Financial Well-being of State and Local Retirees in NC

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Public Retirees

- In general, public retirees are covered by Social Security and an employer pension
- Many are able to remain in state health plans
- Many have contributed to supplemental retirement saving plans (SRP)

- Should we be concerned about the financial well-being of public retirees?

Economics of Public Retirees

- Many public employees retire at relatively young ages and thus could have 30-40 years in retirement
- Not all public retirees had long careers with government agencies and their pensions will reflect relatively short careers
- Wages in public sector tend to be lower than private sector employment and pension benefits reflect lower wages
- Women represent a larger proportion of public employees

NC Retirees in Our Study

- Our study focuses on public employees in North Carolina – teachers, state employees as well as local government employees
- We examine administrative records provided by the state retirement system and responses to two surveys of retirees (2015 and 2017)
- Administrative records include individuals who retired from public employment in NC between 2009 and 2014 – a total of 72,350 individuals
- 3,557 of them responded to both surveys (response rate of 22% and 56%)

Characteristics of NC Retirees

- Two thirds of NC public retirees are women
- Mean age of retirement is 60
- 80% state employees and teachers, 20% local employees
    - Approximately half of all retirees are teachers
- Mean years of service is 23
- Mean annual pension benefit approximately $20,000
- One third of retirees accepted early retirement and therefore received a reduced benefit
- 89% has at least one SRP plan

Household Income

- 57% of retirees in our survey sample had total household income of less than $75,000
- Presentation will focus on these low and moderate income retirees
  - 5% of retirees report household income of less than $25,000
  - 25% of retirees report household income of between $25,000 and $50,000
  - Female retirees represent 80% of respondents who report income of less than $25,000
  - Non-married retirees are much more likely to report household income less than $25,000

Marital Status and Gender

- 28% of respondents are unmarried
  - 12% of non-married retirees report household income of less than $25,000 and another 46% have annual income of between $25,000 and $50,000
  - This compares to only 2% of married households with less than $25,000 and 16% with incomes of $25,000 and $50,000

  - Women represent 81% on the non-married retirees and 61% of the married households
  - Female retirees are over-represented in the lower income categories for both married and non-married retirees

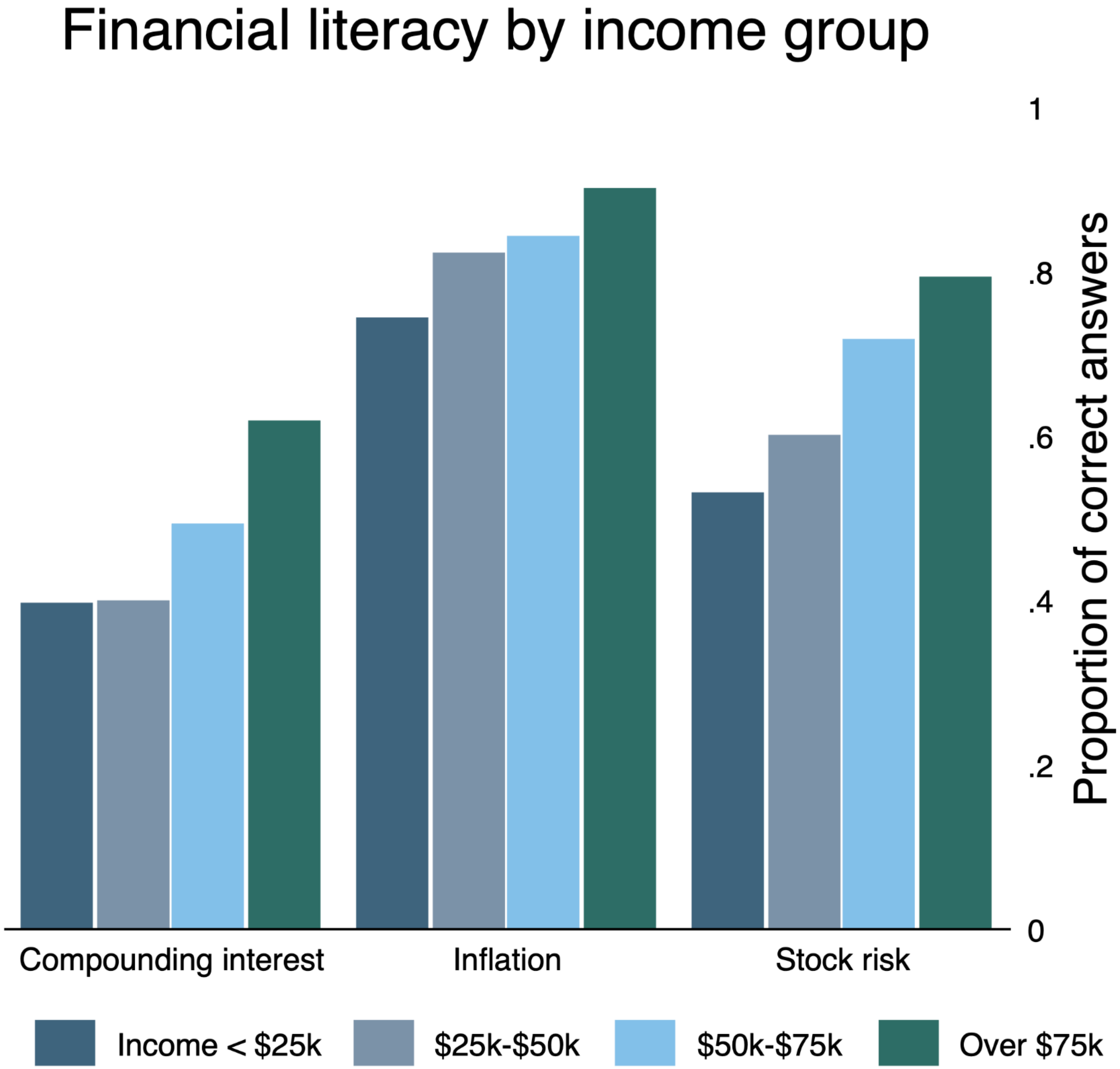
Do Low Income Retirees Face Financial Distress?

- Survey asked 5 questions concerning the financial status of retirees:
  - Spent out of savings when spending exceeded income – 42% of those with less than $50,000 in income answered “yes”
  - Borrowed from friends or family – 7% of those with less than $50,000 answered “yes”
  - Kept credit card balance – one third of those with less than $50,000 in income answered “yes”
  - Got behind on payments – 9% of those with less than $50,000 answered “yes”
  - Cannot come up with $2,000 – 23% of those with less than $50,000 answered “yes”
- Answering “yes” to any of the last four questions can be viewed as experiencing some level of financial distress

Financial Literacy of Low Income Retirees

- Survey asked Lusardi and Mitchell “Big Three” questions
- Low and moderate income retirees were significantly less likely to correctly answer each of these questions
- Large gap by gender and marital status

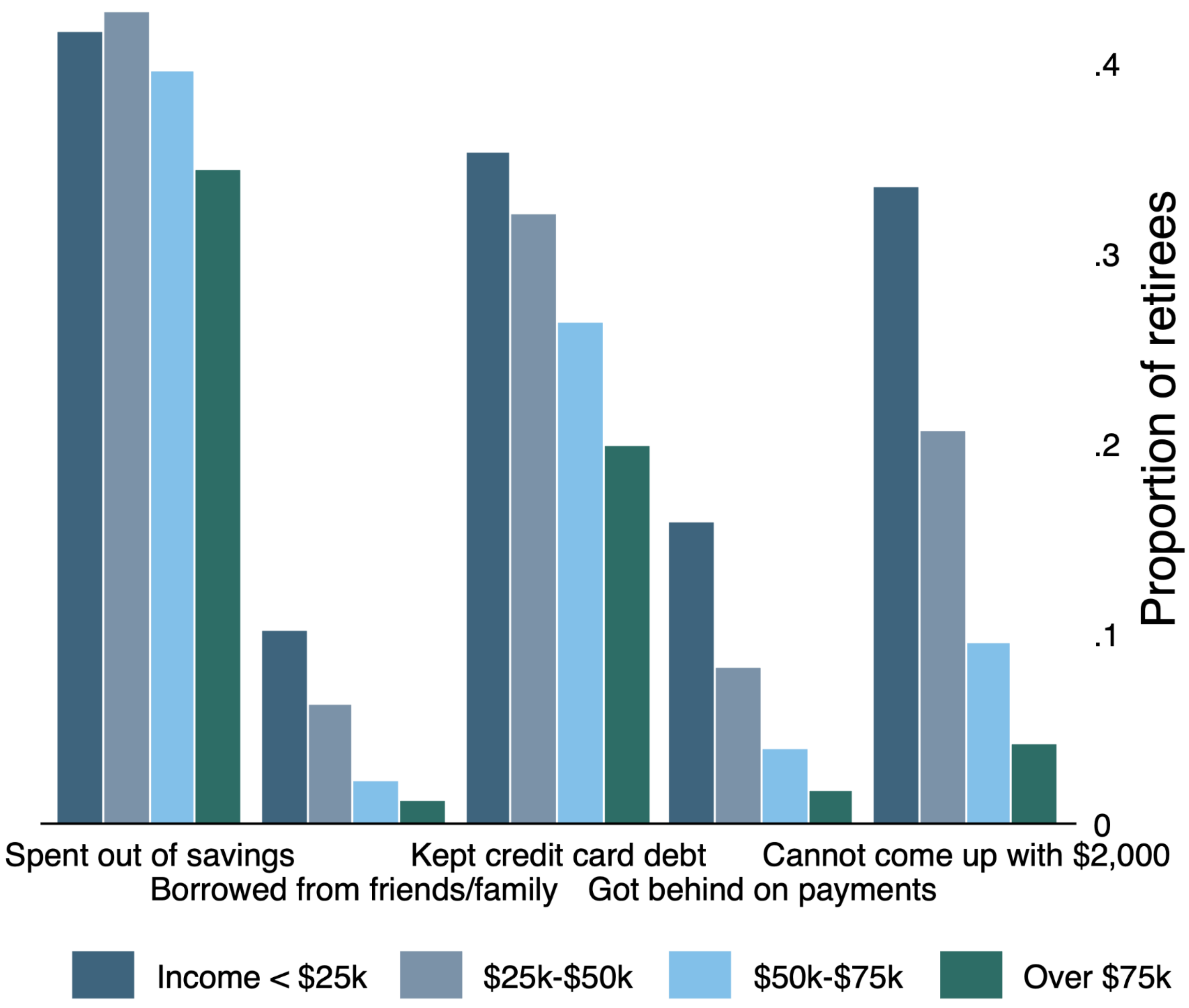
- Low and moderate income retirees were significantly less likely to seek financial advice from professionals
- In general, retirees’ self assessment of their financial literacy was consistent with they ability to answer the “Big Three” correctly

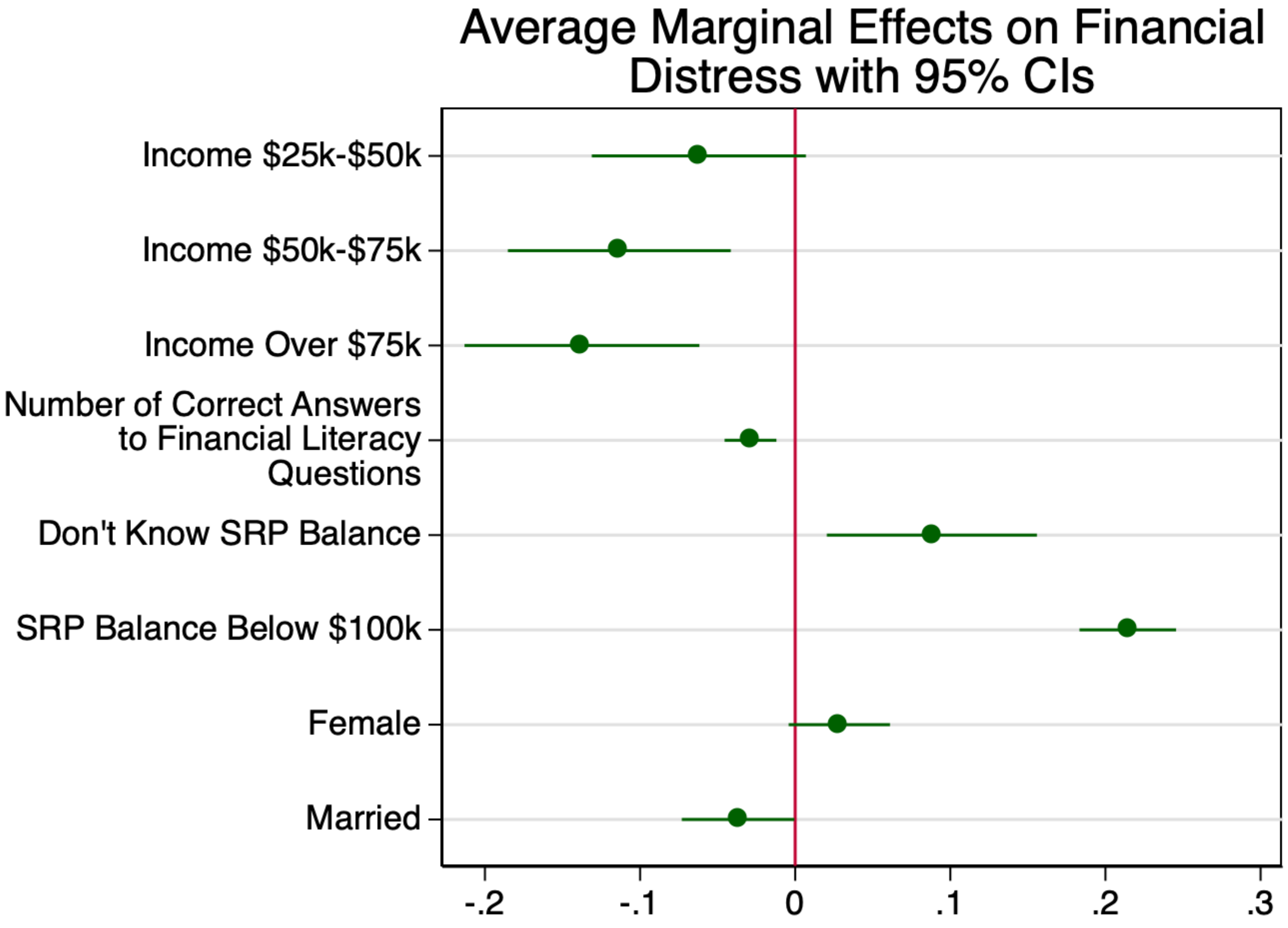

Financial literacy by income group
1
.8
.6
.4
.2
0
Proportion of correct answers
Compounding interest
Inflation
Stock risk
Income < $25k
$25k-$50k
$50k-$75k
Over $75k

Index of Financial Distress

- We created an index of financial distress – answering yes to any of the four indicators of distress is given a value of 1, retirees who answered no to all questions have a value 0
- Covariates associated with *lower* financial distress:
  - Higher number of correct answers to financial literacy questions
  - Higher income
  - Knew SRP balance
  - Higher SRP balance
  - Male
  - Married

Financial distress by income group





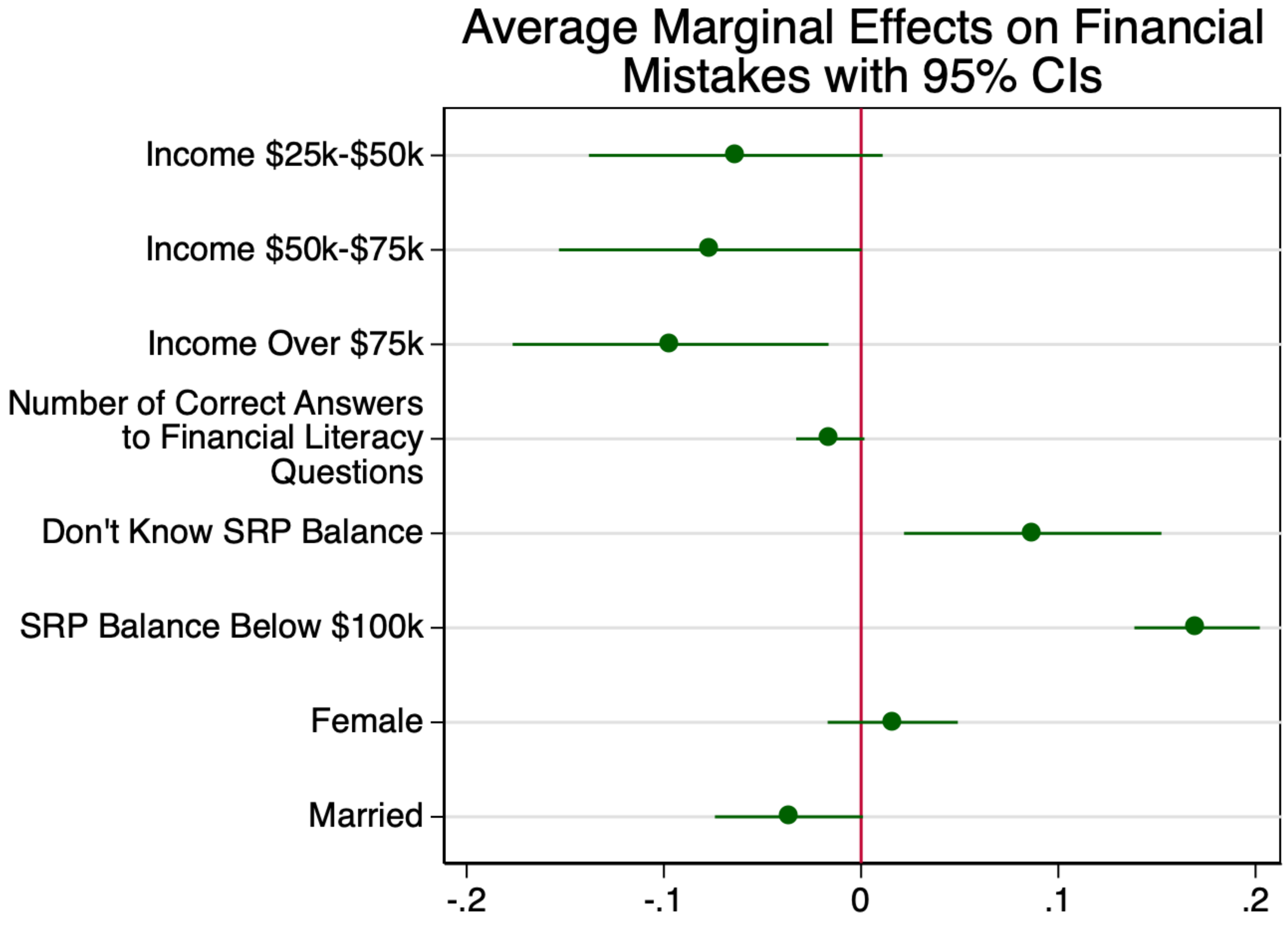
Average Marginal Effects on Financial Distress with 95% CIs
Income $25k-$50k
Income $50k-$75k
Income Over $75k
Number of Correct Answers to Financial Literacy Questions
Don't Know SRP Balance
SRP Balance Below $100k
Female
Married
-.2
-.1
0
.1
.2
.3

Financial Mistakes

- We define making a financial mistake as maintaining high interest credit card debt or not pay bills while holding a positive balance in the SRP account

  Covariates associated with *lower* chance of making a financial mistake:
  - Higher number of correct answers to financial literacy questions
  - Higher income
  - Knew SRP balance
  - Higher SRP balance
  - Married

- Possible explanations for making such a mistake?
  - Low financial literacy – does not fully understand the cost of borrowing
  - Behavioral explanation – mental accounting



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Number of Correct Answers to Financial Literacy Questions
Don't Know SRP Balance
SRP Balance Below $100k
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Married
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-.1
0
.1
.2

Well-being of Public Retirees: Concluding Observations

- Public retirees still experience financial distress despite better coverage of pension and health benefits compared to private sector retirees
- Women and non-married retirees have lower financial well-being
- Financial literacy seems to be a major factor associated with financial distress and financial mistakes
- Our study support the need for financial education and wellness programs for retirees, especially low to moderate income workers