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TRENDS AND ISSUES

Findings from the Retirement Confidence Survey of College and University Faculty

By Paul Yakoboski, TIAA-CREF Institute

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EXECUTIVE SUMMARY

Issues regarding retirement planning and preparations among college and university faculty are of importance to both the faculty themselves and administrators of higher education institutions. Faculty have a self-interest in ensuring that they have a financially secure retirement. Administrators are interested from the strategic planning perspective of attracting and retaining quality faculty, along with managing the orderly flow of faculty out of the institution.

With such issues as motivation, the TIAA-CREF Institute developed the *Retirement Confidence Survey of College and University Faculty* to better understand the retirement planning and saving behavior of college and university faculty, as well as to gauge faculty perceptions regarding various aspects related to their retirement preparations. An additional objective was to compare higher education faculty findings with those of all working Americans based on results from the 2005 *Retirement Confidence Survey*.[1]

Survey results indicate that America's higher education faculty are confident in their prospects for a comfortable retirement and, relative to all working Americans, they are doing a good job of preparing for retirement. Among higher education faculty, 35% are very confident in their retirement income prospects and an additional 51% are somewhat confident. Two-thirds (65%) expect employer-sponsored retirement plans to be their largest source of retirement income. Almost all (95%) of faculty have personally saved money for retirement and 66% have tried to determine how much they need to save so they can afford a comfortable retirement.

By comparison, only 25% of all working Americans say that they are very confident that they will have enough money in retirement, while an additional 40% are somewhat confident. Only 69 percent of all working Americans have begun to save for retirement and only 42% have tried to do determine how much they need to save for retirement.

While higher education faculty tend to be older, have higher incomes and have higher education levels relative to the general working population, all of which would account for some of their better preparation and greater confidence, they also benefit from the retirement systems in place within the higher education community. There are important differences in retirement plan availability and design in higher education that would contribute to better outcomes.

Other key findings among college and university faculty include:

- 27% expect to retire at age 65, 18% expect to retire in their later 60s and 24% expect to retire at age 70 or later; 4% do not expect to retire.
- 59% expect to receive retiree health insurance through an employer.
- 48% consider themselves very likely to take advantage of a phased retirement program if available; an additional 30% are somewhat likely.
- 74% think they will work for pay in retirement.
- 35% expect a defined benefit pension plan to be their largest source of retirement income; 30% expect a defined contribution plan to be largest.
- Advice from a financial professional is most often cited as the most helpful information source when making retirement savings and investment decisions.
- 76% would be likely to take advantage of employer-provided professional advice regarding retirement withdrawal strategies if offered in person.

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INTRODUCTION

Issues regarding retirement planning and preparations among college and university faculty are of importance to both the faculty themselves and administrators of higher education institutions. Faculty interest is self-evident; they want to retire when they want with the lifestyle they want, as do all working Americans. Administrators are interested from the strategic planning perspective of the institution. Employer-sponsored pension plans are one element in attracting and retaining quality faculty. Well-designed pension plans are also essential to managing the orderly flow of faculty out of the institution.

With such issues as motivation, TIAA-CREF sponsored a new survey this year, the *Retirement Confidence Survey of College and University Faculty*, to examine the retirement planning and saving behavior of faculty, as well as to gauge faculty perceptions regarding various aspects related to their retirement preparations. The survey was conducted by the Employee Benefit Research Institute (EBRI), Mathew Greenwald & Associates, Inc. and the TIAA-CREF Institute.[2]

As the baby boom generation approaches retirement, a general consensus has emerged that the U.S. faces a savings challenge, and in particular, a retirement savings challenge as many segments of the U.S. population appear financially unprepared for their retirement.[3] Personal savings as a percentage of disposable personal income was 0.3% in the third quarter of 2005.[4] Thirty percent of workers with access to a 401(k) plan at work choose to contribute nothing.[5] The defined benefit system is under financial duress with the Pension Benefit Guaranty Corporation reporting unfunded liabilities among private sector plans of $354 billion.[6] The Social Security Trustees estimate the annual cost of the OASDI program will exceed tax revenue in 2017, the trust fund will be exhausted in 2041, and the unfunded obligation for the program over the next 75 years is $4 trillion in present value terms.[7]

Against this backdrop, higher education retirement systems stand out as success stories, though not without challenges. According to results from the *Retirement Confidence Survey of College and University Faculty*, faculty in higher education are more confident regarding their retirement savings preparations than are individuals in the general working population. This confidence seems to be well-founded to the extent they appear to be doing a better job of planning and saving for retirement.

It should be noted that higher education faculty tend to be older, have higher education levels and higher incomes than the working population as a whole. This surely contributes to better outcomes. At the same time, however, there are important differences in retirement plan availability and design in higher education that also contribute to better outcomes.

Plan coverage is greater in the higher education sector; 59% of the working population report that their employer sponsors some type of retirement plan,[8] while 85% of faculty report in the survey that their college or university sponsors a retirement plan. Both defined benefit and defined contribution plans are common in higher education, and many faculty (at least at public institutions) can choose whether a defined benefit or a defined contribution plan best suits their situation and will be their primary retirement plan.

Defined contribution plans as primary plans in higher education are fundamentally different than 401(k) plans; worker participation is mandatory and both worker and institution contribution levels are set at pre-determined levels. In addition, most higher education faculty, whether their primary plan is defined benefit or defined contribution, are offered the opportunity to save additional funds for retirement through a supplemental plan that is either a 403(b) plan or a 401(k) plan. Such structural pension plan design differences in the higher education sector surely make a significant contribution to the outcomes achieved by faculty.

This report summarizes the key findings from the survey, analyzes how they compare with findings for all working Americans, and discusses differences that emerged by faculty and institutional demographics.

RETIREMENT PLANNING, SAVING AND CONFIDENCE

Overall Confidence

Thirty-five percent of higher education faculty are very confident that they will have enough money to live comfortably throughout their retirement years and an additional 51% are somewhat confident. The remaining 14% categorize themselves as not too confident or not at all confident in their overall retirement income prospects. By comparison, according to the 2005 *Retirement Confidence Survey*, 34% of all working Americans say that they are either not too confident or not at all confident that they will have enough money in retirement; 40% are somewhat confident and only 25% say they are very confident (figure 1).

Male faculty are more confident than female faculty; 46% of male faculty are very confident compared to 24% of female faculty and 17% of female faculty are not too or not at all confident compared with 9% of male faculty. Faculty confidence increases with age; 65% of faculty age 65 and older are very confident compared with 43% of faculty age 55 to 64, 30% of faculty age 45 to 54 and 22% of faculty under 45. Tenure-track faculty are also much more confident than non-tenure track; 42% very confident versus 26%. Confidence also tends to rise with faculty tenure at their current institution.

Figure 1
Higher Education Faculty Are More Confident than All Working Americans in Their Retirement Income Prospects

	Faculty	All workers
Very confident	35%	25%
Somewhat confident	51	40
Not too confident	11	17
Not at all confident	3	17
Don't know/refused	*	1

Less than 0.5%.

Source: *Retirement Confidence Survey of College and University Faculty* and the *2005 Retirement Confidence Survey.*

Planning and Saving

The relative confidence among higher education faculty appears well-grounded. Ninety-five percent of college and university faculty have begun to save for retirement; among these, 91% are currently saving for retirement. In general, there is only limited variation in these figures across faculty and institution demographics. By comparison, only 69 percent of all working Americans have begun to save for retirement (figure 2).

In addition, higher education faculty are more likely to have an idea regarding how much is required to fund retirement; 66% report that they have tried to determine how much money they will need to have saved so that they can live comfortably in retirement. This means, however, that one-third of faculty have no idea how much they need to accumulate for a comfortable retirement. In addition, the accuracy of the estimates among those who have tried to do the calculation is unknown. But again, by comparison, only 42% of all working Americans have even tried to do such a calculation (figure 2).

Older faculty, those with greater tenure, and those with higher rank are more likely to have attempted such a calculation than younger faculty, but even among those under age 45, 64% have made the effort.

Figure 2
Higher Education Faculty Preparing Better for Retirement

	Faculty	All Workers
Have saved for retirement	95%	69%
Currently saving for retirement (among those who have saved)	91	91
Tried to determine how much savings is needed	66	42

Source: *Retirement Confidence Survey of College and University Faculty* and the *2005 Retirement Confidence Survey.*

Higher education faculty also appear to have a more realistic feel for how much of their pre-retirement income they will need to replace to live comfortably in retirement (figure 3.) Thirty-seven percent of faculty say 70% to less than 85%; 23% of all workers respond in this range. Forty-one percent of all workers say 50% to less than 70% and 18% say less than 50%. Among faculty, 31% and 9%, respectively, report in these ranges. While more realistic in the aggregate than workers in the general population, many college and university faculty nonetheless appear to underestimate the amount of income they will need to replace in retirement as the general rule-of-thumb calls for 70-80% income replacement rates to maintain pre-retirement standards of living.

Male faculty are more likely than female faculty to fall into the 70% to 85% range; 48% versus 26%. Older faculty and those with greater tenure are also somewhat more likely to do so. Forty percent of faculty at 4-year institutions report 70% to 85% compared with 26% of faculty at 2-year schools. Forty-three percent of tenure-track faculty report this amount compared with 30% of non-tenure track.

Figure 3
Higher Education Faculty Appear to Have a More Accurate Idea of Income Replacement Needed in Retirement

	Faculty	All Workers
Less than 50%	9%	18%
50% to less than 70%	31	41
70% to less than 85%	37	23
85% to less than 95%	8	3
95% or more	8	10
Don't know/refused	7	5

Source: *Retirement Confidence Survey of College and University Faculty* and the *2005 Retirement Confidence Survey*.

RETIREMENT EXPECTATIONS

Eleven percent of faculty expect to retire before reaching age 62, 13% expect to retire between 62 and 64, and 27% expect to retire at age 65. Eighteen percent expect to retire in their later 60s and 24% expect to retire at age 70 or later. In addition, 4% of faculty expect to never retire. By comparison, among all workers, 26% expect to retire at the age of 65, and 24% expect to retire at age 66 or later (figure 4).

Figure 4
Few Faculty Expect to Retire at an Early Age

	Faculty	All Workers
Under 62 years old	11%	24%
62 to 64	13	10
65	27	26
66 to 69	18	7
70 years or older	24	17
Never retire	4	6
Don't know/refused	4	10

Source: *Retirement Confidence Survey of College and University Faculty* and the *2005 Retirement Confidence Survey.*

Male faculty are more likely than female faculty to expect to retire after age 65; 49% versus 35%. Faculty at 2-year institutions are more likely than those at 4-year schools to expect to retire prior to age 65; 42% compared with 20%. Also public institution faculty are more likely than their peers at private institutions to expect to retire prior to age 65; 28% compared with 13%.

Faculty expecting to work past age 65 were asked to identify the most important reason(s). By far, the most common reason cited was enjoying work (62%). The next most common reasons reflected a need to do so; 29% said they will need income from employment, 16% said they will need employer-sponsored health insurance coverage and 9% reported their spouse will need the health insurance coverage. Another commonly cited reason was not being eligible for full Social Security benefits until age 66 or 67 (13%).

When male faculty plan to work past age 65, the most important reason tends to be because they enjoy working; 72% compared with 47% for females. Female faculty are more likely to report a financial need for working past 65; 38% say they will need the income and 20% will need the employer-sponsored health insurance, compared to 23% and 13%, respectively, for male faculty. Faculty at private institutions expecting to work past 65 are more likely than their peers at public institutions to report a financial need as the reason; 40% say they will need the income and 21% will need the health insurance, compared with 25% and 13%, respectively at public institutions.

Retiree Health Insurance

The availability of retiree health insurance is an issue in the timing of retirement for many individuals, both inside and outside of academia. As noted in the previous section, when higher education faculty expect to work past 65, the need for employer-sponsored health insurance coverage is often cited as a reason.

Sixty percent of faculty expect to receive health insurance in retirement from an employer. Among these, 40% expect it to be employer-paid, 20% retiree paid, 32% expect to share the cost, and 8% are uncertain who will pay. Thirty-three percent of faculty do not expect to receive retiree health insurance and an additional 8 percent simply do not know.

Faculty at public institutions are more likely than their private institution peers to expect to receive employer-sponsored health insurance in retirement (61% compared with 51%).

Faculty report they would likely use a tax-preferred savings account earmarked for retiree health expenditures if such a vehicle were available. Survey participants were described an account that allowed after-tax contributions, tax-free accumulations and tax-free withdrawals to pay for retirement medical expenses, including health insurance premiums. Twenty-three percent of faculty said they would be very likely to use such an account and an additional 41% reported being somewhat likely.

Phased Retirement

Faculty were asked a hypothetical question regarding their likelihood of using a phased retirement option if it were available when they are ready to retire. Phased retirement was defined in the survey as a formal or informal arrangement allowing one to reduce the number of hours of work over time rather than stopping all at once. Higher education faculty appear very interested in phased retirement programs; 48% consider themselves very likely to take advantage of a phased retirement program if available, with an additional 30% somewhat likely. Faculty under age 45 and those 65 and older appear the most interested in such an option, with 85% and 81%, respectively, saying they would likely utilize it. Faculty at public institutions are more interested than those at private institutions; 81% versus 70%.

Work in Retirement

Seventy-four percent of faculty think they will work for pay after retiring. This is more than the corresponding percentage for all working Americans (66%). Those expecting to work in retirement are evenly split among what they expect to do; 32% think they will work as a teacher, 34% think they will work in some other role within the education field and 34% think they will do something completely different.

Among those expecting to work in retirement, female faculty are more likely to think they will work in some other role within the education field, while males are more likely to think they will do something completely different. Tenure-track faculty are more likely to think they will do something completely different relative to non-tenure-track faculty, who tend to think they will teach or do something else in the education field.

Income Sources

From where do faculty expect to receive their retirement income and what is likely to be their largest source of income? Employer-sponsored retirement plans are the most common answers (figure 5.) Forty-nine percent of faculty expect a defined benefit pension plan to be a major source of income and 35% expect it to be their largest; 49% expect a defined contribution plan to be a major income source, with 30% expecting it to be their largest. These percentages are much higher than the corresponding figures for all working Americans where only 27% expect a defined benefit plan to be a major source of income (16% largest) and 34% expect a defined contribution plan to be a major source (21% largest).

Figure 5
Faculty More Likely to Expect Significant Retirement Income from Employer-Sponsored Retirement Plans

	Expect to be a Major Source		Expect to be Largest Source	
	Faculty	All workers	Faculty	All workers
Defined benefit	49%	27%	35%	16%
Defined contribution	49	34	30	21
Other personal savings	32	27	16	18
Social Security	17	27	3	18
Employment	16	28	9	14
Home equity	5	10	1	3
An inheritance	7	6	2	3
Support of family	2	5	*	1

* Less than 0.5%.

Source: *Retirement Confidence Survey of College and University Faculty* and the *2005 Retirement Confidence Survey*.

Faculty are less likely than all workers to expect Social Security and employment to be significant sources of retirement income. While 18% of all workers expect Social Security to be their largest source of retirement income, only 3% of faculty expect it to be. Fourteen percent of all workers expect employment to be their largest source of retirement income, but only 9% of faculty feel that way.

Public institution faculty are much more likely to expect a defined benefit plan to be their largest source of retirement income (40% compared with 18% for private faculty), while private institution faculty are more likely to expect a defined contribution plan income to be largest (54% compared with 22% for public faculty.) Older faculty are more likely to expect a defined benefit plan to be largest while younger faculty are more likely to expect a defined contribution plan to be largest. Tenure-track faculty are more likely than non-tenure-track faculty to expect some sort of employment-based plan to be their largest source.

As for retirement plan coverage today, 85% of faculty report that their institution sponsors a retirement plan for its faculty. Of these, 79% report that their institution offers a defined contribution plan and 60% report that it offers a defined benefit plan. Among those eligible to participate in a defined benefit plan, 83% do so. Among those eligible to participate in a defined contribution plan, 89% do so, and among these, 21% participate in multiple defined contribution plans.

Faculty at 2-year institutions and faculty at public institutions who report a retirement plan are more likely than their peers in 4-year schools and private schools to report the availability of a defined benefit plan. Correspondingly, 4-year institution faculty and faculty at private institutions are more likely to report the presence of a defined contribution plan. Also, male faculty are more likely to report the presence of a defined contribution plan.

RETIREMENT INFORMATION SOURCES

When making retirement savings and investment decisions what sources of information do faculty use? Input from a spouse (if married) is the most common source used, but not necessarily considered the most helpful; 91% use it when married, but only 15% of faculty cite it as most helpful (figure 6.) The advice of a financial professional is most often cited as the most helpful (37%) and 61% of faculty report using such advice. Others sources commonly used include print material from the retirement plan (67%), advice of family and friends (53%), newspapers and magazines (48%), seminars sponsored by the retirement plan or plan provider (47%), the internet (44%), plan provider website (41%) and advice of colleagues (40%). Besides the advice of a financial professional, the other sources most often cited as most helpful were input from spouse (15%), print material from retirement plan (12%) and seminars by retirement plan or plan provider (7%).

Faculty at 4-year institutions are more likely than 2-year institution faculty to find the advice of a financial professional most helpful; 40% compared with 22%. Public institution faculty are also more likely than private institution faculty to find professional advice most helpful; 40% compared with 27%. Public institution faculty are also more likely than their private institution peers to use such advice to begin with.

Figure 6
Where Faculty Get Their Investment Information

	Source Used	Most helpful
Spouse (if married)	91%	15%
Financial professional	61	37
Colleagues	40	4
Family/friends	53	6
Print material from plan	67	12
Plan website	41	4
Employer/plan seminars	47	7
Newspapers/magazines	48	4
Internet	44	3
Source: *Retirement Confidence Survey of College and University Faculty.*		

Within the past three years, 33% of faculty have attended a retirement planning seminar sponsored by their college or university or their retirement plan provider and 42% of these reported making planning and saving changes as a result of the seminar. The most frequently reported changes were investment allocation changes (36%), increasing tax-deferred savings levels (32%), switching savings to a tax-deferred vehicle (24%) and saving more money in addition to their retirement savings (9%).

Finally, faculty were asked about their likelihood of using employer-provided professional advice, both specific investment recommendations for asset allocations while saving for retirement and advice regarding withdrawal strategies from their retirement accounts once they reach retirement. While interested in both, their interest level was higher for the advice regarding retirement withdrawal strategies (figure 7).

Seventy-six percent of faculty said they would be very likely or somewhat likely to take advantage at retirement of employer-provided professional advice regarding withdrawal strategies if offered in person. Sixty percent would be likely to use it if provided online and 28% if provided by phone.

The comparable figures regarding the use of employer-provided professional asset allocation advice are somewhat lower. Fifty-six percent of faculty would be very likely or somewhat likely to use such investment advice if offered in person, 46 would be likely to use it if provided online and 19% by phone.

Figure 7
Faculty Are Interested in Employer-Provided Professional Advice Regarding Investment Strategies and Withdrawal Strategies

		Very Likely	Somewhat likely	Not too likely	Not at all likely
Likelihood of using professional advice regarding retirement investment decisions					
	In person	18%	38%	21%	21%
	Online	14	32	24	29
	By telephone	3	16	31	49
Likelihood of using professional advice regarding retirement withdrawal strategies					
	In person	36%	40%	9%	13%
	Online	20	40	14	24
	By telephone	7	21	25	46

Source: *Retirement Confidence Survey of College and University Faculty.*

Younger faculty (under 55) are more interested in professional investment advice than are older faculty (55 and older) no matter the form of the advice. Younger faculty are also more interested than their older peers in professional advice regarding withdrawal strategies irrespective of the delivery form. However, 69% of those 55-64 and 66% of those 65 and older would be likely to use withdrawal strategy advice if available in-person.

Faculty at 2-year institutions appear somewhat more interested in online and in-person investment advice than their 4-year peers. Public institution faculty have a relative preference for on-line advice while private faculty have a relative preference for in-person advice, but both have an absolute preference for in-person.

CONCLUSION

Results of the inaugural *Retirement Confidence Survey of College and University Faculty*, sponsored by TIAA-CREF and conducted by the Employee Benefit Research Institute, Mathew Greenwald & Associates, Inc. and the TIAA-CREF Institute, indicate that America's higher education faculty are confident in their prospects for a comfortable retirement and, relative to all working Americans, they are doing a good job of preparing for retirement.

Among higher education faculty, 35% are very confident in their retirement income prospects and an additional 51% are somewhat confident. Two-thirds (65%) expect employer-sponsored retirement plans to be their largest source of retirement income. Almost all (95%) of faculty have personally saved money for retirement and 66% have tried to determine how much they need to save so they can afford a comfortable retirement.

While higher education faculty tend to be older, have higher incomes and have higher education levels relative to the general working population, all of which would account for some of their better preparation and greater confidence, they also benefit from the retirement systems in place within the higher education community. Defined benefit and/or defined contribution plans are available to most faculty and higher education defined contribution plans are fundamentally different than 401(k) plans in some important ways. In higher education, defined contribution plans that are primary plans involve mandatory worker participation and involve specified employee and employer contribution levels set to result in meaningful account accumulations.

At the same time, however, caution flags do exist for faculty in higher education. At least one-third do not have a good idea how much they need to accumulate for retirement. Many of the 42% of faculty expecting to work past age 65 say that it is because they will need to continue working, e.g., they say that they will need the income or that they will need the employer-sponsored health insurance for themselves (and a spouse.)

Adequate financial planning and preparations are necessary so that faculty can achieve a financially secure retirement. To that end, many faculty have already utilized the advice of a financial professional when making their retirement savings investment decisions.

Converting savings into a steady stream of income that lasts for a lifetime is also crucial to a secure retirement. The majority of higher education faculty report that they would be likely to use professional advice regarding withdrawal strategies for their savings in retirement if their employer provided access to such advice. The pension plans and the accumulations in them will only be a retirement income success if they result in an income stream that lasts as long as a faculty member's retirement.

ENDNOTES

[1] Throughout this report, faculty findings are compared with data for the working population of all Americans. The *Retirement Confidence Survey* (RCS) is used for this purpose. The RCS is conducted annually by the Employee Benefit Research Institute (EBRI) and Mathew Greenwald & Associates, Inc. (MGA); the TIAA-CREF Institute is one of the sponsors of the RCS. Complete findings for the 2005 RCS can be found in "Encouraging Workers to Save: The 2005 Retirement Confidence Survey," by Ruth Helman, Dallas Salisbury, Variny Paladino and Craig Copeland, *EBRI Issue Brief* no. 280 (April 2005) (http://www.ebri.org/surveys/rcs/2005).

[2] A representative sample of all college and university faculty was surveyed by telephone between March and May 2005; 1,307 individuals were surveyed. These individuals are faculty members at both private and public institutions and both two-year and four-year institutions. Part-time as well as full-time faculty were surveyed, and both tenure-track and non-tenure-track faculty were included.

[3] See "Do People Save Enough for Retirement?" by Alicia H. Munnell, TIAA-CREF Institute *Trends and Issues*, May 1, 2005.

[4] Source: National Income and Product Accounts, Bureau of Economic Analysis, U.S. Department of Commerce (http://www.bea.doc.gov/bea/dn/nipaweb/TableView.asp?SelectedTable=58&FirstYear=2003&LastYear=2005&Freq=Qtr)

[5] Hewitt Associates LLC, *Research Report: How Well Are Employees Saving and Investing in 401(k) Plans, 2005 Hewitt Universe Benchmarks*, 2005.

[6] Pension Benefit Guaranty Corporation (PBGC) Press Release, *Companies Report a Record $357.3 Billion Pension Shortfall in Latest Filings with PBGC*, June 7, 2005.

[7] *The 2005 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, April 5, 2005.

[8] Employee Benefit Research Institute (EBRI) tabulations of the 2005 Current Population Survey.

ABOUT THE AUTHOR

Paul Yakoboski is a Principal Research Fellow with the TIAA-CREF Institute. In addition to his research responsibilities, he serves as director of the Institute's Fellows Program and is editor of *Policy Briefs*.

Yakoboski conducts research on issues related to retirement income security, including saving and planning for retirement and funding retiree health insurance. Prior to joining the Institute, he held positions as Director of Research for the American Council of Life Insurers, Senior Research Associate with the Employee Benefit Research Institute and Senior Economist with the U.S. General Accounting Office. He is a member of the National Academy of Social Insurance and the American Economic Association, and has served as Director of Research for the American Savings Education Council. He serves on the editorial advisory board of Benefits Quarterly.

Yakoboski received 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.)