

Survey Finds Federal Workers Share Poor Retirement Planning With All Workers, but Have More Savings, p. 2

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Executive Summary:

Survey Finds Federal Workers Share Poor Retirement Planning With All Workers, but Have More Savings

- ***Higher expectations, same bad planning:*** A survey of the federal civilian work force shows that federal workers expect to retire earlier than American workers as a whole and say they have saved more money—but are almost as bad at planning for retirement as all workers. Results of the online survey of federal civilian workers by the Office of Personnel Management (OPM) allow a number of comparisons between the retirement preparations and savings habits of federal workers and American workers as a whole, as measured by the 2005 Retirement Confidence Survey (RCS) conducted by EBRI and Mathew Greenwald & Associates.
- ***Ahead of schedule:*** Federal workers believe they are better prepared for retirement than American workers. Nearly half (49 percent) of federal workers said they were ahead of schedule—by either a lot or a little—in their planning and saving for retirement, while just 7 percent of all American workers said they were ahead of schedule by a lot or a little.
- ***Poor planning is common:*** Despite their belief that they are better prepared, less than half (48 percent) of federal workers have actually calculated how much money they will need in retirement—just 6 percentage points more than all American workers in general. Even though they expect to retire earlier, federal workers who have done a retirement needs calculation do not think the amount of money they will need in retirement will be substantially different from American workers.

Facts from EBRI: Employer Spending on Benefits, 2005

- ***Total compensation hits \$7 trillion:*** In 2005, employers spent \$7.0 trillion on total compensation, according to the most recent data from the U.S. Commerce Department's Bureau of Economic Analysis (BEA). Wages and salaries accounted for the lion's share, \$5.7 trillion (or 80.6 percent), while benefits made up the remainder, \$1.4 trillion (19.4 percent).
- ***Health benefit costs overtaking retirement:*** Retirement benefits remain the largest single sector of benefits expenditures by employers, although health benefits have been catching up.

■ ***Survey Finds Federal Workers Share Poor Retirement Planning With All Workers, but Have More Savings***

By John A. McDonald, EBRI

A survey of the federal civilian work force shows that federal workers expect to retire earlier than American workers as a whole and say they have saved more money—but are almost as bad at planning for retirement as all workers.

The federal government has launched a program to educate its 2.7 million civilian employees on the need for retirement savings and investment. Mandated by Congress in 2004, this evolving program will include information on how to plan for retirement and how to calculate the investments needed to meet workers' retirement goals. The Office of Personnel Management (OPM) is developing a financial education strategy designed to provide federal employees with a framework for analysis and decision-making so they can achieve their retirement goals.

As part of the overall program, OPM conducted an online survey of federal workers in mid-2005 to measure the retirement readiness of civilian federal workers. Results of OPM's Retirement Readiness Survey (RRS) (www.opm.gov/publications/RetirementReadiness06.asp) were made public during the summer of 2006, and allow a number of comparisons between the retirement preparations and savings habits of federal workers and American workers as a whole, as measured by the 2005 Retirement Confidence Survey (RCS) conducted by the Employee Benefit Research Institute (EBRI) and Mathew Greenwald & Associates (<http://ebri.org/surveys/rcs/>).

This article offers five conclusions about the retirement preparations of federal workers and all American workers, as reported by the federal RRS and by the RCS. Ten questions from the federal survey were the same as or similar to those in the 2005 RCS and serve as the basis for these conclusions.

The article also presents results of other questions from the federal survey dealing with investment knowledge. While comparative RCS results on investment knowledge are not available, the answers and large sample size in the federal survey (nearly 7,300 responses) may be of general interest to retirement plan sponsors, plan participants, and others.

Conclusions from a comparison of the two surveys:

- Federal workers expect to retire much earlier than American workers as a whole. The federal survey showed that 53 percent think they will retire before age 62. But among all American workers, only 24 percent think they will retire before age 62 and 50 percent say they will retire at age 65 or older.
- Perhaps because they anticipate retiring earlier, federal workers expect to spend more years in retirement than American workers as a whole. Thirty-eight percent of federal workers expect to spend 25 or more years in retirement, compared with 16 percent of all American workers.
- Federal workers believe they are better prepared for retirement than other American workers. Nearly half (49 percent) of federal workers said they were ahead of schedule—by either a lot or a little—in their planning and saving for retirement, while just 7 percent of all American workers said they were ahead of schedule by a lot or a little.
- Despite their belief that they are better prepared, less than half (48 percent) of federal workers have actually calculated how much money they will need in retirement—just 6 percentage points more than all American workers in general.
- Even though they expect to retire earlier, federal workers who have done a retirement needs calculation do not think the amount of money they will need in retirement will be substantially different from that of all American workers. Among federal workers, 39 percent said they will need \$500,000 or less to maintain their desired lifestyle in retirement and 63 percent said \$1 million or less. Among American workers who did such a calculation, 44 percent said \$500,000 or less and 65 percent said \$1 million or less, without regard to lifestyle.

While the two surveys suggest similar behavioral patterns by federal workers and all American workers, federal workers have specific reasons why they may feel better prepared for retirement than all American workers. For example, many older federal workers have more generous retirement benefits, in particular a generous defined benefit pension plan. Meanwhile, the percentage of private-sector workers eligible to receive a defined benefit pension has fallen from 32 percent in 1992–1993 to 21 percent in 2005. In many cases, private-sector defined benefit plans are less generous than the federal plan.

In addition, federal workers can qualify for retiree medical coverage that is rapidly evaporating in the private sector. In 2005, 33 percent of large private-sector firms (200 or more workers) offered retiree health benefits, compared with 46 percent in 1991. Those two key differences leave federal workers—especially long-serving federal workers—significantly better prepared for retirement than most workers in the private sector, some experts believe. These differences may explain some of the variations between federal and all American workers in the survey results.

Results of Two Surveys Compared

Here are the responses to 10 comparable questions from the federal survey and the RCS:

Progress in planning and saving for retirement: Asked for a self-evaluation of their planning and saving for retirement, 16 percent of federal workers said they were a lot ahead of schedule and 33 percent said they were a little ahead of schedule, for a total of 49 percent. By contrast, 55 percent of all American workers in the RCS said they were a little or a lot behind schedule.

Figure 1
Planning and Saving for Retirement

	Federal Workers (RRS)	All American Workers (RCS)
A lot ahead of schedule	16%	3%
A little ahead of schedule	33	4
On track	33	37
A little behind schedule	9	23
A lot behind schedule	5	32
Don't know	4	1

Source: OPM Retirement Readiness Survey, EBRI/MGA 2005 Retirement Confidence Survey.

Timing of retirement: Federal workers were asked the age when they think they realistically will be able to retire. The RCS asked for the age when workers planned to retire. Federal workers anticipate a much earlier retirement than workers in the RCS.

Figure 2
Expected Age of Retirement

	Federal Workers (RRS)	All American Workers (RCS)
Before age 55	7%	6%
Age 55–59	31	10
Age 60–61	15	8
Age 62–64	15	10
Age 65	12	26
Age 66 or older	10	24
Never retire	1	6
Don't know	10	–

Source: OPM Retirement Readiness Survey, EBRI/MGA 2005 Retirement Confidence Survey.

Years in retirement: Both the federal survey and the RCS asked about how many years workers expect to spend in retirement, with the range of 20–24 years receiving the highest response from both groups.

Figure 3
Expected Years in Retirement

	Federal Workers (RRS)	All American Workers (RCS)
Less than 10	2%	6%
10–19	16	22
20–24	24	27
25–29	16	9
30–39	18	17
40 or more years	4	–
Don't know	21	–

Source: OPM Retirement Readiness Survey, EBRI/MGA 2005 Retirement Confidence Survey.

Amount of money accumulated: The federal survey asked workers the total amount of money they had accumulated that was not earmarked for routine bills and expenses. The RCS asked workers how much money they had in savings and investments, excluding the value of their primary residence. The federal survey found that 37 percent had accumulated \$100,000 or more, compared with less than one-quarter (23 percent) of American workers in the RCS who had savings and investments of \$100,000 or more.

Figure 4
Amount of Money Saved

Federal Workers (RRS)		All American Workers (RCS)	
No savings	6%	Less than \$25,000	52%
\$1–\$4,999	15	\$25,000–\$49,999	13
\$5,000–\$9,999	9	\$50,000–\$99,000	11
\$10,000–\$49,999	19	\$100,000–\$249,000	12
\$50,000–\$99,999	14	\$250,000 or more	11
\$100,000–\$149,999	10		
\$150,000–\$249,999	11		
\$250,000–\$499,999	10		
\$500,000 or more	6		

Source: OPM Retirement Readiness Survey, EBRI/MGA 2005 Retirement Confidence Survey.

Retirement needs calculation: The level of federal workers and workers in the RCS who said they have calculated how much money they will need in retirement was not significantly different: Among federal workers, 48 percent said they had done such a calculation, compared with 42 percent for workers in the RCS.

Method of making retirement needs calculation: Both surveys offered workers who had completed a retirement needs calculation a menu of options to describe how they made the calculation. The federal survey asked for the answer that “best” described how the worker had arrived at the estimate; the RCS allowed workers to make multiple selections. The top five responses in each survey:

Figure 5
How Have You Calculated Your Retirement Needs?

Federal Workers (RRS)		All American Workers (RCS)	
Online form or calculator	25%	Online calculator	11%
Estimated or guessed	20	Guessed	10
Self-created worksheet	17	Did own estimate	37
By a financial advisor	15	Asked financial advisor	35
Paper worksheet from publication	9	Worksheet or form	10

Source: OPM Retirement Readiness Survey, EBRI/MGA 2005 Retirement Confidence Survey.

Amount of savings needed for retirement: The federal survey asked workers who had done a retirement needs calculation the total amount of money they thought they would need to maintain their desired lifestyle in retirement. The RCS asked those who had done a needs calculation the amount they thought they would need in retirement, without specifically mentioning lifestyle.

Figure 6
Savings Needed for Retirement
 (Among those having calculated)

Federal Workers (RRS)		All American Workers (RCS)	
Less than \$100,000	9%	Less than \$250,000	23%
\$100,000–\$249,999	15	\$250,000–\$499,000	21
\$250,000–\$499,999	15	\$500,000–\$999,999	21
\$500,000–\$749,999	13	\$1 million–\$1.49 million	11
\$750,000–\$999,999	11	\$1.5 million or more	11
\$1 million–\$2 million	17	Refused to answer	4
\$2 million or more	10	Don't know/remember	8
Don't know/remember	11		

Source: OPM Retirement Readiness Survey, EBRI/MGA 2005 Retirement Confidence Survey.

Most trusted source of financial information or tools to save for retirement: The federal survey allowed workers to provide multiple answers that described what they considered their most trusted sources of retirement planning information. The RCS sought a single answer that described the most useful tools in helping save for retirement. The top five responses in each survey:

Figure 7
Most Trusted Source of Financial Information

Federal Workers (RRS)		All American Workers (RCS)	
Financial professionals	50%	Professional financial advisor	27%
Written material rcvd. at work	38	Budget to manage current spending	15
Friends or co-workers	28	Book on planning/saving	11
Family	27	Professional calculation of rtmnt. needs	10
Newspapers/magazines	25	Internet site on planning/saving	8
Seminars	25	Class on planning/saving	8

Source: OPM Retirement Readiness Survey, EBRI/MGA 2005 Retirement Confidence Survey.

Savings participation at work: Federal workers were slightly more likely to participate in a savings plan at work than workers in the RCS, but both groups had high participation levels. Nine in 10 (91 percent) federal employees reported they contributed to the Thrift Savings Plan, the RRS found, while about 8 in 10 (82 percent) private-sector workers offered a plan by their employer reported they contributed a portion of their pre-tax income to it, the RCS found.

Work in retirement: The Retirement Confidence Survey reported that two-thirds of workers (66 percent) expect to work for pay in retirement. By contrast, 38 percent of federal workers expect to work for pay in retirement and 38 percent said they don't know. Twenty-five percent of federal workers said they do not plan to work in retirement.

Federal Workers' Investment Knowledge from OPM Survey

The survey of federal workers contained several questions not included in the RCS about investment knowledge. Results from six of those questions show that a substantial majority of federal workers say they have at least some knowledge of investing and some level of confidence about their ability to plan for retirement. In each case, however, only about 1 in 5 workers say they have a substantial amount of knowledge or confidence. Beyond that, more than 3 in 4 describe themselves as moderate to conservative risk takers. Here are the results of the six questions:

Personal knowledge of investing: This question asked federal workers to rate their personal knowledge of investing. About two-thirds (63 percent) said they had at least some knowledge of investing while more than one-third (37 percent) said they had little or no knowledge.

Figure 8
Personal Knowledge of Investing

A great deal of knowledge	4%
A lot	14
Some	45
Only a little	28
No knowledge	9
Source: OPM Retirement Readiness Survey.	

Confidence in retirement planning: This question asked federal workers how confident they were about their knowledge of planning for retirement, including how much money they will need to save for retirement. As in the preceding question, about two-thirds had some level of confidence.

Figure 9
Knowledge of Planning for Retirement

Extremely confident	4%
Very	16
Somewhat	44
Not too	27
Not at all confident	8
Source: OPM Retirement Readiness Survey.	

Risk tolerance: Asked about their tolerance for risk with household wealth, about three-fourths (77 percent) of federal workers described themselves as moderate-to-conservative investors.

Figure 10
Tolerance for Risk

Will take substantial risks to get a substantial gain on investments	7%
Will take moderate risk to get above-average financial gain on investments	47
Will take a small risk to get a fair return on investment	30
Try to reduce risk to the barest minimum, even if it reduces investment gains.	11
Don't know	5
Source: OPM Retirement Readiness Survey.	

Review of retirement savings investments: Federal workers were asked how often they review their retirement savings investments. Eight in 10 (81 percent) said at least once a year. The responses below come only from those who said they save regularly outside of work for retirement (3,960 individuals):

Figure 11
Frequency of Reviewing Investments

Every 3 months or more often	28%
Every 6 months	20
Once a year	33
Every 2 years or less	14
Don't know	5
Source: OPM Retirement Readiness Survey.	

Risks associated with investments: This question asked federal workers to rate various types of investments by the risk they associated with each. In this case, a 5 represents a great deal of risk, while a 1 represents no risk.

Figure 12
Perceived Riskiest Investments

International stock	4.2
Domestic stock	4.1
Money market funds	2.7
Balanced funds	2.7
Bond funds	2.2
Guaranteed or stable-value funds	1.9
Source: OPM Retirement Readiness Survey.	

Knowledge of a balanced mutual fund: Federal workers were asked which of the following describes how a “balanced” mutual fund is invested, with more than half (56 percent) providing the correct answer. However, nearly one-third (31 percent) did not know.

Figure 13
Knowledge of Balanced Mutual Fund

Mix of stocks, bonds, and money market securities	56%
Mix of large and small capitalization stocks	11
Mix of foreign and U.S. securities	2
Don't know	31
Source: OPM Retirement Readiness Survey.	

Methodologies

The Federal Worker Retirement Readiness Survey was conducted by the International Foundation for Retirement Education (InFRE) on behalf of the Office of Personnel Management between May and September 2005. The 20-minute Internet survey was sent to 22,701 federal workers’ e-mail addresses. A total of 9,229 surveys were returned, but 1,935 were not usable, leaving a total of 7,294 usable surveys (a response rate of 32 percent). The margin of error in the federal survey was plus or minus 1.1 percentage points.

The 2005 Retirement Confidence Survey, co-sponsored by EBRI and Mathew Greenwald & Associates, a survey research firm, was conducted in January 2005 through 20-minute telephone interviews with 1,253 individuals age 25 and older in the United States. The margin of error was plus or minus 3 percentage points.

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■ Facts from EBRI: Employer Spending on Benefits, 2005

By Ken McDonnell, EBRI

In 2005, employers spent \$7.0 trillion on total compensation, according to the most recent data from the U.S. Commerce Department’s Bureau of Economic Analysis (BEA). Wages and salaries accounted for the lion’s share, \$5.7 trillion (or 80.6 percent), while benefits made up the remainder, \$1.4 trillion (19.4 percent) (Figure 1).

Figure 1
Employer Spending for Benefits, 1960–2005

	1960	1970	1980	1990	2000	2005
	(\$ billions)					
Total Compensation	\$296.5	\$617.1	\$1,651.1	\$3,337.5	\$5,781.8	\$7,028.5
Wages and Salaries ^a	272.8	551.5	1,377.4	2,754.0	4,829.8	5,664.8
Total Benefits	23.6	65.5	273.7	583.5	952.6	1,363.7
Retirement income benefits	14.1	40.1	160.1	292.9	458.8	628.4
Social Security (OASDI)	5.6	16.2	55.6	137.3	233.3	280.2
Private employers	4.9	13.1	55.3	63.8	113.5	184.1
Public employers	3.7	10.8	49.2	91.8	112.0	164.0
State and local governments	1.8	5.1	19.1	33.0	39.6	61.0
Federal government	1.9	5.7	30.1	58.8	72.4	103.0
Civilian retirement	0.8	2.0	15.9	28.7	41.3	48.5
Military retirement	0.8	3.2	12.5	27.5	28.2	51.9
Railroad retirement	0.3	0.5	1.7	2.6	2.9	2.6
Health benefits	3.4	14.6	73.0	211.9	399.6	596.5
Medicare hospital insurance	0.0	2.3	11.6	33.5	67.0	79.9
Group health insurance	3.4	12.1	61.0	176.9	331.4	514.5
Military medical insurance ^b	0.0	0.2	0.4	1.5	1.2	2.1
Other Benefits	6.1	10.8	40.6	78.6	94.2	138.3
Unemployment insurance	3.0	3.8	17.2	24.5	29.8	45.5
Workers’ compensation	2.0	4.6	19.3	46.9	52.0	80.2
Group life insurance	1.1	2.4	4.1	7.2	12.4	13.0

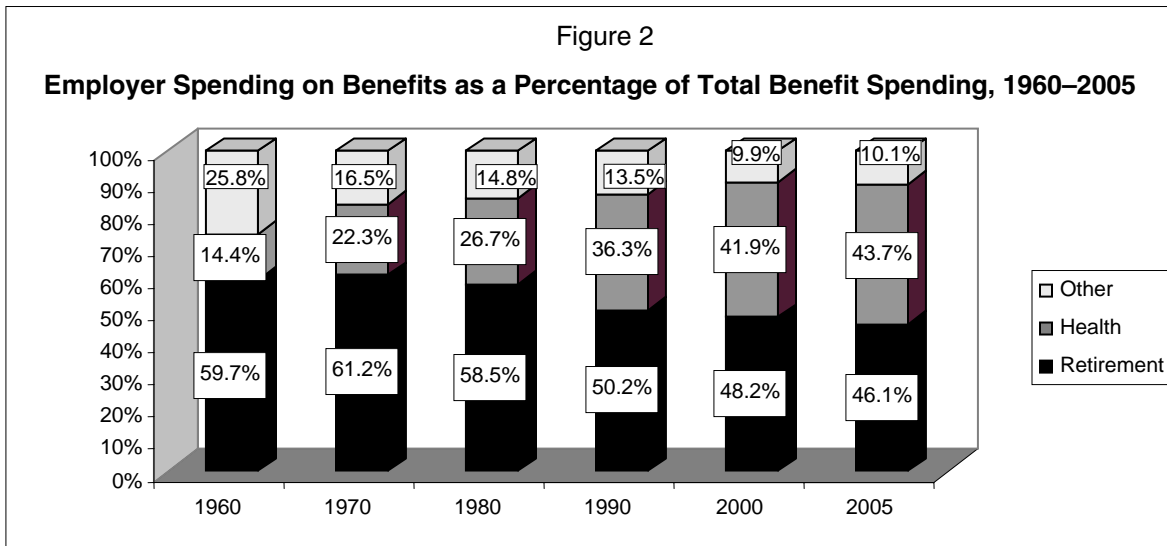
Source: Employee Benefit Research Institute tabulations of data from the U.S. Department of Commerce, Bureau of Economic Analysis, *National Income and Product Accounts of the United States*. www.bea.doc.gov/bea/dn/nipaweb/index.asp
For additional years of data, see EBRI’s *Databook on Employee Benefits*, chapter 2.

www.ebri.org/publications/books/index.cfm?fa=databook

^a Includes paid holidays, vacations, and sick leave taken.

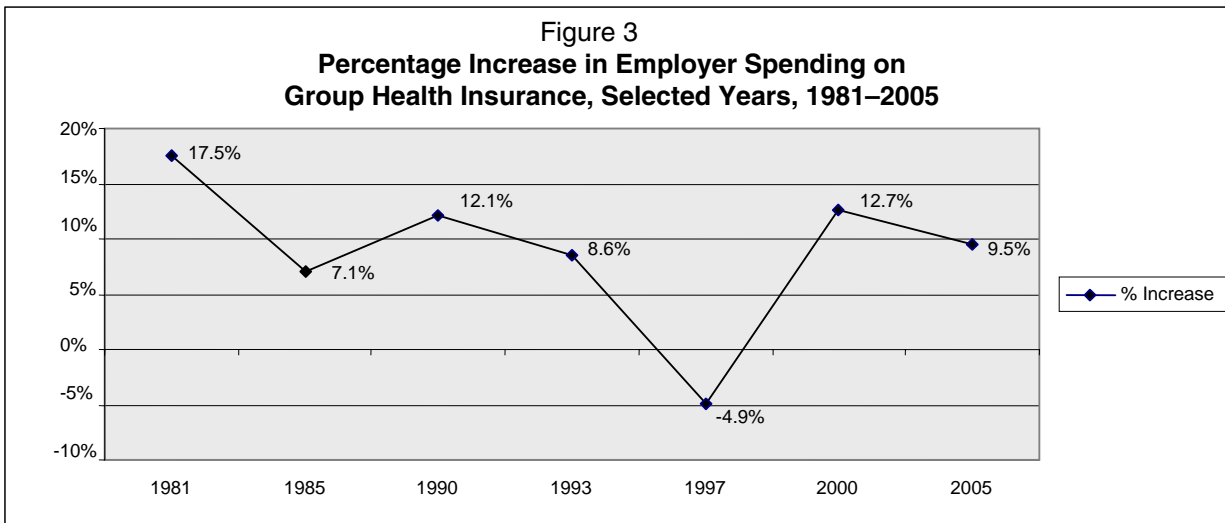
^b Consists of payments for medical services for dependents of active duty military personnel at nonmilitary facilities.

- Retirement benefits remain the largest single sector of benefits expenditures by employers, although health benefits have been catching up. In 1960, retirement benefits accounted for the majority of total benefit spending (59.7 percent), followed by other benefits (25.8 percent) and health benefits (14.4 percent). By 2005, retirement benefits were still the largest component of all benefit spending, but had declined to 46.1 percent of the total; spending on health benefits had increased to 43.7 percent of total benefit spending, while “other benefits” declined to 10.1 percent (Figure 2).
- In the 1980s, the average annual growth rate of employer spending on all benefits was 7.9 percent. In the 1990s, this growth rate fell substantially, to 5.0 percent, due to the adoption of managed care among employment-based health plan sponsors. So far, in the first decade of the new century, the average annual growth rate in employer spending on benefits has increased to 8.3 percent from 2000 to 2005.



Health Benefits:

- The slower growth rate in employer spending on group health insurance accounted for a large part of the slower growth rate in overall spending on employee benefits. In the 1980s, employer spending on group health insurance grew at an average annual rate of 11.2 percent, increasing to \$176.9 billion in 1990 from \$61.0 billion in 1980. In the 1990s, the average annual growth rate in employer spending on group health insurance slowed to 6.5 percent, which represents an increase to \$331.4 billion in 2000 from \$176.9 billion in 1990.
- The rate of employer spending on group health insurance declined from 1981 (when spending on group health insurance increased 17.5 percent) to 1985. The late 1980s saw increased spending on health insurance, lasting until 1990; starting in 1991, health insurance spending declined, reaching -4.9 percent in 1997. But since then, the growth rate of employer spending on group health insurance has been gone up, reaching 12.7 percent in 2000 (Figure 3). So far, the first decade of the new century has seen the rate of increase in health spending slow, reaching 9.5 percent in 2005.



Retirement Benefits:

- Employer spending on retirement income benefits, less Social Security, increased at a slightly faster rate in the 1980s than in the 1990s. In the 1980s, employer spending on retirement income benefits, less Social Security, increased at an average annual rate of 4.1 percent, growing to \$155.6 billion in 1990, up from \$104.5 billion in 1980. In the 1990s, employer spending on retirement income benefits, less Social Security, grew at an average annual rate of 3.8 percent, growing to \$225.5 billion in 2000, up from \$155.6 billion in 1990.
- Private-sector employers spent \$55.3 billion on retirement income benefits, not including Social Security, in 1980. This amount increased to \$63.8 billion in 1990, and to \$184.1 billion in 2005.
- State and local governments spent \$19.1 billion on retirement income benefits for their employees, not including Social Security, in 1980. This amount increased to \$33.0 billion in 1990, and to \$61.0 billion in 2005.
- The federal government spent \$30.1 billion on retirement income benefits for its employees, not including Social Security, in 1980. This amount increased to \$58.8 billion in 1990, and to \$103.0 billion in 2005.
- In the 1980s, the growth rate in employer spending for retirement income benefits, less Social Security, was faster for state and local governments than it was for the private sector. Private-sector spending on retirement income benefits increased at an average annual rate of 1.4 percent, compared with 5.6 percent for state and local governments during the 1980s. This trend reversed in the 1990s, when private-sector spending on retirement income benefits increased at an average annual rate of 5.9 percent, while rate of increase in this spending among state and local governments slowed to 1.8 percent.

Other Benefits:

- Employer spending on other benefits (i.e., unemployment insurance, life insurance, and workers' compensation) increased to \$138.3 billion in 2005 from \$78.6 billion in 1990, growing at an average annual rate of 3.9 percent.
- Employer spending on Social Security, Old-Age, Survivors, Disability, and Hospital Insurance (OASDHI), grew at an average annual rate of 9.8 percent in the 1980s, and 5.8 percent in the 1990s. In 1980, employers spent \$67.2 billion on the OASDHI program. This amount increased to \$170.8 billion in 1990 and to \$360.1 billion in 2005.

For more information, contact Ken McDonnell, (202) 775-6342, or see EBRI's Web site at www.ebri.org
Source: *EBRI Databook on Employee Benefits*, www.ebri.org/publications/books/index.cfm?fa=databook; U.S. Department of Commerce, Bureau of Economic Analysis, tables from the *National Income and Product Accounts of the United States*. www.bea.doc.gov/bea/dn/nipaweb/index.asp

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