April 6, 2015

The Honorable Orrin Hatch
Senate Finance Committee
Washington, DC 20510

The Honorable Ron Wyden
Senate Finance Committee
Washington, DC 20510

The Honorable Michael Crapo
Senate Finance Committee
Washington, DC 20510

The Honorable Sherrod Brown
Senate Finance Committee
Washington, DC 20510

Dear Senators:

Thank you for the opportunity to submit ideas to the Senate Finance Committee and, in particular, the Savings and Investment Working Group. The Committee's eagerness to solicit ideas from a broad spectrum of ideologies and perspectives, as well as the creation of bipartisan working groups, are among the reasons there is so much hope that tax reform can become a reality in the not-too-distant future.

For this submission, we ask the Committee to consider a policy that would have an enormous benefit for middle class, working class, and low income people who work—a minimum pension.

What follows is a brief explanation of the proposal, our rationale for why the minimum pension is worth considering, and why it would appeal to policymakers of both parties. At the end of this document is a full policy paper on the minimum pension (also linked here) which goes into much greater detail.

Once again, thank you for this opportunity to submit ideas to the Committee. Please do not hesitate to contact us on this or any other matter.

Sincerely,

Jim Kessler
Senior Vice President

Gabriel Horwitz
Economic Program Director

Background—The Minimum Pension Proposal

Just as we have a minimum wage, we call for a minimum pension contribution.

Employers would be required to contribute 50-cents per hour into a private, portable retirement plan for each employee. (Employers that already offer defined benefit or defined contribution plans at this level or above would be exempt). The contribution would be automatically placed in an individually owned and controlled private IRA plan and automatically default into a low fee, life-cycle investment fund containing a mix of stocks and bonds. Individuals would be free to change the investment strategy but not allowed to withdraw the funds until retirement. Employers and individuals could put additional money into the IRA beyond the employer requirement, but additional contributions are not required. Upon retirement, the funds would default into a lifetime annuity, but individuals could choose other options.

Based on previous market returns, an individual who has no savings beyond the minimum pension employer contribution would retire at age 67 with $160,000 in 2013 dollars.[1] This would amount to a monthly retirement annuity of $790 which would be separate and on top of Social Security.[2]

The Case for a Minimum Pension

1. It's simple, tangible, and new.

Proposals like myRA and others circulating about are, frankly, incomprehensible. They rely on tax credits, matching grants, and enrollment incentives that people do not understand and will never understand. When people don't comprehend an idea—when they don't know what they are getting, and when they can't touch it—they distrust it. That is not to say that these other proposals don't have merit (they do)—just don't expect anyone to understand it, be excited about it, or feel that they will have any impact on their lives.

The minimum pension is as understandable as it comes, and, most importantly, it is tangible. People will know exactly what they are going to get, they can watch their account grow, they will believe that government *and* the private sector has done something for them, and they'll be right.

It will have a positive impact on the 50 million full-time workers who get nothing for retirement, as well as the millions working part-time.[3] And in a tangible, practical, and understandable way, it answers a principal concern of nearly every American adult—how do I afford a retirement befitting a lifetime of work?

2. It makes the New Economy work for everyone, not just the few.

Many have lamented an economy where gains from labor pale in comparison to gains from capital. But there is no magic wand to bring those diverging lines together. Under this proposal, for the first time ever, the capital markets will be used to reduce the wealth gap, not widen it. The bottom three quintiles will have an asset base that only those in the top two quintiles have today. They will be able to earn substantial returns (safely) that only the well-to-do have the opportunity to earn today.

For women, this proposal would permanently end the retirement savings and pension gap with men. Today, women are far less likely to hold a job with a pension benefit than men.[4] They are more likely to have disjointed employment and spells of part-time work due to childbirth. They also have longer life spans requiring them to extend their savings for more years. This would make a huge difference for them.

Likewise, minorities (particularly Hispanics) are far less likely to hold a job with a pension benefit than Whites.[5] And for the working poor and the middle class, it would permanently boost their economic circumstances. The projected $160,000 that would accrue to an individual receiving the minimum benefit could be turned into an annuity to ensure a happy retirement—or it could be willed to children, creating a chain of wealth through generations that could permanently improve the lives of tens of millions of people.

Instead of pretending that somehow we can change the rules of the new economy, it allows every single working person to get a piece of the new economy and the same gains that those at the top enjoy. And it also modernizes the workplace for the 21st century—forming a new pact with employers by asking them to do a bit more to boost the economic health and well-being of their employees.

3. It's affordable.

Just as the minimum wage has no budgetary affect, neither does this. In our proposal, we included assistance to offset new costs for small businesses, but it can be readily scaled up or down and paid for in a number of different ways. There aren't many proposals of this importance that cost little to nothing for the taxpayer.

For employers who do not already offer a retirement plan, this would amount to $20 per week per full-time employee. We do not pretend that this is a trifling sum, but it is not exorbitant either. To put that into perspective, medical inflation on an employer provided family health care plan comes out to about the same amount in a typical year. And for those already offering a retirement plan, this will have no effect.

4. It has bipartisan appeal.

Like any bipartisan idea, it has aspects that each party typically does not like. For Republicans, it adds a new mandate on businesses that currently provide no defined benefit or contribution retirement plan. For Democrats, it makes every working person an investor in the capital markets.

But it does something that both parties value above all else: creating new pathways for middle class, working class, and low income people to achieve success, prosperity, mobility, and wealth.

Conclusion

Once again, here is the link to our paper and it is also attached to this submission.

There are other retirement security ideas out there designed to entice people to save and to put those funds, hopefully, into an investment vehicle that makes sense. They have worthy goals, and they would achieve some level of new retirement savings. But they sound complicated, because they are complicated. They are too small in scale to make a dent in the massive savings shortfall that low and middle-income people have when it comes to retirement. And they are not in touch with the new economy.

The minimum pension would make an enormous difference in the lives of millions of Americans—at a cost of 50-cents an hour. We would be happy to discuss this further with you at any time.

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[1] According to the 2010 Census Bureau Survey of Consumer Finances, the typical pre-retiree (ages 55 to 64) had $42,000 in private savings.

[2] David Brown and Kimberly Pucher, "Why Note a Minimum Pension?," Report, Third Way, September 2014. Accessed March 31, 2015. Available at http://www.thirdway.org/report/why-not-a-minimum-pension.

[3] According to EBRI (Employee Benefits Research Institute), 49.3 million full-time, full-year workers were not in an employer-sponsored retirement plan.

[4] According to DoL, of the 62 million wage and salary earning women between ages 21 and 64, only 45% were participating in an employer-sponsored retirement plan. http://www.dol.gov/ebsa/publications/women.html.

[5] According to BLS, 59% of Whites in full-time, full-year jobs were in an employer-sponsored retirement plan, compared to 51% of African-Americans and 34% of Hispanics. http://www.thirdway.org/report/why-not-a-minimum-pension.

Why Not a Minimum Pension?

By Kimberly Pucher and Dave Brown | Published: 09/15/14

If we are to improve retirement savings for every American worker, we should have a minimum pension to help create real wealth for the middle and working classes. For an increasing number of Americans, a middle class job does not support a middle class life. One of the big tickets to achieving a middle class life is holding sufficient retirement savings, yet nearly half of workers are not contributing to a retirement account.

To address the gap in retirement savings, we propose a minimum pension law—a requirement that employers contribute a minimum of 50 cents per hour worked, for every worker, into a retirement plan. Many companies will comply by continuing their existing plans, while others may direct contributions to new, simple investment vehicles. In this brief, we lay out three facts about the retirement situation in the United States and how a minimum pension could work.

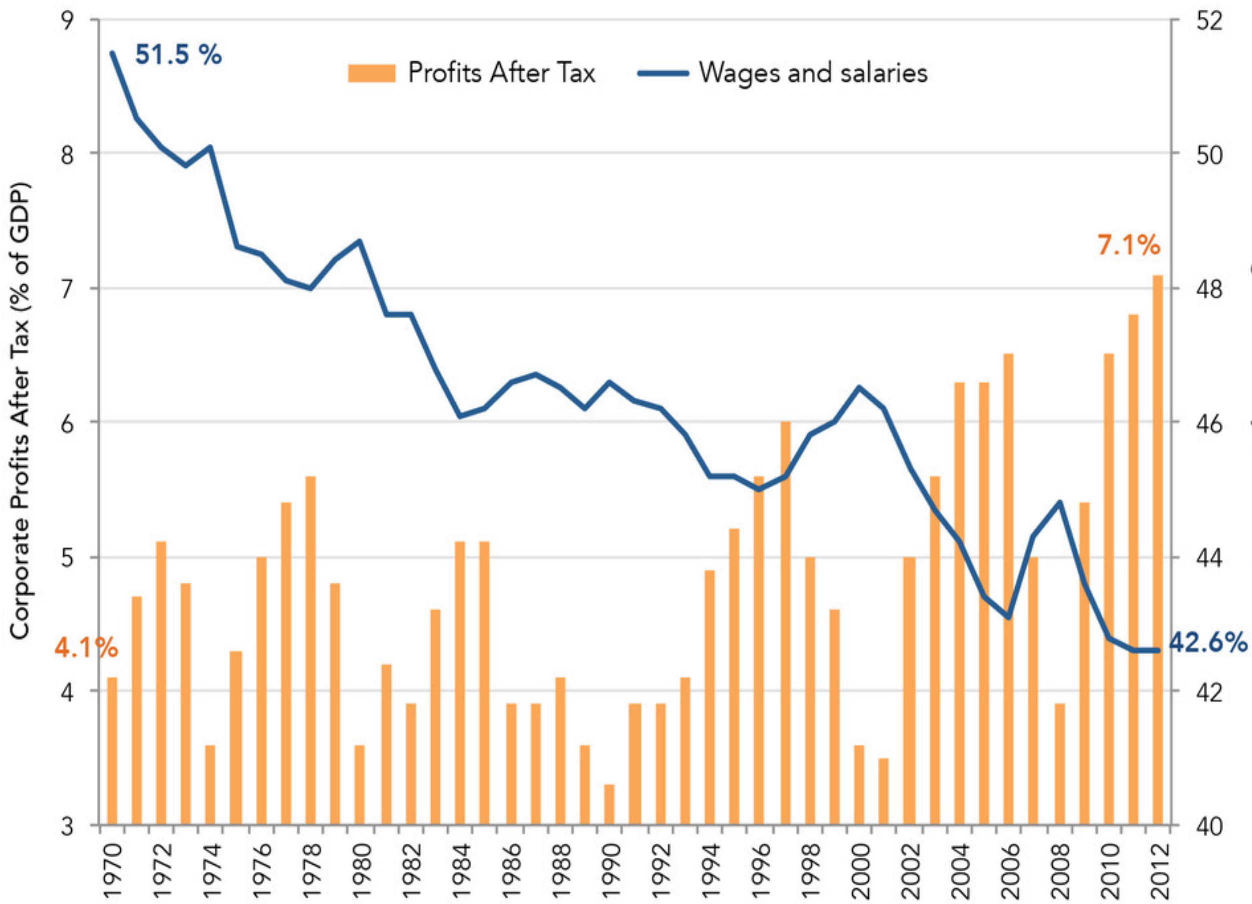
The Problem: Retirement Insecurity

For many workers, America's private retirement savings system is working. Employer plans, combined with Social Security and other vehicles, are effectively facilitating savings for secure retirement. But for many others, private retirement savings are not at sufficient levels. Three facts underscore the need for an ambitious expansion of personal retirement savings to more American workers.

1. Return on Capital Outstrips Return on Labor

For decades, the benefits of economic growth have been shifting from labor to capital. Since the 1970s, workers' salaries (not including benefits and other forms of compensation) have been on the decline as a share of national income, from a high of 51.5% in 1970 to a low of 42.6% in 2012. Meanwhile, returns to capital have been on the rise. In 2012, corporate profits reached a 50-year high of 7.1% of national income.[1]

Wages vs. Corporate Profits as a Percent of National Income [2]



While it is desirable for labor to regain its share, workers could also capitalize on this trend. The more they invest, and the sooner they invest—through a retirement savings vehicle—the more they will share in the promising returns to capital. As workers live longer and defined benefit plans decline, workers will need not only the principal from their savings but also the returns from investing. Of course, investing carries risk, and retirement accounts will fluctuate in value. But over a lifetime of work, with diversification and age-specific risk profiles, workers are practically certain to benefit from increasing their ownership of capital. Further, the guaranteed annuitized income from Social Security gives retirees a backstop against this market risk in at least one stream of their retirement income.

2. Nearly Half of Full-time Workers Aren't Participating in a Retirement Plan

Reports vary on the extent to which the U.S. workforce is participating in the retirement savings system. But all studies make clear that a significant portion of workers is not participating.

The Federal Reserve in August 2014 found that 31% of non-retired adults have no private retirement savings or pensions—including 19% of those between ages 55 and 64.[3]

According to the Employee Benefits Research Institute (EBRI), only 53.7% of full-time, full-year workers participate in an employer-provided retirement plan.[4] That leaves 49.3 million full-time, full-year workers who, in 2011, did not participate in an employer-sponsored retirement plan. Some workers missed out simply because they elected not to participate in a plan—about 6.4 million according to EBRI. But the remaining 36.5 million did not have an employer-sponsored plan in which they could participate. The data is worse for minorities. Only 34% of working-age Latinos and 51% of African-Americans with full-time jobs participate in employer-sponsored retirement plans, compared with 59% for whites, who also contribute more to these plans.[5]

Other sources characterize the lack of participation as a large but more limited problem. According to the Department of Labor, 65% of civilian full-time workers participate in an employer-sponsored retirement plan.[6] And a report by the Investment Company Institute (ICI) contends that, of the workers who are not offered a plan, most are either not able to save or prefer to save for purposes other than retirement. The report identifies 31.4 million full-time, full-year private sector workers (aged 21 to 64) who were not offered a retirement plan.[7] Then it filters out the following groups: workers aged 21 to 29, workers earning less than $26,000 a year, workers aged 30 to 45 earning less than $45,000 a year, and workers whose spouse participates in an employer plan. Of those remaining, only 10.2 million do not have access to an employer plan.

There is also the equally important issue of savings adequacy. Many of those participating in employer plans simply aren't saving enough. According to the 2010 Survey of Consumer Finances, the median value of private retirement accounts for married couples between 55 and 64 was $42,000.* The majority of single individuals in the same age range have no savings in private retirement accounts.[8] Because of large accounts held by wealthy investors, the average private retirement assets for this age range are much higher, both for married households ($251,000) and single households ($61,000).[9]

* Private retirement accounts include IRAs, 401Ks, and any other tax-preferred DC plan. They do not include defined benefit pensions, Social Security, home equity, or other types of assets.

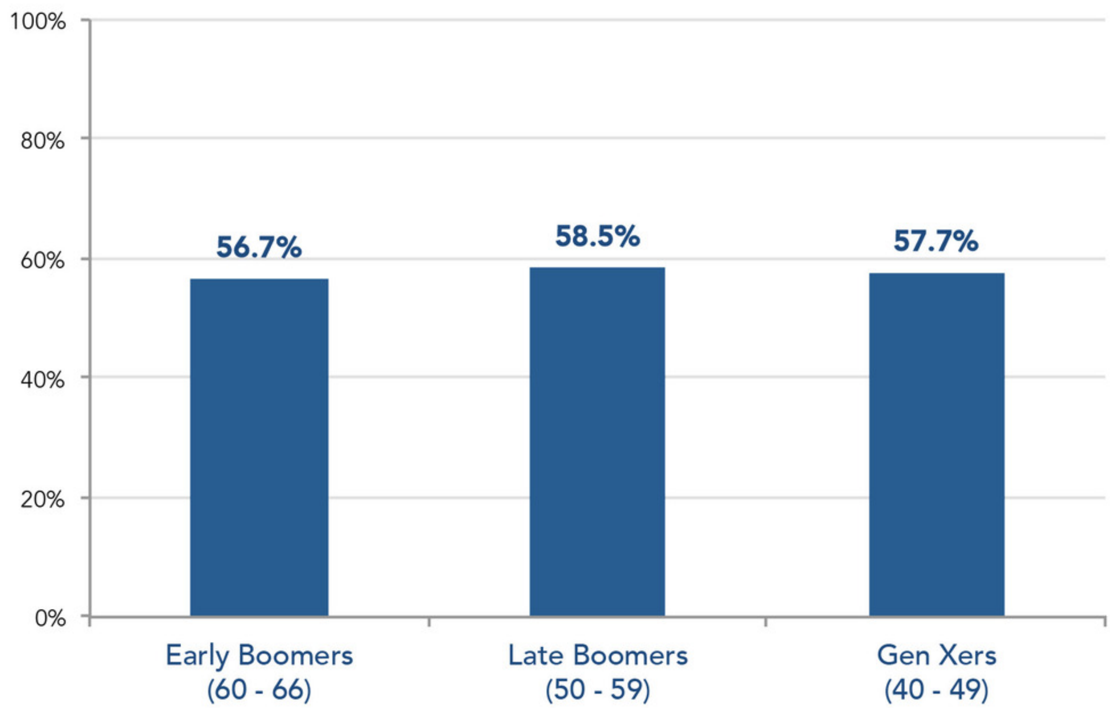
Poor retirement plan participation and savings rates are the result of many factors, but three factors can be addressed through legislation. First, many employers offer no retirement plan. Their workers may enroll in an IRA on their own, but are significantly less likely to act on their own than if their employer were to offer a plan. Second, participating in any retirement plan can involve difficult and confusing decisions involving risk and investment options. As a result, many individuals avoid making a decision at all, never executing the initial action of joining a plan. Third, many workers have little immediate financial incentive to enroll in or contribute to a retirement plan. The current system incentivizes retirement savings partly through reducing taxable income, providing the greatest incentive to individuals in higher tax brackets. Comparable financial incentives do not exist for workers who have a zero or low marginal income tax rate.[10] Some low-to moderate-income workers may qualify for the Savers Credit, but that subsidy is nonrefundable and vastly underutilized.

3. Many Americans Will Outlive Their Savings

According to EBRI's 2014 Retirement Readiness Ratings, over 40% of adults approaching retirement are at risk of exhausting their savings during their retirement. There are several contributing factors. Americans are entering retirement with too little in savings, they are living longer, and they face years of out-of-pocket medical costs.[11]

2014 Retirement Readiness Ratings[12]

Percent of households **NOT** at risk of exhausting retirement savings

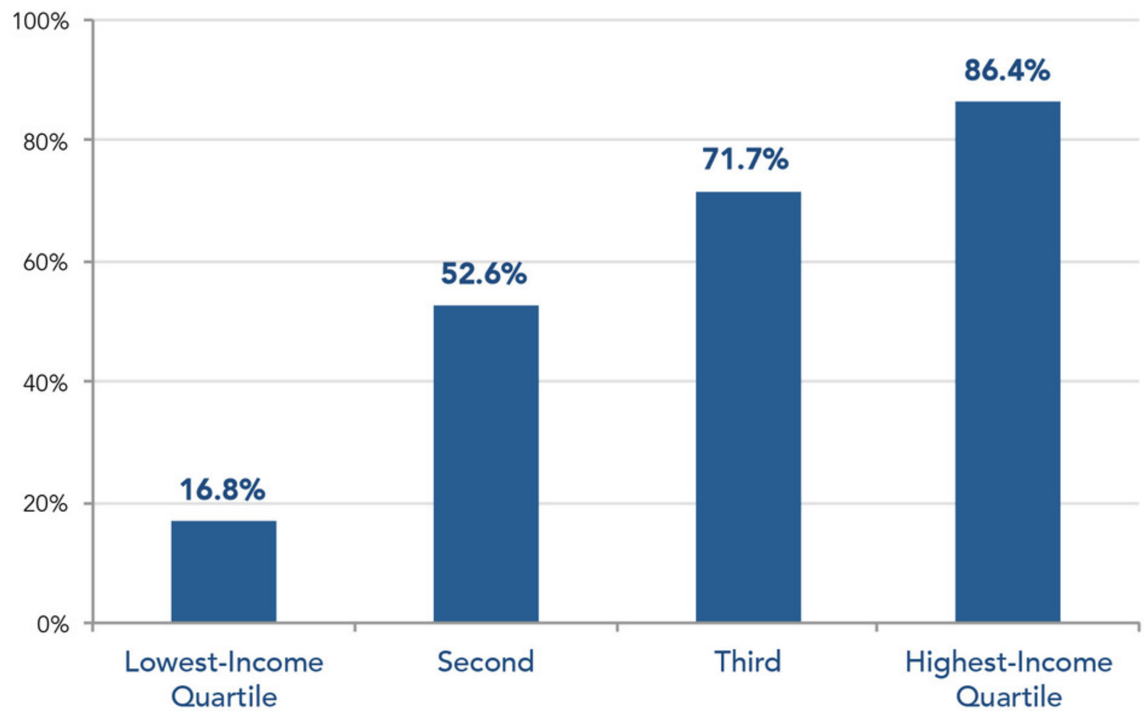


Note: *The EBRI 2014 Retirement Readiness Ratings by age cohort demonstrates that regardless of generation, among individuals approaching retirement age 40 and upward, more than 40% of the population is at risk of running short of money in retirement.*

The readiness problem gets worse the lower an individual is on the wage scale. Almost half of the individuals in the second income quartile are not ready for retirement, and more than 80% of individuals in the lowest-income quartile are not adequately prepared. These statistics point to the urgency for new federal policy that would increase private retirement savings for low- to middle-income workers and their families.[13]

2014 Retirement Readiness Ratings, by Pre-retirement Wage Quartile[14]

Percent of households **NOT** at risk of exhausting retirement savings



Note: *The EBRI 2014 Retirement Readiness Ratings by preretirement quartiles demonstrates that there is a wide disparity among the income quartiles. On the highest-income quartile end, a maximum value of 86.4% of individuals will not run short of money in retirement, whereas only 16.8% of individuals in the lowest-income quartile will not run short of money in retirement.*

The Solution: A Minimum Pension, Real Wealth for Half a Buck

To address the shortfall in retirement savings, we propose a minimum pension law—a requirement that employers contribute a minimum of 50 cents per hour worked, for every worker, into a retirement plan. Combined with existing investment vehicles, and one new one we propose, the plan would greatly improve retirement security for millions of Americans.

The 50 Cent Minimum Pension and the Savings Plan for Universal Retirement (SPUR) Account

- For all workers, employers must contribute a minimum of 50 cents per hour worked to a retirement plan.
- Existing employer-provided defined benefit and defined contribution (DC) plans may satisfy the requirement.
- Any employer with more than 50 workers choosing not to offer a plan will make direct contributions to Auto-IRA Accounts. Firms with fewer than 50 workers may choose to contribute to SPUR Accounts instead.

- Employees may also make contributions to SPUR and Auto-IRA Accounts. Auto-enrollment (with an opt-out capability) will increase worker contributions, which would also be eligible for the Savers' Credit.
- SPUR Accounts will be unsubsidized, privately managed, portable accounts with the same tax treatment as IRAs.
- Each worker's default investment will be a lifecycle fund.
- Beginning at age 62, workers may choose how to draw from their savings. The default distribution will guarantee a lifetime income stream, with the option to change.[15]
- A temporary tax credit will help employers transition into the system.
- Social Security is unaffected by this proposal.

How Does the Minimum Pension Work?

A minimum pension sounds like a minimum wage, and it is. Federal law requires non-exempt employees to receive at least $7.25 an hour in wages. The minimum pension requires that, in addition to wages, employees must receive at least 50 cents an hour in retirement contributions. For full-time, full-year workers, that amounts to a minimum contribution of about $1,000 a year.

For many workers, especially those receiving an annual salary, employers are already doing this and would have to change little or nothing. Public employees such as teachers, police officers, nurses, firefighters, sanitation workers, and congressional aides already have retirement plans that would qualify, as do most private sector white-collar workers. Some companies would have to make adjustments, such as converting at least a portion of their 401(k) match into a hard employer contribution. And organizations with defined benefit plans will have to show that their contributions are at least 50 cents an hour for each worker. Other companies, including those employing the 43 million full-time workers not participating in a retirement plan, would have a new responsibility: sponsor a plan for all your workers, or pay into Auto-IRA or SPUR Accounts on their behalf.[16]

Where the minimum wage has gaps, the minimum pension should not. The minimum wage is not indexed to inflation, causing its purchasing power to erode over time. The minimum pension should be indexed to inflation. The minimum wage has exemptions for certain workers: farmworkers, full-time students, tipped workers, and some working for very small businesses. As Congress prepares legislation, exemptions like these will be discussed for the minimum pension. For example, some proposals to expand retirement savings include exemptions for companies with fewer than five or ten workers. We urge as few exemptions as possible.

Where Will Minimum Pension Contributions Go?

For workers whose employers satisfy the minimum pension with their own plans, money will continue to go where it has in the past, such as to pension funds and 401(k)s. The passing of a minimum pension law would also be a good time to reduce the regulatory burden on companies who offer employer plans. This would entice companies to offer plans who previously have not. Employers who still choose not to offer a plan would make payroll deposit contributions to one of two types of accounts:

Automatic IRA Accounts: The same as existing IRAs, offered by private financial companies. Employers would select a qualified investment company as the default vehicle, but employees would be allowed to opt into an IRA of their own choosing.[17] Auto-IRAs would be available to companies of all sizes.

SPUR Accounts: Employers with fewer than 50 workers could contribute to SPUR Accounts, which would be unsubsidized, privately managed individual accounts overseen by a government board.

When a worker starts a new job, she or he will provide a SPUR Account number or IRA account number (if he or she already has one), along with other payroll information, to the employer. The worker will be automatically enrolled to match the employer's contribution; however, he or she may opt-out or indicate an amount to contribute above or below the default level.

Auto-IRAs will be easy for employers because the primary administrative tasks are to select an investment company and add one account destination to each worker's paycheck deposits. SPUR Accounts, available to small employers, will be even easier, as the employer would not have to search for and select an investment company. Additionally, for SPUR Accounts, employers would not be held to the same fiduciary standards as they are for 401(k) plans, due to the program's oversight by the federal government. Both Auto-IRAs and SPUR Accounts will be easy for workers because they are portable and are linked to the individual, not to the company. When a worker moves to a new job, all she or he has to do is provide a SPUR or IRA Account number. She or he can also make individual contributions without going through an employer, and can roll other retirement savings into a SPUR or IRA Account.

An automatic employee contribution of 50 cents an hour is a simple way to further boost workers' retirement savings. Workers could choose to opt-out; however, auto-enrollment has shown to be a powerful way to nudge workers toward higher savings rates. In addition, low-income workers who make their own contributions will benefit in the long term as well as the short term. Worker contributions would qualify for the existing, underutilized Saver's Credit, which provides a tax credit of up to 50% of lower-income workers' retirement savings. For some, that's $1,000 cash to spend today for $2,000 saved.

How Will Investments Be Managed?

Contributions to SPUR Accounts and Auto-IRAs (like existing IRAs) and the growth of investments within those accounts are tax-free, and withdrawals during retirement are taxed as ordinary income. Similar to a traditional retirement account, if a withdrawal is made before age 62, a 10% early withdrawal penalty in addition to income tax on the withdrawal must be paid.[18]

SPUR Accounts and Auto-IRAs should have limited investment options, similar to the Thrift Savings Plan (TSP) for federal employees and members of the military. TSP has five core funds. Some examples include: the G Fund, which invests solely in safe, short-term U.S. Treasury securities; the C Fund, which tracks the S&P 500; and the I Fund, which tracks international stocks. Additionally, five lifecycle funds use different combinations of the core funds to tailor risk-reward profiles to age-specific retirement groups. For example, a worker expecting to retire in about 25 years can choose the L 2040 fund, which holds an appropriately aggressive mix of stocks and bonds; as the employee approaches retirement, L 2040 will shift its investment makeup to a more risk-averse portfolio. SPUR Accounts would be different from TSP, in that all expenses would be covered by plan assets, not subsidized by federal agency spending.

Limiting the number of investment options helps to simplify the process of choosing an appropriate retirement savings vehicle. It also helps keep fees low. That's why the default option for each SPUR or Auto-IRA participant should be a lifecycle fund matched to his or her age. Investors who wish to choose their own mix may do so, and those who do not will have a responsible portfolio to the day they retire.

How Much Will Retirees Get and How Will They Get It?

A lifetime of work under the minimum pension will produce a substantial nest egg for even the lowest-paid workers. Consider an individual who begins earning income at age 22, receives the minimum employer contribution each year, personally makes no contributions of his own, and works full-time until retiring at age 67. If stocks and bonds enjoy the same average rates of return as they did over the last 45 years, this worker will have a SPUR or IRA Account balance of approximately $160,000, in 2013 dollars.[19] If the worker were to match each employer contribution, his account could be expected to reach $320,000 at retirement. In tandem with Social Security, this would allow for a substantially more secure retirement than a typical couple faces today. In comparison, the median private retirement savings of married couples ages 55 to 64 is only $42,000.[20]

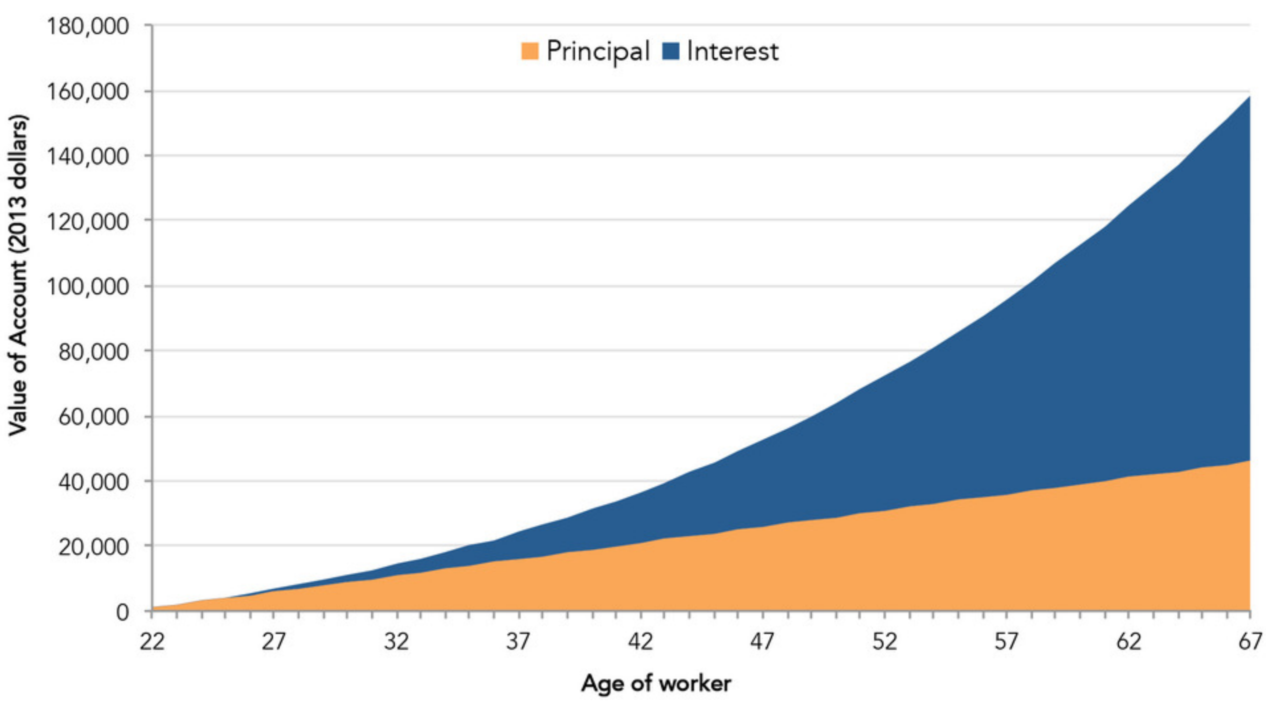
The nest eggs held in workers' SPUR or IRA Accounts are their own individual accumulation of and claim to wealth. They will be used to maintain a more secure retirement, but this accumulated wealth can also be passed on to children. That would create a chain of wealth and have a major impact on wealth and income inequality.

Retiring workers over the age of 62 may choose to cash out their SPUR or IRA Accounts in a variety of ways. They may collect a lump sum at retirement, draw down a portion of the account annually, or purchase an annuity—or an annuity-like plan—to guarantee a steady stream of income for life.* As with the issue of investment options, the default is important, because many participants will remain with it. SPUR and Auto-IRA Accounts should have a default disbursement option that provides a lifetime monthly payment that never expires, as that is the best choice to mitigate risk of an ordinary worker—with low to moderate income—outliving his or her retirement savings.

* Like existing retirement plans, SPUR Accounts will have to include provisions on withdrawals before retirement. Borrowing from accounts or withdrawing early should be allowed, but penalties and limits should be strong enough to discourage workers from doing so.

On the private annuities market, a 67-year-old with $160,000 can purchase a monthly income of $790 (in 2013 dollars), with an automatic 2% cost-of-living increase each year, that lasts as long as he or she lives.[21] An individual who retires earlier—at age 62 with a balance of $124,000—would also receive a significant income stream. That individual could purchase a lifetime monthly income of $520.[22] Other annuity-like products offer a smaller monthly payment while leaving principal intact. SPUR Accounts, given the size of the program, are likely to achieve considerably better annuity prices. Considering that the typical Social Security check for a retiree with very low career wages is $755, a SPUR annuity would essentially double income during retirement.[23]

Portfolio Gains Over 45 Years of Basic Minimum Pension Contribution



Note: *This projection of an account balance assumes only the minimum employer contribution and no employee contribution over a 45-year career. Stocks and bonds are assumed to earn the same average rates of return as their historic average over the last*

45 years. Actual returns will vary from year to year.

Who Ultimately Pays For This and How?

For many employers with plans already, there is no new cost or burden. For the companies employing the 43 million full-time workers and 30 million part-time workers not participating in retirement plans, the minimum pension will impose some costs. As history has shown, companies will be averse to simply cutting workers' take-home wages to pay for the benefit. Economists call this phenomenon "sticky-down" wages. When workers see their paychecks shrink, it's bad for morale and productivity.

If companies add new pension contributions on top of existing compensation—increasing their spending per worker—that will be a good thing. Productivity has famously outstripped compensation for most workers. It's time workers' total compensation start rising again. But that transition does pose a challenge to businesses in the near term. Government should help businesses make that transition. By doing so, government can help ensure employers' new pension payments are in addition to—not subtracted from—existing wages.

There are many ways by which Congress could help businesses adjust to the minimum pension. We estimate that a temporary tax credit, at a cost of less than $100 billion over ten years would help ease businesses' transition. That cost should be fully offset with budgetary savings.

One way in which Congress can deliver the assistance is through a business tax credit. The credit would be refundable and simple to claim. It would pay a specific sum, particular to that year, for each eligible worker. The credit would be available to all businesses, including those that have previously provided retirement contributions. Otherwise, those firms would effectively be punished, relative to their competitors, for providing retirement benefits. The credit should, however, be limited in two important ways:

- Firms may only claim the credit on up to 100 workers. This will make the credit significantly more valuable for small businesses, which need the most assistance adjusting to the minimum pension.
- Firms may not claim the credit on workers with very high incomes or who work very few hours. Workers earning above the Social Security payroll tax maximum ($117,000 in 2014) will not count for purposes of the credit. Businesses are unlikely to be burdened by a 50-cent minimum contribution for these very high-income workers. Workers who have worked very low numbers of hours should not count either, so that the credit will not reward businesses for employing workers for minimal numbers of hours.*

* Worker eligibility could be determined based on payroll taxes paid. Any worker for whom a firm paid the maximum payroll tax of $7,254 would not be eligible. Any worker for whom a firm paid less than $450 in payroll taxes (a half-time, full-year worker at the minimum wage) would be ineligible.

In early years, the value of the credit would be high enough to compensate small businesses, collectively, for most of the additional burden created by the minimum pension. In successive years, the value of the credit would decline as businesses incorporate the minimum pension into their overall labor costs.

This relief to businesses, whether delivered through a tax credit or by other means, will send them a strong message: don't use the minimum pension as a justification to cut take-home wages. Some may be concerned, however, that the minimum pension would slow the rise of take-home wages over the long run. A 2011 study by economists Eric Toder and Karen Smith asked whether employer contributions to DC plans reduce workers' take-home wages. The conclusion was instructive for this policy: additional employer contributions tend to reduce money wages for high-income workers, but much less so for low-income workers:

> Among male workers, the estimates show that, for any given level of employee contributions, an additional dollar of employer DC contributions replaces 90 cents of wages for workers with high family income, but only 29 cents for workers with low family income. Among female workers, an additional dollar of employer DC contributions replaces 99 cents of wages for those with high family income, but only 11 cents for those with low income.[24]

Overall, the study concludes that both low- and high-income workers benefit from employer contributions to DC plans. Low-income workers benefit because the contributions tend to be in addition to—not in replacement of—wages. High-income workers benefit because, although some wages are replaced, DC contributions come with a large marginal tax benefit. As a result, policymakers should view the expansion of employer contributions as way of helping workers, not as a shift from wages to benefits.

Conclusion

In order to drastically improve the circumstances of the middle class, policymakers must acknowledge that a middle class job increasingly does not support a middle class life. A minimum pension would profoundly impact this problem. It would provide all Americans with the opportunity to create their own personal wealth— providing for a more secure retirement, the ability to pass on accumulated wealth to children, and a reduction of the current wealth disparity in our country. And it could all be achieved for half a buck.

Endnotes

1 United States, Department of Commerce, Bureau of Economic Analysis, "Table 1.11 Percentage Shares of Gross Domestic Income," August 7, 2013. Accessed May 1, 2014. Available at: http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1&904=1939&903=53&906=a&905=2013&910=x&911=0.

2 Ibid.

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4 Craig Copeland, "Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2012," Issue Brief, Employee Benefit Research Institute, November 2013, p. 1. Accessed April 15, 2014. Available at: http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=5292.

5 Ibid, p. 11.

6 United States, Department of Labor, Bureau of Labor Statistics, "Employee Benefits in the United States—March 2013," News Release, July 17, 2013, p. 6, Accessed July 22, 2014. Available at: http://www.bls.gov/news.release/pdf/ebs2.pdf.

7 "Who Gets Retirement Plans and Why, 2012," Report, Investment Company Institute, October 2013, p. 11, Accessed July 22, 2014. Available at: http://www.ici.org/pdf/per19-06.pdf.

8 United States, Congress, Congressional Research Service, "U.S. Household Savings for Retirement in 2010," Report, John J. Topoleski, July 23, 2013, p. 14. Accessed May 1, 2014. Available at: http://digital.library.unt.edu/ark:/67531/metadc227856/.

9 The median dollar amounts are lower than the averages as the median value is pulled down by the large number of Americans with zero official retirement savings. Meanwhile, the average dollar amounts are much higher than the medians as extremely wealthy savings accounts increase the average value. See Topoleski, p. 7-10.

10 William G. Gale, "Tax Reform Options: Promoting Retirement Security," Testimony, Brookings, September 15, 2011. Accessed on March 15, 2014. Available at: http://www.brookings.edu/research/testimony/2011/09/15-retirement-savings-gale.

11 Jack VanDerhei, "What Causes EBRI Retirement Readiness Ratings to Vary: Results from the 2014 Retirement Security Projection Model," Issue Brief, Employee Benefit Research Institute, February 2014, p. 1-6. Accessed May 1, 2014. Available at: http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=5351.

12 Ibid.

13 Ibid, p. 4-7.

14 Ibid, p. 7.

15 The default option must be a guaranteed product over the length of a worker's lifetime.

16 Copeland, p. 9.

17 For more, see United States, Department of Labor, "Payroll Deduction IRA's for Small Businesses." Accessed May 1, 2014. Available at: http://www.dol.gov/ebsa/publications/PayrollDedIRAs.html.

18 United States, Internal Revenue Service, "401(k) Resource Guide – Plan Sponsors – General Distribution Rules," May 6, 2014. Accessed May 9, 2014. Available at: http://www.irs.gov/Retirement-Plans/Plan-Sponsor/401(k)-Resource-Guide---Plan-Sponsors---General-Distribution-Rules.

19 Projections assume portfolio consists of Treasury Bonds and U.S. stocks; weight of stocks and bonds reflects that of a lifecycle fund such as the Vanguard Target Date Funds; returns reflect the geometric average total return of Treasury Bonds and stocks over the last 45 years. For underlying data, see Aswath Damodaran, "Annual Returns on Stock, T. Bonds and T. Bills: 1928 – Current," New York University Stern School of Business, January 5, 2014. Accessed April 20, 2014. Available at: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html; See also United States, Department of Labor, Bureau of Labor Statistics, "CPI Inflation Calculator." Accessed April 20, 2014. Available at:

http://www.bls.gov/data/inflation_calculator.htm.

20 Topoleski, p. 9.

21 "Guaranteed Income Estimator," Fidelity Investments. Accessed May 1, 2014. Available at: https://gie.fidelity.com/estimator/gie/gielanding.

22 Ibid.

23 United States, Social Security Administration, The Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, "The 2013 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds," Communication, May 31, 2013, p. 146. Accessed May 22, 2014. Available at: http://www.socialsecurity.gov/oact/tr/2013/.

24 Eric Toder and Karen E. Smith, "Do Low-Income Workers Benefit from 401(k) Plans?" Discussion Paper, Urban Institute, September 2011, p. vii. Accessed May 22, 2014. Available at: http://www.urban.org/publications/412463.html.