

ASSET INTERNATIONAL / TIAA-CREF

INTERVIEW TRANSCRIPT

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PART B

- 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. In general, why offer an in-plan income solution?
- T. Walsh It's funny, Stephen, the question we'll get all the time is, why not just accumulate in a low-cost mutual fund throughout your accumulation phase and then just annuitize at retirement. It's a very sensible question. We get the question a lot.
- I would suggest starting with—most participants just are not rational. In a perfect world, that's exactly what would happen, but participants don't do that. Participants don't have the time. They don't have the knowledge level. They don't have the patience to make that type of decision. The question is, how can you, as a fiduciary, put product in place? Again, realizing that you're trying to maximize outcomes, maximize retirement income.
- There are a couple things here. First of all, behavioral strategies play a big role here. We've been able to demonstrate, with our participants, the more they use annuities during the accumulation phase the more likely they are to annuitize. As a matter of fact, they are two times more likely to annuitize if they save in these products during the accumulation phase. They get comfortable with these products over time. They almost treat them as personal DB plans, and they treat them as their own personal pensions, so when they do get to retirement many of our participants at least partially annuitize their benefit.
- The second is actually more income in retirement. Participants who save in these products over time, first of all, get to dollar-cost average into different interest rate environments. Then, from a payment perspective, this is simply the benefits of an insurance company. An insurance company assumes people are going to reach their life expectancy. Some,

unfortunately, die before then. Some die after, but from an actuarial perspective they assume life expectancy.

You as a participant—there's a pretty good chance that either you or your spouse is going to live to age 90, age 95. You have to take into account such a long timeframe. There is actually more income through the annuity. As a matter of fact, if you tried to systematically withdraw down the same payment from a life annuity, there's a 50% probability you're going to run out of money during retirement. There is more income in retirement.

Third is cost. I talked about cost—the less expensive.

The fourth is what I'll call sleep at night security. A combination of fixed and variable annuities helps smooth out the ups and downs of retirement.

The final reason is really reassurance for plan sponsors who, again, as fiduciaries have targeted lifetime income as a core fiduciary objective. At TIAA-CREF, we've been making retirement benefit payments for close to 100 years. As of September 30, 2013, through our history we've paid out over \$300 billion dollars. We pay out \$12 billion a year. We have 22,000 participants between the age 90 and 100 that we make payment checks to. We have 600 participants over the age of 100 that we make monthly payments to, so again, what better proof as a fiduciary of the value of annuitization and accumulating in those products so that participants are comfortable in annuitizing when they reach retirement.

S. Moylan Tim, what do you say to participants who are really afraid of giving up a large portion of their money? Also, they're confused about annuities and how to take income.

T. Walsh Two things. First of all, realize you do not have to fully annuitize. Partial annuitization may be the right strategy based on your financial decision. Then, the second, again, work with a qualified adviser to walk you through the various scenario modeling to understand—should it be annuitization? Should it be systematic paydown? What about estate planning? I would highly encourage participants to work with a qualified adviser who understands these products to help make those decisions when they reach retirement.

S. Moylan Tim, how can plan sponsors engage with employees to take the right action steps to help them be, really, more confident about retirement?

T. Walsh Engagement is the right word, and engagement comes through quality communication, education, and advice. I'll stress advice. Advice is a critical component, not just on the accumulation phase, but as participants get to retirement.

Advice during the accumulation phase is critical, and then, as participants get to retirement now it's advice about the different scenarios, again, that are available to participants. You want to work with an adviser to help you though the process—understand how much to annuitize, duration; should

it be systematic paydown? Again, estate planning needs, so advice, I think, is probably the most critical piece of engagement to helping driving outcomes and retirement readiness.

S. Moylan Clearly, there must be other products besides annuities that provide lifetime income. What about those other products and those other options?

T. Walsh There's been some really interesting product launches, say, over the last two to three years as the market has embraced retirement income solutions. Obviously, this has been core to what we do for close to 100 years, but you're seeing some interesting packaging that combines GMWB-type functions or features with target-date funds. You've seen longevity insurance, obviously, annuitization. Again, the key point here is that these different products have different features, different advantages, different disadvantages. Work with an adviser to figure out what is the best solution to meet the needs of your plan. The adviser can walk you through the different options.

However, let me leave you with this. The only way you can guarantee income is through an insurance company. That really speaks to the value of at least partial annuitization with systematic paydown, guaranteeing, at least, an income stream that will pay for core living expenses, but again, work with an adviser to help understand the features and attributes of these various products.

S. Moylan Tim, thanks for your feedback, and your great advice today. 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.

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