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NEW RESEARCH EXAMINES SPENDING AND SAVING BEHAVIOR OF PUBLIC SECTOR DEFINED CONTRIBUTION PLAN PARTICIPANTS

Findings show many have not adapted to a pension landscape that has significantly evolved over the last decade

LEXINGTON, KY, September 20, 2022—Households with public sector defined contribution plans that have a primary defined benefit plan as part of their retirement benefits package largely have not adjusted their spending and saving behavior, although pension benefits have been reduced for many state and local governments, according to research conducted by the Public Retirement Research Lab and J.P. Morgan Asset Management. The Public Retirement Research Lab (PRRL) is an industry-sponsored collaborative effort of the Employee Benefit Research Institute (EBRI) and the National Association of Government Defined Contribution Administrators (NAGDCA).

The report, “Spending and Saving Behavior of Public Sector Defined Contribution Plan Participants,” provides analysis and graphic representation of the spending and saving behavior of nearly 37,000 households with public sector defined contribution (DC) plan participants obtained from the PRRL Database and JPMorgan Chase Bank, NA.

Additional key findings contained in the report are:

- Households with a primary defined benefit (DB) plan spend more than households with a hybrid or primary DC plan.
- Public sector households are, at the median, spending at or above their net income.
- Savings rates in DC plans are correlated with the type of primary employer-sponsored plan (e.g., defined benefit, defined contribution, or hybrid).
- Households with employees with a primary employer-sponsored DB plan are less likely to contribute to a DC plan.
- The presence or absence of Social Security coverage appears not to have an impact on spending behavior.

“It appears that households with public sector employees participating in a defined contribution plan whose primary employer-sponsored retirement plan is a defined benefit plan feel more comfortable spending than those whose primary employer-sponsored retirement plan is not a defined benefit plan,” said Craig Copeland, EBRI Wealth Benefits Research Director. “This comfort level may be short-sighted for households with newly hired public sector employees, as the generosity of the defined benefit plan is likely to be less than what it is for longer tenured employees or was for retired individuals. As a result, the households with new hires may not be preparing adequately for retirement.”

“Public sector employees, in particular newly hired employees, could benefit from more education about their retirement plan offerings and finances through financial wellness or similar programs to better understand their plan benefit structure, how that can impact current and future spending, and the potential need to save more,” stated Matt Petersen, Executive Director, NAGDCA. “Importantly, defined contribution plans are a potential avenue for improving these employees’ retirement prospects by giving them the benefit of saving for retirement on a pre-tax basis. Given the tight budgets of many state governments, employees use of their defined contribution plan could make the difference in how comfortable their retirement is financially.”

“These research findings point to the importance of public sector employees understanding their retirement benefits package holistically to make an informed decision about spending and saving in order to achieve retirement success,” explained Kelly Hahn, Defined Contribution Strategist at J.P. Morgan Asset Management. “Plan sponsors have an important role to play here, by helping their employees understand the generosity of their DB plan and any lack that may need to be addressed through the use of a DC plan.”

The data on which the analysis was conducted was taken from the PRRL Database and JPMorgan Chase Bank, NA. The PRRL Database contains public sector defined benefit participant and plan data from nearly 200 457(b), 401(a), 403(b), 401(k) and other defined contribution plans, including nearly 2.3 million state, county, city, and subdivision government employees. The data from JPMorgan Chase Bank, NA includes a comprehensive view of total household spending through various payment mechanisms and sources of income for approximately 22 million households (as of 2019).

“Spending and Saving Behavior of Public Sector Defined Contribution Plan Participants” may be accessed [here](#).

About the PRRL

The Public Retirement Research Lab is a retirement industry-sponsored collaborative effort of the Employee Benefit Research Institute (<https://www.ebri.org/>) and the National Association of Government Defined Contribution Administrators (<https://www.nagdca.org/>). The PRRL mines data from the PRRL Database, the first-ever database specific to public sector plan- and participant-level defined contribution data, to produce research aimed at enhancing understanding of the design and utilization of public sector defined contribution retirement plans. To learn more, visit www.prrl.org.

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