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RETIREMENT PROSPECTS AMONG STATE AND LOCAL GOVERNMENT WORKERS: THE 2010 PUBLIC SECTOR RETIREMENT CONFIDENCE SURVEY

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EXECUTIVE SUMMARY

Compared with U.S. workers in general, public sector employees tend to be more confident that they will have enough money to live comfortably throughout retirement. Greater confidence among state and local government workers results, at least in part, from higher participation rates in employment-based retirement plans, especially defined benefit plans. But concern over the fiscal pressures faced by state and local governments and the funding of defined benefit plans could be keeping the confidence gap from being even larger.

State and local government employees are more likely than all workers to be retirement savers, but they are not necessarily better retirement planners. Seventy-four percent of public sector employees are currently saving for retirement compared with 60 percent of U.S. workers. Fifty-one percent of public sector employees have tried to determine how much they need to save by the time they retire to fund a comfortable retirement, only slightly more than the 46% of U.S. workers who have attempted this type of calculation. Those who have tried to determine how much they need to accumulate, however, are more confident that they are saving the right amount compared with those who have not attempted such a calculation.

One-third of public sector employees sought investment advice from a financial advisor within the past year. Confidence in the independence and objectivity of the advice impacted follow-through—36% of those very confident in the advice generally followed all of it; by comparison, 22% of those somewhat confident regarding the advice followed all of it.



INTRODUCTION

This report examines retirement planning and saving among the public sector work force (employees of states, counties, cities, towns and other municipalities) and worker confidence in their retirement income prospects.¹ A representative sample of state and local government employees was surveyed in 2010.²

State and local governments have been bastions of retirement plan sponsorship for their employees. Ninety-nine percent of full-time state and local government employees have access to an employment-based retirement plan and 95% participate in a plan.³ By comparison, 74% of full-time employees in the private sector have access to a retirement plan and 59% participate in a plan. Furthermore, the defined benefit framework dominates retirement plan sponsorship in the public sector—92% of full-time state and local workers have access to a defined benefit plan and 87% are participants, while 34% of full-time public sector employees have access to a defined contribution plan and 20% participate. By comparison, 24% of full-time private-sector employees participate in a defined benefit plan and 51% participate in a defined contribution plan.⁴

Recent economic conditions, however, resulting in decreased tax revenues and increased demands for public services and assistance, have impacted the ability of state and local governments to fully fund sponsored defined benefit plans and amortize investment losses experienced in the financial markets. This in turn has led to a growing discussion of shifting the provision of retirement benefits to the defined contribution model. The proportion of public sector defined benefit plans more than 100% funded was 12% in 2008 compared with 42% in 2000. The proportion of plans that were at least 80% funded was 55% in 2008 compared with 87% in 2000.⁵ Another analysis estimated that 43% of public plans had funding levels of at least 80% in 2009, with 10% funded at 100% or more; at the other end of the spectrum, 11% were funded at less than 60%.⁶

Against this backdrop, the retirement preparations, attitudes and confidence of state and local government employees are examined in this report. 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), and responses from public sector employees are examined relative to the responses of U.S. workers in the aggregate where questions overlap.⁷

RETIREMENT CONFIDENCE

One-third of state and local governments employees are not confident that they will have enough money to live comfortably in retirement — 21% are not too confident in their retirement income prospects and 13% are not at all confident. Twenty-one percent are very confident in their retirement income prospects, while the largest proportion (45%) falls in the middle ground of being somewhat confident. These confidence levels exceed those of U.S. workers in general.

1 States employ 3.8 million full-time and 1.5 million part-time employees; local government employees total 11.0 million full-time and 3.4 million part-time. (*Government Employment and Payroll*, U.S. Census Bureau (<http://www.census.gov/govs/apes/>)).

2 Five-hundred employees in the state and local government sector were surveyed by telephone by Mathew Greenwald & Associates (MGA). Responses were weighted to be representative of those employed by state and local governments in the U.S. Professional employees comprised 30% of the weighted sample, public safety and other service employees comprised 23%, executives and management were 15%, office or administrative support comprised 16%, technical employees were 5% and 10 percent were other staff. Twenty-six percent of the weighted sample worked for state governments, 32% for county governments, 27% for a city, town or village and 14% for some other type of municipality.

3 Among part-time public sector employees, 41% have access to a retirement plan through work and 37% participate in a plan.

4 *Employee Benefits Survey*, Bureau of Labor Statistics, U.S. Department of Labor (http://www.bls.gov/ncs/ebs/benefits/2009/benefits_retirement.htm).

5 See Wisconsin Legislative Council, *2008 Comparative Study of Major Public Employee Retirement Systems* (December 2009 (Revised May 2010)).

6 See Munnell, Alicia H., Jean-Pierre Aubry and Laura Quinby. "The Funding of State and Local Pensions: 2009-2013," Center for State and Local Government Excellence *Issue Brief* (April 2010).

7 Data regarding U.S. workers are from the 2010 *Retirement Confidence Survey*.

Forty-six percent of U.S. workers are not confident in their retirement income prospects, while 16% are very confident. In the public sector, retirement confidence is highest among those in executive and managerial positions and lowest among those in administrative positions. There is no significant difference in confidence levels between those employed by states and those employed by localities.

TABLE 1
RETIREMENT CONFIDENCE AMONG STATE AND LOCAL PUBLIC EMPLOYEES

	VERY CONFIDENT	SOMEWHAT CONFIDENT	NOT TOO CONFIDENT	NOT AT ALL CONFIDENT
<i>How confident are you that you will have enough money to live comfortably throughout retirement?</i>				
Public sector employees	21%	45%	21%	13%
State	22	46	19	11
Local	20	45	21	14
Executive/Managerial	25	59	13	2
Professional/Technical	25	43	21	11
Public Safety/Other Services	24	41	25	10
Administrative Support/Other	11	42	23	23
All U.S. workers	16	38	24	22

Source: *Public Sector Retirement Confidence Survey (2010)*, TIAA-CREF Institute, and *Retirement Confidence Survey (2010)*, Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc.

Greater confidence among public sector workers can certainly be attributed, at least in part, to greater participation rates in employment-based retirement plans. At the same time, with 86% of all state and local government employees (both full-time and part-time) participating in a retirement plan and 79% in a defined benefit pension, it is somewhat surprising that confidence levels among public employees are not higher. This is likely driven to some degree by concern over the fiscal pressures faced by state and local governments, the funding levels of current defined benefit plans, and uncertainty created by growing calls for changes in the design of public sector retirement benefits.

HEALTHCARE IN RETIREMENT

Paying for medical expenses in retirement is a challenge that lowers all workers’ retirement confidence levels, including those of public sector employees. An individual retiring today at age 65 could need \$200,000 or more in savings to pay premiums for insurance to supplement Medicare, as well as to cover co-payments, deductibles and other out-of-pocket expenses throughout retirement.⁸ Among state and local government employees, 22% are very confident that they will have the financial resources to cover medical care in retirement, 41% are somewhat confident, 21% are not too confident and 15% are not at all confident (Table 2). While these figures are lower than confidence in the ability to cover basic expenses in retirement, they mirror overall retirement income confidence levels among the public sector work force.

Public sector employee confidence regarding the ability to afford medical care in retirement exceeds that of all U.S. workers. This is likely driven by the expectation among 59% of state and local government employees, compared with 35% of U.S. workers, that they will receive employer-provided health insurance in retirement. But given that expectation, expressed confidence again appears low and again could likely be traced back to the financial pressures faced by the public sector as it tries to fund such benefits while meeting other obligations.

⁸ Source: Fronstin, Paul, Dallas Salisbury and Jack VanDerhei. “Savings Needed to Fund Health Insurance and Health Care Expenses in Retirement: Findings from a Simulation Model.” EBRI *Issue Brief* no. 317 (May 2008).

TABLE 2
RETIREMENT CONFIDENCE AMONG STATE AND LOCAL PUBLIC EMPLOYEES

	VERY CONFIDENT	SOMEWHAT CONFIDENT	NOT TOO CONFIDENT	NOT AT ALL CONFIDENT
<i>How confident are you that you...</i>				
<i>will have enough money to take care of medical expenses during retirement?</i>				
Public sector employees	22%	41%	21%	15%
Executive/Managerial	33	42	19	6
Professional/Technical	24	44	19	12
Public Safety/Other Services	22	42	19	17
Administrative Support/Other	15	37	27	22
All U.S. workers	12	37	25	26
<i>will have enough money to take care of basic expenses during retirement?</i>				
Public sector employees	35	48	11	6
Executive/Managerial	49	41	9	2
Professional/Technical	37	52	7	3
Public Safety/Other Services	33	53	8	5
Administrative Support/Other	27	42	20	11
All U.S. workers	29	46	13	12
<i>are doing a good job of preparing financially for retirement?</i>				
Public sector employees	25	50	17	7
Executive/Managerial	33	57	8	2
Professional/Technical	29	47	20	4
Public Safety/Other Services	23	50	20	5
Administrative Support/Other	17	52	17	14
All U.S. workers	21	43	19	16

Source: *Public Sector Retirement Confidence Survey (2010)*, TIAA-CREF Institute, and *Retirement Confidence Survey (2010)*, Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc.

WORK AT LATER AGES

Retiring at a later age enhances an individual’s retirement income security through additional years of savings and benefit accumulations, as well as fewer years of retirement that need to be funded. Forty-one percent of state and local government employees expect to retire prior to age 65, compared with 28% of all U.S. workers. Seventeen percent of public sector workers expect to work past age 70 compared with 24% of U.S. workers. About 70% of each group expects to work for pay in some capacity once retired. Financial necessity tends to drive expectations among state and local government workers who see themselves working past what is typically considered a normal retirement age, while personal preference more typically accounts for plans to work once retired. Sixty-two percent of those expecting to retire after age 67 cite financial necessity as the primary reason. Among those expecting to work in retirement, 56% cite personal preference.

PLANNING AND SAVING

State and local government workers are more likely than all U.S. workers to be retirement savers, but they are not necessarily better retirement planners. Eighty-two percent of the public sector work force has saved for retirement, and 90% of these (or 74% of the public work force) are currently saving. By comparison, 60% of U.S. workers are currently saving for retirement (Table 3).

**TABLE 3
RETIREMENT PLANNING AND SAVING AMONG STATE AND LOCAL PUBLIC EMPLOYEES**

	PUBLIC SECTOR	EXECUTIVE/ MANAGERIAL	PROFESSIONAL/ TECHNICAL	PUBLIC SAFETY/ OTHER SERVICES	ADMIN. SUPPORT/ OTHER	U.S. WORKERS
<i>Percentage that...</i>						
have personally saved for retirement	82%	94%	83%	83%	71%	69%
are currently saving for retirement	74	86	76	74	64	60
have tried to determine how much needs to be saved for a comfortable retirement	51	74	54	42	42	46

Source: *Public Sector Retirement Confidence Survey (2010)*, TIAA-CREF Institute, and *Retirement Confidence Survey (2010)*, Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc.

Fifty-one percent of public sector employees have tried to determine how much they need to save by the time they retire to fund a comfortable retirement, only slightly more than the 46% of U.S. workers who have attempted this type of calculation (Table 3). So while the vast majority of state and local government employees are saving for retirement, many appear to be saving without a plan or target. Attempting such a calculation does not necessarily mean that it was done correctly, but it is indicative of an active engagement in financial preparations for retirement.

Among current retirement savers in the public sector, 19% are very confident that they are saving the right amount and 50% are somewhat confident; 23% are not too confident in this regard while 8% are not at all confident (Table 4). But those who have tried to determine how much they need to accumulate are more confident that they are saving the right amount compared with those who have not attempted such a calculation (26% very confident versus 8% very confident, respectively).

TABLE 4
CONFIDENCE AMONG STATE AND LOCAL PUBLIC EMPLOYEES SAVING FOR RETIREMENT

	VERY CONFIDENT	SOMEWHAT CONFIDENT	NOT TOO CONFIDENT	NOT AT ALL CONFIDENT
<i>How confident are you that you...?</i>				
<i>are saving the right amount for retirement</i> (among current savers)	19%	50%	23%	8%
Executive/Managerial	29	48	16	6
Professional/Technical	20	51	22	6
Public Safety/Other Services	16	47	25	12
Administrative Support/Other	11	53	28	8
<i>are investing your retirement savings wisely</i> (among those who have saved)	21	58	14	6
Executive/Managerial	34	49	17	0
Professional/Technical	25	56	11	7
Public Safety/Other Services	16	60	13	8
Administrative Support/Other	11	66	16	7

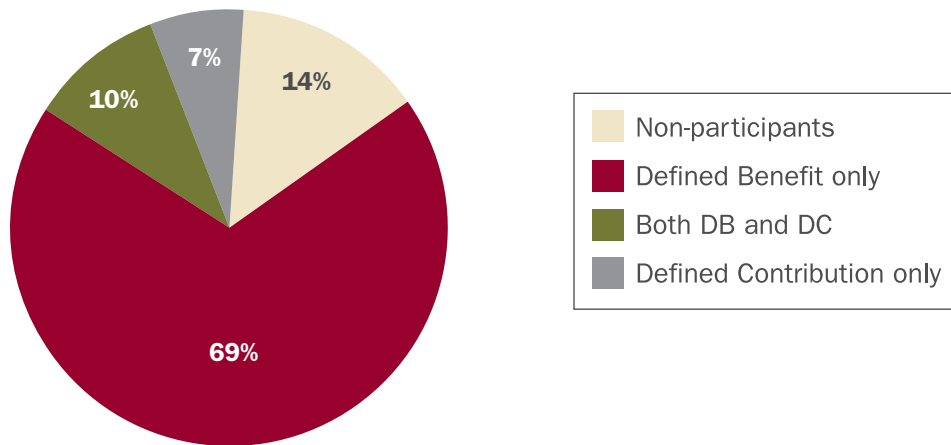
Source: *Public Sector Retirement Confidence Survey (2010)*, TIAA-CREF Institute.

Confidence regarding the investment of retirement savings is somewhat higher—21% of those who have saved are very confident that they are investing their retirement savings wisely, 58 % are somewhat confident, 14% are not too confident and 6% are not at all confident (Table 4). But in comparison to U.S. workers, investment confidence among state and local government employees appears somewhat low; 32% of U.S. workers are very confident that they are investing their retirement savings wisely and 54% are somewhat confident.

RETIREMENT PLANS IN THE PUBLIC SECTOR

As discussed above, the defined benefit model dominates the retirement plan landscape in public sector employment. Eighty-six percent of all state and local government employees (both full-time and part-time) participate in an employment-based retirement plan. Among participants, 92% are in a defined benefit plan and 20% in a defined contribution plan. So when sponsored in the public sector, defined contribution plans tend to supplement a defined benefit plan. Only 7% of state and local government employees participate in a defined contribution plan alone (Figure 1); this represents 8% of all public sector retirement plan participants.

FIGURE 1
RETIREMENT PLAN PARTICIPATION AMONG STATE AND LOCAL PUBLIC EMPLOYEES



Source: *Employee Benefits Survey*, Bureau of Labor Statistics, U.S. Department of Labor.

With regard to an employer-sponsored retirement savings plan, 76% of all state and local government employees rate the financial strength and stability of the company providing investments under the plan as being very important and an additional 19% consider it somewhat important. Fifty-nine percent feel that the availability of objective investment advice through a retirement savings plan is very important and 33% consider it somewhat important.

FINANCIAL KNOWLEDGE AND ADVICE

Survey respondents self-reported their financial knowledge and comfort level given four options (Table 5). Forty-two percent of the state and local government work force is confident making retirement-related financial decisions by themselves after considering information and advice from others. Only 15% are confident going a step further by doing the research and making the decisions on their own. The other most common self-assessment is a preference among 33% to partner with a financial professional in jointly making retirement-related financial decisions. Eight percent feel the need for a financial professional to make such decisions for them.

TABLE 5
FINANCIAL KNOWLEDGE AND COMFORT LEVELS AMONG STATE AND LOCAL PUBLIC EMPLOYEES

	PUBLIC SECTOR	STATE	LOCAL
Confident making financial decisions related to retirement by yourself after considering information and advice from others	42%	36%	45%
Prefer to actively partner with a financial professional to jointly make decisions related to retirement	33	34	33
Confident in your ability to research and make financial decisions related to retirement on your own	15	19	13
Need a financial professional to make such decisions for you	8	10	7

Source: *Public Sector Retirement Confidence Survey (2010)*, TIAA-CREF Institute.

One-third of both state and local government employees (32%) and all U.S. workers (33%) sought investment advice from a financial advisor within the past year. Among those in the public sector seeking such advice, 43% used a financial planner, 35% used an advisor through their employer's retirement plan, 20% used a broker and 10% consulted an insurance agent. Fifty-nine percent are very confident that the advice received was independent and objective and 37% are somewhat confident that this was the case. Thirty percent followed all the advice received, 54% followed most of it, 15% followed some of it and only 1% followed none of it. Confidence in the independence and objectivity of the advice impacts follow-through—36% of those very confident in the advice generally followed all of it and 54% followed most of it; by comparison, 22% of those somewhat confident regarding the advice followed all of it and 54% followed most of it.

CONCLUSION

Public sector employees are more confident than all U.S. workers that they will have enough money to live comfortably throughout retirement. This can likely be attributed to their higher participation rates in employment-based retirement plans, especially defined benefit plans. Given the participation gap, it is somewhat surprising that the confidence gap is not greater; but this may be attributable, at least in part, to concern over the funding levels of public sector pension plans in light of the fiscal pressures currently confronting state and local governments.

Given increasing discussion about transferring more retirement benefit provision in the public sector to defined contribution plans, it is interesting to note what state and local government employees value in an employer-sponsored retirement savings plan—76% rate the financial strength and stability of the company providing investments under such a plan as being very important and an additional 19% consider it somewhat important; 59% feel that the availability of objective investment advice through a retirement savings plan is very important and 33% consider it somewhat important.

ABOUT THE AUTHOR

Paul Yakoboski is a Principal Research Fellow with the TIAA-CREF Institute. He conducts, manages and communicates research on issues such as income and asset management in retirement, defined contribution plan design, the preparation of state and local government faculty for retirement, managing faculty retirement patterns, options for funding retiree healthcare, and research on issues related to strategic management in state and local government. He is also responsible for the development and execution of Institute symposiums on such issues. In addition, Yakoboski serves as director of the Institute's Fellows Program and editor of the Institute's *Trends and Issues* and *Advancing Higher Education* publication series.

Prior to joining the Institute, he held positions as Director of Research for the American Council of Life Insurers (2000 to 2004), Senior Research Associate with the Employee Benefit Research Institute (1991 to 2000) and Senior Economist with the U.S. Government Accountability Office (1989 to 1991). He is a member of the American Economic Association and serves on the editorial advisory board of *Benefits Quarterly*. He previously served as Director of Research for the American Savings Education Council (1995 to 2000). Between 1986 and 1988 he served as an adjunct faculty member at Nazareth College. Yakoboski earned his Ph.D. (1990) and M.A. (1987) in economics from the University of Rochester and his B.S. (1984) in economics from Virginia Tech.