

# 2016 Retirement Confidence Survey of the State and Local Government Workforce

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## Executive Summary

This report examines the employment and retirement planning and saving experiences of state and local government workers, as well as their confidence in their retirement income prospects. The findings include:

- 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. Approximately two-thirds do not expect to leave their current employer anytime soon.
- Health insurance, retirement benefits, job security and salary are the most important job elements they would consider in deciding whether to switch employers.
- The vast majority are covered by a primary defined benefit pension plan; almost 20 percent of these workers reported changes to these benefits over the past two years.
- Two-thirds expect to receive retiree healthcare benefits from an employer when they retire; among these, one-quarter reported changes to their benefits over the past two years.
- The typical state and local employee would like to retire at age 62, but expects to retire at 65.
- 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.
- Forty-four percent are very confident that they will receive all of the retirement plan benefits they have earned and 44% are somewhat confident. The analogous figures for retiree healthcare benefits are 30% and 54%, respectively. Their confidence in future Social Security and Medicare benefits is lower.
- About 20 percent are very confident that they are saving and investing appropriately for retirement, with approximately 55 percent somewhat confident in their savings and investing.

## Introduction

State and local governments employ a significant share of the U.S. workforce—14.2 million individuals at the local level and 5.1 million among the states, representing 10 percent and 4 percent, respectively, of the U.S. workforce.<sup>1,2</sup> Seventy-seven percent of state and local governments hired employees in 2016, which continued an upward trend from 27 percent in 2013 to 66 percent in 2014 to 73 percent in 2015.<sup>3</sup>

The public sector employs individuals across a broad range of occupations, and the education level of sector workers is relatively high. There are over 3 million public school teachers in the U.S.,<sup>4</sup> and approximately 300,000 firefighters and 700,000 police officers are employed by state and local governments.<sup>5</sup> In 2016, 58 percent of state workers and 52 percent of local government employees have a bachelor's, advanced or professional degree, compared with 32 percent of private sector workers.<sup>6</sup>

A defining characteristic of public sector employment has traditionally been retirement plan coverage, usually 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; 93 percent have access to a DB plan.<sup>7</sup> Eighty-nine percent of full-time public sector employees participate in a plan; 82 percent participate in a DB plan.<sup>8</sup>

The funding of public sector DB plans has been an issue for many states and localities since the 2001 and later 2007-2009 recessions. Among DB plans sponsored by state and local governments, the estimated aggregate ratio of assets to liabilities in fiscal year 2015 was 74 percent under traditional GASB rules and 72 percent under the new GASB 67 rules which went into effect in 2014.<sup>9,10</sup> The Actuarially Determined Employer Contribution (ADEC) was estimated to be 18.6 percent of payrolls in 2015 and the estimated share of ADEC paid was 91 percent.<sup>11</sup>

Budgetary pressures, evolving workforce demographics and preferences, and longer-term retirement plan cost and benefit trends have led almost all state<sup>12</sup> 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. The latter could be done by integrating DB and DC plan elements in a hybrid arrangement. Alternatively, a DC plan could replace the DB plan as the primary plan, typically for new hires.

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Pension reform discussions are motivated by more than the financial condition of public sector DB plans and risk sharing between employers and employees, however. Those discussions also involve the nature of public sector employment, its employment patterns, and employee characteristics and preferences.

This report is the continuation of a survey initiative—*The Retirement Confidence Survey of the State and Local Government Workforce*—that 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 and 2014 editions of the survey.<sup>13</sup>

## Survey Results

### 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 somewhat longer tenure. Almost 40 percent of police and firefighters have been with their current employer for 20 years or longer; 8 percent have less than 5 years of tenure, compared with 16 percent of all public sector employees.

**Table 1: Tenure Levels Among State and Local Government Employees, 2016**

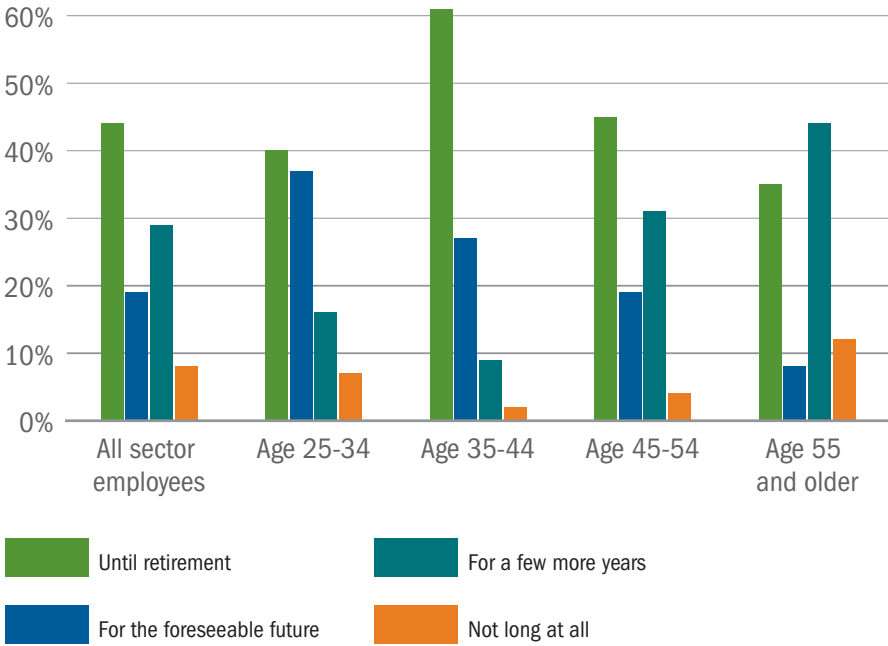
	All public sector employees		K-12 teachers		Police and firefighters	
	With current employer	In public sector	With current employer	In public sector	With current employer	In public sector
Less than 5 years	16%	9%	16%	6%	8%	6%
5 to 9 years	16	14	15	13	19	9
10 to 14 years	18	16	19	16	15	14
15 to 19 years	18	19	18	20	19	15
20 to 24 years	13	14	14	18	15	18
25 years or more	19	27	18	27	24	37
Median (in years)	14	17	14	18	16	20

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2016)*, TIAA 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,<sup>14</sup> median tenure in public sector employment is 17 years (Table 1). While 32 percent of public sector workers have been with their current employer for 20 years or longer, 41 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-two percent of teachers have been with their current employer for 20 years or longer, while 45 percent have been employed in the public sector for 20 years or longer. The analogous figures for public safety officers are 39 percent and 55 percent, respectively.

Looking to their future, 44 percent of state and local government employees do not expect to leave their current employer until retirement and 19 percent do not expect to leave for the foreseeable future; at the same time, 37 percent expect to remain for a few more years at most (Figure 1). Even among the sector’s youngest employees (ages 25-34), significant proportions expect to remain with their current employer until retirement (40 percent) or for the foreseeable future (37 percent). Among those ages 45-54, 45 percent expect to remain until retirement, and 19 percent for the foreseeable future. Among K-12 teachers, 44 percent expect to remain until they retire, and 21 percent expect to remain for the foreseeable future. The analogous figures for public safety officers are 42 percent and 12 percent, respectively.

**Figure 1: Expected Future Tenure with Current Employer Among State and Local Government Employees, 2016**

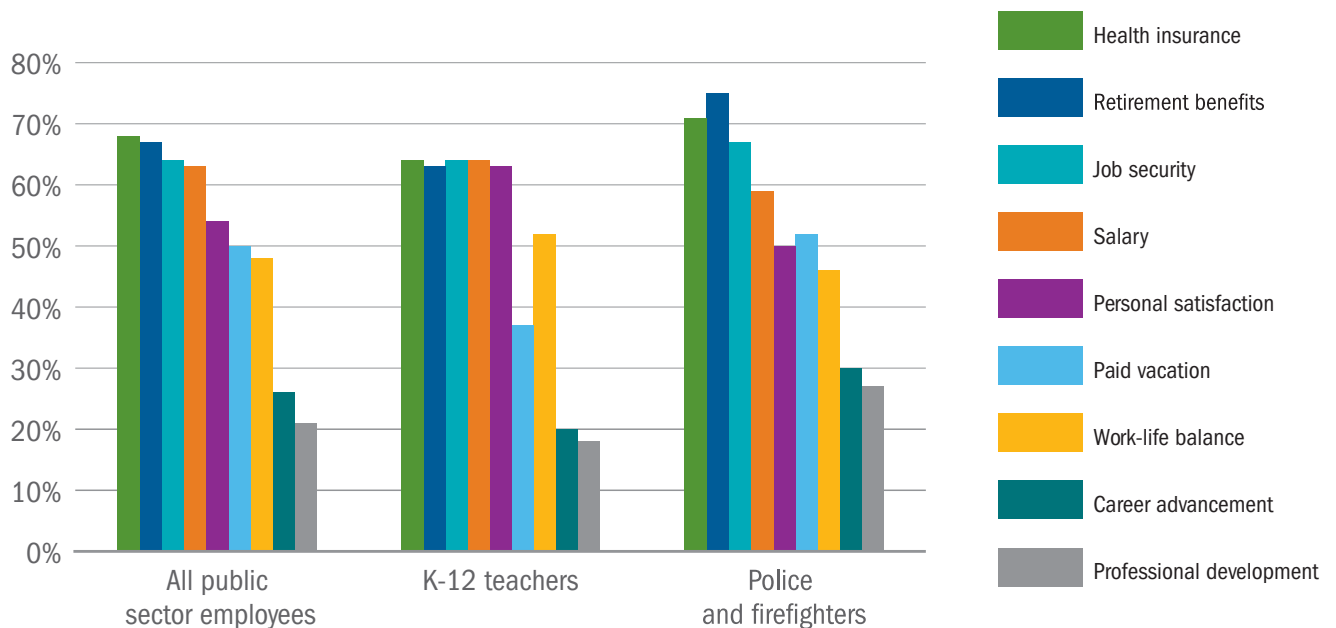


Source: Retirement Confidence Survey of the State and Local Government Workforce (2016), TIAA Institute and the Center for State and Local Government Excellence.

Most of those expecting to leave their current employer in the near future also expect to leave public sector employment; only 23 percent expect to move to another public sector job. The figures for K-12 teachers and public safety officers are 24 percent and 26 percent, respectively. An exception, however, is those age 25-44, 68 percent of whom 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 were health insurance (rated as extremely important by 68 percent) and retirement benefits (67 percent), followed closely by job security (64 percent) and salary (63 percent). All four are clearly related to financial security, with retirement benefits being just as important as any other job element (Figure 2). Personal satisfaction in the importance of the work (54 percent) ranked below this group, followed by paid vacation days (50 percent), work-life balance (48 percent) and then opportunities for career advancement (26 percent) and professional development (21 percent).

**Figure 2: Importance of Job Features and Characteristics Among State and Local Government Employees, 2016**



Source: Retirement Confidence Survey of the State and Local Government Workforce (2016), TIAA Institute and the Center for State and Local Government Excellence.

Retirement benefits are more important among public safety officers, 75 percent of whom rated it extremely important. 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 (9 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 all sector employees. 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 and to public sector employment in general. Furthermore, job security and the compensation package would be very important if considering a change in employers, with retirement benefits being of equal importance to salary and health benefits.

## Expectations for Retirement

In the wake of the recent recession, many state and local government workers, especially those that were/are retirement-eligible, adjusted the timing of their retirement, with most choosing to work longer.<sup>15</sup> With the passage of time, however, fewer public sector workers expect to delay their retirement.

In 2016, the median expected age of retirement among state and local workers was 65, with public safety officers expecting to retire at a somewhat younger age of 60. Overall, the expected age of retirement is similar for younger cohorts (age 25-44) and older cohorts (age 55 and older). There is a noticeable contrast between expected retirement age and preferred retirement age; the median age at which public sector employees would like to retire is 62, with teachers at age 60 and public safety officers at 58. Interestingly, when looking at preferred retirement age, by current age ranges, those 25-44 and 45-54 would like to retire at an average age of 60, while those 55 and older would like to retire at 65.

Over the past year, approximately 1 in 5 state and local workers have altered the age at which they expect to retire (17 percent of all state and local workers; 20 percent of teachers; and 18 percent of public safety officers). This was the case for approximately 20 percent of those over the age of 44, relative to 12 percent of those 25-44. Among those whose expected retirement age changed, 81 percent reported an older age. At the same time, a quarter of those 55 and older now expect to retire sooner. The top drivers for an older expected retirement age were not being able to afford to retire when expected and cost of living considerations, including health costs (Table 2).

**Table 2: Reasons for an Increase in Expected Retirement Age Among State and Local Government Employees, 2016**

Can't afford to retire when originally expected	38%
Cost of living is higher than expected	32
Healthcare costs	26
Personal finance challenges	18
Retirement age changed for Social Security or retirement plan	15
Need to support family members	13
Expect Social Security benefits to be reduced	13
Employment situation has changed	9

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2016)*, TIAA Institute and the Center for State and Local Government Excellence.

Social Security coverage matters for changes in an employee's expected retirement age. Among public sector workers whose expected retirement age changed, 88 percent of those not covered by Social Security expect to work longer, compared to 78 percent of those with coverage. Among those expecting to work longer, cost of living considerations are more common among those without Social Security coverage. Thirty-nine percent of those without Social Security say they cannot afford to retire when originally expected and 33 percent cite high cost of living concerns. The analogous figures for those with Social Security coverage are 28 percent and 23 percent, respectively. Also, 27 percent of those without Social Security cite health care concerns, 10 percentage points higher than those with Social Security coverage.

Approximately one-half of state and local workers (49 percent of all; 53 percent of teachers; 58 percent of police and firefighters) expect to work in retirement. Fifty-one percent and 56 percent of those age 25-44 and 45-54, respectively, expect to do so, compared with 41 percent of those 55 and older. Major reasons cited for expected work in retirement include:

- Staying active and involved (56 percent)
- Wanting money to buy extras (49 percent)
- Needing to make ends meet (35 percent)
- Keeping health insurance or benefits (33 percent)
- Enjoying working (25 percent)
- Wanting to try a different career (11 percent)



Whether or not public sector employees intend to work in retirement, it is important to understand the importance of retirement income sources upon which they will depend (Table 3). Seventy-five percent of state and local workers expect a defined benefit pension to be a major source of retirement income, with Social Security and personal savings also expected to be key sources. It is noteworthy that close to one-quarter (23 percent) of public safety officers do not expect to receive Social Security income, relative to 15 percent of all public sector workers. The percentage of those who do not expect to receive income from Social Security aligns with the share of state and local workers who do not participate in Social Security<sup>16</sup> and the percentage that do not have payroll taxes currently deducted from their paychecks (21 percent of all; 27 percent of teachers; 37 percent of police and firefighters).

**Table 3: Expected Sources of Retirement Income Among State and Local Government Employees, 2016**

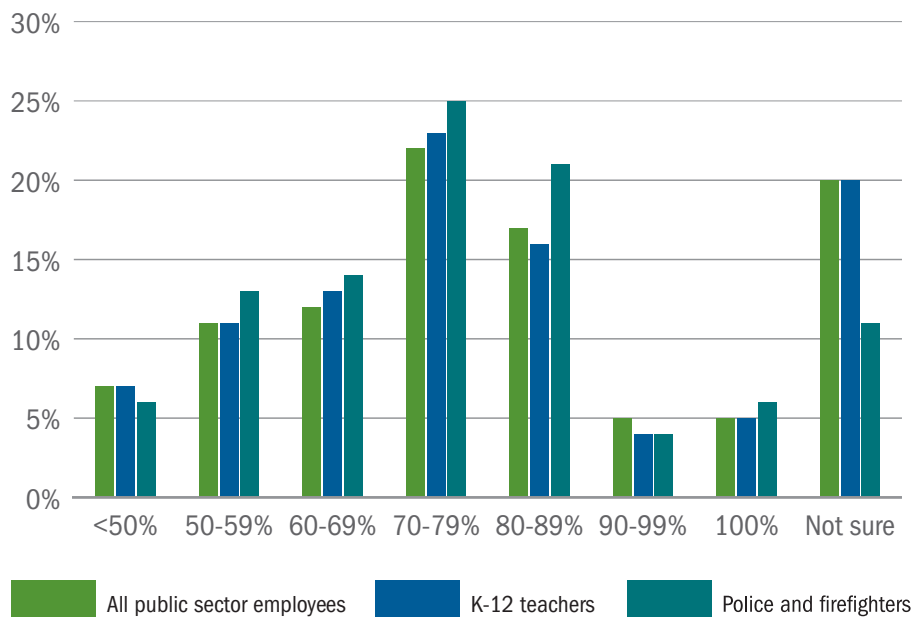
	Major source	Minor source	Not a source
<b>Traditional defined benefit pension plan</b>			
All state and local employees	75%	18%	8%
K-12 teachers	78	16	6
Police and firefighters	85	11	4
<b>Defined contribution plan</b>			
All state and local employees	24	30	46
K-12 teachers	23	27	50
Police and firefighters	26	35	39
<b>Other personal savings, such as IRAs, mutual funds, stocks, and CDs</b>			
All state and local employees	28	56	16
K-12 teachers	28	60	13
Police and firefighters	20	65	15
<b>Employment</b>			
All state and local employees	13	64	23
K-12 teachers	12	67	21
Police and firefighters	13	65	22
<b>Social Security</b>			
All state and local employees	28	57	15
K-12 teachers	24	58	18
Police and firefighters	14	63	23

Source: Retirement Confidence Survey of the State and Local Government Workforce (2016), TIAA Institute and the Center for State and Local Government Excellence.

## Planning and Preparing for Retirement

The underlying economic climate and increasing lifespans, among a host of other considerations, affect opinions of how much working income one needs to replace in retirement. Among public sector workers, the largest cohort (22 percent) believes they need to replace 70-79 percent of their total pre-retirement income to live comfortably in retirement (Figure 3). Another sizable percentage (17 percent) of public workers expects to need to replace 80-89 percent.

**Figure 3: Perceptions Regarding Income Replacement Needed in Retirement Among State and Local Government Employees, 2016**



Source: *Retirement Confidence Survey of the State and Local Government Workforce (2016)*, TIAA Institute and the Center for State and Local Government Excellence.

Also of note, 20 percent of all state and local workers, 20 percent of teachers, and 11 percent of public safety officers are not sure how much of their in service income they will need to replace for a comfortable retirement. Thirty-one percent of those age 25-44, 18 percent of those 45-54, and 12 percent of those 55 and older are not sure. This may be linked to the finding that less than one-half of all state and local workers (43 percent), teachers (43 percent) and police and firefighters (48 percent) have tried to figure out how much money they will need to save to live comfortably in retirement. Seventy-one percent of those younger than age 45 have not calculated this amount, relative to 44 percent of those older than 54.

Almost all public sector workers participate in employer-sponsored retirement plans: 95 percent of all sector workers; 94 percent of teachers; 97 percent of police and firefighters. While less than one-third (31 percent) of state and local workers participating in a plan participate in more than one plan (including 26 percent of teachers), almost one-half (49 percent) of police and firefighters participate in multiple plans. Almost all (93 percent) public sector workers participating in multiple plans are currently contributing money to their secondary plan.

Survey responses about the types of plans in which public sector workers participate align closely with the BLS data referenced earlier. Sixty-nine percent of all sector workers, 71 percent of teachers, and 72 percent of public safety officers have a traditional defined benefit (DB) plan as their main retirement plan. By age range, 61 percent of public employees ages 25-44 have a DB plan at work, relative to 70 percent of those 45-54 and 76 percent of those 55 and older. Less than one-fifth of sector employees (17 percent of all; 16 percent of teachers; 14 percent of police and firefighters) have a defined contribution (DC) plan as their main plan. Nine percent of public sector workers have a main plan that combines DB and DC features; 14 percent of those age 25-44 and 6 percent among older age ranges.

Since 2009, almost all states and many local governments have reformed their retirement plans.<sup>17</sup> In recent years, the pace of reforms has slowed.<sup>18</sup> This slowdown is reflected in that only 18 percent of public sector workers (18 percent of teachers and 17 percent of public safety officers) reported that their main retirement plan changed in the previous 2 years. Looking ahead, approximately one-quarter of the public sector (23 percent of all employees; 26 percent of teachers; 23 percent of public safety officers) thinks that changes will be made to their main retirement plan over the next two years. Seventeen percent of those 55 and older anticipate changes, while 26 percent and 27 percent of those 25-44 and 45-54, respectively, also do.

While employment-based retirement structures are integral to providing public workers with income once they are out of public service, many (59 percent) have personally saved funds for retirement at a previous job or outside of employment. There is variation in such saving across age cohorts. Among workers age 25-44, 53 percent have done so, compared with 57 percent of those 45-54 and 65 percent of those 55 and older. Of those who have saved outside of their current employment-based retirement plan, 76 percent continue to do 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 if, given the hypothetical choice, they would choose to receive benefits from their pension plan as a single lump sum instead of monthly payments throughout retirement, 86 percent chose monthly payments. Eighty-eight percent of K-12 teachers and 85 percent of police and firefighters preferred monthly payments.

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 supplemental. But depending on the income level provided by a pension and Social Security, income from savings may be necessary to fund an individual's desired lifestyle during retirement. In this case, it would be appropriate to convert some retirement savings into an income stream for the duration of a retiree's life.

Among public sector employees saving for retirement, 19 percent have given a great deal of consideration to how they will manage and draw income from their savings during retirement; 51 percent have considered it somewhat; and 30 percent have hardly done so, if at all (Table 4). Among police and firefighters, 75 percent of savers have considered the issue at least somewhat; the analogous figure for K-12 teachers is 63 percent.

**Table 4: Converting Assets to Income Among Retirement Savers in the State and Local Government Workforce, 2016**

	Those saving for retirement	Age		
		25-44	45-54	55+
<i>To what extent have you considered how you will manage your savings in retirement and draw income from it?</i>				
A great deal	19%	14%	16%	25%
Somewhat	51	43	51	59
Hardly or not at all	30	43	33	16
<i>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?</i>				
Yes	21%	13%	17%	32%
<i>How confident are you that you will choose the best way to draw income from your savings during retirement?</i>				
Very confident	21%	18%	14%	30%
Somewhat confident	61	62	64	58
Not too/not at all confident	18	21	22	13
<i>How confident are you that you will not outlive your savings?</i>				
Very confident	16%	12%	15%	20%
Somewhat confident	53	50	51	57
Not too/not at all confident	31	38	34	23
<i>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?</i>				
Yes	22%	23%	22%	21%
No	27	19	24	35
Not sure	51	57	54	44

Source: Retirement Confidence Survey of the State and Local Government Workforce (2016), TIAA Institute and the Center for State and Local Government Excellence.

Not surprisingly, savers age 55 or older are more likely to have thought a great deal about converting retirement savings to retirement income (Table 4). In addition, 32 percent of those age 55 or older have received professional advice about drawing retirement income from retirement savings, and this figure corresponds with the percentage very confident that they will choose the best way to draw income from savings during retirement (30%). Paradoxically, however, there is some disconnect between confidence in choosing the best way to draw income from savings and confidence that an individual will not outlive his or her savings, as only 20 percent of those age 55 or older are very 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 21 percent of savers age 55 or 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 consistent level of income throughout retirement, no matter how long he or she lives. So it is noteworthy that 44 percent of those aged 55 or 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-five percent of public sector employees have no expectation for how long they will live, 24 percent expect to die by age 84, 41 percent expect to live till at least age 85, and 24 percent till at least age 90.

## Retirement Planning Advice

Among public sector employees saving for retirement, 40 percent have received retirement planning advice from a professional financial advisor within the past three years (Table 5). Older savers are more likely to have received advice: 48 percent of those aged 55 or older compared with 36 percent of those age 25-44 and 35 percent of those age 45-54. Forty-five percent of retirement savers among K-12 teachers and 41 percent among public safety officers have recently received professional advice. The issues most commonly addressed with an advisor 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 5: Retirement Planning Advice for Retirement Savers in the State and Local Government Workforce, 2016**

	Those saving for retirement	Age		
		25-44	45-54	55+
Received retirement planning advice within the past three years (among retirement savers)	40%	36%	35%	48%
<b>Received advice regarding...?</b>				
How much to save	74	82	73	69
How to invest savings	88	91	87	87
When can afford to retire	61	54	53	71
How to draw income from savings in retirement	53	35	48	67

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2016)*, TIAA Institute and the Center for State and Local Government Excellence.

Advice impacted worker decisions. Fifty-three percent of those receiving advice on how much to save were told to save more, and 87 percent of these increased their savings—30 percent to the recommended amount and 57 percent some, but not all, of the way to the recommended amount. Among those who received investment advice, 24 percent followed all of it, and 53 percent followed most of it, while 20 percent followed some and 2 percent none of it.

### Retiree Health Care

In addition to income from DB or DC retirement plans, many public sector employees (63 percent of all; 60 percent of teachers; 67 percent of public safety officers) expect to receive retiree healthcare benefits from an employer.

One-quarter of state and local workers reported that their retiree health benefits have been changed over the past two years, and 35 percent expect (more) changes over the next two years. A large majority of public sector workers (over 80 percent) are very or somewhat confident that they will receive all of the retiree health care benefits for which they are eligible once they retire (Table 6).

**Table 6: Confidence in Retiree Health Care Benefits Among State and Local Government Employees, 2016**

	All public sector employees	K-12 teachers	Police and firefighters
<i>How confident are you that you will receive all of the retiree healthcare benefits for which you are eligible?</i>			
Very confident	30%	22%	35%
Somewhat confident	54	59	48
Not too confident	14	18	15
Not at all confident	2	2	1

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2016)*, TIAA Institute and the Center for State and Local Government Excellence.

The confidence that public employees have in their retiree health benefits may impact the extent to which they have specifically planned and saved for medical expenses in retirement that are not covered by retiree health insurance or Medicare. Fifty-nine percent of public sector workers, including 62 percent of teachers and 54 percent of police and firefighters, have not or have hardly planned and saved for such expenses. Two-thirds of 25-44 year olds have not or have hardly planned and saved for healthcare expenses in retirement, relative to 47 percent of those over 54. Forty percent of state and local government workers are not sure how much they will need for healthcare costs in retirement.

## 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,
- Social Security and Medicare,
- personal saving and investing.

## Employment-based benefits

There is limited confidence among state and local government employees in receiving all retirement-related benefits that they earn. When asked about their primary retirement plan, 44 percent are very confident that they will receive all earned benefits once they retire, 44 percent are somewhat confident, and 11 percent are not confident (Table 7). Fifty-three percent of public safety officers are very confident about receiving all earned retirement plan benefits, while 36 percent of K-12 teachers are very confident of doing so.

**Table 7: Confidence in Retirement-related Benefits Among State and Local Government Employees, 2016**

	All public sector employees	K-12 teachers	Police and firefighters
<i>How confident are you that you will receive all of the benefits from your (main) retirement plan that you have earned once you retire?</i>			
Very confident	44%	36%	53%
Somewhat confident	44	49	35
Not too confident	10	13	9
Not at all confident	2	2	3
<i>How confident are you that you will receive all of the retiree healthcare benefits for which you are eligible once you retire?</i>			
Very confident	30%	22%	35%
Somewhat confident	54	59	48
Not too confident	14	18	15
Not at all confident	2	2	1

Source: *Retirement Confidence Survey of the State and Local Government Workforce (2016)*, TIAA Institute and the Center for State and Local Government Excellence.

There is less confidence regarding retiree healthcare benefits; only 30 percent of public sector employees are very confident about receiving all the retiree healthcare benefits for which they are eligible once retired. The percentages of public safety officers and K-12 teachers very confident in this regard are 35 percent and 22 percent, respectively. In fact, the share of teachers not confident about their retiree healthcare benefits is essentially equal to the share that is very confident.



## Personal Financial Preparations

There is less confidence among public sector workers in their personal retirement saving and investing than in their employment-based retirement benefits. In fact, the percentage not confident that they are saving the right amount (29 percent of savers) is greater than the percentage very confident that they are doing so (16 percent) (Table 8). The percentage not confident that they are investing their retirement savings appropriately (20 percent) is essentially equal to the share very confident (22 percent).

**Table 8: Confidence in Retirement Saving Decisions Among State and Local Government Employees, 2016**

	All public sector employees	K-12 teachers	Police and firefighters
<i>How confident are you that you ...are saving the right amount for retirement?</i>			
Very confident	16%	13%	23%
Somewhat confident	55	55	56
Not too confident	22	25	18
Not at all confident	7	7	3
<i>...are investing your retirement savings appropriately?</i>			
Very confident	22%	20%	25%
Somewhat confident	58	58	56
Not too confident	17	20	18
Not at all confident	4	2	2

Source: Retirement Confidence Survey of the State and Local Government Workforce (2016), TIAA Institute and the Center for State and Local Government Excellence.

## Federal Programs

There is much less confidence in federal retirement income security programs than in either employment-based retirement benefits or personal retirement savings. Only 8 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 53 percent are not confident (Table 9). The analogous figures regarding Medicare benefits are 7 percent and 48 percent, respectively.

**Table 9: Confidence in Social Security and Medicare Benefits Among State and Local Government Employees, 2016**

	All public sector employees	K-12 teachers	Police and firefighters
<i>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?</i>			
Very confident	8%	8%	7%
Somewhat confident	39	38	33
Not too confident	37	40	37
Not at all confident	16	14	23
<i>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?</i>			
Very confident	7%	6%	8%
Somewhat confident	45	44	38
Not too confident	36	39	39
Not at all confident	12	11	15

Source: Retirement Confidence Survey of the State and Local Government Workforce (2016), TIAA Institute and the Center for State and Local Government Excellence.

### Overall Confidence

Nineteen percent of state and local government employees are very confident overall that they will have enough money to live comfortably throughout retirement; 57 percent are somewhat confident; 20 percent are not too confident; and 4 percent are not at all confident (Table 10). Police and firefighters tend to be somewhat more confident than their public sector peers; 24 percent are very confident and 59 percent are somewhat confident. Seventeen percent of K-12 teachers are very confident about their overall retirement income prospects.

**Table 10: Overall Retirement Income Confidence Among State and Local Government Employees, 2012-2016**

	All public sector employees			K-12 teachers			Police and firefighters		
<i>Overall, how confident are you that you will have enough money to live comfortably throughout your retirement years?</i>									
	2016	2014	2012	2016	2014	2012	2016	2014	2012
Very confident	19%	18%	21%	17%	15%	22%	24%	28%	29%
Somewhat confident	57	56	52	59	58	51	59	59	54
Not too confident	20	22	17	20	22	20	13	11	11
Not at all confident	4	4	10	3	5	7	3	2	5

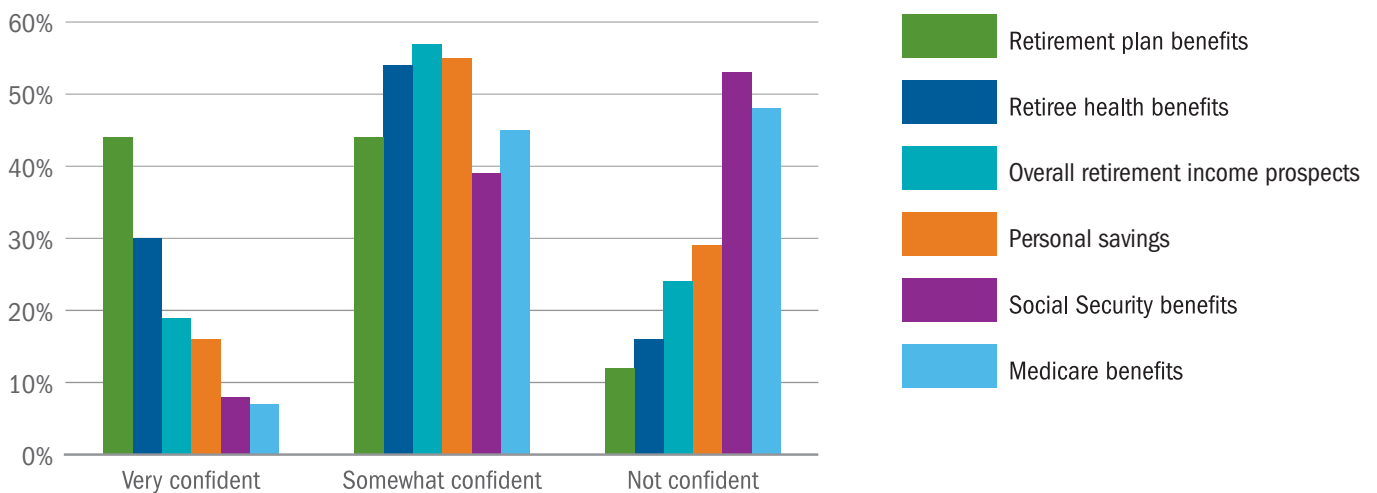
Source: *Retirement Confidence Survey of the State and Local Government Workforce (2012, 2014, 2016)*, TIAA Institute and the Center for State and Local Government Excellence.

Between 2012 and 2016, the share of public sector workers very confident in their overall retirement income prospects is essentially unchanged, and there is a slight uptick in the percentage somewhat confident. The percentage not at all confident has simultaneously dropped 6 percentage points. Teachers and public safety officers both experienced a 5 percentage point drop in the share that are very confident, which was more or less matched by an increase in the share that are somewhat confident.

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: 17 percent reported being very confident, 59 percent somewhat confident, 19 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 is aligned with confidence regarding these elements (Figure 4). Overall retirement income confidence exceeds confidence in personal savings and federal programs (Social Security and Medicare), but falls below confidence in employment-based retirement benefits (income and health).

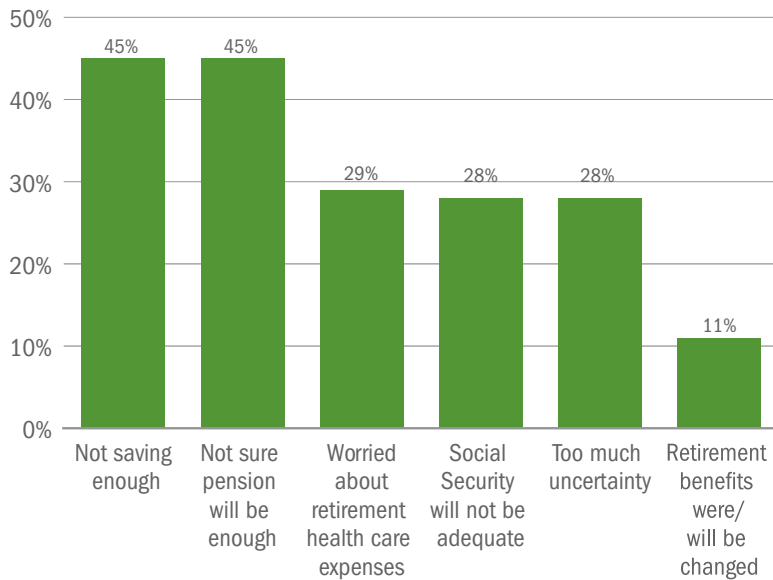
**Figure 4: Retirement Confidence Among State and Local Government Employees, 2016**



Source: Retirement Confidence Survey of the State and Local Government Workforce (2016), TIAA Institute and the Center for State and Local Government Excellence.

Among those very or somewhat confident in their overall retirement income prospects, 60 percent cited having an adequate pension as a reason (Figure 5). In addition, 43 percent reported saving enough money as a reason for their confidence.<sup>19</sup> Among those not too or not at all confident about their retirement income prospects, 45 percent cited not saving enough as a reason. In addition, 45 percent are not sure that their pension will be enough; this latter response is 12 percentage points higher than in 2014. In addition, 29 percent of those not confident are worried about healthcare expenses in retirement, 28 percent feel that Social Security will not be adequate (an 11 percentage-point decrease from 2014), 28 percent feel there is too much uncertainty, and 11 percent noted that their retirement benefits had been (or would be) changed or reduced.

**Figure 5: Reasons for Lack of Overall Retirement Income Confidence Among State and Local Government Employees, 2016**



Source: *Retirement Confidence Survey of the State and Local Government Workforce (2016)*, TIAA 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, with defined benefit pensions being the primary plan for most. With that said, the role of defined contribution plans in the public sector is increasing, most often providing a supplemental savings option, but in some cases serving as the primary retirement plan or part of a hybrid arrangement. As states and localities move on from the residual effects of the 2001 and 2007-2009 recessions, they are adapting to longer-term, structural fiscal challenges. Within this setting, almost all state governments and many local governments have reformed their retirement plans in recent years, often affecting eligibility, benefit levels and sometimes the 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 saving and investing for retirement. As state and local governments continue to focus on pension and retiree healthcare reforms, public sector employees are likely to increase their focus on “reform” of their personal retirement planning and saving.

## Endnotes

1. The Federal government employs 2.8 million workers, which represent 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 June 2016 seasonally adjusted employment on nonfarm payrolls.
3. Source: *State and Local Government Workforce: 2016 Trends*, Center for State and Local Government Excellence, International Public Management Association for Human Resources, and National Association of State Personnel Executives (May 2016).
4. Source: National Center for Education Statistics, Institute of Education Sciences, U.S. Department of Education. (<http://nces.ed.gov/fastfacts/display.asp?id=372>)
5. Source: *Occupational Employment Statistics*, Bureau of Labor Statistics, U.S. Department of Labor.
6. Author analysis of Miriam King, Steven Ruggles, J. Trent Alexander, Sarah Flood, Katie Genadek, Matthew B. Schroeder, Brandon Trampe, and Rebecca Vick. Integrated Public Use Microdata Series, Current Population Survey: Version 3.0. [Machine-readable database]. Minneapolis, MN: Minnesota Population Center [producer and distributor], 2010.
7. Source: *National Compensation Survey: Employee Benefits in the United States, March 2016*, Bureau of Labor Statistics, U.S. Department of Labor, Bulletin 2785 (September 2016). (<http://www.bls.gov/ncs/ebs/benefits/2016/ownership/govt/table02a.htm>)
8. In addition, 37 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. and Jean-Pierre Aubry. *The Funding of State and Local Pensions: 2015–2020*, Center for State and Local Government Excellence *Issue Brief* (June 2016).
10. GASB 67 instituted two major changes in the valuation of assets and liabilities for measuring reported funded ratios. First, assets are reported at market value rather than actuarially smoothed. Second, projected benefit payments are discounted by a combined rate that reflects the expected return for the portion of liabilities projected to be covered by plan assets and the return on high-grade municipal bonds for any portion to be covered by other resources.
11. GASB 67 also replaced the Annual Required Contribution (ARC) with the Actuarially Determined Employer Contribution (ADEC). Both measures are meant to capture the employer's "required contribution" to keep the plan on a path toward full funding, but GASB 67 allows more flexibility in range of allowable assumptions and methods used for the calculation. GASB 67 also allows plans that have a statutory contribution rate to reflect that in their ADEC rather than an actuarially calculated contribution.
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.
13. A representative sample of 1,255 full-time state and local government employees was surveyed by telephone between June 23 and July 7, 2016, by Mathew Greenwald & Associates; 500 were K-12 teachers, 125 police officers, 130 firefighters and 500 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—5.8 years for state employees and 8.3 years for local employees. See: "Employee Tenure Summary," Bureau of Labor Statistics *Economic News Release*, September 22, 2016 (<http://www.bls.gov/news.release/tenure.t05.htm>). Several factors contribute to the differences in reported tenure. The Current Population Survey (source of the BLS data) includes workers age 16 and older, as well as part-time workers, while the 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 also make this report's tenure figures higher since some workers leave and subsequently return to a given employer.

15. See: Center for State and Local Government Excellence, International Public Management Association for Human Resources, and National Association of State Personnel Executives 'State and Local Government Workforce' survey series.
16. See: <http://www.nasra.org/socialsecurity>
17. See: [http://slge.org/wp-content/uploads/2014/04/Effects\\_of\\_Pension\\_Plan\\_Changes\\_on\\_Retirement\\_Security\\_14-380.pdf](http://slge.org/wp-content/uploads/2014/04/Effects_of_Pension_Plan_Changes_on_Retirement_Security_14-380.pdf)
18. See: Center for State and Local Government Excellence, International Public Management Association for Human Resources, and National Association of State Personnel Executives 'State and Local Government Workforce' survey series.
19. 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.

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