

# Spending spikes by public employees worsen their financial wellness — employers can help

Research on more than 3,700 public employees by J.P. Morgan Asset Management and the Employee Benefit Research Institute discovers a surprisingly large number of people vulnerable to financial precarity and lack of retirement preparedness

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## In brief

- Nearly one in three public sector employee households experience spending spikes, our latest research finds. Lower-income households are more prone to them but higher earners are not immune.
- Especially when such spending spikes exceed household income and savings, they often lead to higher credit card debt and retirement plan loans—sometimes with a significant impact on retirement readiness.
- Our research underscores the importance of public employers taking proactive steps to mitigate these adverse impacts—specifically by taking emergency spending behaviors (i.e. employees taking out plan loans) into account when they analyze the risk level of their retirement plan’s default investment options.
- Building on our previous research, we further recommend public employers consider providing flexible, guaranteed retirement income options for participants whose defined benefit (DB) plans do not provide adequate income replacement.
- Public employers can further enhance their employees’ financial security and retirement preparedness through financial wellness programs and supportive policies, such as debt management education and incentivizing or automating emergency savings.

## Introduction

Financially draining emergencies are not rare events. And yet they often seem to come as a surprise.

In this paper, we focus on the issue as it affects public defined contribution (DC) plan participants. Spending spikes that are greater than a household’s income and savings are associated with more plan loans and higher revolving credit card balances. Higher card balances are, in turn, associated with lower retirement plan contributions. This cascade of effects impacts public employees’ retirement readiness.

In 2023, joint research by J.P. Morgan and the Employee Benefit Research Institute (EBRI) found that spending spikes negatively impacted 401(k) participants. This follow-up study set out to discover:

- How often this issue affects public employee DC plan participants, and how severely
- Who experiences spending spikes
- The link to/prevalence of other “unwell” financial behaviors, such as carrying credit card debt
- Finally, steps that public employers and policymakers may take to help prevent or mitigate the impact of spending spikes

## Data definitions

First, let’s define a few key terms:

- **Spending spike:** Monthly spending 25% above the previous 12 months’ median spending that the household can’t fund with that month’s income.
- **Unfunded spending spike:** Monthly spending at least 25% above the previous 12 months’ median spending that can’t be funded by the household’s income and cash reserves in that month.

## Building on prior work

Our latest research builds on our continuing collaboration with EBRI. It marks a joint effort between J.P. Morgan Asset Management and the Public Retirement Research Lab (PRRL), which was founded by EBRI and the National Association of Government Defined Contribution Administrators (NAGDCA) in 2020. The PRRL’s mission is to build the most comprehensive database on public sector DC plans, to help demystify how these programs are being used to help enhance people’s retirement outcomes.

Our first collaboration with the PRRL resulted in the 2022 paper, “[Leveraging defined contribution plans in the public sector](#).” The key finding: Supplemental DC plans are critically important for public sector employees, since DB plans provide less generous benefits for lower tenured workers.

In 2023, J.P. Morgan-EBRI joint research found that spending spikes had a significant impact on retirement readiness for 401(k) plan participants. We discovered that, compared with households with no spending spikes, households with unfunded spending spikes have lower incomes, higher levels of credit card debt and are more likely to have taken out a 401(k) loan.

There is a significant difference in retirement readiness between households with unfunded spending spikes and those without them. Our 401(k) participant work offered private sector plan sponsors a perspective on the importance of emergency savings accounts, and a timely one: As a result of the passage of the 2023 SECURE 2.0 Act, plan sponsors now have the option to offer this benefit in retirement plans.

Now we examine the status of public employee participants, and how public plan employers may help bolster their financial wellness.

## Background: Public vs. private sector employee research

Unlike our earlier study period (2016–2020, which was mostly pre-pandemic), the public plan research period (2019–2021) overlapped with the pandemic. During the pandemic, some households received federal relief checks while they were spending less on travel and entertainment. Consequently, credit card debt was reduced, and savings levels climbed for households that received consistent employment income during this time.

Another critical difference between the studies: Most public plan employees have pensions, something most private sector 401(k) participants do not have. Nevertheless, and perhaps surprisingly, we found the two studies’ results were remarkably similar.

Our research on the public sector focused on retirement plan balances in 457, legacy non-ERISA 401(k) and 401(a) plans. Balances are combined for those who have multiple types of plans, and loan statistics reflect only the plans that offer loans. The study population was financially diverse, with an average age of 43 and average annual gross household income of \$85,000.

## Key findings: Spending spikes' frequency and severity

Our research found that nine in 10 households with public sector retirement plans experience spending spikes above their income (**Exhibit 1**). Nearly one in three households cannot fund these spikes with income and cash reserves. Not shown on the chart is the frequency of spikes: On average, three months per year, spending spikes were greater than the household's income among those with a spike. Two months per year, on average, spending spikes were greater than their income plus cash reserves.

## Public vs. private employees' spending spikes

Spending spikes occurred at a similar frequency for public plan participants as for the 401(k) plan participants of our prior study: Nearly one in three of their households' spikes were unfunded. It's surprising, given the different populations and time periods.

A key finding across the two studies: Monthly spending is often greater than monthly income, so adequate savings are critical.

We also find it interesting that public plan participants—whose DB pension plans may impart some sense of security, and whose DC plans are often called, or perceived as, “supplemental”—nonetheless do not seem more incentivized to take advantage of plan loans than private sector employees.

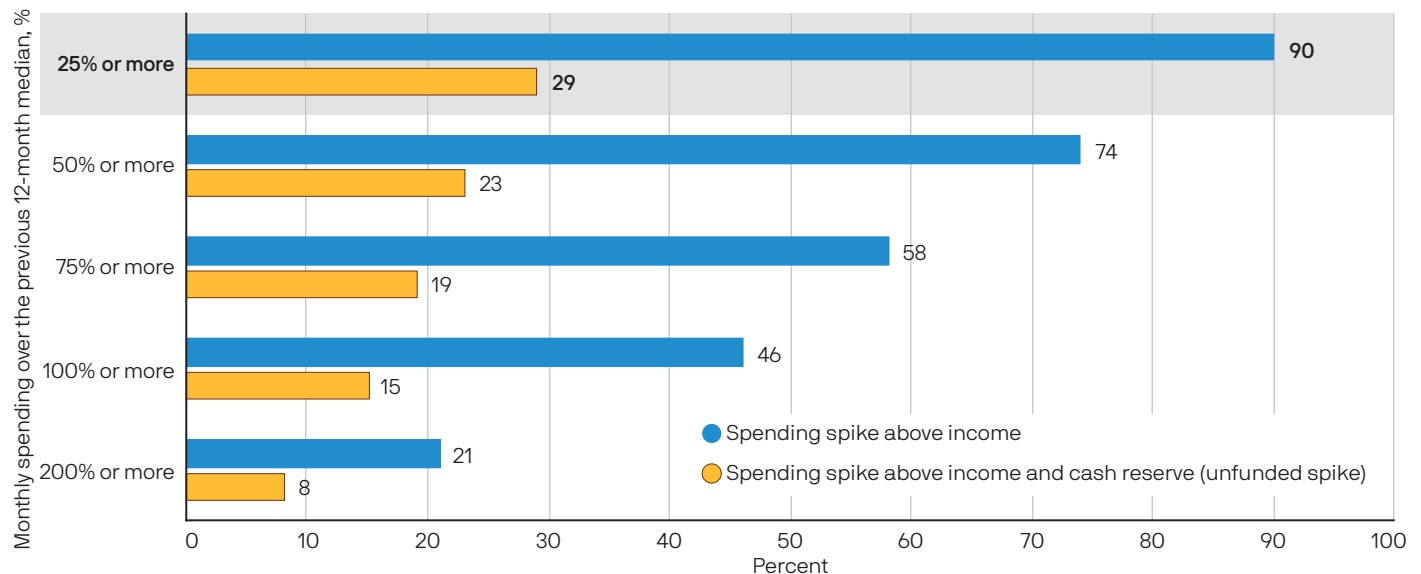
## Spending spikes for non-highly compensated employees

In the 401(k) study, we examined spending spikes for those who earn \$150,000 or less (non-highly compensated employees). For this population, we looked specifically at unfunded spikes totaling over \$2,500 annually, since that is the in-plan emergency loan limit set by the SECURE 2.0 Act for these non-highly compensated participants.

Although the section of the law providing for in-plan emergency loans does not currently apply to public sector plans, it is feasible that Congress will remedy this oversight. That would be a welcome development: Six in 10 participants in public plans earning under \$150,000/year had unfunded spikes totaling more than \$2,500 in a year. And eight in 10 of these individuals (with unfunded spikes totaling more than \$2,500 in a year) experienced spending spikes greater than their income.

## How many households experience spending spikes?

Exhibit 1: Percentage of households with spending spikes of various thresholds



Source: Public Retirement Research Lab, J.P. Morgan Asset Management, [“How Financial Factors Outside of a Defined Contribution Plan Can Impact Retirement Readiness: An Examination of Public Sector Participants.”](#)

## Which participants experienced spending spikes?

Those with lower annual incomes, of \$20,000 to \$30,000, are more likely to have spending spikes: 45% of those at lower income levels do. But participants with higher incomes—over \$100,000—have unfunded spikes, too: nearly one in four.

Regardless of income, those with unfunded spending spikes may lack emergency savings, making them vulnerable to a wide range of issues, such as the need for medical care, home and car repairs or other unplanned life events. Some may lack planning for large purchases or have a general overspending issue.

Unfunded spending spikes may play havoc with a household's finances, possibly creating the need to access more funds—potentially from credit cards or plan loans. Our research shows that those with higher credit card utilization are more likely to have a spending spike. In fact, for those taking a plan loan, the median percentage of their credit card limit they used was 67%, compared with 26% for those who did not take a plan loan.

Those are associations, not causes of spending spikes. But the relationship with credit card use has important implications for employers, as we'll discuss.

Our prior study found that households with high credit card utilization saved at lower rates than their less-burdened counterparts, impacting their retirement readiness. That turns out to be the case with public plan participants, as well.

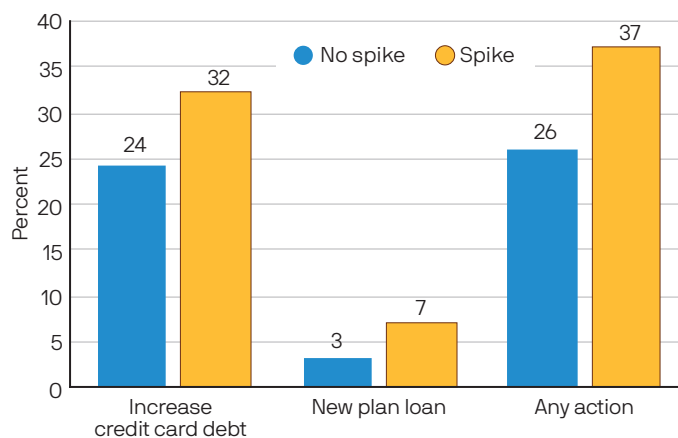
## How is lack of financial wellness related to retirement plan balances?

In this paper, we define “financial wellness” as the presence of emergency savings and/or an ability to fund spending without credit card debt. Unfunded spending spikes are associated with more credit card debt and new plan loans (**Exhibit 2**).

Credit card debt, in turn, is associated with lower DC plan contributions. On average, those without credit card debt contributed 6.1% of their salary to their DC plans, compared to those with nearly maxed out credit cards (utilizing 80% to 100% of their available credit), who contributed 4.8%, on average. We also saw evidence that credit card spending limits may keep some people with unfunded spending spikes from increasing their credit card debt even further. That

## Increasing credit card debt and new plan loans were much more common for those with unfunded spending spikes

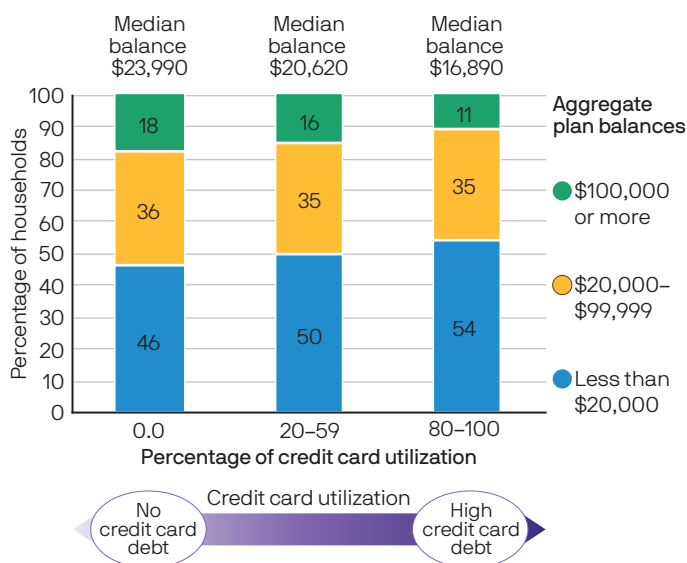
**Exhibit 2: Likelihood of taking specific actions in the same year as an unfunded spending spike / no unfunded spending spike**



Source: Public Retirement Research Lab, J.P. Morgan Asset Management, “How Financial Factors Outside of a Defined Contribution Plan Can Impact Retirement Readiness: An Examination of Public Sector Participants.” Not all plans offer loans, so the new plan loan comparison was made for those who have that option.

## Those with higher credit card utilization have lower plan balances

**Exhibit 3: Account balances by credit card utilization for participants with income of \$50,000–\$99,999**



Source: Public Retirement Research Lab, J.P. Morgan Asset Management, “How Financial Factors Outside of a Defined Contribution Plan Can Impact Retirement Readiness: An Examination of Public Sector Participants.” Median balance amounts have been rounded to the nearest \$10.

constraint may lead the participant to take out plan loans after their credit cards have been tapped out. We saw very similar results for the 401(k) participants.

Like the DC plan participants we studied, public plan participants with higher credit card utilization have lower plan balances (**Exhibit 3**). Although not shown, this is true for those with higher incomes, too.

## Key takeaways for public employers

What happens outside the plan—through spending and credit card usage—can lead to less successful retirement outcomes. Plan sponsors need to recognize this, and help their employees manage these challenges.

Our findings highlight the importance of taking this participant behavior into account as part of DC investment selection, and the importance of financial wellness programs.

We suggest the following actionable ideas:

1. **Take participant behavior into account when selecting investments for DC plans.** Specifically, realize that participants will have spending variations, and that taking out plan loans when they are nearing retirement may result in sequence-of-return risk. Consequently, care should be taken not to overweight inflation risk at the end of the glide path.
2. **Some employers may want to consider in-plan retirement income options.** For public employers that are concerned their DB plan may offer inadequate retirement income, flexible guaranteed income in their DC plan may provide a source for employees' stable expenses, while other assets provide for variable spending.
3. **Help your employees determine how much they should contribute to supplemental DC plans.** Public employees may not realize how important supplemental DC plans are for their retirement readiness. If employers give them a gauge, that should help.
4. **Provide education on debt management and emergency savings.** For plans with loan provisions, target employees who have taken loans.
5. **Automate, incentivize and/or encourage emergency savings.** This will help employees avoid credit card debt and plan loans.

## Public policy implications

Crucially, although the SECURE 2.0 legislation likely did not intend to leave out public employees, its emergency savings provision does not apply to public plans. This is an important matter for lawmakers to revisit.

As such, we recommend that policymakers:

- **Add an emergency savings provision for public plan employees.** The emergency savings provision in the SECURE 2.0 legislation only provides for \$1,000 penalty-free hardship withdrawals for public plan employees. Lawmakers may want to correct this by adding an emergency savings provision for 457 plans.
- **Consider a higher limit for emergency accounts.** The emergency account limit set by SECURE 2.0—\$2,500—is smaller than many of the unfunded spending spikes that our earlier research found many people experienced in the private sector. For those employed in the public sector, our latest work found that even more employees with income less than \$150,000 had even bigger spikes.

## Conclusion

Our research on public sector employees, as well as earlier studies, underscores the importance of thoughtful investment selection. Our work also continues to highlight the value of financial wellness programs, and points to the need for public employers to take proactive steps to help their employees manage their finances, so they're not caught in the bind of low levels of emergency savings and rising household debt.

By taking steps to help, public employers can significantly improve the financial security and retirement readiness of their employees, the public servants on whom our society depends. Policy also has a role in shoring up these essential workers' ability to respond to life's inevitable spending emergencies.



## Next steps

For more information, please contact your J.P. Morgan representative.

## J.P. Morgan Asset Management

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This paper was informed by research from a previous publication that was a joint effort between the Public Retirement Research Lab (PRRL)—a collaborative partnership between the Employee Benefit Research Institute (EBRI) and the National Association of Government Defined Contribution Administrators (NAGDCA) to provide an enhanced understanding of the design and utilization of public sector defined contribution retirement plans—and J.P. Morgan Asset Management to deliver data-driven research to further the retirement success of Americans, with a commitment to providing unique fact-based insights to policymakers, plan sponsors and plan providers to help build a stronger retirement system. This paper was produced by J.P. Morgan Asset Management alone and includes J.P. Morgan Asset Management's view only. PRRL was not involved in the writing of this paper.

The PRRL database is the first-ever repository of public sector defined contribution (DC) plan-and participant-level data. The year-end 2019 data contain nearly 200 457(b), 401(a), 403(b), 401(k) and other DC plans; nearly 2.3 million state, county, city and subdivision government employees; and \$113 billion in assets. It is important to note that many state plans serve as the primary DC vehicle for lower-level governments within their respective states. The state plans in the PRRL database represent as many as 1,800 participating employers, even though they are counted as a single plan. See PUBLIC RETIREMENT RESEARCH LAB - Home (prrl.org) for more information.

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