Financial well-being and retirement readiness in the higher education workforce

Findings from the 2019 Higher Education Financial Wellness Survey

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Executive summary

The *2019 Higher Education Financial Wellness Survey* examines personal finance practices and financial wellness among full-time employees in higher education. While retirement readiness is a particular focus, individuals make a myriad of decisions in the normal course of life that affect financial wellness. Employer focus on employee financial well-being has therefore manifested itself in more holistic programs. Accordingly, the survey also covers additional aspects of personal finance and financial wellness. A number of findings are noteworthy for human resource professionals in higher education.

Retirement plan participation is essentially universal among the sector's full-time workforce and over 90% are retirement savers. Nonetheless, several issues stand out as employee concerns that institutions can play a role in addressing.

Individuals do not typically think about how they will manage savings during retirement and convert it to income. The result is limited confidence that they will choose the best way to do so when the time comes. Employers can prompt employees to consider this in advance. Only 20% of higher education employees have received advice within the past three years about drawing income from savings during retirement, but 77% of those interested in receiving advice are interested in advice on this topic.

Covering out-of-pocket medical expenses during retirement as well as potential long-term care expenses are other prominent concerns among higher education employees, even those very confident in their retirement income prospects. Again, there is an unmet appetite for advice and guidance—86% of those interested in receiving advice are interested in advice on covering health care expenses in retirement and 81% are interested in advice on covering long-term care expenses.

One-third of higher education employees are dissatisfied with their overall financial condition; only 16% are very satisfied. Debt and debt management is a particular challenge in this regard as satisfaction with one's financial condition is highly correlated with debt constraint.

One-third of higher education employees are debt constrained, i.e., their level of debt and debt payments prevent adequately addressing other financial priorities. Furthermore, student loans have a disproportionate effect on debt constraint, which is understandable given that most borrowers did not know the monthly payment amount at the time they took the loan and payments do not begin until six months after leaving school.

Providing individuals with guidance and strategies for managing existing debt would naturally tie into day-to-day money management practices. Tools for developing a budget and tracking spending are important in this regard. Currently, less than one-half of the higher education workforce do both, and one-quarter do neither. Engaging new employees, especially recent college graduates, in the process of creating a comprehensive budget, and subsequently tracking spending to the budget, can also assist in heading off debt constraint.

Understanding risk and uncertainty is an area where financial literacy among all U.S. adults is particularly low. Helping individuals to better function in this domain—maintaining appropriate insurance coverage for some risks while having a savings fund for others—would also ease debt constraint and improve financial well-being. Individuals realize this at some level—over one-half of higher education employees are saving for an emergency fund. Nonetheless, employer promotion of emergency savings would be valuable.

Introduction

Achieving and maintaining financial well-being, or financial wellness, for self and family is a goal shared across individuals. Increasingly, it is a goal that employers have for their workforce, as well. Financial wellness can be defined as a state of being wherein a person:

- Has control over day-to-day/month-to-month finances.
- Has the capacity to absorb a financial shock.
- Is on track to meet his or her financial goals.
- Has the financial freedom to make choices that allow for enjoying life.[1]

Financial wellness depends not only on individuals' financial resources but also on decisions made regarding the use and management of those resources. These decisions are inherently interrelated and inevitably involve trade-offs. In addition, risk and uncertainty further complicate most financial decision making.

Planning and saving for retirement is one area of decision making that directly impacts financial well-being, both today and in the future. This includes preparing for medical costs in retirement and potential long-term care expenses, as well as the expenses of day-to-day living in the context of an uncertain lifespan. While a major element of financial well-being, it is but one element.

Employer focus on the financial well-being of their employees is often motivated by an objective to improve recruitment and retention, as well as to promote productivity. This has manifested itself in the emergence and growth of employer-sponsored financial wellness programs that are holistic in scope. In addition to addressing traditional benefit areas such as health insurance and retirement, wellness programs can include elements that address particular needs for a subset of the workforce, such as assistance with paying down student loan debt. There is also a focus on financial education and coaching to improve financial literacy and financial practices. Although health benefits and retirement savings plans may remain primary elements in a benefits program, a more holistic perspective recognizes and responds to the reality that different employees at different life stages with different personal and family circumstances will naturally differ in terms of their financial priorities.

1 See Consumer Financial Protection Bureau (2015).

This report uses findings from the *2019 Higher Education Financial Wellness Survey* (HEFWS) to examine financial practices and well-being among the higher education workforce, with a particular focus on retirement preparations and expectations. The survey was fielded online in spring 2019 with a sample of 1,004 faculty, staff and administrators employed full time by a public or private nonprofit college or university.[2] The HEFWS is a new research initiative by the TIAA Institute and the College and University Professional Association for Human Resources (CUPA-HR).

The backdrop for this analysis is a higher education sector with many institutions still recovering from the 2007-2009 economic recession. Federal funding for research fell by 23% between 2009 and 2015, while state funding for public colleges and universities is 16% less per student than 2008 levels.[3] One manifestation of this is stagnant employment and wage levels in various sectors of higher education.[4]

Retirement readiness in higher education

Three-quarters of full-time employees in higher education are very or somewhat confident that they (and their spouse or partner) will have enough money to live comfortably throughout retirement; the remaining one-quarter are not too or not at all confident in this regard (Figure 1). Retirement income confidence is lower among staff compared to faculty and administration. Confidence is notably higher among those age 60 or older.

2 Survey respondents were selected from members of the Research Now online research panel, one of the industry's most comprehensive and deeply profiled online survey panels. Panel members are recruited through a controlled mix of both online and offline methods, using "By-Invitation-Only" acquisition to avoid attracting professional survey takers. This makes this panel more representative of the broader population.

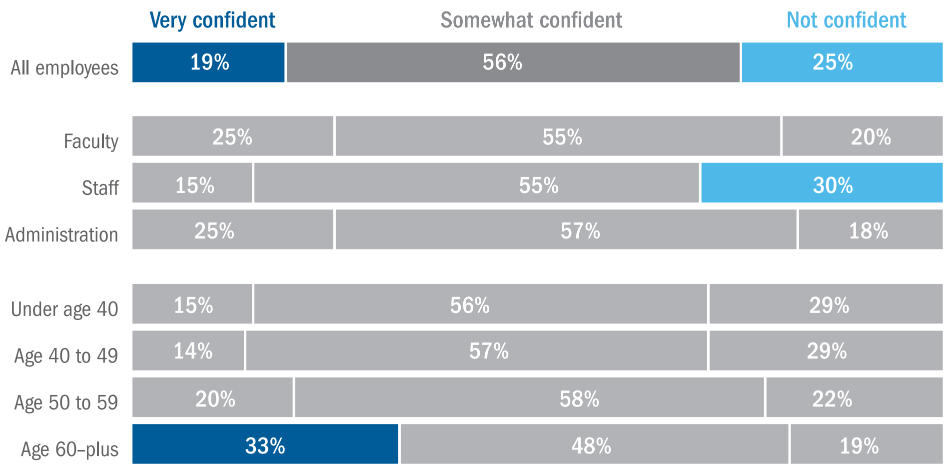
3 See Li, Jingyun, Jasper McChesney and Jacqueline Bichsel. "Impact of the Economic Recession on Student Enrollment and Faculty Composition in U.S. Higher Education: 2003-2018," *CUPA-HR Research Report* (College and University Professional Association for Human Resources, 2019).

4 There has not been a single year since 2013-14 that wage increases for full-time faculty and non-exempt staff have exceeded cost of living increases. Source: *CUPA-HR Surveys of Higher Education Employees*.

Figure 1. Retirement income confidence

75% of higher ed employees are very or somewhat confident in their retirement income prospects.

Overall, how confident are you that you will have enough money to live comfortably throughout your retirement years?



Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

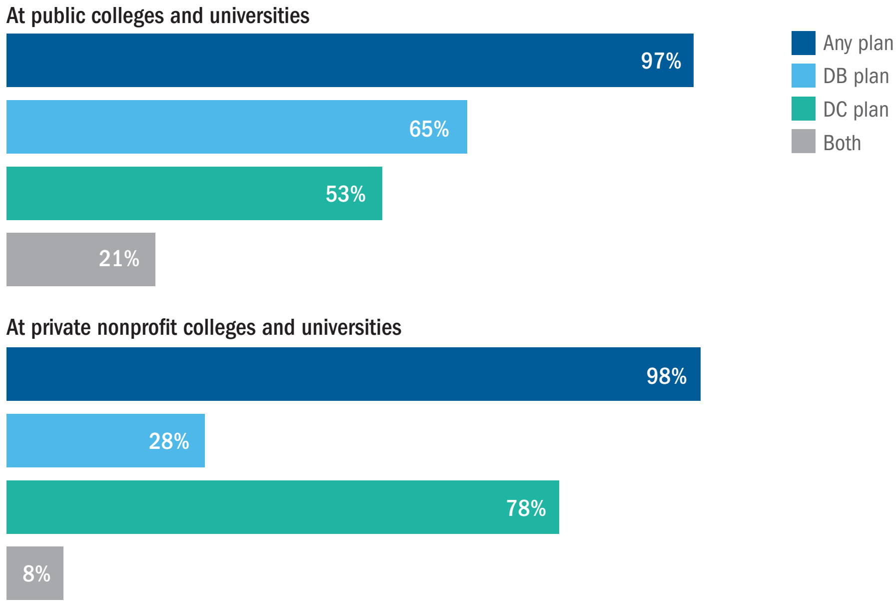
Retirement income confidence among higher education employees compares favorably with that among all U.S. workers—69% of the U.S. full-time workforce is very or somewhat confident in their retirement income prospects, while 31% is not too or not at all confident.[5]

Strong retirement income confidence in higher education is not surprising—retirement plan participation is essentially universal among full-time employees in the sector (Figure 2). This holds in both public and private nonprofit colleges and universities. Typical plan type is where public and private institutions differ. Defined benefit (DB) plans are more prevalent among public institutions, while defined contribution (DC) plans are more common in private higher education.

5 Source: *2019 Retirement Confidence Survey*. Employee Benefit Research Institute and Greenwald & Associates.

Figure 2. Retirement plan participation

Essentially all full-time employees in higher education participate in a retirement plan.

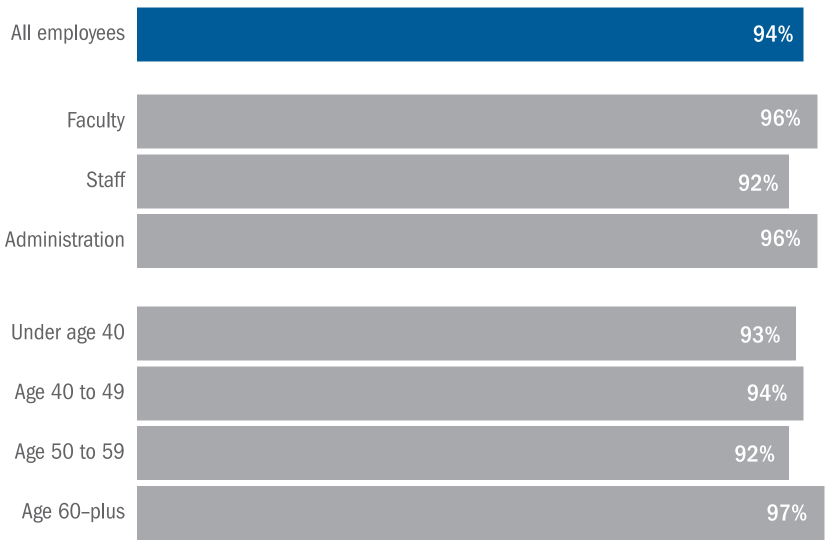


Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

Furthermore, 94% of full-time higher education employees can be classified as retirement savers, i.e., they are a DC plan participant or they have money saved specifically for retirement (Figure 3).

Figure 3. Retirement saving

Over 90% of higher education employees can be classified as retirement savers.



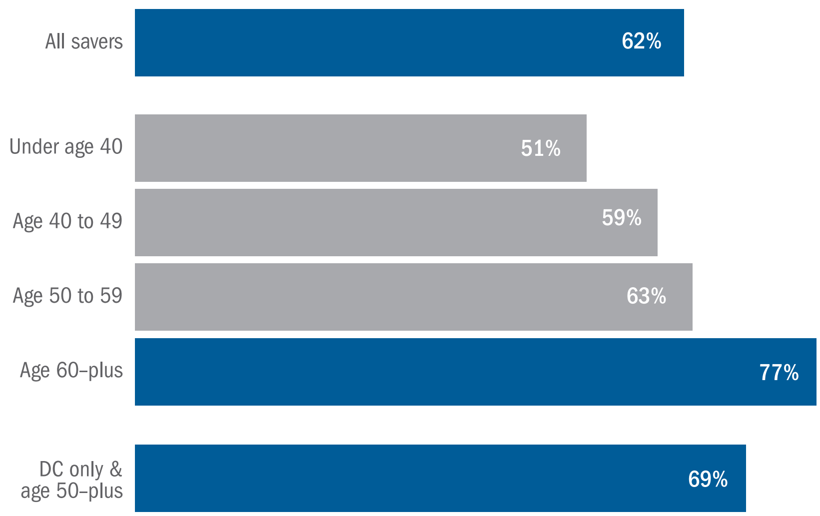
Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

More than 60% of retirement savers have tried to determine how much they need to save so that they can live comfortably in retirement (Figure 4). This is most common among those age 60 or older. Such planning should be particularly valuable for those not covered by a DB plan; more than two-thirds of savers age 50 or older who are only in a DC plan have done such a calculation.

Figure 4. Saving and planning

Older retirement savers are most likely to have determined what they need for a comfortable retirement.

Have you tried to determine how much money you will need to have saved by the time you retire so that you can live comfortably in retirement?



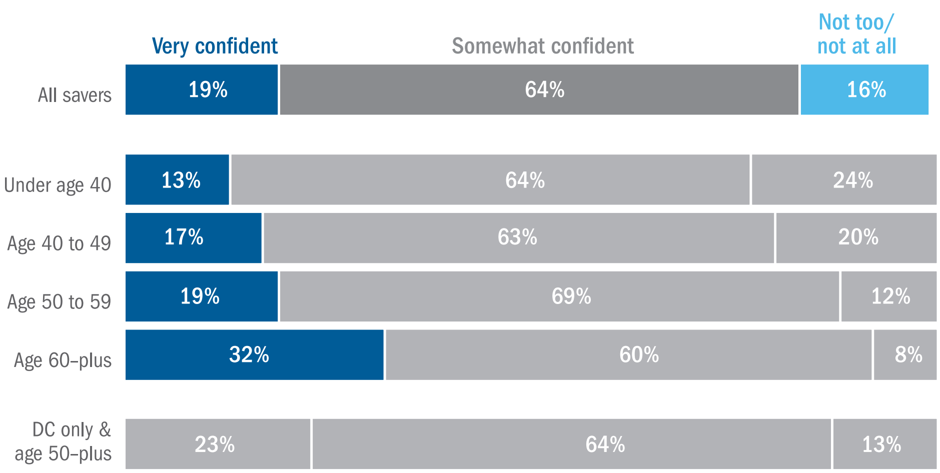
Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

In addition, 83% of retirement savers are at least somewhat confident that their retirement savings are invested appropriately; 19% are very confident (Figure 5). Those over age 60 again tend to be most confident in this regard—one-third very confident. Twenty-three percent of retirement savers age 50 and older and in a DC plan only are very confident that they are investing appropriately.

Figure 5. Saving and investing

Investment confidence is highest among older retirement savers.

How confident are you that your retirement savings is invested appropriately?



Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

Nonetheless, despite near universal retirement plan participation in higher education and more than 90% of full-time employees being retirement savers, 25% are not confident in their retirement income prospects. In addition, the percentage somewhat confident is three times the percentage very confident. So what is holding back confidence among some?

Three areas of concern, discussed in turn, appear to be factors:

1. Converting savings to income during retirement.
2. Medical care expenses during retirement.
3. Potential long-term care expenses.

Converting savings to income during retirement

Realizing an adequate and secure income throughout retirement involves appropriate decumulation of savings during retirement. Decumulation decision making is particularly important for those who will not receive benefits from a DB plan; they must draw on accumulated savings to produce an income stream analogous in some sense to benefit payments from a DB plan. With that said, even DB participants must decide when and how to draw from retirement savings.

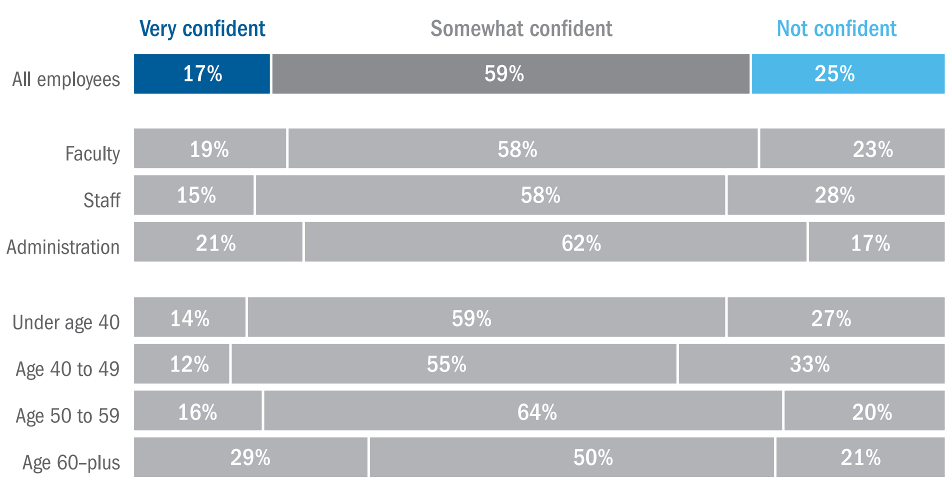
Decumulation is intrinsically difficult because of uncertainty regarding important factors, in particular the lifespan of a retiree (and a spouse or partner) and the rate of return savings will earn during retirement. In this context, it is not surprising that many individuals in higher education do not feel that they will be able to make appropriate decumulation decisions.

Confidence about choosing the best way to draw income from savings during retirement mirrors overall retirement income confidence. In particular, 25% of savers are not confident about making the best decumulation decisions (Figure 6), a percentage equal to the percentage of higher education employees not confident in their overall retirement income prospects. These respective percentages, while not equal, differ by only a few percentage points when focusing on specific age and occupation groups. Confidence is highest among those age 60 or older in this regard.

Figure 6. Savings to income

One-quarter of savers are not confident about choosing the best way to decumulate retirement savings.

How confident are you that you will choose the best way to draw income from your savings during retirement?



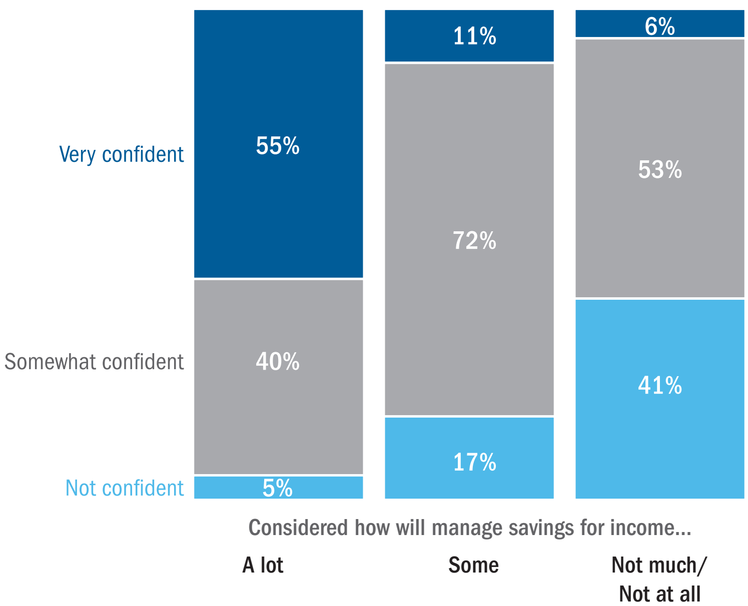
Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

As would be expected, decumulation confidence tends to be greater among those who have given a greater degree of consideration to managing retirement savings for retirement income. Figure 7 depicts this correlation. Among those who have thought about it a lot, 55% are very confident while 5% are not confident. In contrast, among those who have thought little, if at all, about decumulation, 6% are very confident while 41% are not confident.

Figure 7. Savings to income

Lack of consideration means lack of confidence.

How confident are you that you will choose the best way to draw income from your savings during retirement?



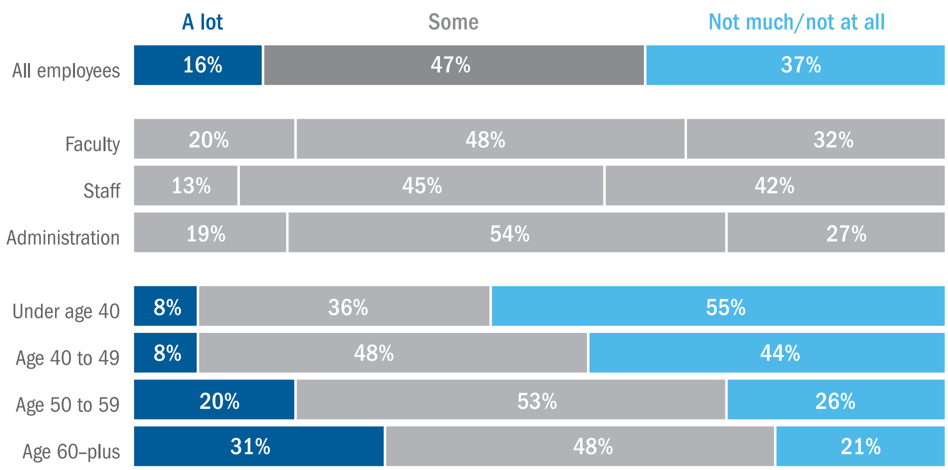
Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

However, only 16% of retirement savers in higher education have given the issue a lot of consideration, a figure almost identical to the percentage very confident about making the best decumulation decision (17%) (Figure 8). At the other end of the spectrum, 37% have given little, if any, thought to managing their retirement savings for retirement income. Staff are less likely than faculty and administration to have thought about converting their retirement savings to retirement income. The issue is most important as savers approach retirement age and those age 50 or older tend to have given it more thought, but still only 20% of those age 50 to 59 and 31% of those age 60 or older have given it a lot of thought. In fact, more than 20% of individuals in those age groups have considered savings decumulation little, if at all.

Figure 8. Savings to income

Over one-third have given little, if any, thought to how they will draw income from their retirement savings.

To what degree have you considered how you will manage your savings in retirement and draw income from it?



Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

As mentioned above, making appropriate decumulation decisions is particularly important for those who will not receive income from a DB plan. However, among those approaching retirement age (age 50 and older) who do not participate in a DB plan, only 23% have given a lot of consideration to how they will draw income from savings, the same percentage that have thought about it little, if at all. It is not surprising then that an equal percentage of this group (21%) are very confident and not confident about choosing the best way to draw income.

Annuitization

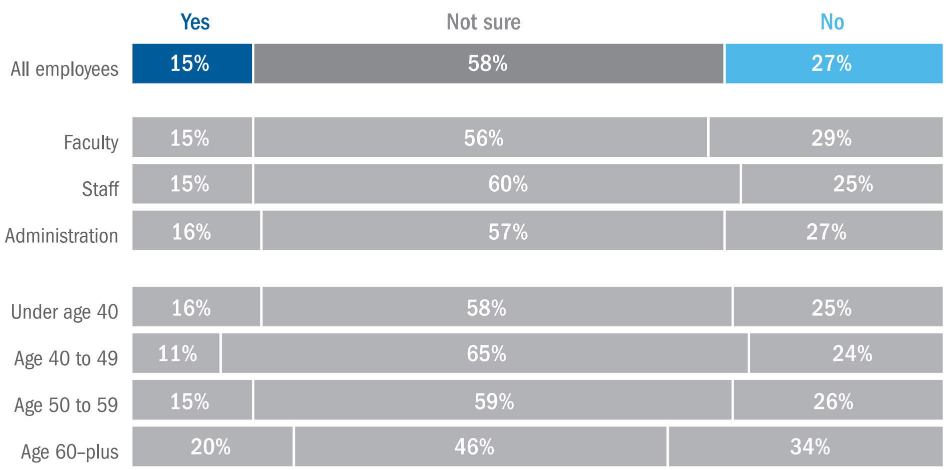
Annuitization is the one means to convert savings into a stream of income guaranteed to last for the remainder of an individual's life (and that of a spouse or partner, as well). The majority (58%) of higher education retirement savers are unsure whether or not they will annuitize some of their savings, while 15% expect to do so and 27% do not (Figure 9).[6] This finding is generally consistent across occupation and age groups. Among those age 50 or older and in a DC plan only, 18% expect to annuitize, 27% expect to not annuitize and 55% are unsure.

6 Respondents were asked, 'Do you think you will convert some of your retirement savings into a payout annuity to help cover expenses in retirement?' They were also provided with a brief description: A payout annuity is a financial product that pays a guaranteed income each month for as long as you live.

Figure 9. Annuitization

Most are unsure about annuitizing retirement savings.

Do you think you will convert some of your retirement savings into a payout annuity to help cover expenses in retirement?



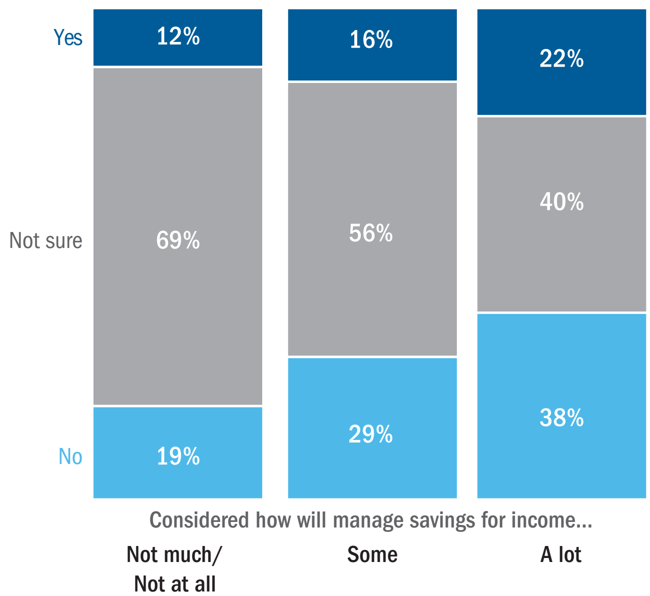
Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

Furthermore, while greater consideration of managing saving for income during retirement means greater certainty about whether or not to annuitize, it does not drive individuals in one direction more than the other (Figure 10). Comparing those who have thought a lot about decumulation with those who have thought about it little, if at all, the former are twice as likely to expect to annuitize and twice as likely to expect to not annuitize. In addition, 40% of those who have thought about it a lot remain unsure.

Figure 10. Annuitization

Lack of consideration means greater uncertainty.

Do you think you will convert some of your retirement savings into a payout annuity to help cover expenses in retirement?



Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

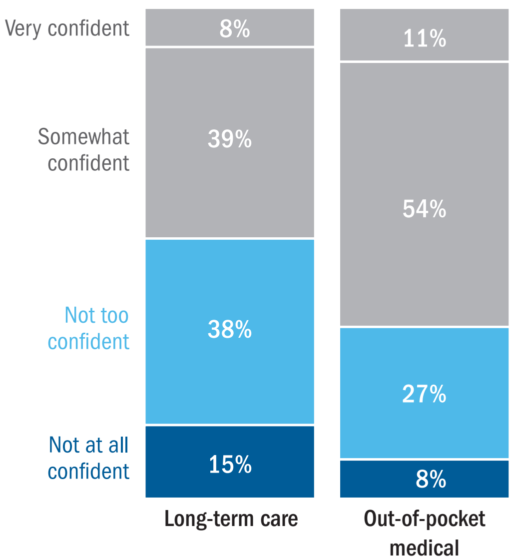
Retiree medical and long-term care

Concerns over covering out-of-pocket medical expenses during retirement, as well as concerns about the expense of long-term care if needed, weigh on higher education employees. This is likely related to the potential magnitude of such expenses and inherent uncertainty about future health status. Thirty-five percent of full-time higher education employees are not confident that they will have enough money to take care of out-of-pocket medical expenses, such as premiums, co-payments and deductibles, during retirement; 53% are not confident about their ability to pay for long-term care if needed (Figure 11).

Figure 11. Retiree medical and long-term care expenses

Concerns over ability to cover retiree medical care expenses and potential long-term care expenses.

How confident are you that you will have enough money to cover... expenses during retirement?



Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

Among those not confident in their overall retirement income prospects, 84% are not confident about covering retiree medical expenses and 93% are not confident about covering long-term care expenses if needed. Even among those very confident in their overall retirement income prospects, confidence in these two areas is tempered—less than one-half (43%) are very confident that they will have enough money to take care of retiree medical expenses and only 26% are very confident that they will have enough money to pay for long-term care if needed.

Retirement planning advice

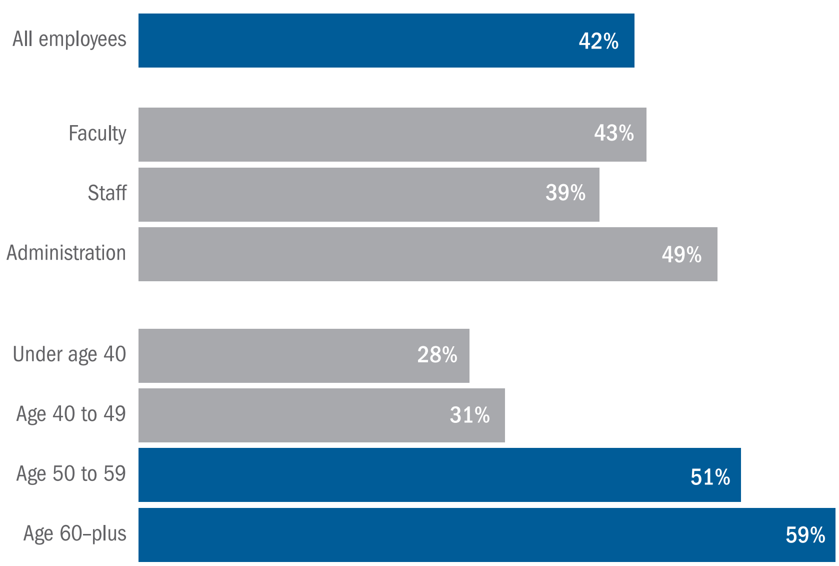
Retirement confidence is greater among those who have received retirement planning advice. However, while many have received such advice, over one-half have not. In addition, advice received often does not cover topics identified as particular concerns.

Forty-two percent of full-time higher education employees have received retirement planning advice from a professional financial advisor within the past three years (Figure 12). Advice receipt is more common among those age 50 or older. Nineteen percent of advisees report that they have typically followed all of their advisor's advice, 49% most of it and 26% some of it, while 6% have followed little or none of the advice.

Figure 12. Retirement advice

Over 40% of higher education employees have recently received retirement planning advice.

Within the past three years, have you received retirement planning advice from a professional financial advisor?



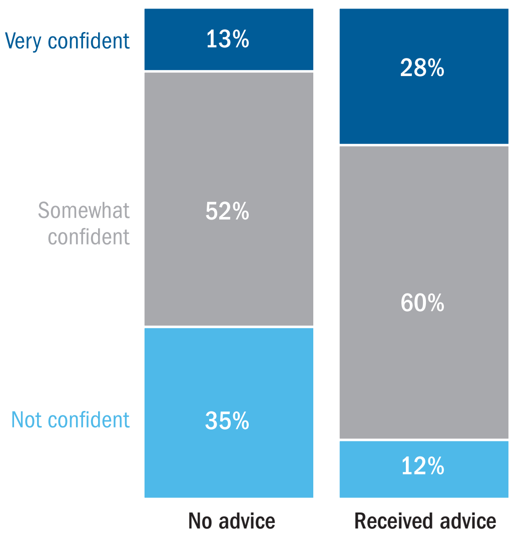
Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

There is a strong relationship between retirement advice and confidence. Twenty-eight percent of those who have recently received professional retirement planning advice are very confident in their overall retirement income prospects, compared with 13% of those who have not received advice (Figure 13). Analogously, 35% of those who have not received advice are not confident compared with 12% of those who have received advice.

Figure 13. Retirement advice and confidence

Retirement income confidence is higher among those who have received advice.

Overall, how confident are you that you will have enough money to live comfortably throughout your retirement years?



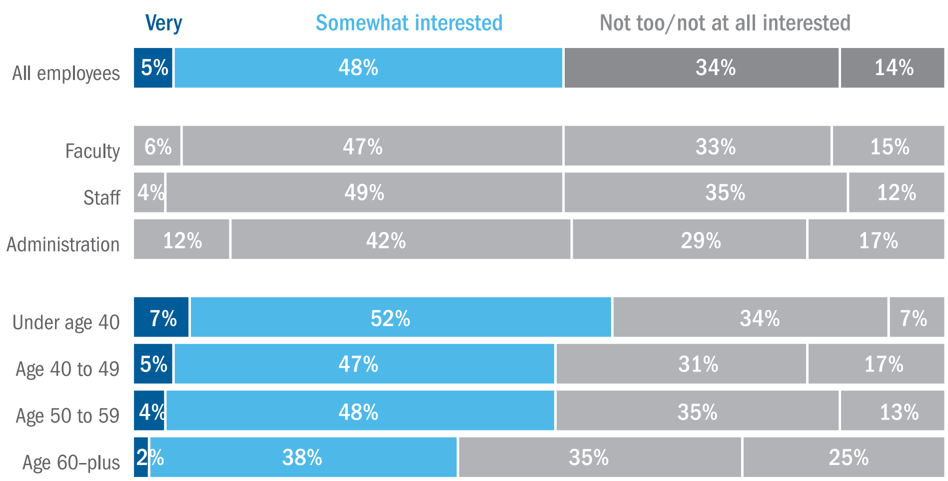
Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

There is interest in receiving retirement planning advice among many who have not done so, at least not recently—5% are very interested in receiving advice and 48% are somewhat interested (Figure 14). Interest is greater among younger individuals; nonetheless, 40% of those age 60 or older are interested.

Figure 14. Retirement advice

Many who have not received advice are interested in doing so.

Are you interested in meeting with a financial advisor to discuss planning and preparing for retirement?

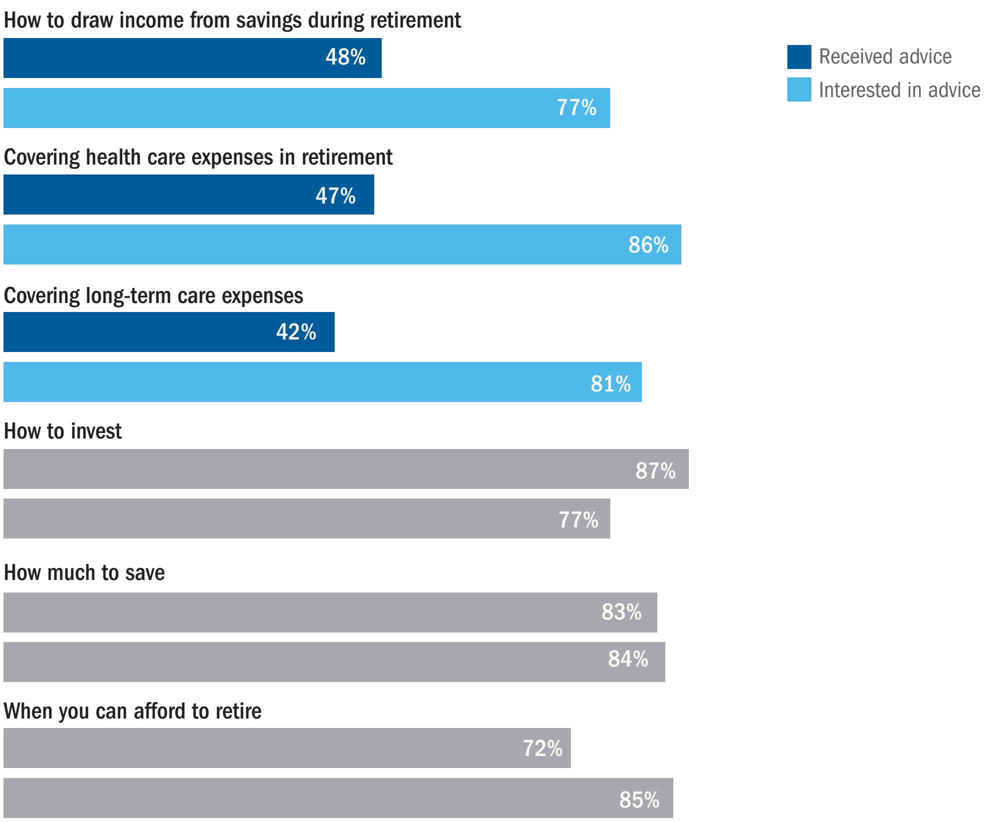


Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

Topics previously identified as particular concerns among the higher education workforce—how to draw income from savings during retirement, covering health care expenses in retirement and covering long-term care expenses—are topics on which advice is least likely to be received (Figure 15). At the same time, there is significant interest in advice on these topics, in particular among those interested in advice who have not received it. For example, while 48% of advisees have received advice on drawing income from savings, 77% of those interested in advice are interested in this topic—a difference of 29 percentage points. The analogous differences for covering health care expenses in retirement and covering long-term care expenses are even larger at 39 percentage points each. These differences are not driven by age; they hold when separately comparing among individuals under and over age 50.

Figure 15. Retirement advice

Interest in topics that are often not covered.



Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

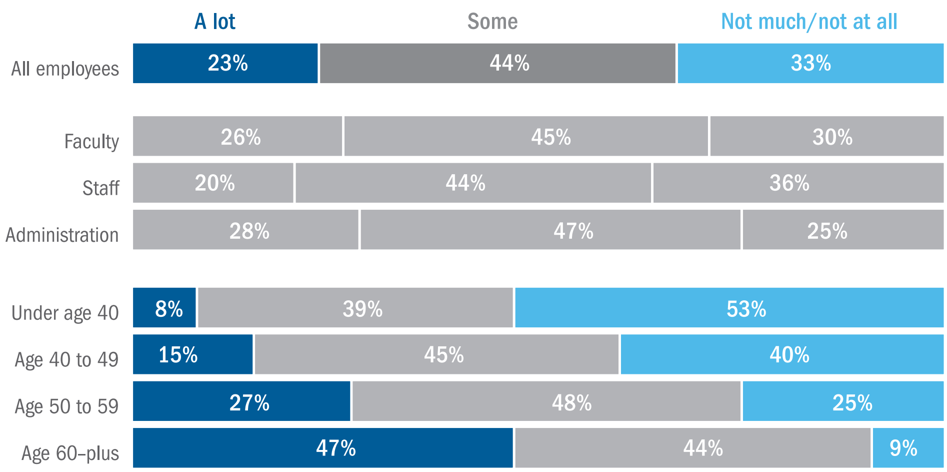
Retirement timing

Two-thirds of full-time employees in higher education have given at least some thought to the timing of their retirement, with 23% having thought a lot about when to retire (Figure 16). Not surprisingly, older individuals are more likely to have thought about this; almost one-half of those age 60 or older have considered it a lot.

Figure 16. Timing of retirement

2/3 of higher ed employees have given at least some thought to the timing of their retirement.

To date, how much have you thought about when to retire?



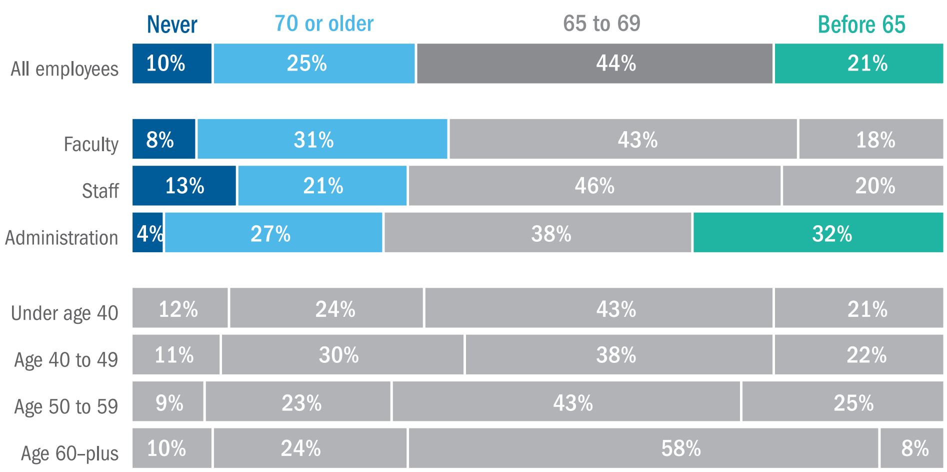
Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

As for when to retire, 25% of higher education employees expect to retire at age 70 or older, while 10% expect to never retire (Figure 17). Those in administration are most likely to expect to retire before age 65. More than 30% expect to work past age 70, including those who expect to never retire, among faculty, staff and administrators separately.

Figure 17. Timing of retirement

Ten percent of higher ed employees expect to never retire; 25% expect to work past age 70.

Realistically, at what age do you expect to retire?



Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

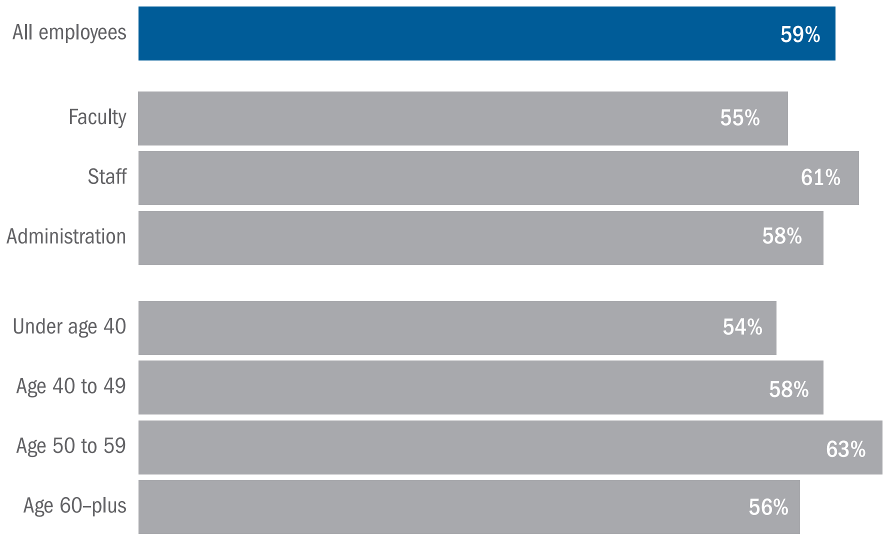
Work during retirement

Fifty-nine percent of higher education employees expect to work for pay after retiring (Figure 18). This expectation varies with retirement income confidence—78% of those not confident in their retirement income prospects expect to work in retirement compared with 40% of those who are very confident—indicating that personal finances are a factor. In fact, 47% cite “for money to buy extras” as a major reason for expecting to work after retiring (Figure 19). However, personal finances is not the most prevalent factor involved; 67% cite “wanting to stay active and involved” as a major reason.

Figure 18. Work in retirement

Most higher education employees expect to work for pay in retirement.

Do you expect to work for pay after retiring from your career employment?

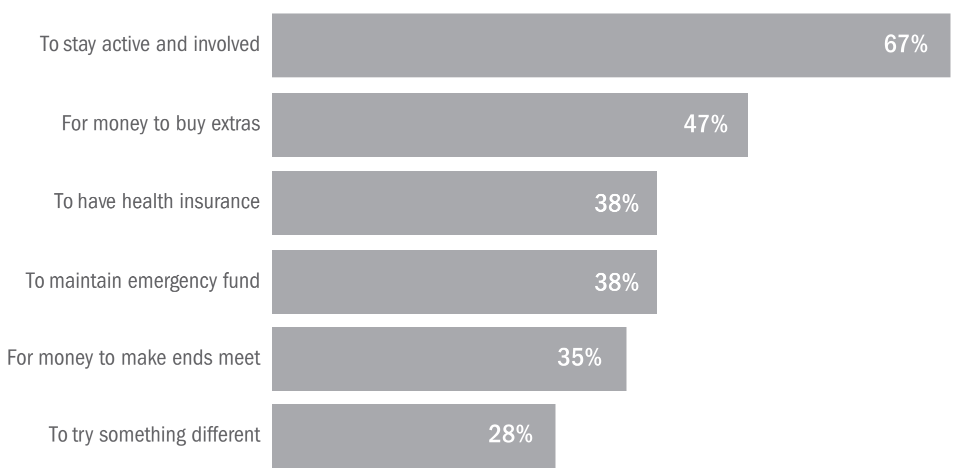


Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

Figure 19. Work in retirement

Wanting to stay active and involved is most often cited as major reason for expecting to work in retirement.

% citing as major reason for expecting to work for pay after retiring



Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

Tenure-track faculty

Senior faculty retirement patterns are of ongoing interest, particularly since the 2008-09 recession. If tenured faculty tend to work well past “normal” retirement age, institutional leadership may be challenged in keeping its academic workforce dynamic in pursuit of teaching, research and service objectives. At the same time, faculty who continue in their position to more advanced ages may miss opportunities that would provide greater fulfillment and enjoyment at that stage of life.

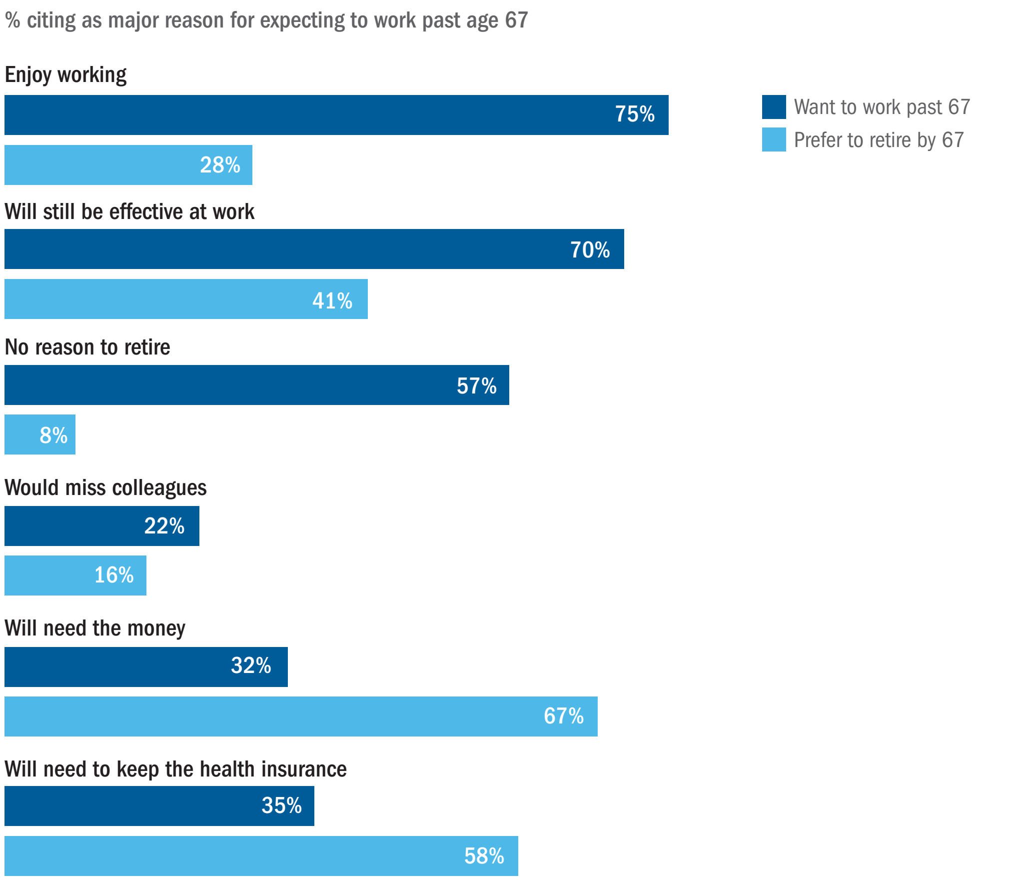
Fifty-percent of tenure line faculty age 50 or older expect to work past normal retirement age, i.e., age 67, including 6% who expect to never retire.[7] Of these, 64% want to work past normal retirement age, while 36% would prefer to retire by normal retirement age. Tenure line faculty age 50 or older thus fall into three groups:

- 50% expect to retire by normal retirement age.
- 32% want to work past normal retirement age and expect to do so.
- 18% want to retire by normal age but expect to work longer.

Personal finances is the primary driver for expecting to work past normal retirement age among those who would prefer to instead retire by then; “needing the money” and “needing the health insurance” were most often cited as a major reason for expecting to work past age 67 (Figure 20). Alternatively, the primary driver among those wanting to work past normal retirement age is the job itself; they most often cited “enjoying work” and “will still be effective at work” as major reasons for expecting to work past age 67.

7 The age at which those currently age 50 can begin to collect full Social Security benefits—age 67—is used as normal retirement age.

Figure 20. Senior tenure line faculty expecting to work past normal retirement age



Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

In both cases, however, expectations are grounded in incomplete information. Only 36% of those who would prefer to retire by age 67 but expect to work longer have done a careful evaluation of their financial situation and when they can afford to retire. Therefore, two-thirds are essentially assuming that they cannot retire by age 67, which may or may not be true.

An analogous dynamic exists among those who expect to and want to work past age 67—only 39% of these individuals have done a careful evaluation of how they could spend their time if they retired. So most are unaware whether retirement would present opportunities that they would enjoy even more than their academic position at this stage of life—they are essentially assuming that there is nothing better than academe, which may or may not be true.

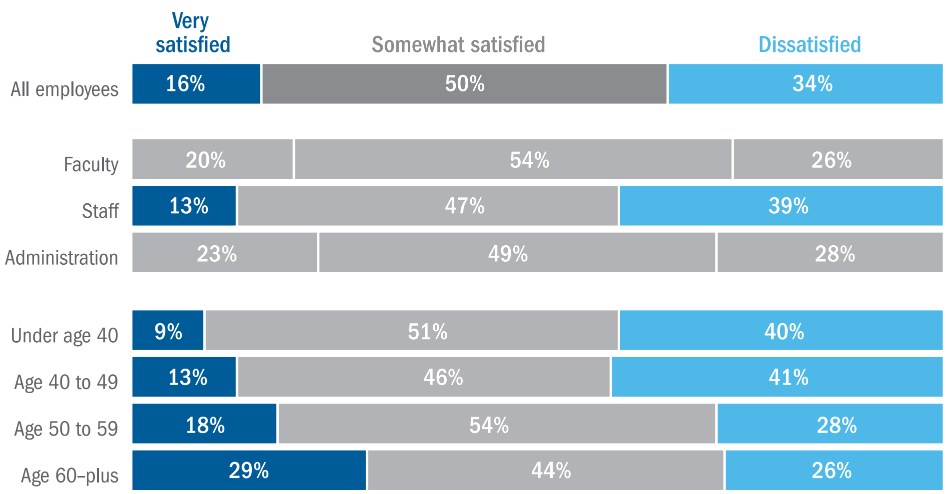
Financial wellness and financial practices

Two-thirds of higher education employees are satisfied with their current overall financial condition—16% very satisfied and 50% somewhat satisfied. At the same time, 23% are somewhat dissatisfied and 11% are very dissatisfied (Figure 21). Older individuals are more likely to be very satisfied with their financial condition; those under age 50 are more likely to be dissatisfied. Staff are more likely than faculty and administrators to be dissatisfied.

Figure 21. Financial wellness

One-third are dissatisfied with their current financial condition.

Overall, thinking of your household's assets, debts and savings, are you satisfied or dissatisfied with your current financial condition?



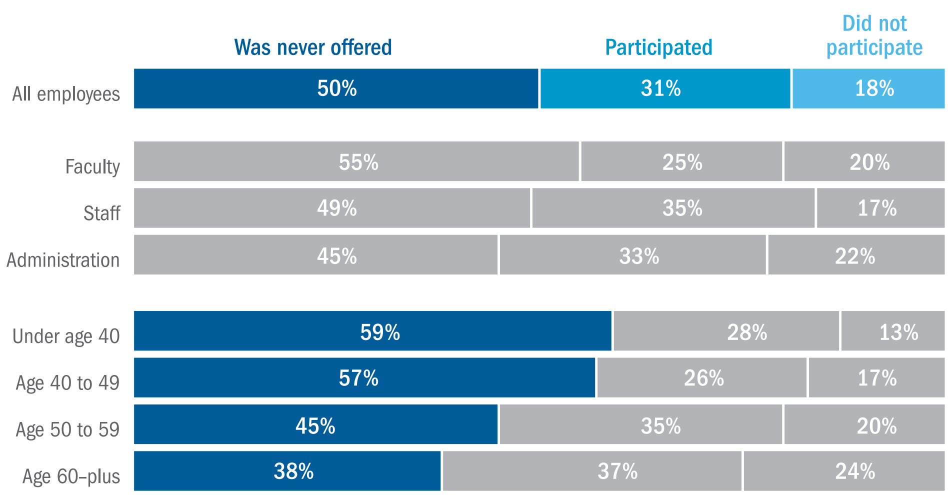
Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

One-half of higher education employees have never been offered financial education by a school, employer or organization in their community (Figure 22). Sixty-three percent of those offered financial education participated in the program, meaning that 31% of all higher education employees have participated in a financial education program. Older individuals are more likely to have been offered such a program.

Figure 22. Financial education

One-half have never been offered a financial education course.

Have you ever participated in a financial education program that was offered in high school or college, in the workplace, or by an organization where you lived?

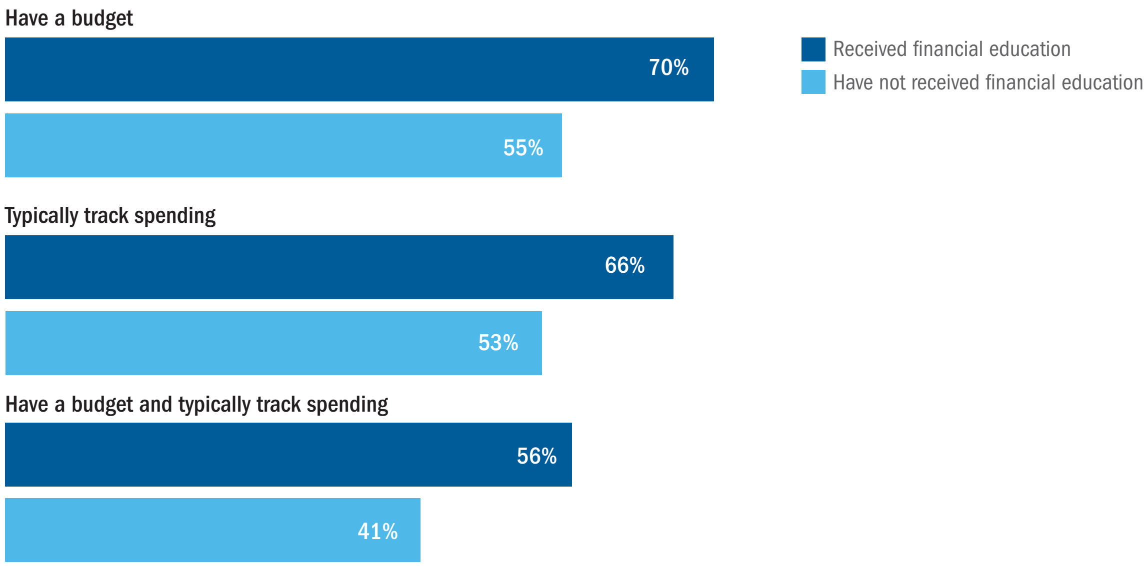


Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

Financial education appears to promote financial well-being—71% of those who have participated in a financial education program report being satisfied with their current financial condition compared with 63% of those who have not received financial education. This likely traces, at least in part, to differences in financial practices between the two groups. Seventy percent of those who have received financial education have a budget and 66% typically track their spending; on net, 56% have a budget and typically track spending (Figure 23). The analogous figures for those without financial education are 55%, 53% and 41%, respectively. Among all higher education employees, these figures are 60%, 57% and 45%, respectively.

Figure 23. Financial practices

Those who have received financial education are more likely to engage in sound money management practices.



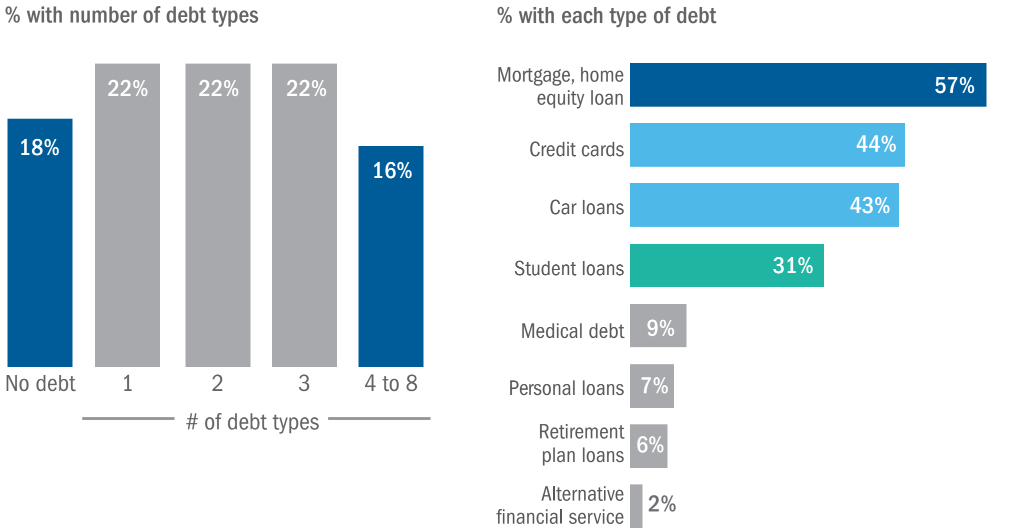
Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

Debt in the higher education workforce

More than 80% of full-time employees in higher education carry some form of debt. Although 18% carry no debt, an almost equal percentage carry four to eight types of debt (Figure 24). Those under age 40 tend to carry more types of debt—47% carry three or more debt types compared with 26% of those age 60 or older. Almost 60% of higher education employees carry housing debt, i.e., a mortgage, home equity loan, or both. Car loans and credit card debt are both carried by more than 40%.

Figure 24. Debt in the higher ed workforce

Over 80% of higher education employees carry debt.



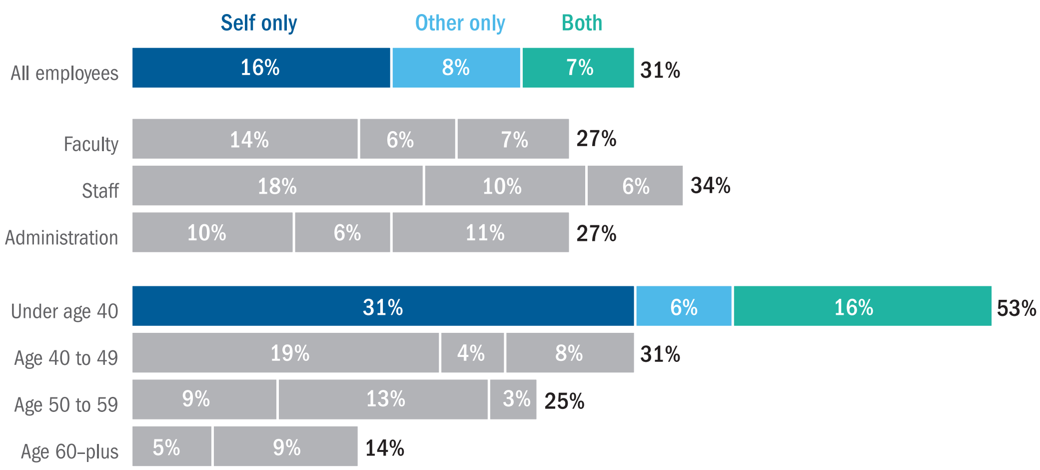
Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

Thirty-one percent of higher education employees have outstanding student loans—23% for themselves and 15% for a spouse, partner, child or other family member (Figure 25). Those under age 40 are the most likely to carry student loan debt. It is also the most common source of debt for those under age 40–53% have an outstanding student loan, 47% for themselves and 22% for others. Twenty percent of those with student loan debt are very concerned about their ability to pay it off; an additional 24% are somewhat concerned.

Figure 25. Student loan debt

Over 50% of higher education employees under age 40 carry student loan debt.

Do you currently have student loan debt for yourself? For a spouse, child or other family member?



Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

Debt constraint

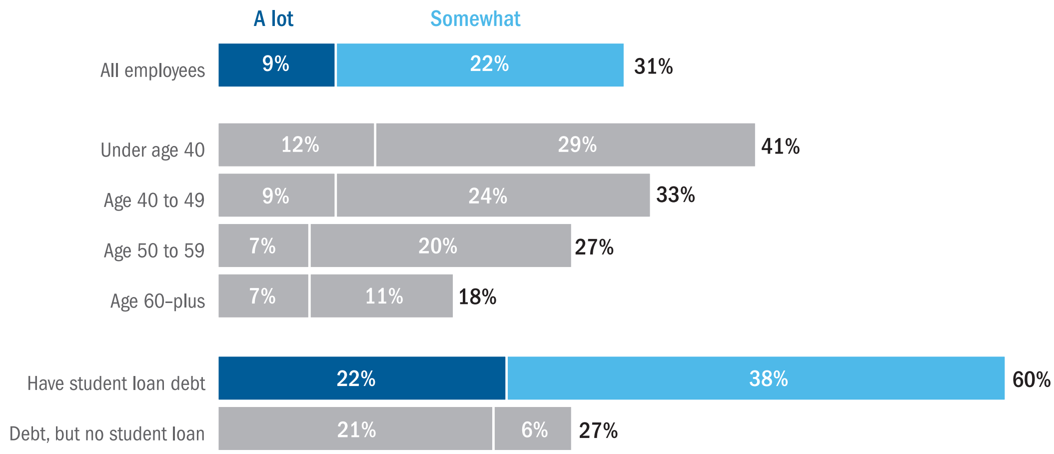
Thirty-one percent of higher education employees are debt constrained, i.e., their level of debt and debt payments prevent them from adequately addressing other financial priorities (Figure 26).[8] Debt constraint is more common among younger individuals. Forty-one percent of those under age 40 feel at least somewhat constrained, a figure that falls to 18% among those age 60 or older. Debt constraint is also more common among those carrying more types of debt—10% of those with one type of debt feel debt constrained, while 70% of those with four or more types are debt constrained. As mentioned previously, younger individuals tend to carry more debt types.

8 This figure includes those who report carrying no debt.

Figure 26. Debt constraint

1/3 of higher education employees feel financially constrained by debt.

Is your level of debt and debt payments preventing you from adequately addressing other financial priorities?



Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

Furthermore, student loans disproportionately impact debt constraint. Sixty percent of those with student loan debt are debt constrained compared with 27% of those with debt but no student loans (Figure 26). Controlling for number of debt types does not change this finding. For example, 40% of those with three types of debt but no student loans are debt constrained. Among those with three debt types, one of which is a student loan, 61% are debt constrained.

Given that student loan debt is typically relatively modest,[9] what explains concern about paying it off and its disproportionate impact on debt constraint? This is likely related to a "surprise" factor regarding required payments—77% of those with outstanding student loans did not know what the monthly payments would be at the time they borrowed the money. Student loan payments usually begin six months after leaving school. In the interim, individuals can settle into spending patterns that do not adequately account for these payments, especially since the amount is unknown. Furthermore, many expenditures will be "sticky," i.e., they cannot be changed quickly or easily—for example, rent payments and car loan payments. In such a scenario, debt constraint emerges with the lack of ready capacity to absorb student loan payments (even relatively modest payments) once they begin.

9 See Baum, Sandy. *Achieving Success in Postsecondary Education: The Facts About Student Debt.* TIAA Institute and Rockefeller Philanthropy Advisors (June 2017).

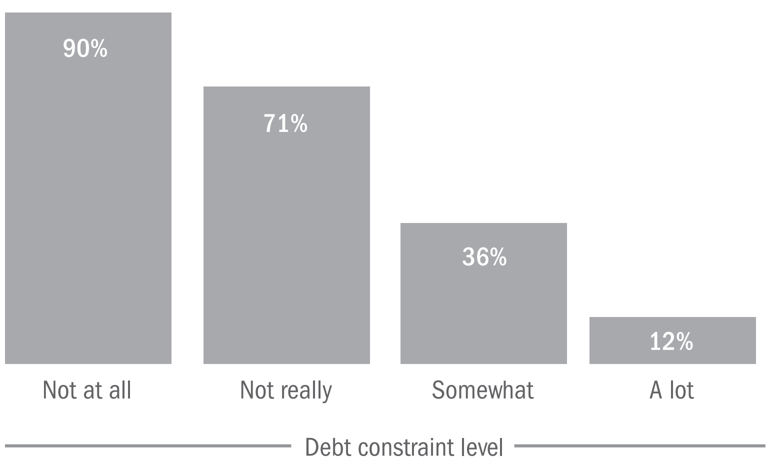
Debt and financial wellness

Survey findings clearly demonstrate a strong relationship between debt experience and financial wellness—individuals with greater debt constraint are much less likely to be satisfied with their current financial condition (Figure 27). Twelve percent of those constrained a lot by debt are satisfied with their financial condition. By comparison, 90% of those not at all constrained by debt are satisfied with their financial condition.

Figure 27. Debt constraint and financial wellness

Greater debt constraint means lower financial satisfaction.

% satisfied with their current financial condition



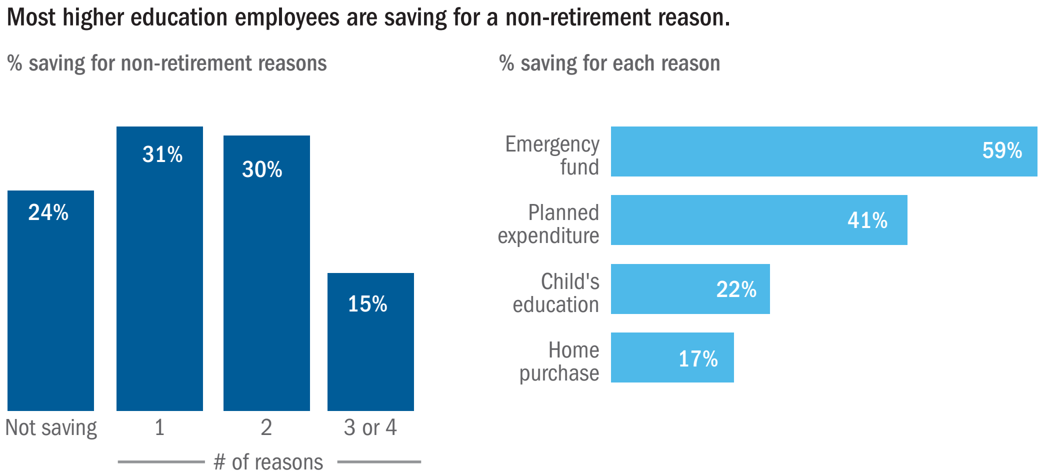
Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

Non-retirement saving

Three-quarters of higher education employees are saving for a non-retirement reason (Figure 28).[10] Ninety percent of those under age 40 are engaged in non-retirement saving. Non-retirement saving is less common at older ages—78% of those in their 40s, 71% of those in their 50s, and 66% of those age 60 or older.

10 As previously noted, over 90% of full-time employees in higher education are retirement savers.

Figure 28. Non-retirement saving



Source: CUPA-HR—TIAA Institute *Higher Education Financial Wellness Survey* (2019).

Fifty-nine percent are saving to build an emergency fund (Figure 28). This is the most common non-retirement saving reason among every age group and occupation. One-third of higher education employees report not having emergency savings sufficient to cover three months of expenses if needed. Staff and those under age 50 are least likely to have this much set aside.

A large expenditure planned within the next two years is the second most common (41%) non-retirement reason for saving among higher education employees.[11] Saving for a home purchase is most prevalent (33%) among those under age 40. Saving for a child's education is most prevalent (30%) among those under age 50.

11 This does not include saving for a home purchase or child's education.

Key takeaways

A number of findings are noteworthy for human resource professionals focused on employee financial well-being, including their retirement readiness.

Retirement readiness

Positioning employees for a financially secure retirement is a particular strength for the higher education sector. Retirement plan participation is essentially universal among the sector's full-time workforce. In addition, 94% are retirement savers. Over 40% have received retirement planning advice. Seventy-five percent are at least somewhat confident that they (and their spouse or partner) will have enough money to live comfortably throughout retirement.

With that said, there are particular areas of concern among the sector's workforce that institutions can play a role in addressing.

Planning to decumulate retirement savings

Saving "enough" enables a secure retirement, but does not guarantee it. Unfortunately, retirement savers typically are not thinking forward to the time when they are no longer saving but rather drawing upon their savings. Only 20% of higher education employees have received advice within the past three years about drawing income from savings during retirement. The result is limited confidence about choosing the best way to do so.

More can be done to prompt individuals to systematic consideration of how to eventually manage retirement savings for retirement income. This is an issue where professional advice is particularly valuable and there appears to be an unmet appetite for such guidance and information—77% of those interested in receiving advice are interested in advice on drawing income from savings. Such advice should cover the potential annuitization of some retirement savings to provide a base level of income, in addition to Social Security benefits, guaranteed for the lifespan of the individual (and a spouse or partner). Most retirement savers are currently unsure whether they will annuitize any of their savings.

Planning for retiree medical and long-term care expenses

Covering out-of-pocket medical expenses during retirement, as well as potential long-term care expenses, are also prominent concerns among higher education employees. Even among those very confident in their retirement income prospects, less than one-half are very confident that they will have enough money to take care of out-of-pocket medical expenses during retirement and only 26% are very confident that they will have enough money to pay for long-term care if needed.

Again, there is an unmet appetite for advice and guidance on these particular issues. Eighty-six percent of those interested in receiving advice are interested in advice on covering health care expenses in retirement; 81% are interested in advice on covering long-term care expenses.

Individuals need a clear understanding of any retiree health insurance benefits provided by their employer, as well as benefits under the Medicare program. Then adequacy of retirement savings can be evaluated in a context that accounts for an expected range of out-of-pocket medical expenses. A tax-deferred retiree health care saving plan can focus employees on the need to plan and save for retiree medical expenses by providing a vehicle for earmarked savings. Employees covered by a high-deductible health insurance plan with a health savings account (HSA) should understand that the HSA can be used to save for medical expenses in retirement.

A similar analysis can help individuals plan for potential long-term care expenses through insurance and additional retirement savings.

Overall financial wellness

Retirement readiness is just one component of overall financial wellness. Individuals make a myriad of decisions in the normal course of life that impact their financial well-being. They save money for objectives in addition to retirement, use credit and manage existing debt, and insure a variety of risks. In addition, there are day-to-day money management decisions and practices.

One-third of higher education employees are dissatisfied with their current financial condition; only 16% are very satisfied. Clearly, there are areas where employers can help improve outcomes.

Debt management

One-third of full-time higher education employees report that their level of debt and debt payments prevent them from adequately addressing other financial priorities. This challenge can be viewed along two dimensions:

- Paying down existing debt.
- Current use of credit.

Positioning individuals to make appropriate decisions along both dimensions would clearly impact financial well-being given that satisfaction with one's financial condition is highly correlated with debt constraint.

Providing individuals with guidance and strategies for managing existing debt would by necessity tie into day-to-day money management practices since paying down debt requires allocating adequate funds. In this regard, tools for developing a budget and tracking spending become important. Currently, less than one-half of full-time higher education employees do both, and one-quarter do neither.

Student loans

Student loans have a disproportionate impact on debt constraint. This is understandable given that most borrowers did not know the monthly payment amount at the time they took the loan and payments do not begin until six months after leaving school. If individuals settle into spending patterns that do not allow for student loan payments before those payments begin, they will inevitably experience some degree of financial distress once payments start. Engaging new employees, especially recent college graduates, in the process of creating a comprehensive budget, and subsequently tracking spending to the budget, can assist in heading off debt constraint.

Thirty percent of those under age 50 are saving for a child's education. Providing information and counseling about paying for college—projecting future costs, saving options such as 529 plans, applying for financial aid, understanding the different types of financial aid, understanding net cost of attendance—will impact the financial well-being of both parent and child.

Expect the unexpected

Unexpected expenses are inevitable—the only uncertainty is the what, when and how much. However, understanding risk and uncertainty is an area where financial literacy among U.S. adults is particularly low.[12] Helping individuals to better function in this domain—insuring some risks while having a savings fund for others—would ease debt constraint and improve financial well-being.

Insurance is the appropriate means to address some risks but not all. Insurance coverage is sometimes required, e.g., auto insurance. Sometimes insurance coverage is available but not required, e.g., an extended warranty. Understanding how to best structure insurance coverage (in particular, trading off premiums and deductibles) and which risks are appropriate to insure promotes financial well-being.

Analogously, understanding which risks are best self-insured, i.e., covered by the individual, and having funds set aside for such occurrences promotes financial well-being. Individuals realize this at some level—over one-half of higher education employees are saving for an emergency fund. Nonetheless, employer promotion of emergency savings would be valuable. When borrowing is the response to an unexpected expense, the debt constrained individual becomes more constrained and the unconstrained becomes, or gets closer to becoming, debt constrained.

12 See Yakoboski, Paul, Annamaria Lusardi and Andrea Hasler. *Financial Literacy in the United States and Its Link to Financial Wellness: The 2019 TIAA Institute-GFLEC P-Fin Index.* TIAA Institute and the Global Financial Literacy Excellence Center (April 2019).

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