TIAA-CREF Institute

Center for State and Local Government Excellence

2014 Retirement Confidence Survey of the State and Local Government Workforce

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A Joint Report of the TIAA-CREF Institute and the Center for State and Local Government Excellence

Executive Summary

This report analyzes data from a recent survey initiative that examined the employment and retirement planning and saving experiences of state and local government workers, as well as their confidence in their retirement income prospects. One-third of public sector employees have been with their current employer for less than 10 years and one-third for 20 years or longer. When considering the future, two-thirds do not expect to leave their current employer anytime soon. Respondents ranked job security, health insurance, retirement benefits, and salary as the most important job elements they would consider in deciding whether to switch employers. The vast majority of state and local employees are covered by a primary defined benefit pension plan and expect to receive retiree health care benefits; one-quarter of these workers reported changes to these benefits over the past two years and one-quarter expect (more) changes in the next two years. The typical state and local employee would like to retire at age 61, but expects to retire at 64; one-half expect to work for pay in retirement. Most public servants do not know how much they need to save for a comfortable retirement, nor have they planned and saved specifically for medical expenses in retirement. About 40 percent of state and local workers are very confident that they will receive all of the retirement plan benefits they have earned, one-half are somewhat confident, and the rest are not confident. The analogous figures for retiree health care benefits are one-quarter and 60 percent, respectively. State and local workers' confidence in future Social Security and Medicare benefits is lower. On a more personal level, about 20 percent of state and local workers are very confident that they are saving and investing appropriately for retirement, with an additional 50 percent or more somewhat confident in their savings and investing.

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Introduction

State and local governments employ a significant share of the U.S. workforce—14.1 million individuals at the local level and 5.1 million among the states, representing 10 percent and 4 percent of the U.S. workforce, respectively.[1,2] While public sector employment levels have not reached the prerecession levels of 2008, 66 percent of state and local governments hired employees in 2013 with 55 percent hiring more than in 2012.[3]

The public sector employs individuals across a broad range of occupations and the education level of sector workers is relatively high. More than 3 million elementary and secondary school (K-12) teachers are employed, most by local governments; over one-half have a master's or higher degree.[4] Approximately 300,000 firefighters and 700,000 police officers are employed by state and local governments.[5] Fifty-eight percent of state workers and 54 percent of local government employees have a bachelor's, advanced, or professional degree compared with 35 percent of the private sector workforce.[6]

A defining characteristic of public sector employment has traditionally been retirement plan coverage, specifically by a defined benefit (DB) plan. Ninety-nine percent of full-time state and local government employees have access to an employment-based retirement plan; 92 percent have access to a DB plan.[7] Ninety-four percent of full-time public sector employees participate in a plan; 87 percent are DB participants.[8]

The funding of public sector DB plans has been the subject of policy focus across the U.S. since at least the 2008-2009 recession, with its resulting tax revenue decreases and pension fund investment losses. Among DB plans sponsored by state and local governments, the estimated aggregate ratio of assets to liabilities was 72 percent in 2013.[9, 10] The annual required contribution (ARC) was estimated to be 17.6 percent of payrolls in 2013 and the estimated share of ARC paid was 83 percent.[11]

Budgetary pressures, evolving workforce demographics and preferences, and longer-term retirement plan finance and benefit trends have led almost all state[12] and many local governments to consider and implement various pension reforms. The degree of change ranges from adjustments designed to improve long-term funding of existing DB plans (e.g., increases in required worker contributions, decreases in benefit accruals, reductions in cost of living adjustments, and increases in retirement ages) to more fundamental changes that would add a defined contribution (DC) plan or DC features to the primary plan structure. This could be done by integrating DB and DC plans in a hybrid arrangement. Alternatively, a DC plan could replace the DB plan as the primary plan, typically for new hires.

Pension reform discussions revolve not only around the financial condition of public sector DB plans and risk-sharing between the public employer and employee, but also the nature of public sector employment, its employment patterns, and employee characteristics and preferences.

Through analysis of a recent survey initiative, this report examines the characteristics, preferences, and employment experience of full-time state and local government workers, as well as their retirement planning and saving decisions and confidence in their retirement income prospects. It updates information from the *2012 Retirement Confidence Survey of the State and Local Government Workforce*.[13]

Public Sector Employees and Employment

There are significant shares of both short- and long-tenured employees in the state and local government sector. Approximately one-third of public sector employees have been with their current employer for less than 10 years and one-third for 20 years or longer (Table 1). These proportions hold for K-12 teachers, but police and firefighters (also referred to as public safety officers in this report) tend to have longer tenure. Almost one-half (47 percent) of police and firefighters have been with their current employer for 20 years or longer; 5 percent have less than 5 years of tenure compared with 16 percent of K-12 teachers.

Table 1
Tenure with Current Employer Among State and Local Government Employees, 2014

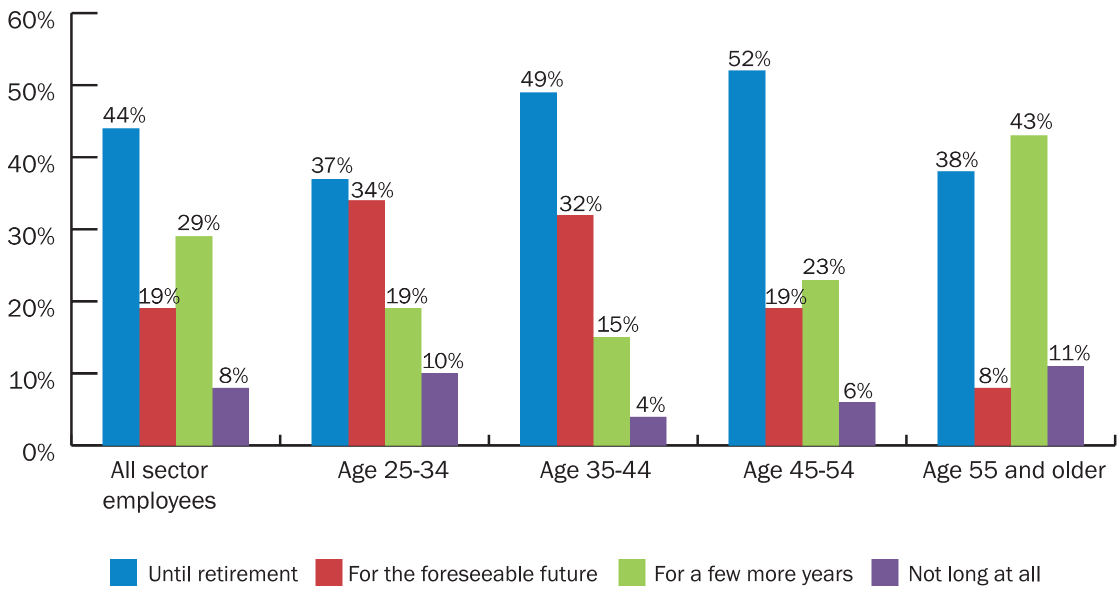
	All State and Local Employees		K-12 Teachers		Police/Firefighters	
	With current employer	In public sector	With current employer	In public sector	With current employer	In public sector
Less than 5 years	14%	8%	16%	7%	5%	2%
5 to 9 years	20	16	17	11	13	9
10 to 14 years	18	18	19	20	20	18
15 to 19 years	17	17	14	15	15	12
20 to 24 years	13	15	14	17	19	19
25 years or more	19	27	20	30	28	40
Median (in years)	14	16	14	18	18	21

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2014)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Many state and local government workers have been previously employed in the sector. While median tenure with current employer is 14 years,[14] median tenure in public sector employment is 16 years (Table 1). While 32 percent of public sector workers have been with their current employer for 20 years or longer, 42 percent have been in the public sector for 20 years or longer. The same phenomenon is observed among K-12 teachers and police and firefighters. Thirty-four percent of teachers have been with their current employer for 20 years or longer, while 47 percent have been employed in the public sector for 20 years or longer. The analogous figures for public safety officers are 47 percent and 59 percent, respectively.

Looking to the future, two-thirds of state and local government employees do not expect to leave their current employer anytime soon, while one-third expects to remain for a few more years at most. Forty-four percent expect to work for their current employer until they retire and 19 percent for the foreseeable future, while 29 percent expect to remain a few more years and 8 percent for not long at all (Figure 1). Even among the youngest sector employees (ages 25-34), significant proportions expect to remain with their current employer either for the foreseeable future (34 percent) or until retirement (37 percent). The share expecting to remain until retirement increases with age, reaching 52 percent among those ages 45-54. Among K-12 teachers, 19 percent expect to remain for the foreseeable future and 46 percent until they retire. The figures for public safety officers are 10 percent and 50 percent, respectively.

Figure 1
Expected Future Tenure with Current Employer Among State and Local Government Employees, 2014

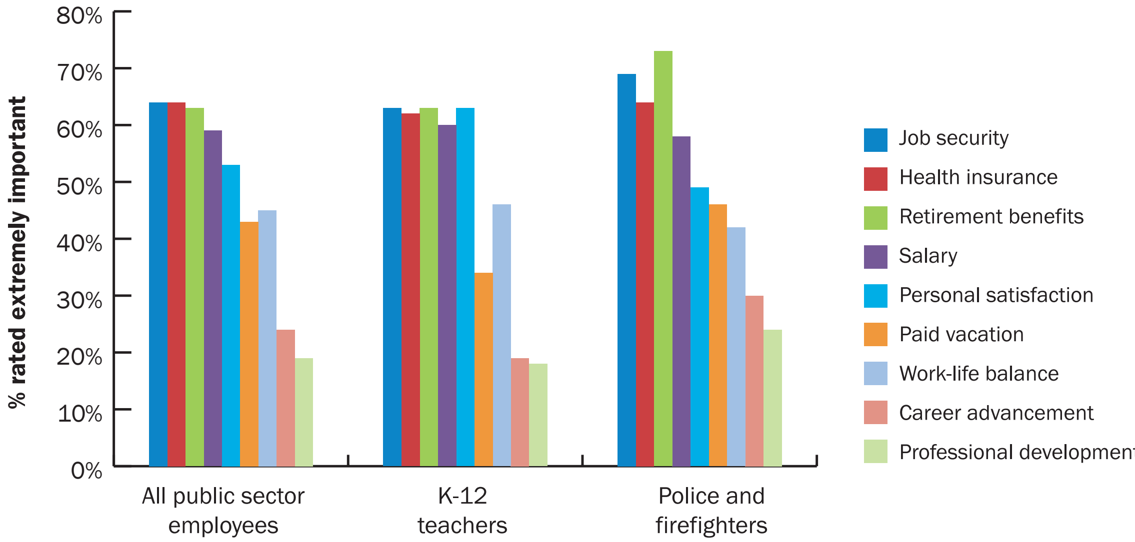


Source: *Retirement Confidence Survey of the State and Local Government Workforce (2014)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Most of those expecting to leave their current employer in the near future also expect to leave public sector employment; only 29 percent expect to move to another public sector job. The figures for K-12 teachers and public safety officers are 35 percent and 29 percent, respectively. In contrast, however, more than one-half (55 percent) of those aged 25-44 expect to move to another public sector employer.

The strong attachment of public sector workers to public sector employment raises the question of what they value in their jobs. Survey respondents were asked how important various job features and characteristics would be in considering whether to change employers and move to a new job. The top factors—job security (rated as extremely important by 64 percent), health insurance (64 percent), retirement benefits (63 percent), and salary (59 percent)—are clearly related to financial security, with retirement benefits just as important as any other job element (Figure 2). Personal satisfaction in the importance of the work (53 percent) ranked below this group, followed by work-life balance (45 percent), paid vacation days (43 percent), and, finally, opportunities for career advancement (24 percent) and professional development (19 percent).[15]

Figure 2
Importance of Job Features and Characteristics Among State and Local Government Employees, 2014



Source: *Retirement Confidence Survey of the State and Local Government Workforce (2014)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Retirement benefits are notably more important to public safety officers, 73 percent of whom rated it extremely important (10 percentage points higher than among all sector employees). Personal satisfaction in the purpose of the work is just as important as any other job feature among K-12 teachers with 63 percent rating it extremely important (10 percentage points higher than among all sector employees). Paid vacation days are less important to teachers compared with others. Career advancement opportunities are less important to teachers, but more important to police and firefighters, relative to public sector employees in general. A larger share of public safety officers also rate professional development opportunities and job security as extremely important.

In summary, state and local government employees exhibit strong attachment to their current employer, as well as to public sector employment in general. Furthermore, job security and the compensation package would be very important if considering a change in employers; retirement benefits would be just as important as salary and health benefits. A potential explanation for such preferences is that public sector employees tend to be relatively risk-averse.

A series of questions gauging risk aversion was included in the survey.[16] This allows a risk aversion index to be calculated on a scale of 0 (most-risk averse) to 100 (least risk-averse). The vast majority of full-time public sector workers fell in the risk averse range of the scale (Table 2); 40 percent had an index of 0 to 10 (high risk aversion), 30 percent had an index of 10 to 20, and 21 percent were in the 20 to 33 range (moderate risk aversion). At older ages, there was a shift of public sector workers from moderate risk aversion to high risk aversion. Risk aversion levels for K-12 teachers and public safety officers generally mirror those of all sector employees.

Table 2
Relative Risk Aversion Among State and Local Government Employees, 2014

	All State and Local Employees	Ages 25-44	Ages 45-54	Ages 55 and older
Risk Aversion Index				
0 to 10 (high risk aversion)	40%	29%	44%	44%
10 to 20	30	35	29	29
20 to 33 (moderate risk aversion)	21	28	17	19
33 to 50	5	5	5	5
50 to 75	2	1	3	2
75 to 100 (low risk aversion)	2	2	2	3

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2014)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

By comparison, tabulations of the 1994 Health and Retirement Study (HRS) found that 46 percent of all full-time employees age 55 and older fell in the high risk aversion category (0 to 10), 16 percent in the 10 to 20 range, 16 percent in the 20 to 33 range, and 22 percent in the lower risk aversion ranges (33 to 100). On net, public sector workers appear somewhat more risk-averse as a group than private sector workers.[17]

Expectations for Retirement

The typical age (i.e., median age) at which state and local government workers would like to retire is 61; among teachers and public safety officers, the preferred retirement ages are 60 and 58, respectively. The age at which public sector workers actually expect to retire is a bit older, however, at 64 years. Age 63 is the norm expectation among K-12 teachers; age 60 is the norm among public safety officers. For those with Social Security coverage, the typical expectation is to retire at age 65, while those without coverage expect to retire at 62.

One in five (20 percent) public sector workers has experienced a change in the past year regarding when they expect to retire; among these, 76 percent now expect to retire at an older age. There are several reasons for these changes in expectations, ranging from cost of living concerns to health care expenses to benefit changes (Table 3). Among those ages 55 and older, 26 percent changed the age at which they expect to retire, compared with 15-17 percent of younger cohorts. This is likely a result of the variation in time horizons until retirement across these groups.

Table 3
Reason for Changes in Expected Retirement Age Among State and Local Government Employees, 2014

Can't afford to retire when originally expected	30%
Cost of living in retirement higher than expected	21
Health care costs	18
Expect Social Security to be reduced	15
Pension and/or Social Security age changed	12
Change in employment situation	10

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2014)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

One-half of state and local government employees (49 percent) think they will work for pay after retiring; this includes 58 percent of teachers and 53 percent of police and firefighters. Among those expecting to work in retirement, 62 percent will do so to stay active and involved; 49 percent want the money to buy extras; 33 percent want to keep health insurance; 30 percent will need the money to make ends meet; 28 percent enjoy working; and 11 percent want to try a new career. This expectation of continued work is not surprising given that the majority of public employees are knowledge workers who, in general, want to work beyond normal retirement ages.[18] Also, with many governments reducing retiree health care benefits, it follows that many would want to work to maintain health insurance coverage.[19]

Public sector workers expect to receive income during retirement from a range of sources (Table 4). Most (74 percent) state and local employees expect that a defined benefit pension will be a major source of retirement income, as do 87 percent of police and firefighters and 74 percent of teachers. Conversely, only 29 percent of sector employees expect Social Security to be a major source of income in retirement, including 14 percent of public safety officers and 22 percent of K-12 teachers. This expectation aligns with the survey finding that 20 percent of public sector workers, 28 percent of teachers, and 46 percent of police and firefighters are not currently covered by Social Security.

Table 4
Expected Sources of Retirement Income Among State and Local Government Employees, 2014

	Major Source	Minor Source	Not a Source
Traditional defined benefit pension plan			
All state and local employees	74%	18%	8%
K-12 Teachers	74	20	7
Police and Firefighters	87	8	5
Defined contribution plan			
All state and local employees	24	30	45
K-12 Teachers	23	29	49
Police and Firefighters	24	33	43
Other personal savings, such as IRAs, mutual funds, stocks, and CDs			
All state and local employees	32	54	14
K-12 Teachers	32	56	13
Police and Firefighters	28	60	12
Employment			
All state and local employees	14	64	22
K-12 Teachers	13	68	19
Police and Firefighters	8	64	28
Social Security			
All state and local employees	29	57	14
K-12 Teachers	22	61	17
Police and Firefighters	14	63	23

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2014)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

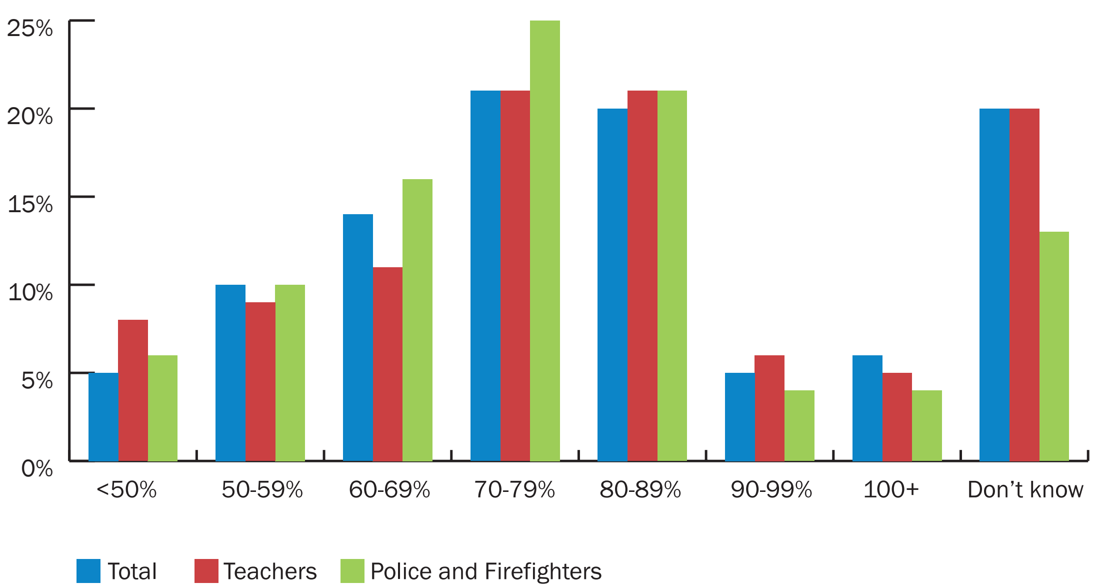
Seventy-nine percent of those ages 55 and older expect a defined benefit pension to be a major income source, compared with 74 percent of those ages 45-54 and 67 percent of those ages 25-44. Conversely, 19 percent of those ages 55 and older expect a defined contribution plan to be a major retirement income source, compared with 25 percent and 29 percent of those ages 45-54 and 25-44, respectively. Only 14 percent of all sector employees expect employment in retirement to be a major source of income.

Planning and Preparing for Retirement

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 preretirement income for a comfortable retirement. Forty-one percent of public sector workers feel they will need between 70 percent and 90 percent of their household's pre-retirement income each year in retirement in order to live comfortably (Figure 3.) Twenty-nine percent expect to need less than 70 percent and 20 percent simply are not sure how much they will need. Forty-five percent of those ages 55 or older expect to need 70-89 percent of pre-retirement income, compared with 34 percent of those ages 44 or younger. About 15 percent of those 45 and older are not sure of this amount, relative to 31 percent of the younger cohort.

Figure 3
Perceptions of State and Local Government Employees Regarding Income Replacement Needed in Retirement

What percentage of your household's pre-retirement income will you need each year in retirement so that you (and your spouse) can live comfortably?



Source: *Retirement Confidence Survey of the State and Local Government Workforce (2014)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

A related question is whether workers know how much they need to save by the time they retire so that they can live comfortably in retirement. For the majority of public sector workers saving for retirement (57 percent), the answer is "no," given that they have not tried to determine this amount. For retirement savers under the age of 45, 77 percent have not tried to figure out this amount, while only 43 percent of those ages 55 or older have not done so, a difference likely driven by the relative time proximity to retirement. Also, among primary defined benefit plan participants, 51 percent of those currently saving in a supplemental plan or on their own have calculated the amount they will need to accumulate, compared to 26 percent of those not currently saving beyond contributions to a DB plan; this figure is 37 percent among those reporting participation in a primary DC plan or not sure of their primary plan type.

Among public sector workers participating in an employment-based retirement plan, 77 percent identified their main plan as a defined benefit pension, 18 percent as a defined contribution plan, and 5 percent are not sure of the plan type (Table 5). When analyzed by age cohorts, 67 percent of those ages 44 or younger report a DB as their main plan, compared with 79 percent and 83 percent of those ages 45-54 and 55 and older, respectively. The variation between the percentages in Table 5 and the Bureau of Labor Statistics percentages cited earlier in this report might be related to confusion among some workers about how their plan works, as well as some workers with both a DB and DC viewing the DC as their main plan.[20]

Table 5
Main Retirement Plan at Work Among State and Local Government Employees, 2014

	All State and Local Employees	K-12 Teachers	Police and Firefighters
Traditional pension	77%	79%	82%
Defined contribution	18	16	16
Not sure	5	5	2

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2014)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Twenty-five percent of those currently participating in a retirement plan at work report that changes were made to their main retirement plan over the past two years and, looking forward, 25 percent expect (further) changes to be made in the next two years. One-third (31 percent) of those ages 25-44 expect such changes over the next two years, while 22 percent of those ages 45-54 and 24 percent of those ages 55 and older expect changes.

One-third of state and local workers in an employment-based retirement plan report participating in more than one plan; this figure is 24 percent among teachers and 54 percent among police and firefighters. Among those participating in more than one retirement plan, 94 percent are currently contributing to the secondary plan. This level of participation generally holds across occupation and age groups. Also, 70 percent of state and local workers (72 percent of teachers and 74 percent of public safety personnel) have saved for retirement outside of work and Social Security; among these, 87 percent are currently saving outside work. While 61 percent of those under the age of 45 have saved in this manner, 68 percent of those ages 45-54 and 80 percent of those over age 54 have done so.

Converting Retirement Savings to Retirement Income

Providing an adequate and secure income throughout retirement should be the primary focus of a retirement plan; this is how state and local government employees view their defined benefit plans. When DB participants were asked hypothetically whether, if they had the choice, they would choose to receive benefits from their pension plan as a single lump sum payment instead of monthly payments throughout retirement, 86 percent chose monthly payments. Eighty-nine percent of police and firefighters and 83 percent of K-12 teachers preferred monthly payments. Younger DB participants were more likely than their older peers to prefer a lump sum payment, but the vast majority still preferred monthly payments—81 percent of those ages 25-44 compared with 91 percent of those ages 55 and older.

Since the vast majority of state and local government employees are covered by a DB plan, and many are covered by Social Security as well, they likely view their retirement savings as supplementary. But depending upon the income level provided by a pension and Social Security, income from savings may be necessary to fund an individual's desired retirement lifestyle. In this case, some retirement savings should be converted into an income stream for the duration of a retiree's life.

Among retirement savers in the public sector, 21 percent have given a great deal of consideration to how they will manage and draw income from their savings during retirement; 49 percent have considered it somewhat; and 30 percent have hardly done so, if at all (Table 6). Not surprisingly, older workers are more likely to have thought a great deal about converting retirement savings to retirement income. In addition, the percentage who have considered the issue a great deal corresponds very closely with the percentage who have consulted a professional financial advisor about drawing retirement income from retirement savings; this holds across age groups. Among police and firefighters, 79 percent of savers have considered the issue at least somewhat; the analogous figure for K-12 teachers is 69 percent.

Table 6
Converting Assets to Income Among Retirement Savers in the State and Local Government Workforce, 2014

	All State and Local Employees	Age		
		25-44	45-54	55 and older
To what extent have you considered how you will manage your savings in retirement and draw income from it?				
A great deal	21%	9%	18%	31%
Somewhat	49	41	52	51
Hardly or not at all	30	50	30	17
Within the past three years, have you received advice from a professional financial advisor regarding how to draw income from your savings once you retire?				
Yes	22%	9%	20%	34%
How confident are you that you will choose the best way to draw income from your savings during retirement?				
Very confident	24%	13%	26%	29%
Somewhat confident	57	59	56	57
Not too/not at all confident	19	27	18	15
How confident are you that you will not outlive your savings?				
Very confident	16%	9%	15%	21%
Somewhat confident	54	52	53	56
Not too/not at all confident	31	39	32	24
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	18%	13%	18%	20%
No	26	17	24	34
Don't know/refused	56	69	57	46

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2014)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Among savers ages 55 and older, there is a strong correlation in the aggregate between confidence in choosing the best way to draw income from savings during retirement and having thought about it a great deal (Table 6). Thirty-one percent have thought about it a great deal and 29 percent are very confident; 17 percent have hardly if at all thought about it and 15 percent are not confident. This correlation breaks down among younger savers. For example, while 50 percent of savers ages 25-44 have hardly if at all thought about converting retirement savings to retirement income, only 27 percent are not confident that they will choose the best strategy to do so.

Paradoxically, there is some disconnect between confidence in choosing the best way to draw income from savings during retirement and confidence that an individual will not outlive his or her savings. This is true even among older savers—29 percent are very confident that they will choose the best strategy, but only 21 percent are very confident that they will not run out of money, and while 15 percent are not confident that they will choose the best strategy, 24 percent are not confident that they will not run out of money. There is, however, an aggregate-level correlation between confidence in not outliving savings and intent to annuitize, as 20 percent of those ages 55 and older think that they will convert some or all of their savings into a payout annuity to help cover living expenses in retirement. 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.

It's notable that almost one-half (46 percent) of those ages 55 and older do not know whether they will annuitize any assets. Managing assets during retirement is inherently complicated by uncertainty, including uncertainty regarding future investment returns across different asset classes and uncertainty regarding how long an individual will live. In fact, "living too long" may be a concern that leads some individuals to think they may outlive their savings even if they make good decisions in managing it. Current life expectancy for an individual reaching age 65 is age 84. Thirty-three percent of public sector employees have no expectation for how long they will live, 23 percent expect to die by age 84, 44 percent expect to live until at least age 85, and 25 percent till at least age 90.

Retirement Planning Advice

Thirty-eight percent of retirement savers in the public sector workforce have received retirement planning advice from a professional financial advisor within the past three years (Table 7). Older savers are more likely to have received advice: 47 percent of those ages 55 and older compared with 30 percent of those ages 25-44. Forty-four percent of retirement savers among both K-12 teachers and public safety officers have recently received advice. The topics most commonly covered by the advice were how much to save and how to invest. Not surprisingly, older individuals were more likely to receive advice on when they can afford to retire and on drawing income from savings during retirement.

Table 7
Retirement Planning Advice for State and Local Government Workers, 2014

	All State and Local Employees	Age		
		25-44	45-54	55 and older
Received retirement planning advice within the past three years (among retirement savers)	38%	30%	35%	47%
Received advice regarding…?				
How much to save	72%	69%	75%	72%
How to invest savings	89	86	91	90
When can afford to retire	66	42	67	76
How to draw income from savings in retirement	58	31	57	72

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2014)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

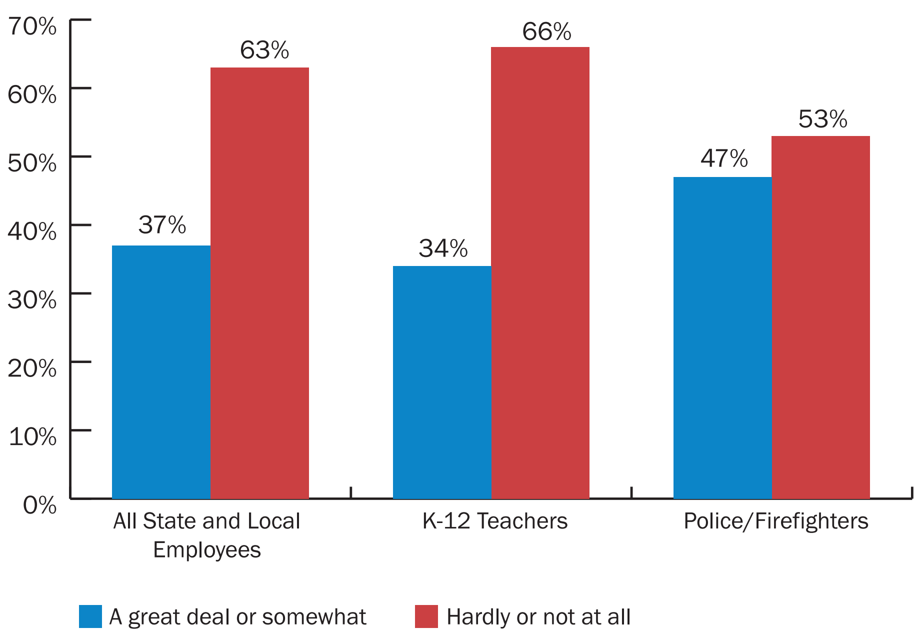
Advice received is not necessarily advice followed, however. More than one-half (54 percent) of those receiving advice on how much to save were told to save more; the rest were advised to make no changes. Twenty-five percent of those advised to save more did not change their savings rate; 26 percent increased their savings to the recommended amount; and 49 percent increased their savings some, but not all the way to the recommended amount. Older individuals were the most likely to increase their savings—79 percent compared with 69 percent of those age 25-44. Among those who received investment advice, 24 percent followed all of it and 46 percent followed most of it, while 28 percent followed some and 3 percent none of it. Those ages 45-54 were most likely to follow all the investment advice—31 percent compared with 22 percent of those ages 55 and older and 16 percent of those ages 25-44.

Retiree Health Care

Two-thirds (65 percent) of state and local workers expect to receive retiree health benefits in retirement from an employer; 62 percent of teachers and 71 percent of public safety officers expect to receive such benefits. One-third (33 percent) of those expecting retiree health benefits report that changes have been made to their benefits within the past two years, with 37 percent of teachers and 40 percent of public safety officers reporting changes. Looking forward, 34 percent of those expecting retiree health benefits (41 percent of teachers and 39 percent of public safety officers) expect (additional) changes to their benefits within the next two years. Older workers are more likely to expect change than younger workers: 30 percent of those ages 25-44 expect change compared with 36 percent and 37 percent of those ages 45-54 and 55 and older, respectively.

Regardless of whether workers expect to receive retiree health benefits and whether those benefits change, it is valuable for workers to plan specifically for health expenses in retirement. But the majority of state and local government employees have not planned and saved specifically for medical expenses in retirement that are not covered by insurance or Medicare, such as premiums, deductibles and copayments (Figure 4).

Figure 4
Extent that State and Local Government Employees Have Planned and Saved Specifically for Medical Expenses in Retirement



Source: *Retirement Confidence Survey of the State and Local Government Workforce (2014)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Furthermore, 40 percent of all state and local workers (including 37 percent of teachers and 32 percent of public safety officers) have no feel for how much they will need in total for health care expenses in retirement. A 65-year-old man with median drug expenditures would need $122,000 in savings and a 65-year-old woman with median drug expenditures would need $139,000 for a 90 percent likelihood of having enough money to cover health care expenses in retirement. A couple with median drug expenses would need $255,000 for a 90 percent chance of covering their health care expenses.[21] Beyond the 40 percent who are not sure about how much they will need, 37 percent feel they will need less than $100,000 and 27 percent less than $50,000. It appears that most public sector workers are uninformed about likely levels of retirement health care spending.

Retirement Confidence

An individual's overall confidence in his or her retirement income prospects is likely related to confidence about:

- retirement benefits earned at work,
- benefits from Social Security and Medicare, and
- personal saving and investing.

Employment-based Benefits

State and local government employees have limited confidence about receiving all of the retirement-related benefits that they earn. When asked about their primary retirement plan, 39 percent are very confident that they will receive all earned benefits once they retire, 47 percent are somewhat confident, and 14 percent are not confident (Table 8). One-half of public safety officers are very confident about receiving all earned retirement plan benefits, while one-third of teachers are very confident about doing so. Confidence regarding retiree healthcare benefits is lower: Only 26 percent of public sector employees are very confident about receiving all the retiree health care benefits for which they are eligible once retired. The percentages of public safety officers and K-12 teachers very confident in this regard are 31 percent and 18 percent, respectively. In fact, a greater share of teachers are not confident about their retiree health care benefits than are very confident.

Table 8
Confidence in Retirement-Related Benefits Among State and Local Government Employees, 2014

	All State and Local Employees	Teachers	Police/ Firefighters
How confident are you that you will receive all of the benefits from your (main) retirement plan that you have earned once you retire?			
Very confident	39%	33%	50%
Somewhat confident	47	46	40
Not too confident	11	16	8
Not at all confident	3	5	2
How confident are you that you will receive all of the retiree health care benefits for which you are eligible once you retire?			
Very confident	26%	18%	31%
Somewhat confident	58	59	52
Not too confident	14	18	15
Not at all confident	3	4	2

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2014)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Personal Financial Preparations

Public sector workers tend to be less confident about their personal retirement saving and investing than their employment-based retirement benefits. Seventeen percent (of retirement savers) are very confident that they are saving the right amount and 21 percent are very confident that they are investing their retirement savings appropriately (Table 9). The percentages not confident are greater in both cases: 32 percent are not confident that they are saving the right amount and 21 percent are not confident that they are investing appropriately.

Table 9
Confidence of Retirement Savers Among State and Local Government Employees, 2014

	All State and Local Employees	Teachers	Police/ Firefighters
How confident are you that you... *are saving the right amount for retirement?*			
Very confident	17%	16%	19%
Somewhat confident	50	51	57
Not too confident	24	25	20
Not at all confident	8	8	4
are investing your retirement savings appropriately?			
Very confident	21%	19%	22%
Somewhat confident	58	59	62
Not too confident	18	17	13
Not at all confident	3	5	3

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2014)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Federal Programs

Confidence in federal retirement income security programs is much lower than confidence regarding either employment-based retirement benefits or personal retirement saving. Only 7 percent of state and local government employees are very confident that the Social Security system will continue to provide benefits of at least equal value to the benefits received by retirees today, while 55 percent are not confident (Table 10). The analogous figures regarding confidence about Medicare benefits are 6 percent and 52 percent, respectively. The confidence levels of teachers and public safety officers are essentially the same with regard to both Social Security and Medicare benefits.

Table 10
Confidence in Social Security and Medicare Benefits Among State and Local Government Employees, 2014

	All State and Local Employees	Teachers	Police/ Firefighters
How confident are you that 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	7%	6%	6%
Somewhat confident	37	35	32
Not too confident	38	39	39
Not at all confident	17	21	23
How confident are you that you that the Medicare system will continue to provide benefits of at least equal value to the benefits received by retirees today?			
Very confident	6%	5%	5%
Somewhat confident	41	37	37
Not too confident	40	43	42
Not at all confident	12	14	16

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2014)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Overall Confidence

Eighteen percent of employees in state and local government are very confident overall that they will have enough money to live comfortably throughout retirement; 56 percent are somewhat confident; 22 percent are not too confident; and 4 percent are not at all confident (Table 11). Police and firefighters tend to be more confident than their public sector peers: 28 percent are very confident and 59 percent are somewhat confident. Fifteen percent of K-12 teachers are very confident about their overall retirement income prospects. While 2014 confidence levels are generally consistent with 2012 levels, there was some decrease in the proportions of sector employees very confident and not at all confident. There was a 7 percentage point shift of K-12 teachers from very confident to somewhat confident.

Table 11
Overall Retirement Income Confidence Among State and Local Government Employees, 2012-2014

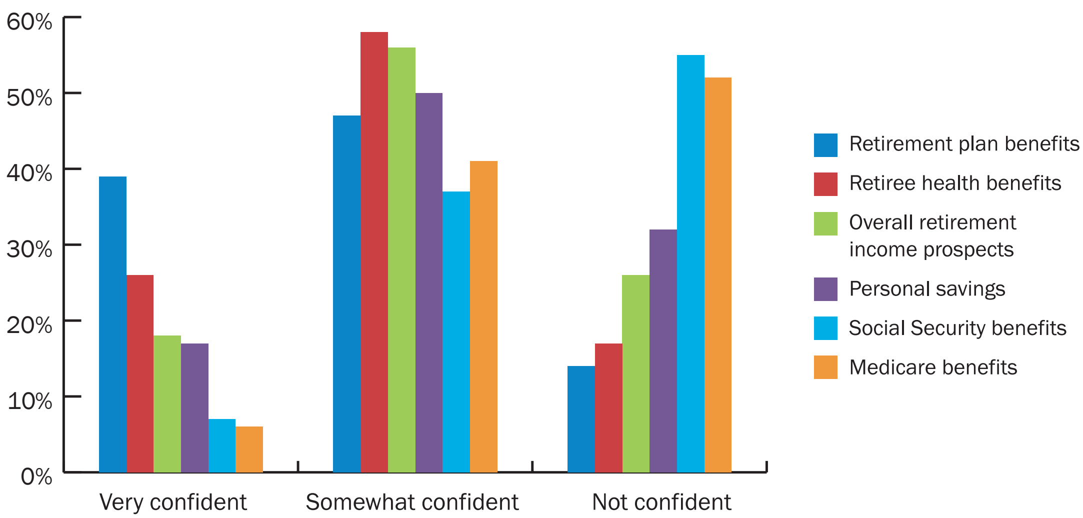
	All State and Local Employees		K-12 Teachers		Police/Firefighters	
Overall, how confident are you that you will have enough money to live comfortably throughout your retirement years?						
	2014	2012	2014	2012	2014	2012
Very confident	18%	21%	15%	22%	28%	29%
Somewhat confident	56	52	58	51	59	54
Not too confident	22	17	22	20	11	11
Not at all confident	4	10	5	7	2	5

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2014)*, TIAA-CREF Institute and the Center for State and Local Government Excellence; *Retirement Confidence Survey of the State and Local Government Workforce (2012)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

State and local government employees were also asked about their confidence in having enough money to take care of medical expenses during retirement. These responses basically mirrored overall retirement income confidence: 15 percent reported being very confident; 58 percent somewhat confident; 22 percent not too confident; and 5 percent not at all confident.

As mentioned above, overall retirement income confidence should be related to confidence about various elements of retirement financial security, such as employment-based benefits, federal programs, and personal preparations. This dynamic is evident with public sector workers. Overall confidence in having enough money to live comfortably throughout retirement falls in the middle range of confidence in these three areas (Figure 5). Overall retirement income confidence falls below confidence regarding retirement-related benefits through work (income and health) and above confidence in personal savings and federal programs (Social Security and Medicare).

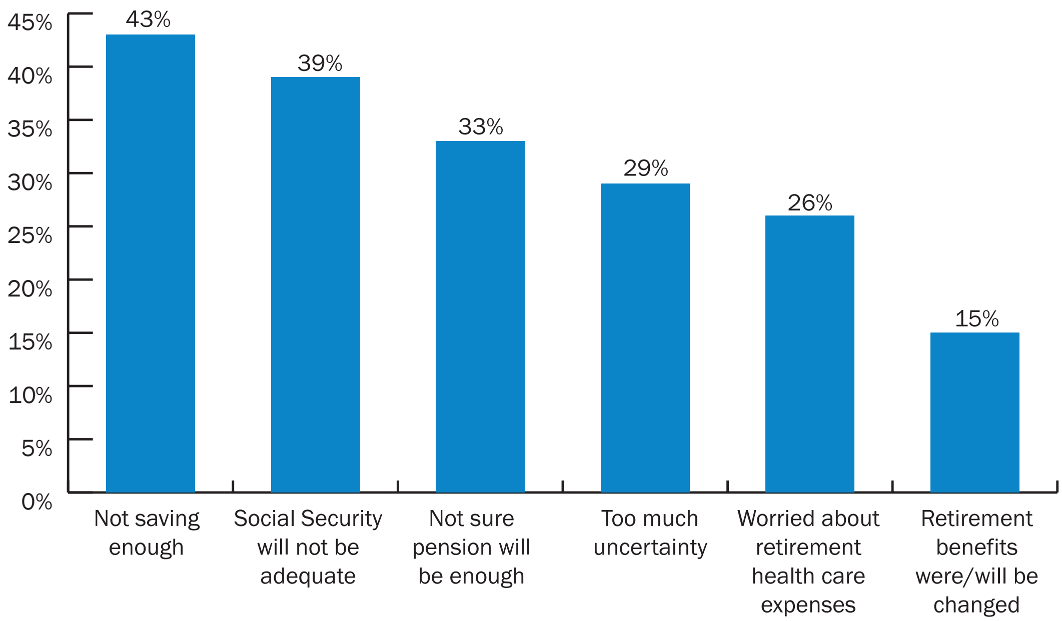
Figure 5
Retirement Confidence Among State and Local Government Employees, 2014



Source: *Retirement Confidence Survey of the State and Local Government Workforce (2014)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Among those confident (very or somewhat) about their overall retirement income prospects, the most common reason given is having an adequate pension when retired (cited by 60 percent). In addition, 44 percent cited saving enough money for retirement as a reason for their confidence.[22] Among those not confident (not too or not at all) about their retirement income prospects, 43 percent cited not saving enough as a reason; 39 percent feel that Social Security will not be adequate; 33 percent are not sure that their pension will be enough; 29 percent feel there is too much uncertainty; 26 percent are worried about health care expenses in retirement; and 15 percent noted that their retirement benefits had been (or would be) changed or reduced (Figure 6).

Figure 6
Reasons for Lack of Confidence in Overall Retirement Income Prospects Among State and Local Government Employees, 2014



Source: *Retirement Confidence Survey of the State and Local Government Workforce (2014)*, TIAA-CREF Institute and the Center for State and Local Government Excellence.

Conclusion

Virtually all full-time state and local government employees are covered by some form of employment-based retirement plan. In 2014, defined benefit pensions remain the primary plan for most of these workers. Nonetheless, the role of defined contribution plans in the public sector is increasing in importance, most often as supplemental savings vehicles but in some cases as the primary retirement plan or part of a hybrid arrangement. Like other sectors of the economy, states and localities continue to face the residual effects of the 2008-2009 recession and are adapting to longer-term, structural fiscal challenges. Within this setting, almost all state governments and many local governments have reformed their retirement plans, often affecting plan generosity, eligibility, and sometimes plan type. Public sector employees are concerned about the status of their employment-based plans, as well as Social Security and Medicare and even their personal savings. The latter is more directly under their control. As state and local governments continue to focus on pension reform and begin to provide pay increases again, public sector employees could focus on “reform” of their personal planning and saving for retirement.

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Notes

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1. The Federal government employs 2.7 million workers, which represents an additional 2 percent of the U.S. workforce. This report focuses specifically on state and local government employees.
2. Source: Current Employment Statistics, Bureau of Labor Statistics, U.S. Department of Labor. Data is May 2014 seasonally adjusted employment on nonfarm payrolls.
3. Source: *State and Local Government Workforce: 2014 Trends,* Center for State and Local Government Excellence, International Public Management Association for Human Resources, and National Association of State Personnel Executives (May 2014).
4. Source: National Center for Education Statistics, Institute of Education Sciences, U.S. Department of Education.
5. Source: Occupational Employment Statistics, Bureau of Labor Statistics, U.S. Department of Labor.
6. Source: Mayer, Gerald. *Selected Characteristics of Private and Public Sector Workers,* Congressional Research Service (March 21, 2014).
7. Source: *National Compensation Survey: Employee Benefits in the United States, March 2013,* Bureau of Labor Statistics, U.S. Department of Labor, Bulletin 2776 (September 2013).
8. In addition, 36 percent of full-time state and local government employees have access to a defined contribution (DC) plan and 17 percent are DC participants according to BLS data.
9. Source: Munnell, Alicia H., Jean-Pierre Aubry, and Mark Cafarelli. *The Funding of State and Local Pensions: 2013–2017,* Center for State and Local Government Excellence *Issue Brief* (June 2014).
10. This funded ratio is based on liabilities discounted by the expected long-term yield on plan assets. The average assumption used by public funds was roughly 7.7 percent in 2013 according to the National Association of State Retirement Administrators.
11. The annual required contribution (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 for accrued unfunded liabilities which can arise due to benefit changes, differences between previous actuarial assumptions and realized experience, and differences between past contributions and estimated required contributions.
12. Based on a range of research from the National Association of State Retirement Administrators, Center for State and Local Government Excellence, and National Conference of State Legislatures (2014).
13. A representative sample of 1,263 full-time state and local government employees was surveyed by an online panel in April 2014 by Mathew Greenwald & Associates; 507 were K-12 teachers, 153 police officers, 102 firefighters, and 501 were in other occupations. Responses were weighted to be representative of the aggregate public sector workforce. 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 & Associates (MGA).
14. Median tenure figures reported by the Bureau of Labor Statistics are lower—7.8 years for public sector employees in 2012, 6.4 years for state employees, 8.1 years for local employees, and 9.5 years for federal employees. (See: "Employee Tenure Summary," Bureau of Labor Statistics *Economic News Release,* September 18, 2012.) Several factors contribute to the differences in reported tenure. The Current Population Survey (source of the BLS data) includes workers 16 and older, as well as part-time workers. The survey data in this report is for full-time workers, age 25 and older. Both differences would make tenure reported here greater than BLS reported tenure. In addition, the CPS specifically asks about continuous employment with current employer, while this report's survey asks about employment with current employer. This would make this report's figures higher since some workers leave and subsequently return to a given employer.
15. These findings dovetail with the findings of the 2008 Center for State and Local Government Excellence survey report "Security: What Americans Want from a Job."
16. These questions were used in the 1994 wave of the University of Michigan Health and Retirement Study (HRS).
17. The HRS surveys individuals age 50 and older, so comparisons with younger age ranges are not feasible. Sector of employment was not asked in the 1994 HRS.
18. *The Economist*. "A billion shades of grey." April 26, 2014.

19. Franzel, Joshua and Alex Brown. "Spotlight on Retiree Health Care Benefits for State Employees in 2013." Center for State and Local Government Excellence and National Association of State Retirement Administrators. June 18, 2013.

20. See Figure 1 of http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2014/06/preparing-for-retirement-top-findings-from-a-survey-of-public-workers-on-retirement-benefits

21. See Fronstin, Paul, Dallas Salisbury and Jack VanDerhei. "Amount of Savings Needed for Health Expenses for People Eligible for Medicare: More Rare Good News." EBRI *Notes*, vol. 34, no. 10 (October 2013).

22. Survey respondents were provided a list of reasons for being confident or not confident in their overall retirement income prospects and instructed to select no more than two.