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GETTING BACK ON TRACK:
Financial Wellness in the Public Sector

Survey Executive Summary

Written by The Economist Intelligence Unit

People who want to make a difference are often attracted to public service, where a willingness to meet the challenges facing society is a critical competency. One leading reward for their dedication has typically been a stable pension. But the 2008 financial crisis derailed expected growth in government pension funds, leaving pensions in a state of crisis.

Financial and healthcare benefits promised to dedicated public workers are in danger of being taken away or reduced. In some cases, that has already happened. Between 2009 and 2013, to improve their pension positions, virtually every state applied some combination of lower benefit accruals and higher employer contributions made possible with the federal government's help. Higher employee contributions became commonplace, too.[1]

The Hoover Institution, a think tank at Stanford University, estimates that U.S. public pension funds at all levels of government are dealing with a payout shortfall of $3.4 trillion.[2] Unfortunately, current workers are not well-prepared for this setback. And public servants represent 17% of all employed persons in the U.S.[3]—almost one in five—which makes their retirement concerns an issue of national importance. At the federal level alone, some 31% of public employees are eligible to retire this year.[4]

All levels of U.S. government now find themselves competing for talented, loyal and reliable employees with private firms that offer appealing salaries and benefits—benefits that often exceed those available in the public sector. Now public employers are searching for opportunities to provide workers with services that may compensate for benefit changes and better prepare them for financial security in retirement.

SURVEY STATS

TOTAL RESPONDENTS

1,877

TIME UNTIL RETIREMENT IS MORE THAN

15 YEARS AWAY

FOR 30% OF RESPONDENTS

A survey of U.S. public sector employees

In March 2017, The Economist Intelligence Unit (EIU) conducted a survey sponsored by Prudential that explored the financial realities of public sector employees. The questions focused on their financial literacy, attitudes toward pensions, approaches to financial planning and ability to fulfill their aspirations. The 1,877 respondents are public sector workers with a wide variety of

backgrounds, functions, locations and lengths of tenure. Some 42% have spent fewer than 10 years in public service. For nearly 30%, time until retirement is more than 15 years away.

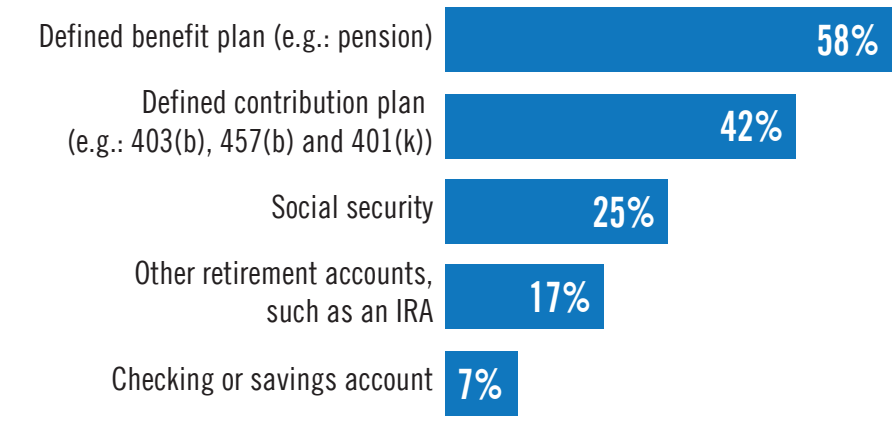
The survey found that, for most, the robust public service pension was a significant determinant in a public sector career choice—and that many are now deeply worried about their future financial security. The survey also uncovered a disconnect between the confidence people express in their grasp of financial affairs and their actions: Most have taken just rudimentary steps to safeguard their long-term financial well-being. But the data suggests that those who draw more heavily on outside expertise are substantially better positioned than their colleagues to face the future confident in their financial security. Their example may help other public servants plot a path to a successful retirement.

Attracting talent without the promise of a full pension

The survey found the appeal of a government pension to be a significant factor for about two-thirds (64%) of people choosing public service employment.

Public sector workers have been (and are) counting on their pensions. Most respondents say that a defined benefit plan will be one of their two primary sources of income in retirement, followed by a defined contribution plan. Only one-quarter plan to rely heavily on Social Security. Even fewer look to IRAs, cash savings or investments.

What do you expect your largest sources of income in retirement to be?
% of respondents (top 5 responses)



"When people first evaluate a job what they look at is the payment. I think if you have good benefits, you should continually reinforce how those work and the value of them. I think that becomes a huge retention tool."

Ted Beck, President and CEO of the National Endowment for Financial Education

Bobbi Estrada was one person drawn to a government job by the reassurance it offered. She joined California's public service at the age of 19, lured by the stability of—and pension offered by—a clerk position. After 40 years as a dedicated employee, the single mother retired at the manager level with a full pension that pays out $60,000 a year.[5]

Her story is a common one for a public employee—and she was lucky to have retired when she did. To keep pension promises today, many governments will have to raise taxes, cut services or possibly issue additional debt. In the meantime, they are adopting other cost-saving measures at the expense of their employee base, including pension reductions for new hires.

Furthermore, the public sector relies heavily on seasoned workers. As a talent-retention incentive, the pension has always played an important role. Today, however, attrition is claiming some workers—for the most part, those who worry about the financial security offered by working for the government.

In the health sector alone, approximately 40% of federal, state and local staff say they were either considering leaving their organization in the next year or are planning to retire by 2020.[6] Indeed, retirement demographics will soon make recruitment a pressing concern for the public sector. The most recent data from the Bureau of Labor Statistics shows that nearly 53% of public administration employees are age 45 or older.[7] And the EIU survey echoes these findings: Well over half of respondents (58%) are at least 45 years of age; 48% say that they are planning to retire within 10 years.

Finding new methods of attracting and retaining talent—given financial changes and employees' concerns about them—is thus a rising priority for public organizations. Although funding for benefits remains tight in most public sector organizations, a number of approaches are available to strengthen employee dedication. These might entail modernizing benefits shown to engage and incentivize employees.

"When people first evaluate a job what they look at is the payment," explains Ted Beck, President and CEO of the National Endowment for Financial Education. Yet public sector jobs can do more to highlight other attributes

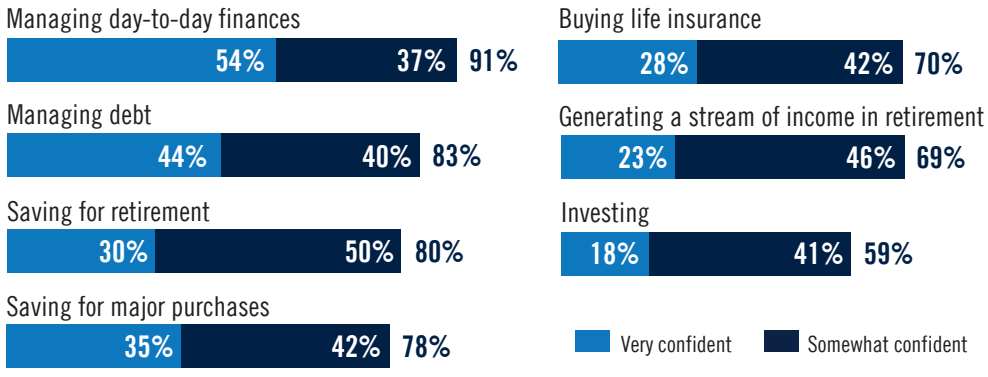
of their benefit package. "I think if you have good benefits, you should continually reinforce how those work and the value of them. I think that becomes a huge retention tool."

Career training and planning can also be improved, for example, by directing scarce dollars where gaps exist. Flex and remote work options can attract talent, too. Additionally, a good communications strategy can emphasize the ways in which government workers are having a positive impact on their communities—something many employees and prospects are likely to respond well to.

Justifying confidence: Many 'financially confident' public employees are ill-prepared for retirement

Most public workers surveyed believe that they are knowledgeable enough to successfully manage their money over the long term. A deeper dig into the data, however, indicates that this confidence is neither merited nor sustained. And should public employees reach retirement without adequately preparing for their needs, no corrective action will be possible after the fact. It is imperative that they—and their employers—act now.

At present, how confident do you feel in making financial planning decisions in the following areas? % of respondents (top 7 responses)



NOTE: Percentages may not equal total due to rounding

ONLY 17%

of respondents are "very confident" that they will not run out of money in retirement, and even fewer are certain that they will be able to keep up with medical expenses.

Nearly one-third of respondents say they are "very confident" about making financial planning decisions that will best provide for their future; 81% are at least "somewhat confident." This confidence extends to a strong belief in their ability to achieve their long-term goals: For example, 85% of those who say that saving for retirement is a top priority claim to be at least "somewhat confident" that they will be able to do so—and more than one-third are "very confident."

Yet, while respondents plan to save (or are saving) money for their post-career lives, they appear uncertain about how best to make that money last, let alone grow. Fewer than one-third feel "very confident" about where to place retirement savings and a mere 18% feel "very confident" regarding their ability to manage their investments wisely. Only 17% of respondents are "very confident" that they will not run out of money in retirement, and even fewer are certain that they will be able to keep up with medical expenses.

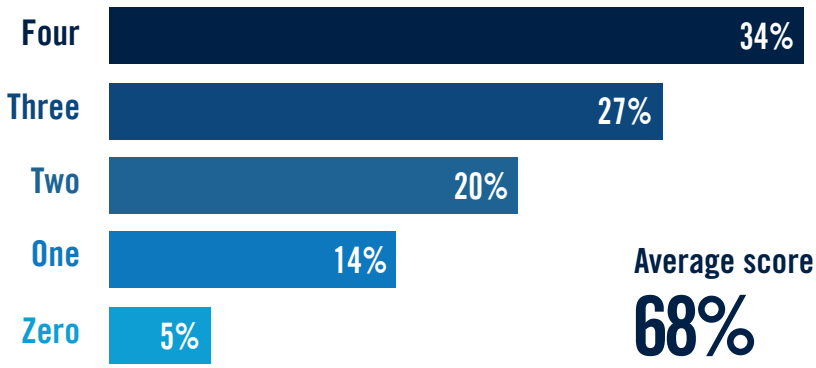
Barely half of respondents adhere to a budget, although an additional 29% say that they "plan" to do so. This is a recurring theme. Only half say that they have created an emergency fund to mitigate against job loss or disability. While that is a greater proportion than the 29% who assert that they have a cushion to deal with unexpected expenses, the response is still troubling.

Furthermore, relatively few U.S. public employees have addressed their future financial requirements beyond a basic level. In key financial planning areas, the proportion who say they have taken action is only about half of those who say they want to take action. Fewer than one-third say they have consolidated their debts or evaluated different financial products to see which would help them reach their retirement goals.

All these findings point to a pressing need among public workers to face their financial challenges head-on. And, indeed, throughout the survey, many respondents say that they "plan" to take judicious financial steps. The reality that they aren't yet doing so invites the question: What's stopping them?

One possible explanation is a lack of sophisticated financial skills among public employees. For example, the survey included some questions assessing financial literacy, including questions about interest rates, inflation and market risk. Only one-third of respondents correctly answered all four questions; fewer than two-thirds answered at least three correctly.

Number of correct test answers among public workers (out of four)
% of respondents



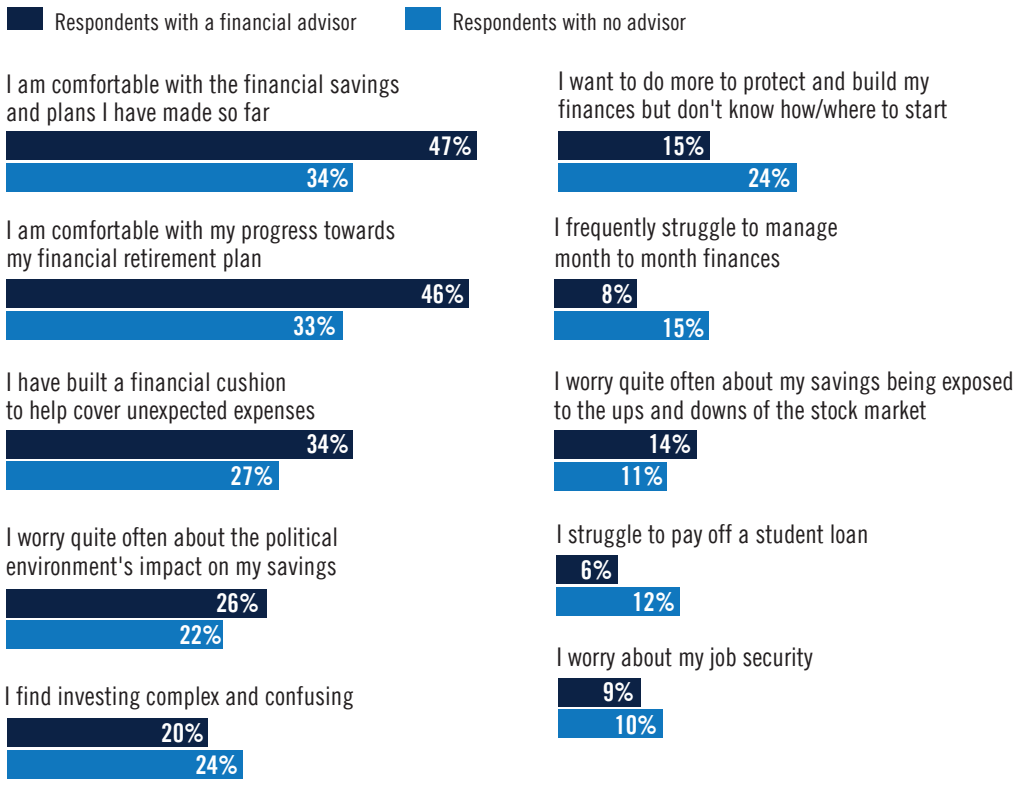
This is concerning, because these basic concepts are important for many big financial decisions, such as buying a house and getting a mortgage. "In finance if you can understand compounding interest, you're really a long way to understanding finance," says Mr. Beck. "And then, if you can understand risk, you're a long way there."

Furthermore, the survey finds a lack of professional guidance. Consider fewer than one-third of survey respondents currently consult a financial advisor. Yet those who do say they are significantly more at ease with their financial position and progress. What's more, they say they are far better equipped both to use the financial tools they have and to discover new ones. As well, they are diversified, engaged and comfortable in a way that their less plugged-in counterparts are not.

Nonetheless, in providing much-needed support, there will be hurdles: While most respondents are aware that saving more would likely help them achieve their financial goals, only 27% think that consulting a financial advisor would have a similarly beneficial effect. Only one in five is prepared to consider getting further professional advice.

Public service employers, therefore, need to acknowledge that many of their employees are not prepared to save wisely for retirement. To help employees take more responsible control of their finances, employers would be well-advised to convey to their workers that expert advice can result in significant growth in their retirement nest eggs.

Which of the following describe your current financial situation?
% of respondents



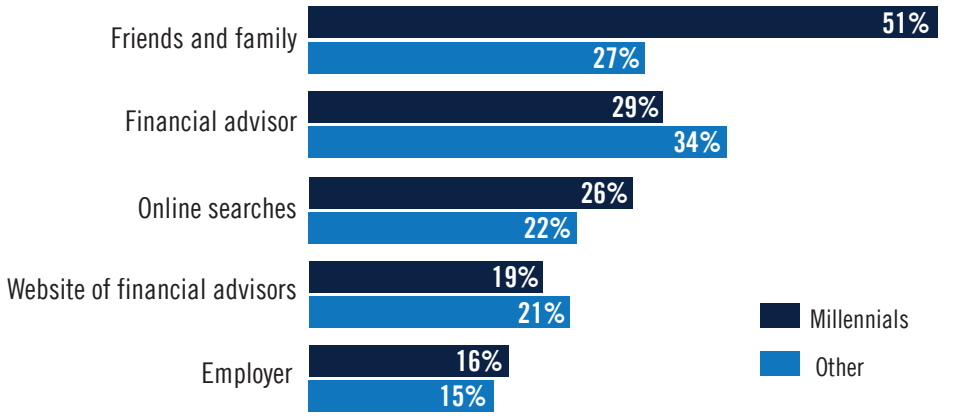
Millennials face impediments in public sector employment

Passionate millennials who want to make a difference by joining public service face several obstacles. When they sign on, many accept tiered pension benefits that fall short of those their predecessors received. Those who stay often do so because their mobility is hampered: They find themselves locked into pensions that make it hard to leave public service. But if staying is difficult, leaving can be just as hard. Once they migrate to the private sector, they might have to put in many years of service before they are eligible for or are fully vested in retirement benefits.

Underscoring this tension, recent studies have assessed the kinds of returns millennials can expect from their pensions. They have determined that, for the most part, younger workers are not accruing the pension benefits previous generations of workers did.

Millennials have gotten the memo. In the survey, respondents under the age of 35 less often say they expect their pension to be a primary source of retirement income (48% vs 62% age 35+) and more often say they will depend on retirement accounts such as IRAs (21% vs 16%) and even checking accounts (15% vs 4%) and cash savings (11% vs 5%). With reduced pension prospects, the need for young people to make smart financial decisions would seem even more important than for older workers.

Where do you currently seek financial information and advice?
% of respondents



"In an environment where the risk is greater, education should be greater. There are more things that can go wrong, so you ought to be better informed so that you can hopefully control that outcome."

Tim Johnson, Executive director of the City of Jacksonville, Florida Police & Fire Pension Fund

Nevertheless, the survey shows that millennials are even less apt than their older counterparts to seek out professional financial guidance. Instead, compared with other generations, they almost twice as often say they look to friends and family for advice. And pensions come into play in other ways as well. Nearly two-thirds of government employees (62%) under the age of 35 say that current threats to pensions have an impact on their commitment to working in the public sector compared with only 41% of their older counterparts.

But this looming crisis also brings into focus a singular and powerful opportunity. Millennials value the prospect of a secure and prosperous retirement and many still want to play a role in public service. They simply don't think that it's a realistic possibility. Public employers can address this by helping them engage with smart financial decision-making tools and expert advice.

Strategies for the future

The survey found that public workers are uncertain about whether they'll be able to have a financially secure retirement. Most have limited financial literacy and appear to need a push to fully engage with their finances.

"In an environment where the risk is greater, education should be greater," says Tim Johnson, executive director of the City of Jacksonville, Florida Police & Fire Pension Fund. "There are more things that can go wrong, so you ought to be better informed so that you can hopefully control that outcome."

Public employers and leaders in pension and retirement systems can help with the process by providing employee education programs, and working with wellness and retirement providers. They can also encourage meetings with financial advisors to address issues of debt, saving and portfolio diversity with the goal of leveraging retirement income. In the present reality, their services have a special role to play. The pension crisis in the public service sector has added urgency to the need for government workers

to prepare for their futures through sound financial planning. Those who seek professional advice are less likely to face disaster as retirement looms.

Clearly, government workers of all ages need to get their financial houses in order. The future of public pensions is uncertain. But with proper planning, the financial future of public employees can still be secured.

For their part, to stay competitive, government leaders will have to recruit more aggressively and work harder to ensure that experienced and competent staff stay on. They need to show as much commitment to their workers as their workers do to their jobs. Thus, public sector employers will have to provide incentives akin to the once-powerful pension. A stable benefits package would help. So would programs designed to educate employees about their financial futures. Not only do public employers need to raise the bar, not doing so could negatively affect the quality of public service provided. On the other hand, if leaders take positive action, gains in productivity and loyalty could be significant.

Sources

[1] Martel and Petrini (2015); Snell (2009, 2010, 2012, 2013)

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[4] "Recent Trends in Federal Civilian Employment and Compensation", Goldenkoff, R, January 2014. http://www.gao.gov/assets/670/660449.pdf

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[7] Bureau of Labor Statistics, February 2017. https://www.bls.gov/cps/cpsaat18b.htm

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