Breathe Easy—How Guaranteed Retirement Accounts could change your life

A primer on GRAs and how they work

According to Gallup, running out of money in retirement has ranked as one of Americans' top concerns since 2001 (Saad 2018). That's not surprising. Our current patchwork, do-it-yourself retirement system means many workers don't have access to a retirement account. And, for those who do, they find that the burden—of what to invest in, how to invest, and how to withdraw savings—falls on them, even though they have neither the time nor the expertise to make these choices.

Americans' retirement anxieties have been made more acute for at least three reasons:

1. The shift from traditional pensions to 401(k)-style plans (EBSA 2018)
2. The increase in life expectancy in retirement (NCHS 2018)
3. The decline in Social Security benefits as a share of earnings (Van de Water and Ruffing 2017)

Guaranteed Retirement Accounts are a key policy solution to the retirement crisis

Guaranteed Retirement Accounts (GRAs) are universal, affordable, and portable accounts that provide workers with a monthly paycheck in retirement that lasts the rest of their lives.

Every person who works for an employer that does not offer them a retirement plan would contribute 1.5

percent of every paycheck to a GRA, which would be matched by their employer.[1] The employer match would be vested immediately.[2]

People who are self-employed would be automatically enrolled as well.

All workers would also receive an annual tax credit equal to 1.5 percent of pay, up to $600. The $600 would be enough to fully offset the employee contribution for workers earning $40,000 a year or less.

The account would be portable, even if a worker crosses state lines for a new job.

Workers would choose from a list of vetted investment managers with well-diversified portfolios and competitive fees. All funds would be pooled and managed together rather than in individually directed accounts to reduce overhead costs. These investment portfolios could include passive funds modeled on the Federal Thrift Savings Plan Lifecycle Funds as well as actively managed funds designed to take advantage of the potential for improved risk-adjusted returns available to long-term investors.

Upon retirement, a participating worker would receive a monthly check for the rest of the worker's life. An average earner who retires at age 67 would be able to supplement a Social Security benefit of $38,000 per year with an estimated GRA benefit of around $13,000 per year, expressed in today's dollars—increasing retirement income by roughly a third.[3]

Universal worker savings accounts are a tried and tested idea that have worked well in a variety of countries, including Australia. GRAs are also an incredibly popular idea in the United States: In a recent nationwide poll, the vast majority of respondents — including 78 percent of Democrats, 77 percent of Republicans, and 86 percent of millennials — supported this plan[4] (AFT 2018).

Guaranteed Retirement Accounts bridge the gap for workers who lack employer-provided retirement benefits and can change workers' lives for the better.

Who will this help?

The Guaranteed Retirement Account plan will help many employees, but especially women, people of color, young workers, and those employed by small businesses.

Workplace retirement plans are the easiest way for workers to save, and GRAs ensure all people have a retirement plan at work. Most households that lack access to a retirement savings plan at work have no savings in an Individual Retirement Account.[5] Many businesses do not offer retirement plans: Some 40 million full-time, full-year private-sector workers ages 18 to 64 lack access to an employer-based retirement plan.[6]

Women and people of color are particularly at risk for an insecure retirement

Women ages 65 and older are 80 percent more likely to be impoverished than men ages 65 and older (Brown et al. 2016).

Additionally, among working-age families (where the head of household is age 32–61), the majority of black families (59 percent) and Hispanic families (65 percent) have no retirement account savings, whereas only a third (32 percent) of white non-Hispanic families lack such savings. Among those with retirement savings, the median savings for black and Hispanic families is $29,200 and $23,000, respectively; for white non-Hispanic families, it's $79,500.[7]

Young Latinas and black women are at a disadvantage in getting started saving for retirement: While 59 percent of white millennial men are eligible to participate in an employer-sponsored plan, only 41 percent of millennial Latinas and 42 percent of black women millennials are (Brown 2018).

Young workers are concerned about their retirement and want a simple way to save

Young people see the struggles of their parents and grandparents. They begin their working life already anxious about their own ability to retire. They are eager for solutions and want a simple way to save.

Even when their employer does offer a retirement plan, young people still may not be able to take full advantage of that retirement plan. There is often a waiting period (up to a full year) before employees are eligible to participate, and employer contributions are often not fully vested for several years. Given that young workers tend to change jobs more frequently than older workers, they need a retirement plan that is easily portable and that will be consistently available to them throughout their careers.

Small businesses are much less likely to offer retirement plans

Whereas 90 percent of workers at establishments with 500 or more employees have access to a retirement plan, only half of workers at establishments with fewer than 50 employees do (BLS 2018). Some small business owners do not feel they have the expertise to set up a retirement plan for their employees. In addition, small businesses that want to provide benefits must compete against those that don't.

Most small business owners want to build a better future—by, say, opening a beauty salon, operating a consulting business, or running a car-repair shop—*not* spend their limited resources (both time and money) hiring lawyers and accountants and figuring out how to choose a plan and appropriate investment options.

By keeping things simple and leveling the playing field, the GRA plan helps small businesses remain competitive while still providing a retirement benefit for all employees.

How did we get here?

EPI published board member Teresa Ghilarducci's Guaranteed Retirement Account plan in 2008 (Ghilarducci 2008). In 2016, together with Tony James, executive vice chairman of The Blackstone Group, Ghilarducci co-authored *Rescuing Retirement: A Plan to Guarantee Retirement Security for All Americans,* which explains a version of the plan in detail (Ghilarducci and James 2016).

The push for a federal retirement plan builds on activity in the states. This state leadership is reminiscent of what happened in the 1930s with Social Security: In response to a nationwide crisis of older people falling into poverty, states began providing limited pensions. By the time the Social Security Act was signed into law in 1935, 30 states had implemented such programs (McSteen 1985). Over the last decade, states frustrated with the lack of action to reform retirement at the federal level have taken matters into their own hands. Ten states have enacted laws designed to improve retirement security, and many more have introduced legislation (AARP 2019). The states with laws in place are California, Connecticut, Illinois, Maryland, Massachusetts, New Jersey, New York, Oregon, Vermont, and Washington.

However, state efforts are constrained. State plans are unable to ensure that employers contribute toward their employees' retirement. To ensure employer contributions, a federal plan—such as the GRA plan—is required.

Also, the state plans created thus far aren't portable across states, leaving workers in large parts of the country unprotected. The GRA plan would ensure that workers are covered nationwide and that coverage is seamless regardless of where they work or live.

GRAs offer those Americans who don't currently have access to a retirement plan the means to establish the firm financial footing they need to live safely and securely into old age. In doing so, GRAs can change the lives of American workers for the better.

American workers of all ages are in need of a retirement plan that grows with every dollar earned—whether in long-term jobs or freelance work, at small businesses or large—and that provides steady income that lasts for the duration of retirement. The current system not only leaves many workers out altogether, but it also magnifies inequality through unequal employer contributions, investment options and strategies that vary greatly in terms of fees and risk-adjusted returns, and tax subsidies tilted in favor of high earners.

These challenges leave policymakers with two options: ignore the looming retirement crisis happening in their own backyard or take action now to show that universal workplace retirement savings is feasible.

Endnotes

1. The employer plan would have to be equal to or better than a Guaranteed Retirement Account, with an employer contribution rate of at least 1.5 percent and a total contribution rate of at least 3 percent.

2. Neither the employee nor the employer would be required to contribute on earnings over $200,000.

3. Source: EPI estimate based on Social Security Administration's "scaled medium earner" for a worker age 21 in 2019 (Clingman, Burkhalter, and Chaplain 2018). The worker is assumed to retire at Social Security's normal retirement age (67 for workers in this age cohort), with earnings at ages 66 and 67 assumed to equal earnings at age 65 in nominal terms. Price inflation (2.6 percent), wage inflation (3.8 percent), and life expectancy (23 years at age 65) assumptions are based on Social Security Administration, *Single-Year Tables Consistent with 2018 OASDI Trustees Report*, Tables V.A5 and V.B1. Outcomes will depend on investment returns, which may be less than the assumed 6.0 percent (3.4 percent adjusted for inflation). Amounts are expressed in 2019 dollars. Benefits increase to keep up with inflation.

4. Results are based on a survey of 3,000 people conducted in February 2017 and a survey of 1,000 people conducted in May 2018. "Millennials" are ages 18–34.

5. EPI analysis of Survey of Consumer Finances 2016 microdata.

6. EPI analysis of Survey of Consumer Finances 2016 microdata.

7. EPI analysis of Survey of Consumer Finances 2016 microdata.

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