

# Factors Influencing Retirement Decision Making for State Government Employees

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**Abstract:** This proposed research study consists of an analysis aimed at determining factors for the Louisiana state government employee's decision to retire and the level of satisfaction (secure retirement benefits). The study is to examine the attitudes and perception of state employees regarding retirement. There has been no known previous in-depth study regarding the retirement of government employees in Louisiana. This study is to find the level of satisfaction gained in making a retirement decision in Louisiana and in the other states that do not participate in a Social Security-based pension plan.

The purpose of this study is to gain a broad perspective to evaluate significant dependent variables (decision making) and independent variable factors of an employee's life, such as economic, social, environment, health, technology integrations, as well as any crises that could influence the retirement decision. Retirement experts and professors validated the survey. The study is a qualitative and quantitative research study. In many different ways the surveys are developed and conducted to gather data, then the Likert scale used is to convert data in the Z-test. It uses quantitative data from members' answers and converts the qualitative data results gleaned from live interviews with active or retired Louisiana state employees to get to the point of developing the survey. In addition, it gathers and analyzes data from open-ended questions or from direct requests for data. This information is coming from three Louisiana state pension systems: The Louisiana State Employees' Retirement System (LASERS); The Louisiana School Employees' Retirement System (LSRS); and, The Teachers Retirement System of Louisiana (TRSL).

The results are an aggregate aimed for the benefit of this exploratory study. It gives a broad in-depth analysis to use the data to aid in forecasting why state government employees want to retire and at what age (with eligible service credits) in order to assess the effect of contributing factors (variables) which influence the retirement decision making for state government employees, mainly for the State of Louisiana. The study includes a focus on the millennials, those born between 1981 and 1996, regarding whether or not there is a realistic plan to provide a secure retirement for them.

*Keywords:* Louisiana, Retirement Age, Millennials

## 1. Introduction

Retirement decision making is very essential in the changing American society, regardless of where a person worked or what position of employment was held. Making the decision to retire happily and satisfied with a guaranteed income and individual needs a planned roadmap for retirement. According to the Social Security Administration (SSA 2018), about 63 million Americans will receive Social Security benefits for federal government employees. The United States office of Personnel Management (USOPM) reported in 2017 that 325,350 employees in the Federal Employees Retirement System (FERS) retired in the last 10 fiscal years. In the State of Louisiana, there are 45,000 retirees receiving benefits from the Louisiana State Employees Retirement System (LASERS) alone, not including any other Louisiana retirement pensions. While this study focuses primarily on public Louisiana public sector employees, it is clear that no matter from where they retire (local, state, or federal government or private sector); all retirees have raised the same question as to when would be a good time to retire and how secure their retirement will be.

For aging active employees, or employees nearing their eligibility for retirement, planning for retirement takes a lot of thinking, calculation, and courage. Many questions and concerns arise, such as: the best time to retire; secureness of financial independence; the psychological effects; health care coverage and plans; and what retirement plan to choose.

Often these are concerns cited especially for the future generations (millennials). All questions are valid and important. If there is not enough savings, reasonable investment income, and/or pension income to cover living expenses and

spending habits, adjustments must be planned. On the other hand, planning ahead can lead to an extra cushioned life style where the retiree no longer has to work and will have more than an ample income to live happily satisfied. However, it is amazing and, at the same time, it can be outrageous to find that many active employees spend more time planning vacations rather than planning a realistic and solid retirement security plan to provide for their future needs. And then there are those who start thinking about a retirement plan the minute they start to work.

One question on retirement concerns the right time to make the decision for a new phase of life. For some state government employees, retirement may simply mean leaving their active working life only to continue working in a different field, or travel, or babysit. Nevertheless, for others, retirement means to never, ever work again and call it a time to relax and enjoy life. What makes a person decide to retire? In the academic field, college professors very often are allowed to continue teaching until they are 80 years of age or older before making the decision to retire, as long as they perform their duties accordingly. Others, who are in a different profession such as the uniformed personnel, can retire earlier through different plans. Many have no choice other than to retire early to take care of a family situation or due to other factors that affected them to make their decisions (social, political, health, technology, financing, and many more). In fact, some members may decide to accept a lump-sum payment to pay off debts when selecting an Initial Benefit Option retirement plan (IBO), or they may have no choice but to take early retirement due to a family, personal administrative issue, or government regulation changes.

In April 2013, the State of Louisiana privatized nine LSU-run hospitals and their clinics. In most instances, the management company of nearby hospitals took over operations. The employees had a choice to find another job with another Louisiana state agency in order to benefit from their retirement plans, or they had to apply for a job at the same hospital where they working, thereby entering the private sector. Thus, if they went back to work for the same hospital after the privatization, they lost benefits from the state retirement system. Therefore, some having 20 years of service, elected to take the option of and early reduced retirement.

Some state government employees may have other reasons for retiring, like healthcare or quality of life, or wanting to spend more time with or be a care giver for spouse or an ill family member(s). There are others who never used their vacation time and kept saving the money only to become stricken with a major illness! How did that benefit them and their families? The National Institute on Retirement Security (NIRS) released a report on February 26, 2019, on the American public's views on pensions and retirement security. The findings indicated that there is a high level of American retirement insecurity. The studies showed that 70% of people are concerned about the ability to retire in the current economic environment. According to the American Association of Retired Persons (AARP), Americans also believe retirement is a responsibility shared among the individual, government, and employer. Furthermore, 71% of Americans believe that, compared to previous generations, it is now harder to prepare for retirement; 51% indicate that today's retirement is less promising than that which was available to an earlier generation.

In the United States, 10,000 people turn 65 every day. The average American retirement age is 63, and the life expectancy for retirees is about age 85. That means Americans should plan to spend 22 years in retirement. The AARP suggested a retirement income nest egg, but the buying power varies wildly depending on where you live. "How long will my money last in retirement?" According to AARP, the answer to that question depends on the state in which a retired person lives. As of July 28, 2017, the State of Louisiana employed 39,687 classified civil servants who would have to answer that question.

One of the common research hypotheses tested concerned political affiliation. This was done in a survey for active and retired employees of the Louisiana State Employees' Retirement Systems (LASERS). The question was based on gender if the P-value  $> .05$  will fail to reject the null hypothesis. There is not enough evidence to conclude that there is a difference between party affiliations based on gender. In addition, using a Z-test model to find out if the years of service credit affected the decision to retire, it was concluded at a 95% confidence interval for active state government employees that strongly agree that years of service credit affect their decision to retire between 68% and 87% of the time.

The purpose of this research study is to understand, explore, and analyze the determining factors involved in the decision of the Louisiana state government employee to retire with secure benefits considering age and eligible service credit; and to determine the level of satisfaction influencing retirement decision making by the Louisiana state employees, millennials in particular

## 2. Methods

Two types of surveys (written and online) were used to evaluate and review the answers. Data collection details, data analysis, and the statistical analysis shall be presented in this chapter. The qualitative study narrative included in-depth interviews with retired and active members who receive benefits from the Louisiana State Employees Retirement Systems (LASERS). Ten active female participants, between the ages of 18 and 60 were asked about their ambitions and goals with

questions regarding social, economic, healthcare, income, politics, disasters, social life, and integration of technology and how these factors affect their decision to (1) retire or (2) continue to work for Louisiana state government or (3) move to a private sector which has benefits such as social security (difficulty for millennials). The active and retired workforce employees at Louisiana State Employees Retirement System (LASERS) and Louisiana School Employees Retirement System (LSERS) participated in this study. The study includes online surveys that were filled in by (1) active and retired LSERS employees and (2) written surveys conducted in a statewide Pre-Retirement Education Program (PREP) Seminar held by LASERS for active and retired employees. Written and online surveys used for the experimental data collection was divided and customized by different categories that cover demographic information, social and family life, technology and barriers, environmental, traffic, crisis effect, economic and financial impacts, and the satisfaction with life.

The overall survey study information was contributed by regular and retired members from Louisiana State Employees Retirement System (LASERS), and Louisiana School Employees Retirement System (LSERS). The survey data exported to a spreadsheet using Excel (Microsoft software), and a third-party online software. Custom written visual basic macros were used in conjunction with the Microsoft Excel to perform further analysis of the data combined with experimental design and statistical analysis.

Regarding the independent and the dependent variables considered for the statistical analysis, the following research hypotheses were tested:

#### General Hypothesis 1 for Active Members

Hypothesis 1 concerns the effect of Tropical Storm/Hurricane Katrina (2005) on the retirement decision.

$H_{01}$ :  $\rho = 0.5$  People who strongly agree is 50%.

$H_{A1}$ :  $\rho < 0.5$  People who strongly agree is less than 50%.

The answers indicated that seven active members out of 55 strongly agree ("4", "5") which represents 12.7% (0.1272), and 48 out of 55 strongly disagree ("1", "2", "3") which is 87.27% (0.8727).

Using the  $Z$  - test it was found  $Z$  - Statistics equal to (-5.259) which corresponds to P-value less than the level of significance of 0.05.

It is concluded that the null hypothesis  $H_{01}$  is rejected. Therefore, there is enough evidence to claim that the population proportion of those who strongly agree is less than 50% at the  $\alpha = 0.05$  significance level which means more people strongly disagree in their decision to retire due Hurricane Katrina.

The 95% confidence interval for  $\rho$  is  $0.039 < \rho < 0.215$  which means the percentage of active members agree to retire due to Hurricane Katrina is between 3.9 % and 21.5 % which is very low, less than 50 %.

#### General Hypothesis 2 for Active Members

Hypothesis 2 concerns the influence of traffic, congestion/delays on the decision to retire.

$H_{02}$ :  $\rho = 0.5$  People who strongly agree is 50%.

$H_{A2}$ :  $\rho < 0.5$  People who strongly agree is less than 50%.

The answers indicated that 20 active members out of 59 strongly agree ("4", "5") which represent 33.89% (0.3389) and 39 out of 59 strongly disagree ("1", "2", "3") which is 66.10% (0.6610).

Using the  $Z$  - test it was found  $Z$  - Statistics equal to (-2.474) which corresponds to P-value less than the level of significance of 0.05.

It is concluded that the null hypothesis  $H_{02}$  is rejected. Therefore, there is enough evidence to claim that the population proportion  $\rho$  is different than 50%, at the  $\alpha = 0.05$  significance level which means more people strongly disagree in their decision to retire due to traffic congestion.

The 95% confidence interval for  $\rho$  is  $0.218 < \rho < 0.46$  which means the percentage of active members agree to retire due to traffic congestion is between 21.8 % and 46.0 % which is low, less than 50 %.

#### General Hypothesis 3 for Retired Members

Hypothesis 3 concerns the possibility of having to sell their home in order to maintain a secure living environment.

$H_{03}$ :  $\rho = 0.5$  People who strongly agree is 50%.

$H_{A3}$ :  $\rho < 0.5$  People who strongly agree is less than 50%.

The answers indicated that 10 retired members out of 71 strongly agreed (“4”, “5”) which represent 14.08% (0.1408); and 61 out of 71 strongly disagree (“1”, “2”, “3”) which is 81.91% (0.8591).

Using the  $Z_c$  - it was  $Z_c$  - Statistics equal to (-6.053) which corresponds to P-value less than the level of significance of 0.05.

It is concluded that the null hypothesis  $H_{03}$  is rejected. Therefore, there is enough evidence to claim that the population proportion  $p$  is different that  $p_0$ , at the  $\alpha = 0.05$  significance level which means more people strongly disagree in their concern that someday they may have to sell their home in order to maintain a secure environment.

The 95% confidence interval for  $p$  is  $0.06 < p < 0.222$  which means the percentage of retired members agree to be concerned that someday they may have to sell their home is between 6% and 22.2 % which is lower than 50%.

#### General Hypothesis 4 for Retired Members

Hypothesis 4 concerns whether or not they have built enough financial security flexibility into their retirement plans.

$H_{04}$ :  $p = 0.5$  People who strongly agree is 50%.

$H_{A4}$ :  $p > 0.5$  People who strongly agree is less than 50%.

The answers indicated that 48 retired members out of 69 strongly agreed (“4”, “5”) which represent 69.56% (0.6956); and 21 out of 69 strongly disagree (“1”, “2”, “3”) which is 30.43% (0.3043).

Using the  $Z_c$  - test it was found  $Z_c$  - Statistics equal to (3.25) which corresponds to P-value less than the level of significance of 0.05.

It is concluded that the null hypothesis  $H_{04}$  is rejected. Therefore, there is enough evidence to claim that the population proportion  $p$  is different that  $p_0$ , at the  $\alpha = 0.05$  significance level which means fewer people strongly disagree. They feel that they will have enough financial security flexibility built into their plans.

The 95% confidence interval for  $p$  is  $0.587 < p < 0.804$  which means the percentage of retired members agree to be concerned, as they feel that have enough financial security flexibility into their plans is between 58.7% and 80.4% which is higher than 50%.

### 3. Results

H1 It was concluded that the null hypothesis  $H_{01}$  is rejected, therefore, the proportion of those who strongly agree is less than 50% at the  $\alpha = 0.05$  significant level which means more people strongly disagree in their decision to retire due to Hurricane Katrina.

H2 It was concluded that the null hypothesis  $H_{02}$  is rejected, therefore, more people strongly disagree that their decision to retire was due to traffic congestion.

H3 It was concluded that the null hypothesis  $H_{03}$  is rejected, therefore, more people strongly disagree that they would have to sell their home to maintain a secure living environment.

H4 It was concluded that the null hypothesis  $H_{04}$  is rejected. Therefore, there is enough evidence to claim that the population proportion  $p$  is greater than  $p_0$  at the  $\alpha = 0.05$  significance level which means more people have built enough financial flexibility in their plan.

Table 1. The Years of Service with Age Eligibility

	<i>Years of Service</i>	Age Eligibility
1	(30)	Any age
2	(25)	55
3	(10)	50
4	(20)	Any age

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