Application of Retirement Readiness Project To Non-Federal Public Sector Employers
Overview

The InFRE® Retirement Readiness Project (RRP), which began in 2003, was established to help Americans prepare for their retirement futures. Recognizing that retirement readiness is based on both knowledge and actions, the emphasis of this project was to create a program to raise awareness and understanding about what is needed to be ready for retirement and a method to evaluate the steps that employees are taking to plan for this life phase.

This project focused on the Federal workforce to develop a prototype retirement readiness program that could be expanded in the future to address the non-federal public and private sector employee populations. Over 30 experts in the fields of employer sponsored retirement benefits, financial planning, aging and adult learning participated in this project.

The retirement readiness program addresses all dimensions of retirement life-stage planning that includes the following topics:

- **Wealth**: Financial accumulation, retirement income management, the effect of geography on a retiree’s potential cost of living, home equity for retirement income and contingency planning

- **Health**: Healthy aging, medical care prevention and treatment, understanding personal longevity and inherited health traits

- **Engagement**: Understanding personal strengths, social networks, working in retirement either for pay or volunteering, finding meaning and challenges for fulfillment in this life stage

The cornerstone of this program is a comprehensive retirement readiness questionnaire that evaluates the three dimensions of retirement planning. Recognizing that the level of preparation that is necessary is dependent on where the employee is in his or her career, the evaluation and
determination of the state of readiness is based on how many years an individual has before their expected retirement date as follows:

- **Early career**: at least 25 years before retirement. At this point, most of retirement planning should be focused on understanding and managing income while accumulating wealth.

- **Mid career**: between 10 and 24 years from retirement. By this time, additional attention needs to focus on maintaining overall health while continuing an emphasis on financial preparation.

- **Late career**: less than ten years from retirement. At this point, more attention should be paid on preparations for total well-being that includes understanding and planning for an engaged and fulfilled retirement.

The retirement readiness questionnaire has been developed as an on-line tool to provide immediate feedback to employees on how well they are planning for their future and the steps they may need to take to ensure a successful retirement. An abbreviated form has also been prepared as a paper-based questionnaire to use in live workshops or for employees who are not able to participate in the electronic environment.

For the employer, the results of the retirement readiness questionnaire, when compiled as an aggregate measurement to evaluate the total workforce, can provide a means to examine the effectiveness of current retirement education programs as well as a guide for the future direction of educational efforts. This project also includes the identification of available retirement planning resources in all three dimensions along with educational tools and best practice guidelines to compliment and support the retirement readiness questionnaire.

This program can also be considered a workforce management tool as it is designed to help employees understand and recognize when they are really ready for retirement. This awareness may lead to a certain percentage of workers deciding to delay retirement beyond the earliest age
they are eligible and allow the employer to retain older, more experienced employees in the workforce.

**Why is the RRP Important in the Non-Federal Public Sector**

Within the non-Federal public sector – state and local government employers – employees have received attractive retirement, health and disability benefits. While wages, including annual pay increases, have rarely kept up with those in private sector industries, the benefits package has provided an advantage to attract and retain skilled workers in the public sector. These benefits have also been instrumental in motivating workers to remain with their employer for most, if not all, of their working career.

At the same time, however, they have created a long-standing perception that these employer sponsored benefits will provide career workers with sufficient income to meet their needs throughout retirement. As a result, few employees are taking personal responsibility for their retirement futures as evidenced by low participation in supplemental retirement plans, such as Section 457, 403(b) and 401(k) plans. Average participation rates around the country range from 35% to 50% of eligible employees, with this percentage trending slightly upward each year.

When compared to private sector 401(k) plans, it becomes apparent that public sector employees are taking less action to secure their financial futures in retirement. Since studies show that private sector employees are not adequately preparing, this indicates that state and local government employees are even less prepared based on their personal savings. The table below provides a comparison of public and private sector plan statistics.  

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1 This data is from the report from The Nationwide Retirement Education Institute, *America’s Retirement Voice: Trends in Public Sector Retirement Plans*, Volume II, March 2006
The low involvement of public sector employees in financially preparing for a retirement causes a concern that employees may be counting too much on employer benefits to provide their full support in retirement. This concern is growing for the following reasons:

- Employees are underestimating personal longevity and retirement income needs
- State and local government employers are beginning to reduce or eliminate certain benefits

The increasing cost of health and long-term care as well as living longer in retirement translates to the need for more income. Many workers are expecting a more active lifestyle, but not adequately planning for the additional income that this lifestyle cost. Also, few recognize that they must adequately plan for the additional health and long-term care expenses that they may have later in their retirement years.

Understanding longevity – or the number of years they will have in retirement – is a problem for all workers, public and private sector, and based on studies and surveys their life expectancy age is more likely to be underestimated than overestimated. As a result, any supplemental income they may have accumulated for retirement may not last through their lifetime and be available when it is needed most, such as for unexpected long-term care.

In regard to changes in employee benefits, although they continue to be attractive, some employers have begun reducing or, in some cases, even eliminating certain benefits. For

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2 This has been suggested in surveys conducted as part of the OPM retirement readiness project and other studies such as the EBRI Retirement Confidence Survey
instance, there is a growing trend in the public sector to scale back or replace defined benefit pensions with defined contribution plans or hybrids for current or future employees. This action is being taken to reduce current employer contributions and the uncertainties of future costs.

As a result, the guaranteed income that future retirees will receive from their primary retirement benefits will likely provide a much smaller replacement rate of income. For instance, instead of providing 50% to 70% of pre-retirement income as many current retirees receive today, future benefits will be dependent on the level of employee contributions and their investment decisions.

Retiree health insurance is another benefit that is experiencing significant changes. Some state and local governments have already dropped or reduced these benefit programs, while others are considering these actions. Again, cost is a motivating factor.

Changes to retiree health care benefits are also occurring because employers are concerned about the new accounting rules, established by the Governmental Accounting Standards Board (GASB Statement 45), that require all current and future liabilities for these benefits to be reported on the entities financial statements. For employers that established a pay-as-you-go method of accounting for these benefits, this new standard has the potential to negatively impact their financial condition (as demonstrated by their financial statements) and restrict the entities ability to borrow money at a reasonable rate of interest in the future.

The changing employee benefit environment and increased cost of retiree lifestyles mean that employers are facing a significant challenge to ensure employees recognize that they must take personal responsibility for their retirement futures. While employers need to continue to use benefit packages as a way to attract and retain skilled workers, they must also find a balance in their communications to inform employees that without personal savings or other income sources, these benefits will likely not be sufficient to meet all of their future retirement income needs.
The InFRE® Retirement Readiness Project created a program that can meet the needs of the non-Federal public workforce by raising awareness of their need to take personal responsibility for their future income and provide them with the tools and resources to help them accomplish this.

Modifying the RRP for State and Local Governments

The RRP was developed based on Federal government employees and their retirement benefits. This provided a starting point to establish a comprehensive program that examines how well employees are taking personal responsibility and preparing for their future retirement considering the benefits they are expecting to receive from their employer.

The benefit structures within state and local government employers are very similar to those provided to the Federal workforce. Although some benefits are changing, as noted in the earlier discussion, today most entities provide defined benefit pensions funded by employer contributions and supplemental defined contribution plans funded with employee pre-tax deferrals. Retiree health, disability and long-term care insurance programs are also generally included in the total compensation package providing various levels of benefits that may be funded by the employer, employee or both.

The similarities between the benefits among all public employers – Federal, state and local governments – mean that the retirement readiness profile, educational tools and resources could be modified to apply to this entire audience without major changes to the existing program. Although certain features of the retirement readiness questionnaire and educational components may need to be altered to provide a more generic assessment to recognize varying benefit levels, this would not affect the value of this program to accomplish the following for the non-federal public sector audience:

For the Employees:

- Increase awareness that employee benefits alone will not be sufficient to meet future retirement income needs
• Allow them to identify their current short-comings as to their current level of retirement planning
• Identify the steps they need to take to improve their retirement readiness

For the Employer:
• Allow the employer to assess the educational needs of their employees in regard to retirement readiness and planning
• Help them establish goals for on-going educational programs
• Provide a method to evaluate if their retirement educational programs are changing employee behaviors in regard to retirement savings and planning

Conclusion

The InFRE® Retirement Readiness Project has been developed to address the needs of the Federal workforce and, considering their comparable benefit structures, may also be applicable to the non-Federal public sector audience.

State and local government employers have similar needs in regard to helping employees recognize that their primary benefits (i.e., pensions and retiree health care) will not be sufficient to meet all of their future retirement income needs. The retirement readiness program was designed to address this by raising employee awareness that they are personally responsible for the quality of their retirement.

The retirement readiness assessment, education and resources will help state and local government employees understand what it means to be ready for retirement and identify the steps they need to take to plan for this life phase considering all three dimensions of retirement readiness – wealth, health and engagement.