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RETIREMENT CONFIDENCE AMONG K-12 EMPLOYEES

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EXECUTIVE SUMMARY

Compared with U.S. workers in general, employees in the primary and secondary education (K-12) sector tend to be more confident that they will have enough money to live comfortably throughout retirement. Greater confidence among K-12 employees results, at least in part, from higher participation rates in retirement plans at work. Defined benefit pensions are the dominant form of primary plan type sponsored in the K-12 sector, and the sponsorship of supplemental 403(b) savings plans is now near universal. Individuals in the K-12 workforce are also more likely to be retirement savers—86% are currently saving for retirement compared with 59% of all U.S. workers.

Nonetheless, 56% of all K-12 employees consider themselves behind schedule in planning and saving for retirement, and 20% feel that they are a lot behind. In addition, many workers in the sector do not appear to have a realistic idea regarding how much preretirement income they will need to replace to live comfortably in retirement—45% think that they will need to replace less than 70% and 11% do not know how much they will need to replace.

Debt is a hindrance to financial preparations for retirement; 14% consider their level of debt to be a major problem and 43% a minor problem. K-12 employees with debt problems are less likely to be saving for retirement and more likely to be behind in their savings. Seventy-three percent of those with a major debt problem are currently saving for retirement, compared with 90% of those for whom household debt is not a problem. Ninety percent of those with a major debt problem consider themselves behind in their planning and saving for retirement, compared with 38% of those without a debt problem.

Sixty-one percent of the K-12 workforce has received retirement planning advice within the past three years. Advice regarding asset allocation was the advice most typically received (82%). It was followed by advice on how much to save (70%) and the timing of retirement (62%). Confidence in the independence and objectivity of the advice impacted follow-through—80% of those very confident in the advice generally followed all or most of it; by comparison, 41% of those somewhat confident regarding the advice followed all or most of it.

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INTRODUCTION

Retirement plan sponsorship and participation rates in the primary and secondary education (K-12) sector have historically been relatively high. Eighty-six percent of all K-12 employees participate in a retirement plan at work, compared with 55% of all U.S. workers, and the defined benefit pension continues to serve as the dominant form of primary retirement plan sponsored in the K-12 sector—82% of all K-12 employees participate in a defined benefit plan.[1] In addition, the availability of supplemental savings vehicles, primarily 403(b) plans, has become near-universal in the primary and secondary education sector. According to one estimate, 97% of public K-12 systems offer a 403(b) plan to employees. In addition, almost one-third of K-12 systems have a section 457 deferred compensation plan, which is almost always sponsored in addition to a 403(b) plan.[2]

Recent economic conditions resulting in decreased tax revenues have negatively impacted the ability of states and localities to fund school operations, as well as to fully fund defined benefit pensions and amortize investment losses experienced in the financial markets. Private school finances have been impacted by the recession as well.

This report examines the retirement preparations and attitudes among primary and secondary school employees and confidence in their retirement income prospects against this backdrop. A representative sample of 1,001 K-12 employees, including teachers, administrators and other staff members, was surveyed by telephone in 2011. The survey questionnaire was developed from the framework of the annual *Retirement Confidence Survey (RCS)* sponsored by the Employee Benefit Research Institute (EBRI) and Mathew Greenwald & Associates (MGA). Where questions overlap, responses from the K-12 sector are examined relative to responses in the 2011 RCS of U.S. workers in general.

RETIREMENT CONFIDENCE

The K-12 workforce is more confident regarding prospects for its retirement income security than are American workers in general (table 1). Seventeen percent of K-12 employees are very confident that they will have enough money to live comfortably throughout their retirement, 51% are somewhat confident and 31% 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.[3] The percentage of K-12 workers "very confident" in their retirement income prospects is slightly lower in 2011 compared with 2010; at the same time, the percentage "somewhat confident" is slightly higher.

TABLE 1
RETIREMENT CONFIDENCE AMONG K-12 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?				
K-12 employees				
2011	17%	51%	19%	12%
Teachers	17	52	19	11
Administrators	18	57	16	9
Other staff	18	46	18	17
2010	22	56	15	8
Teachers	23	56	15	6
Administrators and other staff	18	55	13	13
All U.S. workers				
2011	13	36	23	27
2010	16	38	24	22

Source: *K-12 Retirement Confidence Survey* (2011), TIAA-CREF Institute, and *Retirement Confidence Survey* (2011), Employee Benefit Research Institute and Mathew Greenwald & Associates.

1 *Source*: Bureau of Labor Statistics, U.S. Department of Labor, *Employee Benefits Survey*, March 2011.

2 *Source*: SpectremGroup, *Not-for-Profit Sector Defined Contribution Plans* (2010).

3 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 K-12 employees—do vary in certain respects. For example, the population of American workers includes the self-employed, homemakers and those currently unemployed or disabled.

Forty-five percent of K-12 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, 11% of the K-12 workforce admit that they do not know how much of their preretirement income they will need to replace in order to live comfortably. With a low benchmark in mind, or no benchmark at all, individuals may not actually maintain the standard of living that they anticipate in retirement.

TABLE 2
INCOME REPLACEMENT NEEDED DURING RETIREMENT

	K-12 EMPLOYEES	TEACHERS	ADMINISTRATORS	OTHER STAFF
What percentage of preretirement income do you think you will need to replace each year in retirement so that you can live comfortably?				
Less than 50%	14%	14%	18%	13%
50% to 59%	16	16	16	15
60% to 69%	15	15	10	16
70% to 79%	20	20	25	20
80% to 89%	12	11	16	11
90% to 99%	4	4	3	7
100% or more	7	7	8	7
Don't know	11	12	5	10

Source: *K-12 Retirement Confidence Survey* (2011), TIAA-CREF Institute.

PLANNING AND SAVING

Higher confidence among K-12 employees relative to U.S. workers in general seems to be well-founded for several reasons. Not only are the vast majority of K-12 employees participating in an employment-based retirement plan, but workers in K-12 are also more likely to be saving for retirement—93% have saved for their retirement, and 93% of these (or 86% of the K-12 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 K-12 EMPLOYEES

	K-12 EMPLOYEES	TEACHERS	ADMIN.	OTHER STAFF	U.S. WORKERS
Percentage that...					
have personally saved for retirement	93%	93%	95%	90%	68%
are currently saving for retirement	86	87	92	83	59
have tried to determine how much needs to be saved for a comfortable retirement					
among those who have saved	53	53	56	48	53
among current savers	54	55	58	50	57

Source: *K-12 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. The K-12 workforce are no more likely than savers in the U.S. workforce to have tried to determine how much they need to save by the time they retire to fund a comfortable retirement (53% of each group). But attempting such a calculation does not necessarily mean that it was done correctly. The calculation will not provide an accurate gauge if it is based on an unrealistic view of replacement income needed—among K-12 employees who have done a needs calculation, 45% feel that they will need to replace less than 70% of their preretirement income and 11% don't know how much they need to replace. With that said, however, doing such a calculation is indicative of an active engagement in preparing financially for retirement.

Forty-three percent of all K-12 employees feel that they are on track or ahead of schedule with planning and saving for retirement, while 56% 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). Sixty-two percent of other staff in K-12 feel that they are behind schedule, compared with 55% of teachers and 49% of administrators.

THE IMPACT OF HOUSEHOLD DEBT

Forty-three percent of K-12 employees do not view their level of debt as a problem affecting their current financial situation, but another 43% consider it a minor problem and 14% 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.

Debt clearly impacts retirement preparations—K-12 employees with debt problems are less likely to be saving for retirement and more likely to be behind in their savings (table 4). Seventy-three percent of K-12 workers who consider their household debt level to be a major problem are currently saving for retirement compared with 90% of those for whom household debt is not a problem and 87% of those with a minor debt problem. Ninety percent of those with a major debt problem consider themselves behind in their planning and saving for retirement compared with 62% of those with a minor debt problem and 38% of those without a debt problem. This in turn manifests itself in retirement confidence levels—68% 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 33% of those viewing their debt as a minor problem and 15% of those without a debt problem.

TABLE 4
DEBT, SAVINGS AND RETIREMENT CONFIDENCE AMONG K-12 EMPLOYEES

		LEVEL OF DEBT IS…		
	K-12 EMPLOYEES	MAJOR PROBLEM	MINOR PROBLEM	NOT A PROBLEM
Are you currently saving for retirement?				
Yes	86%	73%	87%	90%
When it comes to planning and saving for retirement, would you say that you are …?				
A lot ahead of schedule	3%	1%	1%	5%
A little ahead of schedule	5	2	4	8
On track	35	8	32	47
A little behind schedule	36	38	42	28
A lot behind schedule	20	52	20	10
How confident are you that you will have enough money to live comfortably throughout retirement?				
Very confident	17%	3%	10%	29%
Somewhat confident	51	28	56	54
Not too confident	19	37	21	10
Not at all confident	12	31	12	5

Source: *K-12 Retirement Confidence Survey* (2011), TIAA-CREF Institute.

HEALTHCARE IN RETIREMENT

Healthcare expenses (including any changes to Medicare) are a major financial concern regarding retirement for K-12 employees; 26% cited healthcare expenses as their "single biggest financial concern regarding retirement." An almost identical percentage (24%) cited "having enough money to live on." 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.[4]

The prospect of paying for medical expenses in retirement lowers all workers' retirement confidence levels, including those of K-12 employees. Among K-12 employees, 18% are very confident that they will have the financial resources to cover medical care in retirement, 46% are somewhat confident and 35% are not confident (table 5).

TABLE 5
CONFIDENCE REGARDING MEDICAL EXPENSES DURING RETIREMENT

	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 your medical expenses during retirement?				
K-12 employees	18%	46%	21%	14%
Teachers	16	48	22	13
Administration	22	48	18	12
Other	22	38	23	16
All U.S. workers	12	36	27	23

Source: *K-12 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—57% of K-12 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).[5]

If individuals feel ill-prepared to address healthcare needs, many could delay retirement. Only 6% of K-12 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, 32% have not done so at all and 27% hardly at all. But 41% of K-12 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; 44% would be somewhat likely to save through such a vehicle for retiree healthcare expenses and 11% very likely.

4 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).

5 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).

GENERATING INCOME IN RETIREMENT

An adequate and secure income throughout retirement should be the primary objective of planning and saving for retirement, and most K-12 employees who have saved for retirement are focused on generating a certain level of income in retirement (61%) as opposed to accumulating a certain amount of money by the time they retire (30%). 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.

Twenty-two percent of savers in the K-12 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, reaching 37% for those age 65 and older (table 6). On the other hand, 22% have hardly thought about it and 6% have not thought about it at all; even among those age 65 and older, 16% fall into one of these two groups.

TABLE 6
PLANNING FOR RETIREMENT INCOME AMONG RETIREMENT SAVERS IN K-12

	A GREAT DEAL	SOMEWHAT	HARDLY AT ALL	NOT AT ALL
To what extent have you considered how you will manage your savings in retirement and draw income from it?				
K-12 savers	22%	49%	22%	6%
age 25-34	6	57	31	6
age 35-54	17	49	27	8
age 55-64	30	48	17	3
age 65-plus	37	46	10	6

Source: *K-12 Retirement Confidence Survey* (2011), TIAA-CREF Institute.

Thirty-one percent of retirement savers in K-12 are very confident that they will choose the best way to draw income from their savings during retirement, and an additional 55% are somewhat confident in this regard; only 4% are not at all confident (table 7). Similar percentages are confident that they understand the options available for drawing income from their retirement savings during retirement—29% are very confident and 49% somewhat confident. But confidence is lower when K-12 employees are asked about the possibility of outliving their savings—19% are very confident that they will not outlive their savings and 47% are somewhat confident that this will not happen.

TABLE 7
DRAWING RETIREMENT INCOME FROM RETIREMENT SAVINGS AMONG RETIREMENT SAVERS IN K-12

	VERY CONFIDENT	SOMEWHAT CONFIDENT	NOT TOO CONFIDENT	NOT AT ALL CONFIDENT
How confident are you that you...?				
will choose the best way to draw income from your savings during retirement	31%	55%	9%	4%
understand the available options for drawing income from your savings during retirement	29	49	15	6
will not outlive your savings	19	47	19	11

Source: *K-12 Retirement Confidence Survey* (2011), TIAA-CREF Institute.

Thirty-eight percent of retirement savers in the K-12 workforce think that they will annuitize some or all of their retirement savings into a payout annuity to help cover living expenses in retirement; 44% do not think that they will annuitize any assets and 18% are unsure. Annuitization in the K-12 sector appears most likely to occur among those currently in mid-career—42% of those age 35-54 expect to annuitize some or all of their retirement savings compared with 35% of those age 55-64. 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, 53% expect to make withdrawals as needed to help cover living expenses, 21% intend to withdraw only the minimum amount required by law each year and 21% 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-three percent of retirement savers in K-12 are very confident that they are investing their retirement savings appropriately and 54% are somewhat confident regarding their investments. More generally, 24% of all K-12 employees are very confident in their ability to make financial decisions related to retirement planning on their own, 48% are somewhat confident in their ability to do so, and 27% are not confident. Only 8% are very concerned that a time will come when they are unable to make financial decisions on their own; 36% are somewhat concerned that this will become an issue for them.

Forty-three percent of K-12 employees received retirement planning advice from a professional financial advisor within the past year. Among the 57% who did not receive professional advice in the past year, 30% received such advice within the past three years. So 61% of the K-12 workforce has received retirement planning advice within the past three years. Individuals age 55-64 are the most likely to have received advice within the past year (49%) and within the past three years (62%).

Advice regarding asset allocation was the advice most typically received (82%). It was followed by advice on how much to save (70%) and the timing of retirement (62%). Drawing income from savings during retirement (53%) and paying for healthcare expenses in retirement (36%) were covered often as well; not surprisingly, they were covered more often with older workers receiving advice (table 8).

TABLE 8
RETIREMENT PLANNING ADVICE RECEIVED BY WORKERS IN THE K-12 SECTOR

	K-12 EMPLOYEES	AGE 25-34	AGE 35-54	AGE 55-64	AGE 65+
Type of advice received among those receiving advice within the past 3 years					
How to invest savings	82%	78%	84%	80%	80%
How much to save	70	80	76	63	50
When can you afford to retire	62	56	61	70	43
How to draw income from savings	53	33	47	63	67
Paying for healthcare in retirement	36	18	31	46	41

Source: *K-12 Retirement Confidence Survey* (2011), TIAA-CREF Institute.

Sixty-three percent are very confident that the advice received was in their best interest, and an additional 30% are somewhat confident that this was the case. Nineteen percent followed all of the advice received, 45% followed most of it, 30% followed some of it and 5% followed none of it. Confidence that the advice received was in one's best interest impacts follow-through—80% of those very confident in the advice generally followed all or most of it; by comparison, 41% of those somewhat confident regarding the advice followed all or most of it.

CONCLUSION

The K-12 workforce is more confident than U.S. workers, in general, that they will have enough money to live comfortably throughout retirement—17% of K-12 employees are very confident in this regard and 51% are somewhat confident. This can likely be attributed, at least in part, to their higher participation rates in retirement plans at work; 86% of all K-12 employees participate in a retirement plan compared with 55% of all U.S. workers. Individuals in the K-12 workforce are also more likely to be saving for retirement.

Nonetheless, 56% of all K-12 employees consider themselves behind schedule in planning and saving for retirement, and 20% feel that they are a lot behind. In addition, many in the sector do not appear to have a realistic idea regarding how much income they will need to replace in retirement—45% think that they will need to replace less than 70% of their preretirement income during each year of retirement in order to live comfortably and 11% do not know how much they will need to replace.

Debt is a hindrance to financial preparations for retirement; 43% of K-12 employees do not view their level of debt as a problem, but 43% consider it a minor problem and 14% a major problem. K-12 employees with debt problems are less likely to be saving for retirement and more likely to be behind in their savings.

ABOUT THE AUTHOR

Paul Yakoboski is a Senior 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 K-12 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 K-12* publication series.

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