Leadership Letter

"Gigged"

Plan design considerations for helping "gig" employees save for retirement.

By Jack Towarnicky

"Gig": A military demerit; to work as a musician; a spear for catching fish; a light 2-wheeled, one-horse carriage; or, a job, usually for a specified period of time. The impact of "gig" employment on retirement in America is uncertain.[1]

Some workers will leave your firm to join the "gig" economy as a transition to retirement. Others will join your firm after spending much of their working career in the "gig" economy. *What have you done and what can you do to help them prepare for a financially successful retirement?*

The Impact on Retirement Preparation

Eligibility/Turnover

Historically, most "gig" employment is temporary in nature and doesn't offer retirement benefits.[2] Some regular, indefinite employment doesn't include access to an employer-sponsored plan and, even where a plan is offered, some eligible employees fail to enroll.[3] Many workers won't accrue significant assets due to turnover.[4] Few Americans contribute to Individual Retirement Accounts.[5] Finally, too many employees cash out their retirement savings upon separation.[6]

Adequate Preparation Requires Consistent Saving

Consistent saving makes all the difference — the consistent savers' $167,330 average account balance was double that of all participants — $75,358. The $82,338 median for consistent savers was almost five times that of all participants — $16,836.[7]

What Have You Done? What Can You Do?

Beyond Traditional 401(k) Designs:

The worker behaviors identified above are not new trends. As a plan sponsor, you may want to consider:

- Adding Roth 401(k) provisions and consider changing your automatic enrollment default from pre-tax to Roth.[8]
- Adding Deemed IRA provisions to facilitate account aggregation/consolidation, and to reduce leakage by allowing:
    - Rollover of Roth IRA monies into your plan, and
    - Workers to contribute more while employed and even after employment ends — the maximum IRA contribution in 2019 is $6,000, plus $1,000 catch-up for those age 50+.
- Offering the "right" kind of liquidity, avoid the "wrong" kind of liquidity:
    - Add 21st century loan capability (electronic banking, line-of-credit processing) so workers can initiate a loan and continue loan payments after separation,
    - Curtail pre-retirement withdrawals.[9]
- Adopting a marketing campaign to "preserve" retirement assets by facilitating rollovers into your plan and avoiding leakage from plan loan defaults, at hire and perennially thereafter — even after separation from employment (see sidebar on next page). Studies show significant leakage where account balances are

Preserving Retirement Assets by Facilitating Rollovers of Plan Loans

Typical situations: Employee has a loan outstanding at separation — whether from a predecessor employer's plan or a subsequent employer's plan.

1. **First example:** She has an account balance of $15,000 of which $7,000 is outstanding loan principal. First, direct transfer/rollover the other $8,000. Allow a loan of $7,000 from your plan and use those funds to complete the rollover (using, as necessary, your plan's electronic banking, 21st Century loan processing capability).
2. **Second example:** She has an account balance of $100,000, $50,000 is an outstanding loan. First, repeat the process in the first example. If the maximum loan is insufficient to complete the rollover, iteratively and repeatedly borrow the maximum and rollover those monies (leveraging your plan's line-of-credit functionality) until completing the rollover of the full $50,000. Generally, under provisions added by the Tax Cuts and Jobs Act of 2017 for loans defaulted on or after January 1, 2018, the participant must complete the rollover process prior to the due date (with extensions) for filing the participant's federal income tax return.

"small" — less leakage once account balances exceed a critical mass of approximately $20,000.[10]

Retaining participants and assets helps your plan and your plan's participants by adding to economies of scale. Facilitating IRA contributions while employed and after separation while concurrently aggregating/consolidating retirement assets has the same effect. As necessary, consider adjusting administrative fees.[11]

Don't let the "gig" become a demerit.

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[1] E. Morath, Was the Gig Economy Overblown? 6/7/18, Accessed 2/26/19 at: https://www.wsj.com/articles/was-the-gig-economy-overblown-1528403201 K. Monahan, J. Schwartz, T. Schleeter, Millennials in the Gig Economy: Six Trends, 9/27/18, Accessed 2/26/19 at: https://deloitte.wsj.com/riskandcompliance/2018/09/27/millennials-in-the-gig-economy-6-trends/ J. Zumbrun, How Estimates of the Gig Economy Went Wrong , 1/7/19, Accessed 2/26/19 at: https://www.wsj.com/articles/how-estimates-of-the-gig-economy-went-wrong-11546857000

[2] Bureau of Labor Statistics, U.S. Department of Labor, Economic News Release, Contingent and Alternative Employment Arrangements, May 2017, Table 9. Employed contingent and non-contingent workers and those with alternative and traditional work arrangements by health insurance coverage and eligibility for employer-provided pension or retirement plans, 6/7/18. "In May 2017, temporary help agency workers (13%) and on-call workers (35%) were less likely to be eligible for employer-provided plans than were contract company workers (48%) or those in traditional arrangements (51%). Overall, the proportions of workers in alternative arrangements who actually participated in employer provided plans were lower than for those in traditional arrangements. Accessed 2/25/19 at: https://www.bls.gov/news.release/conemp.t09.htm

[3] Bureau of Labor Statistics, Department of Labor, National Compensation Survey, Table 2, Retirement benefits: Access, participation and take up rates, private industry workers, March 2017. For full time workers, 77% had access, 60% participated for a take-up rate of 78%. Accessed 2/25/19 at: https://www.bls.gov/ncs/ebs/benefits/2017/ownership/private/table02a.pdf

[4] Census Bureau, Employee Tenure in 2018, 9/20/18. For the past five decades, median tenure has been less than five years. In 2018, for workers age 16+ median tenure = 4.2 years, for workers 25+ = 5.0, and for workers age 55+ = 10.1 years. Accessed 2/25/19 at: https://www.bls.gov/news.release/tenure.nr0.htm ; See also: Craig Copeland, Employee Tenure Trends, 1983–2016, Employee Benefits Research Institute, September 2017, Accessed 2/25/19 at: https://www.ebri.org/content/employee-tenure-trends-1983-2016; See also: Bureau of Labor Statistics, Number of Jobs, Labor Market Experience and Earnings Growth Among Americans at 50: Results from a longitudinal survey, 8/24/17. Individuals born in the latter years of the baby boom (1957-1964) held an average of 11.9 jobs from age 18 to age 50. Accessed 2/25/19 at: https://www.bls.gov/news.release/pdf/nlsoy.pdf

[5] Investment Company Institute, The Role of IRAs in US Households' Saving for Retirement, 2018. "Although most US households were eligible to make IRA contributions, few did so. Only 11 percent of US households contributed to traditional or Roth IRAs in tax year 2017…" Accessed 2/26/19 at: https://www.ici.org/pdf/per24-10.pdf

[6] EBRI, The Largest Leakage Culprit: Job Change Cashouts, 7/17/14, Accessed 2/26/19 at: https://www.ebri.org/docs/default-source/fast-facts/ff-290-leakage-17july14.pdf?sfvrsn=2e38342f_2

[7] Investment Company Institute, What Does Consistent Participation in 401(k) Plans Generate? Changes in 401(k) Plan Account Balances, 2010–2016, November 2018, Accessed 2/25/18 at: https://www.ici.org/pdf/per24-07.pdf

[8] J. Towarnicky, Are You Still Avoiding Roth!? 2/21/19, Accessed 2/26/19 at: https://www.psca.org/blog_2018_jack_10

[9] J. Towarnicky, Impediments to Saving for Retirement — Part 2 — The Solution? The Right Kind of Liquidity, 11/9/18, Accessed 2/26/19 at: https://www.psca.org/blog_jack_2018_51

[10] A. Munnell, Combining small 401(k) accounts helps preserve retirement saving, Marketwatch, 12/4/18, Accessed 2/26/19 at: https://www.marketwatch.com/story/combining-small-401k-accounts-helps-preserve-retirement-saving-2018-12-04

[11] IRS Revenue Ruling 2004-10, Accessed 2/26/19 at: https://www.irs.gov/irb/2004-07_IRB ; Department of Labor, Field Assistance Bulletin, 2003-3, Accessed 2/26/19 at: https://www.dol.gov/agencies/ebsa/employers-and-advisers/guidance/field-assistance-bulletins/2003-03