

TEACHERS' RETIREMENT BOARD  
BENEFITS AND SERVICES COMMITTEE

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SUBJECT: Analysis of CalSTRS 2008 Retirement Readiness Assessment  
CONSENT: X  
ACTION: X  
INFORMATION: \_\_\_\_\_

ITEM NUMBER: 2c  
ATTACHMENT(S): 1  
MEETING DATE: November 6, 2008  
PRESENTER: Ed Derman

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**PURPOSE OF THE ITEM**

The results of CalSTRS' 2008 Retirement Readiness Assessment (Assessment) were presented at the April 2008 Board meeting. Due to time constraints, that initial report focused on raw data in a few key areas, but provided little in the way of context or analysis. This item presents a comprehensive analysis of the survey results.

**RELATIONSHIP TO BOARD'S STRATEGIC PLAN**

<b>Goal 1</b>	Raise the quality in the delivery of benefits, products, and services to best in class.
<b>Objective C</b>	Continue to survey members to understand their preferences and expectations for the delivery of benefits and services.

**BACKGROUND**

At its October 2007 offsite, the Board instructed CalSTRS staff to conduct a comprehensive survey to serve as a tool to assess the overall financial status and future needs of CalSTRS' various customer populations. The survey, developed to provide a broad range of information, will be one of several resources used when formulating a comprehensive benefits strategy to serve as a benchmark for future plan design changes. This item summarizes the retirement readiness findings that are presented in the attached report.

**METHODOLOGY**

The survey was conducted by mail over three weeks in February 2008. A similar, but specialized survey was sent to five CalSTRS groups: active members, inactive members, retired members, members on disability benefits, and survivors.

**SUMMARY OF FINDINGS**

Detailed findings on preparing and saving for retirement, personal finances and retired member health care are included in the report. A brief summary is included here.

### **Preparing for Retirement**

- A majority of CalSTRS members have a high comfort level with managing their own finances with retired members having a higher comfort levels than active members. However, CalSTRS members have a high level of concern regarding their retirement. One of their concerns is that CalSTRS will not have sufficient funds to pay benefits even though CalSTRS is a secure defined benefit plan.
- Active members are more comfortable planning for retirement than the U.S. population as a whole. Unlike the rest of the U.S. population, CalSTRS members are much less likely to have a planned retirement age. Instead, CalSTRS members generally plan to and do retire as a result of financial preparedness. Some retired members say, however, that they retired because they were no longer happy in the workplace. Health concerns force members into retirement less than 15 percent of the time.
- The communication materials that CalSTRS makes available are not used as much as we would like. Less than half of the active members have visited the CalSTRS Web site or read CalSTRS material received at work. Just half read other written CalSTRS material.
- Retired members have more direct contact with CalSTRS than the active members. Almost three quarters had appointments with a CalSTRS benefits counselor prior to retirement and almost half attended a CalSTRS workshop.

### **Saving for Retirement**

- Approximately two thirds of CalSTRS members are able to project an amount they will need to save in addition to their CalSTRS pension and Social Security to live comfortably in retirement. While every CalSTRS member should be able to predict this amount, the percentage of CalSTRS members who make the effort is higher than the 47 percent of the overall population who made such a calculation.
- Almost two thirds of CalSTRS members know that their employers offer supplemental retirement vehicles.
- CalSTRS members are beginning to save for retirement at earlier ages. CalSTRS members, on average, have more supplemental savings than the U.S. population in general.
- Over 70 percent of CalSTRS active members currently make annual contributions to either an Individual Retirement Account or an employer sponsored retirement savings plan. This is slightly more than the 62 percent of U.S. workers that are reported to be currently saving.
- Making mortgage payments, providing for dependent children and paying off consumer debt are the three most noted obstacles in saving for retirement for active members.

Paying consumer debt has an impact on almost two thirds of U.S. workers. In contrast, retired members list paying for medical and health care expenses and caring for dependent adult in addition to mortgage payments as their top concerns.

### **Personal Finances**

- Almost three quarters of CalSTRS active members are currently married or in domestic relationships. CalSTRS members tend to be married at about the same rate of the U.S. population as a whole.
- The median earnings of active CalSTRS members are about \$63,000. This is slightly less than the median income of Californians with bachelor's degrees (about \$64,000) and significantly less than the estimated median income of Californians with advanced degrees (about \$83,000).
- The median household income for CalSTRS retired members is about \$67,000 per year, of which the CalSTRS benefit represents the largest portion. While this is much lower than the active members' household (rather than individual) income, it is significantly higher than the retired population as a whole. According to the U.S. Census Bureau the estimated median U.S. household income for those age 65 years or older is under \$30,000 per year. No data was available that identifies the median income of retired Americans with bachelor's or advanced degrees.
- In general, CalSTRS members have lower expectations about working in retirement than the nation as a whole. According to EBRI's 2008 Retirement Confidence Survey almost two thirds of American workers plan to work in retirement, compared to almost half of CalSTRS active members who plan to work during retirement. About a quarter of retired members currently work and of those that currently work, half work for a California public educational institution.
- CalSTRS members tend to own houses at a higher rate than the general population. However, when household income, marital status and age are factored in, this higher rate is not unreasonable. Of the CalSTRS active members who do not own a home, the top reason given was that they could not afford a home in their area. However, when looking at homeownership by geographic region, similarly high rates of ownership are found among CalSTRS membership regardless of location.
- While CalSTRS active members are seriously affected by housing expenses, a majority of retired members own their homes outright. Retired members also tend to have much less consumer debt than their active counterparts.
- Almost 60 percent of retired members say they are highly concerned about being able to maintain their standard of living in retirement, particularly given the costs of health care in retirement.

### **Retired Member Health Care**

- CalSTRS members' top financial concern is paying for health care. Specifically, 83 percent of active members and 62 percent of retired members are highly concerned about being able to afford medical expenses in retirement. Yet more than half of the active members do not know how much money they need to save to pay for medical care in retirement.
- The availability of lifetime health care has declined. The percentage of retired members over age 65 with reported lifetime health care is almost twice the percentage (21 percent versus 11 percent) reported by retired members under age 65.
- Almost half of CalSTRS retired members are spending more than they expected on health care in retirement and six percent responded that they had to forego medical care in the last year because they could not afford it.

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Teachers' Retirement Board  
Benefits and Services Committee

**Retirement  
Readiness Report**

**CALSTRS**

## INTRODUCTION

Over the past several years there has been an inundation of articles, surveys, studies, and reports concluding that Americans are grossly underprepared for retirement. Several sources have pointed to the diminishing role of defined benefit pensions as a cause of this trend and still others have laid blame on the United States' increasingly spendthrift culture of consumerism as evidenced by low to negative personal savings rates.<sup>1</sup> Although CalSTRS members are expected to fare better than the one-half of American workers who are not provided with an employer sponsored retirement plan, let alone a defined benefit retirement plan, it is not clear how other factors such as supplemental retirement savings, household finances, and health care will affect the typical CalSTRS member.<sup>2</sup> With this critical question in mind, CalSTRS staff developed this Retirement Readiness Assessment to survey the population in order to supplement the information regarding the Defined Benefit Program provided by CalSTRS *Retirement Benefits Comparison and Adequacy Study*.

CalSTRS has never before conducted a comprehensive survey on the order of the Assessment. Consequently, each piece of information collected stands in isolation. The Teachers Retirement Board has requested that this Assessment be completed on a regular basis which will provide a way to assess any longitudinal trends that may occur within the population. Furthermore, although the first Assessment evaluated different characteristics among all of CalSTRS primary clients, including inactive members, survivor benefit recipients, and disability benefit recipients, this analysis is exclusively focused on evaluating the situations and needs of CalSTRS active and retired members. Because the focus of CalSTRS has been to provide retirement benefits for employee participants, staff believes that in the context of an overall benefit strategy, the active population should be given the foremost attention and the retired population should be assessed in the context of evaluating any future plan changes that may affect future retired members. That being said, the other survey information will continue to be extremely useful as staff evaluates these other programs as the Board requests.

## SUMMARY OF FINDINGS

For the most part, when compared with the rest of the population, the results of the survey showed that CalSTRS active members are or will be generally better prepared for retirement. As with most Americans, CalSTRS active members are highly concerned about their retirements. However, much of this concern may come from a basic human concern about the unknown. Once retired, CalSTRS members are less concerned and generally more comfortable in retirement than was expected. In contrast with this tendency and with the rest of the population, CalSTRS members generally believe that they will retire earlier than CalSTRS has experienced. Also of concern, although a large percentage of CalSTRS members are homeowners, a large amount of those homeowners find their mortgage payments to be a significant obstacle to saving for retirement. On a positive note, a very high percentage of retired members also own their homes and many of those own them outright and, consequently have much lower housing

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<sup>1</sup> Low to negative personal savings rates may not be the best indicator of actual personal savings. The personal savings rate is the percentage of the population's average disposable income. In fact, according to the Employee Benefit Research Institute's 2008 Retirement Confidence Survey, 51 percent of workers and 46 percent of retirees have non-retirement savings.

<sup>2</sup> Purcell, P. . Older Workers: Employment and Retirement Trends, *CRS Report for Congress*. (Order Code RL30629). Washington, DC: Congressional Research Service, September 15, 2008.

expenses. Then again, many of those retired members are seriously impacted by higher health care expenses and less and less employer coverage.

Although, when compared with the rest of the U.S. population, CalSTRS members, both retired and active, are in very good shape when it comes to household income in retirement and supplemental retirement savings, the comparison may not be valid. As the following discussion regarding income and homeownership demonstrates, a population-wide comparison is not necessarily the most accurate in determining relative comfort levels in retirement. In order to live comfortably in retirement, *CalSTRS Retirement Benefits Comparison and Adequacy Study* states that a typical CalSTRS member can expect to receive 62 percent of their pre-retirement income in CalSTRS retirement benefits but should actually replace between 80 and 90 percent of their pre-retirement income. While the Assessment demonstrates that most CalSTRS members have or will have additional income sources in retirement, the circumstances for every individual will be different.

## METHODOLOGY

Due to the broad range of respondent composition as well as the complexity of the questionnaire, the survey was conducted by mail between February 5, and February 25, 2008. The response rates are presented in Table 1.

Table 1. Assessment Response Rates

<b>CalSTRS Customer Segment</b>	<b>Outgoing Surveys</b>	<b>Undeliverable</b>	<b>Responses</b>	<b>Response Rate</b>	<b>Total Sample Size</b>
<b>Active</b>	11,973	149	869	7%	600
<b>Inactive</b>	19,922	874	2093	11%	600
<b>Retired</b>	3,997	8	1136	28%	600
<b>Disabled</b>	5,018	39	855	17%	400
<b>Survivor</b>	5,077	426	579	12%	387

It has been suggested that a mail survey might not provide an accurate representation of CalSTRS population because those who are most prepared for retirement would be most likely to respond to a retirement system's survey. Indeed, one of the most common types of errors among all surveys, not just those conducted by mail, is the "non-response" error that occurs because some members of the population will not respond to the survey. Furthermore, the research on surveys has generally held that salience of topic is one of the most important determinants of response.<sup>3</sup> As a result, it is not surprising that the lowest response rates were from active members and of active members, those that were furthest away from retiring were generally less likely to respond to the survey.

As Table 1 indicates, the highest response rate was among the retired member population, the population group with the greatest daily and, certainly monthly, contact with CalSTRS.

<sup>3</sup> Dillman, Don A. . The Design and Administration of Mail Surveys. *Annual Review of Sociology*, 17, 225-249, 1991.

Nevertheless, even in the active population, the target sample size of 600 was reached, providing a sufficient number of responses for analysis. Furthermore, the responses have been weighted by age to account for lower response rates from younger active members and older retired members. In preparation for the next version of the survey, CalSTRS staff is currently exploring ways to reduce the non-response error among the younger active member population, including segmenting the target sample according to age and providing a bifurcated mail and internet based survey.

## **DETAILED FINDINGS**

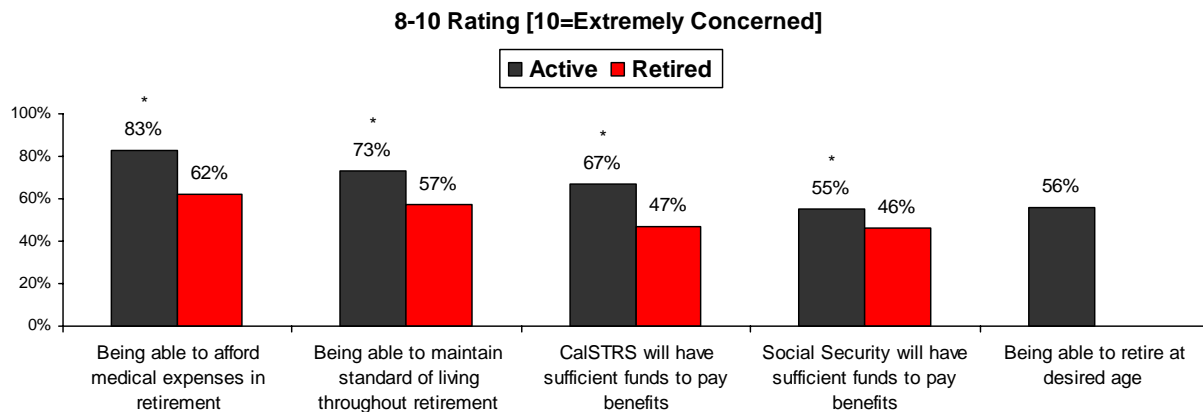
### **Preparing for Retirement**

#### Concerns Regarding Retirement

Overall, CalSTRS members have a high level of concern regarding their retirement. This is important because as a defined benefit program, CalSTRS main retirement benefit is a guaranteed monthly amount paid over the lifetime of the member and/or beneficiaries. The reasons for this concern may be because of recently increased media attention on government pensions or the current state of Social Security and national savings. Nevertheless, the same high levels of anxiety are being felt across the nation. However, retired members tend to report a lower level of concern than active workers, suggesting that worker anxiety may be caused by unrealistically pessimistic expectations.

The Assessment shows that CalSTRS members are highly concerned that CalSTRS will have sufficient funds to pay benefits. Specifically, 67 percent of active members and 47 percent of retired members are highly concerned that CalSTRS will have sufficient funds. Many CalSTRS members do not receive any benefit from Social Security, still it is striking to note that even with all of the publicity regarding Social Security's long term short-fall, the levels of concern over the financial viability of CalSTRS were greater than the levels of concern regarding the ability of Social Security to have sufficient funds to pay benefits (55 percent active, 46 percent retired). A CalSTRS Web survey conducted from October 2006 to January 2007, provided a corroborating illustration showing that, in light of the recent media coverage of pension systems, over 69 percent of the respondents were "somewhat less confident" to "much less confident" about a secure financial retirement. As Chart 1 shows, of the other concerns which will be discussed later in this report, both active and retired members were most concerned with being able to afford medical expenses and being able to maintain their standard of living.

Chart 1. Retirement Concerns



### Comfort Levels Managing Finances and Preparing for Retirement

In general, a majority of CalSTRS members reported a high comfort level with regards to managing finances. However, of CalSTRS members, the retired members have higher comfort levels than the active members. According to the Assessment, while 55 percent of the active members responded that they were highly comfortable managing their finances, a significantly higher 72 percent of retired members responded in a similar manner. Likewise, 30 percent of active members responded that they were highly comfortable investing money compared with 42 percent of retired members. While this appears low, CalSTRS members may be more comfortable with investing when compared with the U.S. population as a whole. According to the International Foundation for Retirement Education’s 2007 Retirement Readiness Survey,<sup>4</sup> only 13 percent of the workers responded that they believe they are extremely or very knowledgeable about investing.

The active members also responded more positively than the U.S. population as a whole with regards to planning for retirement. According to the Assessment, 34 percent of CalSTRS active members are highly comfortable planning for retirement. In contrast, only 23 percent of the worker respondents to the Employee Benefit Research Institute’s 2008 Retirement Confidence Survey reported that they were doing a good job preparing for retirement.<sup>5</sup>

### Social Security

Although many CalSTRS members are not affected by the Social Security offsets for recipients of governmental pensions, there are still many that will be affected who are not even aware of these offsets. Approximately 32 percent of the active members expected to have between 10 and 30 years of Social Security credits and as a result, will be subject to the Windfall Elimination Provision offset in retirement. (In contrast, 50 percent of the retired members are currently

<sup>4</sup> The results of this survey are presented in A New Model for Retirement Education and Counseling, an Arthur N. Caple Foundation Research Paper by Mary Willett presented at the 2007 National Association of Governmental Defined Contribution Administrators Annual Conference on September 17, 2007.

<sup>5</sup> Helman, VanDerhei, Copeland. The Retirement Confidence Survey: Americans Much More Worried About Retirement, Health Costs a Big Concern, *EBRI Issue Brief*. (No. 313). Washington, DC: Employee Benefit Research Institute, April 2008.

having their Social Security benefit offset by the WEP.) Of those active members who stated that they would have between 10 and 30 years of Social Security earnings, 29 percent responded that they were not aware of the WEP. In addition, 44 percent of active members were not aware of the Government Pension Offset for Social Security spousal benefits, while 44 percent of retired members are currently having their spousal benefits offset by the GPO.

### Target Age for Retirement

The survey results show that, unlike the rest of the U.S. population, CalSTRS members are much less likely to have a planned retirement age. According to the survey, 43 percent of CalSTRS active members responded that they did not know what their target retirement age would be. In contrast, according to the EBRI's 2008 Retirement Confidence Survey, only seven percent of worker's responded that they did not know at what age they plan to retire.

However, of those active CalSTRS members who do have a target retirement age, that age is considerably younger than the rest of the population. Specifically, 49 percent of those CalSTRS members with a target retirement age responded that the age was less than age 60. In contrast, according to EBRI's 2008 Retirement Confidence Survey, only 12 percent of U.S. workers plan to retire under age 60. On the high end, while only nine percent of CalSTRS members who had target retirement ages designated an age after age 65, as reported in the Retirement Confidence Survey, 34 percent of U.S. workers with planned ages designated ages over 65 and 24 percent designated ages over 70.

These discrepancies may have more to do with attitude and confidence than anything else. U.S. retirees have actually tended to retire at a much earlier age than they had originally planned. Specifically, according to EBRI's 2008 Retirement Confidence Survey, of those who have in fact retired and knew what their retirement age was, 41 percent actually retired before age 60. In contrast, 34 percent of CalSTRS 2006-2007 retired members were under age 60. Furthermore, 21 percent of EBRI survey respondents actually retired prior to age 55, while less than one half of one percent of CalSTRS retired members were under age 55. This may have something more to do with CalSTRS eligibility requirements and EBRI's definition of retirement rather than any considerable difference with the population groups themselves. Regardless, it seems that while the U.S. population is overly pessimistic, CalSTRS membership may be overly optimistic about the prospects for early retirement.

### Reasons for Planning to Retire or Retiring at Particular Age

As Table 2 illustrates, CalSTRS members generally plan to retire when they are financially prepared. Thirty-six percent of active members and 38 percent of retired members responded that they would retire or actually did retire at the age at which they would be or were financially prepared. The second most popular response for actives (23 percent) and a significant number of retired members (fourth most popular at 15 percent) was that they planned to retire at a specific age because it would be the earliest age they would be eligible for retirement. Given the age and service credit when members tend to retire in the DB Program, however, it is clear that they don't actually retire at the earliest opportunity. Of the retired member population, the second most popular response (22 percent) was because they were no longer happy in the workplace. When asked a similar question in CalSTRS 2005 Retirement Study, 25 percent of the retired members responded similarly that a "situation at school" had triggered retirement.

The responses regarding health were also similar to the responses to CalSTRS 2005 Retirement Study. According to the Assessment, 13 percent of the retired members retired at a particular age because health concerns forced them into retirement. Similarly, in the 2005 Retirement Study, 12 percent of the retired members responded that either medical condition, illness, injury or other health factor triggered retirement.

Table 2. Reasons for Retiring at Particular Age.

<b>Reasons for Retiring at Particular Age</b>	<b>Active</b>	<b>Retired</b>
The age at which I will be/was financially prepared for retirement	36%	38%
The earliest age I will be/was eligible for retirement	23%	15%
Spouse or partner intends to retire/retired at the same time	13%	11%
The age I will become/was eligible for CalSTRS' \$300 or \$400 per month longevity bonus	12%	10%
The age I will become/was eligible for CalSTRS' 0.2% career factor improvement and \$200 per month longevity bonus	8%	7%
The age I will become/was eligible for CalSTRS' one-year final compensation	4%	4%
Not happy in job anymore and ready to leave the workplace	NA	22%
Employer provided a retirement incentive that enticed to retire	NA	19%
Health concerns forced into retirement	NA	13%
Had to retire to provide care for someone else	NA	6%
Unexpected financial opportunity that made retirement possible	NA	6%
Other	21%	14%

#### Actions Taken to Plan for Retirement

In general, active members have already utilized more resources and materials in planning for retirement than the retired members actually utilized prior to their own retirements. When asked about the ways in which members are planning for retirement, the active members were far more likely to have consulted with a professional financial planner (51 percent) than the retired members (22 percent). However, only 40 percent of the active members responded that they had visited the CalSTRS Web site, only 45 percent read CalSTRS material received at work and only 51 percent read other written CalSTRS material. Retired members generally have had more direct contact with CalSTRS than the active members, with over 73 percent having interviewed with a CalSTRS benefits counselor prior to retirement and 45 percent having attended a CalSTRS retirement workshop. In contrast, only 30 percent of the active members have seen a counselor and 29 percent have been to a workshop. The obvious reason for this discrepancy is that people tend to initiate this type of contact the closer they are to retirement. While there could and should be more direct contact between CalSTRS and the membership, the fact that 90 percent of the retired members stated that CalSTRS benefits met or exceeded their expectations in helping them maintain their standard of living in retirement indicates that members are generally well prepared for retirement.

## **Saving for Retirement**

### Age Began Saving for Retirement

CalSTRS members are increasingly beginning to save for retirement at earlier ages. When asked at what age they began contributing to supplemental retirement savings plans, the highest response among retired members was age 45 or older, whereas the highest response among active members was between ages 25 and 30. Specifically, 38 percent of retired members began saving at age 45 or later compared with 32 percent of active members who began saving between ages 25 and 30. Overall, 59 percent of retired members did not begin saving for retirement until age 40 as opposed to 63 percent of active members who have started to save for retirement prior to age 40. This may reflect the fact that for a number of retired members, there were fewer tax-deferred retirement investment vehicles available to them when they were younger.

### Total Supplemental Retirement Savings

As would be expected, while active members appear more likely to have saved at an earlier age, their retirement savings account balances are generally less than those held by retired members immediately prior to retirement. Fifty-five percent of retired members reported that they had saved at least \$100,000 immediately prior to retiring, compared to 38 percent of active members who have already saved \$100,000 or more. Even so, 63 percent of those active members who knew their account balances stated they had already saved at least \$50,000. This is significantly more than the \$22,800 reported by the Government Accountability Office as the median balance of private sector employees.<sup>6</sup> Perhaps most revealing, while over 11 percent of the current retired members reported that they retired without any retirement savings, only less than four percent of CalSTRS active members reported currently having no retirement savings.

### Anticipated Supplemental Savings Needed to Live Comfortably in Retirement

EBRI's 2008 Retirement Confidence Survey suggests that one of the reasons why people tend not to have saved enough for retirement is because they don't know how much they will need. Indeed, according to that survey, only 47 percent of American workers tried to calculate how much money they need to save for retirement. In contrast, 62 percent of CalSTRS members provided a dollar amount that they thought they will need to save in addition to their pension and Social Security to live comfortably in retirement. Of those that chose a particular dollar amount, 92 percent responded that this amount would have to be over \$100,000 and 71 percent responded that this amount would have to be over \$250,000.

### Participation in and Contributions to Supplemental Retirement Savings Plans

According to the Assessment, over 62 percent of CalSTRS members work for employers that they know offer employer sponsored retirement plans (such as 403(b)s, 401(k)s or 457s). While this number parallels the 62 percent of private employers who offer employer sponsored plans as stated by the GAO, it is likely that a significant number of CalSTRS members are not aware of

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<sup>6</sup> Private Pensions: Low Defined Contribution Plan Savings May Pose Challenges to Retirement Security, Especially for Many Low-Income Workers, *Report to the Chairman, Committee on Education and Labor, House of Representatives*. (GAO-08-8). Washington, DC: United States Government Accountability Office, November 2008.

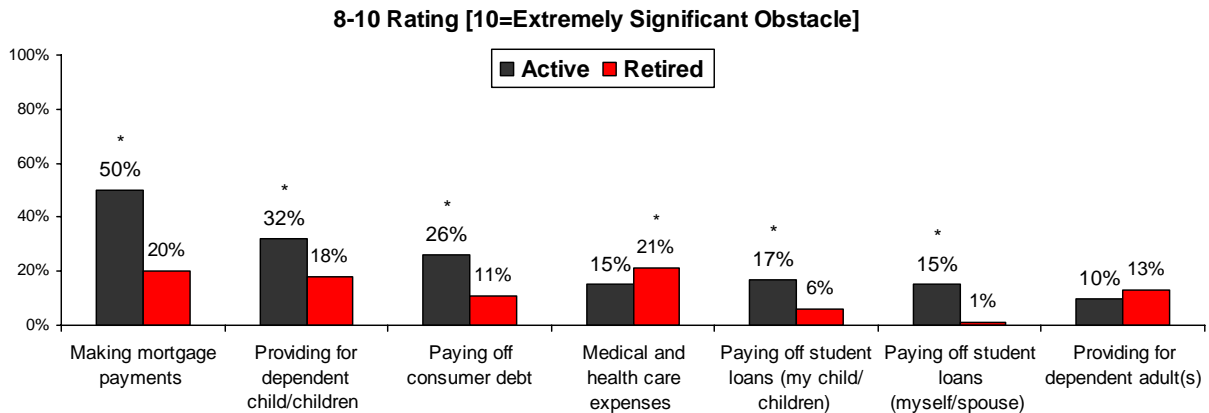
whether or not their employers offer plans, particularly because 403(b) plans are almost universally available in public schools. Indeed, 22 percent of the active members stated that they did not know whether or not their employer provided a plan. This is an important comparison that shows how much better off CalSTRS members are than many workers in the private sector for whom their supplemental savings plan is their only retirement other than Social Security.

According to the Assessment, over 72 percent of those active CalSTRS members who work for employers with employer sponsored retirement savings plans such as 403(b)s are currently contributing to such plans. Overall, the total savings rate of all of CalSTRS members is also fairly respectable. Over 70 percent of CalSTRS active members currently make annual contributions to either an Individual Retirement Account or an employer sponsored retirement savings plan. This is slightly more than the 62 percent of U.S. workers who are reported to be currently saving by both EBRI's 2008 Retirement Confidence Survey and InFRE's Retirement Readiness Survey.

### Obstacles to Saving for Retirement

While active members appear to be doing a far better job of saving for retirement than their retired counterparts, they also give more weight to the obstacles they must navigate in order to do so. Except for the impact of medical and health care expenses and caring for dependent adults, every other obstacle had affected a significantly greater percentage of active members. Active members may simply be more aware of the obstacles because, unlike many their retired member counterparts, they are actually saving. Or put another way, actives are saving at a higher rate than their retired predecessors and as a result, they are more conscious of the potential obstacles they may encounter as they save. Chart 2 shows the percentage of highly significant responses to seven possible obstacles to saving for retirement.

Chart 2. Significance of Obstacles to Saving for Retirement.



## Personal Finances

### Marital Status

Marital status can have a profound effect on all different measures of financial health, from household income to homeownership. However, because the first contact by a member with CalSTRS is at or near retirement, it is impossible to maintain accurate information on marital status. As a result, the Assessment has provided CalSTRS with this important piece of information for the very first time. According to the Assessment, 71 percent of CalSTRS active members are currently married and 3 percent are in domestic relationships. This number is consistent with data from CalSTRS' retirement application. Information from CalSTRS corporate database shows that, of those members who have retired since 2001, 70 percent were married or registered as a domestic partner at the time of retirement.<sup>7</sup>

CalSTRS members tend to be married at about the same rate of the U.S. population as a whole. According to the 2000 U.S. Census, 77 percent of men and 65 percent of women aged 55 to 64 are married.<sup>8</sup> This is consistent with information provided by CalSTRS corporate database that 81 percent of male retirees and 65 percent of all female retirees are either married or registered as a domestic partner at the time of retirement.

### Household Income

Although CalSTRS active members tend to have a higher median household income than the population as a whole, this can be explained by a combination of the higher than average individual income levels of California educators and the fact that 74 percent of these individuals are either married or in a domestic partnership and therefore are likely to have dual-income households. Specifically, according to the Assessment, the median household income of CalSTRS active members is \$103,700, whereas the estimated median household income of

<sup>7</sup> CalSTRS converted to a new corporate database in 2001. Prior to this date, the database did not record the marital status reported on the retirement application.

<sup>8</sup> Marital Status: 2000, *Census 2000 Brief*. (C2KBR-30). Washington, DC: United States Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau, October 2003.

Californians is \$67,727.<sup>9</sup> However, further investigation finds that the median individual income of CalSTRS members is actually much less than workers with similar levels of education.

The median earnings for all CalSTRS active members is approximately \$62,512. This is slightly less than the estimated median income of all Californians with bachelor's degrees (\$64,341) and significantly less than the estimated median income of all Californians with advanced degrees (\$83,264).<sup>10</sup> It is virtually impossible to become an educator in California without a bachelor's degree. Furthermore, almost all teachers are in the process of earning or have earned a teaching credential by attending accredited post-graduate programs at universities. According to research conducted by the National Education Association, by 2000 a majority of U.S. teachers also held master's degrees.<sup>11</sup> Although the Assessment did not inquire about educational level, based on the NEA report and the basic requirement that a California community college instructor hold a master's degree, it is reasonable to assume that a substantial number of CalSTRS members have advanced degrees.

In order to truly evaluate the household incomes of CalSTRS members a few components must be taken into consideration. First, 74 percent of CalSTRS active members are either married or in a domestic partnership. Second, over 70 percent of CalSTRS members are female. Third, as just described, CalSTRS members are overwhelmingly highly educated and highly educated individuals tend to marry other highly educated, and thus high earning, individuals. All that being said, and perhaps bringing the analysis full circle, CalSTRS members generally earn less of a percentage of their household income than the overall population. Specifically, the median CalSTRS member's earnings are only 60 percent of the median household income of active members. In contrast, the estimated individual median income of all Californians is approximately 70 percent of the estimated median household income. Although there are any number of possible causes of this discrepancy, it is interesting to note that: (1) educators are underpaid as compared to their educational equivalents; (2) educators are most likely to be married to their educational equivalents; (3) educators, who are a majority female, are most likely to be married to men; and (4) in the U.S., women continue to earn less than men.<sup>12</sup>

### Household Income in Retirement

Although the household income of retirees is much lower than actives, the characteristic that is most significant about the expectations and realities of retirement income is that the largest portion of a retiree's household income is the monthly CalSTRS retirement benefit. The median

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<sup>9</sup> *Income – Median Family Income in the Past 12 Months by Number of Earners in Family*. Retrieved October 3, 2008, from U.S. Census Bureau Web site: <http://www.census.gov/hhes/www/income/medincedarnersandstate.html>. 2006 data indexed based on 4.9 percent increase of urban wage earners and clerical workers from June 2006, to February 2008, according to California Division of Labor Statistics and Research Consumer Price Index Calculator at [www.dir.ca.gov/dlsr/CPI/CPICalc.xls](http://www.dir.ca.gov/dlsr/CPI/CPICalc.xls).

<sup>10</sup> *Earnings By Occupation and Education*. Retrieved October 1, 2008, from U.S. Census Bureau Web site: <http://www.census.gov/hhes/www/income/earnings/call1caboth.html>. 2000 data indexed based on 27.9 percent increase of urban wage earners and clerical workers from June 2000, to January 2008, according to California Division of Labor Statistics and Research Consumer Price Index Calculator at [www.dir.ca.gov/dlsr/CPI/CPICalc.xls](http://www.dir.ca.gov/dlsr/CPI/CPICalc.xls).

<sup>11</sup> *Status of the American Public School Teacher 2000-2001*. National Education Association. Washington, DC, August 2003.

<sup>12</sup> *Women in the United States: A Profile, Census Brief*. (CENBR/00-1). Washington, DC: United States Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau, March 2000.

household income for CalSTRS retirees is only \$66,600, which is significantly less than that of the active member population. Although this is slightly less than the \$69,000 that was reported as the median retiree household income in CalSTRS 2005 Retirement Study, it does not necessarily mean that household income decreased for retirees from 2005 to 2008. Differences in survey methodology and the phrasing of the question itself could have contributed to statistical error in one or another of the two surveys. Responses from the next Assessment will help establish a basis for comparison.

Nevertheless, the household income for retirees is still significantly higher than the population as a whole. The estimated median household income for Americans age 65 years or older is only \$29,182.<sup>13</sup> Although no information could be found that compares CalSTRS members with other similarly situated individuals with regards to education or prior occupation, CalSTRS' 2008 Retirement Benefit Comparison and Adequacy Study concluded that CalSTRS Defined Benefit Program provides a level of income replacement in retirement that is similar to other state teachers' retirement plans.

For CalSTRS members the greatest source of retirement income will be or is provided by CalSTRS. Specifically, CalSTRS retirees report that with regards to their household income, a mean average of 58 percent can be attributed to the retirement benefit provided by CalSTRS and, only 14 percent can be attributed to income from a spouse or partner. Similarly, CalSTRS active members anticipate receiving 56 percent of their household income from their CalSTRS retirement benefit and only 11 percent from their spouse or partner. Except for the anticipation of active members to receive a greater portion of their retirement from employer sponsored retirement savings plans (11 percent of active members, versus retirees reporting only 4 percent), the other sources of income in retirement tended to be similar to what is expected by actives. Table 3 shows the amount of the income received or anticipated to be received by various sources in retirement.

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<sup>13</sup> Denavas-Wair, Proctor and Smith. Income, Poverty, and Health Insurance Coverage in the United States, *Current Population Reports: Consumer Income*. (P60-233). Washington, DC: United States Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau, August 2007. 2006 data indexed based on 4.9 percent increase of urban wage earners and clerical workers from June 2006, to February 2008, according to California Division of Labor Statistics and Research Consumer Price Index Calculator at [www.dir.ca.gov/dlsr/CPI/CPICalc.xls](http://www.dir.ca.gov/dlsr/CPI/CPICalc.xls).

Table 3. Mean Household Income Sources in Retirement

<b>Household Income Sources: Mean Percentage</b>	<b>Active (Expected)</b>	<b>Retired (Actual)</b>
Retirement benefit from CalSTRS	56%	58%
Income from spouse or partner	11%	14%
Distributions from an employer-sponsored retirement savings plan	11%	4%
Other personal savings or investments, not in an employer-sponsored retirement plan or IRA	7%	8%
Social Security benefits	4%	5%
Own employment income	3%	4%
Distributions from an IRA	4%	3%
Another employer-provided traditional defined benefit pension plan (other than CalSTRS) with a benefit that is based on salary and years of service	2%	2%
Distributions from a reverse mortgage arrangement	NA	1%
Other	1%	2%

### Working in Retirement

In general, CalSTRS retirees have lower expectations with regards to working in retirement than the nation as a whole. According to EBRI's 2008 Retirement Confidence Survey 63 percent of American workers plan to work in retirement, compared to 47 percent of CalSTRS active members who responded in the Assessment that they planned to work during retirement. According to the Assessment, 24 percent of retirees currently work and of those that currently work, a majority (54 percent) work in education in some capacity and 50 percent work for a California public educational institution.

### Homeownership

CalSTRS members tend to own houses at a higher rate than the general population. However, when household income, marital status and age are factored in, this high rate is not unreasonable. According to the Assessment, 86 percent of CalSTRS active members and 93 percent of retirees own homes. The overall homeownership rate of California in 2007 was 58 percent, one of the lowest in the nation.<sup>14</sup> However, according to the Asset Policy Initiative of California, households earning less than \$50,000 have a 41 percent homeownership rate and those households earning more than \$150,000 have an 87 percent homeownership rate.<sup>15</sup> As discussed earlier, the median household income of CalSTRS active members is \$103,700 Furthermore, while just 68 percent of all Americans owned homes, 84 percent of all married couples owned

<sup>14</sup> *Housing Vacancies and Homeownership (CPS/HVS) Table 13. Homeownership Rates by State: 1984 to 2007.* Retrieved October 1, 2008, from U.S. Census Bureau Web site: <http://www.census.gov/hhes/www/housing/hvs/annual07/ann07t13.html>.

<sup>15</sup> *Facts about Homeownership in California.* Retrieved October 14, 2008, from Asset Policy Initiative of California Web site: [http://www.assetpolicy.org/files/File/CA\\_Homeownership\\_Facts.pdf](http://www.assetpolicy.org/files/File/CA_Homeownership_Facts.pdf).

homes and over 80 percent of all individuals over age 55 owned homes.<sup>16</sup> In addition, of those married couples for whom a homeowner was over age 55, 92 percent owned homes, almost as high of a percentage as CalSTRS retirees.<sup>17</sup> Although no information could be found regarding education levels of homeowners, as a result of the fairly extreme differences in median income by education level, it would be reasonable to assume that a similar percentage difference may be found with regards to homeownership.

Of the CalSTRS active members who do not own a home, the top reason given was that they could not afford a home in their area. However, when looking at homeownership by geographic region, similarly high rates of ownership are found among CalSTRS membership regardless of location. In response to the Board's request for additional geographical information regarding levels of homeownership among the CalSTRS membership, staff has sorted the responses from the Assessment by county. Table 4 shows the responses from 22 of the largest California counties. While this information is informative and should be considered, it is not statistically valid for determining the rates of homeownership by county. In order to have a statistically valid survey, an adequate number of responses would have to be gathered from each county.

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<sup>16</sup> *Housing Vacancies and Homeownership (CPS/HVS) Table 15. Homeownership Rates for the United States, by Age of Householder and by Family Status: 1982 to 2007*. Retrieved October 1, 2008, from U.S. Census Bureau Web site: <http://www.census.gov/hhes/www/housing/hvs/annual07/ann07t15.html>.

<sup>17</sup> Ibid.

Table 4. Homeownership by County

County	Retirees			Active Members		
	Total	Homeowners		Total	Homeowners	
Alameda	25	22	88%	25	21	84%
Contra Costa	26	25	96%	17	17	100%
Fresno	8	8	100%	11	11	100%
Kern	7	7	100%	10	9	90%
Los Angeles	98	91	93%	119	102	86%
Merced	2	2	100%	12	11	92%
Monterey	12	9	75%	17	16	94%
Orange	53	51	96%	44	39	89%
Placer	15	15	100%	3	3	100%
Riverside	26	26	100%	28	28	100%
Sacramento	20	20	100%	23	21	91%
San Bernardino	27	24	89%	36	33	92%
San Diego	40	37	93%	58	55	95%
San Francisco	6	6	100%	9	5	56%
San Joaquin	14	13	93%	13	12	92%
San Mateo	11	10	91%	11	11	100%
Santa Barbara	13	9	69%	6	4	67%
Santa Clara	35	35	100%	22	21	95%
Santa Cruz	12	11	92%	7	7	100%
Sonoma	14	9	64%	10	8	80%
Stanislaus	15	12	80%	13	13	100%
Ventura	13	13	100%	21	20	95%

### Housing Expenses

What they lack in household income, retirees may make up for with relatively low housing expenses. While CalSTRS active members are seriously affected by housing expenses, retirees are in much better shape, with a majority owning their homes outright. Of the active members, 50 percent reported that making mortgage payments was a highly significant obstacle to saving for retirement. In contrast, only 20 percent of retirees reported the ability to make mortgage payments as having been a highly significant obstacle to saving for retirement. In light of the housing market's continuing fall and the recent collapse of the economy as a whole, it is reasonable to assume that these responses will be even more negative in the 2009 survey.

One reason why active members may have greater concerns and greater household expenses is because they have either purchased or refinanced their homes in recent years. According to the Assessment, 38 percent of active members do not plan to pay off their mortgage within the next 20 years. In contrast, 55 percent of retirees have already paid off their mortgage, compared with only 10 percent of active members. The result of this discrepancy is that the median monthly rent or mortgage payment of a CalSTRS retiree is only \$850, which is less than half of the \$1,770 median housing payment of an active member. As a further indicator of retirees' relative financial health, despite the high rates of homeownership, 87 percent of retirees responded that it would be highly unlikely that they would ever take out a reverse mortgage. On the other end, a still significant four percent of the retirees responded that it would be highly likely that they utilize a reverse mortgage (one percent of the respondents actually are receiving a reverse mortgage distribution).

### Consumer Debt

The Assessment shows that retirees tend to have much less consumer debt than their active counterparts and CalSTRS active members are as similarly concerned about consumer debt as the overall U.S. population. Specifically, 36 percent of retirees reported no consumer debt over the last five years, compared with 21 percent of actives. On the other extreme however, a substantial 28 percent of CalSTRS active members have seen their consumer debt increase over the last 5 years, compared with just 12 percent of retirees. As a result, for active members, consumer debt is a significant obstacle to saving for retirement. In fact, 63 percent of CalSTRS active members reported consumer debt to be of some significance as an obstacle to saving for retirement while 26 percent reported that it was a highly significant obstacle. Similarly, according to InFRE's Retirement Readiness Survey, 65 percent of U.S. workers have reported consumer debt to have a "great deal" to "some effect" on their retirement savings.

### Personal Expenses

When asked about their current level of spending as compared to their level of spending immediately prior to retirement, it is not surprising that retirees' top response was that they spend less (43 percent of retirees). What is unexpected is that the majority responded that they actually spend the same (36 percent of retirees) or even spend more (21 percent of retirees). This is especially important because in order to live on the CalSTRS benefit, which is only a fraction of their income that they were receiving prior to retirement, CalSTRS members would need to actually spend less. Nevertheless, this is consistent with the 57 percent of retirees who responded that they were highly concerned about being able to maintain their standard of living in retirement (see Chart 1). While the responses regarding consumer debt, housing expenses, and retirement concerns show that retirees seem to be less financially strained than active members, the responses regarding health care tell a very different story. If retirees are spending the same or more in retirement, as the following discussion will demonstrate, it is reasonable to assume it is related to health care expenses.

## **Retiree Health Care**

When asked to rate the financial concerns that they may have with regards to retirement, as discussed earlier and shown in Chart 1, CalSTRS members' top rated concern was health care. Specifically, 83 percent of active members and 62 percent of retirees responded that they were highly concerned about being able to afford medical expenses in retirement. That this amount was so much higher for the active members suggests that, as with most of the retirement concerns mentioned earlier, active members are overly pessimistic about health care coverage, which could be a very good motivator for retirement preparation. Perhaps what is most disconcerting for both active members and retirees is that there are so many uncertainties when it comes to retiree health care. When asked how much would need to be saved for medical and health care expenses in retirement, 56 percent of active members responded that they did not know.

As further evidence of confusion, over 37 percent of the active members stated that they did not know whether or not they had employer paid retiree health care. Indeed, the survey seems to be suggesting that if an individual doesn't know whether or not they have employer paid health care, then the odds are that they do not. While 22 percent are preparing to have to pay for the full cost of their health insurance in retirement, a significantly higher 42 percent of the retiree respondents actually have to go to such lengths. A considerable amount of work needs to be done to fill this critical gap in perception.

Furthermore, the Assessment confirms the trend towards decreasing employer paid health care in retirement. For example, 18 percent of retirees have lifetime coverage while only 11 percent of active members are aware that they have lifetime coverage. Upon further investigation, a clear discrepancy also appears to materialize from within the retiree population. While only 11 percent of those retirees under age 65 responded that they had lifetime coverage, almost twice that, 21 percent, of retirees over age 65 provided a similar response. However, less of those members over age 65 had coverage until 65 (eight percent) and shared the cost of coverage (seven percent) as compared to the under age 65 group (30 percent and 20 percent, respectively). This demonstrates that employers are moving toward less expensive alternatives to lifetime health coverage.

It is thus not surprising that 44 percent of CalSTRS retirees are spending more than they expected on health care in retirement. In fact, 35 percent of CalSTRS retirees are spending \$250 or more per month in health care premiums, and 17 percent are spending more than \$500 per month. As further evidence of the seriousness of the health care problem, six percent of the retirees responded that they had to forego medical care in the last year because they could not afford it.

## **CONCLUSION**

The Retirement Readiness Assessment has provided CalSTRS with an incredible amount of information about CalSTRS varied and diverse membership population. For the first time, a general picture can be constructed regarding the retirement savings and household finances of CalSTRS members. In addition, the Assessment has provided invaluable information regarding the current marital status of our active membership, the preparations that both active members

and retirees have made for retirement and the attitudes and concerns that members have regarding their retirement. Overall, the Assessment shows that, when compared with the U.S. population as a whole, CalSTRS members are generally better prepared for retirement, have more supplemental retirement savings, and have higher income and homeownership levels than the overall population.

Nevertheless, as the specific discussion regarding household income and homeownership demonstrates, it is not enough to compare CalSTRS members to the population as a whole. Indeed, when compared with individuals with a similar level of education, CalSTRS members generally earn less. In addition, while CalSTRS active members generally own homes at a high rate, they also have considerable mortgage payments in order to do so. At the same time, a great deal of CalSTRS retirees own their homes outright and are able to spend much less on housing as a consequence. Yet, although housing expenses are less, health care expenses and the worries that go along with them are serious concerns for both active and retiree populations. Because of the inaccuracy of a relative comparison across populations, the best indicator of an adequate retirement is the amount of pre-retirement income is replaced in retirement. The Assessment shows that both active members and retirees have several additional sources and potential sources to contribute to their financial well-being in retirement. Although every situation would need to be evaluated on an individual basis, the assessment shows that there are opportunities for CalSTRS members to bridge the gap to reach an adequate replacement ratio.