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Retirement Readiness of New York City's Workers

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Overview

New Yorkers need reliable and convenient methods to save for their retirement. Secure pension income benefits the city economy by increasing older residents' purchasing power and keeping social spending down. However, low and decreasing retirement plan coverage rates and the shift from traditional defined benefit pension plans to 401(k)-type plans are threatening New Yorkers' financial readiness for retirement. Only 33 percent of New York City workers were participating in a workplace retirement plan in 2016, down from 39 percent in 2006. Coverage rates in New York City remain significantly below the national average of 37 percent.

Declining savings levels among those who have accounts threaten New Yorkers with the risk of lower standards of living or poverty in retirement.

Using the federal poverty threshold, a conservative method for computing poverty, 8 percent of workers living in near-retirement households (with at least one worker ages 50-60) currently live in or near poverty. This report predicts that 22 percent of current older workers will live in or near poverty if they retire at age 62. Using the New York City Center for Economic Opportunity standard for poverty, the rate of projected poor or near-poor retirees more than doubles to 45 percent. Half of coupled older households (with at least one worker near retirement ages 50-60) have liquid assets of less than $60,000 and half of single older workers less than $5,000. Forty-eight percent of all older households, including those without a worker (900,000 households), have less than $10,000 in liquid assets. Unless covered by a defined benefit (DB) pension, these older households will subsist almost entirely on Social Security in retirement or will not be able to retire at all. Most New York City households without an employer-sponsored retirement plan have less than $500 in liquid assets.

The first section of this report describes the trends in workplace retirement plan coverage by employers at the local and national levels. The second section examines financial preparedness for retirement of households near retirement.

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

SECTION 1:

Workplace Retirement Plan Coverage Is Declining

Employers have traditionally played an integral role in the U.S. retirement system. They have contributed to their employees' retirement plans as part of benefits packages designed to attract and retain quality workers, bolster 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. Defined contribution (DC) plans and public sector DB plans automatically deduct contributions from a workers' paycheck, removing both the burden of having to allocate funds and the temptation to spend these funds on day-to-day budget needs.

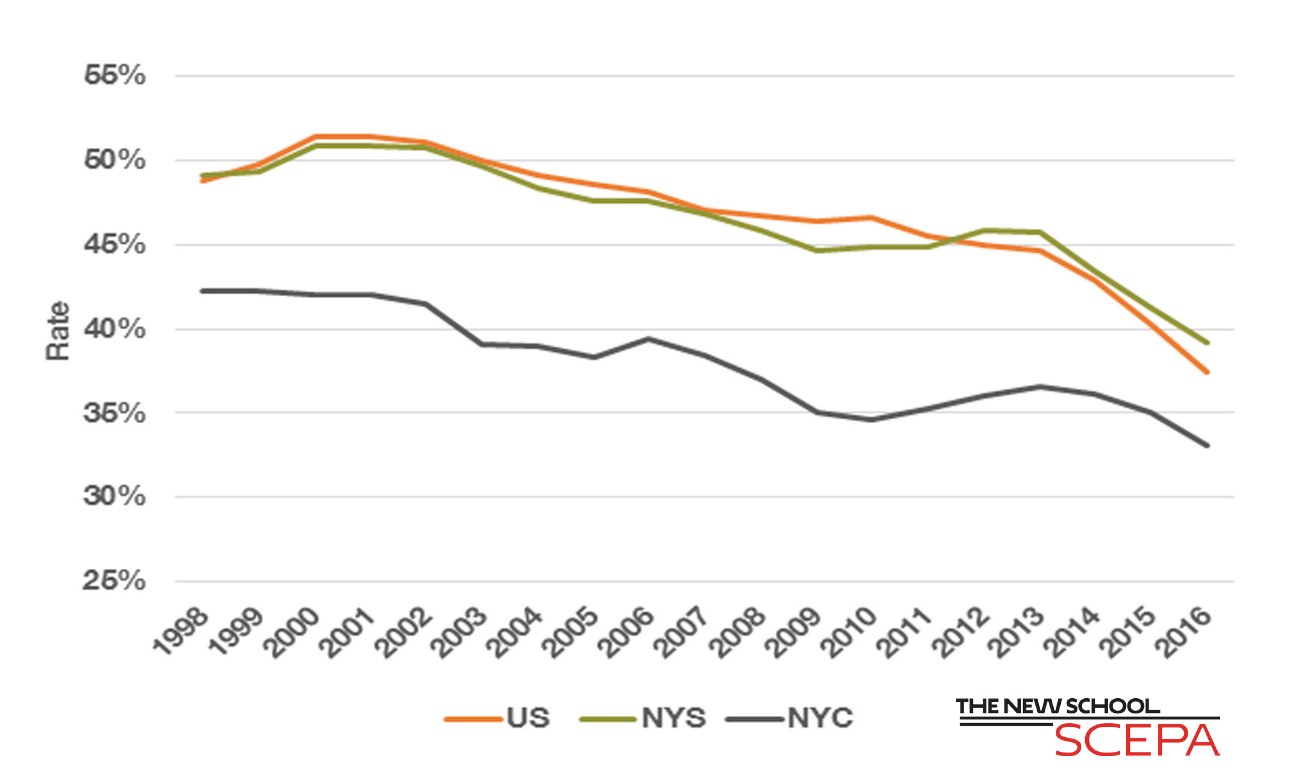
An employer offering a retirement plan to their employees plays a primary role in the administration and design of the plan. Employers decide what type of plan to offer and how much they will contribute to the plan. A defined benefit plan uses a formula incorporating salary, years of service, and age of retirement. 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 plans—most are 401(k) plans—the employer provides a tax-advantaged savings account that employees contribute to on a voluntary basis. The worker invests the assets and the employer 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.

Both DB and DC 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 Coverage Rates Lower than the Nation and Declining

In 2016, only 33 percent of employed New York City residents ages 25-64 had access to an employer-sponsored retirement plan, down 2 percentage points since the Great Recession (2010) and 6 percentage points lower than in 2006. Retirement plan coverage in New York City is 4 percentage points lower than coverage in the rest of the United States and 6 points lower than the rest of the state. Coverage rates in New York City have trended downward for 20 years. The current 33 percent coverage rate is down 9 percentage points since 1998 (Figure 1).

FIGURE 1: RETIREMENT PLAN COVERAGE RATE, 1996-2016



Source: CPS March Supplement, 1996-2017
Notes: Sample includes workers ages 25-64. A worker is considered covered if their employer offers a retirement plan and they are participating in it. Respondents are asked about coverage in the previous calendar year from their main employer. Years presented are latest year for a three-year pooled sample (i.e. 1998 corresponds to 1996-1998 data).

Older Workers and Women Experienced Larger Coverage Declines

While the coverage rate declined 6 percentage points for the general population of New York City between 2006 and 2016, declines were significantly greater for older workers and women and varied by race and industry.

AGE
Retirement plan coverage for older New York City workers (aged 50-64) declined 10 percentage points, from 47 percent in 2006 to 37 percent in 2016, the steepest decline in coverage among all age groups.

GENDER
The coverage rate for men fell 5 percentage points, from 37 percent to 32 percent. For women, the decline was 8 percentage points, from 42 percent to 34 percent. Women experience slightly higher coverage rates because they are disproportionately employed in the only two industries with coverage rates over 40 percent, educational services (56 percent) and public administration (64 percent).

RACE
The coverage rate for white workers (35 percent) declined 10 percentage points, falling below that of black workers (39 percent, down 7 percentage points). Asian and Hispanic workers (both 28 percent) are significantly less likely to have retirement plans at work.

INDUSTRY
Employees of private nonprofit organizations were hit hardest, with a coverage rate decline of 12 percentage points, from 54 percent to 42 percent, as were workers in transportation, warehousing & utilities jobs (down 12 percentage points, from 42 percent to 30 percent). Coverage of workers in healthcare services (37 percent, down 11 percentage points) and professional services (30 percent, down 10 percentage points) industries were also among the groups where rates declined the most (Figure 2).

FIGURE 2: RETIREMENT PLAN COVERAGE OF VARIOUS DEMOGRAPHIC GROUPS

	New York City			New York State			United States		
	2004-2006	2008-2010	2014-2016	2004-2006	2008-2010	2014-2016	2004-2006	2008-2010	2014-2016
Working Population	3.26m	3.29m	3.58m	8.01m	8.22m	8.03m	123.82m	126,54m	130.20m
Total Sponsored	39%	35%	33%	48%	45%	39%	48%	45%	37%
Gender									
Male	37%	33%	32%	47%	44%	39%	48%	47%	38%
Female	42%	39%	34%	48%	47%	41%	48%	47%	38%
Citizenship Status									
Non-Citizens	23%	17%	19%	24%	20%	21%	26%	21%	20%
Citizens	41%	35%	31%	44%	39%	35%	43%	42%	34%
Age Group									
25-39	34%	33%	31%	41%	39%	34%	42%	41%	33%
40-49	39%	33%	34%	50%	47%	42%	51%	49%	40%
50-64	47%	44%	37%	55%	51%	44%	54%	51%	43%
Race									
White Non-Hispanic	45%	44%	35%	52%	52%	42%	52%	51%	41%
Black Non-Hispanic	46%	40%	39%	47%	42%	41%	45%	44%	36%
Asian Non-Hispanic	33%	27%	28%	37%	32%	31%	45%	44%	36%
Hispanic	28%	27%	28%	31%	29%	29%	29%	29%	26%
Classification									
Self-Employed	11%	12%	11%	16%	16%	14%	16%	15%	11%
Private Sector, For Profit	43%	39%	36%	46%	43%	38%	47%	45%	36%

	New York City			New York State			United States		
	2004-2006	2008-2010	2014-2016	2004-2006	2008-2010	2014-2016	2004-2006	2008-2010	2014-2016
Private Sector, Nonprofit	54%	54%	42%	58%	56%	46%	59%	57%	47%
Public Sector	67%	69%	66%	76%	76%	69%	77%	76%	66%
Firm Size									
1-99 Employees	21%	20%	17%	27%	25%	21%	26%	24%	19%
100-499 Employees	45%	51%	36%	55%	52%	46%	55%	53%	43%
500-999 Employees	45%	51%	45%	57%	62%	53%	61%	59%	48%
1000+ Employees	61%	64%	51%	68%	65%	56%	68%	66%	54%
Union Coverage									
Not Covered	35%	27%	31%	45%	41%	36%	64%	57%	39%
Covered	62%	60%	61%	73%	74%	69%	85%	78%	67%
Industry									
Construction	27%	22%	26%	35%	32%	27%	29%	29%	24%
Manufacturing	30%	32%	22%	53%	52%	42%	58%	55%	45%
Wholesale and Retail Trade	28%	23%	27%	35%	36%	31%	41%	39%	31%
Transportation, Warehousing and Utilities	42%	30%	30%	50%	46%	39%	54%	53%	42%
Information and Communications	44%	44%	35%	55%	52%	48%	59%	55%	45%
Finance, Insurance and Real Estate	48%	48%	39%	58%	54%	42%	54%	53%	43%
Professional, Scientific, Management, and Administrative Services	40%	37%	30%	44%	42%	33%	41%	39%	32%
Educational Services	59%	61%	56%	66%	66%	64%	70%	69%	59%
Educational Services	59%	61%	56%	66%	66%	64%	70%	69%	59%
Healthcare Services	48%	41%	37%	54%	52%	43%	54%	52%	43%
Social Services	30%	28%	31%	36%	38%	35%	32%	32%	26%
Other Services	20%	17%	17%	20%	18%	20%	23%	21%	17%
Arts, Entertainment, Recreation, Accommodation and Food Services	21%	10%	17%	27%	19%	16%	25%	24%	20%
Public Administration	72%	75%	64%	82%	81%	68%	81%	79%	68%

Source: CPS March Supplement, 2005-2007, 2009-2011, 2015-2017

Notes: Sample includes workers ages 25-64. A worker is considered covered if their employer offers a retirement plan and they are participating in it. Respondents are asked about coverage in the previous calendar year from their main employer.

SECTION 2:

Spotlight on Older Workers' Retirement Readiness

Low retirement plan coverage coupled with the changing nature of plan design has eroded retirement plan participation and 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 households nearing retirement age in New York (households with at least one worker ages 50-60) by including other liquid assets. The sample includes workers in all New York State metropolitan areas, the smallest unit of analysis for wealth holdings in the 2014 Survey of Income and Program Participation (according to the Current Population Survey, 88 percent of urban residents in New York State live in New York City).

Two in Five New Yorker Near-Retirees Have Neither a DB nor a DC Pension

Nearly half – 48 percent – of near-retirement New York households have less than $10,000 in total liquid assets. In the absence of a DB pension, these households will depend almost entirely on Social Security, an income stream that is insufficient to maintain living standards in retirement. Another 17 percent have less than $100,000 in total liquid assets to annuitize, a sum still insufficient for most households to maintain their living standard (Figure 3).

The median liquid assets of near-retirement households residing in metropolitan areas of New York State is just $5,000 for single households and $60,000 for coupled households (Figure 4). If a household with median wealth were to purchase an inflation-indexed single life annuity at age 62, assuming generous investment returns and current annuity rates, a single household would earn $20 a month in retirement income and a coupled household would earn $245 a month. This income would supplement a household's defined benefit pension and Social Security benefit.

More than 1 million households, or 42 percent of near-retirement New York households, do not have a DB or DC pension in a current or past job. Most households in this group have no liquid assets and will be entirely dependent on Social Security income in retirement. An additional 22 percent have a DC or IRA savings account but not a defined benefit plan. Median liquid assets of this group are $215,000, which will provide an income of $870 a month at age 62, still insufficient to maintain pre-retirement living standards. The remaining 36 percent of households have a defined benefit pension. The median level of liquid assets for this group is $162,500. While households with DB pensions have fewer liquid assets than those with DC accounts, DB pension income more than makes up for this difference, putting households with a DB pension in a better position to maintain their living standard in retirement (Figure 5).

FIGURE 3: TOTAL LIQUID ASSETS OF HOUSEHOLDS AGES 50-60 IN METROPOLITAN AREAS OF NEW YORK STATE, 2014

Total Liquid Assets	# of Households	% Of Households	Mean Household Income	Median Household Income
Less than $10,000	939,225	48%	$37,410	$20,808
$10,000 to $99,999	321,500	17%	$56,212	$43,800
$100,000 to $299,999	472,070	24%	$64,299	$49,000
$300,000 or more	209,557	11%	$113,198	$81,820

Source: 2014 Survey of Income and Program Participation Wave 1
Notes: Sample includes households in metropolitan areas of New York State, with at least one worker ages 50-60. Liquid assets include the value of stocks, bonds, annuities, CDs, money market accounts, and retirement accounts (401(k) and IRA), less total non-mortgage debt.

FIGURE 4: TOTAL LIQUID ASSETS OF HOUSEHOLDS AGES 50-60 IN METROPOLITAN AREAS OF NEW YORK STATE, 2014		
	Single Person Household	**Coupled Household**
Average	$91,000	$179,000
Median	$5,000	$60,000

Source: 2014 Survey of Income and Program Participation Wave 1
Notes: Sample includes households in metropolitan areas of New York State, with at least one worker ages 50-60. Liquid assets include the value of stocks, bonds, annuities, CDs, money market accounts, and retirement accounts (401(k) and IRA), less total non-mortgage debt.

FIGURE 5: ASSETS AND PROJECTED REPLACEMENT RATES OF NEAR RETIREMENT HOUSEHOLDS IN METROPOLITAN AREAS OF NEW YORK STATE BY RETIREMENT PLAN TYPE, 2014				
Households With DB Pensions	**Households with DC/ IRA Accounts but not DB Pensions**	**Households with Neither Plan**	**Mean Household Income**	**Median Household Income**
# of Households	390,943	424,906	1,126,503	$20,808
Median Income	$97,000	$95,000	$33,000	$43,800
Median Liquid Assets	$162,500	$215,000	$0	$49,000
Median Projected Replacement Rate	68%	56%	52%	$81,820

Source: 2014 Survey of Income and Program Participation Wave 1
Notes: Sample includes households in metropolitan areas of New York State, with at least one worker ages 50-60. Liquid assets include the value of stocks, bonds, annuities, CDs, money market accounts, and retirement accounts (401(k) and IRA). See next section for more information.

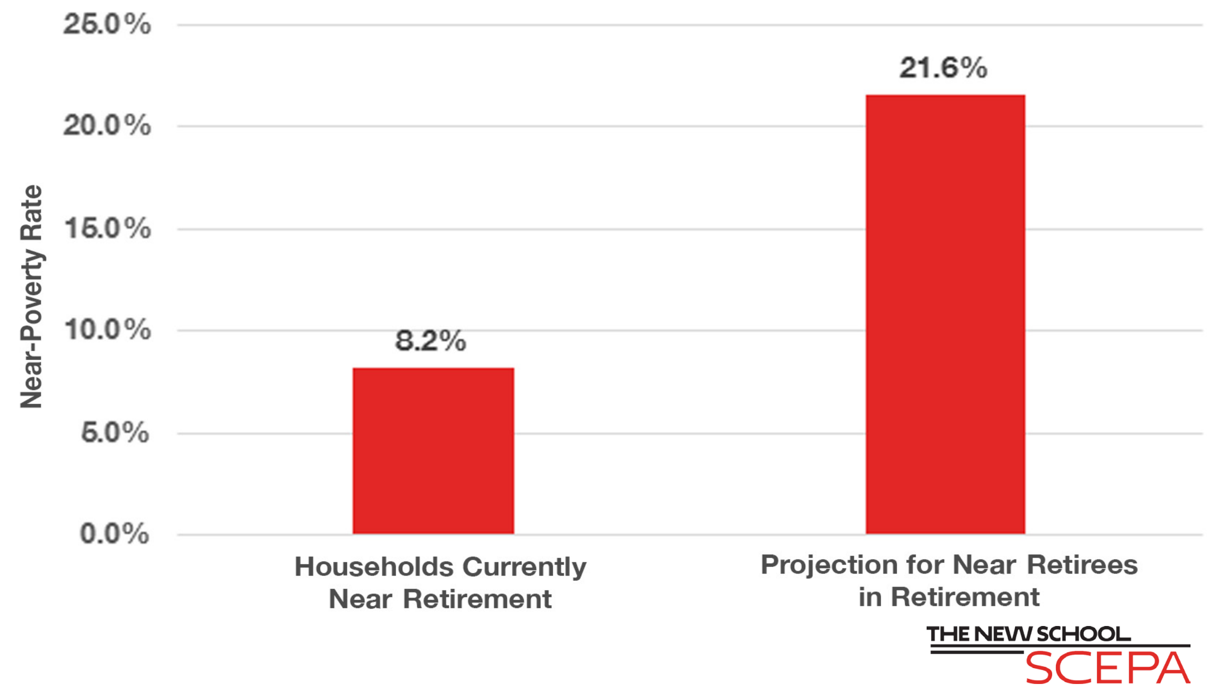
Older Workers Face Downward Mobility in Retirement

Income replacement in retirement comes primarily through Social Security income and the drawdown of liquid assets. This report assumes workers with DC/ IRA accounts contribute 6 percent of earnings to those accounts with a 50 percent employer match, that all financial assets earn a 4.5 percent real return, and that workers purchase an inflation-indexed single life annuity their liquid assets when they retire at age 62. Although few households annuitize, the assumption of annuity purchase proxies for an estimate of the periodic amount households can draw down from unannuitized wealth over their lifetime.

Households with DC plans are able to accumulate more assets during their working years than households without any retirement plan coverage, but can only replace 56 percent of their pre-retirement income, just 4 percentage points higher than households with no retirement plan (52 percent), reflecting their higher pre-retirement incomes. Households with a DB plan (68 percent) are best situated to maintain living standards in retirement.

If workers in near retirement households retire at age 62, the share in poverty or near poverty will more than double, from 8.2 percent while working to 21.6 percent (Figure 6).

FIGURE 6: NEAR-POVERTY RATE FOR CURRENT NEAR-RETIREMENT HOUSEHOLDS, PRESENT AND PROJECTED AT AGE 62



Source: 2014 Survey of Income and Program Participation Wave 1
Notes: Sample includes households in metropolitan areas of New York State, with at least one worker ages 50-60. Liquid assets include the value of stocks, bonds, annuities, CDs, money market accounts, and retirement accounts (401(k) and IRA). Assets are assumed to earn a 4.5 percent real return each year until age 62. Workers are assumed to contribute 6 percent of earnings with a 50 percent employer match until age 62. At age 62, the sum of these assets are assumed to be used to purchase an inflation-indexed single life annuity at current market rates. Households are considered to be poor or near poor if their income is less than 200 percent of the Federal Poverty Level.

SECTION 3:
Conclusion

Despite billions in tax breaks for 401(k)s and IRAs and decades of regulations, well under half of American workers participate in a retirement plan in their current job. This systemic breakdown in access to safe and effective retirement savings vehicles means that many New Yorkers nearing retirement will either be unable to afford to retire or will be forced to subsist on meager Social Security benefits in retirement. Policies aimed at providing workers access to employment-based retirement savings vehicles, such as Guaranteed Retirement Accounts (GRAs), would help confront the retirement crisis predicted by his report.

A GRA is a mandated, professionally managed retirement account. It is a hybrid between a defined benefit pension and a 401(k)-type defined contribution plan because it involves individual savings (with matches from the employer and government and a guarantee of principal from the government), but pays annuities in retirement. As supplements to Social Security, GRAs can be implemented at the city, state, or federal level and would provide all workers with a retirement account. 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.

A growing 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 addressing the retirement crisis.

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