Building a Better Retirement

Three key retirement trends to watch in 2023

Every year brings an opportunity for a fresh start—and no small amount of fretting about the future. There's merit for this year's agitation: Last year's market volatility, the ensuing losses in many Americans' savings, and the surge in both inflation and interest rates didn't stop with the turn of a calendar page. Today's workers are still facing an uncertain market, and challenges remain in determining not only how much they need to retire but how to turn that money into an income stream they can safely spend throughout retirement. Employers, meanwhile, are tackling the task of implementing new legislation and the latest, best thinking on what a great retirement plan looks like.

The good news is that all these developments have the potential to help both retirement plan sponsors and participants improve their retirement outlook. We surveyed our clients, consulted internal and external experts, and assessed the latest research to synthesize a dizzying array of information into three major trends that plan participants and sponsors should expect to see in 2023.

Trend 1

More employer retirement plans will offer lifetime income.

Volatile financial markets have diminished confidence that personal savings will last through retirement—and increased the urgency of conversations around guaranteed lifetime income. Sales of retail annuities jumped 22% in 2022 to record levels as retirement savers sought safe, sustained income. In particular, fixed-rate deferred annuities more than doubled, indicating that investors were using annuities as part of their savings, with an eye toward long-term growth as well as the promise of guaranteed income once they "turn on" those deferred annuities. The growing demand for retail annuities, which are generally costlier than in-plan annuities, is just one factor in the trend toward including guaranteed income in workplace plans.

"More plan sponsors and workers are coming face-to-face with the risk of falling short in retirement income," says Tamiko Toland, TIAA Managing Director of Lifetime Income Strategy and Corporate Retirement. "In the next few years, we expect to see plan sponsors increasingly address that risk through more options that include guaranteed lifetime income."

This, along with bipartisan congressional support in the form of the two SECURE Acts, will likely lead to more adoption—and use—of in-plan annuities.

Lifetime income by the numbers:

Only 15% of workers under age 50 have a defined benefit pension plan.

Bureau of Labor Statistics

70% of workers believe guaranteed income should be an option in their defined contribution plan.

LIMRA, "Prediction: The In-Plan Annuity Market Will Grow Exponentially in the Next Two Years"

52% of people age 40 to 85 with at least $100,000 in investable assets say they would consider converting a portion of their assets into an annuity in retirement. That number has been steadily growing—up from 41% in 2021 and 38% in 2017.

LIMRA, "Quick Insights: Interest in Annuities Rising, 2022"

72% of plan sponsors say they would be highly interested in a target-date product that allocates a portion of assets to guaranteed lifetime income.

TIAA, "TIAA 2022 Retirement Insights Survey"

75% of employees say they are more likely to stay at their current employer if offered a lifetime income option.

TIAA, "TIAA 2022 Retirement Insights Survey"

More than one-third of employers (38%) think their plans fall short in securing guaranteed lifetime income for their participants.

TIAA, "TIAA 2022 Retirement Insights Survey"

Trend 2

New laws will open doors to greater savings, lifetime income and more uniform plan design.

In less than three years, Congress has delivered two pieces of sweeping, bipartisan legislation aimed at increasing access to workplace retirement plans, providing a safe harbor for employers to offer in-plan annuities, eliminating some barriers to annuitization, better enabling some workers to save while paying off student loans, and allowing people to save more and grow their savings for longer. While not stated as an explicit goal, much of the new legislation also aims to minimize some of the differences between 401(k) plans and 403(b) plans. SECURE 1.0, passed in December 2019, for instance, allows 401(k) plans to more easily offer in-plan annuities—long a feature of 403(b) plans. SECURE 2.0, passed in December 2022, makes multiple-employer plans easier for educational and nonprofit institutions to access, and begins to pave the way for collective investment trusts, both of which have been popular in the corporate market.

"SECURE 2.0 marks another step forward for plan participants and plan sponsors to receive greater access to retirement benefits," says Chris Spence, TIAA Head of Federal Government Relations and Government Relations Public Policy.

Three key SECURE 2.0 provisions to watch this year:

It should become easier for smaller tax-exempt institutions to offer retirement plans.

Long an option for corporate 401(k) plans, 403(b) plans are now allowed to enter into multiple-employer plans (MEPs) and pooled employer plans (PEPs), which means smaller institutions can now band together to offer greater retirement plan benefits at lower costs. As in all 403(b) plans, MEPs and PEPs can offer annuities as well as mutual funds.

Look for more Roth adoption in 403(b) plans.

Some age-related catch-up contributions and employer matching contributions (for people earning more than $145,000) must now be directed into Roth accounts. The majority of institutions offering 403(b) plans, though, do not currently have a Roth option; 75% of TIAA clients do not allow participants to make Roth contributions, while 88% of corporate 401(k) plans (and 93% of large plans) do allow it, according to the Plan Sponsor Council of America. Given that workplace plans are a key component of recruiting and retaining talent, it's likely that more institutions will want to modernize their plans.

One barrier to allowing collective investment trusts (CITs) in 403(b) plans has been removed.

CITs are pooled investment vehicles that are available only to qualified retirement plans and are often cheaper than mutual funds. They have become increasingly popular in corporate plans: CITs now hold 49% of the assets in 401(k) plans with more than $1 billion in assets, according to recent research from BrightScope/Investment Company Institute Global. SECURE 2.0 took a step toward setting the groundwork for CITs in 403(b) plans, but changes to securities laws are still needed before they can get the green light. If and when that happens, CITs could be a tool for giving more workers access to low-cost investments and lifetime income within their plans.

Trend 3

Investors want more responsible investing options and information.

Responsible investing (RI) strategies, sometimes called sustainable investing, have attracted an increase in political attention, especially at the state level. Perhaps paradoxically, they have also attracted an increase in new investments and demand for more information—a trend we expect to continue in 2023.

While broad U.S. mutual funds saw historic outflows of $370 billion last year, U.S. sustainable funds tracked by Morningstar managed modest inflows of more than $3 billion.

Our annual RI survey of investors working with a financial advisor, conducted by The Harris Poll, indicates that they are increasingly interested in RI and many see it as a strategy to help minimize market risk. Overwhelmingly, investors want their financial advisors to be knowledgeable in the RI sector.

"There's greater recognition that business and society need to dramatically rethink the status quo to drive growth and stay ahead of tomorrow's risks," says Amy O'Brien, Nuveen Global Head of Responsible Investing. "As a result, we see greater demand from investors wanting to reduce long-term risk in their retirement portfolios through responsible investing."

Investor demand is driving RI to new highs.

More than three-quarters (76%) of investors say that
the risks and opportunities related to RI should always be a part of the investment process.

Nuveen, "Seventh Annual Responsible Investing Survey"

Nearly 7 in 10 investors (68%)
say that RI is a strategy they can use to mitigate risk in their portfolios.

Nuveen, "Seventh Annual Responsible Investing Survey"

Over the past two years, 78% of investors
say that they would be more comfortable working with an asset manager who has experience in RI.

Nuveen, "Seventh Annual Responsible Investing Survey"

70% of investors surveyed
have RI funds, compared with 53% in 2021.

Nuveen, "Seventh Annual Responsible Investing Survey"

Looking forward

Volatile markets and the additional 3.5 million people who left the workforce unexpectedly during the pandemic have created new urgency around the need to ensure Americans can enjoy a long and healthy retirement without fear of outliving their savings. A tight job market and employee demand for investment options such as in-plan annuities and responsible investing will keep pressure on employers to deliver better benefits to retain and hire new talent. TIAA helps retirement plan participants and plan sponsors navigate today's challenges for a more secure retirement. Talk to your Relationship Manager today.

For more information, go to TIAA.org.

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