REPORT WORK

Toward a More Secure Retirement for Domestic Workers

SEPTEMBER 12, 2017 — SHAYNA STROM

Retirement security is a problem for many people in the United States,[1] and perhaps even more so for workers in the gig economy, who often have far fewer benefits through their work.[2] Yet domestic workers face particularly tough challenges, since they are often low-income and may be employed by families, making them even less likely than others in the gig economy to have access to workplace supports.

This report looks at some of the difficulties that domestic workers face in saving for retirement, whether they are working as nannies, housecleaners, or other kinds of caregivers in private homes. It then lays out some of the options available to advocates seeking to help domestic workers save for retirement, with a focus on options that would work for groups such as the National Domestic Workers Alliance (NDWA).

Background

The National Domestic Workers Alliance (NDWA), founded in 2007, is an organizing group of domestic workers fighting for dignity and fairness in the workplace.[3] NDWA has over sixty affiliate organizations, representing over twenty thousand nannies, housekeepers, and caregivers for the elderly in thirty-six cities and twenty-one states. As a population, domestic workers are overwhelmingly female, largely immigrant, and many are from ethnic or racial minority groups.[4] While definitions of "domestic worker" may vary, Pew Research Center found that, as of 2014, 45 percent of private household workers were immigrants, and 22 percent were undocumented.[5]

Domestic work is uniquely difficult in a number of ways. Domestic workers are excluded from the protections of several federal statutes that cover other workers, such as the National Labor Relations Act and the Occupational Safety and Health Act. They are also typically not covered by federal anti-discrimination laws, since those laws generally only cover workplaces with more employees. Domestic workers are also largely low-income: in a 2012 survey of more than one thousand domestic workers, researchers found that 23 percent of the workers (and 67 percent of live-in workers) were paid less than their state minimum wage, and 70 percent were paid less than $13 an hour.[6]

Domestic workers are generally not well-prepared for retirement. Of the workers in the 2012 survey, less than 2 percent had access to a retirement plan through work. A 2014 study of Filipino elderly caregivers in Los Angeles found that the average caregiver for the elderly was fairly old herself (57.5 years of age); while the majority wanted to stop working between the ages of 65 to 75, most had no concrete retirement plans.[7] Although domestic work is generally considered W-2 employment,[8] many domestic workers are incorrectly paid as 1099 workers or even "under the table"; as a result, less than 9 percent of the workers in the 2012 survey worked for employers who contributed to Social Security.[9] Moreover, being paid under the table and in cash may further complicate the ability of workers to access benefits easily, since many benefits are administered in conjunction with an employer's payroll system.

The difficulty that domestic workers have in saving for retirement is also a reflection of broader trends among low-income workers and people of color. Only 9 percent of low-income families had retirement accounts in 2007 (pre-Great Recession), with a median savings of $5,000.[10] The amount that a person can save for retirement is, of course, also affected by how much they earn, and women and minorities make less than men; a 2015 study pointed out that "for every dollar earned by White men, Latino men earn 67 cents, White women earn 78 cents, Blacks earn 64 cents, and Latinas earn only 54 cents."[11] Women have one-third less money in defined-contribution accounts than men,[12] and

MEMBERS OF THE NATIONAL DOMESTIC WORKERS ALLIANCE. SOURCE: NDWA FACEBOOK.

age, 80 percent of Latino families headed by adults between 25 and 64 years of age and 75 percent of African-American families headed by adults in the same age range have less than $10,000 saved for retirement (compared to 50 percent of white families).[14] Latinos as a group are the least likely to participate in voluntary retirement plans,[15] although Latinos born in the United States are somewhat more likely to participate than those born abroad.[16]

Given the demographics of the domestic worker population, some may ask whether domestic workers would be able to save for retirement even if they had access to retirement accounts. The 2012 survey of domestic workers cited earlier found that 20 percent of domestic workers reported that there had been no food in their house at some point during the previous month due to financial difficulties;[17] given that reality, how can those workers afford to set aside money that they will not use for many years?

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While it is reasonable to ask whether low-income workers can afford to save for retirement, there have been a few studies that suggest they can save—and will—if given the right incentives to do so. The Women's Institute for a Secure Retirement (WISER), for example, ran a two-year experiment with childcare workers in Ohio and West Virginia. Participants were connected with a savings instrument that was suitable for people who were not saving a lot of money, and WISER provided a 50 percent savings match (intended to simulate a governmental match to retirement contributions).[18] WISER found that, on average, participants put aside $767 in savings on their own, and $383 in match savings over the course of the program, for a total of $1,150—5.5 percent of their average annual incomes.[19] In other words, the program successfully incentivized a group of low-income individuals to put aside a relatively significant amount of money, even in a short time period. Participants suggested that the availability of the match was a huge incentive; without the match, they would have put aside very little money.[20]

Similarly, a 2005 National Bureau of Economic Research Working paper by a number of eminent scholars summarizes the results of a large randomized experiment by H&R Block in St. Louis. Among H&R Block offices in low- and moderate-income areas, some offices provided clients a 20 percent match to IRA contributions, some 50 percent, and some zero. The match had a significant impact on both the take-up rates and the average contribution levels: the 50 percent match group had a 14 percent take up rate (compared to 3 percent for the control group and 8 percent for the 20 percent match group),[21] while the average IRA contributions were seven times higher in the 50 percent match group than in the control group (and four times higher for the 20 percent match group than the control), not including the matches themselves.[22] In other words, low- and moderate-income workers did save for retirement, and the match had a significant impact on encouraging them to save.

There is similar evidence outside of the retirement space indicating that low-income individuals can save. The Urban Institute studied three thousand families between 1994 and 2007 (pre-Great Recession), and found that 40 percent of families who were poor for the majority of that period were still able to increase their net worth.[23] Of families headed by adults 25 to 39 years of age who were both income- and asset-poor from 1989 to 1995, most were in a better position twelve years later (2001 to 2007).[24] About 20 percent had escaped both income and asset poverty, while 23 percent had escaped asset poverty and 13 percent had escaped income poverty. Targeted programs can help families to increase their savings further. A program known as SaveUSA, started in 2001, encouraged low- and moderate-income individuals in four cities to save by offering them a matching payment if they deposited their tax return in a savings account and kept it there for a year. After forty-two months, compared to the control group, the program had led to almost 8 percent more people having nonretirement savings and had increased people's total savings by 30 percent ($522)—an effect that lasted even after the majority of the SaveUSA participants were no longer receiving a matching payment.[25]

In conclusion, domestic workers face a number of serious impediments to saving money for retirement, including low wages, their immigration status, and the fact that many are paid off the books/in cash. That said, other low-wage workers have successfully saved money in the past. While NDWA will need to experiment with the best incentives and financial education to encourage its members to save for retirement, there is some evidence that, under the right conditions, they will do so.

Retirement Options for Domestic Workers Who Pay Taxes

For domestic workers who pay taxes, tax-advantaged accounts and tax credits can be powerful mechanisms to increase retirement savings. As already mentioned, 35 percent of domestic workers are foreign-born, and a number of those may be undocumented. That said, many undocumented workers do pay taxes, since some hope that being current on their taxes will make them more likely to benefit from future immigration reform legislation.[26] While NDWA does not currently know what percentage of their members pay taxes, those who do so can take advantage of tax-advantaged accounts and tax credits, regardless of their legal status, as long as they have a bank account.[27]

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Until recently, the best tax-advantaged mechanism for domestic workers to save for retirement was MyRA, an easy to use and very safe Roth IRA developed by the Obama Administration. MyRA, which was created as a "starter" retirement account for people who did not have much in retirement savings, had no fees, no minimum balance, and no risk of losing money since it was backed by the U.S. Treasury.[28] Unfortunately, the Trump administration announced on July 28 that it is phasing out the MyRA program.[29]

Despite the elimination of the MyRA program, there are still a number of retirement vehicles that could make sense for domestic workers. Series I Savings Bonds (I Bonds) are very safe investments that may be good for workers who do not want to take any risks with their money;[30] WISER, for example, used I Bonds for their project with childcare workers. The interest that I Bonds earn is subject to federal taxation when they are redeemed, but not state or local taxation. Obviously, Social Security can also help to supplement many workers' retirement income, although the program is largely not accessible to people who are undocumented. Private-sector IRAs (including SEP IRAs[31]) are plausibly a viable alternative; a few companies offer no-fee or low-fee options. However, private-sector IRAs are more complicated to operate, and could involve some risk to the investor's principal, depending on how the money is allocated. Robo-advisers such as Betterment and Wealthfront would simplify the investment process, but charge advisory fees and still involve some risk to the principal; in addition, Wealthfront has an account minimum of $500. Note that some private-sector companies (including, as of writing, Wealthfront) require that contributors have a Social Security number to open accounts, not just an Individual Taxpayer Identification Number (ITIN).

If at some point NDWA wants to be more actively involved in providing retirement options to its members, it could potentially be possible to offer a multiple employer plan (MEP), which would allow for employer contributions. MEPs can be either "open" or "closed," depending on how much "commonality of interest" the employers share. Congress was expected to pass legislation that would affect so-called "open MEPs"—those with less commonality of interest among employers—during the 2016 lame duck session, but did not do so; it remains unclear what will happen in the next Congress. Creating a MEP is likely not an ideal first option for NDWA regardless, since it is administratively complicated and would involve costs to NDWA.

Domestic workers can also leverage their contributions to certain retirement accounts by taking advantage of the Saver's Credit, a tax credit that essentially acts like a somewhat more complicated government match for individual retirement contributions. Depending on individual and household income, tax filers can claim a Savers Credit for 50 percent, 20 percent, or 10 percent of the first $2,000 they contribute to a retirement account ($4,000 for married filing jointly); the maximum credit that can be claimed is $1,000 for an individual, or $2,000 for joint filers (see Table 1). The Saver's Credit can be taken in conjunction with many kinds of contributions, including contributions to an IRA or Roth IRA, 401(k), 403(b), SIMPLE IRA or SEP IRA, and so on. Unfortunately, the Saver's Credit is not refundable, which means that there are some low-income workers who will still not be able to take advantage of it. That said, it is a very helpful incentive for workers to save, once they understand how it works. Notably, since Saver's Credits are tax credits rather than retirement products governed under federal pension law (ERISA), states could also theoretically create their own refundable Saver's Credits on top of the federal one (similar to the way some states have created state Earned Income Tax Credits). NDWA could consider pushing for state legislation on this issue in some locations to create an even bigger incentive for low-income workers to save.

Table 1. Availability of Certain Rates of the 2017 Saver’s Credit, by Income			
Credit Rate	**Married Filing Jointly**	**Head of Household**	**All Other Filers***
50% of contribution	AGI not more than $37,000	AGI not more than $27,750	AGI not more than $18,500
20% of contribution	$37,001–$40,000	$27,751–$30,000	$18,501–$20,000
10% of contribution	$40,001–$62,000	$30,001–$46,500	$20,001–$31,000
0% of contribution	more than $62,000	more than $46,500	more than $31,000
Source: IRS website.			

Table 2. Summary of Viable Retirement Programs for Domestic Workers Who Pay Taxes			
Type of program	**Description**	**Pros**	**Cons**
Saver’s Credit	Tax credit that functions like a government match for low-income savers	Essentially “free money” in return for saving; everyone who is eligible should take this credit	A little complicated to understand; not refundable, so not everyone would benefit from it
Series I	A kind of inflation-		Not eligible for the Saver’s Credit;

Savings Bonds	protected Treasury bond	Safe way to save; no fees; inflation-protected	subject to a small minimum purchase requirement
Private-sector IRAs	Tax-advantaged way to save	Allows workers to access the benefits of tax-advantaged retirement systems	Usually have fees; may involve loss to the principal; may have minimum balances; may require a Social Security number
Roboadvisor investments in IRAs (e.g., Wealthfront, Bettermint)	Tax-advantaged way to save with a computer controlling the investment decisions	Easy to operate; little required	Has fees; features are more beneficial to savers who are comfortable with more risk in exchange for higher returns; may have minimum balances; may require a Social Security number
Multiple Employer Plan (MEP)	An employer plan that more than one employer can participate in; may be "open" or "closed"	Would allow organizations like NDWA to administer a retirement plan for members; allows for employer contributions; allows workers to contribute a higher amount each year than an IRA	Administratively complicated; has costs for NDWA; some question about whether all kinds of domestic workers could be included in the same MEP
Social Security	A Federal government program that people pay into while working to help them have economic security when they retire	Allows workers to benefit from retirement money they have already earned by working in the U.S.; particularly helpful for low-income workers	Workers who are undocumented can only receive benefits under rare circumstances
Source: Compiled by author.			

Organizations such as NDWA may want to think about how they can provide—or partner with someone who will provide—financial education to increase the chances that their members will take advantage of opportunities that exist. The Saver's Credit is not as effective as it could be, in part because people often do not understand it; financial education could help people to appreciate the ways the credit could benefit them.[32] In addition, there is evidence that some recent immigrants may not trust the banking system,[33] either because banks in people's country of origin were not safe places to store money, or because the rules and details of the banking system are confusing and not clear. In those cases, sensitive financial education can play some role in helping people to understand why participating in the U.S. retirement system is valuable for them.

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Retirement Options for Domestic Workers Who Do Not Pay Taxes

The retirement options for domestic workers who do not pay taxes are significantly more limited. Something as simple as keeping money under one's mattress or keeping money on a prepaid card can help someone save for retirement–yet while it is difficult to save enough for retirement without government or employer matches, it is even more difficult if one's savings lose value as a result of inflation.

While most people probably envision a specific kind of financial instrument when they think of planning for retirement, realistically, anything that helps people to have more money when they are older can function as a retirement vehicle. That said, many non-retirement programs that are potentially open to undocumented immigrants, such as Individual Development Accounts (IDAs)[34] or I Bonds, still require having a bank account (and, as a result, an ITIN), which makes them inaccessible to people fully living in the cash economy. As a result, it may be helpful for groups like NDWA to encourage workers to get an ITIN and a bank account. Since many immigrant families live in mixed-status households, the overall effects for the family of not participating in the banking system are huge (of course, some workers are understandably more concerned about even having an ITIN in this political environment).

Lending circles, such as micro-loan programs popular in the developing world, are another mechanism for workers to get enough money for a specific purchase (for example, a down payment on a house that is also meant to serve as a retirement asset). Some lending circles are fairly informal and do not require a bank account and ITIN. More formal programs, such as those run by the Mission Asset Fund in San Francisco, are likely to require a bank account/ITIN, but may have other helpful features (such as financial education, reporting to the credit bureaus to help someone build credit, and insurance so that participants cannot just run away with the money of other participants). One lending circle program in New York, run by Chhaya Community Development Corporation, even offers matching savings opportunities for people looking to put aside money.

Clearly, however, there are a large number of structural barriers to undocumented immigrants saving enough money to retire. For some people, those barriers may be significant enough to force them to leave the country to be able to retire. More specifically, people who work in the United States but cannot save enough to retire there may need to take income earned in the United States and spend it in a place where their savings would actually be sufficient to retire. In some cases, there are also financial programs, including remittance-backed products, that immigrants can take advantage of that will make it easier to retire in their countries of origin.[35] For example, Mexico, the Philippines, Colombia, and Burkina Faso have mortgage programs that allow people to purchase homes in their country of origin without having to return to the country.[36] Some of these programs are also structured as savings programs that let people contribute toward a home loan in small increments, or programs that provide people with housing at reduced cost. The Philippines also offers banking products, including loans for cars, appliances, and reintegration into the country,[37] and a program known as Flexi-funds, available to overseas Filipino workers who are part of the Philippines Social Security System and want to save additional money for retirement.[38] Other countries have health care programs for diaspora residents or overseas workers who return home temporarily or permanently—for example, Morocco's Mutuelle des Marocains à L'Étranger, Mexico's Seguro de Salud para la Familia en Mexico,[39] or the Philippines's PhilHealth.[40] These kinds of programs are not retirement programs, but by reducing the cost of living as an older returnee, they make it easier to retire. Some programs and benefits are even accessible to immigrants who have become American citizens or their children—for example, Ethiopia lets people of Ethiopian origin enter the country without a visa, work and live there, own property, and use public services.

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While retiring abroad may make financial sense (especially for unbanked immigrants who have trouble accessing savings programs in the United States), the decision to return to one's country of origin after a long time in the United States is not a trivial one. Organizations such as NDWA that are seeking to advise members on their retirement options should be cognizant of the fact that people may have very different attitudes toward returning. A certain percentage of immigrants would actually prefer to retire in their countries of origin, and may have come to the United States never intending to stay.[41] In some cases, people would prefer to return to their country of origin but choose not to move back in part because their retirement and health care benefits are not portable across national borders.[42] However, for other immigrants, returning "home" after an extended period abroad is a surprisingly difficult experience, because it no longer feels like home. For people who have adult children living in the U.S., separation can be particularly hard.[43] For undocumented immigrants debating whether to settle abroad, it can be difficult to know that they will not be able to come back to the U.S.[44] Yet even for those who are eager to go back home, many are surprised to realize how difficult it can be to return and integrate after a long period abroad.[45]

For immigrants who are considering returning when they get older, organizations such as NDWA may be able to help them take certain steps while living in the United States that will help to improve their experiences when they do so. In particular, maintaining social and familial relationships is particularly important; having a community to return to is crucial to many people's happiness and feeling of belonging.[46] For immigrants who are not undocumented, this may include making return trips to visit their country of origin while living in the United States. Many immigrants also buy a house in their country of origin so that they have a place to live when they return.[47] If NDWA plans to advise its members about how to prepare for retirement, it is important not to neglect nonfinancial factors that could make it more plausible to retire abroad.

In summary, while the options for retirement vehicles for workers who do not pay taxes are more limited, they do exist, especially if one expands the definition of "retirement vehicle" and/or is willing to take advantage of differences in exchange rates and move outside the United States.

Conclusion

It is not easy for domestic workers to save for retirement, and it is particularly difficult for someone who is undocumented and does not pay taxes. Saving enough money is hard for low-income workers, and the specific options for how to save are far from perfect—especially if they involve moving to another country after living in the United States for decades. That said, there is much that groups such as NDWA can do to support domestic workers in this effort, ranging from encouraging workers to get an ITIN and a bank account to helping them find retirement options that are portable, easy to use, and sufficient to live on. With enough advance preparation, saving enough money for retirement is possible—even for people who struggle to pay the bills day-to-day.

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Correction: An earlier version of this report referred to the MyRA program in the present tense; the Trump administration announced July 28, 2017, that it was phasing out the MyRA program.

Notes

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33. Richman, “The Significance of Gender for Latina/o Savings and Retirement,” 31, 78.

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