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Middle-Class More Vulnerable in Retirement than Previously Thought
New Report Demonstrates Need for Guaranteed Retirement Income Sources Such as
Lifetime Annuities

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WASHINGTON, DC – The findings of a new report released today indicate that the decline in the stock market in the last six months of 2008 dramatically worsened the retirement outlook for middle-class Americans. The analysis, conducted by Ernst & Young LLP on behalf of the retirement coalition Americans for Secure Retirement (ASR), finds that due to the economic downturn, the retirement assets of recent and near retirees decreased between 14 and 17 percent in the last six months of 2008. This decline significantly reduces the likelihood that middle income retirees will have enough financial resources to last them through their lifetime.

The study also determined that many Americans will be forced to reduce their standard of living, some by as much as 51 percent, to avoid outliving their financial assets and that households with a guaranteed source of retirement income outside of Social Security, such as a lifetime annuity, showed the greatest chance of financial success. Conversely, the study found that households with no guaranteed retirement income outside of Social Security are most vulnerable to outliving their financial assets.

The new report is an update to Ernst & Young's July 2008 Retirement Vulnerability Study. The 2008 study found that almost three out of five middle-class new retirees could expect to outlive their financial assets if they attempted to maintain their pre-retirement standard of living.

“In only 6 months, the financial downturn has had a significant adverse impact on the retirement assets of middle-income Americans and on their prospects of a secure retirement. As was the case in our 2008 study, our update finds that people with a guaranteed source of income outside of Social Security are much better positioned than those that are without guaranteed income,” said Tom Neubig of Ernst and Young.

“Now more than ever, it is critical that Americans have guaranteed retirement income through vehicles like lifetime annuities,” said Bill Waldie, Chairman of ASR. “The traditional retirement system of pensions and Social Security are increasingly no longer enough for retirees and there is a critical need for Congress and policy makers to act, to help Americans secure their retirement future.”

Findings of the report include:

- A recently retired married couple earning \$75,000 a year with a defined benefit plan has a 57 percent chance that they will have enough financial resources in retirement. The same couple, without any guaranteed source of retirement income, is left with only a 6 percent chance of financial success.
- A near retiree single female, earning \$50,000 a year with a defined benefit plan, has a 66 percent chance that she will not outlive her financial resources. The same female, without any guaranteed source of income in retirement, is left with only an 18 percent chance of financial success.

Solutions to this retirement challenge are currently being considered in the Congress. In the House, Representatives Earl Pomeroy (D-ND) and Ginny Brown-Waite (R-FL) have introduced the Retirement Security Needs Lifetime Pay Act, H.R. 2748. While in the Senate, Senators Kent Conrad (D-ND) and Pat Roberts (R-KS) are planning to re-introduce the Retirement Security for Life Act, a measure that received broad bipartisan support in the 110th Congress. Both bills would create greater accessibility to non-qualified lifetime annuities by creating a tax incentive to convert a portion of a person’s savings or assets into a steady “paycheck” for life. The bills would provide a 50 percent tax exclusion on the annual income from a non-qualified annuity, saving a typical American in the 25 percent tax bracket up to \$5,000.

In the updated report, Ernst & Young looked at six of the original 36 typical middle-income households approaching retirement from the 2008 study, chosen because they represent retirement vulnerability across all middle-income households approaching retirement: Married couples at or near retirement making \$75,000 in earnings with and without guaranteed retirement income, and single females making \$50,000 in earnings seven years before retirement with and without guaranteed retirement income.

Americans for Secure Retirement (ASR) is a broad-based coalition of more than 40 organizations who are united in their commitment to ensuring retirement security for all Americans. Our members share the goal of raising awareness of the retirement problem and crafting creative solutions to help people save and prosper in their retired years. Specifically, the coalition advocates for Congress and policy makers to encourage greater access to retirement security by passing a tax incentive for lifetime annuities, the only retirement vehicle that offers a guaranteed stream of income in retirement - a steady paycheck for life.

To view the original retirement vulnerability study and the recently completed update, please visit www.paycheckforlife.org. Charts detailing the findings of the new report follow:

Changes in retirement vulnerability metrics of middle-income households without defined benefits plans from July 1, 2008 to December 31, 2008

Marital status/gender	Income group	Retirement age	Probability of not outliving their financial assets (success rate)			Percent reduction in pre-retirement standard of living to increase success rate to 95 rate		
			July 1, 2008	Jan. 1, 2009	Percent Change	July 1, 2008	Jan. 1, 2009	Percent Change
Married	\$75,000	Near retirement	7%	4%	-42%	-49%	-51%	5%
Married	\$75,000	Recent retiree	10%	6%	-44%	-38%	-41%	9%
Single female	\$50,000	Near retirement	23%	18%	-19%	-38%	-41%	6%

Changes in retirement vulnerability metrics of middle-income households with defined benefit plans from July 1, 2008 to December 31, 2008

Marital status/gender	Income group	Retirement age	Probability of not outliving their financial assets (success rate)			Percent reduction in pre-retirement standard of living to increase success rate to 95 rate		
			July 1, 2008	Jan. 1, 2009	Percent Change	July 1, 2008	Jan. 1, 2009	Percent Change
Married	\$75,000	Near retirement	43%	31%	-26%	-26%	-28%	9%
Married	\$75,000	Recent retiree	69%	57%	-18%	-14%	-18%	24%
Single female	\$50,000	Near retirement	73%	66%	-10%	-13%	-16%	17%

What Congress is Saying about the Updated Ernst & Young Study

“This study offers another stark evaluation of Americans’ retirement readiness. Most middle class Americans have the bulk of their savings in their IRAs and retirement savings plans, and when faced with the significant investment losses seen in recent months, many feel that they cannot make their savings last a lifetime. Annuities enable these workers to maximize the income from their savings while guaranteeing a monthly retirement paycheck for life. Congress needs to help Americans not just with building a nest egg but also to encourage individuals to use insurance tools that supply the much need cash flow in retirement. Legislation like the Retirement Security Needs Lifetime Pay Act would help them secure a reliable retirement.” - **U.S. Representative Earl Pomeroy (D-ND), sponsor of H.R. 2748, the Retirement Security Needs Lifetime Pay Act**

“The solutions generated by this study provide a realistic check as well as hope to the millions of Americans evaluating their retirement. It may make a great deal of sense for certain retirees to convert a portion of their assets into a guaranteed source of income. Doing so will let Americans feel more secure that they will not outlive their finances and be able to live out their golden years as comfortably as possible.” – **U.S. Representative Ginny Brown-Waite (R-FL), Sponsor of H.R. 2748, the Retirement Security Needs Lifetime Pay Act**

“Unfortunately, there continues to be a disconnect, made worse by the downturn in the economy, between the hopes and realities of a great many Americans looking to retire in the near future. This report further illustrates the need for Congress to act, to increase the availability of all retirement options and help Americans secure the retirement they deserve.” – **U.S. Senator Kent Conrad (D-ND), Sponsor of the Retirement Security for Life Act, S. 1010 in the 110th Congress**

“We should pass legislation to encourage the purchase of annuities to provide a guaranteed stream of income for individuals during retirement. This could be particularly attractive for those that don’t have employer-sponsored retirement plans including the self-employed like farmers and ranchers, and small businesses. These are hard working Americans who have saved for retirement on their own and want to ensure that their retirement savings last through their lifetime.” – **U.S. Senator Pat Roberts (R-KS), Co-Sponsor of the Retirement Security for Life Act, S. 1010 in the 110th Congress**