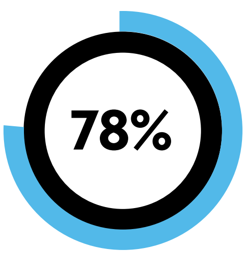
Industry Brief

Future shock or future readiness?

Financial preparedness in retirement for the higher education workforce



of those not confident in their retirement income prospects expect to work in retirement compared with 40% of those who are very confident.[1]

Retirement plan sponsors within higher education are faced with the dilemma of how to help their faculty and staff more confidently meet their retirement needs—especially in light of the global pandemic and its impact on future planning.

Understanding what steps to take to get employees back on track to achieve this outcome is critical. But doing so will position academic institutions to better promote the financial well-being of their employees. It will also help institutions make progress toward multiple goals, such as attracting and retaining a dynamic workforce. At the same time, they can potentially enable long-tenured employees to take advantage of new, more fulfilling opportunities or retire sooner than anticipated.

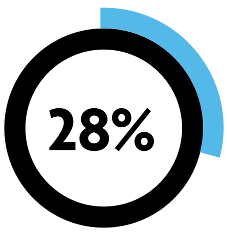
Some institutions have made headway through tactics that may have increased participation or contribution rates in their retirement plans. Yet, challenges remain:

- A workforce that is more diverse than ever, with employees who have different financial challenges and communication preferences.
- Not focusing on outcomes can create the risk that employees could run out of money in retirement.
- Employee benefits keep getting more complex for plan sponsors to manage and for employees to navigate.

Clearly, the changing journey toward retirement is impacting institutions and their employees alike. Let’s look at the key considerations plan sponsors should keep in mind as they work to evolve their retirement plans for the better.

The workforce is more diverse than ever

Today, staff and faculty at academic institutions can range from admissions counselors in their early 20s to tenured professors in their mid-80s. All those different generations have a different financial picture. Younger workers often have limited financial knowledge, few savings and relatively higher debt burdens. At the opposite end of the spectrum, employees nearing retirement may have reached certain savings goals, yet feel unprepared to handle the transition to retirement. Then there's everyone in between.



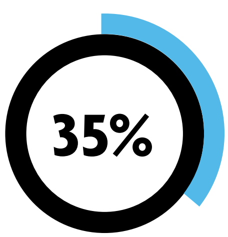
of those who have recently received professional retirement planning advice are very confident in their overall retirement income prospects.[2]

In this environment, it's critical that an institution design its retirement plan to address the challenges associated with every life stage and the varying salaries among staff and faculty. When it fails in this effort, resulting financial stress can interfere with productivity and morale across the board.

Show each employee a clear path to retirement

This situation underscores the need to show each employee that it's possible to achieve greater financial confidence and well-being on the way to retirement. Supporting this goal in an increasingly diverse workplace calls for institutions to provide impartial, personalized advice to all employees—regardless of their net worth, investment objectives or time horizon to retirement.

To achieve higher engagement in the retirement planning process, plan sponsors need to communicate with employees in a way that matches employee preferences—making the right information available through the right channels. This includes information on high-interest topics, such as how to more effectively pay down student loans or draw income from savings during retirement.



of full-time higher education employees don't believe they will have enough money to handle out-of-pocket medical expenses in retirement; and 53% worry about their ability to pay for long-term care.[3]

At the same time, institutions must deal with employee concerns regarding market volatility and retiring with uncertain income. With a plan offering that provides guaranteed steady income for life, institutions can alleviate fears of insufficient funds to cover monthly expenses in retirement.

Not focusing on outcomes can create risk

With the passage of the SECURE Act, there's a new congressional policy focus on encouraging lifetime income solutions in defined contribution plans. However, many of today's retirement plans focus solely on accumulating savings—not on generating lifetime income. Many employees view off-the-shelf target date funds as a way to reach their financial goals for retirement, with 75% of defined contribution flows currently being directed into these funds.[4] Yet, since these target date funds do not provide a lifetime income component, employees could find themselves more financially strapped than secure at the point of retirement.

Quantify outcomes in terms of income replacement

The use of off-the-shelf target date funds has traditionally been part of managing a prudent investment process, but it has shortcomings in terms of employees' retirement income-generating ability and retirement readiness. To produce better results, institutions need to shift their approach and focus on the fact that a successful retirement isn't just about savings, it is also about ensuring a reliable income that doesn't run out.

To support these dual retirement plan goals, plan sponsors must look across all participants at the plan level and measure income replacement rates, identify gaps and proactively engage with off-track employees. These actions should be coupled with offering each employee annuity income similar to a "personal pension."

With this approach, participants can experience less volatility during the accumulation phase and have an investment that can deliver guaranteed lifetime income in retirement. This approach also provides the plan sponsor with a reliable mechanism to assess participant progress over their employment and tools to help participants reach the right outcomes to and through their retirement.

To move closer to the retirement plan sweet spot, institutions need to balance their menu of retirement investment options with the ease of recordkeeping and compliance.

Employee benefits keep getting more complex to manage

Offering multiple retirement plan providers is a common way that academic institutions give employees choice, but in some circumstances, it may complicate things for both the institution and plan participants. For example, planning for retirement requires a certain level of financial literacy and confidence that employees may not have. And when faced with too many fund choices, researchers have found that people are less likely to participate in the plan at all,[5] while others may choose the plan's "safe" default option, even if that may not be the correct choice for them.

Meanwhile, institutions are saddled with the related administrative and compliance burden, along with the costs of managing multiple providers and investment options.

Offer more relevance instead of more providers

As long as complexity like this continues, plan sponsors will find it difficult to evolve their retirement plan to drive improved outcomes. For this reason, it's worthwhile to consider consolidating retirement plan administration to a single recordkeeper or multivendor coordinator. By doing so, institutions can simplify their employees' choices and reduce administrative demands and costs.

And while a simplified approach involves paring investment options, it should also be designed to increase the positive impact these select funds will have in boosting retirement readiness. This may mean designing a custom default option around the needs that matter most to an institution's faculty and staff. Keep in mind that a universal need is a guarantee of income in retirement.

Next steps

Leading academic institutions realize that evolving their retirement plan is critical to producing desired results: greater retirement readiness for every employee devoted to higher education and a streamlined approach to plan administration.

TIAA is here to help.
For more information,
go to **TIAA.org/public/plansponsors/who-we-serve/highered**

[1] 2019 Higher Education Financial Wellness Survey, HEFWS Research sponsored by TIAA and the College and University Professional Association for Human Resources (CUPA-HR).

[2] 2019 Higher Education Financial Wellness Survey, HEFWS Research sponsored by TIAA and the College and University Professional Association for Human Resources (CUPA-HR).

[3] 2019 Higher Education Financial Wellness Survey, HEFWS Research sponsored by TIAA and the College and University Professional Association for Human Resources (CUPA-HR).

[4] The Cerulli Edge U.S. Retirement Edition: Improving Participation Outcomes, Issue 43, 2Q17.

[5] How More Choices Are Demotivating: Impact of More Options on 401(k) Investments, Iyengar & Jiang, Columbia University.

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