Testimony to the Washington State Consumer Directed Employer Rate Setting Board

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Retirement Benefits and Labor Force Dynamics

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Thank you for inviting me and allowing me to testify before this innovative new rate setting board. I am Teresa Ghilarducci, the Bernard L. and Irene Schwartz Professor of Economics at the New School for Social Research in New York City and I specialize in research on retirement benefits. I have a PhD in Economics from the University of California Berkeley and have served in a variety of academic positions including at the University of Notre Dame and Harvard Law School. I have also served on the Boards of several retirement organizations including the Advisory Board of the Pension Benefit Guaranty Corporation, Board of Trustees of the State of Indiana Public Employees' Retirement Fund, and the General Accounting Office's Retirement Policy Advisory Panel. And I am now a trustee of the $60B Health Care Fund for the UAW Retirees of GM, Ford, and Daimler, Chrysler, Fiat. Jessica Forden, a graduate student in Economics at The New School assisted with the report.

The mission of the Consumer Directed Employer Rate Setting Board is to set the Labor Rate and Administrative Rate for the Consumer Directed Employer and receive a Medicaid reimbursement rate to pay home care workers to provide services to low-income seniors and people with disabilities.

I understand that one key factor that the Rate Setting Board is considering is what is necessary to recruit and retain home care workers, particularly as the population ages and the demand for such caregivers increases. While I understand that this Rate Setting Board is developing an overall hourly rate of compensation for home care workers and not determining individual benefits, I also understand that one question that has been raised is the relative value and importance of benefits like retirement in the employment decisions made by low-wage workers and particularly women.

Summary

My research, and my review of the academic literature suggests clearly that retirement benefits are a key factor in employment decisions and can be a key strategy to recruit and retain low wage workers.

Workers are very sensitive and responsive to their "composition of compensation." In union negotiations, around kitchen tables, and in initial interviews, employee benefits are a key topic of discussion. The division of total pay between cash and other benefits has been a mainstay of demands from workers (Rosen 2000).

And employers care deeply about how they divide compensation between the cash wages and employee benefits they offer their workers. Many scholars and professionals, such as University of Chicago Edward Lazear (Chair of the Council of Economic Advisers under the George W. Bush Administration), have pointed out that every employer must use their compensation options in a strategic manner to meet their employment goals (Lazear and Oyer 2007; Society for Human Resource Management 2021).

Throughout our nation's history low wage workers have demonstrated a demand not only for higher wages but for forms of income security including retirement accounts (Ghilarducci et al. 1995). Low-paid women garment workers, janitors, and coal miners, are all examples of low paid workers who, despite their very low pay, allocated a portion of their low pay to retirement security -- nickels in their retirement fund – when they had a say in how their pay was divided in collective bargaining. When workers have a chance to voice their preferences, they vote for cash pay up front and to save for retirement.

The reason employers provide retirement benefits is simple. Allocating pay towards financial security pays off in a more stable workforce and a happy workforce. In my opinion, based on decades of economic research, if personal and home health care workers in the state of Washington were offered retirement plans the state would benefit.

Retirement Benefits Reduce Turnover

First, offering retirement benefits could reduce turnover in the occupation. There is ample evidence that increasing benefits, such as providing more robust retirement plans, reduces employee turnover.

For example, a 2018 Society for Human Resources Management report on the private sector showed that companies that offered competitive benefits were able to recruit 19 percent more effectively and were 28 percent more likely to retain employees (Wessels and Robinson 2018). This effect also occurs in the public sector, where research on federal government employees shows that workers who contribute to defined contribution pension plans tend to have lower quit rates (Ippolito 2002).

Thus, there is a demonstrated relationship between deferred compensation through retirement benefits and employee retention. In fact, research shows that quit rates may indeed be more responsive to benefits than to wages.

A key and clever study in this area showing that workers with fringe benefits have lower turnover controls for the fact that stable workers are attracted to firms with fringe benefits. The effect of an additional dollar of benefits on quits is about five times that of wages. In other words, employees are five times less likely to quit in response to an increase in their benefits than due to a comparable increase in their wages (Frazis and Loewenstein 2013).

An employer's care for an employee's well-being – as evidenced by having a retirement plan – also contributes to retention. Financial education about retirement is another means which to convey this, which is included in the overall administrative cost of the proposed plan and a benefit outside of just the fiscal benefit the SRT provides. It is an important benefit to the employer and employee because it aids in retention. For portions of the population, it is likely this would be a primary opportunity to receive retirement financial education.

Retirement Benefits Help Create Teaching Moments for Financial Literacy Efforts

The financial education literature finds that people with retirement benefits are generally more educated about and pay relatively more attention to their wealth (Lusardi and Mitchell 2014). In other words, people invest in knowledge about markets, the power of compound interest when they have "skin in the game." Researchers found that wealth provides "teaching moment" so that "financial wellness programs" are more effective when people have wealth to manage. Of course, financial education and wellness includes debt management and counselling. Ultimately, the first step is to make sure employees know that there is a retirement benefit to begin with.

Effect on Older Workers

Second, the reduced turnover from offering retirement benefits rather than just cash compensation is especially important for older workers. This is particularly relevant to the personal and home health care workforce because they are older than the average worker (Farmand and Ghilarducci 2019; Butler 2014).

Retirement plans are a relatively more important form of compensation for older workers than wages. For example, one study conducted on the transition of teacher pensions from defined benefit to defined contribution plans suggests that the resulting exit rate for federal employees was one-third higher for those in their late 30s to early 50s under a defined contribution plan, compared to their younger colleagues who saw no increase in their quit rates (Lewis and Stoycheva 2016). A decrease in the value of retirement benefits had a stronger impact on the employment decisions of older workers.

In sum, workers highly value retirement benefits. But since retirement and health benefits generally increase with age, older workers place increasing priority on retirement options.

Retirement Adequacy Reaps Positive Benefits for the State

Third, increasing the retirement readiness of the home care workforce will have indirect societal and economic benefits for the state. Strengthening retirement benefits increases the future spending power of home health workers when they retire. This has positive effects for the economy, as increased retirement income leads to greater spending at retirement that can support growth in economic activity (Mourao and Vilela 2018).

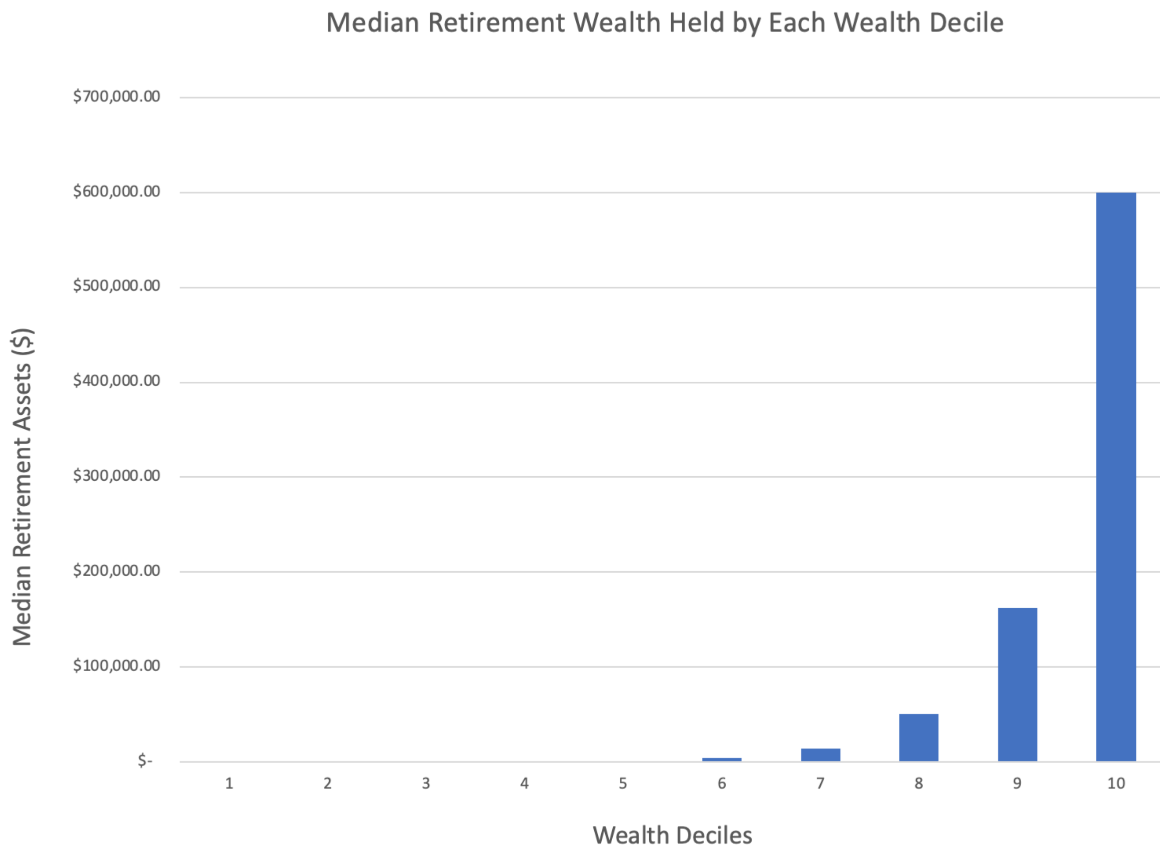
Past research on increasing wages and benefits in care sector jobs has shown that these multiplier effects can be quite large. For example, Palladino and Mabud (2021) find that a federal investment of $77.5 billion in care jobs would have led to an overall increase of $220 billion in new economic activity, almost tripling the original investment. While the investment of increasing retirement benefits for home health workers is a smaller dollar amount, the additional spending capacities of retired home health workers will likely also have multiplicative positive effects on the local economy.

Retirement Benefits Lowers Long- Term Costs to the State

Fourth, investing in retirement readiness now will likely reduce the need for services paid by the state over time. Seniors who have the financial means to support themselves adequately will be less likely to require financial assistance from the state to supplement their needs. On the flip side, when seniors lack sufficient retirement savings, the state may face high costs in providing assistance. An analysis conducted for the Pennsylvania State Treasury, in fact, found that state assistance programs cost Pennsylvania $702 million due to insufficient elder retirement savings in 2015 ("The Impact of Insufficient Retirement" 2018). Further, given that retirement assets typically increase in value over time, the benefit of contributions for younger workers will even have compounded effects as the value of those contributions increase toward retirement age. Thus, investing in the retirement readiness of home health workers today can contribute to lower state expenditures in the future.

Retirement Benefits Helps Close Racial and Gender Wealth Gaps

Fifth, offering retirement benefits in the care sector may help to address glaring gender and racial wealth disparities. Research suggests that job-based retirement benefits are a crucial component for building wealth and reducing wealth disparities. Yet, when looking at the distribution of assets across wealth deciles, only those in the top 50 percent of the population even begin to have any retirement assets at all (Elmi and Lopez 2021).



Only those at the 6th wealth decile even begin to hold any retirement assets at all.
Source: Elmi and Lopez 2021

Wealth building programs at work are especially important for women workers. Raw estimates show that women only own 32 cents for every $1 held by a man (Hartmann 2015). Even when taking income into account, never married women still only have 71 percent of the wealth of never married men (Kent and Ricketts 2021).

Women are also less likely than men to own almost every kind of asset, including being less likely to hold retirement accounts. And when women do hold pensions, they are still typically smaller than a man's (Jaggar 2008). This makes sense considering that women across all age and racial groups are more likely to work in part-time jobs that do not provide these kinds of benefits, including such jobs as in the care sector. On average, women are twice as likely as men to choose part-time work (Dunn 2018).

Wealth disparities also impact minority preferences for job benefits. For example, Latino workers are particularly concerned about retirement security, especially Latino women since their longevity rates are quite high (Ghilarducci, Richman, Saad-Lessler 2010). Latinas have the highest life expectancy of any other demographic in the US (88 years) and older Latinas face poverty rates three times higher than older White women with one in five Latinas over the age of 65 living in poverty. Latinas are also the least likely among women to have access to an employer-sponsored retirement plan (Brown and Oakley 2018; Hounsell 2019).

Good pension design has strict penalties for leakages, so that element is a best practice.

Retirement Benefits Provides What Cash Is Not as Good At Doing: Security

Lastly, wealth is different than income and can add substantially to a household's financial security. Wealth and income serve different roles in the financial security of households. While income allows households to meet regular everyday expenses, wealth is often relied on to accommodate unexpected shocks, such as an emergency hospital bill. Most comprehensive definitions of economic security and poverty understand the importance of wealth to households and include a wealth measure in determining overall household wellbeing (Wolff and Zacharias 2007; Headey 2008; Brandolini 2010).

Research shows that household wealth substantially affects the level and distribution of economic wellbeing when considered with income (Wolff et al. 2005). It is also the case that wealth is a more important factor in measures of life satisfaction than income, even across countries (Headey et al. 2008). Intuitively, it is often those with the least income security that also have the least wealth holdings despite being in the greatest need of financial cushioning (Irvine and Wang 2003, Ghilarducci, Radpour, and Webb 2019).

Given the demonstrated benefits to the state of Washington and the many potential positive impacts to worker financial security, I recommend that the Rate Setting Board seriously consider the value of a meaningful retirement benefit and provide adequate funding in your proposed rate for the employer and union to be able to negotiate increased retirement benefits.

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