

TRENDS AND ISSUES

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LESSONS LEARNED FROM THE 2010 K-12 RETIREMENT CONFIDENCE SURVEY

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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. But concern over the fiscal pressures faced by states and localities and the implications for the funding of sponsored plans as well as school finances and operations, could be keeping the confidence gap from being even larger.

K-12 employees are more likely than all workers to be retirement savers, but they are not necessarily better retirement planners. Eighty-seven percent of K-12 employees are currently saving for retirement, compared with 60% of U.S. workers. Given that participation rates across 403(b) plans average 30% across the K-12 sector, it appears that many individuals are saving outside a tax-qualified vehicle. Fifty-seven percent of school employees have tried to determine how much they need to save by the time they retire to fund a comfortable retirement, compared with 46% of U.S. workers who have attempted this type of calculation. Those who have tried to determine how much they need to accumulate, however, are more confident that they are saving the right amount compared with those who have not attempted such a calculation.

Over one-half of K-12 employees sought investment advice from a financial advisor within the past year. Confidence in the independence and objectivity of the advice impacted follow-through — 37% of those very confident in the advice generally followed all of it; by comparison, 22% of those somewhat confident regarding the advice followed all of it.



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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, driven in large part by coverage in public sector employment. Eighty-seven percent of K-12 employees participate in a retirement plan at work, compared with 57% of all U.S. workers,¹ and the defined benefit pension continues to serve as the dominant form of primary retirement plan sponsored in the K-12 sector. But 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 worker confidence in their retirement income prospects against this backdrop. A representative sample of 502 K-12 employees, including teachers, administrators and other staff members, was surveyed by telephone in 2010. 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 2010 RCS of U.S. workers in general.

RETIREMENT CONFIDENCE

Twenty-two percent of primary and secondary education employees are very confident that they will have enough money to live comfortably in retirement, 23% are not too or not at all confident in their retirement income prospects, and the largest proportion (56%) falls in the middle ground of being somewhat confident. These confidence levels exceed those of U.S. workers in general, 46% of whom are not confident in their retirement income prospects. There is no significant difference in confidence levels between teachers and other K-12 employees.

TABLE 1
RETIREMENT CONFIDENCE AMONG K-12 EMPLOYEES

	VERY CONFIDENT	SOMEWHAT CONFIDENT	NOT TOO CONFIDENT	NOT AT ALL CONFIDENT
<i>How confident are you that you will have enough money to live comfortably throughout retirement?</i>				
K-12 employees	22%	56%	15%	8%
Teachers	23	56	15	6
Administrators and other staff	18	55	13	13
All U.S. workers	16	38	24	22

Source: K-12 Retirement Confidence Survey (2010), TIAA-CREF Institute, and Retirement Confidence Survey (2010), Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc.

1 Source: Bureau of Labor Statistics, U.S. Department of Labor.
2 Source: SpectremGroup, *Not-for-Profit Sector Defined Contribution Plans* (2010).

Greater confidence among primary and secondary employees can certainly be attributed, at least in part, to greater participation rates in retirement plans at work. At the same time, with almost 90% of K-12 employees participating in a retirement plan and with most also having the opportunity to contribute to a supplemental 403(b) plan, it is somewhat surprising that the gap in confidence levels between K-12 employees and all U.S. workers is not greater. This is likely driven to some degree by concern over the fiscal pressures faced by states and localities and the impact of those pressures on school finances, operations and the funding of sponsored plans.

RETIREMENT PLANS IN THE K-12 SECTOR

As discussed above, the defined benefit model is the dominant primary retirement plan type in the K-12 sector, but the availability of supplemental retirement savings plans is near-universal. The mean participation rate across 403(b) plans sponsored in the K-12 sector is 30%.³

With regard to a retirement savings plan, 79% of K-12 employees rate the financial strength and stability of the company providing investments under the plan as being very important and an additional 17% consider it somewhat important. Sixty-four percent feel that the availability of objective investment advice through a retirement savings plan is very important and 29% consider it somewhat important. Fifty-six percent feel that the ability to meet with an advisor at the time and place of their choosing is very important, while 36% consider it somewhat important.

HEALTHCARE IN RETIREMENT

Paying for medical expenses in retirement is a challenge that lowers all workers' retirement confidence levels, including those in the K-12 sector. 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.⁴ Among K-12 employees, 19% are very confident that they will have the financial resources to cover medical care in retirement, 51% are somewhat confident, 19% are not too confident and 10% are not at all confident (Table 2). Confidence levels regarding retiree medical expenses roughly mirror overall retirement income confidence levels among the K-12 work force, but the proportion of K-12 employees very confident that they will have enough money to cover medical expenses in retirement is less than one-half the proportion very confident about affording basic expenses. Concern over medical care in retirement obviously impacts overall retirement income confidence.

With that said, K-12 employee confidence regarding the ability to afford medical care in retirement exceeds that of U.S. workers. This is likely driven by the expectation among 63% of K-12 employees that they will receive employer-provided health insurance in retirement, compared with 35% of U.S. workers. But given that expectation, expressed confidence again appears low. And again, this could likely be traced back to concerns over the financial pressures faced by states and localities as they try to fund such benefits while meeting other obligations.

³ Source: SpectremGroup, *Not-for-Profit Sector Defined Contribution Plans* (2010).

⁴ 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 K-12 EMPLOYEES

	VERY CONFIDENT	SOMEWHAT CONFIDENT	NOT TOO CONFIDENT	NOT AT ALL CONFIDENT
<i>How confident are you that you...</i>				
<i>will have enough money to take care of medical expenses during retirement?</i>				
K-12 employees	19%	51%	19%	10%
Teachers	21	51	19	8
Administrators and other staff	13	52	19	14
All U.S. workers	12	37	25	26
<i>will have enough money to take care of basic expenses during retirement?</i>				
K-12 employees	42	45	9	3
Teachers	41	47	9	2
Administrators and other staff	45	40	10	5
All U.S. workers	29	46	13	12
<i>are doing a good job of preparing financially for retirement?</i>				
K-12 employees	27	56	10	6
Teachers	27	58	10	5
Administrators and other staff	29	53	11	8
All U.S. workers	21	43	19	16

Source: K-12 Retirement Confidence Survey (2010), TIAA-CREF Institute, and Retirement Confidence Survey (2010), Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc.

WORK AT LATER AGES

Retiring at a later age enhances an individual's retirement income security through additional years of savings and benefit accumulations, as well as fewer years of retirement that need to be funded. Fifty-seven percent of K-12 employees expect to retire prior to age 65, compared with 28% of all U.S. workers. Teachers, in particular, are more likely to expect an early retirement—61% expect to retire before age 65 compared with 45% of K-12 administrators and other staff. At the other end of the spectrum, only 7% of K-12 employees expect to work past age 70, compared with 24% of U.S. workers.

About 70% of each group expects to work for pay in some capacity once retired. Personal preference tends to account for this expectation among K-12 employees—63% of those expecting to work in retirement cite personal preference, as opposed to financial necessity, as the primary reason.

PLANNING AND SAVING

K-12 employees are more likely than all U.S. workers to be retirement savers, but they are not necessarily better retirement planners. Ninety-three percent of the K-12 work force has saved for retirement, and 93% of these (or 87% of the K-12 work force) are currently saving. By comparison, 60% of U.S. workers are currently saving for retirement (Table 3). Given that almost 9 in 10 K-12 employees are currently saving for retirement, but participation rates in supplemental 403(b) plans average 30%, the question arises as to what vehicles the majority of these savers are using? Retirement saving outside a tax-qualified plan does not enjoy all the efficiencies of saving through a tax-qualified plan.

TABLE 3
RETIREMENT PLANNING AND SAVING AMONG K-12 EMPLOYEES

	K-12	TEACHERS	ADMIN./ OTHER STAFF	U.S. WORKERS
<i>Percentage that...</i>				
have personally saved for retirement	93%	96%	86%	69%
are currently saving for retirement	87	89	82	60
have tried to determine how much needs to be saved for a comfortable retirement	57	56	60	46

Source: *K-12 Retirement Confidence Survey* (2010), TIAA-CREF Institute, and *Retirement Confidence Survey* (2010), Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc.

Fifty-seven percent of K-12 employees have tried to determine how much they need to save by the time they retire to fund a comfortable retirement, compared with 46% of U.S. workers who have attempted this type of calculation (Table 3). So while the vast majority of K-12 employees are saving for retirement, many appear to be saving without a plan or target. Attempting such a calculation does not necessarily mean that it was done correctly, but it is indicative of an active engagement in financial preparations for retirement.

Among current retirement savers in the K-12 sector, 19% are very confident that they are saving the right amount and 58% are somewhat confident; 16% are not too confident in this regard while 7% are not at all confident (Table 4). But those who have tried to determine how much they need to accumulate are more confident that they are saving the right amount compared with those who have not attempted such a calculation (25% very confident versus 10% very confident, respectively).

TABLE 4
CONFIDENCE AMONG K-12 EMPLOYEES SAVING FOR RETIREMENT

	VERY CONFIDENT	SOMEWHAT CONFIDENT	NOT TOO CONFIDENT	NOT AT ALL CONFIDENT
<i>How confident are you that you...?</i>				
<i>are saving the right amount for retirement (among current savers)</i>				
K-12	19%	58%	16%	7%
Teachers	19	58	16	6
Administrators and other staff	20	57	13	10
<i>are investing your retirement savings wisely (among those who have saved)</i>				
K-12	22	57	14	6
Teachers	22	59	12	6
Administrators and other staff	23	53	17	4

Source: *K-12 Retirement Confidence Survey* (2010), TIAA-CREF Institute.

Confidence regarding the investment of retirement savings is essentially the same — 22% of those who have saved are very confident that they are investing their retirement savings wisely, 57 % are somewhat confident, 14% are not too confident and 6% are not at all confident (Table 4). But compared with U.S. workers in general, investment confidence among K-12 employees appears somewhat low; 32% of U.S. workers are very confident that they are investing their retirement savings wisely and 54% are somewhat confident.

FINANCIAL KNOWLEDGE AND ADVICE

Survey respondents self-reported their financial knowledge and comfort level given four options (Table 5). Forty-five percent of the K-12 work force is confident making retirement-related financial decisions by themselves after considering information and advice from others. Only 10% are confident going a step further by doing the research and making the decisions on their own. The other most common self-assessment is a preference among 34% to partner with a financial professional in jointly making retirement-related financial decisions. Ten percent feel the need for a financial professional to make such decisions for them.

TABLE 5
FINANCIAL KNOWLEDGE AND COMFORT LEVELS AMONG K-12 EMPLOYEES

	K-12	TEACHERS	ADMIN./ OTHER STAFF
Confident making financial decisions related to retirement by yourself after considering information and advice from others	45%	44%	47%
Prefer to actively partner with a financial professional to jointly make decisions related to retirement	34	35	32
Confident in your ability to research and make financial decisions related to retirement on your own	10	9	13
Need a financial professional to make such decisions for you	10	11	7

Source: *K-12 Retirement Confidence Survey* (2010), TIAA-CREF Institute.

Over one-half (53%) of K-12 employees, compared with one-third (33%) of U.S. workers, sought investment advice from a financial advisor within the past year. Among those in the K-12 sector seeking such advice, 49% used a financial planner, 27% used an advisor through their employer's retirement plan, 24% used a broker and 12% consulted an insurance agent. Fifty-six percent are very confident that the advice received was independent and objective and 39% are somewhat confident that this was the case. Thirty percent followed all the advice received, 45% followed most of it, 22% followed some of it and only 2% followed none of it. Confidence in the independence and objectivity of the advice impacts follow-through — 37% of those very confident in the advice generally followed all of it and 51% followed most of it; by comparison, 22% of those somewhat confident regarding the advice followed all of it and 11% followed most of it.

CONCLUSION

K-12 employees are more confident than all U.S. workers that they will have enough money to live comfortably throughout retirement. This can likely be attributed, at least in part, to their higher participation rates in retirement plans at work. Given that almost 90% of K-12 employees participate in a retirement plan compared with 57% of all U.S. workers, it is somewhat surprising that the confidence gap is not greater. This is likely explained, to some degree, by concern among K-12 employees over the fiscal pressures confronting states and localities, which impact retirement plan funding as well as school finances and operations.

The availability of supplemental retirement savings plans is near-universal in the K-12 sector and the mean participation rate across 403(b) plans is 30%. In this light, it is interesting to note what school employees value in an employer-sponsored retirement savings plan — 79% rate the financial strength and stability of the company providing investments under the plan as being very important and 17% consider it somewhat important; 64% feel that the availability of objective investment advice through a retirement savings plan is very important and 29% consider it somewhat important; and 56% percent feel that the ability to meet with an advisor at the time and place of their choosing is very important, while 36% consider it somewhat important.

ABOUT THE AUTHOR

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

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