

# Custom target-date evolution



## Seeking to cushion fiduciary risk by improving the risk/return tradeoff and meet retirement goals by increasing retirement income versus off-the-shelf target-date funds.

As the pandemic-era economic landscape continues to press in on institutions, plan sponsors and consultants are increasingly pressured to improve outcomes and lower costs while confronting extraordinary financial pressures. Take a moment to consider your retirement plan's default investment option. Your default may attract 70%-80% of your participants, but how effectively is it helping to reduce your fiduciary risk and drive better participant outcomes?

Market volatility can put retirees at risk of losing what they've accumulated in target-date funds and outliving their savings—and many of them don't realize it. Despite all the outreach employers have done, *64% of people either don't know or incorrectly believe target-date funds provide guaranteed income.*<sup>1</sup>

The TIAA RetirePlus Series® can give you the opportunity to galvanize your plan with a robust, QDIA-eligible custom default investment option. The Series provides plan sponsors a way to offer custom model solutions that are tailored to the plan's unique fiduciary preferences and demographics. The plan sponsor, as fiduciary, can elect to manage the models on its own with advice from its 3(21) fiduciary advisor or delegate selection to a 3(38) investment manager. This program provides a level of customization that can range from selecting the investment options to creating a comprehensive asset allocation program, including designing the glidepaths and solving for lifetime income needs.

Evolving your default investment option with the TIAA RetirePlus Series can help you increase effective investment diversification, offer the ability to create a lower-cost alternative to off-the-shelf target-date funds, and provide participants the opportunity for retirement income.

### Custom default solutions built with the TIAA RetirePlus Series allow you to control

↓ Volatility	≤ Cost	↑ Better outcomes	↑ Asset allocation precision	↑ Value per dollar contributed
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### A plan menu default option built to be resilient

You or your plan's consultant can use the TIAA RetirePlus Series to create custom model solutions tailored to your plan's unique demographics. What's more, the program enables you to incorporate a fixed annuity component to help reduce portfolio risk while participants are saving for retirement and provide lifetime retirement income when they stop working.

As an alternative to standard off-the-shelf target-date funds, the TIAA RetirePlus Series can help evolve plan design and can allow you to seek better outcomes.

- **Prudent process creating models.** As early as 2013, the DOL has encouraged plan fiduciaries to consider custom target-date options that can use the plan's core menu options. Further, ERISA mandates that plan sponsors manage the plan in the best interest of employees. A model solution may be a better alternative since it allows you to control the investment decisions and can provide benefits not available through a standard target-date fund.<sup>2</sup>
- **Confront economic challenges.** As more plans face increasing cost pressures, a TIAA RetirePlus Series program can help you improve the value per dollar contributed to the plan. This is possible by selecting investment strategies and options that have the opportunity for higher payout rates in retirement.
- **Customize the model portfolios with high-quality funds.** With the TIAA RetirePlus Series, you can use the best-in-class menu options you have prudently selected for your core menu directly in your default, rather than being constrained by what is prescribed in an off-the-shelf target-date fund.
- **Realize cost efficiencies.** The custom solution can be competitively priced: By using core investment options, fiduciaries can control the cost of the model portfolios, and potentially reduce cost below the industry's low-priced target-date funds.
- **Encourage more precise asset allocations.** The TIAA RetirePlus Series has the ability to consider a participant's legacy annuities in the plan and factor them into the model solution. This enables participants to have a more holistic view of their overall asset allocation.
- **The opportunity for lifetime income.** You can add the TIAA Traditional Annuity into the mix, offering the guarantee of steady growth during accumulation and the opportunity for guaranteed lifetime income in retirement. This option has the potential to increase monthly income in retirement through our "sharing the profits" approach, which seeks to reward participants.<sup>3</sup>

### Case study: The TIAA RetirePlus Series in action

A prominent plan sponsor made the plan design decision to revamp its program to include a custom model default option built with the TIAA RetirePlus Series. After careful consideration, the organization recognized that this approach afforded several benefits from a plan sponsor perspective.

- **Fund selection.** The investment committee executed a thorough due diligence process to select the core best-in-class funds from its lineup to use in the custom model portfolio.
- **Cost management.** The custom solution they used is competitively priced, and includes a fixed annuity that has no expense ratio.
- **Reduced performance risk.** TIAA Traditional was included in the models as an alternative for bonds, helping to reduce overall portfolio risk as TIAA Traditional has historically produced bond-like returns with little volatility.<sup>4</sup>
- **Better-defined asset allocations.** The TIAA RetirePlus series has the ability to consider a participant's legacy annuity assets within the plan and factor them into the model solution.

After re-enrolling all participants into the models, the enhanced plan design made a significant impact on participation—and the potential for better outcomes. This case study reflects the organization's adoption of TIAA's RetirePlus Series by comparing participants before and after the implementation over 15 months.<sup>5</sup>

### Put the TIAA RetirePlus Series to use in your plan design

The TIAA RetirePlus Series is designed to help meet your fiduciary responsibilities and plan goals with a model portfolio program you can customize to your plan's demographics and retirement needs.

Talk with a TIAA representative today about how you can build a custom default option designed specifically for your plan.



Participants **improved** their risk/return profiles

- All participants in a model have an **improved** Sharpe Ratio
  - Primarily driven by TIAA Traditional's better risk/return characteristics relative to a bond.
- More than **45%** decrease in the number of participants with inappropriate risk in their portfolio
  - More than 825 participants are no longer three risk levels off advice target.



Participants enjoy investment **diversification** with a **guaranteed income** component

- Average percentage of retirement income guaranteed for life approaching **50%**
  - Excluding Social Security; assuming 30% annuitization.
- More than **2.5 times improvement** in number of participants with access to higher levels of guaranteed income for life
  - 94% of participants have an investment in TIAA vs. 35%.



Participants will achieve **higher income** than from the prior default investment

- Average potential increase in annual retirement income **more than 25%**
  - An increase of \$9,065 per year, or \$755 per month.
- Average potential increase in income replacement ratio **more than 10%**
  - Average ratio increase with systematic withdrawal compared to assuming partial annuitization.

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<sup>1</sup> Siegel and Gale, “Investor Testing of Target Date Retirement Fund (TDF) Comprehension and Communications,” slides 26-28, as submitted to the Securities and Exchange Commission, February 15, 2012

<sup>2</sup> U.S. Department of Labor Employee Benefits Security Administration, “Target Date Retirement Funds - Tips for ERISA Plan Fiduciaries,” February 2013

<sup>3</sup> All guarantees are based on TIAA's claims-paying ability. TIAA Traditional is a guaranteed insurance contract and not an investment for federal securities law purposes. Past performance is no guarantee of future results. TIAA may share profits with Traditional Retirement Annuity owners through declared additional amounts of interest and through increases in annuity income throughout retirement. Additional amounts may be increased the longer accumulation occurs before annuitization. These additional amounts are discretionary and are not guaranteed other than for the years for which they are declared.

<sup>4</sup> Over the long term, the credited interest rates on TIAA Traditional, a guaranteed annuity, have been similar to long-term average returns of intermediate-term corporate and treasury bonds, with less volatility. TIAA Traditional credited rates include a guaranteed rate stated in the contract, and may include additional amounts which are discretionary. There are other material differences between a guaranteed annuity and a bond. TIAA Actuarial Department calculations use average annual returns for the TIAA Traditional Annuity Retirement Annuity (RA) and Supplemental Retirement Annuity (SRA) contracts each year. Past performance is no guarantee of future results. There is no assurance that additional amounts above the TIAA Traditional Annuity's guaranteed minimum rate will be declared in the future.

<sup>5</sup> This information is based on data obtained from TIAA's Plan Outcome Assessment. TIAA measures retirement income replacement ratios by calculating the projected stream of distributions from participants' assets and estimated Social Security benefits in current dollars as a percentage of employees' current salaries. Using the participant's actual salary and/or compensation, current contribution rates and asset allocation, TIAA leverages the advice engine from Morningstar, an independent expert retained by TIAA, to perform a sophisticated Monte Carlo analysis (500 total simulations) to project the retirement income replacement ratio.

**You should consider the investment objectives, principal strategies, principal risks, portfolio turnover rate, performance data, and fee and expense information of each underlying investment carefully before directing an investment based on the model. For a free copy of the program description and the prospectus or other offering documents for each of the underlying investments (containing this and other information), call TIAA at 877-518-9161. Please read the program description and the prospectuses or other offering documents for the underlying investments carefully before investing.**

By communicating the information contained in this material, TIAA is not providing impartial investment advice or giving advice in a fiduciary capacity regarding any investment by, or other transaction of, the plan(s). TIAA is acting solely in a sales capacity with respect to an arms-length sale, purchase, loan, exchange or other transaction related to the investment of securities or other investment property.

This material is for informational purposes only and does not constitute a recommendation to invest through a model or to purchase any security or advice about investing or managing retirement savings. This material does not take into account the specific objectives or circumstances of a plan participant, or suggest any specific course of action. Investment decisions should be made in consultation with a plan participant's personal advisor based on his or her own objectives and circumstances.

No registration under the Investment Company Act, the Securities Act or state securities laws—the model is not a mutual fund or other type of security and will not be registered with the Securities and Exchange Commission as an investment company under the Investment Company Act of 1940, as amended, and no units or shares of the model will be registered under the Securities Act of 1933, as amended, nor will they be registered with any state securities regulator. Accordingly, the model is not subject to compliance with the requirements of such acts, nor may plan participants investing in underlying investments based on the model avail themselves of the protections thereunder, except to the extent that one or more underlying investments or interests therein are registered under such acts.

No guarantee – Neither the models nor any investment made pursuant to the models are deposits of, or obligations of, or guaranteed or endorsed by TIAA or their affiliates (except with respect to certain annuities sponsored by TIAA or its affiliates), or insured by the Federal Deposit Insurance Corporation, or any other agency. There is no guarantee that the underlying investments will provide adequate income at and through retirement and participants may experience losses. Participants should not allocate their retirement savings to the underlying investments unless they can readily bear the consequences of such loss.

Assets allocated to the underlying investments based on the model will be invested in underlying mutual funds and annuities that are permissible investments under the plan. Some or all of the underlying investments included in the model may be sponsored or managed by TIAA or its affiliates and pay fees to TIAA and its affiliates. In general, the value of a model-based account will fluctuate based on the performance of the underlying investments in which the account invests. For a detailed discussion of the risks applicable to an underlying investment, please see the prospectus or disclosure document for such underlying investment.

TIAA RetirePlus® and TIAA RetirePlus Pro® are administered by Teachers Insurance and Annuity Association of America (“TIAA”) as plan recordkeeper. TIAA-CREF Individual & Institutional Services, Member FINRA and SIPC, distributes securities products. TIAA and CREF annuity contracts and certificates are issued by Teachers Insurance and Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF), New York, NY, respectively. Each is solely responsible for its own financial condition and contractual obligations. Transactions in the underlying investments invested in based on the models on behalf of the plan participants are executed through TIAA-CREF Individual & Institutional Services, LLC, member FINRA.

### **TIAA RetirePlus**

TIAA RetirePlus is an asset allocation program that includes asset allocation models that a plan participant may choose to guide the investment of his or her account into underlying investment options selected by the plan sponsor (the “underlying investments”). The plan sponsor selects the specific underlying investments available under its plan to represent the various asset classes in the models. An independent third-party advisor engaged by Teachers Insurance and Annuity Association of America (“TIAA”) developed the target asset class ratios for the models and the TIAA RetirePlus is administered by TIAA as plan recordkeeper. In making the TIAA RetirePlus available to plans, TIAA is not providing investment advice to the plans or plan participants.

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The target asset class ratios for a plan participant's model-based account will become more conservative over time as the plan participant's years to retirement decreases. For information regarding the changes to the target allocations please contact TIAA. An account's actual allocation percentage to an underlying investment may vary from the target allocations due to the performance of the underlying investments or other factors. Accounts invested in accordance with the models will be rebalanced to the applicable target allocations periodically. The underlying investments included in a model are subject to change and may not be representative of the current or future underlying investments for the model. Some or all of the underlying investments included in a model may be sponsored or managed by TIAA or its affiliates and pay fees to TIAA and its affiliates.

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### **TIAA RetirePlus Pro**

TIAA RetirePlus Pro, a model-based service, is administered by Teachers Insurance and Annuity Association of America ("TIAA") as plan recordkeeper.

The Model is an asset allocation recommendation developed by the Plan Sponsor in consultation with consultants and other investment advisors designated by the Plan Sponsor whereby assets are allocated to underlying mutual funds and annuities that are permissible investments under the plan. Model-based accounts will be managed on the basis of the plan participant's personal financial situation and investment objectives.

The plan fiduciary and the plan advisor may determine that an underlying investment(s) is appropriate for a model portfolio, but not appropriate as a stand-alone investment for a participant who is not participating in TIAA RetirePlus Pro. In such case, participants who elect to unsubscribe from the service while holding an underlying investment(s) in their model-based account that has been deemed inappropriate as a stand-alone investment option by the plan fiduciary and/or plan advisor will be prohibited from allocating future contributions to that investment option(s).

Established Restrictions: Each plan participant may, but need not, propose restrictions for his or her model-based account, which will further customize such plan participant's own portfolio of underlying investments. The plan fiduciary is responsible for considering any restrictions proposed by a plan participant, and for determining (together with plan advisor(s)) whether the proposed restriction is "reasonable" in each case.

### **TIAA Traditional**

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TIAA Traditional may not be available under all employer-sponsored retirement plans recordkept by TIAA but is available to eligible individuals through a TIAA IRA. The terms of TIAA Traditional differ between contract forms. Some contracts allow for full withdrawals and transfers. Other contracts only permit withdrawals and/or transfers to be paid in multiyear installments and certain withdrawals may be subject to a surrender charge. Review your contract, certificate, or other product literature, or contact TIAA for complete details. When TIAA Traditional Annuity is made available within an employer-sponsored retirement plan, income and withdrawal options are subject to the terms of the employer plan. Withdrawals prior to age 59½ may be subject to a 10% federal tax penalty.

TIAA Traditional is a fixed annuity product issued by Teachers Insurance and Annuity Association of America (TIAA), New York, NY.

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