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Good morning Chairman Casey, Ranking Member Scott, and members of the Committee. I am Nari Rhee, director of the Retirement Security Program at the UC Berkeley Center for Labor Research and Education.

Thank you for this opportunity to appear before you. As other witnesses have testified, there are large structural gaps in the employer-sponsored retirement system. I would like delve a bit into the kinds of workers who are left out, and why.

The US retirement system, outside of Social Security, was never designed to include certain jobs and employment relationships: low-wage jobs, part-time jobs, high-turnover jobs, private household employment, and self-employment in low-earning sectors. Workers of color are disproportionately affected by the resulting disparities in coverage. It's also important to recognize that large swaths of the care workforce – consisting mostly of women – are excluded, whether it's nannies and homecare workers employed by families, or family based childcare providers who operate as small businesses.

Looking forward, we need a holistic policy approach to ensure true financial security for all workers – one that incorporates wage policy, Social Security reform, tax policy, and a universal retirement savings system.

1. The current employer-sponsored retirement savings system leaves out many workers, and this disproportionately impacts workers of color.

Ideally, close to 100% of jobs should include a retirement plan, regardless of part-time/full-time status, occupation, industry, or firm size. And all workers should participate in a retirement plan through the full arc of their earning lives, regardless of race, gender, or wage level, and whether they work for an employer or are self-employed. But the current system falls far short of universal coverage.

Depending on the source, roughly one-half to two-thirds of private sector employees have access to a retirement plan. The Bureau of Labor Statistics' National Compensation Survey (NCS), an employer survey, offers the upper bound estimate of coverage: in 2019, 67% of workers in the private sector have access, and 50% participate. While higher than the estimate of roughly 55% from household surveys from the Census Bureau, this falls far short of universal coverage.

Workplace retirement plan coverage varies sharply by occupation, wage level, and part-time/full-time status. For instance, according to NCS data for 2019, 84% of management and professional workers in the private sector have access to an employer sponsored plan, compared to only 41% of workers in service jobs. The bottom 25% of workers by wage level are less than half as likely as the top 25% of workers to have access (42% vs 88%). Similarly, only 39% of workers in part-time jobs have access, compared to 77% of workers in full-time jobs.[1]

The gap in take-up – the share of workers with access who actually participate in the retirement plan – is even greater than the gap in reported access. This difference is particularly stark for workers in low-wage jobs. Among the bottom 25% of workers by wage level, only 52% of those with access participate – which translates to just 21% of all workers in this wage bracket.

In sectors with high turnover and low wages, access to employer retirement plans is often not meaningful. For instance, the retail industry offers retirement benefits to 72% of its workers, given that the sector is dominated by large firms, but only 39% of retail workers actually participate in a plan (Table 1). This is due to low wages and the interaction between eligibility criteria related to hours of work and length of job tenure, and the prevalence of part-time, short-term employment in the sector.

Table 1.

Retirement Benefit Access, Wages, Turnover, and Black/Latino Representation, Selected Industries

INDUSTRY	SHARE OF WORKERS OFFERED/ PARTICIPATING IN RETIREMENT BENEFITS, MARCH 2021	AVERAGE WEEKLY WAGE, 2021 1st QUARTER	ANNUAL TURNOVER RATE, 2019	BLACK & LATINO EMPLOYMENT QUOTIENT, 2020
Construction	62%/46%	$1,240	58%	1.7
Transportation and Warehousing	79%/63%	$1,030	46%	1.2
Financial Activities	85%/77%	$2,740	29%	0.7
Professional and Technical Services	86%/72%	$2,126	NA	0.5

[1] National Compensation Survey: Employee Benefits in the United States, March 2020

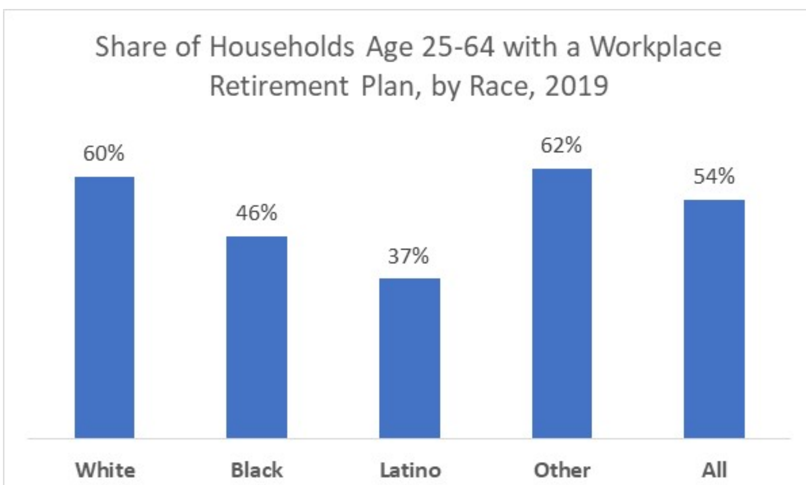
Retail Trade	72%/39%	$700	58%	1.1
Administrative and Waste Services	38%/25%	$911	NA	1.4
Accommodation and Food Services	30%/12%	$432	79%	1.6

Source: National Compensation Survey, Quarterly Census of Employment and Wages, JOLTS, and Labor Force Statistics from the Current Population Survey. Black/Latino employment quotient is the share of Black/Latino employment in the industry divided by their share of all employment. A quotient higher than 1 indicates overrepresentation, while a quotient below 1 indicates underrepresentation in the sector.

Workers of color are concentrated in jobs that are less likely to offer retirement benefits. Job-based disparities in access to employer sponsored retirement plans intersect with racialized labor market to result in highly unequal retirement plan participation rates. Workers of color are overrepresented in sectors with the lowest rates of retirement plan sponsorship, such as building services, restaurants, and the hospitality sector (See **Table 1**).

Consequently, among households age 25-64 with at least one employed worker, only 60% of White households participated in a defined-benefit or defined-contribution plan at work in 2019. The rate was significantly lower for Black households (46%) and Latinos (37%). (See **Figure 1**.)

Figure 1



Source: Author's analysis of Survey of Consumer Finances.

2. The current system is not designed to meet the needs of most self-employed workers and workers in nonstandard employment relationships, including those in care work.

Self-employed workers – who make up 9.5% of the active labor force[2] – can theoretically enroll in IRAs. However, a 2017 analysis of Census Bureau data found that only 14% of households with self-employed workers contribute to IRAs.[3] These were predominantly high-income households. Yet, among workers without incorporated businesses, who make up the vast majority of self-employed workers, median personal income was $40,000 in 2017-2020.[4] Median income among White women and Black and Latino workers in this group was $30,000. This is significant because lower-income self-employed workers lack a variety of resources necessary to navigate the retail IRA market, and existing tax incentives for retirement saving are less compelling than for high-income households.

The current system is also not designed to meet the needs of workers in nonstandard employment relationships, including those in care work. Unions and advocacy groups representing domestic workers and care workers that I have worked with, recognize the dire need for their members to accumulate retirement assets. But they face a regulatory framework that imposes a variety of barriers against setting up retirement savings accounts for their members and funding them because they fall outside of the traditional firm-employee relationship. These challenges stem from the tight constraints of ERISA as well as Know-Your-Customer and other financial regulations. For instance, these regulations accommodate auto-enrollment of employees into employer-sponsored retirement accounts, but do not necessarily do the same for associational relationships, such as access to retirement accounts provided through unions.[5] These barriers apply not only to self-employed workers, but also to home care workers, nannies, and other workers employed by individual clients who lack the means to set up a retirement plan.

3. As the result of the myriad forms of exclusion in the current retirement savings system, retirement asset ownership and savings levels are highly unequal by income, race, and gender.

The middle 50% of near-retirement households has insufficient retirement account balances, while most low-income households have no retirement assets. According to data from the 2019 Survey of Consumer Finances, only 10% of the bottom fifth of households age 55-64 (by income) have a 401(k)/IRA, and 37% of the lower-middle fifth, have any retirement assets. While retirement asset ownership rates increase with income, all but the top fifth of households in this age group have typical retirement account balances that are far below retirement income need (**Figure 2**). Even among the upper-middle (4th) income quintile households, the median

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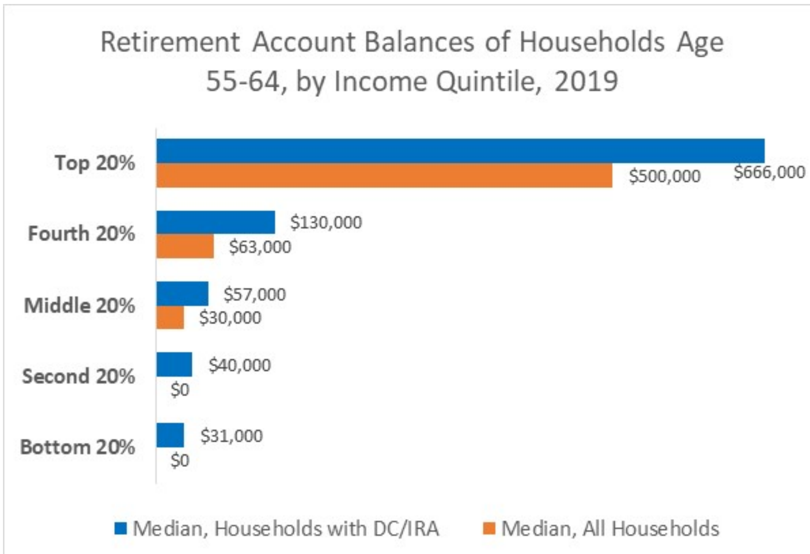
[2] Author's analysis of CPS ASEC 2018-2021.
[3] A. Chen and A.H. Munnell, "Who Contributes to Individual Retirement Accounts?", Issue Brief 17-8, Center for Retirement Research at Boston College, 2017.
[4] Author's analysis of CPS ASEC 2018-2021.
[5] Federal law allows unions to sponsor defined-benefit pensions through Taft-Hartley trusts, which can be funded through employer contributions as well as contributions by self-employed members. However, this allowance does not appear to extend to defined contribution plans.

account balance $63,000 will generate only about $200 per month in retirement income. Looking at just households with retirement accounts, large disparities by income persists, and typical balances among all but the top fifth fall short of providing adequate income.[6]

Figure 2



Source: Author's analysis of Survey of Consumer Finances.

Inadequate retirement savings is compounded by the interaction between inadequate retirement plan coverage and wage stagnation at the middle and bottom of the labor market. The average real wage has been flat since 2000 and average compensation growth has lagged far behind productivity growth[7], though wages have ticked up somewhat this year.[8] The federal minimum wage has been $7.25 for 10 years, while the cost of living has increased by 24%. The federal minimum wage for tipped workers in the restaurant sector, which has some of the lowest rates of retirement plan access, is $2.13.

Ownership of retirement assets falls short for all races, especially Blacks and Latinos. Among households age 25-64, 64% of White households have a pension, 401(k), or IRA, compared to 49% of Black households and 39% of Latino households. If we leave out defined benefit pensions and look at just retirement accounts, the level of racial inequality is even worse: 63% of

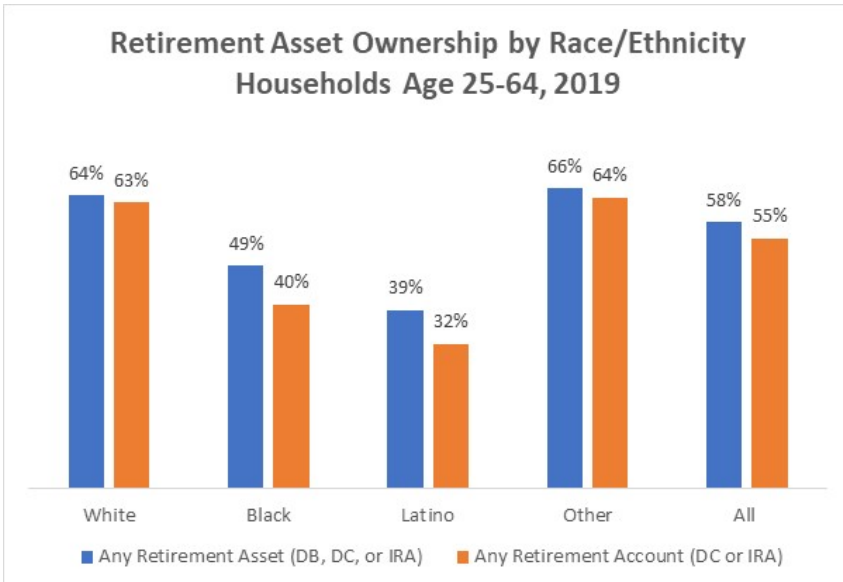
[6] Although 401(k)/IRA assets are distributed slightly less unevenly than overall wealth, they are still radically skewed towards high-income households. Among households age 55-64, the top 20% of households by income own 70% of the wealth held in retirement accounts in their age group. Across all households, the richest 20% of households control 85% of assets held in 401(k)s and IRAs. Author's analysis of 2019 SCF.

[7] E. Gould, "State of Working America Wages 2019," Economic Policy Institute, February 20, 2020. https://www.epi.org/publication/swa-wages-2019/.

[8] Ibid.

White households have a 401(k) or IRA, compared to 40% of Black households and 32% of Latino households. (See **Figure 3**.) Typical Black and Latino households with a retirement account have less than half the retirement savings of a typical White household with a retirement account ($30,000, $34,000, and $69,000, respectively). Looking at average (mean) retirement account balances, Black and Latino households have roughly a quarter of the average (mean) retirement wealth of White households ($43,000, $38,000, and $153,000, respectively).[9]

Figure 3



Source: Author's analysis of Survey of Consumer Finances.

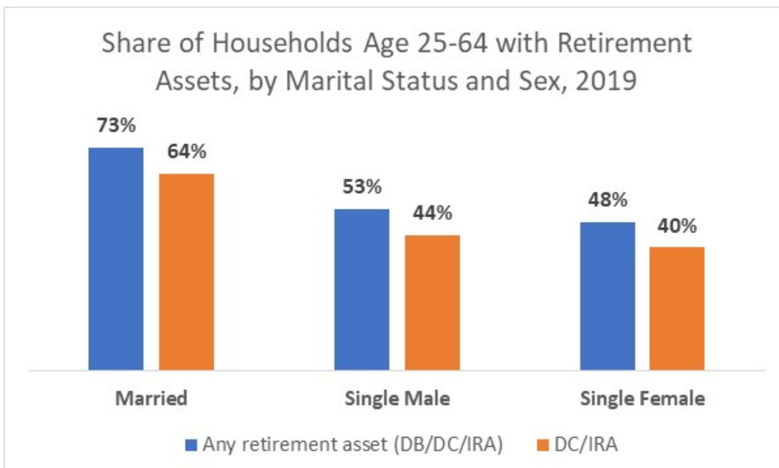
In addition to having less access to retirement benefits while employed, Black and Latino workers face a number of disadvantages that make it difficult to save for retirement. First, they consistently face higher rates of unemployment than White workers.[10] They are also significantly disadvantaged in generational wealth, which is an important factor in wealth accumulation. Federal Reserve researchers found that White families were three times as likely as Black families and 8 times as likely as Latino families to receive an inheritance. White families also received larger inheritances.[11] They also found that the typical Black and Latino family has $2,000 or less in liquid savings, less than a quarter of the amount held by the typical White

[9] Author's analysis of 2019 SCF.
[10] See for example N. Adjeiwaa-Manu, "Unemployment Data by Race and Ethnicity," Center for Global Policy Solutions, August 2017. http://globalpolicysolutions.org/wp-content/uploads/2017/07/Unemployment-Data-by-Race.pdf.
[11] N. Bhutta, A.C. Chang, L.J. Dettling, and J.W. Hsu, "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances," FEDS Notes, September 28, 2020. https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm.

family. Limited liquid savings is an indicator of economic fragility and vulnerability to financial shocks. All of these factors constitute obstacles to saving for retirement in the context of a 401(k) plan.

Households headed by single adults – in particular single women –are significantly less likely to have retirement assets. While 73% of married households age 25-64 have a pension, 401(k), or IRA, only 53% of households headed by single men, and 48% of households headed by single women, do so. Counting only retirement accounts, 64% of married households in this age group have retirement savings, compared to 44% of single male households and a mere 40% of single female households. (See **Figure 4**).

Figure 4



Source: Author's analysis of Survey of Consumer Finances.

Work-based retirement wealth accumulation poses special challenges for women, given their disproportionate responsibility for unpaid caregiving. In recent years, women workers have achieved approximate parity with male workers in terms of nominal access to workplace retirement plans. However, they still face structural barriers to retirement wealth accumulation. In addition to the gender pay gap, many women find themselves having to withdraw from the labor force or reducing paid work hours in order to care for children or aging parents, which results in interrupted or truncated careers. Even before the COVID-19 pandemic, when school closures drove many mothers out of the labor force, women's employment and work hours were suppressed by the lack of affordable childcare. And an aging population means an increased aggregate need for caregiving that falls on women's shoulders. This not only results in foregone pay, but a lasting pay penalty, resulting in a significant cumulative reduction in potential lifetime earnings.[12]

This means lower Social Security benefits, as well as fewer years to participate in a pension or 401(k), and lower income from which to save for retirement. A MetLife study from 2011 estimated a loss of $120,000 in wages and $64,000 in Social Security benefits for women who reduced paid work hours due to caregiving.[13]

3. Federal policy action is necessary to ensure universal retirement security.

Public discussion of disparities in retirement wealth often devolve into speculation about whether or not certain groups of workers want to save, or prioritize saving for retirement. But surveys show that American workers of all backgrounds are worried about retirement.[14] The lack of adequate retirement assets, and the disparities in retirement wealth by income, race, and gender, are structural problems that call for large-scale policy solutions. In particular, broad retirement security requires both universal coverage and adequate contributions, including employer contributions. In the US, it will take both strengthening Social Security financing and benefits, *and* policies that provide universal access to a supplemental tier of retirement income.

Federal policies over the last two decades have done little to move the needle on coverage, and in many cases – such as the short-lived U.S. Treasury MyRA program, implemented by executive authority under the Obama Administration due to legislative gridlock -- have proven that incremental, voluntary approaches do not work. Given the complexity and cost of administering employer-sponsored retirement plans, not to mention the fiduciary liability, employer tax incentives are unlikely to move the needle much further.

The states, meanwhile, face dramatic fiscal repercussions from the retirement crisis, and have been waiting for the federal government to act. An increasing number of states have decided they can no longer wait, and are pursuing their own policies to narrow the future retirement income gap. The most potent of these are auto-IRA programs that mandate employers that do not offer their own plan to auto-enroll their employees in a state-sponsored Roth IRA. Workers can then choose to opt out. In 2017, OregonSaves launched as the first such program to be implemented, followed by Illinois Secure Choice in 2018 and CalSavers in 2019. Unfortunately, due to ERISA

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[12] On the impact of caregiving on women's wages and earnings, see S.J. Correll, S. Benard and I. Paik, "Getting a Job: Is There a Motherhood Penalty?," *American Journal of Sociology* 112(5), March 2007, https://doi.org/10.1086/511799; J.R. Kahn, J Garcia-Manglano and S.M. Bianchi," The Motherhood Penalty at Midlife: Long-Term Effects of Children on Women's Careers," *Journal of Marriage and Family* 76 (Feb 2014):56-72, https://doi.org/10.1111/jomf.12086; C.H. Van Houtven, N.B. Coe and M.M. Skira, "The Effect of Informal Care on Work and Wages," Journal *of Health Economics* 32(1): 240-252; S. Bornstein S, "Work, family, and discrimination at the bottom of the ladder," *Georgetown Journal on Poverty Law Policy* 19(1):1–42, 2012.
[13] MetLife, "The MetLife Study of Caregiving Costs to Caregivers," https://www.caregiving.org/wp-content/uploads/2011/06/mmi-caregiving-costs-working-caregivers.pdf.
[14] D. Doonan, K. Kenneally and T. Bond, "Retirement Insecurity 2021: Americans' Views of Retirement," National Institute on Retirement Security, February 2021. https://www.nirsonline.org/reports/retirementinsecurity2021/. Insured Retirement Institute, "Millenials & Retirement 2020", Jan 2020. https://www.myirionline.org/docs/default-source/default-document-library/iri_millenial_Whitepaper_final_2020.pdf?sfvrsn=0.

preemption issues, these programs cannot accept employer contributions. Some states are following the Massachusetts model, of setting up voluntary multiple employer 401(k) plans for certain sectors, such as nonprofits or small businesses. These plans have the benefit of lower cost compared to the average small employer plan, and can be used to complement auto-IRA programs. Both types of programs are administered by private recordkeepers, and investment management is also outsourced, with a public board of trustees providing fiduciary oversight. In addition to Oregon, California, and Illinois, which have thus far accumulated $250 million in assets and are rapidly growing, five other states and two large cities have passed legislation to implement similar programs.[15]

Significantly, California enacted its auto-IRA legislation in 2016 on the same day as the current minimum wage law that raises the floor to $15/hour for all workers by 2022. The wage increases, combined with the auto-IRA program, have the potential to increase low-wage workers' retirement income by 50%.[16]

But even in states with auto-IRAs, large groups of workers are left out: those who cobble together a living from part-time and seasonal jobs, and those who work for the smallest employers. The employer mandate in the Illinois auto-IRA program, for instance, leaves out firms with less than 20 employees. California's mandate exempts the firms with less than 5 employees. Oregon, admirably, includes all employees regardless of firm size. None of these programs cover workers who are excluded from their employer's retirement plan by eligibility rules related to part-time status and job tenure, in order to avoid running afoul of ERISA.

In closing, I offer some policy recommendations for ensuring universal retirement security:

- Protect and strengthen Social Security, including benefit enhancements for low-wage workers and caregivers.
- Wage standards that support retirement security. Federal wage standards should keep up with the cost of living, starting with an increase to $15/hour and elimination of the tipped sub-minimum wage, which disproportionately hurts women workers.
- Revise ERISA rules to ensure greater inclusion of part-time workers in firms that offer a retirement plan.
- Current tax incentives for retirement saving give the most benefit to people who need it least, and little to those with limited incomes who need the most help. Converting the existing, regressive tax deduction into a flat refundable retirement savings credit would go a long way towards lifting retirement wealth at the bottom and middle.
- Protect and encourage state policy innovation to expand coverage. Successive administrations have taken conflicting positions with regard to state auto-IRA programs.

[15] For the status of state retirement savings initiatives, see https://cri.georgetown.edu/states/.
[16] N. Rhee, "California's $15 Minimum Wage and Secure Choice Retirement Savings Program Can Boost Young Low-Income Workers' Retirement Incomes by 50%," UC Berkeley Center for Labor Research and Education, December 2017; N. Rhee, "What We Can Learn from the California Model for Improving Workers' Financial Security," Aspen Institute blog post, March 28, 2018, https://www.aspeninstitute.org/blog-posts/can-learn-california-model-improving-workers-financial-security/.

Depending on the outcome of the ERISA lawsuit that is winding its way to the Supreme Court, legislative action may be required to protect the program.

- Finally, federal legislative action is ultimately necessary to create a national system of universal retirement plan coverage to supplement Social Security. Nothing less than this can truly ensure broadly shared retirement security for all workers. Having been deeply involved with the development of the CalSavers program, I offer that there's much to learn from the states, and from other national models like the UK NEST program and the Australian Superannuation program, in terms of the possible combinations of employer- and publicly-sponsored plans in a universal coverage scheme.

Thank you again for this opportunity to speak before you.