

Meeting the retirement needs of K-12 employees.

Introduction: Overcoming the retirement planning challenges for K-12 employees.



At AIG Retirement Services, our team is focused on helping individuals prepare for one of their biggest objectives — a brighter and financially secure future. With this in mind, we recently partnered with Greenwald Research to explore the retirement needs of public K-12 employees across the country. The findings, which reveal these employees face more complexity than other workers when planning for a financially secure retirement, also show opportunity for plan providers, plan sponsors and consultants to drive improved financial wellness and outcomes for the nation's educators.

Let's explore the findings, their implications and suggestions for ways to help K-12 employees build a more secure financial future.

Public school employees in the United States face more complexity than other workers when planning for a financially secure retirement. For most K-12 employees, defined benefit pension plans have long been the backbone of retirement income. However, many of these pension plans are underfunded, and the funding gap in state pensions has increased in recent years. As of 2018, states had just 71% of the assets needed to cover promised pension benefits.¹ And with these pension plans having a national average vesting period of 6.6 years,² many K-12 employees leave the profession before they are fully vested.

Additionally, while a very high proportion of American workers have Social Security protection, many state and local government employees are not eligible for Social Security benefits, which is the case for approximately 40% of public school teachers.³ Although it is required that these employees be covered by a sufficient pension plan, recent research shows that these standards may not provide the same lifetime benefits as Social Security.⁴



¹ www.pewtrusts.org/en/research-and-analysis/issue-briefs/2020/06/the-state-pension-funding-gap-2018

² www.nctq.org/dmsView/Doing_the_Math

³ www.nasra.org/socialsecurity

⁴ <https://crr.bc.edu/wp-content/uploads/2021/04/SLP77.pdf>

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Beyond these unique issues, K–12 employees also address retirement concerns shared among other Americans—such as longevity, increases in costs of healthcare, and inflation—that all adds up to a more expensive retirement than in the past. To help overcome potential retirement income gaps, K–12 employees can turn to their employer’s voluntary retirement plans (largely 403(b) plans). Yet, the average 403(b) participation rate among K–12 employees is only around 27%.⁵

Figure 1:



In this context, AIG Retirement Services sponsored a survey of K–12 employees to more fully understand the challenges these employees face in terms of retirement planning and the decision to participate in their employer’s DC plan. This research offers insights and suggestions with the goal to create a more effective system and enhanced retirement security for K–12 employees.

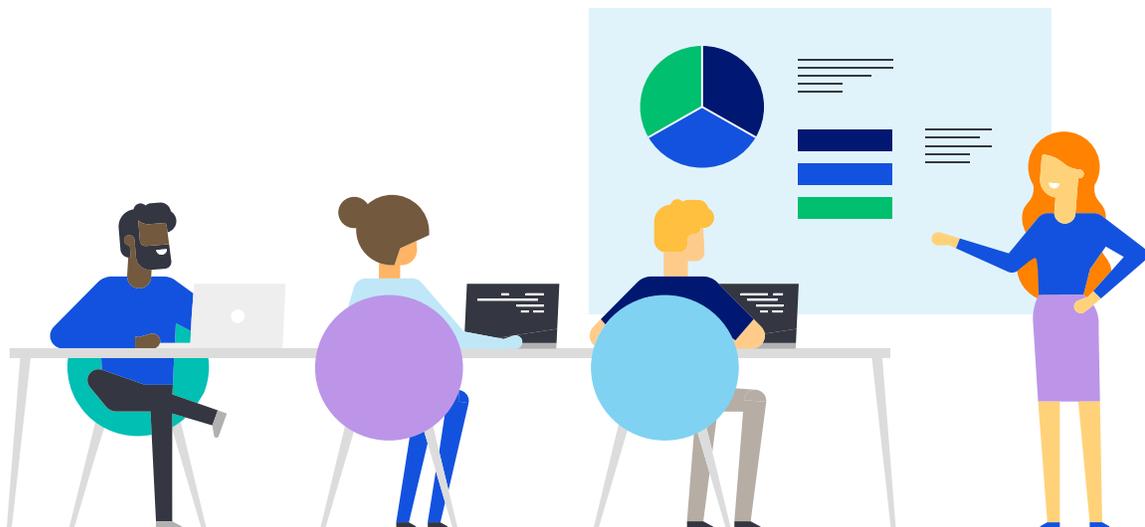
Who participates in their defined contribution retirement plan?

The survey collected responses from an almost equal mix of defined contribution (DC) plan participants and non-participants. K–12 employees who participate in their DC plan are more likely to:

- **Be employed full-time (89% vs. 80%)**
- **Have longer tenure (12.6 vs. 8.3 years on average)**
- **Be older (43.4 vs. 39.4 years old on average)**
- **Have household assets \$25k+ (71% vs. 53%)**
- **Have income of \$50k+ (56% vs. 40%)**

For those who participate, the main motivation is retirement savings being a top priority. On the other hand, the top reasons non-participants do not participate are believing they cannot afford to participate and not understanding how the plan works. When comparing the motivations to participate or not, some major differences include:

- 30% of non-participants prefer to invest on their own while 18% of participants prefer their retirement plan
- 13% of non-participants think other sources will be sufficient while 27% of participants think other sources may not be sufficient



⁵ www.nts-net.org/news-resources/403b-participation-rates

Unique challenges and sources of confusion

Pension plans

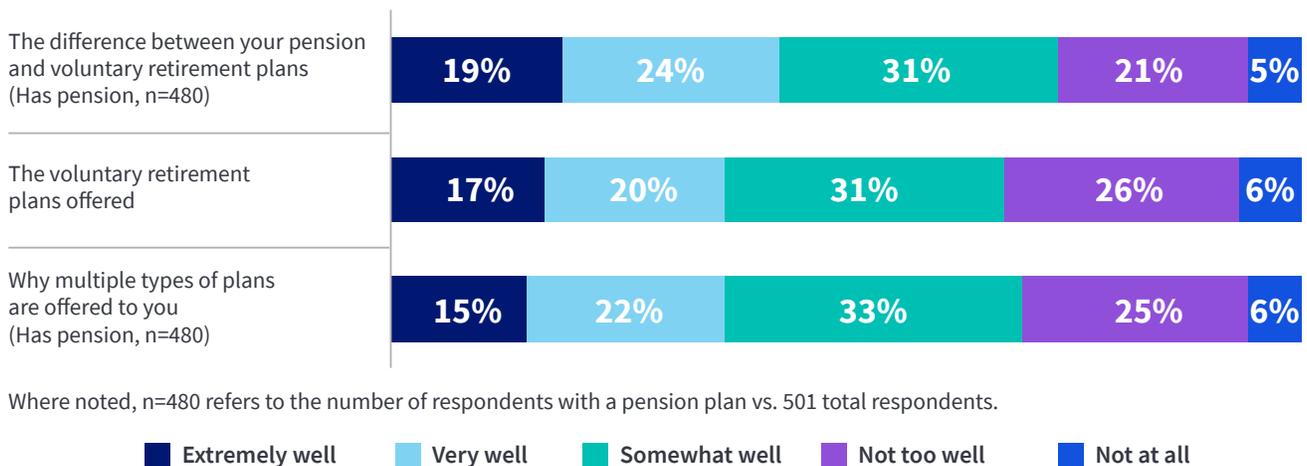
In today's workplace, having access to both a pension and defined contribution plan is not common.⁶ While it may be clearly beneficial for K–12 employees to have access to multiple retirement benefits through their employer, it does not come without difficulties. The main issue our survey reveals is that many employees—especially those not participating in their DC plan—don't understand their retirement benefits.

Specifically, they had trouble understanding:

- Differences between pension and DC plans
- Reasons why multiple plans are offered
- DC plans offered

A deeper dive into the results reveals that a quarter of those who do not participate in their employer's DC plan say they choose not to because they do not understand how the plan works.

Figure 2: Understanding of retirement benefits



Social Security

Social Security eligibility is another source of confusion. Among our survey respondents, 25% of those employed in a state where they are not covered by Social Security mistakenly think they are eligible. Interestingly, the same percentage of those employed in a state where they are covered by Social Security mistakenly think they are not eligible.

Participant uncertainty

Even some of the employees who do participate in their DC plan are not fully engaged or aware of their plan benefits. For instance, one in five do not know how much they are currently contributing to their plan. A quarter of DC plan participants are unsure who their plan vendor is.

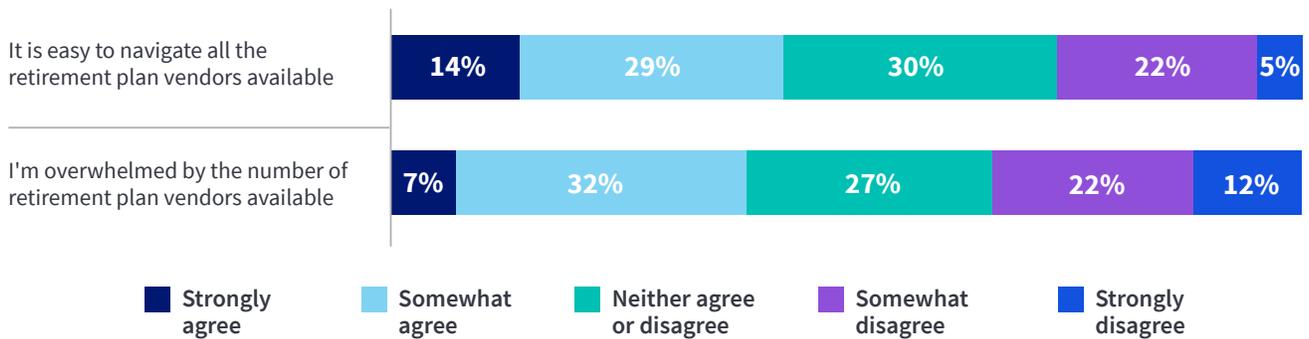
⁶ www.ebri.org/docs/default-source/fast-facts/ff-329-retplans-6jun19.pdf?sfvrsn=82ae3f2f_4

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Multiple vendors

While many employees at private companies are offered only one choice for their retirement plan, it is not uncommon for public K–12 employees to be offered a choice of multiple retirement plan vendors. And this choice appears to be another source of confusion. In fact, 4 in 10 employees offered a choice of vendor say they are overwhelmed by the number of plan vendors available and just 43% agree that it is easy to navigate these choices.

Figure 3: Sentiment around multiple vendors
Among those who have multiple DC plan vendors available



Regarding provider selection, private companies often employ a due diligence process to arrive at one provider who they feel offers the best value and packages of services, usually with the help of a consultant. Interesting, our survey results show that a third of K-12 employees think their employer is best-suited to conduct that oversight and think they are doing a good job. Many K-12 employers perform limited oversight, treating this as a payroll function. In any “willing provider” states, for example, employers may provide many retirement plan choices, making it potentially difficult to provide an adequate level of oversight. In situations like these, K-12 plan participants have a false sense of security based on misconceptions about the quality of plan sponsor oversight and vendor selection.

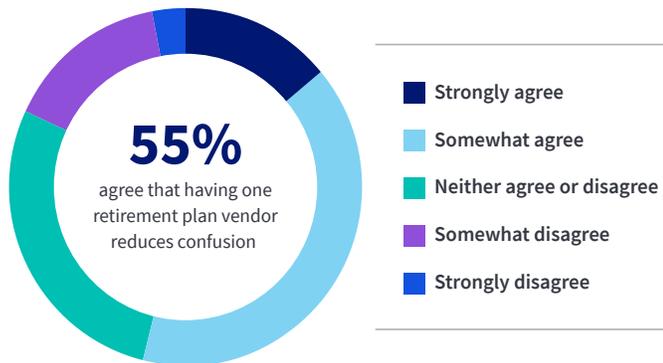
AI G suggestions for improving the K–12 defined contribution plan landscape

In order to boost participation rates and foster better engagement among participants, improvements should be made to the DC plan landscape. Suggestions for improvement are presented below.

Consider a single retirement plan vendor

As noted earlier, having multiple plan vendors can be a pain point for participants. In fact, 55% of all K–12 employees agree that having one retirement plan vendor would reduce their confusion. As highlighted earlier, confusion is common among participants in almost every facet of retirement planning and a key barrier to participation.

Figure 4: Retirement plan vendor confusion

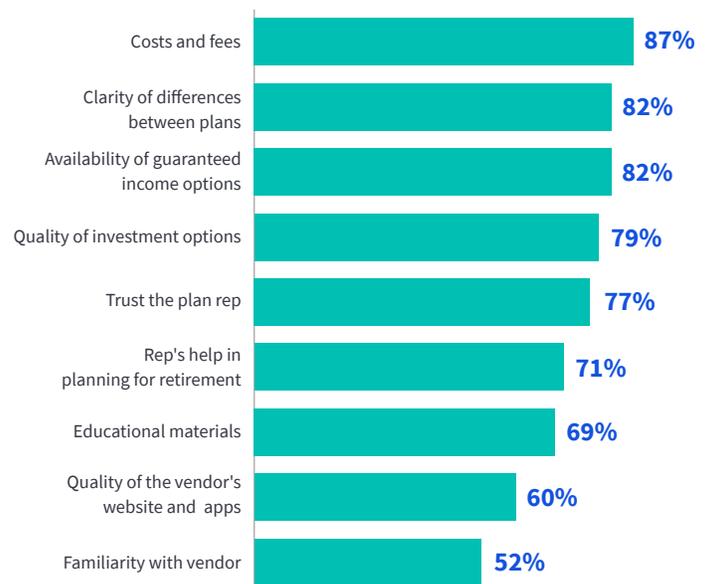


By moving to a single retirement plan vendor, plan sponsors and participants can benefit by:

- Eliminating the need to compare and choose between different plan representatives. Currently, it does not appear participants are taking the time to meet with multiple vendors or plan representatives. Among those who are currently offered multiple vendors to choose from, 60% made the decision to participate after meeting with just one vendor. Adding more vendors does not appear to significantly move the needle on the decision to participate.
- Having fewer vendor investment options to compare without sacrificing investment choice. By moving to one vendor, participants will not be missing out on specific investment types. With plan lineups adopting open investment architecture structures, participants could still be able to choose from annuities and an array of mutual funds from various companies through one retirement plan provider.

- Streamlining interactions with both plan participants and plan sponsors. A single retirement plan vendor would allow plan participants to hear consistent messaging around retirement plan education and planning. In a single-vendor environment, representatives can shift their focus away from the vendor selection process and put more attention toward building participation, consistent education and planning messaging. Additionally, eliminating the need to coordinate with multiple vendors can minimize administrative burden for each school or district and allow these employers to focus their communication efforts on the importance of participating in the DC plan and coordination with the district's pension plan (where applicable).
- Important plan vendor qualities would not be lost. Our survey respondents say that costs and fees, availability of guaranteed income options, and quality of investment options are highly important attributes to a retirement plan vendor. Moving to a single vendor can actually lead to improvements in each of these areas. Plan size can now be used as an advantage to negotiate better fees, receive higher-touch service and to better respond to participant's plan menu requests.

Figure 5: Importance of retirement plan vendor qualities
% Extremely/Very Important



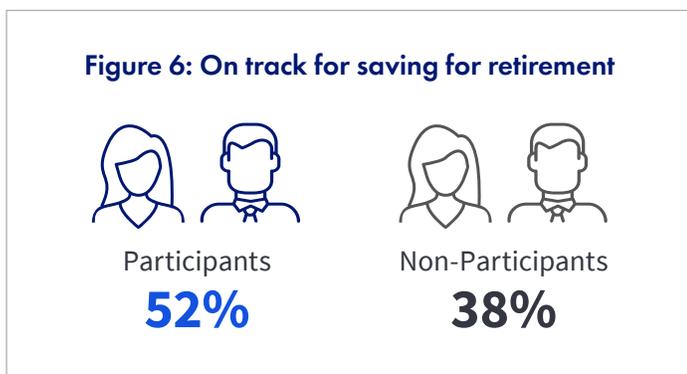
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Consider a single retirement plan vendor (continued)

- Campus safety may be enhanced when choosing one vendor vs. many. In a multi-vendor model (and with the level of turnover of vendor representatives), it's difficult to monitor who is on campus at any given time, potentially increasing risk. Having a single vendor allows the plan sponsor to become familiar with, and even approve of, the vendor representatives servicing their account.

Provide more robust and streamlined education and resources

With low participation rates and many thinking they are behind in their retirement planning, K–12 employees may need help understanding both the benefits of participating in their DC plan and how to take advantage of these retirement savings vehicles.



It's also worth noting that in a single vendor environment it is common for the provider/vendor to shoulder the bulk of the work, thus enabling the employer to leverage the knowledge and best practices shared by that provider to help build participation and financial wellness.

Employees could benefit greatly from accessible and streamlined resources that provide:

- The benefits of participating
- Tools and education on how to decide how much to contribute
- Help in selecting investment options
- Tools to help estimate how much income they may need for retirement
- Education on the portability of DC plans
- Information on how much income Social Security and their pension may provide in retirement

Create partnerships with teachers' unions

Teachers' unions have the potential to be a key partner in promoting DC plans and retirement planning in general, but few survey respondents have turned to their unions for help with retirement planning. Plan sponsors and plan vendors can create relationships with unions to develop and distribute these educational resources and services. With unions advocating for DC plan participation and helping promote educational offerings, employees can receive the help they need from a source they already trust.

Expand the role of financial professionals

Not only do participants and non-participants need more robust education, but they are also looking for a partner in their retirement planning. Seven in ten respondents feel it is essential for a plan representative to be a partner in their overall retirement planning. This is not surprising since only 35% of current plan participants feel comfortable investing and managing their DC plan.

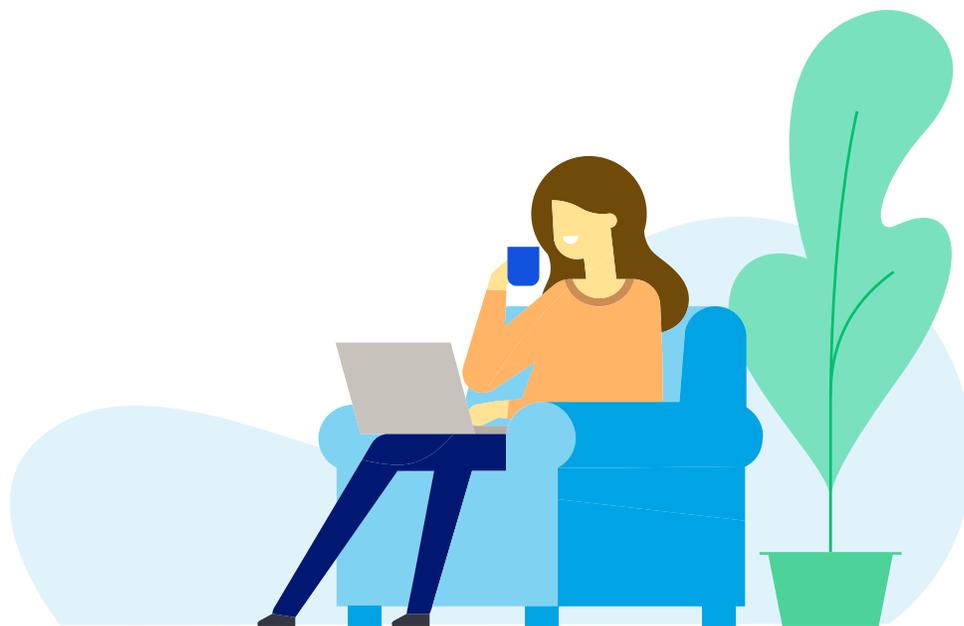
Unfortunately, some providers in the K-12 space have their advisors focus solely on enrollments. However, in some instances, once the participant is enrolled, the advisor may move on to the next potential participant and rarely re-engage with the newly enrolled participant. In situations like these, employees likely prefer a partner to provide consistent, periodic financial guidance over time—not a one-time relationship that ends with the enrollment in the plan.

Considering this, it's easy to understand why participants are not commonly turning to a plan representative or other financial professionals for retirement planning help when making decisions about their DC plan. Expanding the role and visibility of financial professionals can help build trust that K–12 workers are looking for in their plan vendor while also helping get educational resources into the right hands. Additionally, by partnering with a single vendor, each school or district can support the plan representatives' efforts to build this trust.

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Methodology

This report presents results from a quantitative research study conducted by Greenwald Research on behalf of AIG. The survey was conducted from January 20 to February 24, 2021. In total, 501 individual responses of K–12 employees were collected, including 254 participating in their employer’s defined contribution (DC) plan and 247 non-participants. Responses represented a mix of gender, income, age, tenure, union membership and number of DC plan vendors available. Data was weighted by gender, age, income and participation status to reflect the population of state or local K–12 employees.



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