Caring for employees in a crisis.
Areas of healthcare retirement plan focus in 2021.

2020 found many healthcare plan sponsors so focused on their organizations' pandemic responses that it was a year of reprioritizing key initiatives.

Most retirement plan sponsors made no plan changes in 2020, but about **one in five** of those TIAA surveyed in November said they had to reduce employer contributions to manage costs.[1] And the need for cost management is being felt keenly at healthcare organizations that have experienced reduced revenue from non-COVID outpatient and inpatient procedures, hospitalizations, elective surgeries and ER visits. At the same time, participant financial well-being has taken a hit as many had to tap into their retirement plan savings to meet day-to-day expenses.[2]

It is likely that the pandemic will continue to take a toll on the healthcare workforce long after the coronavirus itself is under control, creating a new urgency in providing these everyday heroes the gift of a secure retirement. While COVID-19 continues to have an impact, TIAA year-end surveys found both plan sponsors and participants recognizing the need to refocus on retirement. With 2020 finally in the rearview mirror, the following are some areas of focus.

Managing workforce challenges

Studies show that the pandemic has had a significant negative impact on the overall well-being of healthcare workers. As a result, some healthcare organizations have experienced a surge of early retirements and staffing shortages. Others have experienced delayed retirements due to financial concerns. All of these factors impact a healthcare organization's ability to maintain a healthy workforce lifecycle, where they can recruit, retain and retire employees to preserve talent and manage costs.

- The Journal of the American Medical Association (JAMA) published a study about mental health outcomes for healthcare workers treating patients with COVID-19 in China. They found about 50% of respondents reported symptoms of depression, 44% reported symptoms of anxiety and 34% reported insomnia for those providing front-line care. Nurses had higher risks than other professionals.[3]
- About 67% of physicians say burnout has become more intense during the pandemic, and 25% have left the medical field. [4]
- Physicians are now more likely to think about early retirement (in contrast to a pre-pandemic survey where most planned to work well into their 70s or later).[5] In interviews, physicians considering early retirement pointed to the pandemic resulting in longer hours and reduced compensation.[3]

A focus on financial wellness

Healthcare retirement savers have decreased savings since COVID-19 began, and some had to take advantage of CARES Act withdrawals, loans and student debt payment relief.[6] Not surprisingly, financial wellness programs have grown in importance as more employers recognize them as a key component to reducing the anxiety and distraction that can be caused by financial stress. In fact, **69% of employers said they increased focus on improving the financial wellness of their employees in 2020.**[7]

The need is clear:

- Saving for retirement is viewed as the biggest contributor to employees' overall financial wellness.[7]
- Almost 30% of healthcare employees have become less confident they are saving an adequate amount for retirement.[6]
- 46% of healthcare employees say their financial condition has worsened due to COVID-19.[6]
- 84% of healthcare employees carry debt, and 45% of those with debt consider themselves debt constrained.[6]
- Since COVID-19, over half of healthcare retirement savers have sought professional advice on savings and retirement.[6]
- 70% of employees feel they need their employer's help to make sure they are healthy and financially secure, and 62% say it is the employer's responsibility to do so.[8]

Thoughtful implementation of provisions included in recent legislative changes

The SECURE Act, with over 30 provisions to consider, had just passed before the pandemic began. COVID-19 added another layer of legislation with CARES Act provisions, and SECURE Act 2.0 is on the horizon. However, many healthcare plan sponsors have been too absorbed in managing their responses to the pandemic to think through recent and upcoming changes and determine the best course of action for their plans.

- Two-thirds of plan sponsors said they had to pause or decrease time spent on their usual administrative activities.[1]
- 35% of those who had limited their time on usual administrative activities felt that maintaining their fiduciary and compliance responsibilities was potentially at risk due to lack of time spent on it.[1]

The provisions in these acts are designed to help more participants save more for retirement and to have access to in-plan products that can guarantee income throughout retirement. Now more than ever, plan sponsors recognize the importance of these goals and are poised to begin implementing the provisions that will best help their employees.

Continued traction of auto enroll and auto escalate

Employers recognize the power of automatic options to improve employees' financial security. New hires are often too overwhelmed to make proactive retirement investment choices. Automatic enrollment and escalation can help ensure these employees at least get some savings started. SECURE Act provisions further supported the auto enroll/escalate trend by increasing the maximum percentage of pay in which a plan can auto enroll employees or automatically escalate deferrals.

- Half of plan sponsors surveyed said they auto enroll their employees, and 43% use auto escalation.[7]
- 403(b) sponsors (67%) are more likely than 401(k) sponsors (36%) to use auto escalation of employee contributions.[7]
- With the SECURE Act's recognition of lifetime income as a driver of overall financial confidence and retirement readiness among American workers, there's a new interest in potentially auto enrolling employees in a default option that has a lifetime income component.

Ongoing reduction of pension plans and consideration of other lifetime income options

Only about 3 in 10 (29.8%) defined contribution plan sponsors surveyed offered an open defined benefit plan, compared to 35.8% in 2018.[9] This reduction can be attributed to:

- The cost of keeping a defined benefit plan adequately funded.
- A realization that today's workforce commonly hops from employer to employer, so many of the participants the plan is intended to cover will never meet the requirements to fully qualify.

Plan sponsors are reviewing their retirement plan designs to ensure plans are set up to help measure what really matters—who's on track to retire, who has gaps and how big those gaps are.

Increasing interest in including a lifetime income solution as part of the QDIA

While pensions fade away, there is increased interest in replacing the financial security they provide with a defined contribution plan that includes lifetime income options. The majority of contributions in defined contribution plans are directed to target date funds, the most common type of qualified default investment account (QDIA). Many people mistakenly believe they'll get guaranteed lifetime income from those target date funds, but unless there is a lifetime income component, that is not the case. So, employers are considering ways to leverage inertia and help employees generate reliable retirement income through their default investment.

Innovative solutions like this are necessary.

- Post pandemic, more than half of healthcare plan sponsors have increased their focus on the retirement preparedness of employees.[6]
- 78% of plan sponsors believe that target date funds help participants meet their income needs in retirement.[7]
- 77% of retirement plan sponsors are very interested in a target date fund with a guaranteed lifetime income feature.[7]

Consideration of the investment value of ESG options

Retirement plan participants have a definite interest in responsible investing (RI) choices. In last year's annual Nuveen Responsible Investing survey, 59% of investor-respondents said they would choose an employer based on the availability of an RI option in their 401(k) plan—and 53% cited performance as their main motivation for responsible investing.

Initial concern over whether the DOL ESG Rule might make it more difficult to offer these investments in retirement plans was allayed when the final rule removed any specific references to investment options that incorporate environmental, social and governance (ESG) factors, and instead emphasized that "pecuniary" (monetary) factors need to be the primary focus in selecting and monitoring investment options on plan menus. The DOL has since issued a temporary non-enforcement policy and intends to revisit the rule.

Even during 2020's COVID-driven market turmoil, ESG funds continued to perform.

- For calendar year 2020, 75% of ESG funds had year-to-date returns ranking in the top half of their Morningstar categories.
- 42% were in the top quartile—meaning that ESG funds outperformed non-ESG funds.

For more information on TIAA solutions, contact:

Walt Melcher
Healthcare Solutions
TIAA
walt.melcher@tiaa.org
312-345-5649

Jordan Nelson
Healthcare Solutions
TIAA
jnelson2@tiaa.org
415-882-3664

James Daniello
Healthcare Solutions
TIAA
jdaniello@tiaa.org
412-365-3007

With 100+ years of experience serving healthcare organizations and more than $1 trillion in not-for-profit assets under management, TIAA is here to help retirement plan sponsors achieve their goals.

1. TIAA 2020 Plan Sponsor Listening Tour, Harris Insights & Analytics. 191 plan sponsors surveyed from 11/11/2020–12/2/2020.
2. Approximately 30% of respondents in a TIAA and C Space COVID-19 & Market Volatility Sentiment Tracker reported their household income negatively impacted by the COVID-19 crisis (from Sentiment Tracker #13, fielded 12/8/2020–12/10/2020).
3. Jacobs, A., 2021, A Parallel Pandemic Hits Health Care Workers: Trauma and Exhaustion. [online] Nytimes.com. Available at: **nytimes.com/2021/02/04/health/health-care-workers-burned-out-quitting.html?smid=fb-nytimes&smtyp=cur&fbclid=IwAR0dHiZdXezk_12zILQGo4IWwDnlr6774tVfy5yfqjwhdxnVYZYv_wSscm** (accessed 2/8/2021).
4. Physiciansfoundation.org. 2021. [online] Available at: **physiciansfoundation.org/wp-content/uploads/2020/08/20-1278-Merritt-Hawkins-2020-Physicians-Foundation-Survey.6.pdf** (accessed 2/10/2021).
5. TIAA Physicians Insight Survey, May 2020.
6. Healthcare Sector Financial Wellness Survey, TIAA Institute (2020).
7. Source: The TIAA Retirement Insights Survey: A survey of employees and employers. 12/2020.
8. 2020 EBRI/Greenwald Research Workplace Wellness Survey.
9. Callan Institute 2020 Defined Contribution Trends Survey, p. 5.

1569841