

Retirement Vulnerability of New Retirees in New York

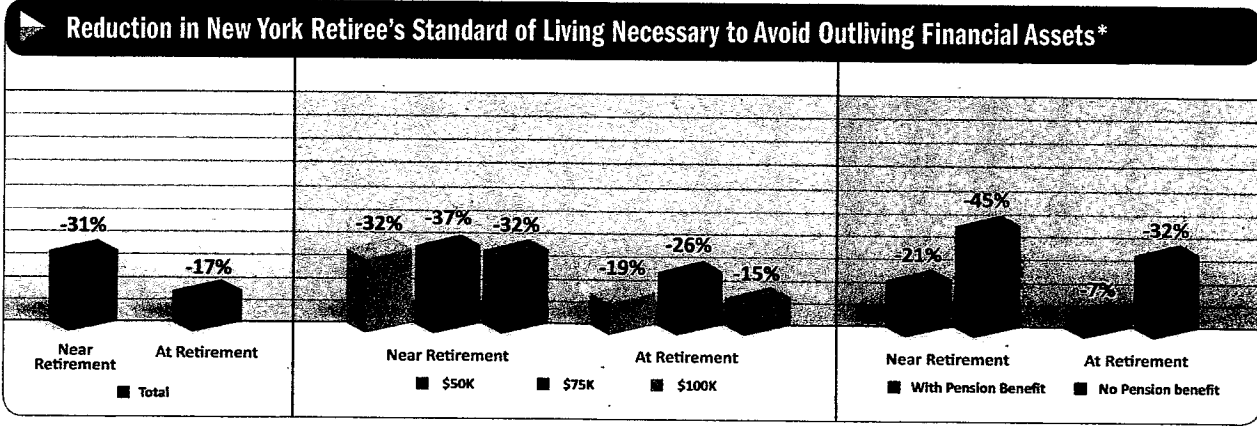
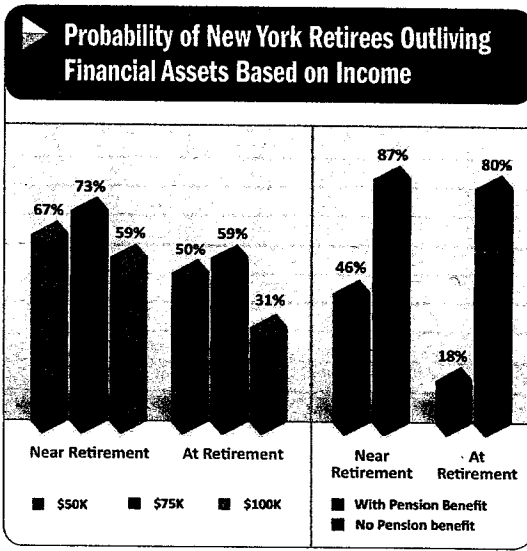
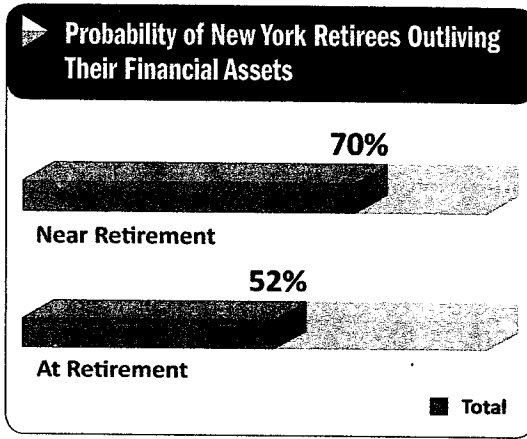
Middle-class households in New York nearing retirement face a high risk of outliving their financial assets. With fewer workers having guaranteed sources of retirement income, households approaching retirement in New York face increased longevity, investment and inflation risk with less lifetime guaranteed income.

Ernst & Young LLP estimated the retirement vulnerability of middle-class workers in New York, seven years before retirement and at retirement. Their analysis found:

- Seven out of ten middle-income New York households seven years from retirement (near-retirees) can expect to outlive their financial assets if they attempt to maintain their pre-retirement standard of living.
- Over half of middle-class New York new retirees can expect to outlive their financial assets.
- Almost nine out of ten near retirees and eight out of ten new retirees without an employer pension plan in New York are likely to outlive their assets.
- Married couples are more likely to outlive their financial assets, due to their longer joint life spans, than single households. Single females are more likely to outlive their assets than single males.
- Near retirees in New York would have to reduce their standard of living on average by 31% to reduce the likelihood of outliving their financial assets (failure rate) to only five percent.
- New retirees in New York would have to reduce their standard of living on average by 17% to reduce the likelihood of outliving their assets to only a five percent failure rate.

The study finds that New York retirees would be much better prepared to have a financially secure retirement if they have a guaranteed source of retirement income beyond Social Security, such as annuities and defined benefit plans. Retirees with these guaranteed sources of retirement income are dramatically less likely to outlive their savings in retirement.

To view the full report, including results for other states, please visit www.paycheckforlife.org



* Reduce the probability of outliving their financial assets to only 5%.



**Retirees facing cash crunch;
Study says 40 percent of boomers will be able to afford to keep lifestyles**

July 14, 2008

By Nancy Trejos, The Washington Post

WASHINGTON - Nearly three out of five middle-class retirees will probably run out of money if they maintain their pre-retirement lifestyles, a new study from Ernst & Young has concluded.

The study, set to be released Monday, finds that Americans will have to drastically reduce their standard of living before retirement to live comfortably, or even avoid destitution, later in life. Middle-income Americans entering retirement now will have to reduce their standard of living by an average of 24 percent to minimize their chances of outliving their financial assets, the study found. Workers seven years from retirement will have to cut their spending by even more - 37 percent.

"People are going to have to adapt in a number of ways that they weren't anticipating or hoping for," said Tom Neubig, national director of the Quantitative Economics and Statistics practice at Ernst & Young. "I think a lot of people are hoping to maintain roughly the same standard of living after retirement. Our study suggests they are going to have to make some changes."

About 77 million baby boomers are expected to retire over the next few years. The study warns of an impending national crisis if workers, and lawmakers, do not react now to the changing pension structures in corporate America. Most companies have moved away from defined-benefit plans, in which they provided their retirees with a set benefit each month, to defined-contribution plans such as 401(k)s, in which the employee takes most of the responsibility for saving money. But with the U.S. savings rate abysmally low and people underestimating their life spans, economists warn that aspiring retirees will have to work longer if they do not spend less, no small feat at a time when inflation and the cost of living are rising. Fluctuating investment returns on 401(k)-style plans in this wobbly stock market are not helping matters.

"Most people, if they look at their life expectancy and they think they will live to 90, they are nuts to retire at 60. They're going to be living in poverty at 80," said Peter Morici, an economist at the University of Maryland. "I think it's a wake-up call to baby boomers to get serious about getting their houses in order."

The study was commissioned by Americans for Secure Retirement, a coalition of more than 50 organizations representing women's, small business, agricultural, Hispanic and African-American groups, among others. It looked at married and single near- and recent retirees at three pre-retirement income levels: \$50,000, \$75,000 and \$100,000.

Retirees would be much better prepared if they had a guaranteed source of retirement income beyond Social Security, the study concluded. Married couples relying on income aside from Social Security and making \$75,000 at retirement have a 31 percent chance of running out of money if they maintain their pre-retirement lifestyles, the study pointed out. But those who rely solely on Social Security have a 90 percent chance.

Congress has taken up the matter. One bill, for instance, would make it easier for workers to get a particular non-Social Security retirement vehicle: an annuity, which is an income-generating contract between the employee and an insurance company. The legislation would exclude from taxation 50 percent of the income received from a lifetime annuity, up to \$20,000 per year.

"It's that paycheck every month for the rest of their lives that will allow people to have some standard of living," said Joe Reali, chairman of Americans for Secure Retirement, which has life insurance companies as members.

But David Armstrong, managing director of Alexandria, Va.-based Monument Wealth Management, said the best way for Americans to live well in retirement is to plan for it early. Save your money and make sure you start your 401(k) at an early age, he said. Figure out what your nonnegotiable expenses and assets are. If you don't have enough money to cover your necessities, he said, cut out any luxuries in your lifestyle.

"Eating out five nights a week, is that something that is important or is that something you can forgo?" he said. "Retirement ends up being a negotiation."