



How Reliant Are Older Americans on State and Local Government Pensions?

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State and local government pension plans cover approximately 19.5 million participants, including active employees, former employees who have not yet started collecting benefits, and those currently receiving benefits. Many of these plans, however, are underfunded, and 28% of state and local government workers are not covered by Social Security. As a result, public-sector workers may be heavily dependent on these pensions for their retirement.

This research assesses how many Americans have had employment in state and local government over their lifetime, how the economic resources for these workers compares by years of experience in state and local government, and how changes in state and local government pensions may affect preparation for retirement among those who participate in such plans. It does so by analyzing employment, wealth, and income characteristics among respondents 67 to 72 years old in the 2004, 2008, and 2014 waves of the Health and Retirement Study.

Overall, we found that 23.3% of single households and

39.2% of couple households in our analysis sample have had some employment in state and local government. Most of this experience is limited: Only 5.8% of single households and 11.8% of couple households have an employee who worked for state and local government for 20 years or longer.

Households with pension-plan participants have longer work histories, higher educational levels, and higher income and wealth levels. The proportion of income that households receive from pension income is less than one-fourth among those with less than 20 years of experience in state and local government, but one-third or higher among those with more than 20 years of such experience.

To assess preparation for retirement, we identified initial conditions for single and couple households then simulated future sources of income and expenditures throughout retirement until death. At typical retirement ages, Social Security income does not differ greatly by pension receipt: the higher income for pension recipients comes from receipt

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of their pensions.

We assess whether households are adequately prepared for retirement by determining whether they are likely to have bequests, or positive wealth, at death. Among single households without state and local government experience, 66.4% are likely to have positive wealth; among those who have worked in state and local government, 73.1% are.

We also assessed how much pension cuts would affect retirement preparation. We found that, among those with state and local government experience, a 50% cut in pensions would reduce by 4.2 percentage points the proportion of single households adequately prepared for retirement.

Among couple households, the results are similar. Among couple households without state and local government experience, 88.5% are adequately prepared for retirement; among those that do have such experience, 89.9% are. Reducing among the latter pension payments by 50% would reduce by 3.0 percentage points the proportion of couples adequately prepared for retirement.

Our analysis further explored how preparation for retirement has changed by cohort. Among those 67 to 72 years old in the 2004 HRS, singles who worked in state and local government were 9.9 percentage points more likely to be economically prepared for retirement than those who did not. In the 2008 HRS, this advantage shrank to 5.7 percentage points, as decreased equity and housing value affected wealthier respondents more than others. By 2014, this advantage had increased to 6.3 percentage points.

Among couples in these cohorts, those in 2004 without a state or local government worker actually had an advantage of 5.0 percentage points in adequate economic preparation for retirement. By 2008, couples with a state or local government worker had gained an advantage of 3.7 percentage points, possibly because pension income better sheltered them from the shocks to stock equity and housing wealth in the Great Recession. In 2014, this advantage had decreased to 0.6 percentage points.

Overall, we found some worsening in economic preparation for retirement between 2004 and 2014 among persons 67 to 72 years old. For singles, there was a decrease of 5.0 percentage points; for couples, there was a decrease of 4.5 percentage points. This is consistent with other indicators, such as those for health, that have shown a worsening of conditions for successive cohorts of older Americans.

Our findings on the effects of cuts to state and local pensions on retirement income have a significant caveat: We cannot separate pension income by source. Thus, our analyses should be considered upper bounds of the effects. We do find that only small fractions of the population—those with at least 20 years in state and local government—have major resources in pension income. Furthermore, such persons have better economic preparation for retirement than others, so that reductions in state and local pensions would likely have only relatively modest overall effects on the economic preparation of retired Americans. ❖

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