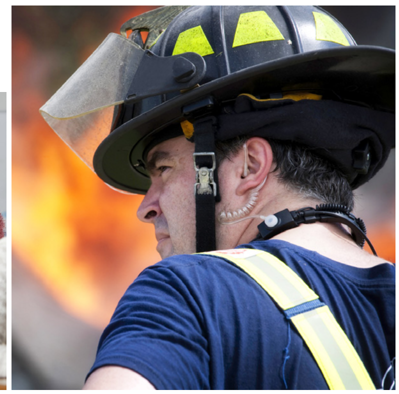
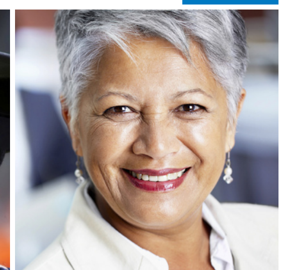
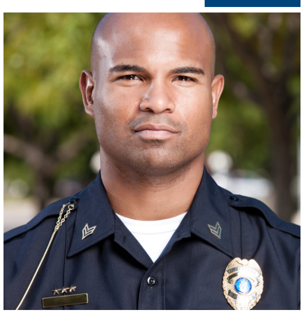
2012 Retirement Confidence Survey of the State and Local Government Workforce

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Joshua M. Franzel and Paul J. Yakoboski

Executive Summary

Much has been written about the financial condition of pension plans and plan reform in the public sector, but little has been documented about public sector workers' confidence, expectations and behavior with respect to retirement planning and saving. A representative sample of state and local government employees was surveyed to examine these issues.

Summary Findings for Full-Time Public Sector Employees

Confidence

- Nineteen percent are very confident that they will have enough money for a comfortable retirement, 54 percent are somewhat confident, and 26 percent are not confident.
- Twenty-two percent are very confident that they will have enough money to take care of medical expenses during retirement, and 49 percent are somewhat confident.
- Two-thirds are not confident that Medicare will continue to provide benefits of equal value to those provided today.
- Among employees who have saved for retirement, 30 percent are not confident that they are saving the right amount and 18 percent are not confident that they are investing appropriately.
- Among employees who have saved for retirement, 29 percent are very confident that they will choose the best way to draw income from savings during retirement. Nonetheless, many savers are worried that they will outlive their savings; only 14 percent are very confident that they will not outlive their savings.
- Among those who expect to annuitize some of their savings, only 13 percent are very confident that they will not outlive their savings, even though this figure might be expected to approach 100 percent.

Expectations

- One-third think they will need to replace less than 60 percent of their pre-retirement income to live comfortably in retirement, while it is generally recommended that individuals plan to replace at least 70 percent.
- Fifty-seven percent expect to work longer than they would like, with 29 percent expecting to work more than five years longer.
- Seventy-two percent expect that a defined benefit pension will be a major source of their retirement income, 31 percent expect a defined contribution plan to be a major income source, and 27 percent expect Social Security to be a major source.

Behavior

- Ninety-one percent have saved for retirement; 92 percent of them are currently saving.
- Fifty-eight percent have not planned and saved for uncovered medical expenses in retirement.
- Among retirement savers, one-half have not tried to determine how much they need to save for a comfortable retirement.
- One-half of savers have received retirement planning advice from a professional advisor within the past three years, but they often do not follow the advice they receive. One-third of those advised to increase the amount saved did not change their savings rate. Eighteen percent of those receiving investment advice followed all of it.

Introduction

State and local governments continue to provide retirement benefits for their employees: 99 percent of full-time public sector employees have access to an employment-based retirement plan and 94 percent participate in a plan.[1] Furthermore, primary coverage in the public sector is typically through a defined benefit (DB) pension plan: 92 percent of full-time employees have access to a DB plan and 87 percent are DB plan participants.[2]

State and local governments and the plans they sponsor continue to face financial challenges, many of which stem from the lingering effects of the recent global economic downturn and related losses in the value of pension fund investments. The recession also reduced tax revenues, making it difficult for many governments to fully fund the annual required contribution (ARC) associated with their DB plan.[3] Among DB plans sponsored by state and local governments, the ratio of assets to liabilities was estimated to be 75 percent in 2011.[4, 5] The ARC was estimated to be 15.7 percent of payrolls in 2011; an estimated 79 percent of the ARC was paid.

Budgetary pressures, evolving workforce demographics, and longer-term pension plan finance and benefit trends have led almost all state[6] and many local governments[7] to consider and implement various reforms of the plans they sponsor. The degree of reform ranges from adjustments to contribution requirements and benefit levels in existing DB plans to more fundamental changes that would incorporate defined contribution (DC) elements into the primary plan structure.

Against this backdrop, much has been written and debated about the true financial condition of public DB plans, but little has been written about the financial preparations and retirement income security of public sector workers.

This report addresses the latter by examining retirement planning and saving among full-time state and local government employees and their confidence in their retirement income prospects. A representative sample of state and local government employees was surveyed in 2012.[8] The survey questionnaire was developed from the framework of the annual Retirement Confidence Survey sponsored by the Employee Benefit Research Institute (EBRI) and Mathew Greenwald &

Table 1. *Preferred and Expected Retirement Ages Among State and Local Government Employees, 2012*

	All Full-Time Employees		Those Covered by Social Security		Those Not Covered by Social Security	
	Like to retire at age...	Expect to retire at age...	Like to retire at age...	Expect to retire at age...	Like to retire at age...	Expect to retire at age...
Less than 55 years	11%	3%	11%	2%	10%	5%
55 to 59 years	26	14	26	13	27	21
60 to 61 years	18	12	17	13	22	10
62 to 64 years	15	14	16	14	12	12
65 years	16	22	16	23	15	20
66 to 69 years	4	13	5	13	4	12
70 years or older	3	16	3	17	3	11
Now	4	n/a	4	n/a	3	n/a
Never	1	3	1	3	2	4
Don't know/ refused	2	3	2	2	2	4
Average	59.5 years	63.8 years	59.5 years	64.0 years	59.6 years	62.6 years
Median	60 years	65 years	60 years	65 years	60 years	63 years

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2012)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Note: Tabulations are for full-time employees.

Associates (MGA). Where questions overlap, responses from public sector employees are examined relative to the responses of U.S. workers in the aggregate.[9]

Expectations for Retirement

Most full-time employees in the public sector expect to work beyond the age at which they would prefer to retire. Their reasons for expecting to work longer typically revolve around personal finances. In addition, the majority expect to do some work for pay during retirement.

While the average preferred retirement age among full-time public sector employees is 59.5 years, the average expected retirement age is more than four years older (63.8 years) (Table 1).[10] In the aggregate, 37 percent of public sector workers would like to retire before age 60, but only 17 percent expect to do so. At the other end of the spectrum, 32 percent expect to work beyond age 65, while only 8 percent would like to do so.[11]

Among K–12 teachers, the average preferred retirement age is 59 years and the average expected retirement age is 63 years. Among police and firefighters (also referred to as public safety personnel), the average preferred retirement age is 57 years and the average expected retirement age is 60 years.

Preferred and expected retirement ages were compared for each survey participant. Fifty-seven percent of full-time public sector employees expect to retire after the age they would prefer, with 29 percent expecting to retire more than five years later. Forty-eight percent of those ages 55 and older expect to retire after they would prefer, compared with 69 percent of those under age 45. Thirty-four percent of public sector workers expect to retire at the age they would prefer; this ranges from 26 percent among those under age 45 to 41 percent of those age 55 and older (Table 2).

Not surprisingly, the top reasons cited for expecting to retire later than preferred involve personal finances (Table 3).

Seventy-two percent of full-time public sector employees expect to work for pay after retiring; 42 percent of these individuals think it is very or somewhat likely that they will work for a former employer. There is minimal variation across age groups in the likelihood of

Table 3. *Top Reasons for Expecting to Retire Later Than Preferred Among State and Local Government Employees, 2012*

Cannot afford to retire	30%
Pension and/or Social Security requirements	22
Need to save more	19
Need the health insurance and/or other benefits	16
Economic uncertainty	12

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2012)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Note: Tabulations are for full-time employees.

Table 2. *Expected Retirement Age Compared With Preferred Retirement Age Among State and Local Government Employees, 2012*

	All	Under age 45	Age 45–55	Age 55 and older
Expected age = preferred age	34%	26%	32%	41%
Expected age > preferred age	57	69	62	48
by 0 to 2 years	7	5	6	11
by 2 to 5 years	22	22	25	19
by more than 5 years	29	43	31	18
Expected age < preferred age	8	6	6	11
by 0 to 2 years	1	0	<0.5	2
by 2 to 5 years	2	2	2	2
by more than 5 years	5	4	4	8

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2012)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Note: Tabulations are for full-time employees.

expecting to work in retirement—73 percent under age 45 expect to do so compared with 74 percent of those age 45 to 54 and 70 percent of those age 55 and older. The same holds with regards to Social Security coverage: 72 percent of those currently covered by Social Security expect to work for pay in retirement, as do 73 percent of those not currently covered by Social Security.

Seventy-seven percent of full-time K–12 teachers and 76 percent of full-time police and firefighters expect to work for pay after retiring. More than one-half of the teachers who expect to work in retirement think it is likely that they will work for a former employer. Among all full-time workers in the U.S., 75 percent expect to do at least some work for pay in retirement.

Table 4. *Expected Sources of Income in Retirement Among State and Local Government Employees, 2012*

	All State and Local Employees	Teachers	Police/ Firefighters	Age			Current Social Security Coverage		U.S. Full-Time Workers
				<45	45–54	55+	With	Without	
Defined Contribution Plan									
Major source	31%	31%	23%	42%	31%	24%	32%	27%	52%
Minor source	46	49	54	41	49	47	45	50	30
Not a source	21	18	22	16	18	27	21	22	17
Don't know	2	1	<0.5	1	2	2	1	2	2
Defined Benefit / Cash Balance Plan									
Major source	72%	79%	87%	68%	72%	75%	69%	85%	28%
Minor source	20	18	8	22	20	17	22	9	32
Not a source	7	3	4	9	5	7	7	6	39
Don't know	1	1	--	0	1	2	1	1	1
Individual Retirement Account									
Major source	16%	16%	10%	16%	16%	15%	16%	13%	21%
Minor source	49	52	55	51	49	49	49	53	46
Not a source	34	31	35	32	34	35	34	34	31
Don't know	1	1	--	1	1	1	1	0	2
Other Savings									
Major source	15%	15%	10%	13%	16%	15%	16%	12%	23%
Minor source	49	58	54	53	49	48	48	57	45
Not a source	35	26	35	33	35	36	36	31	31
Don't know	1	<0.5	--	0	1	1	1	1	1
Employment During Retirement									
Major source	15%	14%	15%	15%	15%	14%	16%	12%	21%
Minor source	65	70	62	65	67	65	65	68	61
Not a source	19	14	22	19	17	21	19	19	17
Don't know	1	1	1	1	1	0	1	1	2
Social Security									
Major source	27%	22%	11%	16%	26%	35%	32%	11%	29%
Minor source	54	55	57	52	57	52	55	50	50
Not a source	18	23	31	31	16	11	13	39	21
Don't know	1	1	1	0	1	1	1	0	1

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2012)*, TIAA-CREF Institute and the Center for State and Local Government Excellence; *Retirement Confidence Survey (2012)*; Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc.

Note: Tabulations are for full-time employees.

Sources of Retirement Income

When public sector employees retire, they plan on tapping into a range of retirement savings and income sources, with traditional DB plans (or cash balance plans) being the primary source of income. Seventy-two percent of full-time state and local workers believe that a traditional pension or cash balance plan will be a major source of retirement income; by comparison, 28 percent of all U.S. full-time workers expect a traditional pension or cash balance plan to be a major income source (Table 4).[12]

Among teachers and public safety personnel, 79 percent and 87 percent, respectively, believe a pension or a cash balance plan will be a major source of retirement income. Also, it appears that traditional pensions will play a somewhat larger role in retirement for older public sector workers with 75 percent of those over 55 years of age responding that a pension or a cash balance plan will be a major source of retirement income, relative to 68 percent of those under age 45.

Traditional DB plans (or cash balance plans) will not be the sole source of income for state and local workers. Between 49 percent and 55 percent of these workers expect individual retirement accounts (IRAs) and other personal savings to be minor sources of retirement income. Also, 65 percent of all state and local workers, 62 percent of police and fire personnel, and 70 percent of teachers expect employment to be a minor source of income during retirement, slightly higher than the percentage of the U.S. full-time workforce as a whole.

While virtually the entire private sector workforce is covered by Social Security, about 3 out of 10 public sector workers are not covered by Social Security through their current employment, with many of these individuals in public safety positions.[13] That said, between 54 percent and 57 percent of all state and local workers, public safety personnel and teachers expect Social Security to be a minor source of retirement income. As one might expect, only 11 percent of police and firefighters expect Social Security to be a major source of income, while 22 percent of teachers and 27 percent of all state and local workers expect Social Security to be a major source of income.

Planning and Preparing for Retirement

How much do workers think they need?

Retirement income needs depend on many factors, including health status and lifestyle expectations. It is generally recommended that individuals plan to replace at least 70 percent of pre-retirement income for a comfortable retirement. When state and local workers were asked how much of their preretirement income they think they will need to replace in each year of retirement, the cohort offered a wide variety of answers (Table 5). The most common response was 70 percent to 79 percent of pre-retirement income.

In addition to determining the income replacement

Table 5. *Anticipated Income Replacement Needed in Retirement Among State and Local Government Employees, 2012*

	All State and Local Employees	Teachers	Police/ Firefighters
What percentage of your pre-retirement income do you think you will need to replace each year in retirement so that you can live comfortably?			
Less than 50%	15%	12%	18%
50% to 59%	19	18	17
60% to 69%	12	12	12
70% to 79%	20	22	25
80% to 89%	17	18	15
90% to 99%	5	4	5
100% or more	7	5	6
Don't know	6	9	1

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2012)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Note: Tabulations are for full-time employees.

needed each year in retirement, it is also important to calculate the amount of savings needed to live comfortably throughout retirement. Fifty percent of retirement savers in the public sector workforce reported that they have done such a calculation, including 50 percent of teachers and 59 percent of police and firefighters. As one might imagine, those closer to retirement are more likely to have determined the savings they need, relative to those earlier in their careers. Fifty-nine percent of those over age 55 have done so, compared with 39 percent of those under age 45. By comparison, 51 percent of savers in the U.S. full-time workforce have tried to calculate how much savings they will need for a comfortable retirement.

Saving and Investing for Retirement

For most public sector employees, a well-balanced retirement plan would include their pension; supplemental savings in a DC plan, IRA, or other personal account; and, for most, Social Security. When asked if they and/or their spouse had personally saved for retirement (aside from any employer contributions to a retirement plan and Social Security taxes), 91 percent of all state and local workers, 90 percent of teachers, and 92 percent of public safety personnel answered affirmatively. Of those who have saved, between 92 percent and 96 percent are currently saving. These figures are higher than those for the U.S. workforce: 79 percent of U.S. full-time employees have personally saved for retirement, with 92 percent of them currently saving.

The majority of state and local employees are very or somewhat confident that they are saving the right amount and investing their savings appropriately, with public safety personnel being the most confident (Table 6). Also, those under age 45 are slightly less confident with the amount they are saving relative to other age groups, while those over age 55 tend to be more confident regarding their investment decisions.

Social Security Coverage and Confidence

As discussed previously, most but not all full-time state and local employees are covered by Social Security. This is reiterated in the survey findings—80 percent reported that Social Security payroll (FICA) taxes are currently deducted from their earnings. Sixty-nine percent of teachers have FICA taxes deducted, as do 48 percent of police and firefighters.

There is some variation among all state and local employees, teachers, and public safety personnel in their overall confidence that Social Security will continue to provide benefits at least equal to what retirees receive today (Table 7). Public safety personnel tend to be less optimistic about Social Security, with few public employees (6 percent) being very confident that Social Security will provide the same level of benefits in the future that it currently provides to today's retirees.

Table 6. *Confidence Among Savers in the State and Local Government Workforce, 2012*

	All State and Local Employees	Teachers	Police/ Firefighters	Age		
				<45	45–54	55+
How confident are you that you are saving the right amount for retirement?						
Very confident	16%	16%	25%	10%	19%	18%
Somewhat confident	53	53	61	55	51	54
Not too confident	18	21	8	23	15	17
Not at all confident	13	10	5	11	15	12
Don't know	<0.5	<0.5	1	1	1	0
How confident are you that you are investing your retirement savings appropriately?						
Very confident	27%	22%	34%	21%	28%	30%
Somewhat confident	54	60	58	68	51	53
Not too confident	11	11	5	13	11	9
Not at all confident	7	6	2	8	9	6
Don't know	1	1	1	0	1	0

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2012)*, TIAA-CREF Institute and the Center for State and Local Government Excellence; *Retirement Confidence Survey (2012)*, Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc.

Note: Tabulations are for full-time employees.

Variation also surfaces when looking at confidence in Social Security by age group. Public sector employees over age 55 are more confident about benefit levels than their younger colleagues. Fifty-two percent of those age 55 or older are very or somewhat confident regarding future benefit levels, compared with 34 percent of those age 45–54 and 23 percent of those under age 45.

As a group, public employees tend to be more optimistic about future Social Security benefit levels than the U.S. full-time workforce as a whole. Also, workers currently participating in Social Security tend to be more confident in future benefit levels than workers not participating in the system: 42 percent of participants are very (7 percent) or somewhat (35 percent) confident, compared with 28 percent of non-participants who are very (3 percent) or somewhat (25 percent) confident.

Converting Assets to Income in Retirement

The primary objective in planning and saving for retirement should be to achieve an adequate and secure income. Since the vast majority of full-time state and local government employees are covered by a DB pension, and many by Social Security, they likely view their retirement savings as supplementing their pension income (and Social Security benefits). Depending upon the income level provided by a pension and Social Security, income from savings may be necessary to fund a desired lifestyle in retirement. In this case, savings must be converted into an income stream for the duration of a retiree's life.

Among public sector workers who have saved for retirement, 24 percent have given a great deal of consideration to how they will manage their savings and draw income from it during retirement, 52 percent have considered the issue somewhat, 16 percent have hardly done so, and 6 percent have not considered it at all (Table 8). Not surprisingly, older workers have given the issue the most consideration and younger workers, the least. There is little variation in responses between employees covered by Social Security through their current jobs and those who are not. Police and firefighters who have saved are more likely than their public sector peers to have thought about managing their savings for income in retirement—38 percent have considered it a great deal and 53 percent have considered it somewhat. The analogous figures for K–12 teachers are 20 percent and 52 percent, respectively.

These percentages correlate closely with confidence levels among public sector savers that they will choose the best way to draw income from savings during retirement: 29 percent are very confident, 57 percent are somewhat confident, 8 percent are not too confident, and 6 percent are not at all confident (Table 8). Given this correlation, it is not surprising that police and firefighters are more confident than the public sector as a whole: 41 percent are very confident and 54 percent are somewhat confident. Such a correlation does not exist, however, among those under age 45; these individuals appear confident that they will make good decisions when the time comes even though they have yet to focus on the issue.

Paradoxically, confidence in choosing the best way to draw income from savings during retirement does not carry over to confidence that an individual will not outlive his or her savings. Only 14 percent are

Table 7. *Confidence in Future Social Security Benefit Levels Among State and Local Government Employees, 2012*

	All State and Local Employees	Teachers	Police/ Firefighters	Age			U.S. Full-Time Workers
				<45	45–54	55+	
How confident are you that the Social Security system will continue to provide benefits of at least equal value to the benefits received by retirees today?							
Very confident	6%	5%	5%	5%	4%	9%	6%
Somewhat confident	33	29	25	18	30	43	28
Not too confident	32	35	36	40	35	26	30
Not at all confident	28	29	32	38	29	21	36
Don't know	1	2	1	0	1	0	1

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2012)*, TIAA-CREF Institute and the Center for State and Local Government Excellence; *Retirement Confidence Survey (2012)*, Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc.

Note: Tabulations are for full-time employees.

very confident that they will not outlive their savings, compared with 29 percent who are very confident that they will make the best choice for converting savings to retirement income (Table 8). Analogously, 31 percent are not confident that they will not outlive their savings, while only 13 percent are not confident that they will make the best choice on drawing income from savings. This paradox is apparent across age ranges and is also observed with police and firefighters.

Managing assets during retirement is inherently complicated by uncertainty, including economic uncertainty regarding future rates of return across potential investments and the inability of an individual to know how long he or she will live.[14] In fact, "living too long" may be an issue that leads individuals to think that they may run out of money in retirement even though they make the right choices in managing it.

Annuitization is the only means for an individual to guarantee a constant level of income throughout retirement, no matter how long he or she lives. Forty-two percent of retirement savers in the public sector workforce think that they will convert some or all of their savings into a payout annuity to help cover living expenses in retirement, 44 percent do not think that they will annuitize any savings, and 15 percent are not sure whether they will annuitize (Table 8).[15]

However, there appears to be little correlation between the expectation to annuitize and the degree of consideration given thus far to managing saving for income during retirement: 41 percent of those who have thought a great deal about managing their savings in retirement and drawing income from it expect to annuitize some of their savings, compared with 44 percent of those who have considered it somewhat, 37 percent of those who have hardly thought about it, and 39 percent of those who have not thought about it at all (Table 9).

Analogously, there appears to be only limited correlation between confidence in choosing the best way

Table 8. *Converting Assets to Income Among Retirement Savers in the State and Local Government Workforce, 2012*

		Age		
	All State and Local Employees	<45	45–54	55+
To what extent have you considered how you will manage your savings in retirement and draw income from it?				
A great deal	24%	14%	25%	30%
Somewhat	52	50	52	54
Hardly at all	16	24	17	10
Not at all	6	11	5	4
How confident are you that you will choose the best way to draw income from your savings during retirement?				
Very confident	29%	25%	30%	31%
Somewhat confident	57	61	53	57
Not too confident	8	10	8	6
Not at all confident	6	4	7	5
How confident are you that you will not outlive your savings?				
Very confident	14%	11%	14%	16%
Somewhat confident	51	48	52	53
Not too confident	18	25	18	13
Not at all confident	13	12	13	13
Do you think you will convert some or all of your retirement savings into a payout annuity to help cover your living expenses in retirement?				
Yes	42%	37%	42%	44%
No	44	42	46	43
Don't know/refused	15	21	12	13

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2012)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Note: Tabulations are for full-time employees.

to draw income from savings during retirement and an expectation to annuitize. Among those who are very confident, somewhat confident, and not too confident that they will choose the best way to draw from savings, 40 to 42 percent expect to annuitize; for those not at all confident, the figure is 33 percent. Given this lack of correlation, the concern that someone could exhaust his or her savings despite making the best choices is no longer so paradoxical. Without the intent to annuitize, an individual might feel that forces beyond his or her control, such as living too long or earning poor rates of return on savings during retirement, can work against the best decisions.

Furthermore, among those who expect to annuitize some of their savings, only 13 percent are very confident that they will not outlive their savings, when one would expect this figure to be near 100 percent. Fifty-four percent are somewhat confident and 31 percent are not confident about not outliving their savings. This indicates a lack of understanding of what it means to annuitize savings and the benefits of doing so, even among those who expect to do so.

The use of retirement planning advice is discussed in the next section, but in this context it is noteworthy that 54 percent of those who have recently received advice regarding how to draw income from savings in retirement intend to annuitize some of their savings. In cases where individuals expect to receive regular benefit payments from a DB plan (and potentially Social Security benefits as well), there may not be a need to annuitize personal savings. Those intending to annuitize are more likely to have received advice about asset management in retirement (69 percent) than those who do not intend to annuitize (59 percent). The survey did not ask whether the individual was advised to annuitize.

Use of Financial Advice

Fifty-one percent of retirement savers in the public sector workforce have received advice from a professional financial advisor within the past three years (Table 10). The likelihood of receiving financial advice increased from 45 percent among those under age 45 to 54 percent among those ages 55 and older. Sixty-one percent of K–12 teachers saving for retirement have received advice within the past three years, as have 51 percent of police and firefighters. Among those receiving advice, how much to save and how to invest were the issues most commonly covered. Not surprisingly, younger individuals were the most likely to receive advice regarding how much to save and older individuals on drawing income from savings during retirement.

But advice given does not automatically mean it is followed. One-third of those advised to increase the amount they save did not change their savings rate; 12 percent increased their savings to the recommended amount; and 53 percent increased their savings, but not all the way to the recommended amount. The youngest individuals were the most likely to increase their savings: 81 percent compared with 55 percent of those age 45–54 and 63 percent of those age 55 and older.

Table 9. *Intent to Annuitize Among Retirement Savers in the State and Local Government Workforce, 2012*

	Expect to Annuitize	Do Not Expect to Annuitize	Don't know/ Refused
All Savers	42%	44%	15%
All savers by degree of consideration given to how they will manage their savings in retirement and draw income from it…			
A great deal	41%	48%	11%
Somewhat	44	42	14
Hardly at all	37	43	19
Not at all	39	49	11
All savers by degree of confidence in choosing the best way to draw income from savings during retirement…			
Very confident	40%	51%	9%
Somewhat confident	44	40	16
Not too confident	43	36	21
Not at all confident	33	55	13

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2012)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Note: Tabulations are for full-time employees.

Among those who received advice regarding how to invest their retirement savings, 18 percent followed all the advice and 41 percent followed most of it, while 34 percent followed only some of it and 7 percent none of it. Sixty-three percent of those under age 45 followed all or most of the investment advice, compared with 59 percent of those ages 45–54 and 57 percent of those ages 55 and older.

Retiree Health Care Needs

Aside from funding general living expenses, retirement savings also play an important role in paying for health care expenses not covered by Medicare and employer-funded retiree health insurance. For a 90 percent likelihood of having enough money to cover health care expenses in retirement, assuming median drug expenditures, a 65-year-old man would need $124,000 in savings and a 65-year-old woman would need $152,000. A couple with median drug expenses would need $271,000 for a 90 percent chance of covering their health care expenses. At the highest (90th percentile) level of drug spending, a man would need $187,000 and a woman $213,000 for a 90 percent chance of having enough money to cover health care expenses in retirement.[16]

The majority of state and local workers, especially police and firefighters, are very or somewhat confident that they will have enough money in retirement to take care of medical expenses (Table 11).

But is this confidence warranted? Where do state and local workers stand in terms of access to retiree health insurance, health savings, and their confidence in Medicare continuing to provide benefits of equal value to the benefits received by retirees today?

Table 10. *Use of Financial Advice Among Retirement Savers in the State and Local Government Workforce, 2012*

	All State and Local Employees	Age <45	Age 45–54	Age 55+
Received retirement planning advice within the past three years	51%	45%	51%	54%
Received advice regarding…				
How much to save	79	86	78	76
How to invest savings	83	80	83	84
When can afford to retire	67	61	69	70
How to draw income from savings	61	47	57	71

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2012)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Note: Tabulations are for full-time employees.

Table 11. *Confidence in Ability to Pay for Medical Care in Retirement Among State and Local Government Employees, 2012*

	All State and Local Employees	Teachers	Police/ Firefighters	Age <45	Age 45–54	Age 55+	U.S. Full-Time Workers
How confident are you that you will have enough money to take care of your medical expenses during your retirement?							
Very confident	22%	17%	26%	22%	21%	23%	13%
Somewhat confident	49	54	51	47	48	50	44
Not too confident	20	21	15	22	21	17	22
Not at all confident	9	7	7	8	9	10	19
Don’t know	1	1	<0.5	0	1	1	2

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2012)*, TIAA-CREF Institute and the Center for State and Local Government Excellence; *Retirement Confidence Survey (2012)*, Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc.

Note: Tabulations are for full-time employees.

Sixty-three percent of full-time state and local employees expect to receive retiree health insurance in retirement from a former employer. Fifty-nine percent of teachers and 63 percent of police and fire personnel expect to receive retiree health insurance. The availability of retiree health insurance is a valuable benefit to public sector workers, but it does not eliminate the need for savings to cover health care costs not covered by insurance and/or Medicare. Fifty-eight percent of state and local workers, 63 percent of teachers, and 46 percent of police and fire personnel have done little planning and saving specifically for medical expenses in retirement (Table 12).

Medicare plays an important role in the lives of most retirees, even those with retiree health insurance, but the program faces financial challenges as outlined in the annual Trustees report.[17] The majority of all state and local employees (across age cohorts), teachers, and police and firefighters are not confident that the Medicare system will continue to provide benefits of at least equal value to the benefits received by retirees today (Table 13, p.14). This same view is shared by the majority of all U.S. full-time workers.

In addition, 73 percent of all state and local government employees and 75 percent of all U.S. full-time workers are very or somewhat concerned that the age of Medicare eligibility will be raised by the time they retire.

Table 12. *Planning for Medical Expenses in Retirement Among State and Local Government Employees, 2012*

	All State and Local Employees	Teachers	Police / Firefighters
To what extent have you planned and saved for medical expenses in retirement that are not covered by insurance or Medicare, including premiums, deductibles, and co-payments?			
A great deal	8%	6%	11%
Somewhat	33	30	42
Hardly at all	23	29	25
Not at all	35	34	22
Don't know	1	1	<0.5

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2012)*, TIAA-CREF Institute and the Center for State and Local Government Excellence; *Retirement Confidence Survey (2012)*, Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc.

Note: Tabulations are for full-time employees.

A Closer Look at Retirement Confidence

Nineteen percent of full-time employees in state and local government are very confident overall that they will have enough money to live comfortably throughout retirement; 54 percent are somewhat confident; 18 percent are not too confident; and 8 percent are not at all confident (Table 14, p.14).

These confidence levels compare favorably with those of full-time U.S. workers in the aggregate: 15 percent of full-time U.S. workers are very confident in their overall retirement income prospects, 43 percent are somewhat confident, 23 percent are not too confident, and 19 percent are not at all confident.

Confidence levels do not vary significantly in the public sector by age groups or by Social Security coverage. Police and firefighters are more confident than other public sector employees: 30 percent of full-time police and firefighters are very confident in their overall retirement income prospects and 54 percent are somewhat confident. By comparison, 18 percent of full-time teachers are very confident and 54 percent are somewhat confident.

It is legitimate to ask whether expressed confidence is justified or, alternatively, whether there is evidence of false confidence in the workforce. While impossible to answer on a case-by-case basis with the survey data, there are indications in the aggregate.

For starters, state and local governments have been bastions of retirement plan sponsorship for their employees. Ninety-nine percent of full-time state and local government employees have access to an employment-based retirement plan and 94 percent participate in a plan. More specifically, 92 percent of full-time state and local workers have access to a DB plan and 87 percent are participants, while 34 percent of full-time public sector employees have access to a DC plan and 19 percent participate.[18]

Recent economic conditions that have resulted in decreased or flat tax revenues, however, have affected the ability of state and local governments to fully fund sponsored DB plans and amortize investment losses experienced in the financial markets during 2008 and 2009. The ratio of assets to liabilities for state and local DB plans, which consistently was above the 80 percent threshold before the economic downturn, was 75 percent in 2011.[19] The ARC was 15.7 percent of payrolls in 2011, up from 6.4 percent in 2001; the percent of ARC paid was 79 percent in 2011, down from 100 percent in 2001.[20] This in turn has led to increased discussion of cutting benefits, increasing employee contributions, and shifting some provision of base retirement benefits to a DC model.

Other indicators can be derived from the survey responses. Among public sector employees very confident in their overall retirement income prospects:

- 45 percent feel that they need to replace less than 60 percent of their pre-retirement income to fund a comfortable lifestyle; 30 percent feel that they need to replace less than 50 percent. But it is generally recommended that individuals plan to replace at least 70 percent of pre-retirement income for a comfortable retirement.
- 96 percent have saved for retirement and 90 percent are currently saving. However, 31 percent of these have not tried to determine how much money they will need to have saved by the time they retire so they can live comfortably in retirement. Among the 69 percent who have done so, more than 50 percent feel that they need to replace less than 60 percent of

Table 13. *Confidence in Future Medicare Benefit Levels Among State and Local Government Employees, 2012*

	All State and Local Employees	Teachers	Police/ Firefighters	Age			U.S. Full-Time Workers
				<45	45–54	55+	
How confident are you that the Medicare system will continue to provide benefits of at least equal value to the benefits received by retirees today?							
Very confident	5%	3%	6%	1%	2%	10%	5%
Somewhat confident	29	30	28	20	28	36	28
Not too confident	38	42	39	39	45	33	38
Not at all confident	26	24	27	38	24	20	29
Don't know	1	1	<0.5	2	1	1	<0.5
How concerned are you that the age at which you become eligible for Medicare will increase before you retire?							
Very concerned	38%	37%	40%	38%	42%	36%	42%
Somewhat concerned	35	39	36	39	38	31	33
Not too concerned	14	14	11	15	12	16	15
Not at all concerned	11	9	13	8	8	17	9
Don't know	<0.5	<0.5		1	1	0	1

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2012)*, TIAA-CREF Institute and the Center for State and Local Government Excellence; *Retirement Confidence Survey (2012)*, Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc.

Note: Tabulations are for full-time employees.

Table 14. *Retirement Confidence Among State and Local Government Employees, 2012*

	All State and Local Employees	Age		
		<45	45–54	55+
How confident are you that you will have enough money to live comfortably throughout retirement?				
Very confident	19%	16%	20%	21%
Somewhat confident	54	55	52	55
Not too confident	18	23	18	14
Not at all confident	8	7	9	9

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2012)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Note: Tabulations are for full-time employees.

their pre-retirement income and one-third feel that they need to replace less than 50 percent. Again, conventional wisdom targets at least 70 percent income replacement.

- 61 percent have received retirement planning advice from a professional financial advisor, but 39 percent have not.

Conclusion

Retirement plan coverage remains near-universal among full-time employees in the state and local government workforce. The primary plan type in the sector is almost always a defined benefit (DB) plan, which is sometimes supplemented by a voluntary defined contribution (DC) plan. This positions long-tenure employees very well for a financially secure retirement.

The private sector has experienced a different dynamic with the tremendous growth of DC coverage, particularly in the form of 401(k) plans, and a decrease in DB coverage over the past several decades.

That said, given the effects of the recent economic downturn and underlying state and local government fiscal challenges, there has and will continue to be much change in the provision and generosity of public sector retirement benefits. Also, public sector employees are not immune to concerns about the sustainability and future benefit levels of the Social Security and Medicare programs.

As with their private sector counterparts, state and local employees could be doing more to plan and prepare for a financially secure retirement. In an environment characterized by economic uncertainty, the public servants who serve many important roles in our society, such as teaching our children and keeping our streets safe, can better serve themselves by more fully planning for retirement, adjusting expectations, and taking advantage of all available savings vehicles.

Notes

1 Source: *National Compensation Survey, March 2011*, Bureau of Labor Statistics, U.S. Department of Labor (http://www.bls.gov/ncs/ebs/benefits/2011/ownership/govt/table02a.pdf).

2 In addition, 34 percent of full-time state and local government employees have access to a defined contribution (DC) plan and 19 percent are DC participants according to BLS data.

3 The ARC is the plan sponsor's required contribution to a defined benefit plan. The ARC is the sum of two parts: (1) the normal cost, which is the cost for benefits attributable to the current year of service, and (2) an amortization payment, which is a catch-up payment for past service costs to fund the unfunded actuarial accrued liability over the next 30 years. Under GASB 45, it is not required that sponsors pay the ARC each year, but it does need to be calculated and disclosed in a public employer's annual financial statements.

4 Munnell, Alicia H., Jean-Pierre Aubry, Josh Hurwitz, Madeline Medenica, and Laura Quinby. "The Funding of State and Local Pensions: 2011–2015," Center for State and Local Government Excellence *Issue Brief* (May 2012).

5 This funded ratio is based on liabilities discounted by the expected long-term yield on plan assets, roughly 8 percent. Revaluing liabilities using the riskless rate, as advocated by most economists for reporting purposes, shows an aggregate funded ratio in 2011 of 50 percent.

6 Snell, Ron. "State Pension Reform, 2009–11," National Conference of State Legislatures (March 2012).

7 See the Center for State and Local Government Excellence pension reform map (http://slge.org/research/retirement)

8 1,251 individuals working in state and local government were surveyed by telephone during January and February 2012 by Mathew Greenwald & Associates. Of those surveyed, 1,151 were full-time employees and 100 were part-time; 501 were K–12 teachers; 139 were firefighters; 111 were police officers; and 500 were in other occupations. Responses were weighted to be representative of the aggregate public sector workforce.

9 Data regarding U.S. workers are from the 2012 *Retirement Confidence Survey*.

10 The median preferred retirement age is 60 years and the median expected retirement age is 65 years.

11 Among full-time employees in the U.S. workforce at-large, 26 percent expect to retire before age 65, 26 percent expect to retire at age 65, 38 percent expect to retire after age 65, and 6 percent do not expect to retire (i.e., 6 percent did not give an expected retirement age).

12 Sixty-five percent of all full-time U.S. workers participate in an employment-based retirement plan, 33 percent participate in a defined benefit plan, and 45 percent participate in a defined contribution plan. Source: *National Compensation Survey, March 2011*, Bureau of Labor Statistics, U.S. Department of Labor (http://www.bls.gov/ncs/ebs/benefits/2011/ownership/civilian/table02a.pdf).

13 Munnell, Alicia H. and Mauricio Soto. "State And Local Pensions Are Different From Private Plans," Center for State and Local Government Excellence *Issue Brief* (November 2007).

14 Current life expectancy for an individual reaching age 65 is age 84. Forty percent of public sector employees expect to die before age 84; 20 percent expect to die before age 80. More than 10 percent don't know how long they expect to live. Even allowing for personal knowledge of health conditions and family history, such figures indicate that a significant percentage of individuals may not plan and prepare financially for a long enough period of retirement.

15 Among all U.S. workers who have saved for retirement, 10 percent consider themselves very likely to annuitize assets, 36 percent are somewhat likely, 31 percent are not too likely, and 19 percent are not at all likely (3 percent responded "don't know").

16 See Fronstin, Paul, Dallas Salisbury and Jack VanDerhei. "Funding Savings Needed for Health Expenses for Persons Eligible for Medicare." EBRI *Issue Brief* no. 351 (December 2010).

17 According to the 2012 annual report of the Medicare boards of trustees, the projected 75-year actuarial deficit in the HI Trust Fund is 1.35 percent of taxable payroll. It is projected that the HI Trust Fund will pay out more in hospital benefits and other expenditures than it receives in income in all future years, as it has since 2008. The projected date of HI Trust Fund exhaustion is 2024, at which time dedicated revenues would be sufficient to pay 87 percent of HI costs. The Trustees project that Part B of Supplementary Medical Insurance (SMI), which pays doctors' bills and other outpatient expenses, and Part D, which provides access to prescription drug coverage, will remain adequately financed into the indefinite future because current law automatically provides financing each year to meet the next year's expected costs. However, it is projected that the aging population and rising health care costs will cause SMI costs to grow rapidly from 2.0 percent of GDP in 2011 to approximately 3.4 percent of GDP in 2035, and then more slowly to 4.0 percent of GDP by 2086.

18 Source: *National Compensation Survey, March 2011*, Bureau of Labor Statistics, U.S. Department of Labor (http://www.bls.gov/ncs/ebs/benefits/2011/ownership/govt/table02a.pdf).

19 This funded ratio is based on liabilities discounted by the expected long-term yield on plan assets, roughly 8 percent. Revaluing liabilities using the riskless rate, as advocated by most economists for reporting purposes, shows an aggregate funded ratio in 2011 of 50 percent.

20 Projection from Munnell , Alicia H., Jean-Pierre Aubry, Josh Hurwitz, Madeline Medenica, and Laura Quinby. "The Funding of State and Local Pensions: 2011–2015," Center for State and Local Government Excellence *Issue Brief* (May 2012).

2012 Retirement Confidence Survey of the State and Local Government Workforce

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The Center for State and Local Government Excellence helps state and local governments become knowledgeable and competitive employers so they can attract and retain a talented and committed workforce. The Center identifies best practices and conducts research on competitive employment practices, workforce development, pensions, retiree health security, and financial planning. The Center also brings state and local leaders together with respected researchers and features the latest demographic data on the aging work force, research studies, and news on health care, recruitment, and succession planning on its web site, www.slge.org.

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