ASSET INTERNATIONAL / TIAA-CREF

INTERVIEW TRANSCRIPT

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PART A

S. Moylan — I'm Stephen Moylan, Online Publishing Director for Asset International and *PLANADVISER*, and today I'm with Tim Walsh, Managing Director for institutional products for TIAA-CREF. Tim, welcome.

T. Walsh — Stephen, thanks for having me.

S. Moylan — Yes, my pleasure. What investment trends are you seeing across the industry that are intended to improve retirement income for plan participants?

T. Walsh — Probably three major trends, Stephen. Trend number one, actually, is really just the recognition that retirement income is important. Our industry is transitioning. The defined contribution industry as a whole, obviously, has been very focused on improving outcomes, investment menu construction, fiduciary policy, education, and now, the fact that we are actually recognizing retirement income as an important component—that's a trend in itself.

The second trend would be product development, and you're seeing some really interesting packaging. Some interesting product launches meant to address retirement income, and I think this is where advisers can play a critical role in learning and understanding these products.

Plan sponsors have questions, and the main question is, how do I, as a fiduciary, choose a product that I expect to make payments maybe 25, 30, 35 years from now and how can an adviser help the plan sponsor through that process? Really, first, the recognition that retirement income could be important. Then second, product development, and how can plan advisers help plan sponsors through the process.

S. Moylan — Tim, you recently participated in our panel at the PLANADVISER national conference. There was a lot of discussion about in-plan retirement income. Can you maybe comment on some of the myths in the market today?

T. Walsh

Yes, that's probably the main question we get, in-plan verses out-of-plan. I think there are some myths. The ones that get probably the major airplay would be flexibility, and specifically, a lack of flexibility; cost, high cost; a lack of usage, nobody annuitizes anyway. Then the fourth is probably a lack of demand for these products during the accumulation phase.

Stephen, let me address all four of those starting with flexibility. For these products to be successful there has to be flexibility. A participant's situation changes over time, so one of the key myths to understand is, or one of the key myths to overcome is the fact that if these products are built correctly, they will give you the right, but not the obligation, to take that retirement income. In essence, act like a stock option—the right, but not the obligation to annuitize. A participant could accumulate in these products throughout their working years, when they get to retirement if the situation warrants, then they, again, have the right to maybe partially annuitize, maybe fully annuitize, maybe they don't annuitize at all, but that's, again, were an adviser can play a key role in helping the participant through the process.

The second is around cost, and this is probably, from a fiduciary perspective, the most important to get your hands around. Typically, in-plan solutions are far much less expensive then out-of-plan solutions, and if you think about it it's an institutional play versus a retail play. For example, at TIAA-CREF, our CREF stock account, the variable annuity is typically in between 45 and 50 basis points all in, which is typically less than half the median mutual fund universe. Cost is a critical myth.

The third myth, Stephen, is do participants even want to have annuities in their in-plan menus? A study by Brightwork Partners just two years ago revealed 72% of participants want access to some type of lifetime income option in their retirement menu during accumulation.

Then, the forth talks about annuitization rates, and this is where it's really a behavioral play, if I may. At TIAA-CREF, our participants are far more likely to annuitize then say a participant that just has access to an annuity window, and I would suggest it's because they've become behaviorally comfortable with these products. For example, our annuitization rates—40% of our participants when reaching retirement and taking income take at least a partial annuity as that form of income. What better proof of a fiduciary—if you do want to target lifetime income as an important objective, what better proof than actual usage rates?

S. Moylan

Tim, what are some of the best practices that plan fiduciaries can follow for selecting and monitoring an in-plan retirement income solution?

T. Walsh

Stephen, I would suggest the process really isn't that much different from, say, choosing a mutual fund for a menu today. The measures might be different, but, theoretically, the process is the same. So ERISA expects, the adviser expects, the plan sponsor, to undertake a prudent process and document that process.

Let me summarize some of the considerations. The first is, objectively identify what types of products do you want to consider? Is it annuity? Is it systematic paydown? Is it GMWB? Objectively, based on the needs of your participants, your plan, identify what the options are.

The second would be look at the history of the firms you're considering. Again, not different from choosing a mutual fund. How long have they been in the retirement income business? What has been their track record? Do they have a successful track record? How long have they been making payments? Now, remember, you're choosing a product that conceptually will make payments 25, 30, 35 years from now. What are some of the considerations today to make a prudent selection, and again, ratings—what are the firm's ratings? What's the financial health of the firm?

The next would be to appropriately consider cost, and when I say cost I mean expense ratio, commissions, revenue share; what is the ratio between revenue share and total expenses? Make sure those costs are reasonable based on the services provided.

Then, finally, very importantly, work with an adviser who has expertise in retirement income products. Those advisers can walk you through the different products, walk you through the ratings, walk you through the history, walk you through how these products work, so, again, the process is actually very similar to choosing a mutual fund.

S. Moylan — You've been watching my interview with Tim Walsh, Managing Director of institutional products for TIAA-CREF. Tim, thanks for being here.

T. Walsh — Stephen, thanks for having me. It was terrific.

IMPORTANT INFORMATION

[1] Fees on TIAA-CREF variable annuity accounts and mutual funds are generally half the industry average, and 7 of the 8 CREF annuity accounts had expense ratios in the first (i.e., least expensive) quartile of Morningstar's open-end mutual fund universe. Source: Morningstar Direct (March 2013) based on Morningstar expense comparisons by category.

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