Retirement income security for a diverse workforce

TIAA-CREF has long believed that retirement plans must enable workers to build sufficient savings, manage risk, choose appropriate investments, generate lifetime income and save for health-related expenses in retirement. The best practices described here can help plan sponsors achieve these goals.

Plan features recommended by experts

At a TIAA-CREF Institute research forum, and in a subsequent survey, experts in the fields of behavioral economics, actuarial science, decision making and financial education recommended these features in primary defined contribution (DC) plans:

- **Auto-enrollment** to maximize plan participation.
- **At least 10% of salary** in contributions (participant and sponsor combined).
- **About 10 investment options** that cover various asset classes to support a diversified portfolio.
- **Annuitzation opportunity** at retirement.
- **Personal advice** on contributions, asset allocation and drawdown strategy.
- **Retirement income projections** based on account balance, contribution rate, asset allocation and years to retirement.

The importance of guaranteed income

A retirement plan’s main purpose is to give participants an adequate and secure income stream throughout retirement. While many distribution strategies can provide income, annuitization guarantees an income stream you cannot outlive. Yet annuitization rates are low, according to an Institute survey of retirees:

- Only 19% of surveyed individuals who retired with significant savings in DC plans and IRAs ($200,000 or more), but little pension income ($200 a month or less), have annuitized at least some of their retirement assets.

Plan design can encourage annuitization. Being able to invest in annuities while saving for retirement vastly increases the likelihood a retiree will annuitize:

- Retirees who have annuitized their retirement savings are more than twice as likely, compared with retirees who have not annuitized, to have saved through an annuity in a DC plan while working.

Financial advice also matters. For example:

- 21% of annuitants said an advisor suggested they purchase an annuity; while only 3% of non-annuitants said so.
The perils of “too much choice”

As the number of investment options increases, plan participation rates can paradoxically decrease as individuals become overwhelmed by too much choice. One way to make complex investment decisions more manageable is to “tier” the investment menu – e.g., initially presenting a subset of general-purpose options while enabling participants to see the full fund list if desired. This approach could make the choice seem less overwhelming to novice investors, while still letting experienced investors take advantage of a rich set of options. It is also important to include an appropriate default option for those who do not want to make an investment-allocation decision.

Typical defined contribution retirement plans

To benchmark the current design and administration of DC retirement plans at U.S. public and private colleges and universities, the TIAA-CREF Institute and the Center for Higher Education at Ohio University surveyed 304 higher education institutions. Here are the “typical” retirement plan features among survey respondents:

<table>
<thead>
<tr>
<th>Public Institutions</th>
<th>Private Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Enrollment</strong></td>
<td>Mandatory participation is the norm.</td>
</tr>
<tr>
<td><strong>Investment options</strong></td>
<td>Nearly 50% have more than 40 options; a target-date fund is the most common default option.</td>
</tr>
<tr>
<td><strong>Loan and distributions</strong></td>
<td>Most prohibit participant loans and hardship withdrawals.</td>
</tr>
<tr>
<td><strong>Number of vendors</strong></td>
<td>75% use multiple vendors to provide investments and related services for participants.</td>
</tr>
<tr>
<td><strong>Investment policy</strong></td>
<td>About 50% have an investment policy statement.</td>
</tr>
<tr>
<td><strong>Payout options</strong></td>
<td>Almost all offer annuitization as a payout option at retirement, but only a few require some degree of annuitization.</td>
</tr>
</tbody>
</table>

For more information

To learn more about retirement plan design best practices, go to tiaa-crefinstitute.org > Research > Retirement Plan Design.