TIAA-CREF institute

TRENDS AND ISSUES

JUNE 2010

RETIREMENT CONFIDENCE ON CAMPUS: THE 2010 HIGHER EDUCATION RETIREMENT CONFIDENCE SURVEY

Paul J. Yakoboski
Principal Research Fellow
TIAA-CREF Institute

EXECUTIVE SUMMARY

The college and university workforce is more confident regarding its prospects for a financially secure retirement than American workers in general. Twenty-six percent of higher education employees are very confident in their retirement income prospects and an additional 54 percent are somewhat. The comparable figures for US workers are 16 percent and 38 percent, respectively.

College and university workers appear to be doing a better job of planning and saving for retirement—95 percent have saved for their retirement and among these, 94 percent are currently saving. In contrast, 60 percent of US workers are currently saving for retirement. Sixty-one percent of the higher education workforce has tried to determine how much they need to accumulate to fund a comfortable retirement, and these individuals have greater confidence that they are saving the right amount.

One-half of college and university employees sought investment advice from a financial advisor within the past year, compared with one-third of all workers. Twenty percent followed all the advice received and 52 percent followed most of it. Confidence in the independence and objectivity of the advice impacts follow-through—among those very confident regarding the advice, 31 percent generally follow all of the advice received, while 7 percent of those somewhat confident in the advice tend to follow all of it.

Among the higher education workforce, self-confidence in future capability to convert savings to retirement income is greater than self-confidence in current capability to save and invest. This perception will likely change as an individual

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moves closer to retirement. Higher education workers are more likely than US workers in general to think that they will annuitize assets in retirement; 25 percent consider it very likely that they will do so compared with 11 percent of all workers.

Defined contribution (DC) plans are prevalent fixtures of the higher education retirement landscape with 77 percent of the workforce currently participating in a DC plan and 84 percent of participants contributing to the plan. This means that 65 percent of college and university employees are saving through a DC plan. While DC participants in higher education feel that they have ready access to information about their plan, they do not feel the same regarding access to quality investment advice through the plan—72 percent strongly agree that they have ready access to plan information, while 37 percent strongly agree that high quality, objective investment advice is available through the plan. Among all higher education employees, 59 percent consider the availability of objective investment advice to be very important in an employer-sponsored plan. Beyond advice, the financial strength and stability of the company providing investments under a plan matters more—85 percent consider it very important.

INTRODUCTION

The college and university workforce (faculty, administrators and other staff) was surveyed by the TIAA-CREF Institute regarding individuals' financial preparations for retirement and confidence in their retirement income prospects. Higher education has been impacted by the same economic forces over that past several years as the economy at large. This has resulted in many of the same types of organizational cost-cutting responses as experienced in other sectors of the economy, including structural reorganizations and staffing reductions. Higher education employees have shared similar experiences with workers in other sectors as balances in retirement accounts fell with the financial markets. At the same time, there are unique elements to working in higher education, at least as a faculty member, in particular, the absence of mandatory retirement in an environment where many have tenure.

Against this backdrop, this report examines the retirement planning, saving and investing behavior of higher education employees, including items such as the use of advice and plans for converting savings to income during retirement. The report also examines self-reported confidence in the higher education workforce across several dimensions of retirement preparations. The underlying survey 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 higher education are examined relative to responses of U.S. workers in the aggregate where questions overlap.[1]

RETIREMENT CONFIDENCE

The higher education community is markedly more confident regarding the prospects for its retirement income security than American workers in general. Twenty-six percent of college and university employees (faculty, administration, and other staff) are very confident that they will have enough money to live comfortably throughout their retirement (table 1). An additional 54 percent are somewhat confident and 17 percent are not confident. By comparison, 16 percent of all U.S. workers are very confident in their retirement income prospects, 38 percent are somewhat confident and 46 percent are not confident.[2]

1 501 individuals working in higher education were surveyed by telephone in 2010 by Mathew Greenwald & Associates (MGA). Survey results are representative of the higher education workforce—faculty, administrators and others employed by colleges and universities in the U.S..

2 In this report, data regarding U.S. workers are from the 2010 *Retirement Confidence Survey*, sponsored by EBRI and conducted by MGA. The demographics of the two populations—U.S. workers and higher education employees—do vary in certain respects. For example, the population of American workers includes the self-employed, homemakers and those currently unemployed or disabled.

TABLE 1
RETIREMENT CONFIDENCE AMONG HIGHER EDUCATION EMPLOYEES

	VERY CONFIDENT	SOMEWHAT CONFIDENT	NOT TOO CONFIDENT	NOT AT ALL CONFIDENT
How confident are you that you will have enough money to live comfortably throughout retirement?				
Higher education employees	26%	54%	12%	5%
Faculty	26	55	11	5
Non-faculty	25	54	16	5
All U.S. workers	16	38	24	22

Source: *Higher Education Retirement Confidence Survey* (2010), TIAA-CREF Institute, and *Retirement Confidence Survey* (2010), Employee Benefit Research Institute.

The higher confidence among college and university workers seems to be well-founded given that they appear to be doing a better job of planning and saving for retirement than U.S. workers in general. As discussed later, workers in higher education are more likely to be saving for retirement and to have tried to determine how much they need to save. Such outcomes can be partly attributed to the demographics of the higher education workforce, which is older, better educated and has higher incomes, on average, than the working population.[3] But in addition, retirement plan coverage is greater in the higher education sector—90 percent of college and university employees report current participation in a retirement plan sponsored by their institution.[4] Also, there are fundamental differences in the design of primary defined contribution plans at many colleges and universities relative to the typical 401k model of the private sector that surely contribute to better relative outcomes.[5]

Nonetheless, a legitimate question is the degree to which professed confidence among the higher education workforce is justified? Just because an individual is saving for retirement, does not mean that the amount being saved is enough. Furthermore, while adequate savings is necessary for an adequate and secure retirement income, it does not guarantee it. That savings must be converted into a retirement income stream that lasts the lifetime of the retiree. These issues are examined further in this report.

HEALTH CARE IN RETIREMENT

Paying for medical expenses in retirement is a challenge that lowers all workers' retirement confidence levels, including that of higher education 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.[6] Among higher education employees, 23 percent are very confident that they will have the financial resources to cover medical care in retirement, 52 percent are somewhat confident and 23 percent not confident (table 2). Again, relative to all U.S. workers, these confidence levels are high.

3 In the survey populations, 57 percent of the higher education workforce is age 55 or older compared with 20 percent of U.S. workers, and 39 percent of the higher education workforce reported total household income of $100,000 or more in 2009 compared with 20 percent of U.S. workers.

4 Fewer than 55 percent of U.S. full-time, full-year wage and salary workers, ages 21–64, participated in a retirement plan in 2008.

5 In higher education primary defined contribution plans, worker participation is often mandatory, with worker and institution contributions set at non-discretionary levels. Along with lump-sums, payout annuities are the norm as a retirement distribution option; such an option is rarely offered in 401(k) plans. For a discussion of typical design features for primary defined contribution plans in the public higher education sector, see Crane, Roderick B., Michael Heller and Paul J. Yakoboski. "Best Practice Benchmarks for Public Sector Core Defined Contribution Plans," TIAA-CREF Institute *Trends and Issues* (July 2008). Also see Biggs, John H. "How TIAA-CREF Funded Plans Differ from a Typical 401(k) Plan," TIAA-CREF Institute *Trends and Issues* (February 2010).

6 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 HIGHER EDUCATION EMPLOYEES

	VERY CONFIDENT	SOMEWHAT CONFIDENT	NOT TOO CONFIDENT	NOT AT ALL CONFIDENT
How confident are you that you...				
will have enough money to take care of basic expenses during retirement?				
Higher education employees	45%	45%	5%	4%
Faculty	47	44	6	3
Non-faculty	39	51	4	6
All U.S. workers	29	46	13	12
are doing a good job of preparing financially for retirement?				
Higher education employees	30	57	8	5
Faculty	30	56	8	4
Non-faculty	29	58	8	5
All U.S. workers	21	43	19	16
will have enough money to take care of medical expenses during retirement?				
Higher education employees	23	52	15	8
Faculty	23	51	16	7
Non-faculty	21	54	12	11
All U.S. workers	12	37	25	26

Source: *Higher Education Retirement Confidence Survey* (2010), TIAA-CREF Institute, and *Retirement Confidence Survey* (2010), Employee Benefit Research Institute.

This higher confidence is likely driven by a greater expectation of having health insurance from a former employer during retirement; 55 percent of college and university employees expect such coverage compared with 35 percent of U.S. workers. While private sector employers have largely stopped sponsoring retiree health insurance for current workers, colleges and universities still tend to provide this benefit, but are examining changes in the structure and funding of such coverage. If individuals feel ill-prepared to address health care needs, many could delay retirement. So any changes by colleges and universities to employer-sponsored retiree health benefits should consider the potential for unintended consequences on institutional efforts to manage retirement patterns.

WORK AT LATER AGES

Retirement at a later age will enhance an individual's retirement income security through additional years of savings and benefit accumulations, as well as through needing to fund fewer years of retirement. Thirty-one percent of higher education employees expect to work till at least age 70, compared with 24 percent of all U.S. workers. This figure is slightly higher for faculty (32 percent) compared with non-faculty (27 percent), but the difference is not statistically significant. Nine percent of U.S. workers do not expect to retire compared with 3 percent of college and university employees. Once retired, 72 percent of higher education employees expect to work for pay in some capacity. Personal preference, as opposed to financial necessity, drives expectations in higher education of both working past what is typically considered a normal retirement age and working in retirement. Sixty-eight percent of those expecting to retire after age 67 cite personal preference as the primary reason. Among those expecting to work in retirement, 77 percent cite personal preference.

PLANNING AND SAVING

College and university workers appear more engaged than U.S. workers in planning and saving for retirement (table 3). Ninety-five percent of higher education employees have saved for their retirement, and 94 percent of these (or 89 percent of the higher education workforce) are currently saving. By comparison, 60 percent of all U.S. workers are currently saving for retirement. Sixty-one percent of college and university employees have tried to determine how much they need to save by the time they retire to fund a comfortable retirement. By comparison, 46 percent of all U.S. workers have attempted this type of calculation. 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.

TABLE 3
RETIREMENT PLANNING AND SAVING AMONG HIGHER EDUCATION EMPLOYEES

	HIGHER ED	FACULTY	NON-FACULTY	U.S. WORKERS
Percentage that...				
have personally saved for retirement	95%	95%	94%	69%
are currently saving for retirement	89	89	89	60
have tried to determine how much needs to be saved for a comfortable retirement	61	63	58	46

Source: *Higher Education Retirement Confidence Survey* (2010), TIAA-CREF Institute, and *Retirement Confidence Survey* (2010), Employee Benefit Research Institute.

Among current retirement savers in higher education, 21 percent are very confident that they are saving the right amount and an additional 59 percent are somewhat confident; 19 percent are not confident in this regard (table 4). Those who have tried to determine how much they need to save are more confident that they are saving the right amount compared with those who have not attempted such a calculation (30 percent very confident versus 7 percent very confident, respectively). Confidence regarding the investment of retirement savings is at similar levels—26 percent of those who have saved are very confident that they are investing their retirement savings wisely and 59 percent are somewhat confident.

Given the nature of the survey underlying this report, it is not possible to evaluate the adequacy of retirement savings among higher education workers and whether confidence levels regarding retirement income prospects are justified. However, recent research by the TIAA-CREF Institute provides evidence of adequate savings among TIAA-CREF participants. The research found that, on average, participants of all ages, tenures, and genders are "on-track" for funding a fixed annuity in retirement that, combined with Social Security, would replace at least 70 percent of pre-retirement income. In many cases, individual savings levels are consistent with providing a higher replacement rate or effectively providing a significant cushion against economic shocks.[7] Further, the research found that higher contribution rates and longer tenure in a plan were the most important factors for increasing the likelihood that a participant is on track to replace a given percentage of pre-retirement income.

7 See Hammond, P. Brett, and David P. Richardson. "Staying on the Path to a Secure Retirement: Using the Asset-Salary Ratio as a Retirement Compass," TIAA-CREF Institute *Research Dialogue* (December 2009). This analysis was based on data from the end of 2007, when equity markets were near all-time highs and many other assets, including bonds, real estate, and other alternatives were providing solid returns.

TABLE 4
RETIREMENT SAVING CONFIDENCE AMONG HIGHER EDUCATION EMPLOYEES

	VERY CONFIDENT	SOMEWHAT CONFIDENT	NOT TOO CONFIDENT	NOT AT ALL CONFIDENT
How confident are you that you...?				
are saving the right amount for retirement (among current savers)	21%	59%	15%	4%
Faculty	22	59	16	5
Non-faculty	20	59	21	7
are investing your retirement savings wisely (among those who have saved)	26	59	11	4
Faculty	25	60	10	4
Non-faculty	29	53	13	4

Source: *Higher Education Retirement Confidence Survey* (2010), TIAA-CREF Institute.

DC PLANS IN HIGHER ED

Both defined benefit (DB) and defined contribution (DC) plans are common in higher education—12 percent of college and university employees report participation in a DB plan only, 47 percent participate in both a DB and a DC, and 31 percent in a DC (one or more) only. An institution can sponsor a DC plan as the primary retirement plan or as a supplemental plan; some institutions will sponsor both a primary and a supplemental DC. The DC is supplemental to a DB for 60 percent of the DC participants in higher education.

Eighty-four percent of higher education DC participants are currently contributing to the plan. This means that 65 percent of college and university employees are saving for retirement through a defined contribution plan. Given that 89 percent of the higher education workforce is currently saving for retirement, 73 percent of savers are doing so through a defined contribution plan.

There are apparent dichotomies in participant perceptions across several plan dimensions. In particular, while participants in higher education feel that they have ready access to information about their plan, they do not feel the same regarding quality investment advice through the plan (table 5). Seventy-two percent of participants strongly agree (and an additional 24 percent somewhat agree) that they have ready access to plan information; by comparison, 37 percent strongly agree that high quality, objective investment advice is available through the plan. Fourteen percent do not feel that such advice is available through their plan. There may be an absence of advice in some plans, but in other cases there is likely a lack of confidence in the advice provided. An identical 37 percent strongly agree and 46 percent somewhat agree that interactions with plan representatives focus on and promote the best interests of the participant, giving support to this latter interpretation.

TABLE 5
DEFINED CONTRIBUTION PLAN SATISFACTION AMONG HIGHER EDUCATION EMPLOYEES

	STRONGLY AGREE	SOMEWHAT AGREE	SOMEWHAT DISAGREE	STRONGLY DISAGREE
Agree or disagree that...				
You have ready access to information regarding the plan	72%	24%	3%	1%
The performance of the company that provides your service is good	48	45	4	1
You understand the fees charged under the plan	41	35	12	6
High quality, objective investment advice is available through the plan	37	46	11	3
Interactions with plan representatives focus on you and promote your best interests	37	46	8	3

Source: *Higher Education Retirement Confidence Survey* (2010), TIAA-CREF Institute.

Among all higher education employees, 59 percent consider the availability of objective investment advice to be very important in an employer-sponsored retirement savings plan, and 32 percent consider it somewhat important. But beyond advice, the financial strength and stability of the company providing investments under a retirement plan matters even more to the higher education workforce—85 percent consider this very important.

FINANCIAL KNOWLEDGE AND ADVICE

Survey respondents self-reported their financial knowledge and comfort level given four options (table 6). Almost one-half (45 percent) of the college and university workforce is confident making retirement-related financial decisions by themselves after considering information and advice from others. Only 16 percent are confident going a step further by doing the research and making the decisions on their own. The second most common self-assessment is a preference among 30 percent 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 6
FINANCIAL KNOWLEDGE AND COMFORT LEVELS AMONG HIGHER EDUCATION EMPLOYEES

	HIGHER EDUCATION	FACULTY	NON-FACULTY
Confident making financial decisions related to retirement by yourself after considering information and advice from others	45%	45%	45%
Prefer to actively partner with a financial professional to jointly make decisions related to retirement	30	29	35
Confident in your ability to research and make financial decisions related to retirement on your own	16	16	16
Need a financial professional to make such decisions for you	8	9	4

Source: *Higher Education Retirement Confidence Survey* (2010), TIAA-CREF Institute.

One-half of higher education employees sought investment advice from a financial advisor within the past year. By comparison, one-third of all U.S. workers consulted with a financial advisor in the past year. Among those in higher education seeking such advice, 48 percent used a financial planner, 39 percent used an advisor through their institution's retirement plan, 18 percent used a broker and 7 percent consulted an insurance agent. Fifty-six percent are very confident that the advice received was independent and objective, and an additional 41 percent are somewhat confident that this was the case. Twenty percent followed all the advice received, 52 percent followed most of it, 24 percent followed some of it and 4 percent followed none of it. Confidence in the independence and objectivity of the advice impacts follow-through—31 percent of those very confident regarding the advice generally followed all of it and 54 percent followed most of it; by comparison, 7 percent of those somewhat confident regarding the advice followed all of it and 51 percent followed most of it.

Recent research focused on near-retirees (age 50-70) in higher education analogously found that receipt of advice did not automatically translate into implementation. While 60 percent of near-retirees reported consulting with a financial advisor regarding their retirement within the past two years, only 17 percent always implemented the recommendations. Trust was an issue for near-retirees as only 25% of those who typically did not implement the recommendations viewed the advice as always being independent and objective.[8]

INCOME IN RETIREMENT

Forty percent of higher education retirement savers are very confident that they will be able to choose the best way to draw income from their savings during retirement, and an additional 51 percent are somewhat confident. This implies that self-confidence in future capability to convert savings to retirement income is greater than self-confidence in current capability to save, i.e. to save the right amount and invest wisely (table 4).

This perception likely changes as an individual moves closer to retirement. In the survey of higher education near-retirees (age 50-70), two-thirds of near-retirees were concerned about outliving their savings and about choosing the best way to draw income from their savings in retirement.[9] Forty percent reported that they did not have a good understanding of the various options available for converting retirement savings into retirement income. Thirty percent have consulted with a financial advisor or other financial professional within the past two years specifically about drawing income from savings during retirement. In addition, strategies for drawing retirement income from savings was one of the two issues on which higher education near-retirees considered it most important to receive advice as they near retirement (strategies in paying for health care was the other); 58 percent rated it very important and almost 30 percent rated it somewhat important.[10]

College and university employees are more likely to think that they will annuitize assets in retirement—25 percent consider it very likely that they will purchase a payout annuity in retirement, compared with 11 percent of U.S. workers. About one-third of each group considers their doing so somewhat likely. In the study of higher education near-retirees, 25 percent intend to annuitize some or all of their retirement savings.[11] Such percentages are high relative to current annuitization rates.[12] Another recent survey by the TIAA-CREF Institute found that 19 percent of retirees with significant DC and IRA accumulations, but insignificant pension income, had annuitized assets in retirement.[13] Few private-sector

8 See Yakoboski, Paul. "The Use and Impact of Advice among Near-Retirees," TIAA-CREF Institute *Trends and Issues* (February 2010).

9 See Yakoboski, Paul. "Converting Assets to Income in Retirement: What Near-Retirees are Thinking," TIAA-CREF Institute *Trends and Issues* (October 2009).

10 Id. at 6.

11 Id. at 7.

12 For a complete discussion regarding the benefits of annuitization and an outline of reasons for low annuitization rates, see Brown, Jeffrey. "A Paycheck for Life: The Role of Annuities in Your Retirement Portfolio," TIAA-CREF Institute *Trends and Issues* (June 2008).

13 To gain deeper insights into the decision-making of retirees regarding the management of their retirement savings and its conversion to income, the TIAA-CREF Institute surveyed individuals who have been retired at least 3 years, are not working for income during retirement, had $200,000 or more in DC and IRA assets at the time of retirement, and have less than $200 per month in defined benefit pension income (over 90 percent of those surveyed have no pension income). See Yakoboski, Paul. "Retirees, Annuitization and Defined Contribution Plans," TIAA-CREF Institute *Trends and Issues* (April 2010).

401(k) plans offer annuitization as a distribution option for retiring participants,[14] while annuitization as a retirement distribution option is common in college and university DC plans.

CONCLUSION

Individuals in the higher education workforce are more likely than U.S. workers, in general, to be saving for retirement, to have calculated how much they need to accumulate, to expect to work till later ages, to have recently received investment advice from a financial advisor, and to think that they will annuitize assets in retirement. Ninety percent of higher education employees report current participation in a retirement plan sponsored by their college or university, and defined contribution plans are prevalent fixtures with 77 percent reporting current participation in a DC plan. Not surprisingly then, higher education workers also have greater relative confidence in their prospects for a financially secure retirement. Affording health care in retirement is a particular area of concern for higher education workers, as it is for all U.S. workers. Forty-five percent of the college and university workforce is confident making retirement-related financial decisions by themselves after considering information and advice from others and 30 percent would prefer to partner with a financial professional in jointly making retirement-related financial decisions. While currently confident in their ability to draw income from savings during retirement, this is likely an issue for which college and university employees will seek advice as their retirement approaches.

14 Twenty-one percent of private-sector plans offer an annuity as a retirement distribution option according to the *2008 Annual Survey of Profit Sharing and 401(k) Plans* (Profit Sharing/401(k) Council of America, 2009).

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 higher education faculty for retirement, managing faculty retirement patterns, options for funding retiree health care, and research on issues related to strategic management in higher education. 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.