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## **Ernst & Young Study Finds Most Middle Class Retirees Will Outlive Retirement Savings**

*Future Retirees without Guaranteed Income Will Need to Significantly Reduce Standard of Living*

**Washington** – Almost three out of five new middle-class retirees will outlive their financial assets if they attempt to maintain their pre-retirement standard of living, according to a new study conducted by Ernst & Young LLP on behalf of Americans for Secure Retirement.

The study also finds that middle-income Americans entering retirement now will have to reduce their standard of living by an average of 24 percent to minimize the likelihood of outliving their financial assets. Those Americans seven years out from retirement are even less prepared and the study estimates that they will have to reduce their standard of living by even more, an average of 37 percent. These reductions will be necessary even when assuming that retirees can maintain the same standard of living with income equal to 59 to 71 percent of their pre-retirement wages.

“Many Americans envision a retirement where their lifestyle continues much as before,” said Tom Neubig of Ernst & Young. “Our work shows that this is not a realistic expectation and that, with the current state of savings and potentially very long life expectancies, many retirees will have to cut back far more on expenditures than they had ever expected.”

The study finds that retirees are much better prepared to have a financially secure retirement if they have a guaranteed source of retirement income beyond Social Security, such as an annuity or defined benefit plan. For example, married couples who have a guaranteed source of retirement other than Social Security income making \$75,000 at retirement have a 31 percent chance of outliving their financial assets if they retain their pre-retirement standard of living. Those with Social Security as their only guaranteed income have a 90 percent chance of outliving their financial assets during retirement.

“As a guaranteed source of retirement income, life annuities relieve the risks and burdens of managing a nest egg and can maximize savings’ value over the course of an individual’s retirement years,” said Joe Reali, Chairman of the Americans for Secure Retirement coalition. “Life annuities are the only vehicle besides pensions and Social Security that provide a steady stream of income for life – a “paycheck for life.”

The report was conducted by Ernst & Young on behalf of Americans for Secure Retirement, a coalition of over 50 member and affiliate organizations representing women’s, small business, agriculture, Hispanic and African American groups as well as the life insurance industry. The coalition is committed to raising awareness about retirement challenges facing Americans and advocating for policies that help Americans secure a steady stream of income for their retirement.

Other key findings of the study include:

- Persons that are 5-10 years away from retirement have a higher risk of outliving their financial assets than those currently at retirement age. To avoid outliving their retirement assets, these workers aged 55 to 59 will have to increase their savings substantially or work beyond age 65. Otherwise, they will have to reduce their standard of living significantly more than today’s retirees to minimize the risk of exhausting their financial assets.
- Married couples are more likely to outlive their financial assets, due to their longer joint life spans, than single households.
- Montana, Wyoming and South Dakota citizens have the highest likelihood of outliving retirement savings.
- D.C., Rhode Island, Utah and New York citizens have the least likelihood of outliving retirement savings.

“The findings of this report underscore that the public policy debate on retirement needs to increasingly focus on how to help Americans manage their retirement savings so that they last throughout retirement. This includes pursuing policies that encourage retirement vehicles that provide retirees with steady streams of income for their retirement,” said Reali.

Legislation currently before Congress, The Retirement Security for Life Act (H.R. 2205/S. 1010), would encourage Americans to secure a steady stream of income in retirement through annuitization. The bills will encourage Americans to have a steady source of guaranteed income in retirement providing a tax incentive for lifetime annuities. Specifically, this legislation would exclude 50 percent of the income received from a lifetime annuity from taxation, up to \$20,000 per year. For an average American taxpayer in the 25 percent tax bracket, this would result in \$5,000 of tax savings. The legislation, introduced by Senators Gordon Smith (R-OR) and Kent

Conrad (D-ND) in the Senate and Representatives Stephanie Tubbs-Jones (D-OH) and Phil English (R-PA), has the support of 70 co-sponsors in the House and 12 in the Senate.

### **About the Study**

The study evaluates retirement vulnerability for 36 different types of typical middle-class households, defined by three income levels (\$50,000, \$75,000 and \$100,000 of pre-retirement income); for married couples, single males and single females; by employer provided defined benefit pension coverage status; and by age (near and new- retiree). The near-retiree is age 58, and planning to retire at age 65. The recent retiree is age 65 and has just entered retirement. Based on government data available to the public, the study estimates the key financial and income information for these 36 household types. Based on the relative weights of the different household examples, the study estimates with E&Y's Retirement Analytics™ model the national overall retirement vulnerability of middle-class near and new-retirees.

### **About Americans for Secure Retirement**

Americans for Secure Retirement is a coalition of over 50 member and affiliate organizations representing women's, small business, agriculture, Hispanic, and African American groups as well as the life insurance industry. The coalition is committed to raising awareness about the retirement challenges facing Americans and advocating for policies that help Americans secure a steady stream of income for their retirement. For more information on ASR and the importance of retirement vehicles that help individuals make their income last a lifetime, please visit [www.paycheckforlife.org](http://www.paycheckforlife.org).

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## **What Americans for Secure Retirement Coalition Members are Saying About the Ernst & Young Study**

“Retirement security has long been a concern for working women, because women earn less and therefore have less money to save. Additionally, they live longer, are often heads of household and as primary caregivers, spend less time in the workforce to accumulate Social Security benefits and participate in an employer-based retirement plan. This study by Americans for Secure Retirement reinforces what we already know - we need to act now to ensure a financially secure future for everyone.”

- *Deborah L. Frett, Business and Professional Women/USA CEO*

"The solutions generated by this study provide hope for the millions of small business owners in this country. By converting their assets into a guaranteed source of income like an annuity, entrepreneurs can feel more secure that they will not outlive their finances and be able to live out their golden years to the fullest."

- *Karen Kerrigan, President of the Small Business Entrepreneurship Council and Founder of Women Entrepreneurs*

“American homeowners take important steps everyday to increase their financial literacy and this revealing report highlights their need to go one step further to prepare for their retirement. It is not just about saving your money anymore, but ensuring that you will have a steady stream of income throughout your golden years.”

- *Bruce N. Hahn, President of The American Homeowners Grassroots Alliance*

"There is a serious disconnect between the dreams and expectations of the citizens of our Nation for a secure retirement and the reality of our current preparedness. We need to take charge of our future by being proactive today. This report is an important document that should serve as a wake up call for the formulation of public policy to address the retirement challenges of Americans."

- *Ricardo Aponte Parsi, Esq., President, Inter American Businessmen's Association*

“The findings of this study illustrate the benefits of guaranteed income in retirement. Many small business owners have reinvested earnings and savings over their lifetime into growing their businesses. Legislation like the Retirement Security for Life Act would help them secure a reliable retirement.”

- *Barbara Kasoff, Women Impacting Public Policy (WIPP)*

“The Hispanic Alliance for Prosperity Institute finds the outcome of the recent Ernst & Young study The Retirement Vulnerability of New Retirees especially alarming. Hispanic workers in America face a greater risk to their retirement security than workers overall and are anxious about being able to maintain a decent standard of living throughout retirement. We strongly encourage Congress to embrace relevant financial education programs and promote retirement policies which will provide proper retirement planning options for Hispanics in America.”

- *Jose Nino, HAP Institute Co-Chairman*

"As the American and global economies have changed, Americans have drastically changed how they live. Unfortunately, the retirement systems, especially Social Security, have failed to adapt to the changing needs of American retirees. It has become necessary for retirees to find new sources of guaranteed retirement income. The *Retirement Security for Life Act* will allow Americans to better plan and provide for their future and is an essential tool for future generations."

- *Gus K. West, Chairman of the Hispanic Institute*