New York City Council Committee on Civil Service and Labor

Testimony - Rick McGahey

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Chairman Miller and fellow committee members, thank you for the opportunity to address the Committee on the topic of how to ensure New Yorkers' retirement security. I'd also like to thank the Chairman and Council Member Kallos for their leadership on this important issue.

I'm a Ph.D. economist and former assistant secretary of labor in charge of regulating ERISA under President Clinton. I join you today representing the Schwartz Center for Economic Policy Analysis (SCEPA) based in The New School's Economics Department. Under the direction of economist Professor Teresa Ghilarducci, SCEPA's Retirement Equity Lab (ReLab) documents the oncoming retirement crisis here and across the country.

Summary

ReLab studies retirement security across the nation but also in New York State and within the five boroughs. The data is clear: retirement plan coverage in New York City is low. Just 35 percent of workers in New York City participate in a work-place retirement plan. This is the lowest rate recorded for the city since the U.S. Census Bureau began tracking coverage in 1980. Disparities in access by race and class persist. Only 33 percent of black workers, 27 percent of Asian, and 26 percent of Hispanic workers are covered. While no income group is fully covered, just 25 percent of workers in the bottom half of the income distribution have a retirement plan.

If nothing is done to address the issue, by 2026, as many as 825,000 middle class workers in New York State (half of which live in the city) nearing retirement today could be at risk of poverty when they retire.

In the absence of necessary federal action, states and cities are stepping in to provide coverage to their residents through the creation of auto-IRAs for private sector workers. ReLab estimates that a city-administered IRA through the "Savings Access New York" proposal would provide coverage to 2.8 million city workers that today have none.

The Retirement Crisis in New York City

Latest numbers from 2017 show only 35 percent of full-time workers have work-based retirement coverage, down from 36 percent in 2015. This is the lowest rate recorded for the city since the U.S. Census Bureau began tracking coverage in 1980. The rate is 5 percentage points lower than the national average and 7 points lower than the rest of New York State. Not only is coverage low, it is declining and has been steadily declining for several decades now.

Small employers, declining unionization, and a younger than average workforce all are reasons why New York City employers are behind the region and nation.

Even the most privileged members of our city have shrinking and relatively low coverage. People in the top 10 percent of the income distribution saw a drop in coverage from 42 percent in 2015 to 40 percent in 2017. In the U.S., the drop in coverage for this group went from 60 percent coverage to 50 percent coverage. Workers in New York City in the bottom half of the income distribution saw a slight increase in coverage from the very low rate of 26 percent in 2015 to 27 percent in 2017. In the U.S., the drop in coverage for this group was from 33 percent coverage to 29 percent in 2017.

And when you break down the coverage rate, you find disparities continue to exist based on race and income. For the city's black workers, the rate is 33 percent, for Asian and Hispanic workers it is 27 and 26 percent, respectively. See our report "Disparities and Erosion in New York's Workplace Retirement Coverage" from December 2018. [1]

The severity of the situation is reflected in low retirement savings figures. The median retirement balance for workers in New York State ages 55 to 64 is just $18,000 (city residents make up half the state's population). This $18,000 is not annual income, but wealth that must be spread across all of one's retired life. And most workers earning in the bottom half have nothing: zero saved for retirement. And to reiterate, these are workers ages 55-64, meaning they have almost no time left to accumulate savings before reaching typical retirement ages. Even the top 10 percent have little saved: the median for them is $225,000. This can maintain their living standard for perhaps 3 or 4 years after retiring, again not nearly enough.

This leaves workers nearing retirement with a difficult choice. They can work longer, delaying retirement and try to save up enough to retire later. This won't work for most people, especially those in declining health, or those living paycheck to paycheck. The other choice is to retire and accept large declines in living standard, what we call downward mobility.

The Schwartz Center has conducted simulations to estimate the retirement income of workers currently between the ages of 55-64. We calculated what their incomes would be when they retire over the next ten years. We find that as many as 825,000 older workers and their spouses in New York State who now earn twice the poverty level will be poor or near poor when they retire at 62. Because over half of them live in New York City, over 400,000 older workers and their spouses in New York City who earn more than the poverty level now will be poor or near poor when they retire at 62.

This represents massive downward mobility, which will cause human misery and economic damage. Downward mobility will not only cause personal costs to individuals and families, but will cause the loss of city jobs and add to social spending. If older people are deprived of the ability to retire, younger workers will face greater competition for jobs, fewer avenues for promotion.

[1] Ghilarducci, T. and Papadopoulos, M. (2018) "Disparities and Erosion in New York's Workplace Retirement Coverage" Schwartz Center for Economic Policy Analysis, The New School for Social Research, Report Series.

A First Step to the Solution

Policymakers need to act now to alleviate the wide-ranging effects of our impending retirement crisis. While the nature of the retirement crisis demands comprehensive reform at the federal level, city and state residents can be helped immediately through city- and state-level auto-IRAs for private sector workers, a proposal included in the legislation discussed today.

Today's proposal follows a model showing early signs of success in states that have taken the lead on reform. These plans allow employees to save through automatic deductions from their paycheck. Oregon's auto-IRA has enrolled over 100,000 workers in just 2 years and saved $25 million. Only open since January of 2019, Illinois' program has enrolled more than 24,000 workers, helping them save more than $5 million.

The proposal under discussion today will create a city-level auto-IRA program that will require employers with more than 5 employees to automatically deduct a percentage of their workers' pay and forward it to city-facilitated, not-for-profit IRAs. Such accounts will be individually owned and professionally managed, and administered by an independent board headed by city-appointed trustees. While employers are required to participate, employees would have the right to change their contribution rates or opt-out of the program.

The proposal to enact auto-IRAs in New York City continues a trend in state- and city-level retirement reform efforts. In the absence of action at the federal level, 43 states (and the city of Seattle) have proposed various mechanisms to expand their residents' access to retirement coverage. New York State is one of 11 that have enacted reform.

While the rapid-fire pace of reform efforts at the state and local level is a reflection of both the need for retirement coverage and the political will to act, some plans are better than others. The New York State Secure Choice Savings Program, while a worthy step in the right direction, doesn't go far enough to make real change for our residents.

The state program leaves out the key feature that makes these state- and city-level programs a success: a mandate. The Oregon and California plans require employers to sign their employees up for the program. The New York State auto-IRA plan is the program amongst the states that have passed reform that is voluntary, allowing employers to choose whether or not to offer their employees the option to participate in the state savings program. This is basically the system we have now, and it doesn't work.

This detail makes all the difference. Without requiring employers to participate, we cannot guarantee our workers a way to save. Including a requirement that employers participate in an auto-IRA program for the city will extend basic retirement plan coverage to approximately 95 percent of New York City's workers, those in companies with 5 or more workers. This will guarantee retirement coverage for 2.8 million city workers that today have none.

The mechanics for constructing a retirement income platform are well known; what we need now is leadership to get the job done. Luckily, this is where New York excels. By passing this plan in the City Council, we'll be following a long legacy of advancing much-needed social policy through city- and state-level innovation, going back to 1930 when New York Governor Franklin Roosevelt became the first public official in the United States to commit to creating unemployment insurance.

Auto-IRAs are a step in the right direction to ensure all city workers have retirement coverage, regardless of where they work. Significantly, the city's adoption of such a proposal will add our political and symbolic weight to the critical mass of states and municipalities advancing the need for universal coverage for everyone in all 50 states.