

Rethinking Millennial Retirement: Policy Recommendations for a Gig Economy

2018 iOme Challenge

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Executive Summary

To combat the retirement crisis for millennials, this policy proposal is made up of three parts: the Multiple Employer Plan IRA, an expansion of the Saver's Credit, and retirement planning resources and courses for college students. Millennials face a myriad of challenges in saving for retirement. In this paper, we will discuss the pressure that Social Security faces in coming years, important factors contributing to the current state of millennial retirement, how the gig economy prevents accessibility to tax-advantaged retirement plans, and past efforts to reform the way Americans save for retirement.

In response to the lack of accessibility and portability in retirement plans for workers in the gig economy, an ever-growing sector, we propose the creation of a "MEP IRA". This tax-advantaged retirement plan will rival the 401(k) of traditional employees in the benefits it provides, but be specially catered to those who work for many employers. We suggest the viability of this plan by discussing elements of it that are known to be attractive to millennials and the precedent that is left over by the creation of the myRA plan.

An important part in the success of the MEP IRA is the creation of contribution match. This addresses the issue of many poor workers in the gig economy who are pushed into that labor market because of a lack of other options. These workers are at a distinct disadvantage in saving for retirement because of the lack of a contribution match. For those who participate in the gig economy and are in or near poverty, a reformed Saver's Credit can help them start to save for retirement.

The last element of our policy proposal is an expansion of financial literacy courses and resources for college students. Access to a tax-advantaged retirement account and a credit that incentivises its use may not be enough to solve the retirement crisis if workers do not have the knowledge to know how much they need to save and how to invest their money. Ensuring that students know how to handle their personal savings, as well as plan for their retirement, can go a long way to ensuring they regularly save for retirement and keep the money in the account until they do.

Introduction

Although the age range for millennials is not strictly defined, it is widely regarded that millennials are those born between 1981 and 1996 (ages 22 to 37 in 2018). It is too well known that millennials are not saving enough for retirement. It lines the financial literacy columns of newspapers and serves as a constant reminder to get one's personal finances in order, a reminder that is often ignored. Why? This is the question this paper addresses. We seek to understand the perplexing reality that while millennials understand the need to save money for their own retirement, not enough are doing so. This disparity is of great concern to financial institutions, policymakers, and workers alike. It is also obvious that at the end of this road, either millennials save enough for retirement, or they don't. A widespread realization of the latter would be disastrous for the millennials and our nation. But, as is revealed by the end of this paper, we are not doomed to this outcome. With effective policy proposals, retirement for most millennials might not be as troublesome as is projected.

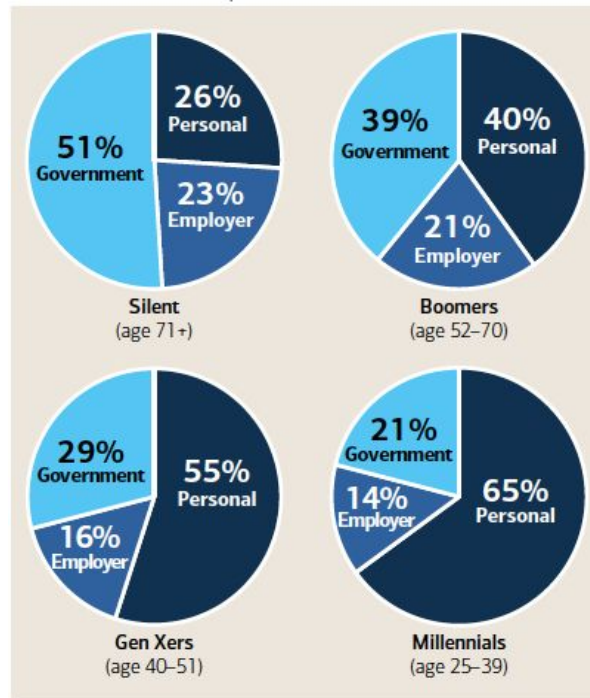
Retirement is often referred to as "the golden years". Within this perspective is the underlying assumption that enough will be saved for retirement. This will likely have to include a sizeable portion of personal savings given the possible future state of the Social Security system. Currently, 33% of the income that retirees receive is from Social Security. Retirees receive an average of \$1,404 in monthly benefits (SSA, 2018). This is only \$16,848 in annual benefits. Compare that to the federal poverty line for a household of two: \$16,460 (HHS, 2018).

Couple this with two alarming statistics (1): 42% of millennials have not started to save for retirement (Merrill Lynch, 2017) and (2): by 2050, the number of Americans who are 65 and

older will be 88.5 million, more than double that number in 2010 (Census Bureau, 2010). For Social Security and Medicare, this will present tremendous policy challenges. For millennials, it has been made clear that something about our saving habits, especially for retirement, will have to give.

The puzzling part of the issue of millennials not saving enough for retirement is that millennials know this. According to Merrill Lynch, millennials anticipate that when they retire, Social Security will cover 21% of their income in retirement. Compare this to baby boomers, who expect 39% of their income to come from Social Security. A chart displaying the differences in projections among generations is in Figure 1. With the average retirement now costing \$738,400, this disparity is drastic. It is also telling what millennials plan to do to cover this gap. Millennials expect one-fourth of their retirement income to come from continuing to work in their retirement (2017).

Figure 1.



Source: Age Wave/Merrill Lynch, "Finances in Retirement: New Challenges, New Solutions," 2017; Base: Age 25+

The State of Millennial Retirement

Generations are often shaped by the mega events that occur during their young adulthood. What happens during this period reverberates throughout the rest of their lives. For millennials entering the workforce around 2008, that event was the Great Recession. For millions of Americans, the Great Recession led to unusually high and long-lasting unemployment and wiped out trillions of dollars of household wealth (Smeeding, 2012; Wolff, 2016). The recession hit younger workers especially hard. At the onset of the financial crisis, they were more likely to lose their jobs than older workers (Farber, 2015). The economic consequences of a layoff, especially at that stage in a young workers' career, can persist for decades, leading to lower earnings on future jobs (Davis and von Wachter, 2011). Additionally, college students graduating during this time had trouble finding good jobs. This will constrict their earnings for years (Oreopoulos, von Wachter, and Heisz, 2012).

It is important to recognize that changes in the American economy over the past couple of decades have, for the most part, decided the landscape for millennials now. Technological advancements, increasing globalization, and declining union membership have increased earnings for men in the top of the quarter of the earnings distribution, as earnings in the bottom half of the distribution fell or remained flat (Gottschalk and Danziger, 2005; Holzer and Hlavec, 2012; Mishel, 2015; Rose, 2016). Moreover, the decline in unionization and the growth in service industries, where retirement plan coverage is less common than in manufacturing, appear at least partly responsible for falling retirement plan coverage rates (Costo, 2006; Wiatrowski,

2004). As a result, when evaluating the retirement savings of millennials, it is important to look at recent events.

One of the shifts in the economy which has drastically changed how workers have saved is the widespread acceptance of defined contribution retirement plans. The change from defined benefit pensions to defined contribution retirement plans shifts much of the responsibility for retirement saving from employers to employees, and reduces future retirement benefits for many workers (Morrissey, 2016). Additionally, millennials will need more money for retirement than earlier generations as health care costs and debt rise (Hatfield et al., 2016; Karamcheva, 2016). Also, retirement savings must continuously stretch as retirees' life expectancy grows. In the present, rising health care costs have also increased the share of compensation going to benefits, suppressing growth in earnings (Burtless and Milusheva, 2012). As millennials continue to save, or not, for retirement, the future course of stock market returns, interest rates, housing prices, and inflation will affect the income they can access when they reach retirement age. These factors, aside from what will be later discussed, are also important. This is in addition to individual factors such as how long people choose to work, which will depend mostly on their future health. In the next section, we will look at a keystone academic study which will set the stage for our policy proposal.

Important Factors to Consider

Using household survey data spanning several decades from the Current Population Survey's (CPS) Annual Social and Economic (ASEC) supplement and the Survey of Consumer Finances (SCF), Richard Johnson and Karen Smith (2017), at the Urban Institute, examined long

term trends in demographic and economic outcomes, with a special focus on the millennial generation. Retirement outcomes depend heavily on earnings and savings earlier in life. The analysis therefore compared trends in employment, earnings, pension coverage, and wealth during working ages across generations to project future incomes at age 70. In a brief summary of the findings from this important work, here are some insights on factors of a millennial's work life that the research has shown is significant in future retirement outcomes:

- *Full-Time Employment*: The percentage of young men working full time has fallen sharply over the past decade. At ages 26 to 30, 80% of men in the 1986 to 1990 birth cohort were employed full time, down 6 percentage points relative to those born 10 years earlier and down 8 percentage 11 points relative to those born 25 years earlier. So far, full-time employment rates for millennial women is similar to full-time employment rates for recent earlier generations and higher than the rates for generations born before 1955.
- *Earnings*: Although millennial men have generally earned less than men born 30 or more years earlier, their earnings so far have been roughly comparable to those in recent generations. Among men ages 25 to 29 employed full-time, median annual earnings were \$38,500 (in inflation-adjusted 2015 dollars) for the 1986 to 1990 birth cohort, about 5% higher than the median for the 1976 to 1980 cohort and the 1966 to 1970 cohort. However, median inflation-adjusted annual earnings at ages 25 to 29 were 29% higher for full-time male workers born between 1941 and 1945 than those born between 1986 and 1990. The recent stagnation in

median earnings reflects deteriorating labor market prospects for low- and middle-skilled men.

- *Employer-Sponsored Retirement Plan Coverage*: The share of full-time workers reporting employer-sponsored retirement plan coverage fell sharply across all age groups in 2016 relative to previous years. Between 2011 and 2016, retirement plan coverage rates for the 1976 to 1980 cohort declined 5 percentage points for men employed full time and 8 percentage points for women employed full time. Participation rates in employer-sponsored retirement plans among full-time male employees generally fell with each successive cohort. For the 1951 to 1955 cohort, coverage rates peaked at ages 45 to 49 at 62%. Among those born 10 years later, only 53% had coverage at that age. However, coverage rates seem to be dropping more slowly for people born between 1976 and 1990 than for previous cohorts. At ages 25 to 29, full-time male employees born between 1981 and 1985 have about the same coverage rate as those born between 1976 and 1980.

Johnson and Smith came to this conclusion: Median income at age 70 will be higher for millennials than previous generations, *but they face a higher risk of seeing their living standards fall when they retire*. 40% of 70 year olds born between 1976 and 1985 would be unable to replace at least 75% of the inflation-adjusted average annual earnings that they and their spouse received from ages 50 to 54. By comparison, 32% of those born between 1936 and 1945 fall short of the 75% replacement rate threshold, and 30% of those born between 1956 and 1965 fall

short for the 75% replacement rate. It is clear that the millennial generation is falling behind other age groups due to a multitude of factors that must be dealt with promptly.

Our Savior? Automatic Enrollment Plans

Saving is not just a problem for millennials, but all workers in the United States. Thirty-nine percent of workers report that they and/or their spouse have not personally saved any money for retirement (SSA, 2018). Recently, great strides have been made in the field of behavioral economics which have yielded tangible results for workers' retirement accounts. The idea is simple: instead of needing to choose to opt into a 401(k) or 403(b), employees must opt out of participation (Benartzi and Thaler, 2007). The field of behavioral research provides us with some clues on why this makes a difference:

- *Lack of Planning Skills*: Some employees are not active, motivated decision makers when it comes to retirement planning
- *Default decisions*: When faced with a complex choice and unsure of what to do, people are predisposed to take the default option.
- *Inertia and Procrastination*: Some employees deal with a difficult choice by deferring it to a later time, often never getting around to it.

Automatic enrollment retirement plans essentially redesign the financial planning of employees by putting it on autopilot. Not only have these plans proven to be effective in getting workers enrolled in plans, but Vanguard, one of the world's largest investment management companies, did an analysis of the prevalence of automatic enrollment plans among the employers

it serves. As of December 2016, 45% of Vanguard plans permitting employee-elective deferrals had adopted components of an autopilot design. Larger plans are more likely to implement automatic enrollment, with more than half of mid-sized and large plans using the feature. As a result, slightly more than 6 in 10 participants are now in plans with autopilot designs, although automatic enrollment itself may only apply to newly eligible participants (Vanguard, 2017).

In the face of these benefits, it is important to look at another side of this sweeping change. All of the increased money flowing into 401(k) plans isn't appearing out of thin air and companies have found ways to offset the costs of adopting automatic enrollment. Considering how 401(k) plans are typically administered, when faced with rising 401(k) costs, a company adopting auto-enrollment has four options. First, it could directly reduce its matching costs by lowering the match rate per dollar of employee contribution and/or by lowering the ceiling on matching contributions. These changes would reduce the match per participant, allowing the company to potentially accommodate an increase in participation without raising total 401(k) costs. Second, the company could reduce its matching contributions by setting a default employee contribution rate below the level needed to obtain the maximum employer match. Participants could override the default by choosing to save more but, in practice, participants tend to stay where they are put (Nessmith, Utkus, and Young, 2007). Third, the company could decide to offset the higher costs by reducing its employees' wages or other non-401(k) benefits. Finally, it could keep its compensation policies the same and simply allow total costs to rise.

While companies have many choices when adopting automatic enrollment, few researchers have actually studied what happens. Butrica and Karamcheva (2013) at the Urban Institute looked at how companies managed their bottom lines when switching to an automatic

enrollment plan. In their research, they concluded that auto-enrollment is associated with relatively low match rates and default contribution rates, but does not affect wages or total compensation. This finding suggests that firms with auto-enrollment may offset higher 401(k) participation costs by trimming their average participant contributions.

Automatic enrollment plans alone are not meant to be relied upon. Retirement is inherently a personal and intricate process. It is the transitioning of one long stage of life to another and with it comes an extensive need for planning skills, foresight, and financial knowledge to be satisfied with its outcome. Retirement planning specifically requires income budgeting, decisions of how long to work, evaluating self health, desired retirement lifestyle, understanding of retirement saving tools, knowledge of investment basics, and determination of when to receive Social Security benefits, among much more (AARP, 2012; EBSA, 2017). Since this is the case, and a company picks how much an employee saves for retirement, and additionally has an incentive to keep default contributions low, it is inevitable that employees will not have enough to fully enjoy their retirement. Automatic enrollment plans have the potential to help everyone. This makes sense: a happy retirement is a destination. Workers asleep at the wheel can only go so far with someone else holding the wheel steady. Education could go a long way to waking people up to this reality. However, it only works with those with access to savings vehicles like a 401(k). For an increasingly large portion of the workforce, it may take much more.

The Gig Economy

A gig economy is an environment in which temporary positions are common and organizations contract with workers for short term engagements. Every economy has workers who are independent contractors, however, a gig economy is one where a sizable portion of workers, across industries and locations, participate as contractors for their primary job. Digitization has rapidly increased the ways and efficiency with which companies can hire and use contractors.

For many Americans, of all ages, the gig economy is now the ubiquitous reality of modern worklife. It comes with many benefits, such as being able to set your own work hours and being your own boss. Financial advice columns will often tell workers, of any generation, to acquire a “side hustle,” essentially a hobby on the side that brings in extra cash which can help with covering unexpected expenses and meeting savings goals. (Forbes, 2016; CNBC, 2018). According to the Pew Research Center in 2016, 24% of all Americans have earned money from the digital platform economy and 8% of all Americans have specifically used digital work or job platforms. It was also found that these Americans are disproportionately millennials with 16% of all people in this generation participating, the highest of all generations (2016). However, besides increased efficiency and precision in using labor, the benefits of the gig economy are disproportionately on the side of employers.

For instance, companies whose main employees are deemed independent contractors can get a sweet deal out of the relationship. If a worker receives a 1099-MISC for nonemployee compensation, the worker is responsible for paying all of the Social Security and Medicare taxes

that would normally be paid for by the employer. Additionally, these companies have no obligation or incentive to offer retirement or healthcare plans for its workers, meaning that these jobs lack what are considered to be staple benefits for any other job. This may not seem like a problem for those who do it as a side hustle, but for those who are forced to participate in the gig economy full-time, it can turn out to be a deceptively bad deal.

Even outside of the gig economy, millennials are showing “freelance” tendencies in other respects. It is often said of older times that workers used to have one job at a factory that they held for most of their life. They then retired on a lifelong pension that took care of them. Even for those that do not participate in the modern gig economy, millennial job-hopping is becoming the customary work life for the generation. This is a problem when it comes to saving for retirement, even if they job hop between employers with 401(k) plans. According to a study by the Plan Sponsor Council of America (2017), more than one-third of employers surveyed required workers to wait six months or more before they could participate in the 401(k) plan. Just over one-quarter had a one-year waiting period, the longest permitted by law. Figure 2 summarizes popular retirement options for those who work in the gig economy and/or are self-employed.

Figure 2.

Retirement Plan	Allowance Limit	Advantages	Disadvantages
SEP IRA	\$53,000	Simple setup, with low administrative charges and responsibilities. There is no requirement to contribute every year so this plan is flexible.	A Solo 401(k) may allow a higher contribution and tax deduction, and it provides the option of a \$6,000 catch-up contribution for those 50 years of age and older.
Solo 401(k)	\$53,000	Possibly higher retirement contribution limits at identical income levels. Loans are permitted of up to 50% of the total value, with a \$50,000 maximum.	Possibly greater administrative fees and responsibilities.

Source: Internal Revenue Service

Policy Recommendations

In order to combat the problems with retirement and millennials, we will recommend in this paper a three-pronged policy approach. These include (1) the “MEP IRA” (retirement plan developed by the Department of Treasury), (2) the expansion of the Retirement Savings Contributions Credit (Saver’s Credit), (3) and retirement planning education. As a result of the introduction of these policies, more millennials will gain access to a reliable retirement savings account where employers can contribute, have more of an incentive to contribute themselves, and be more knowledgeable about preparing for their retirement early. First, we will look at how policymakers have tackled similar issues in the past in order to get a better grasp of what may be possible in the present.

Previous Policy Interventions

Congress has, in the past and present, been concerned with the retirement savings of Americans. A crucial law that needs to be looked at first is the Employee Retirement Income Security Act of 1974 (ERISA). This is a federal law that sets minimum standards for most voluntarily established pension and health plans in private industry to provide protection for employees. ERISA requires plans to provide participants with plan information including important information about plan features and funding; outlines fiduciary responsibilities for those who manage and control plan assets; requires plans to establish a grievance and appeals process for participants to get benefits from their plans; and gives participants the right to sue for benefits and breaches of fiduciary duty. In 1975, just a year after ERISA was passed, retirement assets per U.S. household, excluding Social Security benefits, averaged \$27,300 (in inflation-adjusted 2012 dollars). By 2013, that figure had skyrocketed to \$167,800 (Brady, Burham, and Holden). More recently, legislators have introduced bills that would encourage the use of payroll deduction IRAs with automatic enrollment by employers not offering other retirement savings opportunities to their employees.

Where Congress has failed to provide clear leadership on the issue, states have tried to fill that gap. State initiatives have primarily focused on the possibility of offering state-sponsored retirement plans for employees of private-sector employers. Typically, these plans would require employers who do not otherwise offer a plan to automatically enroll their workers in the state-sponsored plan, under which employee contributions would be invested through an IRA. California was an early mover with the enactment in 2012 of the California Secure Choice

In addition, the Department of Treasury has been encouraging employers to offer employees access to a new type of Roth IRA, the myRA. MyRA was designed to function as a low-cost starter retirement savings plan for Americans who may not have access to any other type of retirement program where they work. They will be funded by individual participants, in small increments, through payroll deduction. The sole investment option will be a Treasury savings bond offering the same variable rate of return that federal employees receive when they participate in the Thrift Savings Plan Government Securities Investment Fund. MyRA has since been stopped by the Trump Administration, citing high costs and low demand.

There are some aspects of myRA that were blatantly troublesome from the start. First, by the time it takes for somebody to read up on myRA and understand the basics of starting an account, that same person could have taken that time to start an actual Roth IRA. The myRA plan would have had to rollover into a Roth IRA anyway. Additionally, the plan had no penalty for withdrawing the money, essentially making it like a regular savings account. There was no incentive to keep the money there until retirement. Given all the money that was spent on the program, the government may as well used that money to start a educational campaign for opening a Roth IRA or opting into an employer's 401(k). Our policy is unique in that it takes an older concept, the Multiple Employer Plan (MEP), traditionally used by unions, and combines aspects of these past efforts to create what will be an investment vehicle for millennials who work in the gig economy and beyond.

Policy 1 - “MEP IRA”

In an increasingly globalized and fast-paced economy, companies often need quick talent instead of taking the time to build and hire it in-house. Additionally, companies like Uber have disrupted old industries by using technology to use human labor in such a fashion as to resemble capital. Rapid technological change is no stranger to millennials and they have quickly adapted to this new world and use its fruits for their everyday advantage. One example of technology that has caught fire is Venmo. It allows people to exchange money on the mobile app seamlessly, instantaneously, and with no cost. To Venmo someone money, they simply have to look up their profile and they can send money right then and there. A person’s bank account is linked beforehand and money can go from and to that bank account at no charge. Everyone can send money to everyone else who is on the app. It is everything a millennial can ask for: it is technologically in tune with their needs, aesthetically appealing, extremely portable, and free. If we are discussing how to get millennials to save for retirement, we should be asking ourselves how older retirement plans can incorporate technology, and the portability that comes with it, in order to get them on board in this rapidly changing economy.

For those who jump around companies for their work, saving for retirement is often without reliable income or help from employers, one of the greatest advantages of a 401(k). If a traditional 401(k) is only available to those with traditional employment, then it is up to us to create an innovative and portable way for workers in the gig economy to contribute to their retirement and possibly get help from employers. Historically, such a concept, the Multiple Employer Plan (MEP), has existed. MEPs have been allowable under federal tax law and ERISA

for decades. A MEP is a type of employee benefit plan that can be maintained as a single plan in which two or more unrelated employers participate. This type of arrangement has been negotiated between unions and industries where workers may have to shift between individual employers but still need to maintain eligibility for a pension. The concept of this type of plan may be expanded to be used with gig economy workers but changes are necessary to address impediments limiting the use of MEPs. As it is, current tax law and ERISA rules limit MEP sponsorship primarily to trade associations whose members share a commonality of interest.

Barriers

Tax law serves as a major barrier to MEPs due to the current complexity and specificity under which current law can be applied. Section 413(c) of the Internal Revenue Code already recognizes plans maintained by more than one unrelated employer. However, it imposes a number of requirements on these plans as a condition of maintaining their tax-qualified status. These requirements are commonly applied on an employer-by-employer basis rather than a plan basis. This means that just one non-compliant employer can jeopardize the tax status of the entire plan, putting all other employers at risk. The IRS or Congress needs to clarify tax law so that any adverse consequences of not complying with the applicable tax-qualification requirements of MEPs will be limited to the non-compliant employer, rather than the entire plan and the rest of its participating employers.

Unwittingly, ERISA also provides certain barriers to the creations of MEPs. For purposes of ERISA, the Department of Labor treats as a single retirement plan only those multiple-employer plans that are sponsored by a “cognizable, bona fide group or association of

employers” acting in the interest of its members. It also requires that this group of employers have a “commonality of interest,” such as operating in the same industry, and exercise either direct or indirect control over the plan. Congress and the Department of Labor need to modify ERISA requirements to allow a broader array of entities, organizations and associations to contribute to MEPs, subject to conditions that will ensure the plans comply with ERISA’s fiduciary requirements and minimize risk to plan sponsors and their employees. Prudential Retirement (2017) put together a list of some conditions for MEP plans to comply with ERISA and all of the below would be the case with our policy proposal:

- The documents of the plan must identify the person, or persons, who will serve as the named fiduciary of the plan. That person, or persons, must acknowledge in writing joint and several liability for controlling and managing the operation and administration of the plan.
- The documents of the plan must identify the trustee(s) of the plan responsible for the management and control of the plan’s assets, and for the prudent collection of contributions to the plan.
- The documents of the plan must identify the person or persons who will serve as the administrator of the plan, responsible for satisfying reporting, disclosure and other statutory obligations.
- The documents of the plan must ensure that participating workers will not be subject to unreasonable restrictions, penalties or fees upon ceasing participation in the plan.

Description of the “MEP IRA”

If these barriers regarding tax law and ERISA can be overcome, and it is in Congress’ best interest to do so in order to increase millennial access to a tax-advantaged retirement vehicle, our “MEP IRA” has viability to move forward. For purposes of this paper, the MEP IRA is a Roth IRA-like tax-qualified retirement plan created and sponsored by the Department of Treasury, similar to myRA. It should be a single plan, with a centrally administered trust, serving all participating workers. The plan will provide enhanced opportunities for cost-effective participant education programs through pooling of resources with other workers. The administration of a 401(k) works through increasing economies of scale; after a business opens up a 401(k) plan for one employee, every new employee added to the plan makes it cheaper to administer the plan in per worker terms. Freelance workers do not have this privilege since they cannot pool their savings with other workers for the company since they are considered independent contractors. As the gig economy grows bigger and bigger every year, it is in the government’s best interest to secure its position as these workers’ go-to retirement plan.

When freelancers want to open a retirement account, but cannot do so with the companies they work for, they can go to a website like mepira.gov, enter in the necessary information (similar to opening up a myRA account), and they will, in addition to opening up the account, receive an account number. This account number will work similar to how Venmo uses account profiles. However, money can only flow into a MEP IRA using the portable process. In order to withdraw money, there will be the normal penalties for IRAs, and they have to call and ask to

have the money transferred to bank account previously verified, similar to how newspaper companies make subscribers call in order to cancel, opposed to making it easy to do it online.

The plan will be primarily funded by employee contributions. Employer contributions are permitted but not mandated. It will be subject to contribution limits applicable to 401(k) plans such as \$18,000 per worker. Opening an account would be limited to those with an annual income of less than \$129,000 (\$191,000 for married filing jointly), similar to the myRA plan. There would be no fee to start the account, only a \$25 initial contribution. When workers sign up for the MEP IRA, an automatic contribution amount will be set at 6%. This means that for every dollar made in the gig economy, six cents are taken out and deposited into the account. Workers have the option to select an alternative rate. For every year that they have the MEP IRA, the contribution amount will automatically escalate one percentage point until 10% is reached. Workers have the option to opt out of the automatic contribution rate and the automatic escalation at any time.

The MEP IRA will be easy for companies and digital platforms to make payroll deductions. With the myRA, employees had to make arrangements with their companies to make a payroll deduction to the account. In the case of the MEP IRA, workers will be able to link their account digitally to their platforms. For example, with a company like Uber, a driver should be able to put their account information into the Uber app when they sign up to drive and each dollar that they make on their Uber account, the proper contribution rate will be applied and sent to the MEP IRA. One mepira.gov, there will also be an option to set a defined daily, weekly, or monthly contribution from one's own bank account, as with the investment app Acorns, and

participants can also make one time contributions at any time, similar to a regular IRA. This is so gig economy workers can have the ultimate portability to fit their lifestyle, whatever it may be.

Once the \$18,000 limit for the year has been reached, transactions into the account will be stopped and the participants are free to save the money however else they want. Additionally, reaching the \$18,000 limit will trigger a congratulations email, similar to the celebratory vibration of a Fitbit once the daily goal for steps has been reached, with additional motivational emails once the certain milestones are passed, such as \$1,000 and \$5,000. One of the options on mepira.gov, though not mandatory, will be for a participant to list their retirement goals and how much income they would like in retirement. Given a certain savings plan, the amount needed to be annually contributed to reach that amount can be calculated and they can use that as a reference point for saving.

One of the main benefits of the plan, as opposed to the myRA, is that with the MEP IRA, participants will be offered a broad range of diversified investment options. These will include several options in stocks and bonds, as well as offering a target date plan with little to no further research needed on the part of participants. In the absence of investment direction, participants initially will be defaulted into an investment option designed to preserve principal, and after four years into a qualified default investment alternative such as the target-date fund. At any time, a MEP IRA can be rolled over into another IRA or qualified retirement plan should they choose to.

There will also be unique benefits to having a MEP IRA. The government can do a lottery-linked savings program where every \$50 contributed to the account, either through scheduled, one-time, or earnings contributions, puts your name into a monthly lottery where winners get another \$50 or \$100 added to their account. The point of the lottery is not for a huge

windfall, though one of the winners may receive a larger amount as added incentive, but to get as many people to win as possible. Any amount that somebody wins as a result of savings will likely draw them to save more, even a miniscule amount.

There should also be an option to save to the account directly from your tax refund. Participants can put their MEP IRA account number on their tax return, in addition to a bank account, and they can select however much they would like to contribute. Volunteer Income Tax Assistance (VITA) sites, which prepare taxes for low-income taxpayers at no cost, should be directed to let every taxpayer know about the MEP IRA and help open accounts for all those interested. This is viable considering that VITA sites currently help taxpayers open credit union bank accounts and purchase U.S. savings bonds. However, rarely would a millennial purchase savings bonds with all the technology current available to them. That is one of the reasons that any government initiative to help millennials save for retirement must be comparable to today's technology in convenience and practicality.

Benefits

Increased Coverage and Usage

The main benefits of such a plan for participants is the ability to contribute to the MEP IRA in a manner that is flexible for the participant's need. The same way that an Uber driver inputs their bank account information into the app to start getting paid, they could similarly input the MEP IRA information. Contributing to an IRA is much harder than contributing to a 401(k) because you have to receive the money first and then send it to the IRA. With a 401(k), the money is never received by the worker and is automatically deducted. Gig economy workers still

have access to the IRA, but since they do not receive a reliable source of income, it may be hard to let go of money in the present, especially if it requires direct action. In terms of behavioral psychology, it is easier to save the money if it cannot be immediately spent.

Employers are also not forced to participate in the program, but it is in their best interest that they do so. They have no liability for administering the plan and they also have no obligation to contribute to worker's accounts. However, Uber and Lyft often run a tight schedule with drivers since many of them are needed in order to always have a sufficient amount of them during certain hours of the day. Both companies provide seemingly lavish rewards for new drivers to get started and, in response to intense backlash over the way workers are treated, are beginning to roll out benefits for their workers in the form of corporate partnerships. A 401(k) is currently one of the most cherished benefits available to employees. Though workers who are independent contractors feel separated from the business who contract them, if they feel that those same businesses have an investment in their future, they will feel much better about their jobs and will be more likely to stay employed in that way.

Social Stability and Less Dependency on Social Security

As noted before, Social Security may not reliably support millions of Americans who currently do not have enough savings for retirement. For policymakers to not do anything is not an option. By increasing access to retirement savings vehicles, policymakers will be avoiding the major problem of Social Security being unable to be maintained in the future. While there are arguments on both sides of the aisle whether to privatize Social Security or not, both parties

should agree that the less Americans are dependent on Social Security because they are self-sufficient, the better.

Additionally, more Americans saving for retirement on their own could have more benefits for society. According to the the Pew Charitable Trust, over half of Americans struggled to make ends meet after their most expensive “financial shock”. Forty-seven percent of Americans who experience a “financial shock” also experienced a financial shortfall, compared to 16% who did not experience shocks (2015). Even in the present day, many Americans do not have enough saved to maintain their standard of living when they experience unexpected expenses. A retirement plan like the MEP IRA will not only go a long way to ensure financial stability in the future, but the act of saving will put more Americans at ease at a time of high anxiety. Saving for retirement may also lead them to save more in general, especially if they know how much they need to save in order to reach their retirement goals.

Policy 2 - Expand the Saver’s Credit

According to the IRS (2017), in order to be eligible for the credit, a taxpayer needs to be:

1. Age 18 or older
2. Not a full time student; and
3. Not claimed as a dependent on someone else’s return

The amount of the credit is 50%, 20% or 10% of your retirement plan or IRA contributions up to \$2,000 (\$4,000 if married filing jointly), depending on your adjusted gross income. Figure 4 shows the table to calculate the amount of the credit.

Figure 4.

2018 Saver's Credit			
Credit Rate	Married Filing Jointly	Head of Household	All Other Filers*
50% of your contribution	AGI not more than \$38,000	AGI not more than \$28,500	AGI not more than \$19,000
20% of your contribution	\$38,001 - \$41,000	\$28,501 - \$30,750	\$19,001 - \$20,500
10% of your contribution	\$41,001 - \$63,000	\$30,751 - \$47,250	\$20,501 - \$31,500
0% of your contribution	more than \$63,000	more than \$47,250	more than \$31,500

Source: Internal Revenue Service

For a 401(k), some participants rely in part on employer matching contributions. With IRAs, this advantage is lost for those without a traditional employer. With some improvements, the Saver's Credit could serve this function for those with the MEP IRA. Currently, as the credit is structured, tax breaks are given to low- and moderate-income taxpayers who make contributions to a qualified retirement account. In theory, this looks like a great incentive to get people to save for retirement but, in practice, there are issues that limit its effectiveness

The most limiting aspect of the tax credit is that it is nonrefundable. This means it can lower a taxpayer's tax liability to zero, but not below. If there is a portion of the credit that is left over after a taxpayer's tax bill is zero, it is lost. This leads to a secondary problem. It is usually not accessible to those with children because it applies after the child tax credit. Let's look at the following example.

Example:

Jeremy works as a freelance writer and has two children. He will file as single and made \$25,000 in the year 2017. He also put away \$1,000 in an IRA. Given no other information, at a 15% tax rate, his income tax liability is \$1,583 after standard and personal deductions. He will receive a \$2,000 child tax credit, \$1,000 for each child, bringing his tax liability to zero. He would have received \$500 in a Saver's credit but since it cannot help reduce his tax liability any lower, it is lost.

Jeremy did not make much money and even though he has two children he takes care of, he socked away \$1,000 for his future. However, because he has no 401(k), since he is a freelancer, he received no match for his funds and the Saver's credit proved unfruitful due to its non-refundability. The Saver's credit could serve the purpose of an employer match given some small tweaks to its structure. Proposed legislation in Congress, the Encouraging Americans to Save Act (S. 2492), helps to do this. Similar to many previous bipartisan proposals, S. 2492 would make the credit refundable to a retirement savings account, expand coverage to middle-income households, and introduce a smooth phase-out of the credit. A recent analysis looked at how S.2492 could improve outcomes for workers in Connecticut not currently offered an employer-sponsored plan. The results, as shown in Figure 5 below, reveal a big improvement, both in terms of the dollar size of the credit and the match rate.

Figure 5.

Income quartile	Credit amount		Match rate	
	Current law	S. 2492	Current law	S. 2492
Lowest	\$34	\$157	10%	44%
2nd	157	418	13	35
3rd	30	265	1	11
Highest	4	43	0	1

Source: Alicia H. Munnell, Anek Belbase and Geoffrey T. Sanzenbacher. 2018.

Based on S. 2492, we recommend making the Saver’s credit refundable and having it match 50% of retirement savings up to \$2,000. That means the maximum credit that someone can receive is \$1,000 and the full amount of that may go into a taxpayer’s tax refund after tax liability has been reduced to zero. Also, research suggest that matching benefits are a good way to boost participation rates and increase the total amount of money flowing into retirement accounts (Madrian, 2013). In order to increase the effectiveness of this policy and the previous one, it should be coupled with the MEP IRA. The refundable portion of the Saver’s Credit could have the limitation that it must be directly deposited into a MEP IRA. This way the money goes directly towards retirement savings and anyone who does not have an account must open one.

Policy 3 - Retirement Planning Education

As employers started to replace pension plans with 401(k)-style defined contribution plans, workplace retirement plan education became paramount. Employees went from needing to know little to nothing about their retirement plan to needing to know how to choose among various investment options, often for the first time in their lives. They had to learn financial lingo and concepts, and they had to contribute more of their earnings toward a plan with no guarantee



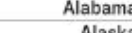









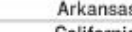




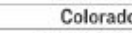


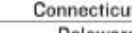
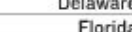
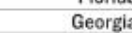



















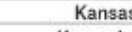


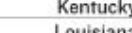


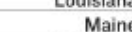

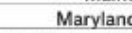

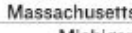


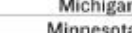

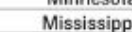

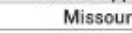

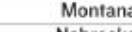





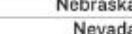

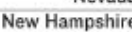


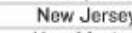





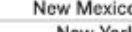

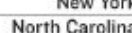

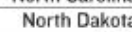










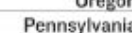




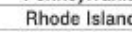




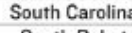




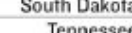

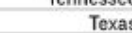


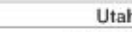

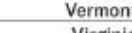
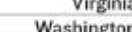

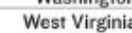


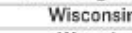



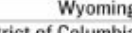





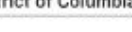





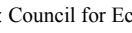











of receiving adequate retirement income. While financial literacy education places an emphasis on saving money and budgeting, when it comes to retirement planning, it additionally is of importance how one saves that money. In order to contribute to a 401(k) plan in the first place, employees usually have to fill out an enrollment form that consists of what percentage of their earnings to contribute, which mutual funds to invest in, and selecting a beneficiary. There is no one stop shop for retirement advice since so much of it matters on one's lifestyle, in addition to unpredictable outcomes like market returns. It matters where one retires, if they are still working, what retirement vehicles they used, and how much total savings one has been able to accumulate.

It is clear that accessibility alone may not be enough to close the retirement gap. Increased portability, the ability to contribute to a plan in many ways, even when working for many employers, may help overcome a barrier for those in the gig economy who actively seek better ways to save for retirement. However, retirement planning education has not kept up with the increasing complexity of how workers save and invest. It is not feasible to expect widespread participation in a program when workers do not understand the fundamentals of retirement in the modern day.

Take 401(k) fees, for example. According to research done by the AARP, seven in ten (71%) are not aware that they pay fees to their 401(k) plan provider to maintain their account. When told of these fees, six in ten (62%) are not aware of the amount they pay in fees to maintain their account. AARP estimates that lifetime retirement savings can be eroded by 30% due to fees. Additionally, a national survey conducted by Ramsey Solutions found that 40% of workers say their employer does not provide any type of retirement or financial education. It also found that 22% of millennials learned about retirement in school.

School can be an effective way of reaching millions of young adults. College students vent anger at the failure of our school system to teach students the basic necessities of living on one's own such as understanding taxes, insurance, banking, and personal finance, among others. Young adults may not realize it yet, but retirement planning is among those important facets of life that must be learned and it can be administered through comprehensive financial literacy education. The Great Recession revealed how little average Americans know about the banking system and finance. On the heels of this collapse, more states have been offering personal finance courses in high school but this nation is far from having every student take a course. According to the Council for Economic Education, only 17 states require students to take a course in financial literacy. However, this is a leap from 2007, when only 7 states had requirements. While it is difficult to grasp the full effectiveness of these courses, rigorous financial literacy requirements can raise improve the credit scores and lower the probability of delinquency for young adults (Urban et al., 2015). Figure 6 below shows the state requirements and offerings for the 50 states. Personal finance instruction in college should be targeted at state colleges in states that do not require taking a personal finance class in high school.

Figure 6.

KEY						
	YES					
	Personal finance instruction integrated in another course	Included in the K-12 Standards?	Standards Required to be Implemented by Districts?	High School Course Required to be Offered?	High School Course Required to be Taken?	Standardized Testing?
Alabama						
Alaska						
Arizona						
Arkansas						
California						
Colorado						
Connecticut						
Delaware						
Florida						
Georgia						
Hawaii						
Idaho						
Illinois						
Indiana						
Iowa						
Kansas						
Kentucky						
Louisiana						
Maine						
Maryland						
Massachusetts						
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North Carolina						
North Dakota						
Ohio						
Oklahoma						
Oregon						
Pennsylvania						
Rhode Island						
South Carolina						
South Dakota						
Tennessee						
Texas						
Utah						
Vermont						
Virginia						
Washington						
West Virginia						
Wisconsin						
Wyoming						
District of Columbia						

Source: Council for Economic Education, 2018 Survey of the States

It is fully possible to deliver useful financial literacy education to college students across the nation. One case study is provided in the state of Oklahoma. In 2001, the emotional toll on college students with excessive debt was first exposed nationally on CBS' 60 Minutes. The segment featured two students, one at the University of Oklahoma, who had committed suicide to escape what they felt were crushing credit card bills. Randal Ice, chairman of the finance department at the University of Central Oklahoma in Edmond, had taught a single course in financial literacy for 26 years. The morning after the airing of the episode, he was ordered by the university president to add 20 sections of personal finance. Lecturers were hired and the program was expanded. The University of Central Oklahoma now runs between 700 and 1,000 freshmen and sophomores through the personal finance course each academic year. Other institutions in Oklahoma began offering courses and, a decade later, there is a widespread belief in Oklahoma that personal finance is a necessary part of a college education.

In order to secure the futures of millions of young Americans, financial literacy education should be expanded in our schools. Like in Oklahoma, every college and university should offer a personal finance course. Colleges in states with a high school requirement for personal finance classes should make such a course a part of their core curriculum. Some educators feel so strongly about the urgency of offering these courses they have tried to add personal finance to their college's core curriculum, including Bridgewater State College in Massachusetts. Professor Shannon Donovan at Bridgewater State has noted that he has students begging every semester to let them into his course (Blanton, 2011). The basics of saving, budgeting, and investing should be covered in these courses. Retirement planning should be incorporated. As a result of these courses, students should be educated on at least:

- What forms of retirement savings vehicles are available
- Social Security benefits and election options
- How fees and taxes impact retirement savings
- How to form and maintain habits of retirement savings
- How to envision one's retirement and what it means to maintain a lifestyle
- Understanding what costs go up and down in retirement
- How to work with a financial advisor and important questions to ask
- Why saving for retirement must be done early and often (compound interest)
- How debt, such as student loans, can affect retirement and how to prioritize

There may be other ways to effectively reach students. Colleges often have career centers that help student plan their careers and succeed in life after graduation. Since retirement planning is heavily associated with employment, career centers could offer workshops or resources designed on how to navigate 401(k)s and employee benefits. In these resources it should be important to mention that students should value retirement plans as a employee benefit that is indispensable. Career centers could also bring financial advisors to campus to give free advice to students as they prepare to pay off student loans and accept job offers. Students should be advised to open a Roth IRA when they earn money over the summer or during the school year.

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