Testimony of Manny Pastreich before the 2021 Advisory Council on Employee Welfare and Pension Benefit Plans regarding the Gaps in Retirement Savings Based on Race, Ethnicity and Gender Issue Group

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I would like to begin by thanking the Department of Labor, this Advisory Council, Chariman Harney, and the others working on this Group. The retirement security challenges are members face are always front and center in the minds our union. As the Secretary-Treasurer of a 170,000 member local union that represents property service workers we have a unique view on the challenges lower wage workers have in saving for retirement. Our members are predominantly black and brown and about evenly split between men and women. The vast majority of our full time members make between $20,000 and $55,000 per year. And as a trustee on a number of our benefit funds, I have direct experience in the benefits and challenges of providing defined benefit and defined contribution plans for workers.

I should say up front that even among our membership that there are significant disparities in their path to a level of retirement security, but the vast majority will arrive at retirement with shortfalls for what a secure retirement needs. Each of our members has their own story and I always hesitate to make generalizations. But as a union of 170,000 members we do see trends that are similar to what is going on in the rest of the country.

The large majority of our members are Black and Brown and a significant proportion are first generation immigrants to this country. I will try to convey the experience of our members, but I want to emphasize that the Racial Wealth Gap plays a significant role in hampering Black and Brown workers efforts to attain retirement security. I'd like to share two paragraphs from a recent brief from Morgan Stanley (https://www.morganstanley.com/atwork/articles/retirement-race-gap) that make the case crystal clear significantly systemic racism impacts retirement security outcomes:

"…The lines are clear when it comes to race and retirement. On average, white Americans have seven times the retirement savings of Black Americans, and five times the savings of Latinx retirees. What's more, if current trends continue, Black and Latinx Americans are at risk of owning zero wealth by 2053 and 2073, respectively."

And

"Data from the Federal Reserve's 2019 Survey of Consumer Finances shows that White households own 83.9% of the wealth in the U.S., while Black households own 4.1% and Latinx households own 2.5%. Wages play a large factor in this disparity, with Black households earning just 61 cents and Latinx households earning just 74 cents for every dollar of income earned by White households.

These numbers have remained largely unchanged over the past 30 years and speak to a substantial and troubling disparity. The gap continues with age, putting the Black and Latinx workforce most at risk for retirement insecurity. Without Social Security, the poverty rate among Latinx seniors would be nearly 50% and the poverty rate among Black seniors would *exceed* 50%.

These facts lay out the strark challenges our members face. I take some solace that our union has pushed up wages higher than the averages, won improved retirement security in many cases so the stories for our members is, on average, better. But I also know that the essense of the story for the large majority is they will arrive at retirement in a shaky situation.

I will give three examples that try to capture some of the different situations our members travel the path to retirement.

Eighty thousand of our members are in New York City and benefit from collective bargaining agreements that have been in place for decades. Most of those have access to both a defined benefit and 401k. We actually call the 401k at the Supplement Retirement Plan or SRSP because it was set up as a tax efficient way to save for the third leg of retirement – personal savings - given these members have access to defined benefit plans. The most typical of those defined benefit plans offer members a $1,400/month defined benefit plan if they have 25 years of industry service. That is roughly 1/3 of their salary today and so that stool of the leg is relatively strong. As private sector workers they also will benefit from Social Security – the second vital leg. When it comes to personal savings however, there is a significant shortfall. In our SRSP, the average balance for those over sixty years old is $80,000. Assuming a reasonable growth in those assets in retirement, it is hard to imagine that amount lasting more than seven years before it is depleted. While there could be other savings, our experience is that is not the case. Most of our members arrive at retirement with little savings or accumulated wealth. And these are our most stable and some of our best paid members.

I can offer a more extreme but not atypical example in our newest organized members – office building cleaners in Miami and Fort Lauderdale. We expect to bargain our first contract in the coming weeks. But as we go into bargaining, many of the workers make the minimum wage of $8.65 cents per hour. If we focus on the twenty percent that are full-time workers for a fair comparison, it is a group of workers that make between minimum wage and $10.00/hour and are offered few, if any benefits. We have not found employers providing any significant amount of retirement benefits for the cleaners. The majority of our cleaning members in Florida – and across the East Coast are women. As we prepare or bargaining demands, I am sad to say that defined benefit or even employer contribution to a 401k is not a realistic goal for the first contract. There will be a focus first and foremost on wages – and I will note the state referendum that raised the minimum wage will be a big boost. And after wages the next priority will be healthcare for full-time workers followed by paid days off. Fighting for retirement savings when our members do not have enough to pay rent, food, and take care of their children today is, sadly, secondary.

The last example is of security officers working under prevailing wage. These workers are employed by companies that have contracts with public agencies or private entities that received public funds obligating them and/or their contractors to pay a standard wage. In these cases, there is often a predetermined amount set aside for benefits. Much of this taken for the provision of healthcare, but in some cases there is money for retirement. Often, that money is put into the SRSP and some of our members have built up significant accounts because of the employer contributions. In this case our SRSP is functioning as a traditional 401k and as the pension leg of the stool.

I draw attention to this third example because that group has made significant numbers of request for withdrawals from our SRSP. We do not allow for loans on the SRSP. And that, I must say, is a controversial issue for our funds and the union. Roughly one percent of the membership request a loan every quarter – approximately 700 members each quarter or almost 3,000 every year. The number one reason given to the union representatives is "hardship."

"I have credit card debt I need to pay off."

"I am dropping my daughter off at college and the tuition has tapped me out – I need to leave her some money."

There are many more examples like this – real life challenges our members face to get by every day. But whether your salary is $17,000 a year or $55,000 a year, living in large cities with high rents, high transportation costs, and the daily challenges of providing the basics for your family – it does not take much to look at the SRSP as a needed asset today – not when I am 65. We do not currently plan to change our policy restricting loans from the SRSP, but we fully recognize the hard choices our members face as I believe this committee does as well.

Our union still strongly believes the defined benefit plans are the best form of retirement security. The professional investment, low fees, and combined investment structure that focuses on the retirement benefit as opposed to the amount you individually have today leads to positive long term planning. Most of our funds are in the Green Zone or projected to be there in the next five years – through significant sacrifice, focus, and effort between the union and employers. But we plan to continue to build on those defined benefit plans. We are happy to say we have even added some new groups to the defined benefit plans in the last few years.

But we also recognize the limits. We have tens of thousands of members who do not have access to these plans and we face enormous employer opposition to joining them because of the potential impact of withdrawal liability – both real and perceived. We know that as we raise wages, improve health benefits, we will need to come up with retirement solutions for these workers – and that we will need to keep all options on the table.

We will always reject a concept of shared sacrifice that puts an undue burden on the working class. A 401k can work fine for someone who has income that covers their monthly and yearly costs and allows them to accumulate assets over time in the hundreds of thousands or millions of dollars. But for the large majority of our members, the ability to voluntarily put aside enough money for retirement –to choose the future over today's very real challenges – is a model destined to fail. The facts about compounding returns are meaningless – and I would say a potentially dangerous distraction to working people if the base does not exist to compound upon.

I would like to give some statistics on our SRSP.

- 72,000 actives in our SRSP
- The averag balance is $25,000.
- The average balance of those over 60 is $80,000
- Only 30% make a voluntary contribution (our plan requires an employer contribution to be eligible to participate)
- 90 percent leave their contribution in default fund

Again, the SRSP in our contracts is meant as supplemental savings for most of our members – the personal savings leg of the stool. The conclusion I draw from these statistics is that the third leg of the stool is somewhere between extremely weak on non-existent. And the retirement plan leg varies for our members dramatically – from robust to non-existent and different spaces inbtween those extremes. But I think it is fair to say that for half of our members, the retirement plan leg is non-existent or insufficient.

Again, I appreciate that this Advisory Council is examining the issue. The solutions are complicated and hard to separate from deep societal issues of economic inequality. I will offer recommendations based on discussion with our leadership, our experiences, and our benefit funds.

While I recognize it is beyond the scope of this committee, I must say that supporting unionization and supporting efforts to raise the minimum wage are two important pre-conditions to addressing retirement security. Retirement security cannot be addressed adequately until wages are raised to a point that workers can see past today crisis. Those are in my mind the two most proven ways to improve wages for low-wage workers.

Secondly, in the big picture, strengthening and improving social security for lower income Americans is the simplest and most concrete step that can be accomplished in the near term to provide retirement security for working and poor people.

The Administration should also continue to take steps to strengthen defined benefit plans while keeping a particular eye on supporting those plans for low-wage workers. While we did not have any plans in our union that are in danger of being insolvent, we applaud the support for plans that were. I will put forward that as future solutions are reviewed for the PBBG, we urge the Administration to look for funding mechanisms that are not "flat" where it is a per head charge that puts an undue burden on lower wage workers with lower contribution rates. The “tax rate” on these funds become significantly higher and less progressive. A flat tax disproportionately hurts lower wage workers in defined benefit plans.

Creative solutions are needed to address the employer opposition to defined benefit plans. Much of that opposition comes from the real and perceived impacts of withdrawal liability. Some of those fears are real and many are unfounded. But the Department and the Administration as a whole should look to creative solutions to lower that employer opposition. I say this realizing that withdrawal liability is a key foundation of what makes a pension guaranteed. We would support ways the department can provide support to union and employers in key sectors to explore guaranteed retirement options – including variable defined benefit plans. There could be ways to fund these plans that builds on the models used to save insolvent plans but in a more positive situation – possibly seeding plans to allow for new groups to have guaranteed pensions.

The potential attraction of these variable defined benefit plans is that the benefit you have earned is guarantee and the professional investing with lower fees. Our union continues to study them as an opportunity to provide a new path but also has concerns that the generally lower return assumptions and the potential for continued employer opposition will not make them a realistic path.

Finally, in respect to 401k’s, we recognize they are part of the landscape. While we believe they are ideally a supplemental retirement to defined benefit it is clear that for many Americans they are both the second and third leg of the stool. The state and federal governments should continue to look for ways to encourage and even force retirement options for working and poor people. Government seeding of accounts for lower income Americans and state or federal requirements that employers make a contribution to a defined benefit or defined contribution plan would also be a step forward. Just creating the accounts for working people will not lead to significant retirement savings.

The statistic are out there that for tens of millions of Americans, two of the three legs of the retirement stool are relatively non-existent. For our 170,000 generally at least one of the legs – personal savings/401k is broken – and for many the pension program does not exist. The fact that for women it is that much more broken. For Black Americans it is broken. And for Latinx it is broken. We must support efforts that will address this now. Any solutions that address these important issues should be applauded. But the efforts should not just focus on the edges but the heart of the problems and be ambitious. Working people need real solutions and for our Black, Brown, immigrant, and female members the situation is especially dire.