Retirement Facilitators: Policy Considerations for Increasing the Role of the States in Assisting with Retirement Savings

Geralyn M. Miller

Abstract: This paper investigates the impact of socioeconomics within states with regard to retirement income using the numbers of OASDI Social Security beneficiaries from the Social Security Administration, data on annuity premium levels from the American Council of Life Insurers, and state-level U.S. Census demographic data. In light of the beginning of the wave of baby-boomer retirements, changing economic conditions, and increased life expectancy, this is timely research. Findings from this study support previous research based on national survey data and indicate that specific demographics may have a significant impact on financial preparedness. Given the varied nature of the demographic compositions within the individual states, this may have implications for policy development involving an increased role for the states in the retirement savings arena.

INTRODUCTION

Retirement savings in the United States is becoming increasingly important to decision-makers across America, and with good reason. The ability of the Social Security Administration to sustain current retirement benefit levels in the United States for future generations of retirees has been the subject of social discourse and scholarly studies (Gonzalez-Eiras and Niepelt, 2008; Hakkio and Wiseman, 2006; Mitchell, Myers, and Young, 1999). While former generations of retirees in America enjoyed

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benefits under the national Social Security system, future generations may find themselves in a very different posture if the conventional wisdom is to be believed. The commissioner of the Social Security Administration warns of this in statements sent out to those future retirees:

For decades, America has kept the promise of security for its workers and their families. Now, however, the Social Security system is facing serious financial problems, and action is needed soon to make sure the system will be sound when today’s younger workers are ready for retirement.

In 2017 we will begin paying more in benefits than we collect in taxes. Without changes, by 2041 the Social Security Trust Fund will be exhausted and there will be enough money to pay only about 78 cents for each dollar of scheduled benefits. We need to resolve these issues soon to make sure Social Security continues to provide a foundation of protection for future generations.2

Private pension provision, in light of the potential difficulties facing social security, appears to be a more important source of income for senior citizens than ever before. As economists and policy scholars debate ways in which to optimally provide for retirees, one particularly innovative proposal that has surfaced is to increase the role of the individual states in helping workers maximize retirement savings. Advocates of this policy envision the states as facilitators acting in partnership with private plan providers to assist small business employees and owners in pooling their efforts in the retirement savings and investment market (Iwry, 2007).

The purpose of this paper is not to judge the merits of such a system, but instead to assist in building a better foundation of knowledge on retirement savings behavior within the states in order to better inform the public debate. The more specific the knowledge we hold, the lower the likelihood that there will be unintended consequences created by policy changes. This is important because, as Cole, McCullough, and Paris, (2006) demonstrate, policies meant to create more efficient pension plan management can have adverse consequences for workers. At this point, most knowledge on retirement savings behavior centers on the national level because that is where regulation of private pension plans has taken place. A literature review yielded virtually no findings on any studies pertaining to retirement savings and/or planning activity that specifically focus on

2 See: Astrue (2008: 1). The basic verbiage has varied across statement mailings to retirees over time due to [updated] data regarding when funds would be exhausted, deficit cents per dollar scheduled benefit and other pertinent information.
the states. Furthermore, a review of textbooks on American state and local politics indicates only a cursory overview of state public pension systems (see, e.g., Donovan, Mooney, and Smith (2009) and Gray and Hanson, 2007). So, while increasing the role of the states may turn out to be a very good idea, building a specific policy around that idea depends upon this type of foundational knowledge.

Many people supplement their Social Security income with additional savings when they retire. The Investment Company Institute estimates that Americans held over $3.0 trillion in 401(k) plans last year, up from $2.8 trillion in the previous year. Yet, since Congress has placed increasing responsibility for the accumulation of retirement wealth on individual citizens, people are faced with the difficulty of choosing from complex sets of investment options. Research indicates that Americans generally have very little knowledge about how those options can alter the amount of money they accumulate (Gustman and Steinmeier, 2005; Lusardi and Mitchell, 2007). Some plan more than others do. What we do not know is whether the financial planning behaviors identified in national studies vary across the states, in similar ways. This is an important consideration for policy planning scholars advocating state involvement since a “one-size fits all” policy might not work. This study tests for the impact of specific internal state demographic variables on two separate retirement income sources: annuities and Social Security benefits.

THEORETICAL CONSIDERATIONS

Providing for the elderly has largely concentrated in four domains: labor, assets, family, and charity. Passage of the Social Security Act in 1935 was the result of an inability to meet societal demands through the existing models of provision across those four domains and from attempts at informal provisions systems, which included a weak system of state-based elderly income. The inception and growth of the Social Security Administration’s benefits significantly reduced poverty among the elderly (Engelhart and Gruber, 2006).

While present-day retirees are living more comfortably than their predecessors, some economists believe this may not continue. Not every-

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3The U.S. Retirement Market, 2006, available online atwww.ici.org/pdf/fm-v16n.3.pdf, provides detailed information on the methodology, data sources, and interpretation of the Institute’s reports on retirement assets.

4The Social Security Administration provides a historical overview of retirement income provision on its website at www.ssa.gov/history/briefhistory3.html.
one relies solely on Social Security benefits. Many people in the United States have built up retirement income through separate retirement savings garnered in large measure through their years of employment. Public pension plans, for instance, have covered federal, state, and municipal employees, along with the contributions they have made to Social Security. Trade unions and many private employers have provided retirement benefits to their workers. Most commonly, many of these workers were provided a lifetime specific level of income through defined benefit (DB) plans. Retirement plans have recently moved away from DB plans in favor of defined contribution (DC) plans that are, essentially, managed investment savings plans. But DC plans do not necessarily guarantee a lifetime income, and the sharp rise in their usage in the 1980s and 1990s (Munnell, Cahill and Jivan, 2003) may be cause for concern. The large numbers of baby boomers about to retire coupled with increased longevity may result in insufficient lifetime incomes for large numbers of people (Orth, 2006). Furthermore, fewer private employers than in the past are providing pension plans, which may be a result of the growing administrative burdens placed on them by government regulators (Clark and McDermid, 1990; Purcell, 2002).

The United States is governed by complex, multilevel decision-making that varies from one state to another. Nebraska, for example, has a unicameral form of legislature, while the other 49 states have bicameral forms. Obviously, unique considerations led the people of Nebraska to choose a different form of government than all other states. Policy-making in the individual states, therefore, is subject to the composition of unique demographic factors within each state.

Scholars have demonstrated that state policy-making is strongly influenced by the culture that characterizes a state, which is generally influenced by its geographic location (Elazar, 1984). Political culture is inherently about shared beliefs and values within and across groups by virtue of the influence of public opinion (Eriksen, Wright, and McGiver, 1993). Boeckelman (1991) has demonstrated that culture interacts with other factors in influencing state policies, lending credence and sustainability to the earlier work of Kinkaid (1982), who argued that the two are intricately connected. Subsequent studies (e.g., Hanson, 1992 and Norrander, 2001) provide support for Elazar’s argument as well as for its

5Elazar argued that the citizens of the United States share a culture that is built upon three sub-cultures, which he labeled moralistic, individualistic, and traditionalistic. These three subcultures were based, he argues, in migration patterns of the early settlers who deposited their political beliefs and values unevenly across the country. He believed that current differences across the country can be traced to the influences of those early settlers.
endurance as a classification scheme. Public policy-making does not take place in a void; it is subject to the environment in which it is crafted.

A host of demographic variables affecting state policy-making activities and outcomes has been identified over the years. Changes in population size and patterns present both opportunities and challenges for state policy-makers over time. More heavily populated states face different sets of challenges than their more sparsely populated counterparts. The challenges are usually welcomed in those states that experience growth, but not so for those states in which population declines and tax dollars become further constrained. Scarce resources, after all, breed conflict. The farther scarce resources must stretch, the greater the likelihood that conflict will occur.

Dye (1966) found that wealth and education level were important in explaining differences in spending across the states. The greater its internal resources and the higher its median income level, the more a state will spend on programs for its residents. Race has been shown to be an important factor in a number of policy areas, including the retirement arena, where it has been linked symbolically with Social Security in social discourse (Winter, 2006). Ethnic minority populations, such as Hispanics, Asians, and Native Americans, tend to be concentrated in specific states and, therefore, impact the policies of those states more than others. Furthermore, the concentrations vary by ethnicity. The burden of service provision to large populations of immigrants generally falls on the shoulders of the states and becomes a contentious issue in border states such as Texas, Arizona, and New Mexico, which seek solutions to the tide of illegal immigration. This is cause for concern in light of evidence that minorities may accumulate less retirement wealth with the shift toward defined contribution plans (Even and MacPherson, 2007). A 2005 report published by the National Council of La Raza indicates that although the vast majority of Hispanic workers pay into the Social Security system, they receive disproportionately fewer benefits from that system than their white and African American counterparts (Grillo-Chope and Rodriguez, 2005). Additionally, the report indicates that there is also a sizeable group of workers who, by virtue of the types of jobs in which they are employed, are ineligible for contributing into social security under current rules. Those workers are totally dependent upon their own savings for retirement.

Gender also has been linked to policy-making at a variety of levels, from the sub-national level to the international level of microeconomic policy-making, with regard to monetary concerns (Scheve, 2004). Both race and gender have grown in importance in the field of American state politics and policy over the years (Brace and Jewett, 1995). In the field of scholarly inquiry into American economics, race and gender have been accepted as
important public policy factors for quite some time, resulting in a volumi-
nous body of research amassed over the years.

Age is another component of population that varies considerably
across the states and can affect state policies. In general, the number of
seniors is growing in the United States. Some seniors age in place, while
others, mainly the more affluent retirees, are attracted to states with warm
climates in the south and southwest. Florida, for instance, has long been a
haven for affluent retirees; real estate developers have capitalized on the
disposable income within this particular population with elder communi-
ties resplendent with gated security, lavish golf courses, swimming pools,
and tennis courts. In states where less affluent retirees tend to retire in place,
concern is growing among decision-makers who fear economic decline
from the growing numbers of less well-off seniors. The aging populations
in some states, such as Minnesota, have contributed to a shortage of skilled
workers, which ultimately negatively impacts the state’s economic condi-
tion (Shaw, 2007). Most states have programs that provide supplemental
security income to the elderly, but the levels of benefits provided under
those programs, while varying across the states, has traditionally been
quite low.

In addition to their importance as determinants in state policy-making,
demographic variables have been demonstrated to significantly influence
retirement planning and accumulation of wealth intended for retirement
(e.g., Chen and DeVaney, 2002 and DeVaney and Zhang, 2001). Lusardi and
Beeler (2007) found that accumulation of wealth was positively associated
with planning preparedness and that non-planners were disproporti-
ately concentrated among minority populations, specifically black and
Hispanic. They argue that policies designed to stimulate savings should be
targeted to groups least likely to plan for retirement. This work provides
insight as to their impact on retirement income within individual states
using two separate vehicles of retirement income.

DATA AND METHODS

Data used for this analysis came from several sources. Annuity premi-
ums by state were obtained from the Fact Book published annually by the
American Council of Life Insurance (ACLI) using information collected by
the National Association of Insurance Commissioners (NAIC) from insur-
ance carriers across the country. The numbers of OASDI/Social Security
beneficiaries by state were obtained from the Social Security Administra-
tion. Remaining demographic data for the states came from the U.S. Census
Bureau’s American Factfinder website. All data were from 2002 through
2006, inclusive. Descriptive statistics on retirement income were calculated and then regression analyses were used to determine the relationship between the socioeconomic variables and both annuity premiums and number of beneficiaries. Results are presented in the next section.

Autocorrelation appeared to be a problem in attempting to analyze this dataset because the Durbin-Watson test result was 1.85. A value of 2.0 would indicate the absence of autocorrelation. Given that potentially high error term, dependent variables were transformed into their log values and interpretations were based on the results of that linear regression model.

Independent variables included were median household income, total population, percent of population groupings by race and ethnicity (white, black, Native American, and Hispanic), percent of males and females between the ages of 30 and 74, percentage of high school graduates, and political culture of the states using Elazar’s political culture classification. The relationships between the two dependent variables, annuity premium levels and OASDI beneficiary levels, and the socioeconomic variables are denoted by the following equation,

\[ Y = a + b_1 + b_2 + b_3 + b_4 + b_5 + b_6 + b_7 + b_8 + e \]

where: \( Y = \) Annuity premium levels or OASDI beneficiary numbers; 
\( b_1 = \) Household income; 
\( b_2 = \) Numbers of whites between the ages of 30 and 74, inclusive; 
\( b_3 = \) Numbers of blacks between the ages of 30 and 74, inclusive; 
\( b_4 = \) Numbers of Native Americans and/or Alaskan Natives between the ages of 30 and 74, inclusive; 
\( b_5 = \) Numbers of Asians between the ages of 30 and 74, inclusive; 
\( b_6 = \) Numbers of Hispanics between the ages of 30 and 74, inclusive; 
\( b_7 = \) Numbers of males between the ages of 30 and 74, inclusive; 
\( b_8 = \) Numbers of females between the ages of 30 and 74, inclusive; and 
\( e = \) A normally distributed error term based on the logarithm of \( Y \).

Annuity products have been a part of the retirement savings landscape for thousands of years, dating back to the Roman Empire. They have been an accepted retirement savings vehicle in the United States beginning with

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6The likelihood of purchasing an annuity before 30 years of age or after 74 years of age is considerably less than in those years in between, and for purposes of specificity, the data included are constrained to this age frame.

7Regression results for the models using nominal independent variable data indicated significant results similar to as these models, but are not included in this write-up. They are, however, available upon request.
the U.S. Government’s policy of selling annuities to Native Americans in exchange for their lands. These products are an integral part of the retirement savings portfolios of citizens across the states and can be used as a measure of the savings retirement pattern (Warshawsky, 2001). In spite of this, annuities are not a preferred means of retirement, accounting for a small percentage of retirement savings. Still, with the advent of newer annuity products in recent years, such as flexible annuities, they seem to be growing in popularity once again (Brown and Poterba, 2006).

Another measure of retirement income is the benefit received from the OASDI age-related portion of the Social Security Administration. Given the rather limited purchase of annuities in the U.S. retirement savings realm and, conversely, the heavy reliance on Social Security, the socioeconomic variables were tested against the numbers of beneficiaries across the states receiving the OASDI age-related payments. Jointly, annuity premiums and Social Security receipts give us a clear view of the patterns of reliance on retirement support vehicles. The impact of these socioeconomic variables on public policy-making decisions at the state levels can provide insight into what considerations in a state enhance or detract from its citizens’ retirement savings behavior. In testing for the influence of socioeconomics on retirement savings patterns, guided by the existing theory, the expected impacts on the dependent variables are presented in Table 1.

**EMPIRICAL RESULTS**

There is a good deal of variation across the states with regard to socioeconomics and levels of premium collected from the sale of annuities and social security benefits. For example, the percentage white population in the 30–74 age bracket may range as much as 70 percent across individual states, while the Native American/American Eskimo percent population ranges by only 12 percent. The percentage of males and females in the states varies by only 4% with a mean of .49 and .51 for males and females, respectively. Table 2 demonstrates that while there is certainly variation in most of the variables, both dependent and independent, that variation is fairly constant across the years of study. An ANOVA test revealed that the only significant differences were in household income, which has gone up as expected. There were no significant differences for any of the other variables over the four years.

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8For a collection of historical accounts of annuities, visit the Annuity Museum at www.immediateannuities.com/annuitymuseum/.
Table 2 demonstrates a more specific view of the variation across the states. Hawaii consistently ranked the lowest in population of 30- to 74-year-old whites, while Maine and Vermont had the highest levels. Vermont, Maine, and West Virginia had the lowest populations of 30- to 74-year-old Hispanics, while New Mexico consistently had the highest population. It is important to keep in mind that since this dataset represents only four years, it has some distinct limitations that a longer period of time would eliminate. The range of the two dependent variables, annuities (as percentage of this age group) and OASDI benefits, displays a frequency pattern in the states as well. Annuity premiums were lowest in Mississippi, Montana, New Mexico, and Texas; they were highest in the District of Columbia and Delaware. Social Security benefits were lowest in the District of Columbia which, interestingly, is where the percentage of annuity premiums was the highest. The highest levels of Social Security benefits are found among nine states—Idaho, New Hampshire, North Carolina, Oregon, South Carolina, South Dakota, Tennessee, Vermont, and Wisconsin.

Results of the two regression models are displayed in Table 3. These results were both expected and surprising. As indicated earlier, median income was expected to be a significant contributor to increasing the annuity premium levels and would, conversely, detract from the OASDI levels. This was the case, with a significant and positive t-value of 7.032 on the logged annuity premium levels and a significant negative t-value of –2.513 on OASDI benefits paid out in these four years. The variables for education (percentage of high school graduates) and region (using a
### Table 2. Descriptive Percentages Across the States

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>All four years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Range</td>
<td>Mean</td>
<td>SD</td>
<td>Range</td>
<td>Mean</td>
</tr>
<tr>
<td>Dependent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annuity premiums (millions)</td>
<td>29,251</td>
<td>5,362</td>
<td>6,215</td>
<td>28,468</td>
<td>5,487</td>
</tr>
<tr>
<td>SSI beneficiaries (% of +65 year old population)*</td>
<td>20.3</td>
<td>92.3</td>
<td>3.5</td>
<td>19.6</td>
<td>92.3</td>
</tr>
<tr>
<td>Independent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household income</td>
<td>24,012</td>
<td>43,172</td>
<td>6,205</td>
<td>23,072</td>
<td>42,666</td>
</tr>
<tr>
<td>Education</td>
<td>31.3</td>
<td>26.7</td>
<td>5.6</td>
<td>30.4</td>
<td>27.2</td>
</tr>
<tr>
<td>Whites</td>
<td>.70</td>
<td>.82</td>
<td>.14</td>
<td>.69</td>
<td>.81</td>
</tr>
<tr>
<td>African-Americans</td>
<td>.56</td>
<td>.10</td>
<td>.11</td>
<td>.55</td>
<td>.10</td>
</tr>
<tr>
<td>Asians</td>
<td>.47</td>
<td>.03</td>
<td>.07</td>
<td>.47</td>
<td>.03</td>
</tr>
<tr>
<td>Native Americans</td>
<td>.12</td>
<td>.01</td>
<td>.02</td>
<td>.11</td>
<td>.01</td>
</tr>
<tr>
<td>Hispanics</td>
<td>.38</td>
<td>.07</td>
<td>.08</td>
<td>.38</td>
<td>.07</td>
</tr>
<tr>
<td>Males age 25 through 69</td>
<td>.04</td>
<td>.49</td>
<td>.01</td>
<td>.04</td>
<td>.49</td>
</tr>
<tr>
<td>Females age 25 through 69</td>
<td>.04</td>
<td>.51</td>
<td>.01</td>
<td>.04</td>
<td>.51</td>
</tr>
</tbody>
</table>

*Not including disability beneficiaries.
### Table 3. Lowest and Highest Percentages of Variables Across the States

<table>
<thead>
<tr>
<th>Variables</th>
<th>Year</th>
<th>Lowest states (Value)</th>
<th>Highest states (Value)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annuity premiums</td>
<td>2003</td>
<td>MS, MT, NM (&lt;0.00)</td>
<td>DC, DE (0.01)</td>
</tr>
<tr>
<td></td>
<td>2004</td>
<td>MS (&lt;0.00)</td>
<td>DE (0.01)</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>MS, TX (&lt;0.00)</td>
<td>DE (0.01)</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>MS (&lt;0.00)</td>
<td>DC, DE (0.004, 0.005)</td>
</tr>
<tr>
<td>SSI beneficiaries</td>
<td>2003</td>
<td>DC (77.3)</td>
<td>NH (97.6)</td>
</tr>
<tr>
<td></td>
<td>2004</td>
<td>DC (77.3)</td>
<td>NH (96.9)</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>DC (76.3)</td>
<td>WI (96.7)</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>DC (75.7)</td>
<td>ID (99.6)</td>
</tr>
<tr>
<td><strong>Independent</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent white</td>
<td>2003</td>
<td>HI (0.28)</td>
<td>ME (0.97)</td>
</tr>
<tr>
<td></td>
<td>2004</td>
<td>HI (0.28)</td>
<td>ME (0.97)</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>HI (0.28)</td>
<td>ME (0.97)</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>HI (0.29)</td>
<td>VT (0.97)</td>
</tr>
<tr>
<td>Percent black</td>
<td>2003</td>
<td>ID (&lt;0.00)</td>
<td>DC (0.56)</td>
</tr>
<tr>
<td></td>
<td>2004</td>
<td>ID (&lt;0.00)</td>
<td>DC (0.55)</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>ID (&lt;0.00)</td>
<td>DC (0.55)</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>ID (&lt;0.00)</td>
<td>DC (0.54)</td>
</tr>
<tr>
<td>Percent Asian</td>
<td>2003</td>
<td>WY (&lt;0.00)</td>
<td>HI (0.47)</td>
</tr>
<tr>
<td></td>
<td>2004</td>
<td>MT (&lt;0.00)</td>
<td>HI (0.47)</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>WY (&lt;0.00)</td>
<td>HI (0.47)</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>ND, SD, WY (&lt;0.00)</td>
<td>HI (0.45)</td>
</tr>
<tr>
<td>Percent American Indian/Alaskan Native</td>
<td>2003</td>
<td>CT (0.03)</td>
<td>AK (0.12)</td>
</tr>
<tr>
<td></td>
<td>2004</td>
<td>CT (0.03)</td>
<td>AK (0.11)</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>CT (0.033)</td>
<td>AK (0.12)</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>CT (0.03)</td>
<td>AK (0.12)</td>
</tr>
<tr>
<td>Percent Hispanic</td>
<td>2003</td>
<td>VT (0.01)</td>
<td>NM (0.38)</td>
</tr>
<tr>
<td></td>
<td>2004</td>
<td>ME, WV (&lt;0.00, .0.01)</td>
<td>NM (0.38)</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>WV (&lt;0.00)</td>
<td>NM (0.39)</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>WV (0.01)</td>
<td>NM (0.39)</td>
</tr>
</tbody>
</table>
dummy variable for southern states) were significant and positive, but because of issues of multicollinearity, they were dropped from the model.

The relative percentages of whites and Asians were expected to have a significant and positive impact on the sale of annuities but a negative impact on OASDI beneficiary levels. This was not the case; the variable for percentage of whites indicated a negative, but insignificant, impact on annuity premium and OASDI beneficiary levels. This was true for the variable representing percentage of Asians as well.

As hypothesized, with regard to the remaining variables, the results were mixed. For instance, effects of the percentages of members of the remaining three minority groups tested—African Americans, Hispanics, and Native Americans/Alaskan Natives—varied. Though it was hypothesized that each of these variables would have significant negative impact

### Table 4. Results of Regression Analysis for Two Models

<table>
<thead>
<tr>
<th>Independent variable</th>
<th>Annuity premiums $r^2 = .83$</th>
<th>OASDI beneficiaries $r^2 = .33$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficients (S.E.) $t$-values</td>
<td>Coefficients (S.E.) $t$-values</td>
</tr>
<tr>
<td>Household income</td>
<td>1.50E-005*** (.000) 7.032</td>
<td>-4.29E-007** (.000) -2.513</td>
</tr>
<tr>
<td>White</td>
<td>-1.42E-007 (.000) -.552</td>
<td>-2.76E-008 (.000) -1.337</td>
</tr>
<tr>
<td>Black</td>
<td>-2.41-007 (.000) -.854</td>
<td>-4.60E-008* (.000) -2.033</td>
</tr>
<tr>
<td>American Indian/Alaskan Native</td>
<td>3.61E-007 (.000) .508</td>
<td>-1.42E-007* (.000) -2.490</td>
</tr>
<tr>
<td>Asian</td>
<td>-5.66E-007 (.000) -1.428</td>
<td>-5.41E-008 (.000) -1.702</td>
</tr>
<tr>
<td>Hispanic</td>
<td>-4.69E-007*** (.000) -5.553</td>
<td>-2.41E-008*** (.000) -3.570</td>
</tr>
<tr>
<td>Male</td>
<td>5.59E-007 (.000) 1.405</td>
<td>1.22E-007*** (.000) 3.836</td>
</tr>
<tr>
<td>Female</td>
<td>2.25E-007 (.000) .457</td>
<td>-5.25E-008 (.000) -1.331</td>
</tr>
<tr>
<td>(Constant)</td>
<td>2.308 (.099) 1.985</td>
<td>(.008)</td>
</tr>
</tbody>
</table>

***statistically significant at .001 level (two-tailed)
**statistically significant at .01 level (two-tailed)
*statistically significant at .05 level (two tailed)
on both of the dependent variables, it was true only for levels of Social Security beneficiaries. In terms of annuity premium levels, only the variable for percentages of Hispanics was significant and negative.9

Finally, gender is significant in terms of Social Security only for men with regard to OASDI. Higher percentages of women in the states neither contribute to nor detract from annuity premium levels or the numbers of OASDI beneficiaries. This stands to reason, since there have always been more men than women in the workforce, particularly in positions eligible for Social Security benefits. Remembering that these variables were constrained by age (30 to 74), it appears that men are the main purchasers of annuities.

National studies using survey data have indicated that socioeconomic considerations are important with regard to retirement planning and preparedness. This research lends further credence to those studies in that the data used in this study are hard data, not gleaned from surveys that may be inherently problematic. It is important to know that income is a significant determinant within the states with regard to financial behavior involving retirement because it further generalizes that national finding. Although the results were mixed for the other variables—specifically, ethnicity and gender—the significance found in this dataset indicates that these are important considerations at the state level and that state policymakers need to pay close attention to them in anticipating future policy demands.

DISCUSSION

Ample evidence from financial behavior studies indicates problems in how well American citizens plan for their retirement years. Furthermore, state policy scholars provide convincing arguments that state socioeconomic conditions are important components in policy-making. These two bodies of literature, when taken together, provide a strong base of knowledge for a better understanding of retirement income and public policy direction. Indications from this research point toward potential problems in the not-too-distant future in accommodating the needs of the elderly.

Before enacting a blanket state facilitation of private pension provision, decision-makers are well advised to consider the unique demographic patterning within each state. Some states may face burdens in even

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9It is interesting to note that the variable representing percentages of Hispanics was significant in both the auto-correlated model and the model with transformed dependent variables.
considering such a policy plan, where other states would not. This may help to explain why some states struggle to maintain healthy funding levels in their public pension plans while others appear to have no such difficulty. For example, Rhode Island and West Virginia have funding problems with their public pension systems that may require, at least in the case of Rhode Island, that taxpayers make up the deficit.\(^{10}\) Although Ivry (2007) argues that the states’ expertise in the administration of pension planning is good reason for involving them, this may not be true for all states. The fact that states are responsible for the administration of their own public pension planning is not a guarantee that their efforts are efficient and productive.

Another consideration is the interstate impact of intrastate policy. Lessons learned from the “welfare magnet” scholars demonstrate the effects that policy-making in one state can have across other states in the process of economic competition (Peterson and Rom, 1990). While it is impossible to predict with complete accuracy how policy-making will take shape, decision-makers should anticipate problems that will create demands on the states and develop solutions based on predictive models. Given that Hispanics constitute one of the two fastest-growing populations in the U.S., and that as a group they are inclined to under-plan for retirement and lack opportunity to access Social Security benefits, state and national decision-makers need to be concerned.

These findings are not absolute; there is much work to be done in understanding how socioeconomic compositions in the states affect policy-making, particularly with regard to planning for their citizens’ retirement needs. This is a first attempt to identify the conditions favoring a storm brewing on the horizon. Future research must drill deeper into the socioeconomic layers to better understand the behavioral processes that affect policy outcomes. At a minimum, decision-makers in and across the states should be aware of the potential problems and consider how various types of policies might alleviate the problems. Perhaps it is as simple as providing retirement products providers (both public and private) a platform for the inevitable discussion if the potential problems become a reality. One thing is clear: retirees will constitute a force to be reckoned with, given their numbers. States can be pro-active by taking steps to better understand socioeconomic impact on retirement savings and craft policies that will alleviate potential economic burdens and accommodate the changing needs of their citizens.

Since the passage of the McCarran-Ferguson Act of 1945, the regulation of insurance products has generally been left to the states. The desir-

\(^{10}\)Peoples, S (2007) R.I. ranks second-to-last in public pension financing (*The Providence Journal*, December 23, B-01.)
ability of specific retirement savings products, such as annuities, is subject to the cultures and politics of each state. The National Association of Insurance Commissioners reports that "Washington lobbyists have pushed for a federal insurance charter and a new regulatory regime in Washington that would diminish or supplant successful and effective state-based consumer protections." The stage is set for a heated debate as to where the most effective regulatory oversight of retirement savings mechanisms can and will exist. Future policies depend upon who will be seated at the table for that debate. Clearly, a uniform national policy may result in differing economic conditions within individual states. We could end up seeing a recurrence of the "magnet" effect that occurred when welfare policies emanated from the national government, but this time centered on retirement savings policies.

REFERENCES


11See: National Association of Insurance Commissioners, Proposed Federal Insurance Regulation, available online (as of 7/10/08) at www.naic.org/topics/topic_federal_insurance_regulator.htm.

