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# Retirement Plan Knowledge Among State and Local Government Workers Under 40

Focus groups show that many younger public employees are unaware of plan specifics but that opportunities exist to boost engagement

## Overview

The ability of state and local governments to deliver public services depends increasingly on whether they can recruit and retain younger workers. Many baby boomers, who represent a large portion of the public sector workforce, postponed leaving their jobs—and the labor force—as a result of the Great Recession, but governments are now reporting an uptick in retirements and a growing number of workers eligible to do so.<sup>1</sup>

The role retirement benefits play in attracting the next generation to jobs in the public sector is unclear. A better understanding of how younger employees view and value their retirement benefits can help state and local agencies build and maintain talented workforces.

To learn more about these workers' needs and preferences, The Pew Charitable Trusts conducted focus groups with state and local government employees younger than 40 in six cities. The goals of the focus groups were to examine their knowledge of workplace retirement benefits, learn about the role retirement plans play in recruitment and retention, explore their retirement confidence and expectations, and develop valid and reliable measures for an upcoming survey on this demographic.

This research is part of a wider effort to bring attention to early and midcareer government employees and evaluate how various benefit programs serve their needs and preferences. Pew’s work focuses on retirement security for workers across the tenure spectrum, as well as governments’ ability to recruit and retain a talented workforce. An earlier brief, “Recruiting and Retaining Public Sector Workers: Views From State Personnel Executives,” by Pew and the Laura and John Arnold Foundation, presented the results of a survey of state human resources officers that explored their perspectives on recruitment and retention issues.<sup>2</sup>

The current brief spotlights the focus group findings on younger workers’ knowledge about their employer-sponsored retirement plans. Among the key findings:

- These workers expressed very little knowledge about their employer-sponsored retirement plans. Workers in their 30s were more familiar with their plans than those in their 20s, but many were unable to accurately describe the details.
- Younger workers see the retirement benefit as valuable and want to learn more; they express a desire for in-person help and education. Many do not have a basic understanding of the terms and concepts used to describe retirement plans, and the lack of information is a top concern for many.
- Even after establishing a clear understanding of their plans, most participants do not cite retirement benefits as a key factor in decisions to leave or stay in the public sector. Public service, job security, and health insurance rank higher when deciding to work for the government.

## Knowledge about workers’ own retirement plans

The majority of focus group participants appeared to have limited knowledge about their retirement plans, although workers in their 30s seemed more aware and educated on the topic than those in their 20s. When the moderator of the groups asked respondents what they knew about their workplace retirement plan, the responses suggested that younger workers knew very little. Many expressed discontent with their lack of knowledge; they agreed that preparing for retirement was important and that they would like to be better informed. Still, with retirement decades away and other priorities taking up time and energy, most did not feel that understanding their employer pension plan was a pressing issue.

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When asked about their retirement plans, younger public workers lack knowledge and say they had not focused much on the topic:

“ I’m not really too sure and too clarified about it. The most I probably ever heard about it was during my job orientation.”

—Baltimore worker (age 21-29)

“ I know that I don’t have to do much with it because I don’t know anything about it. It is kind of embarrassing how little I know. I have never spent the time to try to figure it out.”

—Portland, Oregon, worker (age 21-29)

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Workers expressed little clarity when asked about plan details. For example, they often confused their primary plan with their deferred compensation plan—the voluntary supplemental savings plan commonly offered by public employers. In addition, when asked how their retirement plan worked, participants often described it in terms of “matching,” an element of 401(k)-style plans whereby an employer matches employee contributions into an individual retirement savings account. Public sector workers may think about their retirement plans in terms of the features often found in 401(k)s because most private sector workers participate in such plans, but even respondents enrolled in a traditional defined benefit pension that did not have a matching component sometimes used this language.<sup>3</sup>

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## Younger public sector workers often express confusion about the workings of retirement plan components:

“ There was Hoosier S.T.A.R.T. [the voluntary supplemental savings plan] and PERF [the primary retirement plan], and at one point I thought they were the same thing. Then I arrived at the knowledge that it wasn't. I understood there was like a 401(k) equivalency.”

—Indianapolis worker (age 21-29)

“ I just recently found out that my county does not match. We thought that they did, and they don't. We do get step increases every year, so there is a pay raise, but there's no matching.”

—Baltimore worker (age 30-39)

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Plan awareness differed among those in their 20s and those in their 30s. Many said retirement had become more important than when they first started working for the government, and older workers were often more informed about the general contours of their retirement plans, such as vesting requirements, employee contribution rates, and the age of full retirement eligibility. Despite more general knowledge of concepts behind their pension plans, older workers sometimes described the specifics incorrectly.

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## The interest in retirement planning tends to grow as younger government workers age:

“ As you get older and you start looking at it and you start getting more knowledgeable, you start looking at that more seriously. Especially when you get vested with the state, then you really start looking at different things. I plan for my future a lot more.”

—Indianapolis worker (age 21-29)

Most participants were satisfied with their plans, but their views were neither deeply held nor highly informed. When asked to rate how satisfied they were with the retirement plan offered by their employer, the most common response was “somewhat satisfied.” And when asked how retirement benefits compare to the private sector, most said that they did not know. Because many respondents were early in their careers, they had never worked in the private sector and were not very familiar with compensation and benefit practices there.

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### Many younger government workers do not have a strong sense of how their retirement benefits compare with peers in the private sector:

“ I’m not too familiar with other people. Both my parents work for the government, so I’m not too familiar with private sector jobs and how the benefits are.”

—Lansing, Michigan, worker (age 21-29)

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### Workers want more information about their pension plans

Most participants were neither intensely satisfied nor dissatisfied with their retirement plans, and this did not change after participants read a short description of their pension plan. Many respondents said they valued taking the time to understand the plan better, but the information did not appear to alter their impressions of the plan.

The focus group members appreciated clarification of specifics of their retirement plan, and many were grateful to get an explanation of the basic rules for their pensions. The written material typically did not change their opinions of the plan, however, and few appeared to glean major new information. The terms used to describe the plan in the short descriptions still confused some of the respondents. With knowledge of retirement planning and needs low overall, many workers lacked the foundational understanding necessary to evaluate their plans.

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### Many say the workings of their plans are hard to understand:

“ Reading it for myself like this makes me feel a little bit better, but I still feel a little bit the same. I would still feel a little bit better if I actually had—we didn’t have someone come in and talk to us about our pension plan. It was just a folder given to us: Here, figure it out. This is your information, here it is. That’s it. Here’s the phone number if you need any help. That’s just how it was.”

—Skokie, Illinois, worker (age 30-39)

Even after being provided materials that described their plan, many still said they did not have enough information. For example, participants were often confused about whether their contributions went into a defined benefit or deferred compensation account, what funds could be managed, and what future benefits would look

like. Regardless of the type of retirement plan workers had, participants often expressed a need for in-person assistance. Many said they found it hard to find help and that the plan brochures and statements provided by their employer or the retirement system were hard to read and interpret. As a result, they said they would prefer help from a person, rather than a written resource.

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## Public sector workers say they appreciate hearing directly from knowledgeable professionals who can explain plan specifics in simple terms:

“ The literature is kind of thick and just hard to digest. You might need someone that is more financial savvy or [has] knowledge and background to bring it down to layman’s terms so you understand it.”

—Boston worker (age 30-39)

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## The challenges ahead

Most participants said public service, job security, and health insurance were the primary reasons they chose employment in the public sector. For many, the new information did not boost the importance of retirement plans as a factor in whether they would continue to work for the government.

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## Many younger government workers are focused on more immediate concerns than retirement:

“ I’m not retiring tomorrow, but I could get in a car accident tomorrow. Health benefits would fall into a higher bucket.”

—Baltimore worker (age 30-39)

With retirement so far off, younger workers often do not see retirement benefits as something concrete or important, compared with other benefits linked to current career and financial needs. Most workers younger than 40 said the ability to make a difference was a very important motivation to work for the government. That was especially true among those under 30. Many cited a desire to serve their communities and help others as main reasons they decided to work for the government. The next most important factors were job stability and health insurance. Although there were exceptions, retirement benefits generally were not among the main drivers of the decision to work for state or local government.

Employers and retirement systems face obstacles posed by age, lack of knowledge, and complexity in getting younger workers to focus on their financial circumstances after their careers. Most participants acknowledged retirement needs as important but too distant to be a priority. Many felt there was plenty of time to plan. And since most said that these benefits were not as important as more current concerns about their work, they knew very little about them. The complexity of proper planning further compounds the challenges linked to age and knowledge, creating additional hurdles to increasing engagement and appreciation of the benefits available.

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## For many young government workers, retirement benefits are not among the top attractions of their jobs:

“ It was always about wanting to work with students, make a difference, and that is what I really loved. I knew I wanted a job I enjoyed. I guess the pay and benefits weren’t necessarily the be-all, end-all. I wanted something that I can go home and say, ‘You know what? I’m glad I picked this,’ even if I don’t have the flashiest car and house.”

—Lansing, Michigan, worker (age 21-29)

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## Conclusion

Retirement benefits are just one factor in efforts to recruit and retain younger public workers, but they can play an important role. Employers and plan sponsors can face significant obstacles to effectively informing and engaging newer employees, but there are ways to help workers better understand their benefit and make educated decisions related to retirement planning. Among the points for policymakers to consider:

- Younger public workers often lack knowledge about basic terms and concepts related to their retirement plans.
- Despite initially placing low importance on retirement planning, workers become more interested as benefits are discussed. Workers in their 30s appear to be more interested than those in their 20s, suggesting that engagement rises with job tenure and increasing age.
- Public sector workers want to better understand their retirement benefits and believe that more in-person education and assistance would help. Administrators should consider new ways to disseminate and explain the details about retirement benefits to employees.

The results of the focus groups suggest that workers’ knowledge of their pension plans is limited, but with suitable education and outreach, employers can improve employees’ understanding and engagement with their retirement benefits.

## Appendix A: Methodology

Pew worked with The Mellman Group, a market research firm, to conduct focus groups in six cities: Baltimore; Boston; Indianapolis; Lansing, Michigan; Portland, Oregon; and Skokie, Illinois. To see how responses varied for workers in different types of pension plans, locations were chosen based on whether long-standing traditional defined benefit or alternative retirement plans existed for both local and state employees. In total, three cities were in areas where state and local government employees participate in traditional defined benefit plans (Baltimore, Boston, and Skokie), while three cities were in areas where state and local government employees take part in either a hybrid or defined contribution retirement plan (Indianapolis, Lansing, and Portland). Two focus group sessions were held in each city. The groups were divided between workers younger than 30 and those 30 to 39. A total of 111 public workers under age 40 participated in these focus groups.

## Endnotes

- 1 Mike Maciag, "Public Sector Has Some of Oldest Workers Set to Retire," *Governing*, Aug. 26, 2013, <http://www.governing.com/blogs/by-the-numbers/gov-aging-public-sector-has-some-of-oldest-workers-set-to-retire.html>; Center for State and Local Government Excellence, "Survey Findings: State and Local Government Workforce—2016 Trends" (Aug. 11, 2016), <http://slge.org/wp-content/uploads/2016/05/State-and-Local-Government-Workforce-2016-Trends.pdf>; and Mike Maciag, "The 'Silver Tsunami' Has Arrived in Government," *Governing*, May 31, 2016, <http://www.governing.com/topics/mgmt/gov-government-retirement-survey-center-state-local.html>.
- 2 The Pew Charitable Trusts and Laura and John Arnold Foundation, "Recruiting and Retaining Public Sector Workers: Views From State Personnel Executives" (September 2014), <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2014/09/recruiting-and-retaining-public-sector-workers>.
- 3 The Pew Charitable Trusts, *How States Are Working to Address the Retirement Savings Challenge: An Analysis of State-Sponsored Initiatives to Help Private Sector Workers Save* (June 1, 2016), <http://www.pewtrusts.org/en/research-and-analysis/reports/2016/06/how-states-are-working-to-address-the-retirement-savings-challenge>.

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