Lifetime Plan Participation," November 2016.

Gale, William G., Sarah E. Holmes, David C. John, "Retirement Plans for Contingent Workers: Issues and Options," The Brookings Institution, September 23, 2016.

U.S. Government Accountability Office, "Contingent Workforce: Size, Characteristics, Earnings, and Benefits," April 20, 2015.