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

Proportion of correct answers

- Compounding interest
- Inflation
- Stock risk

Incomes:
- 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

- Spent out of savings
- Borrowed from friends/family
- Kept credit card debt
- Got behind on payments
- Cannot come up with $2,000

Proportion of retirees

Income groups:
- Income < $25k
- $25k-$50k
- $50k-$75k
- Over $75k
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
Financial Mistakes

- We define making a financial mistake as maintaining high interest credit card debt or not paying 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
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