

# TRENDS AND ISSUES

AUGUST 2011

## RETIREMENT CONFIDENCE AMONG STATE AND LOCAL GOVERNMENT EMPLOYEES

Paul J. Yakoboski  
Principal Research Fellow  
TIAA-CREF Institute

### EXECUTIVE SUMMARY

The state and local government workforce is more confident regarding its prospects for a financially secure retirement than are American workers in general. Seventeen percent of state and local employees are very confident in their retirement income prospects and 50% are somewhat confident, compared with 13% and 36%, respectively, for U.S. workers. 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 larger.

Greater overall retirement confidence in the state and local government workforce is also consistent with their greater likelihood of saving. Eighty-six percent are currently saving for retirement, compared with 59% of U.S. workers in general. Debt clearly hinders retirement preparations—77% of state and local workers with a major debt problem consider themselves behind in their planning and saving for retirement compared with 37% of those without a debt problem.

Most state and local government employees who have saved for retirement are focused on generating a certain level of retirement income (65%) as opposed to accumulating a certain amount of money (28%). Since most are covered by a defined benefit pension plan through work, they likely view their retirement savings as supplementing that pension income. Depending upon the income generated by their pension plans, income from savings may be necessary to generate an adequate total level of retirement income or the income level necessary to fund the desired retirement lifestyle. Thirty-one percent of those who have saved are very confident that they will choose the best way to draw income from their savings during retirement, but only 20% are very confident that they will not outlive their savings.

One-half of the state and local government workforce has received retirement planning advice from a professional financial advisor within the past three years. Advice regarding asset allocation was the advice most typically received. It was followed by advice on how much to save (70%) and the timing of retirement (59%). Drawing income from savings during retirement (57%) and paying for healthcare expenses in retirement (38%) were covered often as well. Fifty-seven percent are very confident that the advice received was in their best interest.



**INTRODUCTION**

This report examines retirement planning and saving among the state and local government work force (employees of states, counties, cities, towns and other municipalities) and worker confidence in their retirement income prospects.<sup>1</sup> A representative sample of state and local government employees was surveyed in 2011.<sup>2</sup>

State and local governments have been bastions of retirement plan sponsorship for their employees. Ninety-nine percent of full-time state and local government employees have access to an employment-based retirement plan and 94% participate in a plan.<sup>3</sup> 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 33% of full-time public sector employees have access to a defined contribution plan and 19% participate. By comparison, 22% of full-time private-sector employees participate in a defined benefit plan and 50% participate in a defined contribution plan.<sup>4</sup>

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. In fiscal year 2009, the pension systems of 31 states were less than 80% funded, with 10 states dropping below the 80% threshold over the course of the previous year. In the aggregate, state pension systems were approximately 78% funded—down six percentage points from the previous year—with \$2.3 trillion in assets compared with \$2.9 trillion in long-term liabilities.<sup>5</sup>

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.<sup>6</sup>

**RETIREMENT CONFIDENCE**

The state and local government workforce is more confident regarding prospects for its retirement income security than are American workers in general (table 1). Seventeen percent of state and local government employees are very confident that they will have enough money to live comfortably throughout their retirement, 50% are somewhat confident and 33% are not confident. By comparison, 13% of all U.S. workers are very confident in their retirement income prospects, 36% are somewhat confident and 50% are not confident.<sup>7</sup> The percentage of state and local workers “very confident” in their retirement income prospects is slightly lower in 2011 compared with 2010. And local government employees are slightly more likely than state employees to be “very confident” in their retirement income prospects.

1 States employ 3.8 million full-time and 1.5 million part-time employees; local government employees total 11.1 million full-time and 3.4 million part-time. (*Government Employment and Payroll*, U.S. Census Bureau (<http://www.census.gov/govs/apes/>)).

2 One-thousand individuals working in state and local government were surveyed by telephone during February and March 2011 by Mathew Greenwald & Associates (MGA). Responses were weighted to be representative of those employed by state and local governments in the U.S.

3 Among part-time public sector employees, 40% have access to a retirement plan through work and 36% participate in a plan.

4 Source: *National Compensation Survey, March 2010*, Bureau of Labor Statistics, U.S. Department of Labor ([http://www.bls.gov/ncs/ebs/benefits/2010/benefits\\_retirement.htm](http://www.bls.gov/ncs/ebs/benefits/2010/benefits_retirement.htm)).

5 Source: The Pew Center on the States, *The Widening Gap: The Great Recession's Impact on State Pension and Retiree Health Care Costs* (April 2011).

6 Data regarding U.S. workers are from the 2011 *Retirement Confidence Survey*.

7 In this report, data regarding U.S. workers are from the 2011 *Retirement Confidence Survey*, sponsored by EBRI and MGA. The demographics of the two populations—U.S. workers and state and local government 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 STATE AND LOCAL GOVERNMENT EMPLOYEES**

	<b>VERY CONFIDENT</b>	<b>SOMEWHAT CONFIDENT</b>	<b>NOT TOO CONFIDENT</b>	<b>NOT AT ALL CONFIDENT</b>
<i>How confident are you that you will have enough money to live comfortably throughout retirement?</i>				
State and local government employees				
2011	17%	50%	20%	13%
State employees	14	49	24	13
Local govt. employees	18	50	18	13
2010	21	45	21	13
State employees	22	46	19	11
Local govt. employees	20	45	21	14
All U.S. workers				
2011	13	36	23	27
2010	16	38	24	22

Source: *State and Local Government Retirement Confidence Survey (2011)*, TIAA-CREF Institute, and *Retirement Confidence Survey (2011)*, Employee Benefit Research Institute and Mathew Greenwald & Associates.

One-half of state and local government employees think that they will need to replace less than 70% of their preretirement income during each year of retirement in order to live comfortably (table 2). However, it's generally recommended that individuals replace at least 70% of preretirement income. In addition, 6% of the state and local government workforce admits that they do not know how much of their preretirement income they will need to replace in order to live comfortably. Fifty-four percent of state employees and 58% of local government employees admit that they do not know how much preretirement income they need during retirement or think that it is less than 70%. With a low benchmark in mind, or no benchmark at all, individuals may not actually maintain the retirement standard of living that they anticipate.

**TABLE 2**  
**INCOME REPLACEMENT NEEDED DURING RETIREMENT**

	<b>STATE &amp; LOCAL GOVT. EMPLOYEES</b>	<b>STATE EMPLOYEES</b>	<b>LOCAL GOVT. EMPLOYEES</b>
<i>What percentage of preretirement income do you think you will need to replace each year in retirement so that you can live comfortably?</i>			
Less than 50%	15%	16%	15%
50% to 59%	22	18	24
60% to 69%	13	11	14
70% to 79%	20	22	19
80% to 89%	11	13	11
90% to 99%	3	4	3
100% or more	9	7	9
Don't know	6	9	5

Source: *State and Local Government Retirement Confidence Survey (2011)*, TIAA-CREF Institute.

**PLANNING AND SAVING**

Higher confidence among state and local government employees relative to U.S. workers in general seems to be well-founded for several reasons. First, the vast majority (85% of full- and part-time workers) participate in an employment-based retirement plan, with 79% in a defined benefit pension.<sup>8</sup> Second, workers in state and local government are also more likely to be saving for retirement—91% have saved for their retirement, and 94% of these (or 86% of the state and local government workforce) are currently saving. By comparison, 59% of all U.S. workers are currently saving for retirement. This savings can be through a supplemental defined contribution plan offered through employment; 64% of those surveyed reported participation in a defined contribution plan.

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

	<b>STATE &amp; LOCAL GOVT. EMPLOYEES</b>	<b>STATE EMPLOYEES</b>	<b>LOCAL GOVT. EMPLOYEES</b>	<b>U.S. WORKERS</b>
<i>Percentage that...</i>				
have personally saved for retirement	91%	89%	93%	68%
are currently saving for retirement	86	86	86	59
have tried to determine how much needs to be saved for a comfortable retirement				
among those who have saved	48	50	47	53
among current savers	48	50	47	57

Source: *State and Local Government Retirement Confidence Survey (2011)*, TIAA-CREF Institute, and *Retirement Confidence Survey (2011)*, Employee Benefit Research Institute and Mathew Greenwald & Associates.

An individual may be saving for retirement, but may not be saving enough. In the state and local government workforce, 48% of both those who have saved and those currently saving have tried to determine how much they need to save by the time they retire to fund a comfortable retirement. By comparison, 53% of those in the U.S. workforce who have saved have attempted this type of calculation. But attempting such a calculation does not necessarily mean that it was done correctly. If it is based on an unrealistic view of replacement income needed—as discussed above, 50% of state and local government employees feel that they will need to replace less than 70% of their preretirement income—the calculation will not provide an accurate gauge. With that said, however, doing such a calculation is indicative of an active engagement in preparing financially for retirement.

Forty-five percent of all state and local government employees feel that they are on track or ahead of schedule with planning and saving for retirement, while 55% consider themselves behind schedule (with 20% a lot behind schedule). By comparison, 29% of U.S. workers feel that they are on track or ahead of schedule and 70% consider themselves behind schedule (with 40% a lot behind schedule).

**THE IMPACT OF HOUSEHOLD DEBT**

Forty-six percent of state and local government employees do not view their level of debt as a problem with their current financial situation, but 42% consider it a minor problem and 11% a major problem. By comparison, 22% of U.S. workers consider their level of debt to be a major problem and 41% consider it a minor problem.

<sup>8</sup> Source: *National Compensation Survey, March 2010*, Bureau of Labor Statistics, U.S. Department of Labor ([http://www.bls.gov/ncs/ebs/benefits/2010/benefits\\_retirement.htm](http://www.bls.gov/ncs/ebs/benefits/2010/benefits_retirement.htm)).

Debt clearly impacts retirement preparations—those with debt problems are less likely to be saving for retirement and more likely to be behind in their savings (table 4). Seventy-four percent of state and local government workers who consider their household debt level to be a major problem are currently saving for retirement compared with 91% of those for whom household debt is not a problem and 84% of those with a minor debt problem. Seventy-seven percent of those with a major debt problem consider themselves behind in their planning and saving for retirement compared with 69% of those with a minor debt problem and 36% of those without a debt problem. This in turn manifests itself in retirement confidence levels—59% of those viewing their debt level as a major problem are not confident that they will have enough money for a comfortable retirement compared with 40% of those viewing their debt as a minor problem and 18% of those without a debt problem.

**TABLE 4**  
**DEBT, SAVINGS AND RETIREMENT CONFIDENCE AMONG STATE AND LOCAL GOVERNMENT EMPLOYEES**

	LEVEL OF DEBT IS...			
	STATE & LOCAL GOVT. EMPLOYEES	MAJOR PROBLEM	MINOR PROBLEM	NOT A PROBLEM
<i>Are you currently saving for retirement?</i>				
Yes	86%	74%	84%	91%
No	14	26	16	9
<i>When it comes to planning and saving for retirement, would you say that you are ...?</i>				
A lot ahead of schedule	2%	0%	0%	4%
A little ahead of schedule	5	0	3	7
On track	38	19	26	53
A little behind schedule	35	29	47	26
A lot behind schedule	20	48	22	10
<i>How confident are you that you will have enough money to live comfortably throughout retirement?</i>				
Very confident	17%	6%	8%	28%
Somewhat confident	50	34	50	53
Not too confident	20	29	26	11
Not at all confident	13	30	14	7

Source: State and Local Government Retirement Confidence Survey (2011), TIAA-CREF Institute.

**HEALTHCARE IN RETIREMENT**

Healthcare expenses (including any changes to Medicare) are the “single biggest financial concern regarding retirement” among state and local government employees, being cited as such by 26% of the state and local government workforce. (Having enough money to live on was next at 22%.) Such concern is understandable given the magnitude of the dollars involved. A man with median drug expenditures would need \$124,000 in savings, and a woman would need \$152,000, for a 90% likelihood of having enough money to cover healthcare expenses in retirement. A couple with median drug expenses would need \$271,000 for a 90% chance of having enough. At the highest (90th percentile) level of drug spending, a man would need \$187,000 and a woman \$213,000 for a 90% chance of having enough money to cover healthcare expenses in retirement.<sup>9</sup>

<sup>9</sup> See Fronstin, Paul, Dallas Salisbury and Jack VanDerhei. “Funding Savings Needed for Health Expenses for Persons Eligible for Medicare.” EBRI Issue Brief no. 351 (May 2010).

The prospect of paying for medical expenses in retirement lowers all workers’ retirement confidence levels, including those of state and local government employees. Among state and local government employees, 20% are very confident that they will have the financial resources to cover medical care in retirement, 41% are somewhat confident and 39% are not confident (table 5).

**TABLE 5  
CONFIDENCE REGARDING MEDICAL EXPENSES DURING RETIREMENT**

	<b>VERY CONFIDENT</b>	<b>SOMEWHAT CONFIDENT</b>	<b>NOT TOO CONFIDENT</b>	<b>NOT AT ALL CONFIDENT</b>
<i>How confident are you that you will have enough money to take care of medical expenses during retirement?</i>				
State and local government employees	20%	41%	22%	17%
State employees	16	43	20	19
Local govt. employees	20	40	23	16
All U.S. workers	12	36	27	23

Source: *State and Local Government Retirement Confidence Survey* (2011), TIAA-CREF Institute, and *Retirement Confidence Survey* (2011), Employee Benefit Research Institute and Mathew Greenwald & Associates.

These confidence levels are somewhat higher than those of U.S. workers in general. This higher confidence is likely driven by a greater expectation of having health insurance from a former employer during retirement—59% of state and local government employees expect such coverage compared with 36% of all workers. While private sector employers have largely stopped sponsoring retiree health insurance for current employees, state and local governments still tend to provide this benefit (though funding pressures are beginning to lead to a discussion of the structure and funding of such coverage).<sup>10</sup>

If individuals feel ill-prepared to address healthcare needs, many could delay retirement. Only 8% of state and local government employees report that they have planned and saved a great deal for medical expenses in retirement that are not covered by insurance or Medicare, such as premiums, deductibles and co-payments; by contrast, 31% have not done so at all and 25% hardly at all. But 45% of state and local government employees say they are not likely to contribute to a savings account earmarked exclusively to pay health-related expenses during retirement, even if the investment earnings on those contributions were never taxed; 39% would be somewhat likely to save through such a vehicle for retiree healthcare expenses and 14% very likely.

**GENERATING INCOME IN RETIREMENT**

An adequate and secure retirement income should be the primary objective of planning and saving for retirement, and most state and local government employees who have saved for retirement are focused on generating a certain level of income in retirement (65%) as opposed to accumulating a certain amount of money by the time they retire (28%). Since most are covered by a defined benefit pension plan through work, they likely view their retirement savings as supplementing that pension income. Depending upon the income generated by their pension plans, income from savings may be necessary to generate an adequate total level of retirement income or the income level necessary to fund the desired retirement lifestyle. In this case, savings must be converted into income during retirement. In the absence of a defined benefit pension plan, savings must be converted into an adequate and secure stream of income for the remainder of a retiree’s life.

<sup>10</sup> In fiscal year 2009, states had a total liability of \$638 billion for retiree healthcare and other non-pension benefits with a corresponding \$31 billion in funding (for a funding ratio of 5%). Source: The Pew Center on the States, *The Widening Gap: The Great Recession’s Impact on State Pension and Retiree Health Care Costs* (April 2011).

Twenty-four percent of savers in the state and local government workforce have thought a great deal about how they will manage their savings in retirement and draw income from it; this percentage increased steadily across age groups, peaking at 30% for those age 55 and older (table 6). On the other hand, 17% have hardly thought about it and 7% have not thought about it at all; this includes 18% of savers age 55 and older.

**TABLE 6  
PLANNING FOR RETIREMENT INCOME AMONG STATE AND LOCAL GOVERNMENT SAVERS**

	<b>A GREAT DEAL</b>	<b>SOMEWHAT</b>	<b>HARDLY AT ALL</b>	<b>NOT AT ALL</b>
<i>To what extent have you considered how you will manage your savings in retirement and draw income from it?</i>				
State and local government savers	24%	52%	17%	7%
age 25-34	12	47	30	10
age 35-44	18	52	24	6
age 45-54	23	54	14	9
age 55-plus	30	52	13	5

Source: State and Local Government Retirement Confidence Survey (2011), TIAA-CREF Institute.

Thirty-one percent of retirement savers in state and local government are very confident that they will choose the best way to draw income from their savings during retirement, and an additional 58% are somewhat confident in this regard; only 9% are not confident (table 7). Almost identical percentages are confident that they understand the options available for drawing income from their retirement savings during retirement—31% are very confident and 53% somewhat confident. But confidence is lower when state and local government employees are asked about the possibility of outliving their savings—20% are very confident and 47% are somewhat confident that this will not happen.

**TABLE 7  
DRAWING RETIREMENT INCOME FROM RETIREMENT SAVINGS AMONG STATE AND LOCAL GOVERNMENT SAVERS**

	<b>VERY CONFIDENT</b>	<b>SOMEWHAT CONFIDENT</b>	<b>NOT TOO CONFIDENT</b>	<b>NOT AT ALL CONFIDENT</b>
<i>How confident are you that you...?</i>				
will choose the best way to draw income from your savings during retirement	31%	58%	6%	3%
understand the available options for drawing income from your savings during retirement	31	53	11	5
will not outlive your savings	20	47	15	15

Source: State and Local Government Retirement Confidence Survey (2011), TIAA-CREF Institute.

Forty-two percent of retirement savers in state and local government think that they will annuitize some or all of their retirement savings into a payout annuity to help cover living expenses in retirement; 48% do not think that they will annuitize any assets and 10% are unsure. Annuitization appears most likely to occur among the youngest retirement savers in the state and local workforce—64% of those age 25-34 expect to annuitize some or all of their retirement savings compared with approximately 40% of those in older age groups. This may reflect a lower expectation among these workers of receiving defined benefit pension income during retirement. The primary motivation for planning to annuitize assets is having a steady, guaranteed stream of income for life. The primary reason for not planning to annuitize is a lack of need from having other sources of income. Among those who do not think that they will annuitize any retirement savings, 54% expect to make withdrawals as needed to help cover living expenses, 23% intend to withdraw only the minimum amount required by law each year and 18% plan to withdraw a set percentage from savings each month to cover living expenses; 4% do not know what they will do.

**FINANCIAL KNOWLEDGE AND ADVICE**

Twenty-five percent of retirement savers in state and local government are very confident that they are investing their retirement savings appropriately and 56% are somewhat confident regarding their investments. More generally, 30% of all state and local government employees are very confident in their ability to make financial decisions related to retirement planning on their own, 49% are somewhat confident in their ability to do so, and 20% are not confident. Only 10% are very concerned that a time will come when they are unable to make financial decisions on their own; 34% are somewhat concerned that this will become an issue for them.

Thirty-seven percent of state and local government employees received retirement planning advice from a professional financial advisor within the past year. Among the 63% who did not receive professional advice in the past year, 22% received such advice within the past three years. So 51% of the state and local government workforce has received retirement planning advice within the past three years. Individuals age 55 and older are the most likely to have received advice within the past year (42%) and within the past three years (51%).

Advice regarding asset allocation was the advice most typically received, both in the aggregate (82%) and within each age group.<sup>11</sup> It was followed by advice on how much to save (70%) and the timing of retirement (59%). Drawing income from savings during retirement (57%) and paying for healthcare expenses in retirement (38%) were covered often as well, the former being more likely for older individuals (69%).

**TABLE 7  
RETIREMENT PLANNING ADVICE RECEIVED**

	<b>STATE &amp; LOCAL GOVT. EMPLOYEES</b>		<b>AGE 35-44</b>	<b>AGE 45-54</b>	<b>AGE 55+</b>
<i>Advice received among those receiving advice within the past 3 years</i>					
How to invest savings	82%		85%	82%	81%
How much to save	70		72	72	64
When can you afford to retire	59		58	60	59
How to draw income from savings	57		49	53	69
Paying for healthcare in retirement	38		40	38	38

Source: State and Local Government Retirement Confidence Survey (2011), TIAA-CREF Institute.

<sup>11</sup> Ninety-one percent of those age 25-34 received advice regarding how much to save, but this was based on a sample size of only 35 individuals.



Fifty-seven percent are very confident that the advice received was in their best interest, and an additional 36% are somewhat confident that this was the case. Twenty-two percent followed all the advice received, 45% followed most of it, 27% followed some of it and 6% followed none of it. Confidence that the advice received was in one's best interest impacts follow-through—32% of those very confident regarding the advice generally followed all of it; by comparison, 9% of those somewhat confident regarding the advice generally followed all of it.

## **CONCLUSION**

Employees in state and local government are more confident than U.S. workers in general 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. 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 larger. Individuals in the state and local government workforce are also more likely to be saving for retirement. Affording healthcare in retirement is a particular area of concern for state and local government employees, as it is for all U.S. workers. Debt is an obvious hindrance to financial preparations for retirement.

One-half of the state and local government workforce has received retirement planning advice from a professional financial advisor within the past three years. Advice regarding asset allocation was the advice most typically received. It was followed by advice on how much to save and the timing of retirement. Drawing income from savings during retirement (57%) and paying for healthcare expenses in retirement (38%) were covered often as well. Fifty-seven percent are very confident that the advice received was in their best interest.

**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 defined contribution plan design, income and asset management in retirement, individual decision-making and preparation for retirement, managing faculty retirement patterns, and topics relevant to strategic management in state and local government. He is responsible for the development and execution of Institute symposiums on such issues. Yakoboski serves as director of the Institute's Fellows Program and editor of the Institute's *Trends and Issues* and *Advancing State and local government* publication series.

Prior to joining the TIAA-CREF 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). Yakoboski previously served as Director of Research for the American Savings Education Council (1995 to 2000). He served as an adjunct faculty member at Nazareth College (Rochester, NY) between 1986 and 1988.

Yakoboski is a member of the American Economic Association, the Gerontological Association of America, the Association for the Study of State and local government and the National Academy of Social Insurance. He also serves on the editorial advisory board of *Benefits Quarterly*. Yakoboski earned his Ph.D. (1990) and M.A. (1987) in economics from the University of Rochester (Rochester, NY) and his B.S. (1984) in economics from Virginia Tech (Blacksburg, VA).