

Is your retirement plan designed for a 21st century workforce?

Hospitals are on pace to require replacing virtually half of their staffs every five years.¹

Managing employees entering and retiring from the workforce is part of a natural employee-to-retirement lifecycle that is becoming increasingly challenging for healthcare organizations.

The healthcare workforce is more diverse than ever before. Employees span every preretirement adult generation and cut across socioeconomic brackets, educational backgrounds, geographies and job types. And with the healthcare field projected to add more than 3.3 million new jobs by 2028, talent acquisition and retention is a top priority.²

In this environment, employer-sponsored retirement plans play an important role in building and maintaining a strong workforce. A retirement plan's design helps strengthen a healthcare organization's value proposition by supporting employee recruitment and retention strategies and facilitating the retirement process.

Retirement plan design supports the employee-to-retirement lifecycle



Recruitment

An organization's retirement plan can help tip the balance between competitive job offers. It may not be the deciding factor, but highlighting your plan's strengths—such as employer nonelective contributions, a match or other features—can give you a competitive edge.



Retention

Communication, access to financial information, advice services, planning tools and a well-designed retirement plan are critical to supporting employees throughout employment. Participation in a plan that's designed to help them plan, save and succeed in retirement boosts financial confidence and wellness.



Retirement

Nothing proves to employees the value of their employment more than the financial ability to retire. Financial education and access to guaranteed lifetime income lets employees know how much income they will have throughout retirement and when they will be ready to retire.³

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Plan design tailored for your workforce

The plan design process starts with setting clear goals for your plan. It should be a dynamic and iterative process that accounts for changes in the workforce and your employees' retirement readiness. The increase in mergers and acquisitions activity in the healthcare field especially highlights the importance of tailoring your plan design to the needs of a growing and evolving workforce.

With this understanding, you can then consider how plan design best practices can help accomplish your goals.

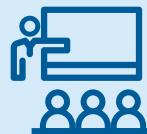
Plan design considerations

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| Investment menu | <ul style="list-style-type: none">■ Offer sufficient investment options—typically 8 to 10—for employees to build a diversified portfolio.■ Include a professionally managed option—such as a target-date fund—for employees not wanting to make investment decisions.■ Make sure your default investment option works for the long term. |
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Protected income	Running out of money in retirement is a concern for many employees. Offer in-plan annuities to help employees build guaranteed income sources. They can even be a part of your default investment option and have the added bonus of protecting elderly participants from fraud and criminal activity.
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| Automatic features | <ul style="list-style-type: none">■ Automatic enrollment helps employees to overcome inertia and start saving sooner rather than later.■ Automatic escalation—annual participant deferral rate increases—helps employees get closer to recommended total retirement savings rates of 10% or more of income.■ Auto features should challenge your participants to save more; don't set them too low as they will not support and could possibly defer planned retirement dates. |
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Shared responsibility	Employer contributions and employee deferrals are both essential components of plan design. A well-thought-out plan design can motivate employees to save more and create the shared approach to retirement readiness.
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Supporting your plan design

A strong plan design foundation works best with a supporting financial education and communications program. Financial education, advice and online resources help employees make more informed financial decisions that can improve their overall financial wellness. These supporting features can also help employees identify alternative banking solutions that can help them better manage their finances and steer them away from taking preretirement plan withdrawals.

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Solving for today's challenges

Employee educational debt, retirement plan leakage and employees running out of money in retirement are three pressing issues facing healthcare organizations. Plan design can help with each of these.

1. Education loans and retirement savings are not mutually exclusive

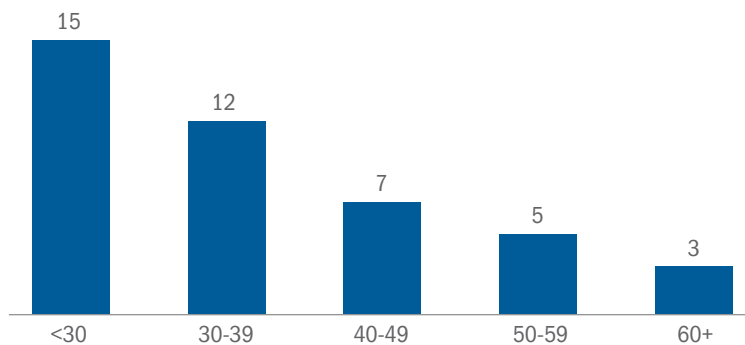
A private medical school degree can exceed \$340,000 and the median education debt for a new medical graduate student is \$190,000.⁴ With these debt levels, many young healthcare professionals are struggling to pay off their student loans and also save for retirement.

Although student debt is typically associated with millennials, student loans are held by workers of all ages. In fact, there are more than 3 million Americans age 60 and over with student loans—typically for children or grandchildren. By working on a plan to address employee educational debt, you'll be helping more than just your youngest employees.

Student loan debt has skyrocketed over the past decade and now stands at \$1.5 trillion—more than double from a decade ago.⁵

Education loans aren't limited to millennials

Number of student loan borrowers by age (millions)



Source: Student Loan Debt Statistics in 2018: A \$1.5 Trillion Crisis by Zack Friedman and Forbes; June 13, 2018.

After making their monthly student loan payments, many workers are contributing very little or nothing at all to their retirement plan. Retirement plan design can help employees continue saving for retirement while still paying off educational debt. A thoughtful combination of employer-required contributions, automatic enrollment and limiting matching contributions can help achieve the desired results without increasing costs.

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Education loan-friendly plan design

Start by creating a shared responsibility design with auto enrollment and auto increase. Recognize that the future options below are education loan-friendly options. Retirement savings are earned while the loan is repaid, and each year auto enrollment occurs to help participants save when they can. The chart below shows several viable design options.

Plan provision	Current plan	Future option 1	Future option 2
Employer nonelective contribution	None	8%	4%
Employer match	100% up to 8%	None	100% up to 4%
Auto enrollment	Yes	Yes, with auto increase	Yes, with auto increase
Initial auto enrollment rate	2%	4%	4%

The redesigned approaches can allow employee savings to continue even if an employee isn't able to contribute, and auto features encourage employees to save.

2. Plugging retirement plan savings leakage

Encouraging employees to save for retirement is critical, but it's equally important to help safeguard those assets. This is especially important in the healthcare sector, which has a 28% staff turnover rate.⁶ Retirement plan loans, hardship withdrawals and cash-outs reduce employee savings. This can significantly impact employee retirement readiness.

Options to reduce savings leakage	
Hardship withdrawals	Limit withdrawals to only employee contributions
Plan loans	Limit number of loans to 2 or fewer
Loan source	Limit loans to only employee contributions
Loan repayment	Allow payments to continue upon termination

According to one study, an estimated one-fourth of DC accounts experience an outstanding loan, hardship withdrawal, or early withdrawal upon job separation.⁷

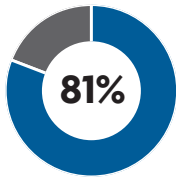
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3. Diversifying retirement income sources

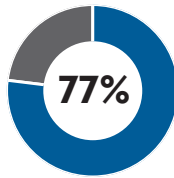
Many Americans are concerned about their retirement readiness and so are employers. Will your employees have enough income to last through retirement?

When individuals are given a choice, a majority of both employers and employees believe that individuals prefer a lifetime income stream over a lump-sum distribution.⁹

What concerns employers about employee retirement readiness?⁸



Being prepared to retire on a timely basis



Outliving their retirement savings

Employees need help in generating monthly retirement income they can't outlive. They also need help protecting their retirement savings from market and inflationary risks. A diversified income approach can help them accomplish both. Including fixed and variable annuities as part of your investment menu provides a way for employees to create protected income while also offering a growth component to their retirement income. A default investment option with a guaranteed income component would further align participants' retirement income needs with the plan.

Managing taxes in retirement

Offering a Roth account as a 403(b) plan option is one more way you can help employees diversify retirement income sources. Roth accounts provide greater flexibility in managing income and taxes in retirement. Although employees don't receive a tax deduction when contributing to a Roth account, their savings grow tax free and distributions aren't subject to income taxes in retirement after the age of 59½.* Having tax-free income distributions could help employees keep more of their money and avoid being bumped into a higher tax bracket.

Health savings accounts (HSAs) and retiree health savings programs offer similar tax advantages when it comes to taking qualified healthcare distributions in retirement. With rising retiree healthcare costs, offering a way to save for these costs would also help diversify their income sources in retirement and manage a significant retirement expense.

*Roth distributions aren't subject to income taxes in retirement after the age of 59½ if the distribution is no earlier than five years after contributions were first made and you meet at least one of the following conditions: age 59½ or older or permanently disabled. Beneficiaries may receive a distribution in the event of your death. Withdrawals of earnings prior to age 59½ are subject to ordinary income tax and a 10% penalty may apply.

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Maintaining a competitive edge

No two healthcare organizations are the same, and plan design should be customized and prioritized based on your organization's unique situation and selected goals. It's also a good idea to conduct periodic plan design reviews to evaluate the plan's effectiveness, changes in your workforce's demographics and retirement readiness, employee financial challenges, and to consider new plan design approaches and communication strategies.

An effective retirement plan can help employees improve their financial wellness in each stage of the employee-to-retirement lifecycle. It also serves as a key differentiator in the battle to attract and retain talent.



To learn more about how plan design changes can strengthen your workforce, contact your TIAA relationship manager.*



Universal but targeted

Plan design approaches can benefit all employees whether they are younger or older workers. However, targeted education and communications programs can take these universal plan design features and apply them to the unique needs of different employee segments.

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* You can also visit us at [TIAA.org/public/plansponsors/retirement-plan-management](https://www.tiaa.org/public/plansponsors/retirement-plan-management).

¹ “Hospitals Nationwide Face Unprecedented Turnover, Report Says.” FierceHealthcare, 11 May 2017.

² <https://www.bls.gov/news.release/pdf/ecopro.pdf>.

³ Based upon the claims-paying ability of the issuer.

⁴ https://www.washingtonpost.com/news/grade-point/wp/2018/01/31/med-school-doesnt-have-to-lead-to-crushing-debt/?noredirect=on&utm_term=.5afc8988500c.

⁵ Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit (2019: Q3).

⁶ eCareers. “Staff Turnover Top Concern for Healthcare Recruiters.” 26 Sept. 2017.

⁷ “How to Pensionize any IRA or 401(k) Plan,” November 2017, by Steve Vernon, Stanford Center for Longevity.

⁸ 2018 TIAA Retirement Plan Sponsor Survey.

⁹ 2018 TIAA Retirement Plan Sponsor Survey: More than half (51%) of all employers think their employees would prefer receiving \$2,700 a month for life rather than a \$500,000 lump sum at retirement.

Diversification is a technique to help reduce risk. It is not guaranteed to protect against loss.

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