Build a smarter income plan by diversifying to and through retirement

Build employee confidence by offering in-plan fixed and variable lifetime income options to help mitigate the risks that can erode retirement savings.

Help your employees feel confident about retiring by offering options built for both savings *and* lifetime income. In-plan guaranteed and variable annuities can offer higher rates of income in retirement than typical systematic withdrawals.

What's more, in-plan annuities provide income *for life*, helping to mitigate the risk of running out of money. Offering lifetime income opportunities can help you build a smarter retirement plan.

Improve your retirement plan benefit by providing your employees the opportunity for better investment outcomes at lower expenses.

Today's workers may be in retirement for decades, and yet:

- Only 49% have estimated how much income they would need each month in retirement.[1]
- Only 27% say they are "very confident" about having enough money for a comfortable retirement.[1]

Consider adding fixed and variable annuities to your plan's menu to offer opportunities for both savings and lifetime income. Fixed and variable annuities can work together to help reduce the risks that can erode retirement savings, such as market volatility, inflation and outliving assets. Often available at a much lower cost than retail alternatives, in-plan annuities make it possible to accumulate savings through regular contributions. Later, they help fortify a diversified retirement income plan by allowing employees to convert their savings into income that never runs out.[2]

Independent financial research analyst Morningstar explored the potential benefits of developing a retirement income strategy considering both fixed annuities and variable annuities. The analysis demonstrated that variable annuities, when paired with fixed annuities, can provide an **additional 20% of certainty-equivalent income in retirement.[3]**

BUILT TO PERFORM.

CREATED TO SERVE.

Market risk

The stock market dropped more than **50%** throughout 2008–2009.[4]

Longevity risk

The average time spent in retirement is **18 years** for men, **21 years** for women.[5]

Cognitive risk

6.2 million Americans are living with Alzheimer's disease.[6]

Inflation risk

A big-ticket item that costs **$1,000** today will cost more than **$2,100** in 30 years.[7]

A combination of options helps diversify retirement income

A strategy of using fixed and variable annuities for lifetime income together with other investment withdrawal options can promote potential growth and sustainable income during a long retirement. This strategy helps address the concerns many retirees face.

Consider how inflation can affect a retiree's income. Social Security benefits and some pensions may help retirees fight off inflation through annual cost-of-living adjustments. In-plan variable annuities complement these with their potential to provide increased income during favorable market periods. Of course, payments from variable annuities can decrease in down markets.

Living longer, market volatility, and cognitive decline can also significantly impact retirement savings and income. A portfolio diversified with fixed and variable annuities helps mitigate the downside of these risks. While each source of income is inherently risky, combining them can help manage the risk of each. A withdrawal strategy using different types of investments can mean receiving regular monthly "paychecks" in retirement as well as potentially more income.

Diversification to help manage risks can help give employees the confidence they want as they pursue their retirement goals.

A diversified income strategy can help address the concerns employees face in retirement.

	Guaranteed income payments (fixed annuity)	Lifetime income payments (variable annuity)	Investment portfolio withdrawals
Market risk	■		
Interest rate risk	■		
Longevity risk	■	■	
Cognitive risk	■	■	
Inflation risk		■	■
Liquidity in retirement	With partial annuitization, access to some assets		■
Opportunity to leave an estate	With partial annuitization, potential for larger estate		■
Opportunity to preserve assets	Partial annuity with a guaranteed period		■

Any guarantees under annuities issued by TIAA are subject to TIAA's claims-paying ability. Payments from variable accounts will rise or fall based on investment performance.

With the dependability of receiving lifetime income from annuities, retirees may choose to be more aggressive with other parts of their portfolios. Less concern about the risk of market volatility can mean greater confidence that they can help meet their everyday expenses with income that lasts a lifetime.

The value of a diversified retirement income strategy

Employees can create a diversified income strategy by combining different types of income.

Fixed annuity income payments +

- Guaranteed lifetime income
- Payment amounts guaranteed

Variable annuity income payments +

- Payments guaranteed for life
- Payment amounts may fluctuate with market performance
- Access to professional management

Investment portfolio withdrawals =

- Post-retirement liquidity
- Access to professional management

Diversified income plan for life

- Guaranteed income that never runs out
- Growth potential
- Access to professional management
- Post-retirement liquidity
- Bigger legacy potential than a typical withdrawal strategy

Guarantees are based on the claims-paying ability of Teachers Insurance and Annuity Association of America.

Historically, CREF accounts have charged on average **200 times less** in insurance fees as compared to personal variable annuities.*

- **Fixed annuities** offer growth while employees are saving, with a minimum guaranteed crediting rate regardless of market performance. In retirement, they can use fixed annuities for dependable income that never runs out. Employees typically can rely on this guaranteed income to help with everyday necessities.
- **Variable annuities** bring together the power of diversified investing with regular income payments during retirement. Even while retirees are taking income, variable annuities remain invested across their specific asset classes, strategies, styles, and sectors to potentially grow and help weather inflation and other risks. Because variable annuities adjust with market performance, the amount of a given payment may increase or decrease.

* Source: Morningstar Direct, March 31, 2022. The CREF variable annuity accounts have expense ratios that are in the bottom decile (or 100% below median) of their respective Morningstar category. Our variable annuity accounts are subject to various fees and expenses, including but not limited to management, administrative, and distribution fees; our variable annuity products have an additional mortality and expense risk charge. Please see CREF prospectus for other fees or expenses. Expense ratio comparisons and total net expense ratios: CREF Overall: 0.26%, VA-Sub Account average – overall: 1.88% and VA-Sub Account average – retail variable annuities: 2.19%. CREF's insurance expense at 0.05% is 286 times less than the average total VA-Sub Account insurance fees of 1.43%.

Case study
Income from a mix of fixed and variable annuities together with investment portfolio withdrawals may improve outcomes

Below is a hypothetical illustration of how a diversified income strategy can help improve retirement readiness. This example is not intended to predict or project performance of any account. Actual returns will vary.

David is 68 years old	
Financial goals in retirement	▪ Income stability to meet his essential costs ▪ Income growth potential to maintain his lifestyle and help his family ▪ Retirement income for the rest of his life ▪ Opportunity to leave a legacy for his family
Amount saved	▪ $750,000
Preretirement annual income	▪ $80,000
Annual retirement income goal	▪ $60,000 (75% of preretirement income)
Annual income from Social Security and pensions	▪ $24,000
After receiving $24,000 from Social Security and pensions, David needs to generate $36,000 a year to meet his annual retirement income goal of $60,000.	

Scenario 1:
Using typical 4% withdrawals from investments along with Social Security/pensions

Using the industry rule-of-thumb 4% systematic withdrawal rate, David's savings of $750,000 would generate $30,000 each year. To achieve his goal of $60,000, he needs to generate $36,000, in addition to his $24,000 income from Social Security and pensions. This income strategy leaves him with an annual shortfall of $6,000.

In a scenario of using 4% withdrawals alone, David would need to have saved $150,000 more to achieve his income goal—$900,000 vs. the $750,000 he has today. In this case, David not only can't meet his retirement income needs, but he also won't have the benefit of guaranteed income payments that protect his savings from market volatility, steady lifetime income that helps keep up with rising costs, and the confidence of knowing he won't outlive his savings.

Withdrawal amount base		**Payout rate**	**Savings required**
$60,000 - $24,000 =	$36,000	4%	$900,000
	$30,000	4%	$750,000
Annual income shortfall:	**$6,000**		**Total savings shortfall: $150,000**

Scenario 2:
Adding annuity income to investment portfolio withdrawals and income from Social Security/pensions

A diversified income plan combining fixed and variable annuities allows David to meet his income goal and have money left over, vs. a typical 4% systematic withdrawal plan.

In this hypothetical example, David fares much better by complementing his retirement income portfolio with fixed and variable annuities. David still has an annual income goal of $60,000.

David uses a combination of fixed and variable annuities, along with Social Security and pensions, to generate the first two-thirds of his income goal, or $40,000.

To do this, he selects a portion of his variable annuity ($112,500) and fixed annuity ($126,000) accumulations, and receives $8,000 in annual lifetime income payments from each. Now David has $16,000 in income from his annuities. Using that with the $24,000 he receives from Social Security and pensions, David covers two-thirds of his income goal.

To receive the remaining $20,000 to achieve his goal, David needs to use only $500,000 for his 4% systematic withdrawals.

Withdrawal amount base		Assets
2/3 using Social Security, pensions and lifetime income annuities		
$60,000 x 2/3 =	$40,000	
Social Security and pensions	– $24,000	
Amount remaining to annuitize	$16,000	
▪ ½ variable annuities	$8,000	$112,500
▪ ½ fixed annuity	$8,000	$126,000
1/3 using 4% systematic withdrawals		
$60,000 x 1/3 =	$20,000	$500,000
Total savings required:		**$738,500**

Desired income uses an inflation rate using Consumer Price Index (Urban) data from the Bureau of Labor Statistics. This case study assumes a combination of a variable annuity using actual CREF Stock history, a pure fixed annuity, and a withdrawal account with a 60/40 equity/fixed portfolio. Variable annuity assumes a CREF Stock Account payout rate of 7.12%, which was the 2022 payout rate, no matter which share class the money was in before retirement. Fixed annuity assumes a TIAA Traditional payout rate of 6.35% based on the 2022 TIAA new money rates of March 2022. This rate applies to all new settlements and is the same for all accumulating contracts. Income rates based on a Single Life Annuity with 10 years guaranteed, issued at age 68. The pure withdrawal strategy is a 60/40 equity/fixed portfolio. Equities assume historical CREF Stock performance; the fixed component is based on historical Ibbotson bond data with a 70/30 government/corporate mix. This hypothetical illustration is not intended to predict or project returns. Actual results will vary.

In Scenario 2, David has enough assets saved to meet his $60,000 retirement income goal—and has $11,500 remaining from his original $750,000 accumulation to use in other ways, such as the legacy he'd like to leave for his family. By annuitizing a portion of his fixed and variable annuities, he reduces the risk of depleting his retirement savings, has money for his family, and receives monthly income in retirement guaranteed to never run out.

Insight: A menu designed with fixed and variable annuities can help drive better outcomes

With the possibility that Social Security benefits may change, there is a greater need than ever for participants to have a diversified income plan or access to diversified investment options that can help promote retirement readiness and provide income that lasts a lifetime.

A diversified portfolio that includes lifetime income from fixed and variable annuities, available through the plan, can provide participants with more confidence, better outcomes, the ability to retire on time, and the reliability of having income for life.

As the example illustrated, the efficiency of realizing income goals by using annuities can potentially leave a retiree with more of their portfolio available for other pursuits. A retiree may choose to continue to invest that portion to provide a legacy to heirs.

Diversifying an income plan can also help provide protections against the risks retirees face, such as market fluctuations or outliving their savings.

In all, a retirement plan structure that includes in-plan annuities can help create the type of compelling benefits program you can use to better manage your workforce—from recruiting to retaining to retiring. Providing the resources that promote retirement readiness and the confidence of having income in retirement that never runs out can help employees retire on time and maintain their standard of living in retirement.

Talk with TIAA today about how you can optimize your menu design with fixed and variable annuities to help improve outcomes and employees' confidence about retirement.

Visit TIAA.org/lifetimeincome or contact your TIAA representative.

[1] Employee Benefit Research Institute, 2021 Retirement Confidence Survey.

[2] A periodic investment plan such as dollar-cost averaging does not assure a profit or protect against a loss in declining markets.

[3] Morningstar, "The Benefit of Diversified Income for Retirees: Combining Fixed and Variable Annuities," November 2019. The "certainty equivalent" income calculation incorporates an individual's preference for risk and uncertainty when it comes to funding retirement.

[4] The Balance, "Stock Market Crash of 2008," April 20, 2020.

[5] Social Security Administration, "Calculators: Life Expectancy."

[6] Alzheimer's Association, "2021 Alzheimer's Disease Facts and Figures," 2021.

[7] SmartAsset Inflation Calculator, 2021.

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