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Retirement Readiness in New York City

Trends in Plan Sponsorship, Participation and Income Security

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New Yorkers Need Retirement Plans at Work

New Yorkers need safe and convenient mechanisms to save for old age. Secure pension income helps strengthen the city's financial future by keeping social spending down and older residents' spending power up. However, low and decreasing rates of employer sponsorship of retirement plans and the shift from traditional pension plans to 401(k)-type plans are threatening New Yorkers' financial readiness for retirement.

Many working New Yorkers depend on Social Security and the convenience and affordability of employer-sponsored retirement plans to finance their old age. However, fewer than half of New York residents have access to a retirement plan at work.

- Only 43 percent of New York City workers were offered a retirement plan at work in 2012 (most recent data). Sponsorship rates in New York City remain significantly below the national average of 54 percent.
- Nearly two-thirds of New York Cities working age population (over 3 million people) did not participate in employer-sponsored retirement plans in 2012, largely because their employer did not offer one. Over 1.7 million residents worked at firms that did not offer an employer-sponsored retirement plan, and an additional 182,089 workers were sponsored by a plan but did not participate. Finally, 1.4 million were not working in 2012 and, by definition, did not participate in an employer-sponsored plan.

Declining savings levels threaten New Yorkers with the possibility of experiencing a lower standard of living or poverty in retirement.

- Using the federal poverty threshold, a conservative method for computing poverty, 9 percent of city workers aged 50-64 currently live in or near poverty.

This report predicts the near-poverty rate will increase to 20 percent for these workers in retirement. Using the New York City Center for Economic Opportunity standard for poverty, the rate of projected poor or near-poor retirees more than doubles.

New Yorkers are less prepared for retirement in 2012 than after the Great Recession in 2009.

- More than half of households with heads of households near retirement age (50-64 years old, working and not) had liquid assets of less than $100,000. These older households will likely subsist almost entirely on Social Security income in retirement or will not be able to retire at all.
- The majority of New York City households without an employer-sponsored retirement plan have less than $1,000 in liquid assets.
- The median level of liquid assets for households who participate in workplace defined contribution retirement plans decreased by almost 50 percent, mostly because investments declined in value by 73 percent. Retirement accounts declined in value by 11 percent in the same period.

The first section of this report describes the trends in sponsorship of retirement plans by employers at the local and national levels and analyzes the rate of participation in employer-sponsored retirement plans. The second section examines how the group nearest retirement in 2012 (those aged 50-64[1]) is prepared financially for retirement after age 65.[2]

The findings suggest that low sponsorship and the shift to 401(k)-type plans are jeopardizing the retirement security of working New Yorkers. A greater number of New York City residents are likely to experience a dramatic drop in living standards as they age.

SECTION 1:

Employer Sponsorship of Retirement Plans at Work is Declining

Employers have traditionally played an integral role in the U.S. retirement system.[3] They have contributed to their employees' retirement plans as part of benefits packages designed to attract and retain quality workers, bolstering workers' assets and ease the burden of saving for retirement.

Workplace retirement plans are the most effective and convenient vehicle for workers to save for retirement. These plans automatically deduct contributions from a workers' paycheck, removing both the burden of having to manually allocate funds and the temptation to spend these funds on day-to-day budget needs.

An employer who chooses to sponsor a retirement plan for their employees plays a significant role in the administration and design of the plan. Employers decide what type of plan to offer—a defined contribution or defined benefit plan and how much they will contribute to the plan. A defined benefit (DB) plan uses a formula that credits every year of service with a certain percentage of pay to determine lifetime pension benefits. The employer invests the assets and guarantees the pension, and the worker implicitly pays for the DB plan with reduced take-home earnings. In the case of defined contribution (DC) plans—most are 401(k) plans—the employer provides a tax-advantaged savings account that employees contribute to on a voluntary basis. The worker, not the employer, invests the assets. The employer, not the worker, provides the investment options. Employers are not required to contribute to a DC plan, and the level of employer contributions can vary from year to year or not exist at all.[4]

Both types of employer-sponsored retirement plans significantly improve a worker's readiness for retirement. Retirees receiving income from a workplace retirement plan are more likely to retain middle-class lifestyles than retirees without income from an employer-sponsored plan.

New York City's Sponsorship Levels Remain Lower than the Rest of the Nation

As of 2012, only 43 percent of employed New York City residents aged 25-64 had access to an employer-sponsored retirement plan. This is 11 percentage points lower than workers in the rest of the U.S. and 9 points lower than in New York State metropolitan areas.[5]

While the sponsorship rate in New York City increased from 41 percent to 43 percent between 2009 and 2012, New York City workers continue to experience lower sponsorship rates than other Americans and other New Yorkers (see Figure 1).[6] Moreover, the recent increase must be considered in the context of the long-term decrease in the sponsorship rate from a peak of 55 percent in 1986 to 41 percent in 2009.

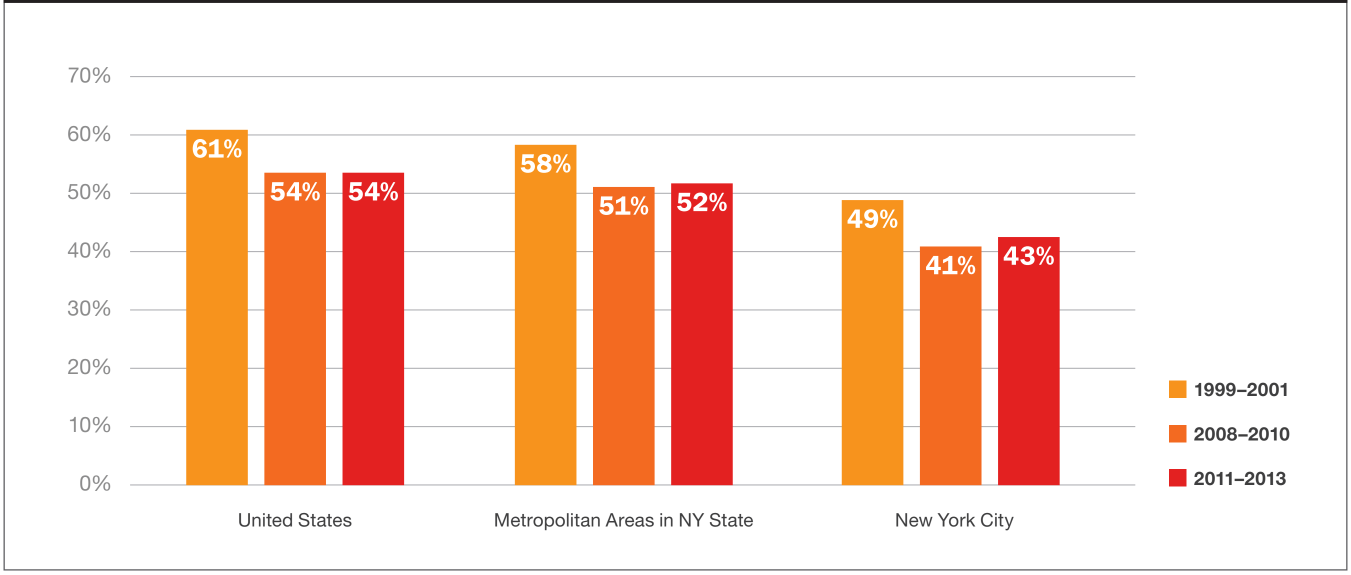
Workplace Retirement Plan Sponsorship is Declining for Key Groups of Workers

Overall, sponsorship in New York City rose from 41 percent in 2009 to 43 percent in 2012. However, older workers (aged 50-64), self-employed, and white workers experienced significant decreases in sponsorship.

Older New York City workers' (aged 50-64) retirement plan coverage rates declined a full nine percentage points, from 54 percent in 2000 to 45 percent in 2012, the steepest decline in coverage among all age groups. In contrast, in the rest of the United States coverage rates for older workers fell by 5 percentage points from 2000 to 2012. Self-employed workers are one of the fastest-growing categories of workers in New York City since 2000.[7]

These workers can establish retirement plans for themselves, their spouses, and other employees through several provisions of the federal tax code. Among those options are the "Solo 401(k)," the

Figure 1: Sponsorship Rates in NYC and the US over Time



Source: Current Population Survey, ASEC, 2000-2002, 2009-2011, 2012-2014. Each grouping represents an average over three years. Percentages in the figure are rounded. Sample is limited to persons aged 25-64 who worked at some point in the last calendar year. New York City sample is limited to residents of New York City. Metropolitan Areas in New York State includes New York City, which represents over half of all NY metro populations.

simplified employee pension plan (SEP) and the SIMPLE-IRA. Also, in 2010, the Freelancers' Union established a group 401(k) plan open to union members with 1099 income. Still, sponsorship rates fell for the self-employed and remain among the lowest of all workers. In 2000, only 21 percent of all self-employed workers in New York City had a sponsored plan, and that rate fell to 9 percent by 2012.

Between 2009 and 2012, white workers' coverage rates fell 8 percent, while coverage rates increased for other racial groups, including Black (up 16 percent), Asian (up 20 percent) and Hispanic (up 13 percent). The groups that experienced the largest increases were the groups that had previously suffered disproportionate losses.

Men experienced a larger increase in sponsorship (up 8 percent) than did women (up 2 percent). Sponsorship of non-citizens increased by 29 percent, whereas sponsorship of citizens did not change (see Figure 2a).

Across all industries, New York employers sponsor a smaller percentage of workers than do employers in the rest of the United States. New Yorkers working in wholesale and retail trade experienced a 7 percent drop in sponsorship from 2009 to 2012, which, at 27 percent remains significantly lower than the U.S. average of 50 percent. Sponsorship of public administration workers decreased by 6 percentage points to 73 percent, which is 10 percentage points below the U.S. average.

Workers in other services had an increase in sponsorship rates from 13 percent to 19 percent in two years, following an 11 percentage point drop in the six years prior. This was the largest increase in sponsorship across all industries, followed by arts, entertainment, recreation, accommodation and food services as well as health care services and transportation, warehousing and utilities, where sponsorship increased by 15 percent in each (see Figure 2b).

Firms with less than 100 employees showed no change in sponsorship rates, while larger firms increased sponsorship of their employees.

Sponsorship of employees covered by a union contract had no change in sponsorship rates, while sponsorship of those not covered by a union contract increased by 9 percentage points.

Figure 2A: Retirement Plan Sponsorship Rates by Social and Personal Worker Characteristics in New York City and the U.S.

	NYC			US		
	1999-2001	2008-2010	2011-2013	1999-2001	2008-2010	2011-2013
Working Population	3,074,471	3,290,111	3,274,065	120,284,074	126,541,810	126,199,130
Total Sponsored	49%	41%	43%	61%	54%	54%
Gender						
Male	47%	37%	40%	61%	53%	53%
Female	51%	45%	46%	61%	55%	55%
Citizenship Status						
Non-Citizens	30%	21%	27%	35%	28%	29%
Citizens	56%	47%	47%	63%	56%	56%
Age Group						
Ages 25-39	47%	40%	42%	59%	51%	50%
Ages 40-49	47%	35%	42%	63%	55%	55%
Ages 50-64	54%	47%	45%	62%	57%	57%
Race						
White Non-Hispanic	59%	51%	47%	65%	58%	58%
Black Non-Hispanic	52%	44%	51%	61%	54%	53%
Asian Non-Hispanic	39%	30%	36%	55%	50%	50%
Hispanic	33%	31%	35%	41%	36%	36%
Classification of Worker						
Self-Employed	21%	11%	9%	19%	14%	13%
Wage and Salary Workers	47%	37%	41%	61%	53%	53%
Government	78%	74%	72%	87%	83%	82%
Firm Size						
1 to 99	25%	20%	20%	35%	29%	28%
100 to 499	54%	51%	53%	70%	62%	62%
500 to 999	63%	51%	57%	76%	68%	68%
1000+	75%	64%	68%	82%	76%	75%
Union Status						
Not Covered by a Union Contract	47%	33%	42%	64%	56%	56%
Covered by a Union Contract	71%	68%	68%	85%	82%	81%

Source: CPS ASEC, 2000-2002, 2009-2011, 2012-2014. Note: The NYC sample is limited to residents of NYC aged 25-64 who worked in the previous calendar year. The U.S. sample is limited to respondents aged 25-64 who worked in the previous calendar year. Percentages in the table are rounded. Classification of worker listing excludes unpaid family workers, members of the U.S. Armed Forces, and those who did not specify their classification.

Figure 2B: Retirement Plan Sponsorship Rates by Industry Classification in New York City and the U.S.

	NYC			US		
	2002-2004	2008-2010	2011-2013	2002-2004	2008-2010	2011-2013
Construction	30%	25%	25%	37%	33%	33%
Manufacturing	39%	39%	43%	68%	64%	64%
Wholesale and Retail Trade	30%	29%	27%	54%	50%	50%
Transportation, Warehousing and Utilities	43%	34%	39%	65%	59%	59%
Information and Communications	64%	51%	56%	69%	63%	65%
Finance, Insurance and Real Estate	63%	54%	61%	64%	60%	61%
Professional, Scientific, Management, Administrative and Waste Management Services	42%	42%	40%	49%	44%	44%
Educational Services	68%	68%	65%	81%	77%	77%
Health Care Services	53%	47%	54%	67%	63%	62%
Social Services	31%	32%	36%	42%	38%	38%
Arts, Entertainment, Recreation, Accommodations and Food Services	21%	18%	23%	33%	30%	29%
Other Services (Except Public Administration)	24%	13%	19%	30%	27%	27%
Public Administration	77%	79%	73%	88%	85%	83%

Source: CPS ASEC, 2003-2005, 2009-2011, 2012-2014. The NYC sample is limited to residents of NYC aged 25-64 who worked in the previous calendar year. The U.S. sample is limited to respondents aged 25-64 who worked in the previous calendar year. Percentages in the table are rounded. Industry classification excludes those in Agriculture, forestry and fisheries, mining and the Armed forces. Comparisons of sponsorship rates by industry classification begin in years 2003-2005 because prior to those years, the industry classifications cannot be concorded with those of latter years.

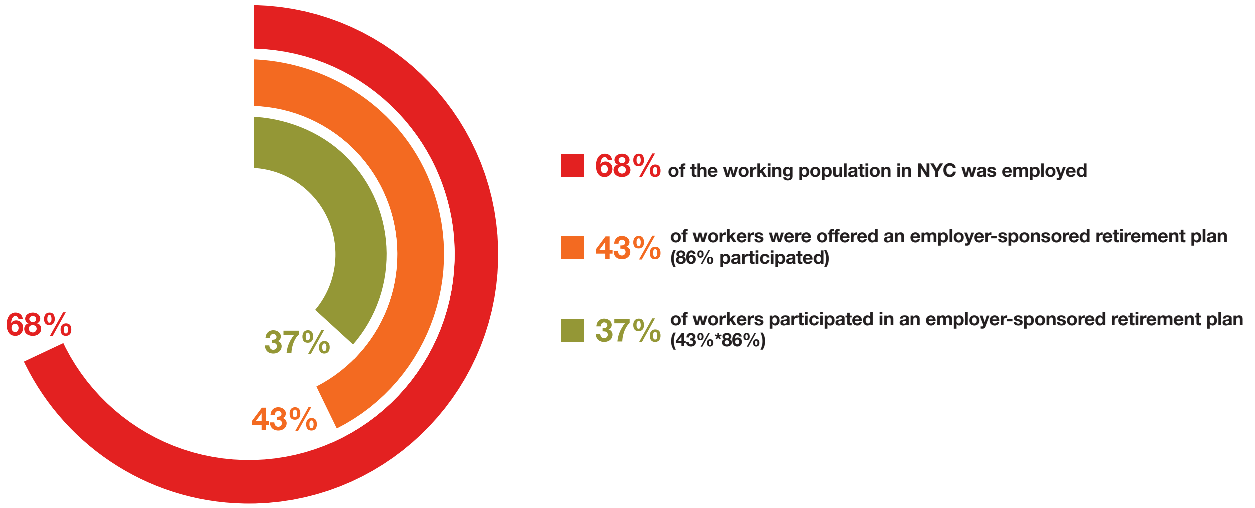
Employee Participation in Workplace Retirement Plans is Declining

Even if an employer sponsors a retirement plan for their employees, participation isn't universal. An employer is permitted under law to exclude employees from participating in a retirement plan if they have less than one year of service, are part-time, or are younger than 25.[8] Moreover, the structural differences between DB and DC plans impact employee participation. In a DB plan, worker participation is often mandatory, guaranteeing that each worker has a retirement account if they are sponsored. Under a DC plan, workers can choose to opt out of the retirement plan.

In 2012, close to 2 million New York City workers did not participate in employer-sponsored retirement plans either because their employer did not offer one or the employee did not participate for voluntary or involuntary reasons in 2012. An additional 1.4 million New Yorkers between the ages of 25 and 64 were not working in 2012 and, by definition, did not participate in a current employer's retirement plan (see Figure 3).

Of the 43 percent of workers whose employers sponsored a retirement plan in 2012, 86 percent participated in the plan, which is 2 percentage points lower than the participation rate in 2009. Only 37 percent (43%*86%) of the overall New York City working population participated in an employer-sponsored retirement plan in 2012 (see Figure 3).

Figure 3: Employment, Sponsorship, and Participation of NYC Residents in Employer-Sponsored Retirement Plans, 2012



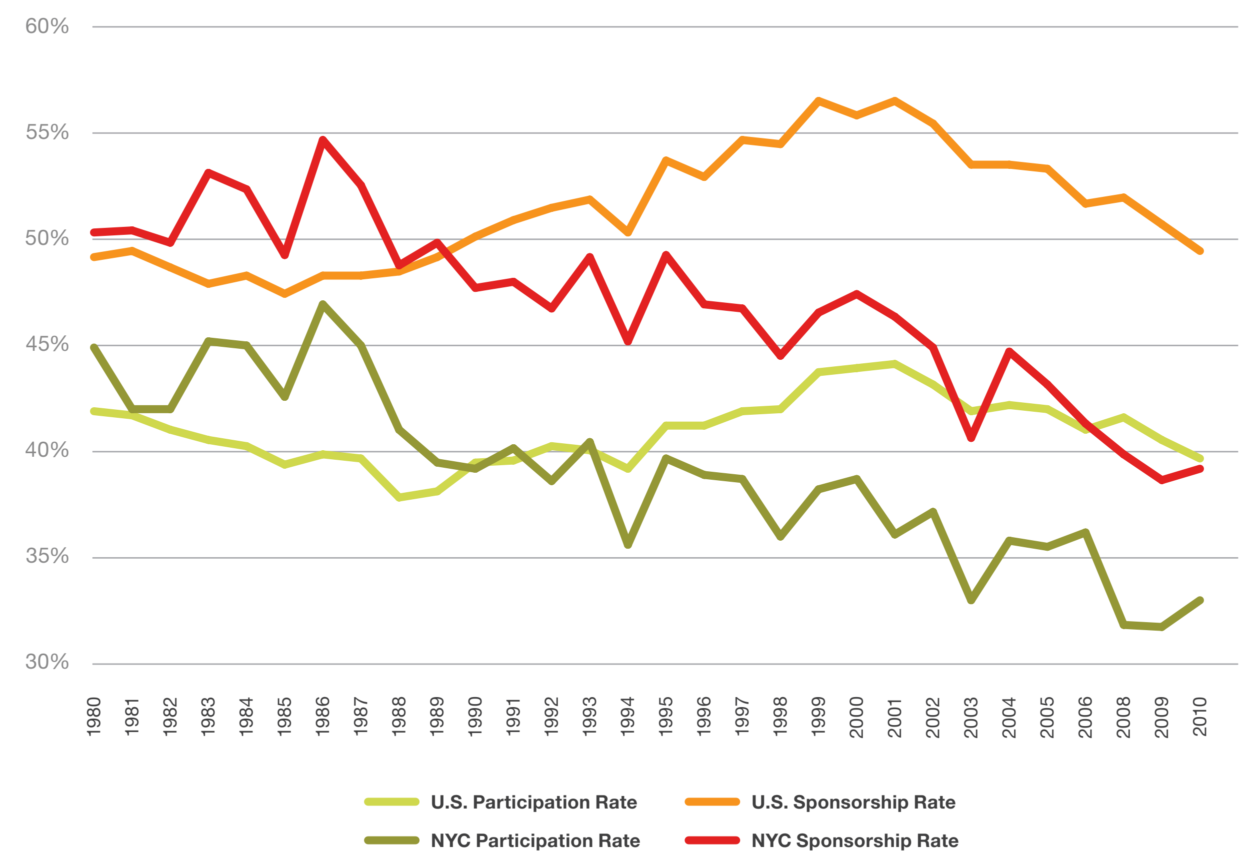
Source: Current Population Survey, ASEC 2012-2014, March Supplement data were used to compute sponsorship rates for jobs held the previous year. Current Population Survey, ASEC 2011-2013, March Supplement data were used to compute the NYC working age population and the employment status of that population for the years that sponsorship data refer to. Percentages in chart represent three-year averages, with output representing median year. Sample is limited to NYC residents aged 25-64 who worked. Percentages are rounded.

Declines in Sponsorship and Participation are a Long-Term Trend

Both sponsorship and participation have declined in New York City since the mid-1980s, a concerning development for the future of retirement readiness in New York City. In 1986, New York City employers sponsored retirement plans for 55 percent of New York City workers and 47 percent of all workers participated in those plans. By 2012, only 43 percent of workers were sponsored and 38 percent of all workers participated. These downward trends in sponsorship and participation were not seen in the rest of the United States until the mid-2000s. In the last ten years, New York City sponsorship and participation rates have declined faster than the rest of the US (see Figure 4).

These persistent trends indicate that the low sponsorship rates found in this report are not merely a result of the 2008-2009 recession, but a product of persistent structural factors.

Figure 4: Pension Sponsorship and Participation in Historical Perspective, US and NYC



Source: March Supplement data from the CPS, from IPUMS data

SECTION 2:

Spotlight on Older Workers' Retirement Readiness

Low levels of employer sponsorship of retirement plans coupled with the changing nature of plan design have eroded retirement plan participation and, potentially, the retirement security of New York City workers. But retirement plans in the workplace provide only one source of income in retirement. This section evaluates New Yorkers' readiness for retirement by including income from all possible sources assuming the older worker retires at 65.

Unfortunately, the choice facing many New Yorkers who are nearing retirement is poverty or work. One surprising finding is that defined contribution plans do not protect individuals from the risk of old-age poverty. Workers with defined benefit plans, a group shrinking in number, are more likely to maintain their living standards in retirement.

The average net worth of near-retirement (aged 50-64) households residing in metropolitan areas of New York State (the smallest unit of analysis for wealth holdings) was $140,074 in 2011 for single person households, $507,937 for married couple households, and $181,291 for other household types.[9] All three net worth figures are lower in real terms than in 2009. The average net worth for single person households declined by $28,796 (a 17 percent decrease), married couple households by $69,494 (a 12 percent decrease), and other households by $14,153 (a 7 percent decrease) (compare Figures 5a and 5b).

The average household net worth is high relative to

Figure 5A: Household Net Worth (including home equity) of Older Households Working and Not Working Aged 50–64 in Metropolitan Areas of New York State, 2011

	Single Person Household	Married Couple Household	Other Households
Average	$140,074	$507,937	$181,291
Median	$22,521	$352,000	$54,404

Source: 2008 Survey of Income and Program Participation (SIPP) Panel. Notes: Sample is limited to residents of NY State metropolitan areas. Age of the household is based on the age of the household reference person. Information on assets derives from wave 10 (fielded August–November 2011), while all other information is from wave 11 (December 2011, Mar 2012) of the SIPP 2008 panel. Net worth consists of investment, business equity, real estate, home equity, the value of mobile homes, retirement savings less debt owed. Other households include unmarried partner households, and households where the parent of the reference person lives in the household.

Figure 5B: Household Net Worth (including home equity) of Older Households Aged 50–64 in Metropolitan Areas of New York State, 2009 (in $2011)

	Single Person Household	Married Couple Household	Other Households
Average	$168,870	$577,431	$195,444
Median	$49,256	$454,594	$94,320

Source: Survey of Income and Program Participation (SIPP) Panel. Notes: Sample is limited to residents of NY State metropolitan areas. Age of the household is based on the age of the household reference person. Information on assets derives from wave 4 (fielded August–November 2009), while all other information is from wave 3 (Apr-Jul 2009) of what is called the "2008" SIPP panel, the panel assembled in 2008. Net worth consists of investment, business equity, real estate, home equity, the value of mobile homes, retirement savings less debt owed. Other households include unmarried partner households, and households where the parent of the reference person lives in the household.

most households; a few households with very high net worth bring up the average. The median asset values provide greater insight into the experience of a typical New York household.

The decline in median asset values is significant. Single person households declined in median net worth from $49,256 in 2009 to $22,521 in 2011 (a 54 percent decrease), married households from $454,594 to $352,000 (a 23 percent decrease), and other households from $94,320 to $54,404 (a 42 percent decrease).

These losses in net worth over a span of only two years become significant when an individual retires and liquidates their household's financial assets, including the home, to purchase a guaranteed income annuity from a private financial institution.

The net worth of the median New York household is converted to an income stream of $1,620 per year for single person households, $20,928 for married couple households, and $3,924 for other household types.[10]

This income would supplement a household's defined benefit pension and Social Security benefit.

In practice, however, these numbers overstate the annuity. First, most near-retiree households cannot afford annuities due to the high rates offered by the for-profit insurance industry. Second, most retired homeowners will choose to keep their homes rather than sell them to annuitize their home equity.

Four in 10 near-retirement New York households have less than $10,000 in total liquid assets[11] at their disposal. Another 17 percent have less than $100,000 in total liquid assets to annuitize (see Figure 6a). The average household in this group has enough assets to purchase an annuity that provides them $271 a month.[12] In other words, over half of near-retirement households in New York metropolitan areas have almost no assets to annuitize. These households will depend almost entirely on Social Security, an income stream that is insufficient to maintain living standards in retirement.

Figure 6A: Total Liquid Assets of Near-Retirement Households—Ages 50–64 in Metropolitan Areas of New York State, 2011 (includes those with no assets)

Total Household Liquid Assets	No. of Households	Percent of Total Households	Mean Household Income	Median Household Income
Less than $10,000	839,751	40%	$38,848	$25,224
$10,000 to $99,999	354,260	17%	$64,800	$48,816
$100,000 to $299,999	411,216	20%	$93,121	$71,532
$300,000 or more	481,846	23%	$141,301	$111,204
Total	2,087,073			

Source: Survey of Income and Program Participation (SIPP) Panel. Notes: Sample is limited to residents of NY State metropolitan areas. Age of the household is based on the age of the household reference person. Information on assets derives from wave 10 (fielded August–November 2011), while all other information is from wave 11 (December 2011, Mar 2012) what is called the "2008" SIPP panel, the panel assembled in 2008. Liquid assets comprise of financial investments, retirement savings, money owed for the sale of a business and other assets, including real estate and mobile homes not used as primary residence.

Figure 6B: Total Liquid Assets of Near-Retirement Households—Aged 50–64 in Metropolitan Areas of New York State, 2009 (in $2011). (Includes those with no assets)

Total Household Liquid Assets	No. of Households	Percent of Total Households	Mean Household Income	Median Household Income
Less than $10,000	654,309	35%	$37,930	$21,895
$10,000 to $99,999	376,355	20%	$62,359	$52,077
$100,000 to $299,999	412,892	22%	$94,162	$81,127
$300,000 or more	435,981	23%	$156,405	$119,679
Total	1,879,537			

Source: 2008 Survey of Income and Program Participation (SIPP) Panel. Notes: Sample is limited to residents of NY State metropolitan areas. Age of the household is based on the age of the household reference person. Information on assets derives from wave 4 (fielded August–November 2009), while all other information is from wave 3 (Apr-Jul 2009) of the SIPP 2008 panel. Liquid assets comprise of financial investments, retirement savings, money owed for the sale of a business and other assets, including real estate and mobile homes.

More than 1 million households, or nearly 5 in 10, did not have a retirement plan at work for either the household head or their spouse in 2012. On average, these households have less than $30,000 in retirement savings. But at least half of these households have negligible savings and no home equity. At the same time, the median annual income of these households decreased by more than $2,000, or 8 percent, which makes accumulation of savings even more difficult and lowers expected payouts from Social Security (see Figures 7a and 7b).

This data show how restricting the lack of coverage can be on households planning for retirement. Those without an employer-sponsored plan have almost no savings and few other assets to draw on in retirement. On the other hand, households with access to employer-sponsored plans have amassed significantly more liquid assets than those without plans.

Figure 7A: Total Liquid Assets of Near-Retirement Households Ages 50–64 in Metropolitan Areas of New York State by Retirement Plan Type, 2011 (includes those with no assets and those working and not working)

	Households with DB Plans		Households with DC Plans		Households without a Retirement Plan at Their Current Employer	
Assets/Liabilities	Mean	Median	Mean	Median	Mean	Median
Investments	$176,452	$79,000	$170,190	$34,000	$45,935	$200
Other Assets	$22,892	$0	$36,940	$0	$23,468	$0
Retirement Savings (IRA, KEOGH, 401K, 403B)	$105,816	$63,993	$117,625	$70,000	$29,956	$0
Debt	$11,590	$300	$6,420	$500	$4,843	$0
Total Liquid Assets Less Debt	$293,570	$142,693	$328,335	$104,500	$94,516	$200
Number of Households	303,445		679,842		1,103,786	
Home Equity	$124,970	$90,000	$146,432	$85,000	$94,385	$0
Household Income	$115,099	$91,224	$116,256	$85,896	$43,482	$29,040

Source: 2008 Survey of Income and Program Participation (SIPP) Panel. Notes: Sample is limited to residents of NY State metropolitan areas who worked at some point in the reference period (December 2011, Mar 2012), had positive earnings, were not unpaid family workers, and were not in the agriculture, forestry, or fishing sectors. Households with DB plans may also have a DC plan, while households with DC plans are defined as those who only have a DC plan. Information on assets derives from wave 4 (fielded August–November 2009), while all other information is from wave 3 (Apr-Jul 2009) of the SIPP 2008 panel.

Figure 7B: Total Liquid Assets of Near-Retirement Households Ages 50–64 in Metropolitan Areas of New York State by Retirement Plan Type, 2009 (in $2011) (includes those with no assets)

	Households with DB Plans		Households with DC Plans		Households without a Retirement Plan at Their Current Employer	
Assets/Liabilities	Mean	Median	Mean	Median	Mean	Median
Investments	$173,009	$74,408	$266,540	$125,812	$57,713	$524
Other Assets	$32,736	$0	$57,782	$0	$21,170	$0
Retirement Savings (IRA, KEOGH, 401K, 403B)	$96,422	$31,440	$125,554	$78,600	$28,662	$0
Debt	$8,902	$1,048	$19,579	$1,258	$5,386	$0
Total Liquid Assets Less Debt	$293,265	$104,800	$430,297	$203,154	$102,159	$524
Number of Households	442,325		456,639		980,573	
Home Equity	$162,452	$103,752	$156,040	$91,176	$114,564	$0
Household Income	$113,408	$91,729	$115,457	$96,571	$53,598	$31,402

Source: 2008 Survey of Income and Program Participation (SIPP) Panel. Notes: Sample is limited to residents of NY State metropolitan areas who worked at some point in the reference period (December 2011, Mar 2012), had positive earnings, were not unpaid family workers, and were not in the agriculture, forestry, or fishing sectors. Households with DB plans may also have a DC plan, while households with DC plans are defined as those who only have a DC plan. Information on assets derives from wave 4 (fielded August–November 2009), while all other information is from wave 3 (Apr-Jul 2009) of the SIPP 2008 panel.

The median value of total liquid assets for households with defined contribution plans fell by half in just two years. Only households with defined benefit plans experienced an increase in their total liquid assets between 2009 and 2011.

The median value of investments for those with DC plans decreased by 73 percent and the median for those with DB plans increased by 6 percent between 2009 and 2011.[13]

In addition to investment losses, households with DC plans experienced a fall in their retirement plan balances by 11 percent, while those with DB plans saw their retirement savings balances increase by over 100 percent.

Older Workers Face Downward Mobility in Retirement

Most retirement experts agree that replacement rates[14] should be at least 70 percent of final employment income for households to maintain living standards in retirement.[15] Income replacement comes primarily through Social Security income and the annuitization of liquid assets. This report assumes retirees will annuitize their liquid assets.

According to the AARP retirement calculator, neither defined contribution households nor households without any retirement will be able to maintain their standard of living in retirement.

Figure 8: Replacement Rates of Near-Retirement Households (Aged 50-64) by Primary Retirement Plan Type In NY State Metros

	Defined Contribution	Neither
2009	49%	51%
2011	44%	53%

Source: 2008 Survey of Income and Program Participation (SIPP) Panel. Notes: Sample is limited to residents of NY State metropolitan areas who worked at some point in the reference period (December 2011–Mar 2012), had positive earnings, were not unpaid family workers, and were not in the agriculture, forestry, or fishing sectors. Note: Replacement rates for each group calculated using the AARP Retirement Calculator for an unmarried male currently age 57, retiring at age 65 with a life expectancy of 87. Total liquid assets are assumed to be equal to the median for the corresponding group, all of which is annuitized at retirement, and Social Security income is projected based on current household income (see Figure 8a). Nominal annual rate of return on savings before retirement is assumed to be 6% before retirement, 3.6% after retirement. Inflation and nominal wage growth are assumed to be 2.5% per year. Income taxes are assumed to be 11% per year before retirement, 8% after retirement. Defined benefit balances grow by 1.5% of earnings each year. Reported replacement rates are the lowest rates at which no shortfall exists.

While households with DC plans are able to accumulate more assets during their working years, these findings suggest defined contribution plans alone (44 percent replacement rate) do not provide enough savings to maintain living standards. Those with no access to a plan (53 percent) are expected to experience a significant decline in their living standard.[16]

If current trends continue, not only will retirees experience lower standards of living in retirement, many will end up living with very low incomes unless they work.

By the time older workers (ages 50-64) retire at age 65, the portion living in poverty or near poverty will more than double, from a 9.2 percent risk of being poor while working to a risk of 19.9 percent of being poor in retirement after age 65. In other words, 216,674 more people are expected to be poor or near poor when they retire.

These rates of projected poverty for 65-year-olds are higher than what they would have been in 2009 if assets had not declined during the recovery. In 2009, the poverty rate for workers age 50-64 was 6.3 percent. Based on their assets in 2009, we project a poverty rate of 15.2 percent for a 65-year-old retiree, an 8.9 percentage point increase in the risk of poverty when retiring at age 65 (see Figure 9).[17]

Figure 9: Current Near Poverty Rate for Workers Aged 50-64 vs. Projected Rate at Age 65

	At Current Age	At Age 65 (Projected)	Increase in poverty risk from age 50-64 to age 65
2009	6.30%	15.20%	8.9 percentage points
2011	9.20%	19.90%	10.7 percentage points

Source: 2008 Survey of Income and Program Participation (SIPP) Panel, Waves 3-4 for 2009, waves 10-11 for 2011. Notes: Sample is limited to residents of NY State metropolitan areas who worked at some point in the reference period (December 2011–Mar 2012 for 2011, and April-July 2009 for 2009), had positive earnings, were not unpaid family workers, and were not in the agriculture, forestry, or fishing sectors. Note: Near Poverty = income less than or equal to 150% of poverty threshold (less than $16,742 in 2009 and $17,918 in 2012). Income includes the annuitized value of all assets, including all real estate holdings except the value of one's primary residence, less debt owed on these assets.

NYC Workers Face Downward Mobility In Retirement Increases In Old-Age Poverty, 2012–2027

- 2012—187,721 New York City workers near retirement (50 to 64 years old) were living at or near the federal poverty line of $11,945.
- 2027—403,395 of these workers will be living at or near the poverty line in retirement
- 1 out of 5 near-retirees in 2012 will be living in poverty or near poverty when they retire at 65

Each character with a briefcase represents 10,000 workers who are currently poor or near poor.
Each character with a cane represents 10,000 of those who were working that will be poor or near poor in retirement

Source: 2008 Survey of Income and Program Participation (SIPP) Panel. Notes: Sample is limited to residents of N State metropolitan areas who worked at some point in the reference period (December 2011–March 2012), had positive earnings, were not unpaid family workers, and were not in the agriculture, forestry, or fishing sectors Near Poverty=income less than or equal to 150% of federal poverty threshold (less than $17,918 in 2012). Income includes the annuitized value of all assets, including all real estate holdings with the exception of the value of one's primary residence, less debt owed on these assets.

CONCLUSION:

New Yorkers Need Workplace Retirement Plans

Despite billions in tax breaks and decades of regulations, about half of the American workforce does not have a retirement plan. This systemic breakdown in access to safe and effective retirement savings vehicles means that many New Yorkers nearing retirement will not be able to retire at all. This is evidenced by the erosion of older workers' assets even during the recovery from the Great Recession between 2009 to 2012.

The majority of people over age 65 in New York City who choose not to work or cannot work will have to subsist primarily on Social Security in retirement. One in three New Yorkers who are retired at age 65 rely on Social Security as their sole source of income.

Policies aimed at providing workers access to employment-based retirement savings vehicles, such as Guaranteed Retirement Accounts (GRAs), would help reverse the erosion in retirement prospects predicted by the findings of this report.

A GRA is a mandated, professionally managed retirement account—a hybrid between a defined benefit pension and a 401(k)-type defined contribution plan. It would guarantee principal and an annual rate of return and pay annuities with no obligation or risk to the government. Savers pay for the guarantee by foregoing returns that exceed it.

As additions to Social Security, GRAs can be implemented at the city, state, or federal level and would provide a retirement account to every American worker. Revenue neutral tax changes that switch inefficient and regressive retirement savings tax deductions to refundable tax credits would provide a minimum of $600 a year to be deposited into workers' GRA accounts.[18]

An increasing number of vulnerable elderly increases the financial burden of families and government. A GRA at the city, state, or federal level that supplements a strengthened Social Security system would be a major step toward preventing the coming retirement crisis.

Endnotes

[1] A household is defined as aged 50-64 if the reference person for the household is in this age range. A reference person is an owner or renter of record for the household. All other members in the household are listed based on their relationship to the reference person.

[2] The first and second sections rely on 2000-2002, 2003-2005, 2009-2011 and 2012-2014 data from the Current Population Survey (CPS), a joint program administered by the Census Bureau and the Bureau of Labor Statistics. The second and third sections use data from the 2008 Survey of Income and Program Participation (SIPP).

[3] Boivie, I. 2011. "Who Killed the Private Sector DB Plan?" Washington DC: National Institute on Retirement Security.

[4] Social Security Administration. 2008. "Income of the Population 55 and Older." Washington DC; William G. Gale. 1998. "The Effects of Pensions on Household Wealth: A Reevaluation of Theory and Evidence." *The Journal of Political Economy*, Vol. 106, No. 4. (Aug.), pp. 706-723.

[5] Using data from the Current Population Survey (CPS), this report analyzes employer sponsorship of retirement plans. The CPS asked New York City residents who worked full-time or part-time in the previous calendar year whether their employer sponsors a retirement plan, and whether they actually participate in that plan. Responses to this question were used to examine sponsorship levels for New York City residents aged 25-64 in 2000-2002, 2003-2005, 2009-2011 and 2012-2014 (hereon referred to as 2000, 2003, 2009 and 2012 since CPS data references previous year status). Retirement plan sponsorship was also calculated for the U.S. to evaluate how New York City residents are faring relative to the rest of the nation.

[6] The CPS asks respondents about retirement plan sponsorship based on their job in the previous calendar year. Therefore, respondents who did not work in 2012, or 32 percent of the New York City population aged 25-64, were not asked about their retirement plan status (82 percent of this group was out of the labor force—or not actively looking for work in 2012—and another 18 percent were unemployed). Since those who did not work did not have access to an employer-sponsored plan, the sponsorship rates in this report understate the rate of sponsorship for the entire working-age population at any given point in time. Some of those who are currently jobless may have a retirement plan from a previous job, or may gain access to one through a future job. Accordingly, no direct inference about the ultimate percent of the retired population that benefits from an employer-sponsored retirement plans can be drawn from current sponsorship rates.

[7] U.S. Bureau of Economic Analysis, Local Area Personal Income and Employment. September 15, 2011.

[8] See U.S. Department of Labor. October 2010. *What You Should Know About Your Retirement Plan*. "Federal law allows employers to include certain groups of employees and exclude others from a retirement plan. For example, your employer may sponsor one plan for salaried employees and another for union employees. Part-time employees may be eligible if they work at least 1,000 hours per year, which is about 20 hours per week." http://www.dol.gov/ebsa/publications/wyskapr.html#chapter2

[9] The SIPP data offers a comprehensive listing of survey respondents' financial assets, including the value of their bank accounts, bonds and securities, savings bonds, stocks and mutual funds, life insurance policies, IRA/KEOGH accounts, DC accounts, real estate holdings, home equity and business equity. These estimates do not factor in the present cash value of projected Social Security or DB pension benefits. The retirement preparedness of households located in NY metropolitan areas, whose reference person is aged 50-64 is considered.

[10] These numbers were computed from the Fidelity Guaranteed Income Calculator, given interest rate conditions on June 24, 2015. For a single person household and for 'other' households, the annuity value was calculated for a hypothetical male in NY, who was born on June 1, 1947 (they were 64 at the time the sample was collected in 2011). These calculations are for a lifetime annuity without beneficiaries. However, for married couple households, the annuity value was calculated for a couple residing in NY, where one person is a male born on June 1, 1947, and the other person is a female born on June 1, 1947. These calculations are for a lifetime annuity where the survivor continues to receive 100% benefit, without beneficiaries.

[11] Liquid assets are defined as all assets except equity held in one's primary residence. This includes investments (money in checking accounts, bonds, securities, stocks, and funds), as well as the cash value of all life insurance policies, equity in other investments and the face value of any savings bonds owned), real estate holdings, mobile home values, retirement balances, and money owed from the sale of a business, less the debt owed on them.

[12] This assumes a mid-range level of liquid assets of $45,000.

[13] Here are highlights of what happened to mean values of assets of NYC metro households age 47-61 in 2009 (who became 50-64 in 2012):

Mean net worth fell by 8% for singly person households, and by 9% for married couple households. There was no change in mean net worth for other household types.

For single person households, the bulk of their assets is in home equity (-15%), followed by other equity (+2%) (including the face value of life insurance policies), retirement balances (+43%), stocks and mutual funds (-62%), bonds and securities (-97%), interest earning checking accounts (-23%), real estate holdings (+22%). Their debt levels fell by 29%.

For married couple households, the bulk of their assets is in home equity (-12%), followed by other equity (-9%) (including the face value of life insurance policies), retirement balances (+8%), stocks and mutual funds (-24%), real estate holdings (+24%), interest earning checking accounts (-22%),and business equity (-31%). Their debt levels fell by 42%.

For other households, the bulk of their assets is in home equity (+21%), followed by other equity (-35%) (including the face value of life insurance policies), retirement balances (+26%), business equity (+36%), real estate holdings (+38%), stocks and mutual funds (-69%), interest earning checking accounts (-17%). Their debt levels fell by 23%.

[14] An individual's replacement rate is calculated by their annual post-retirement income as a percentage of annual earnings of the last year they worked.

[15] Palmer, B., DeStefano, R., Schachet, M., Paciero, J., and Bone, C. 2008. 2008 Replacement Ratio Study. Chicago, IL: Aon Consulting

[16] These numbers were computed from the AARP Retirement Calculator. For all three plans, we assumed a single male in NY, 57 years old, who annuitized all liquid assets in order to retire at age 65. The replacement rates shown are the smallest rates at which no shortfall exists.

[17] All projected calculations were made for workers ages 50-64. Projected poverty means having Social Security benefits plus the annuitized value of future net worth and any DB benefits the worker may be eligible for, be below the poverty threshold. Assumptions made for projecting these values include a 6% nominal growth rate of current net worth (without further additions to net worth), 1% nominal growth rate of earnings, 2% inflation rate, 3% annuity rate, 4.3% nominal growth rate of Social Security bend points, poverty threshold adjustment for inflation each year, life expectancy of 84.3 for men and 86.6 for women, and retirement at age 65.

[18] Ghilarducci et al, 2015. *"Retirement Savings Tax Expenditures: The Need for Refundable Tax Credits."* Schwartz Center for Economic Policy Analysis, The New School for Social Research, SCEPA Policy Note.

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