High inflation and depressed stock markets: Retirement readiness among the higher education workforce

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Executive summary

This report examines retirement readiness among the full-time higher education workforce during a period of historically high inflation and depressed equity markets, finding that those nearest retirement age appear most impacted.

Sharp differences in retirement income confidence exist between older and younger higher education employees. For example, 18% of those age 60 and older are very confident about having enough money to live comfortably throughout retirement, 15 percentage points lower than in 2019. In contrast, 32% of those under age 40 are very confident in their retirement income prospects, a 17-percentage point increase over the same period.

Among those currently saving for retirement, 37% under 40 are very confident that they are saving an adequate amount compared to 15% of those 60 and older. Among those with any retirement savings, 31% under age 40 are very confident that their savings is invested appropriately compared to 19% of those 60 and older.

Even the positive impact of advice appears muted among older individuals by the current economic environment. Among retirement savers who have recently received advice, 44% under age 50 are very confident in their retirement income prospects compared with 22% of those age 50 and older.

It is not surprising that older individuals tend to be more impacted by current macroeconomic circumstances. Given a shorter time horizon until retirement, whenever that might be, many may view themselves as having little opportunity to recover investment losses. Even in the absence of such losses, current inflation could lead individuals nearing retirement to question their ability to maintain their desired standard of living throughout retirement.

Proximity to retirement also means that retirement savers should begin thinking about decumulation, but most are not. Only 23% of retirement savers age 50 and older have given a lot of consideration to how they will manage savings for income in retirement, and only 36% of these are very confident about making the best choice. Twenty-nine percent of retirement savers age 50 and older expect to annuitize some of their retirement savings, 24% expect to not annuitize, and approximately one-half are unsure. This is troubling since annuitization addresses the top priorities for managing personal finances during retirement among those 50 and older.

There is clearly a need among pre-retirees for amplified education and advice during an important life stage that has intersected with challenging economic phenomena. Only 52% of retirement savers age 50 and older have received professional retirement planning and saving advice within the past two years. Advice and targeted educational materials can help pre-retirees make appropriate adjustments to their retirement saving, investing, and planning. It can also bolster confidence in existing behavior and plans that are well-aligned with an individual's circumstances in today's environment.

Introduction

Americans are currently confronted with challenging economic phenomena. An inflation rate not experienced in decades is impacting all consumers—the consumer price index (CPI) was 9% higher in July than a year earlier. Simultaneously, savers are confronted with depressed stock markets—the NASDAQ Composite Index was down almost 20% from January through mid-August; in mid-June, it had been down over 30% for the year. Within higher education, colleges and universities, and their employees, continue to work through challenges that the COVID-19 pandemic created or amplified in the sector.

Maintaining one's financial well-being in such an environment, both that of the current year and that since COVID's onset, is hard. This is particularly true with regards to retirement readiness. Retirement income security depends upon a series of decisions and actions over time—most fundamentally, the amount being saved, the investment allocation of savings, and then how to manage savings for income during retirement. The challenge of making these decisions is obviously heightened by current economic circumstances.

This report examines retirement readiness among the full-time higher education workforce in this environment.[1] It is not surprising that those nearest retirement age appear to be the most impacted.

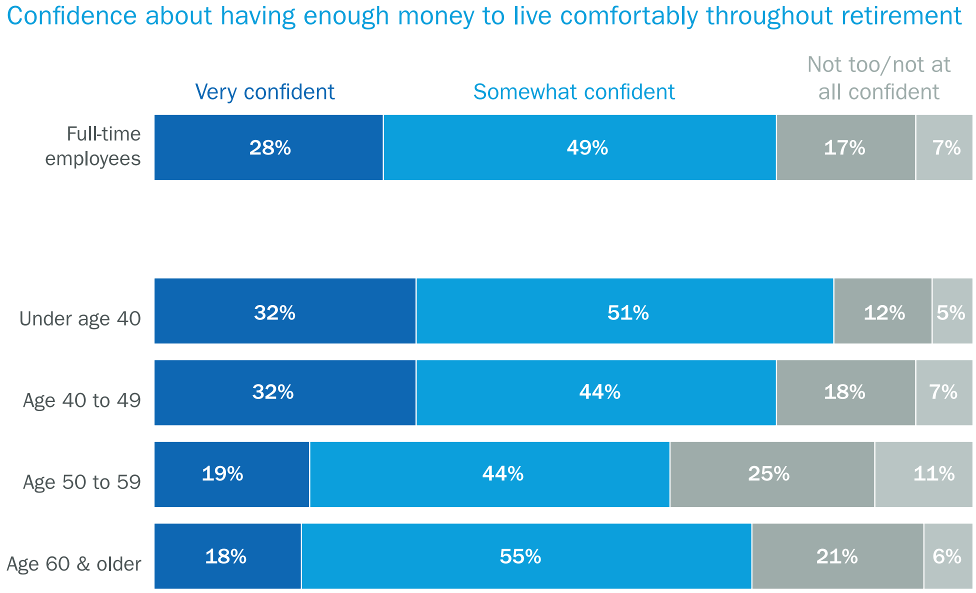
Retirement readiness

Three-quarters of full-time college and university employees are confident that they (and their spouse or partner) will have enough money to live comfortably throughout retirement, 28% very confident and 49% somewhat confident; the remaining 24% are not too or not at all confident (Figure 1). This is comparable with retirement income confidence among U.S. workers in general—73% of the U.S. workforce are very or somewhat confident in their retirement income prospects, with 28% very confident, while 27% are not too or not at all confident.[2]

1 The College and University Professional Association for Human Resources (CUPA-HR) and the TIAA Institute surveyed the higher education workforce in early 2022. Specifically, a sample of 1,327 faculty, staff, and administrators employed full time by a public or private nonprofit college or university completed the online survey between March 1 and April 11, 2022. Survey respondents were selected from members of the Dynata and OpinionRoute online research panels. Responses were weighted to be representative of the full-time higher education workforce.

2 Source: *2022 Retirement Confidence Survey*. Employee Benefit Research Institute and Greenwald & Associates.

Figure 1. Retirement income confidence in higher ed, 2022



Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Low confidence among pre-retirees

Sharp differences in retirement income confidence exist between pre-retirees and their younger peers as less than 20% of full-time higher education employees age 50 and older are very confident in their retirement income prospects compared with one-third of those under age 50 (Figure 1). Retirement income confidence tends to be highest among those under age 40 (83% are very or somewhat confident) and lowest among those in their 50s (63% are confident and 36% are not confident).[3]

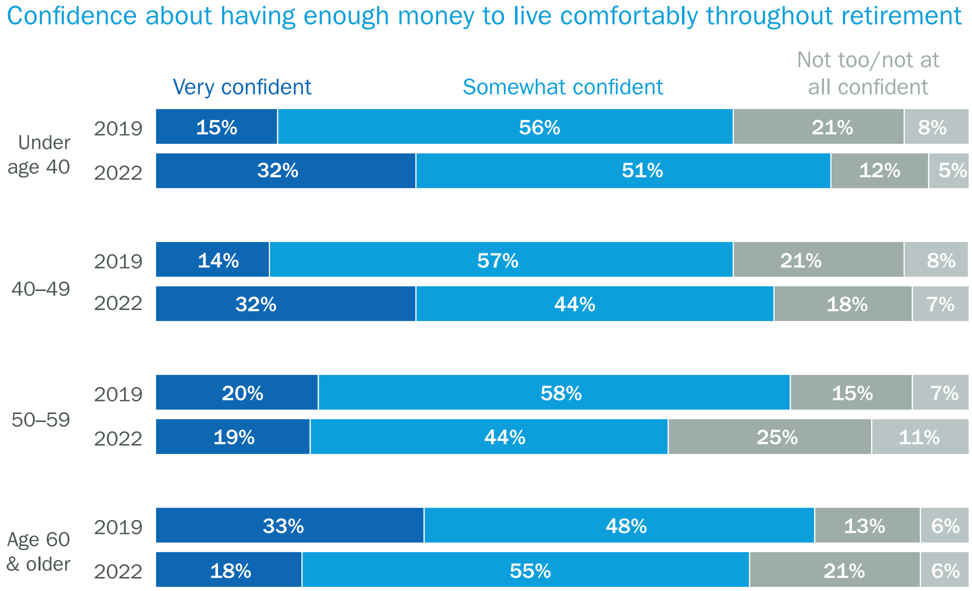
These figures reflect dramatic change over the past three years (Figure 2).[4]

- In 2019, retirement income confidence tended to be greater among pre-retirees, i.e., those 50 and older. Now it tends to be greater among those under age 50.
- Among the 50-59 and 60-plus age groups, respectively, the percentage not confident in their retirement income prospects is 14 and 8 percentage points higher in 2022 compared to 2019. Among the 40-49 and under 40 age groups, respectively, the analogous figures are 4 and 12 percentage points lower.
- In 2019, 33% of those age 60-plus were very confident in their retirement income prospects; this figure is 15 percentage points lower in 2022. In contrast, the opposite holds for the under 40 and 40–49 age groups as the percentage very confident in 2022 is 17 and 18 points greater, respectively, than 2019.

3 Retirement income confidence tends to be lower among staff and professional employees (23% are very confident) compared to faculty (36% very confident) and administration and executive employees (31%).

4 Source: *Financial Well-being and Retirement Readiness in the Higher Education Workforce: Findings from the 2019 Higher Education Financial Wellness Survey*. CUPA-HR and the TIAA Institute (2019).

Figure 2. Retirement income confidence, 2019 and 2022



Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2019, 2022).

Saving and investing confidence

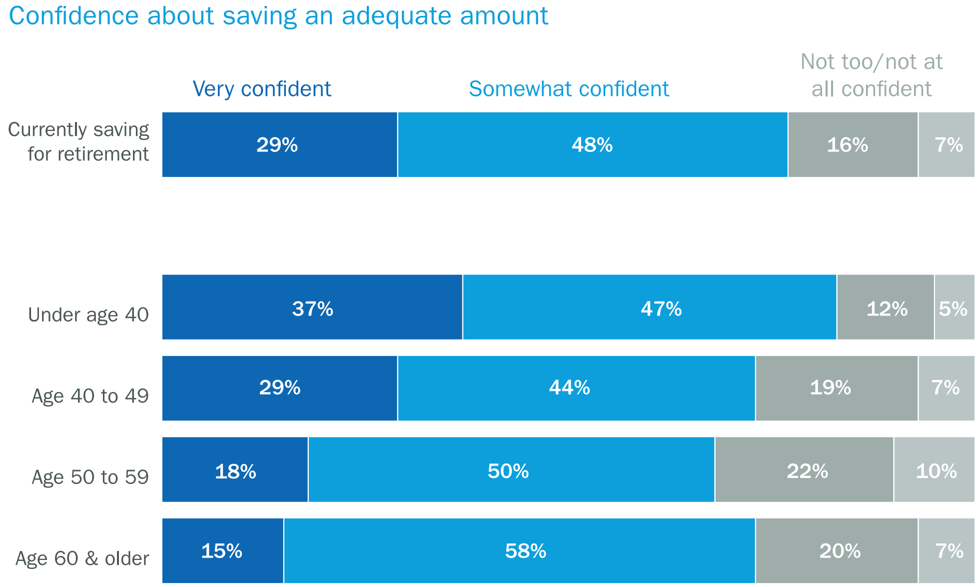
Age patterns in overall retirement income confidence generally reflect patterns in retirement savings confidence. More specifically, strong confidence regarding the amount being saved and regarding the investment of savings tend to be less common among pre-retirees.[5] Less than 20% of those age 50 and older are very confident that they are saving an adequate amount for retirement, while 37% of those under age 40 and 29% of those in their 40s are very confident (Figure 3).[6] Analogously, less than 20% of those 50 and older are very confident that their retirement savings is invested appropriately, while approximately 30% of those under 50 are very confident about this (Figure 4).[7]

5 Eighty-nine percent of full-time higher education employees are currently saving for retirement, with the majority doing so through an employer-sponsored defined contribution (DC) plan. A few who are not currently saving previously did so; on net, 93% of full-time higher education employees have some retirement savings. There is little variation across age groups in the percentage currently saving as well as the percentage with savings.

6 Retirement saving confidence tends to be higher among faculty (38% are very confident) compared to administration and executive employees (29% very confident) and staff and professional employees (23%).

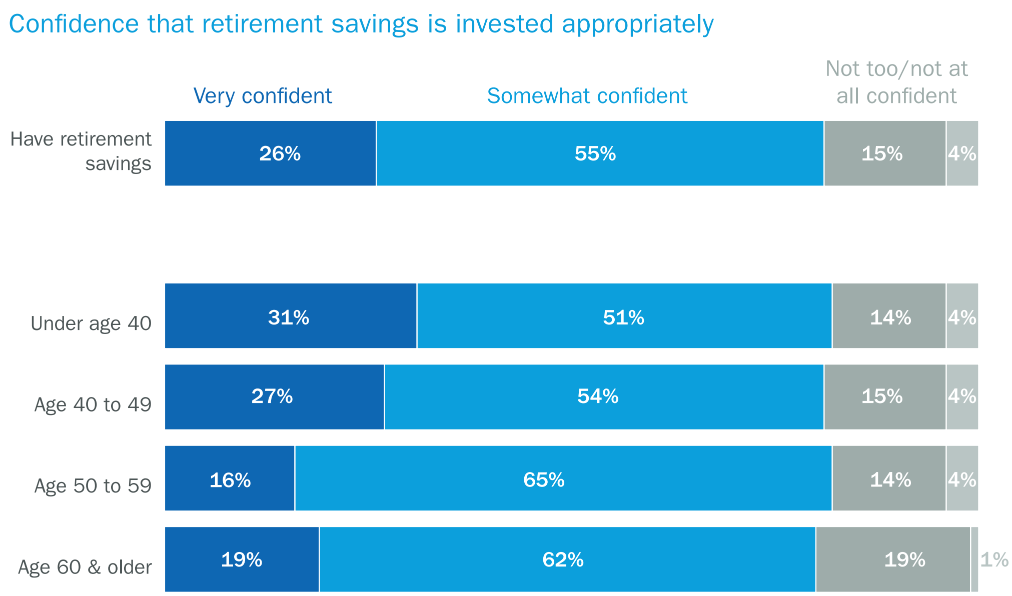
7 Retirement investment confidence tends to be higher among faculty (36% are very confident) compared to administration and executive employees (21% very confident) and staff and professional employees (21% also).

Figure 3. Retirement saving confidence



Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Figure 4. Retirement investment confidence

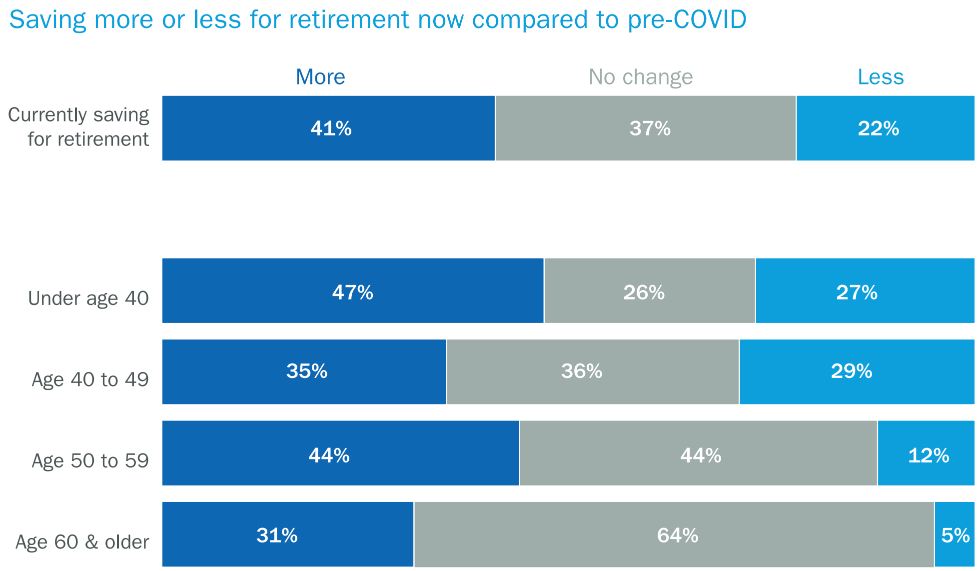


Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Saving and investing changes

Individuals were asked how their current level of saving compares with early 2020 before COVID-19 and whether their retirement savings is now invested differently. Among those currently saving, 41% are saving more and 22% are saving less (Figure 5). Changes in savings are most common among those under age 40 and least common among those 60 and older. Furthermore, a lower level of saving is much more prevalent among those under age 50 (over one-quarter are saving less) compared to those age 50 and older. Nonetheless, increased saving is more common than decreased saving among those under 50—47% of those under age 40 and 35% of those in their 40s are saving more. At the other end of the age spectrum, almost one-third of those age 60 and older are saving more, while under 5% are saving less.

Figure 5. Retirement saving

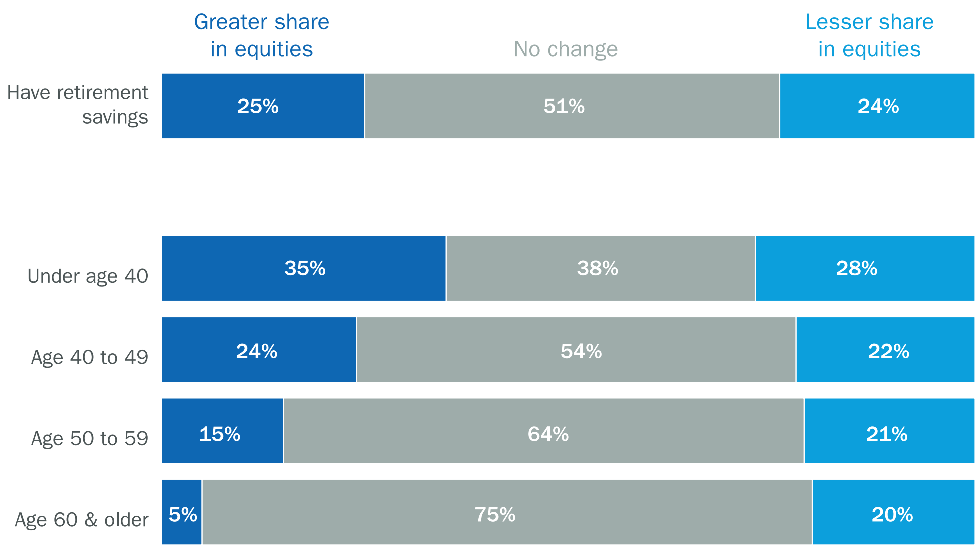


Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Likewise, changes in investment allocation of retirement savings are most common among those under age 40 (63% have changed their equity exposure since early 2020) and least common among those 60 and older (75% have not changed) (Figure 6). The other striking pattern is that increased equity exposure in retirement savings is consistently more prevalent at younger ages–while only 5% of those 60 and older have greater equity exposure now compared to early 2020, this rises to 15% among those age 50-59, 24% among those 40-49, and 35% among those under age 40. In the aggregate, one-quarter have greater equity exposure compared to pre-COVID and one-quarter have less equity exposure.

Figure 6. Retirement investing

Investment allocation of retirement savings now compared to pre-COVID



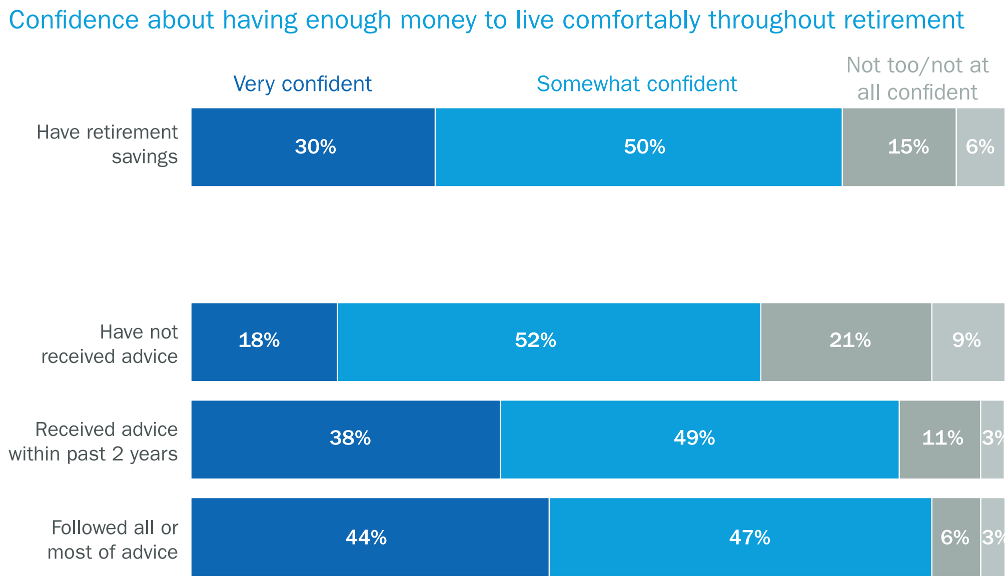
Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Impact of advice

A strong relationship exists between retirement advice and retirement confidence. Fifty-eight percent of retirement savers in higher education have received financial advice on planning and saving for retirement from a professional advisor or advisory service within the past two years, and they tend to have greater retirement income confidence than those who have not. Thirty-eight percent of those who have received advice within the past two years are very confident about their retirement income prospects compared to just 18% of those who have not received advice (Figure 7). Confidence is greater yet among those who followed all or most of the advice received.[8]

8 Twenty-three percent followed all the advice received, and 45% followed most of it.

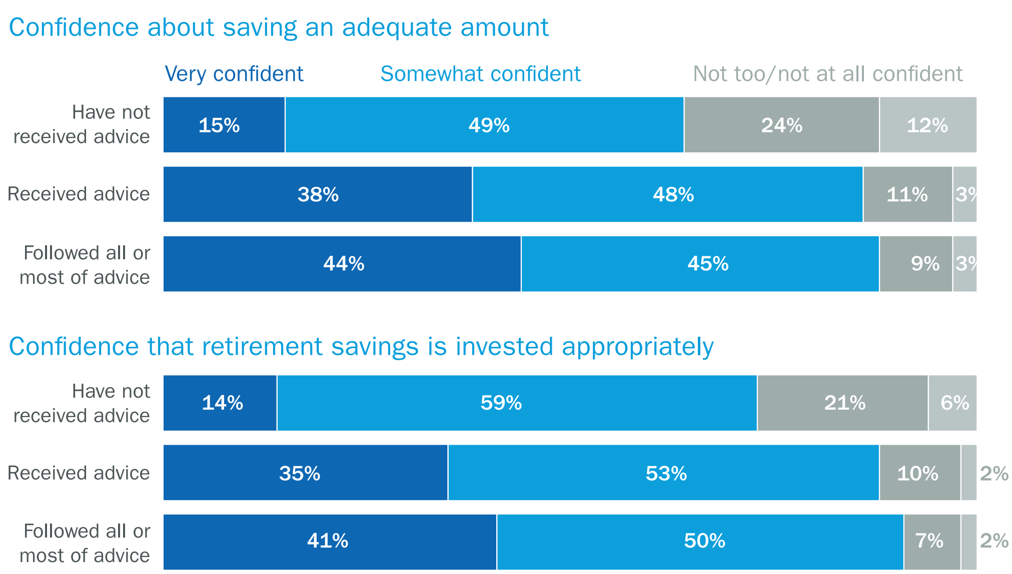
Figure 7. Advice and retirement income confidence



Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

These figures mirror the relationship between advice and confidence regarding the amount being saved for retirement, as well as advice and confidence regarding the investment of retirement savings (Figure 8).

Figure 8. Advice and confidence



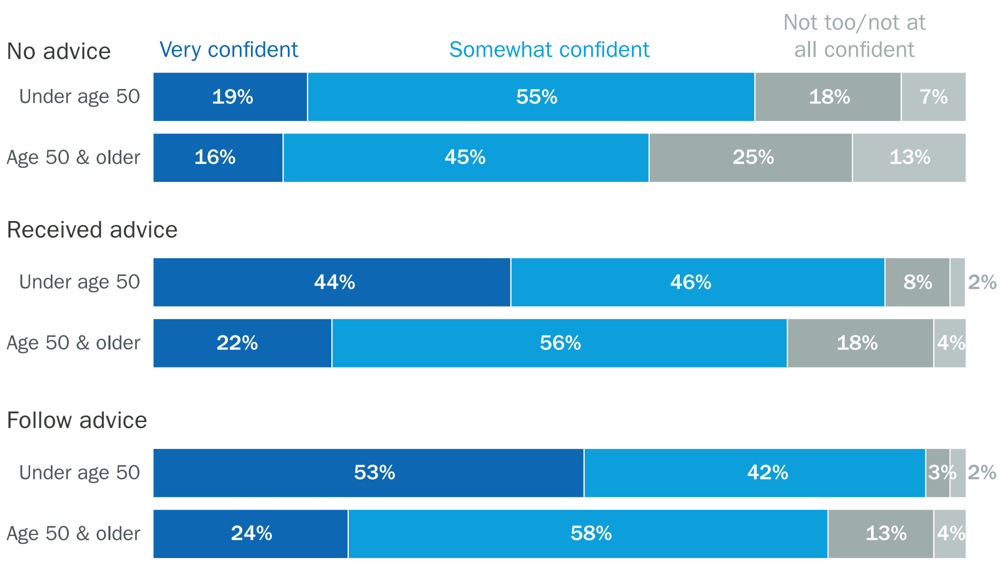
Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Advice receipt within the past two years is more common among higher education employees under age 50 (61%) than among those age 50 and older (52%). This is driven by those under 40, 66% of whom have recently received advice. It is more common for those age 50 and older to follow all or most of the advice they receive—75% compared with 65% among those under age 50.

Figure 9 shows the relationship between advice and retirement income confidence among pre-retirees and their younger peers. Among those who have not received advice within the past two years, confidence tends to be greater among those under age 50—74% are very or somewhat confident compared to 61% of those 50 and older (a 13 percentage point difference). Among those who have received advice, confidence again tends to be greater among those under age 50, and the difference in the percentage very or somewhat confident between them and their older peers is essentially the same at 12 percentage points. With that said, a dramatic difference exists among advice recipients in terms of the percentage very confident in their retirement income prospects—44% of those under age 50 versus only 22% of those 50-plus. The overall dynamic is analogous when comparing retirement income confidence across those who follow all or most of the advice.[9]

Figure 9. Advice and retirement income confidence

Confidence about having enough money to live comfortably throughout retirement



Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

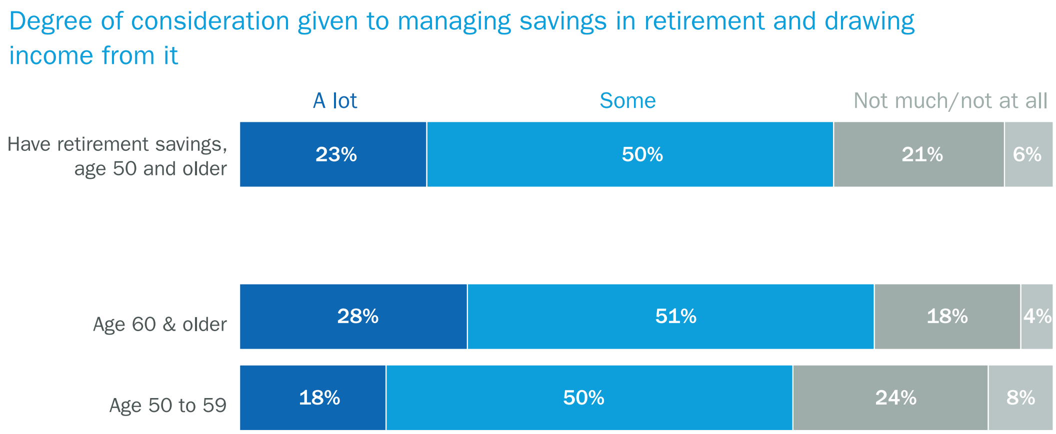
9 The findings are very similar when comparing retirement savings confidence and retirement investment confidence across those who did not recently receive advice, those who did, and those who follow all or most of the advice received.

Retirement savings to retirement income

An adequate and secure income throughout retirement depends upon appropriate decumulation of savings during retirement. 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.[10]

Ideally, pre-retirees will have begun to focus on decumulation. However, only 23% of retirement savers age 50 and older have given a lot of consideration to how they will manage their savings in retirement and draw income from it (Figure 10). In fact, a larger percentage (27%) have given it little if any thought. Significant consideration is more common among those age 60 and older than those in their 50s, but nonetheless only 28% of those 60-plus have thought a lot about decumulation, and 22% have thought about it little if at all.

Figure 10. Retirement savings decumulation



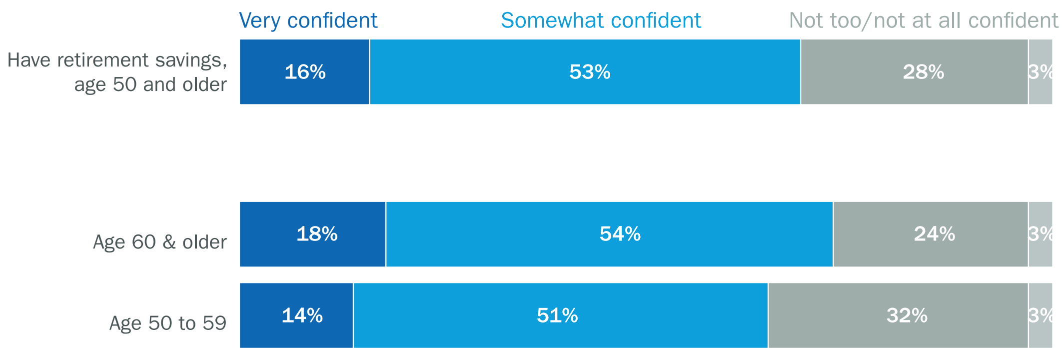
Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

There is limited confidence among pre-retirees about choosing the best way to draw income from their savings during retirement—only 16% are very confident that they will choose the best way to do so, while twice as many (31%) are not too or not at all confident (Figure 11). Limited confidence is not surprising given the lack of consideration noted above. It also likely reflects the difficulty this issue poses. Furthermore, while there is a strong relationship between consideration and confidence, still only 36% of retirement savers age 50-plus who have thought a lot about decumulating their retirement savings are very confident that they will make the best choice (Figure 12).

10 Decumulation decision making is particularly important for those who will not receive benefits from a defined benefit (DB) pension 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.

Figure 11. Retirement decumulation confidence

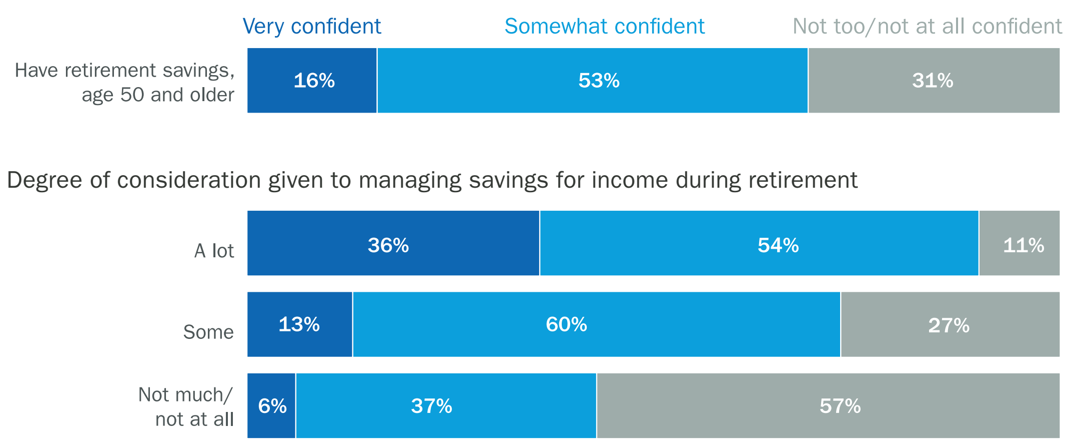
Confidence about choosing the best way to draw income from savings during retirement



Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Figure 12. Retirement decumulation confidence

Confidence about choosing the best way to draw income from savings during retirement



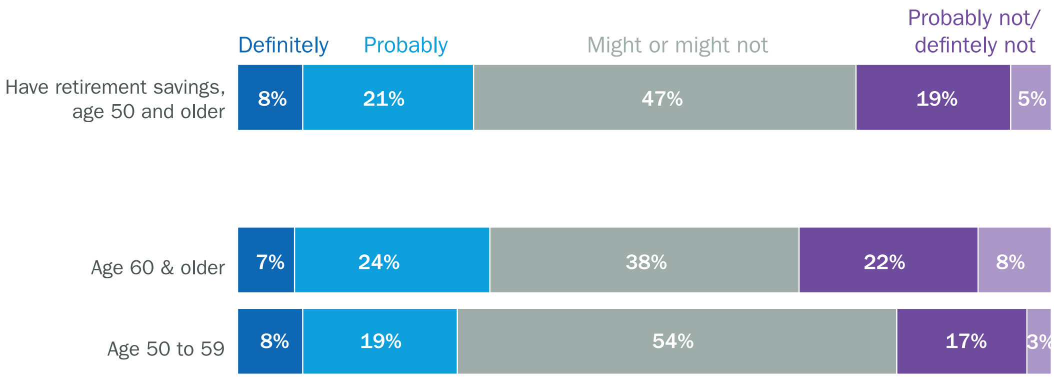
Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

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). Twenty-nine percent of retirement savers age 50 and older in higher education expect to annuitize some of their retirement savings, 24% expect to not annuitize, and approximately one-half are unsure (Figure 13).[11]

Figure 13. Annuitization

Will or will not annuitize some retirement savings

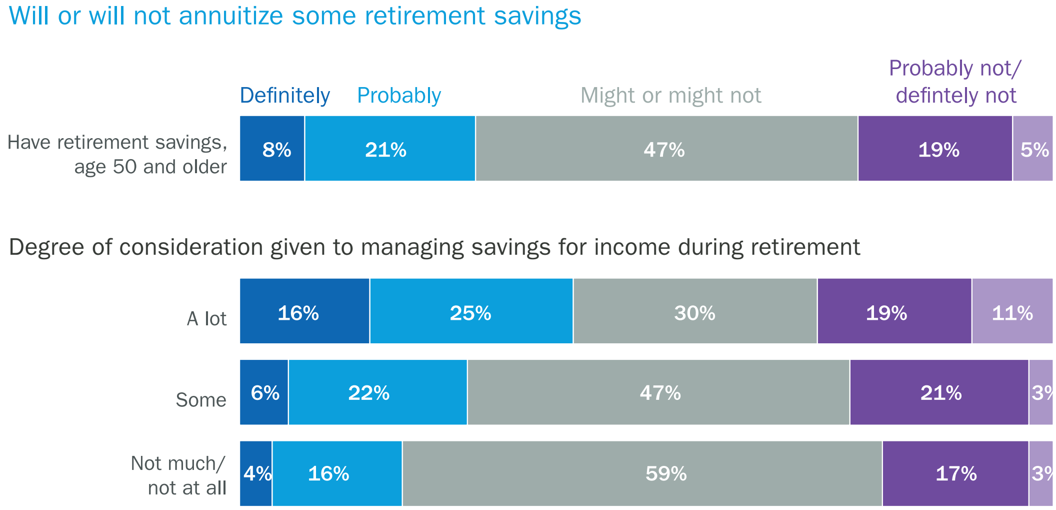


Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Greater consideration is associated with greater certainty about whether or not to annuitize, but that certainty cuts both ways (Figure 14). Among those who have thought little if at all about decumulation, 20% expect to annuitize and 20% expect to not annuitize. While both figures are higher among those who have thought about it a lot, the percentage who expect to annuitize is greater (41% versus 30%).

11 Respondents were asked, "Do you think you will convert some of your retirement savings into a payout annuity to provide income during retirement? A payout annuity is a financial product that pays a guaranteed level of income each month for as long as you live."

Figure 14. Annuitization



Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

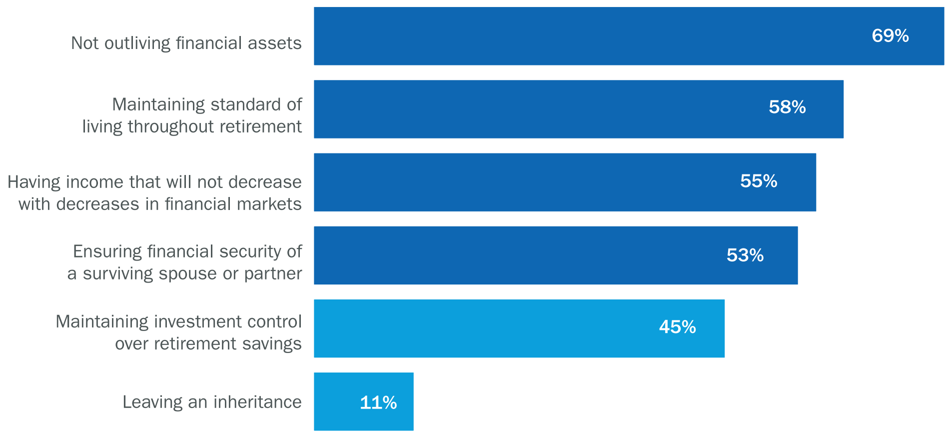
Lack of intent to annuitize or uncertainty about doing so is inconsistent with addressing the top priorities among retirement savers for managing personal finances during retirement. "Not outliving financial assets," exactly the outcome that annuitization insures against, is the objective most often rated as a high financial priority among retirement savers age 50 and older (69%) (Figure 15).[12] Yet only 29% of those rating it a high priority expect to annuitize some retirement savings. Likewise, the next three highest priorities—maintaining one's standard of living, having income that will not fall with financial market decreases, and ensuring the financial security of a surviving spouse—can all be addressed through annuitization. Nonetheless, only 31%, 34%, and 27% of those rating each a high priority, respectively, expect to annuitize.

12 Seventy-seven percent of those age 60 and older rated "not outliving financial assets" as a high priority.

Figure 15. Financial priorities in retirement

Among those with retirement savings, age 50 and older

% reporting item as a high priority for managing personal finances during retirement



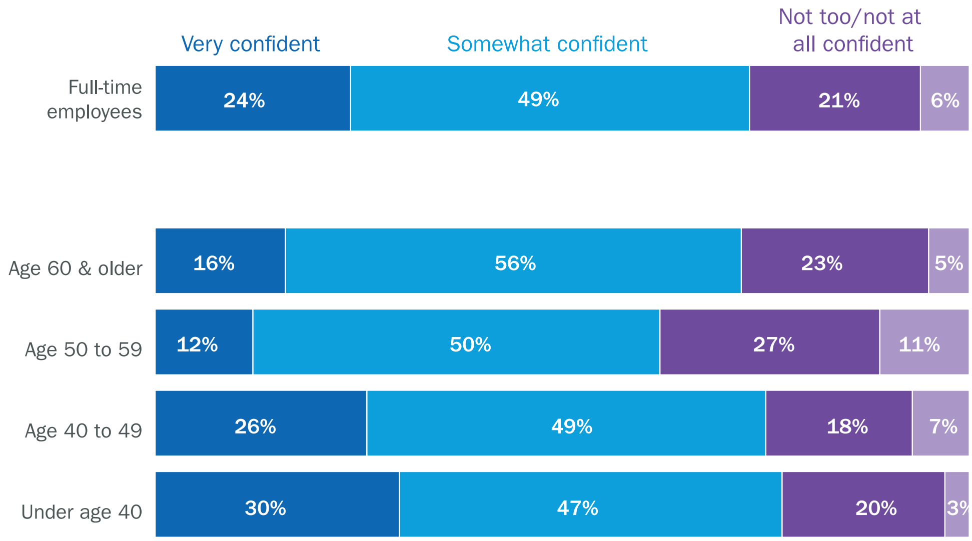
Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Retiree medical and long-term care

Concerns about covering out-of-pocket medical expenses during retirement, as well as concerns regarding the expense of long-term care if needed, weigh on higher education employees. This likely relates to the potential magnitude of such expenses and inherent uncertainty about future health status. Twenty-seven 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 (Figure 16); 39% are not confident about their ability to pay for long-term care if needed (Figure 17). Potential long-term care expenses are a particular concern among pre-retirees—56% of those age 50 and older are not confident about having enough money for long-term care if needed.

Figure 16. Retirement healthcare confidence

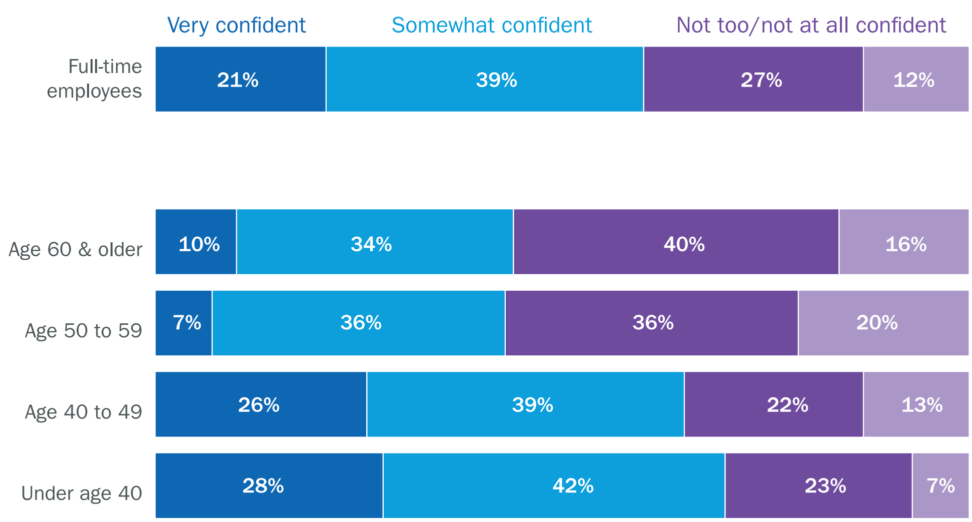
Confidence about having enough money to take care of out-of-pocket medical expenses during retirement



Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Figure 17. Long-term care confidence

Confidence about having enough money to pay for long-term care if needed



Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Discussion

Negative self-assessments of retirement readiness are increasingly common among many pre-retirees (i.e., those age 50 and older) in the full-time higher education workforce, as indicated by confidence levels regarding retirement income prospects, adequacy of the amount being saved, and appropriateness of investment allocations. This is a stark reality for colleges and universities to confront.

- Among the 50–59 and 60 and older age groups, respectively, the percentages not confident about having enough money to live comfortably throughout retirement are 14 and 8 percentage points higher in 2022 than 2019. The share of those age 60-plus very confident in their retirement income prospects fell from 33% to 18% over the same period.
- Forty-four percent of those age 50–59 and 31% of those 60 and older are saving more for retirement than they were in early 2020 before the onset of COVID-19; few are saving less. Nonetheless, fewer than 20% are very confident that they are saving an adequate amount.
- Two-thirds of those in their 50s and three-quarters of those 60-plus have the same investment allocation for their retirement savings as early 2020, but fewer than 20% are very confident that they are invested appropriately.
- Even the positive impact of retirement planning advice appears muted among pre-retirees compared with their younger peers. More specifically, among retirement savers under age 50, 44% who received advice within the past two years are very confident in their retirement income prospects compared with 19% of those who have not received advice—a difference of 25 percentage points. The analogous figures among those 50 and older are 22% and 16%, respectively, a difference of only 6 percentage points.

These findings should be viewed in the context of the macroeconomic environment when the survey was conducted (March 1 to April 11), specifically, a volatile and depressed stock market and price inflation not seen in 40 years.[13, 14] In addition, colleges and universities, as well as their employees, continue to work through challenges that the COVID-19 pandemic created or amplified in the higher education sector.

It is not unreasonable for the outlook among pre-retirees to be disproportionately impacted by these circumstances. Those 50 and older have a shorter time horizon until retirement, whenever that might be, and may view themselves as having a limited, even insufficient, opportunity to recover investment losses before beginning to drawdown their savings. In addition, the cost of living is almost 10% greater today than one year ago. Even in the absence of decreased portfolio values, this could lead individuals nearing retirement to question their ability to maintain the standard of living they desire throughout retirement. Younger individuals have the benefit of time, in this case decades, to ride out financial markets and make ongoing adjustments in their saving and investments. Pre-retirees are time-constrained in this sense.

13 The NASDAQ Composite Index was down 15% for the year on March 1 when surveying began and 15% for the year on April 11 when surveying was completed. In between, the NASDAQ was down over 20% for the year on March 14, but only 8% down on March 29. Furthermore, at the beginning of the pandemic, the NASDAQ fell almost 30% from mid-February to mid-March 2020, but had recovered these losses less than three months later.

14 Inflation as measured by the 12-month increase in the CPI-U was 8.5% in March, the biggest 12-month increase since December 1981.

Proximity to retirement also means that pre-retirees should begin considering and planning for retirement savings decumulation in addition to ongoing accumulation. Decumulation is intrinsically difficult because of uncertainty regarding factors such as lifespan (including that of a spouse or partner) and investment returns during retirement. However, only 23% of retirement savers age 50 and older have given a lot of consideration to how they will manage their savings for income in retirement, while 27% have given it little if any thought. Furthermore, even among those who have thought a lot about decumulation, only 36% are very confident about making the best choice. Beyond the inherent difficulty of decumulation, lack of confidence may be heightened by a volatile and depressed stock market and price inflation.

There is clearly a need among pre-retirees for amplified education and advice during an important career and life stage that has intersected with the occurrence of very challenging economic phenomena. Only 52% of retirement savers age 50 and older have received professional retirement planning and saving advice within the past two years, and for most this likely occurred before this year. Advice and targeted educational materials can help pre-retirees make appropriate adjustments to their retirement saving, investing, and planning. It can also bolster confidence in existing behavior and plans that are well-aligned with an individual's circumstances in today's environment.

About the authors

Paul Yakoboski is a senior economist with the TIAA Institute, where his research focus is lifetime financial security, including issues related to financial literacy and financial wellness, retirement saving and investing, and asset management during retirement. In addition, he researches workforce issues in the higher education and nonprofit sectors. He manages the Institute's survey research program and is director of the Institute's Fellows Program. Prior to joining the TIAA Institute, Yakoboski held positions with the American Council of Life Insurers, the Employee Benefit Research Institute and the U.S. Government Accountability Office. Yakoboski earned his Ph.D. and M.A. in economics from the University of Rochester and his B.S. in economics from Virginia Tech.

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