Looking back. Moving forward.
Areas of retirement plan focus in 2021.

2020 found retirement plan sponsors so focused on their institutions' pandemic responses that it was a year of "if it's not broke, don't fix it" for their retirement plans.

While most plan sponsors made no plan changes, about **one in five** of those TIAA surveyed in November[1] said they reduced employer contributions to manage costs. At the same time, participant financial well-being took a hit[2] as many had to tap into their retirement plan savings to meet day-to-day expenses.

While COVID-19 continues to have an impact, TIAA year-end surveys found both plan sponsors and participants optimistic and recognizing the need to refocus on retirement. With 2020 finally in the rearview mirror, they're ready to ring in the new year with some forward-thinking changes.

A focus on financial wellness

Retirement savers in general have decreased savings since COVID-19 began,[3] and some had to take advantage of CARES Act withdrawals, loans and student debt payment relief. 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 employees in 2020.[4]** The need is clear:

- Saving for retirement is viewed as the biggest contributor to employees' overall financial wellness.[4]
- 20% of higher education employees and 29% of healthcare employees have become less confident they are saving an adequate amount for retirement.[5]
- Over one half of higher education and healthcare retirement savers have recently received professional advice on savings and retirement.[5]
- 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.[6]

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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, 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 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 participants.

Continued interest in simplifying recordkeeping vendors and investment menus

Sponsors recognize the need to support employees impacted by the crisis, but are looking for ways to provide that support within a simplified plan structure. Interest in simplifying plans and investment menu options was on the rise before COVID-19. The pandemic has exacerbated that need with cost constraints and limited resources. Fund manager due diligence and investment structure were rated as the second and third most important areas of plan focus over next 12 months in Callan Institute’s 13th annual Defined Contribution (DC) Trends Survey, conducted in the fall of 2019.

- 69% of 191 plan sponsors TIAA surveyed from November to December 2020 said they offered more than one retirement plan provider. However, 82% of those with multiple providers said they would prefer a single provider, with 71% citing reduced duplication of effort in administering and monitoring separate plans as the rationale.
- This interest in simplifying administration makes particular sense for 403(b) plans. Sixteen of 23 lawsuits involving primarily the 403(b) plans of healthcare and/or higher education organizations included a claim that the fiduciaries breached their responsibilities by allowing multiple recordkeepers to be active vendors in the plan.[7]

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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 in a 2020 TIAA Retirement Insights survey said they auto enroll their employees, and 43% use auto escalation.
- 403(b) sponsors (67%) are more likely than 401(k) sponsors (36%) to use auto escalation of employee contributions.[4]
- 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 fadeout 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.[8] This fadeout 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 the 403(b) market to include 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 QDIA. Many people mistakenly believe they'll get guaranteed lifetime income from a target-date fund; but unless there is a lifetime income component, that is not the case. So, employers are considering ways to leverage inertia to help employees generate reliable income in retirement through the default investment they currently hold by adding a lifetime income component to it. Innovative solutions like this are necessary.

- Post-pandemic, 60% of plan sponsors have increased their focus on the retirement preparedness of employees[5] and with good reason. Almost one in four workers say their confidence in their ability to retire comfortably has declined in light of the pandemic.[9]
- About 6 in 10 participants and plan sponsors are concerned about the risk of not saving enough and outliving one's retirement savings.[4]

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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, they continued to perform.

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

Please contact your relationship manager or the Administrator Telephone Center at **888-842-7782**, weekdays, 8 a.m. to 8 p.m. (ET) if you have any questions.

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[1] TIAA 2020 Plan Sponsor Listening Tour, Harris Insights & Analytics. 191 plan sponsors surveyed from November 11 to December 2, 2020.

[2] Approx. 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 – 12/10, 2020).

[3] 17% of respondents in a TIAA and C Space COVID-19 & Market Volatility Sentiment Tracker stated they had stopped or cut back on retirement savings.

[4] Source: The TIAA Retirement Insights Survey: A survey of employees and employers. 12/2020.

[5] Sources: Higher Education Financial Wellness Survey, CUPA-HR and TIAA Institute (2020) and Healthcare Sector Financial Wellness Survey, TIAA Institute (2020).

[6] 2020 EBRI/Greenwald Research Workplace Wellness Survey.

[7] According to the lawsuits, having multiple providers allegedly led to significantly higher recordkeeping fees and subsequently lowered the account accumulations for the plan participants. (Fiduciary Breach Lawsuit Issues Explored Topic #4: Multiple Active Record-keepers; Earle W. Allen, CEBS, Partner; Cammack Retirement Group, September, 2019).

[8] Callan Institute 2020 Defined Contribution Trends Survey, p. 5.

[9] Transamerica Center for Retirement Studies, "20th Annual Transamerica Retirement Survey of Workers: Retirement Security Amid COVID-19: The Outlook of Three Generations."

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