THE NEW SCHOOL
RETIREMENT EQUITY LAB

The Retirement Crisis in New York

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December 2018

Suggested Citation: Ghilarducci, T. and Papadopoulos, M. (2018) "The Retirement Crisis in New York." Schwartz Center for Economic Policy Analysis, The New School for Social Research, Report Series.

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The Problem: Lack of Adequate Retirement Savings

1. Inadequate Account Balances

Most workers approaching retirement do not have enough saved to maintain their living standards in retirement, regardless of income. The median account balance for workers ages 55-64 is just $15,000 nationwide, and just $18,000 in New York State. Two-thirds of workers in the bottom half of the income distribution both nationwide and in New York State don't have pensions and have nothing saved in retirement accounts. For the next 40 percent, median account balances are $60,000 nationwide and $52,000 in New York State. Even most workers in the top 10 percent do not have enough to maintain their standard of living in retirement – the median balance nationwide for this group is $200,000 and in New York State is $225,000 (see Figure 1). These account balances are not annual incomes, but wealth that must be spread across one's retired life.

Figure 1: Median Retirement Account Balances For Near-Retirees

	United States	New York State
Top 10%	$200,000	$225,000
Next 40%	$60,000	$52,000
Bottom 50%	$0	$0

Source: Authors' calculation using 2014 Survey of Income and Program Participation Wave 1
Notes: Sample includes workers ages 55-64.

2. Inadequate Retirement Income

Low retirement account balances will lead to many retirees – from all income groups – falling short of their target retirement income. Target income in retirement is measured by "replacement rates," defined as the percentage of pre-retirement income needed to maintain one's standard of living in retirement. The average person in every income group will fall short of their replacement rate by at least 26 percentage points (see Figure 2).

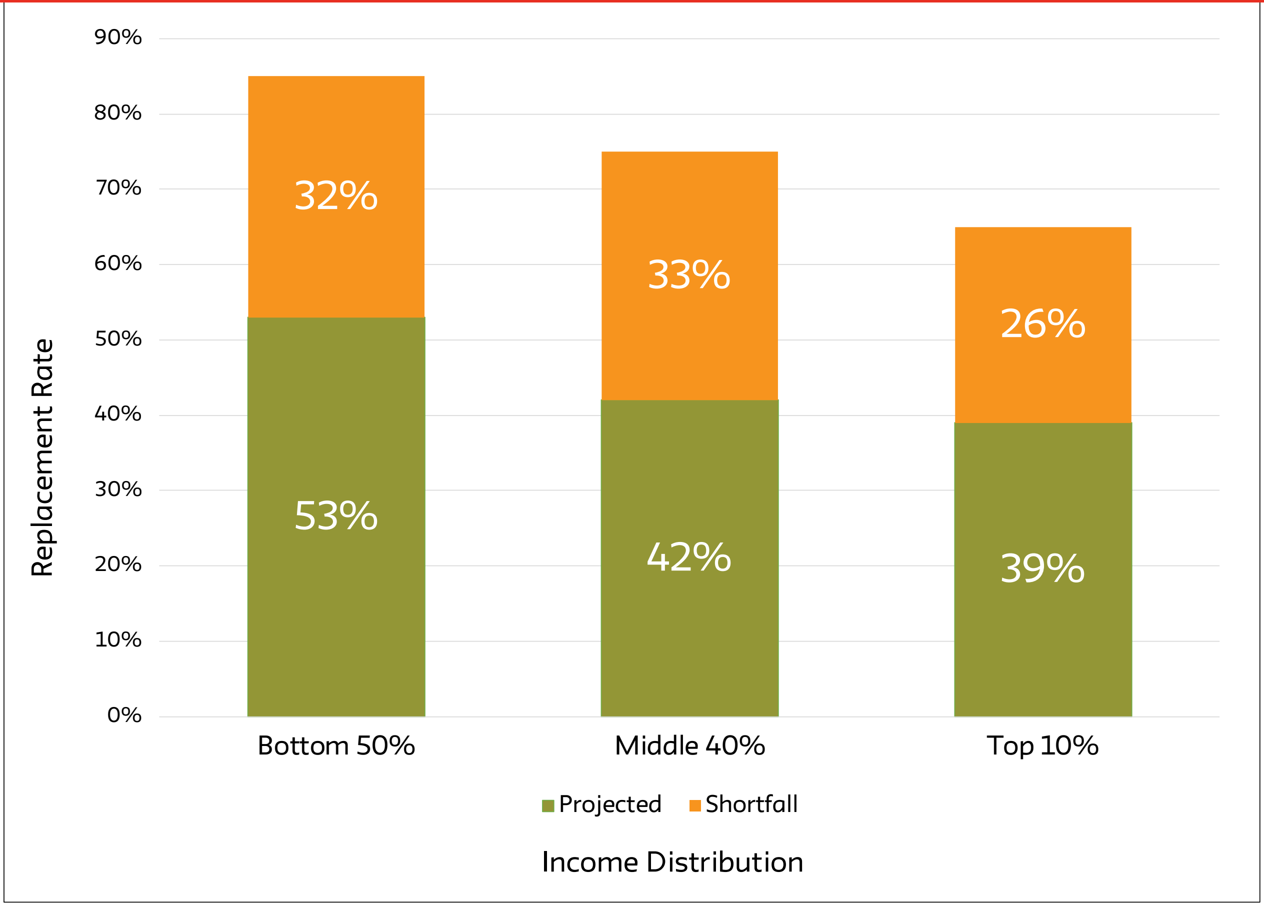
The typical worker in the bottom 50 percent of the income distribution needs 85 percent of their pre-retirement income in retirement to maintain their standard of living. However, New Yorkers in this group can expect to have only 53 percent based on their current savings and Social Security benefits. In the next 40 percent of the income distribution, older workers need 75 percent of their pre-retirement income, but will be able to replace only 42 percent. Workers in the top 10 percent of the income distribution should target a replacement rate of 65 percent, but are projected to attain only a 39 percent replacement rate (see Figure 2).

3. Downward Mobility in Retirement

Inadequate retirement savings exposes workers to the risk of experiencing a sharp decline in their living standards when they retire. For some, a reduction in income will mean deprivation and downward mobility into poverty when they retire.

A worker is defined as downwardly mobile if they are not poor or near poor while working (their and their spouse's current income is more than twice the 2014 Federal Poverty Level, $23,340 for a single individual and $31,260 for a couple), but they are projected to fall below this level in retirement. ReLab projects that out of two million older workers in New York State ages 50-60 and their spouses who are not poor or near poor, 825,000 – or 41 percent – will fall into poverty or near poverty when they retire at 62 (see Figure 3).

Figure 2: New Yorkers in All Income Groups Fall Short of Target Replacement Rates



Source: Authors' calculation using 2014 Survey of Income and Program Participation Wave 1
Notes: Sample includes workers ages 50-60 residing in New York State and their spouses or partners. A retirement age of 62 is assumed. Full methodology: Ghilarducci, Papadopoulos & Webb (2017). "Inadequate Retirement Savings for Workers Nearing Retirement." Schwartz Center for Economic Policy Analysis, Policy Note Series.

Figure 3: Projected Downward Mobility of Near-Retirement Households

	United States	New York State
Older Workers and Spouses	37,000,000	2,700,000
Not Near Poor While Working	21,500,000	2,000,000
Projected to be Poor or Near Poor in Retirement	8,500,000	825,000
Share Downwardly Mobile	40%	41%

Source: Authors' calculation using 2014 Survey of Income and Program Participation Wave 1
Notes: The sample comprises workers age 50-60 in 2014 and their spouses or partners. They are considered downwardly mobile if their household labor market earnings exceed 200% of the 2014 Federal Poverty Level (FPL), but their household is projected to have income below this level in retirement at age 62. Full methodology: Ghilarducci, Papadopoulos & Webb (2017). "40% of Older Workers and Their Spouses Will Experience Downward Mobility in Retirement". Schwartz Center for Economic Policy Analysis, Policy Note Series.

The American Retirement System Fails to Provide New Yorkers Coverage, Adequate Employer Contributions, and Decent Annuity Options

1. Retirement Plan Coverage Continues to Fall

In 2015-2017, only 42 percent of employed New York State residents ages 25-64 were covered by an employer-sponsored retirement plan, down 5 percentage points from 2 years prior (see Figure 4). Though retirement plan coverage in New York State is 2 percentage points higher than the national average, coverage has fallen for two decades (see Figure 5). Coverage in New York City is even lower, with just 35 percent covered by a retirement plan in 2017.

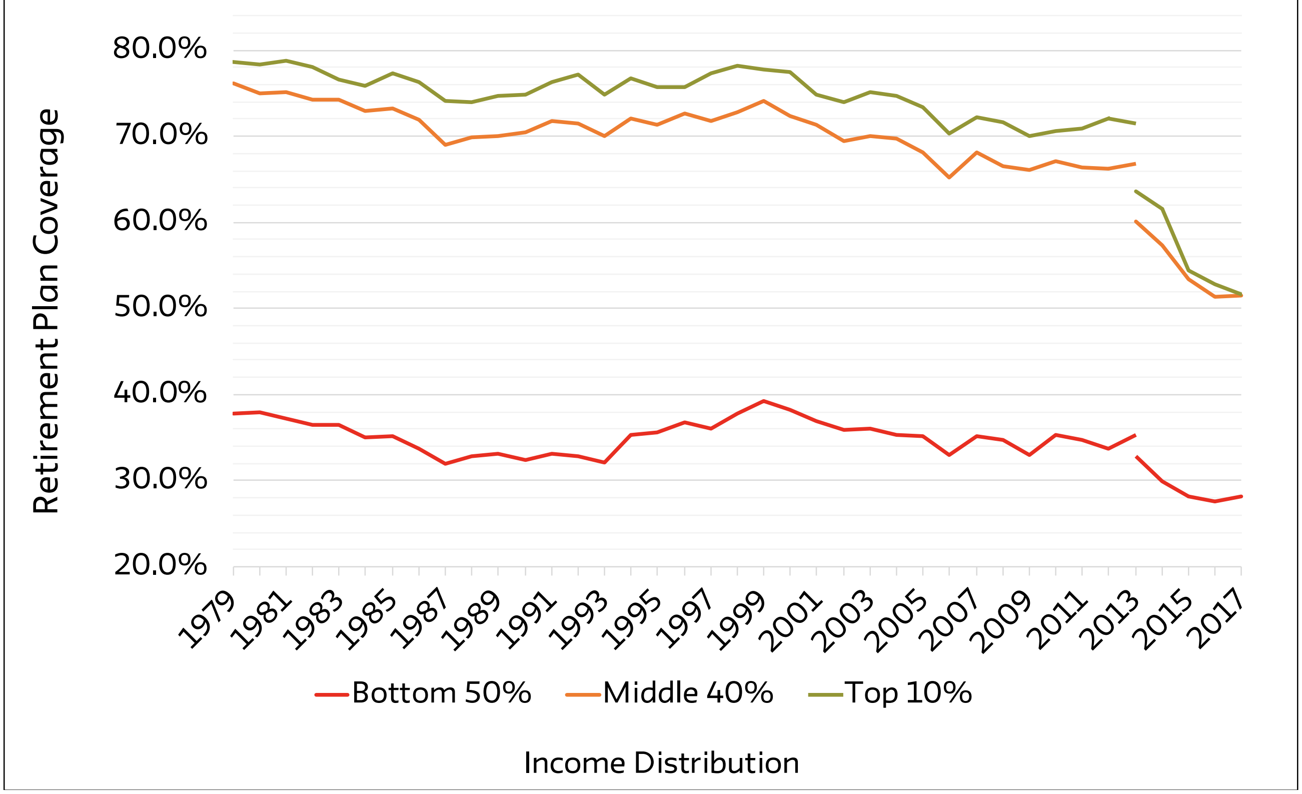
Figure 4: Retirement Plan Coverage of Full-Time Workers

	New York City		New York State		United States	
	2013-15	2015-17	2013-15	2015-17	2013-15	2015-17
Full-Time Workers Ages 25-64	2,734,710	3,102,485	6,487,736	6,757,818	103,904,532	111,108,879
Coverage Rate	36%	35%	47%	42%	44%	40%
By Gender						
Male	34%	33%	46%	41%	43%	39%
Female	38%	38%	48%	45%	47%	42%
By Race/Ethnicity						
White non-Hispanic	37%	36%	50%	46%	48%	43%
Black non-Hispanic	41%	40%	46%	42%	43%	38%
Asian non-Hispanic	28%	29%	38%	34%	41%	37%
Hispanic	33%	33%	34%	34%	30%	29%
By Income Percentile						
Bottom 50%	26%	27%	34%	33%	33%	29%
Next 40%	46%	45%	58%	54%	57%	51%
Top 10%	42%	40%	58%	49%	60%	51%
By Age Group						
23-34	30%	30%	39%	35%	37%	33%
35-54	39%	38%	45%	45%	45%	42%
55-64	38%	38%	51%	49%	51%	46%
By Education						
Less Than High School	12%	11%	16%	15%	18%	14%
High School	27%	26%	31%	31%	38%	30%

	New York City		New York State		United States	
Some College	33%	32%	37%	38%	44%	37%
Bachelor’s Degree	42%	42%	52%	47%	52%	44%
Graduate Degree	51%	52%	60%	55%	59%	52%
By Classification						
Self-employed	12%	11%	14%	14%	14%	12%
Private Sector	34%	32%	44%	39%	42%	38%
Public Sector	67%	67%	77%	72%	72%	68%
By Firm Size						
1-99 Employees	19%	18%	27%	22%	24%	20%
100-499 Employees	39%	37%	49%	48%	48%	42%
500-999 Employees	41%	41%	56%	50%	55%	48%
1000+ Employees	51%	52%	62%	58%	61%	55%
By Union Contract Coverage						
Not Covered	29%	28%	41%	35%	41%	36%
Covered	61%	61%	73%	70%	70%	67%
By Industry						
Construction	22%	25%	29%	27%	29%	25%
Manufacturing	34%	35%	51%	44%	49%	44%
Wholesale and Retail Trade	31%	30%	38%	37%	37%	33%
Transportation and Warehousing	32%	32%	41%	37%	43%	37%
Information and Communications	41%	40%	50%	47%	52%	45%
Finance, Insurance and Real Estate	39%	38%	43%	43%	49%	42%
Professional, Scientific, Management & Administrative Services	32%	29%	40%	34%	38%	34%
Educational, Healthcare, Social & Other Services	41%	41%	49%	50%	50%	46%
Arts, Entertainment, Recreation, Accommodation & Food Services	20%	20%	27%	25%	23%	21%
Public Administration	67%	66%	74%	72%	72%	69%
By Citizenship Status						
Non-Citizens	27%	28%	35%	32%	35%	29%
Citizens	43%	41%	55%	47%	54%	43%

Source: Authors’ calculation using the Current Population Survey March Supplement 2014-2018
Notes: Sample includes full-time workers, defined as working 35+ hours per week, ages 25-54. Sample is pooled over three years to obtain sufficient sample size in New York City and New York State.

Figure 5: Retirement Coverage for New York's Full-Time Employees Ages 25-64 by Income Group



Source: Authors' calculation using the March supplement of the Current Population Survey, 1999-2018 extracted from IPUMS-CPS, University of Minnesota, www.ipums.org. (Survey asks about coverage in previous calendar year.)
Notes: Sample includes workers ages 25-64 who report having worked at least 35 hours per week. Starting in 2013, the Census Bureau changed questions related to retirement income, but not questions related to workplace retirement plan coverage. In 2013, it fielded the old questions to 5/8 of the sample and the new questions to 3/8 of the sample. We present data for retirement plan coverage in 2012 for these two samples separately.

Coverage declined for almost every demographic group in New York State, but some groups fared worse than others. Moreover, great disparities exist in workplace retirement plan coverage based on race, age, education, and income.

Workplace retirement plan coverage remains lower for Hispanic (34 percent, no change) and Asian (34 percent, down 4) workers than for white (46 percent, down 4) and black (42 percent, down 4) workers.

Women were more likely to report being covered by a retirement plan at work (45 percent, down 3) than men (41 percent, down 5) owing mostly to being more represented in public sector and education jobs.

Workers with a Bachelor's (47 percent, down 5) or graduate degree (55 percent, down 5) were much more likely to be covered by a retirement plan at work than those with only some college education or less. However, coverage of highly-educated workers fell more than those with less education.

The workers in the highest income groups (those in the top 10 percent of the income distribution, workers in finance and workers in the largest firms) experienced the largest percentage point losses in coverage, though coverage for high-income workers is still much higher than for the bottom half of earners. Just 49 percent of workers in the top 10 percent of the income distribution (over $118,000) had a retirement plan in 2017, down 9 percentage points. Coverage of workers in the next 40 percent of earners (between $39,000 and $118,000) fell 4 percentage points to 54 percent. However, low-income workers were less likely to have a workplace retirement plan, with 33 percent of workers in the bottom half of the income distribution reporting being covered by a plan, down 1 point from 2013-2015.

Coverage of union workers (70 percent, down 3) was more than double that of non-union workers (35 percent, down 6) and declined by less. Coverage of private-sector employees declined by 5 percentage points to a low of 39 percent. The coverage rate for public-sector employees was 72 percent (down 5).

Workers in manufacturing occupations (44 percent, down 7) experienced the greatest decline in retirement coverage, followed by workers in professional, scientific, management and administrative services (34 percent, down 6) and transportation and warehousing occupations (37 percent, down 4).

2. Switch to 401(k)s

In the 1980s, employers began replacing their defined benefit (DB) pensions with defined contribution (DC) savings accounts such as the 401(k). Since then, defined benefit and 401(k)-type coverage in the United States has declined for all income groups (see Figure 5). DC accounts fail American workers for the following reasons: participation is voluntary and conditional on the employer offering a plan, so that many contribute sporadically, if at all; many withdraw funds before retirement; investment returns are eroded by high fees and sub-optimal portfolios; balances are paid out as lump sums rather than in the form of a lifetime income; the tax preferences for retirement savings disproportionately benefit high earners; and savings are subject to being reduced in recessions.

Options to Fix Retirement Income Security Shortfalls

1. Nudges Are Not Enough

Behavioral nudges are inadequate, as they ignore the reality that almost all workers experience swings in income over their careers that make it difficult to maintain the consistent contributions necessary to accumulate enough retirement savings in a 401(k)-type account. Over a working lifetime, almost all workers experience multiple unemployment spells lasting over a year and reductions in earnings of 10 percent or more, with the bottom 50 percent of earners more vulnerable to both. When these income shocks occur, DC accounts are often tapped, serving double-duty as both emergency funds and retirement saving and making them less effective at both.

2. Working Longer Doesn't Help Workers Reach Savings Goals

A functional retirement system allows people the choice between continuing to work and a dignified retirement. However, America's retirement system forces workers with inadequate savings to work longer to avoid deprivation in retirement. The quantity and quality of the jobs available to these workers are dependent on the whims of the labor market. Currently, the labor market for older workers leaves many suffering from long-term unemployment, low wages, and a lack of employer-sponsored retirement coverage, particularly for older women. Additionally, many older workers, particularly black workers, cannot continue working due to physical limitations.

Given these realities of the labor market, a structural change in how we approach retirement security is necessary to solve the retirement crisis.

3. Ensuring Coverage for Private-Sector Workers

New York is a leader in working to ensure private-sector workers have access to retirement coverage. In April 2018, the state became the 10th to pass a Secure Choice plan, a voluntary workplace retirement savings option that could help millions of working New Yorkers save for their futures on the job. Secure Choice will give private companies that don't currently provide their employees a retirement savings plan the option to offer their workers a payroll-deduction Individual Retirement Account. The program, to be overseen by the state, will be professionally managed by a private investment firm and voluntary for both employers and employees.

As New York works to implement the program over the next two years, it has the opportunity to lay a road map for inclusive coverage that prioritizes the protection and growth of workers' savings. This includes regulations and policies that promote fee limits, safe investments and transparency.

Methodological Note

Except for downward mobility, our analysis of the retirement crisis focuses on individuals, rather than households. The reality of growing divorce rates among near-retirees and the disproportionate effects of divorce on women's health and financial security make it imperative that retirement income adequacy be studied at the individual level. When estimating the risk of downward mobility, we focus on the household because poverty is measured at the household level.

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