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A new way to think about maximizing income

BIG IDEAS. BETTER RETIREMENTS.

TIAA is a leading provider of retirement plans for thousands of institutions, bringing the promise of secure retirements to nearly 5 million people. We were founded more than 100 years ago to help teachers retire with dignity, but our mission of helping those who help others has expanded well beyond education. We stand hand-in-hand with our clients, offering them a path toward the financial stability needed to follow their dreams and retire with dignity.

Front cover photo: Bridget Craig, Photo: Ben Alsop

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EDITION 3 | MARCH 2024

The power of a promise

Think about what a promise really means. It's a commitment—one with all kinds of expectations. That may be why we find so few in the world. But when a promise gets fulfilled, it creates a bond rooted in confidence and trust.

I joined TIAA as chief marketing and communications officer for two reasons. First, I believed in the mission to ensure millions more Americans retire with dignity. And second, I saw a company with a history of keeping promises.

This mission is especially important right now, considering the turmoil of the last few years. Against this backdrop, Americans face a lot of uncertainty, especially when it comes to their financial well-being.

I also appreciate the immense responsibility you have to help people retire successfully. As employers and consultants, you can build the very best retirement plans, but there's a lot beyond your control. Markets go up, markets go down and you can't make any guarantees or promises.

But we can and we must. For more than 100 years, TIAA has made a promise that we will never miss a single annuity payment. And we never have. American workers deserve the assurance of a retirement paycheck as long as they live. That's something we can guarantee. To you and to them.

In this edition of TMRW, we talk about how we make good on our retirement promise. Our cover story introduces the TIAA Annuity Paycheck Advantage℠, a metric showing how much more income retirees can get in 2024 when annuitizing some of their savings with TIAA Traditional. Read more on page 2. The power behind it all is TIAA's $294 billion general account. We take a behind-the-scenes look at this investment engine with its chief investment officer, Emily Wiener, on page 10.

It's not only about having more money. It's about quality of life. Just read about a 104-year-old phenom who continues to enjoy life to the fullest thanks to the certainty of a TIAA retirement paycheck every month.

All because we keep our promises. Please enjoy this edition and send me your thoughts at TMRWpublication@tiaa.org.

Micky

MICKY ONVURAL
Chief Marketing & Communications Officer

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

Introducing the TIAA Annuity Paycheck Advantage

Fixed annuities are safe and predictable. TIAA Traditional can also give you a bigger retirement paycheck.

Socking money away for retirement year after year can feel like a slog, but at least the marching orders are clear: work, save, hope the market goes up, repeat.

Parsing how much to spend after you finally retire isn't nearly as straightforward. It requires even hyper-organized supersavers to wrestle with uncertainty, because there's no way to know how much money you'll need or want, much less how long you'll need it to last—two, three, maybe four decades? When even a Nobel Prize-winning economist calls retirement spending the "nastiest" problem in all of finance, it's little wonder there's so much collective handwringing. Outliving retirement savings ranks as the top retirement fear voiced by savers across every generation.[1]

Now, there's no shortage of books, calculators, blogs, TikTok influencers, friends and family all too willing to advise on your retirement readiness. All that noise can make it hard to know where to start. And even the best, most thoughtful advice tends to focus on how much to *save*. We're here to tell you how much you can *spend*.

TIAA has created a new metric—drawn from facts and using real numbers—that will give people a way to get more out of their retirement. Saving is important, of course, but the critical factor when approaching retirement is knowing whether those savings will maintain your lifestyle once you stop working.

The TIAA Annuity Paycheck Advantage lays out, in percentage terms, the difference between what a first-year retiree can withdraw (using the conventional retirement spending formula—more on this later) and what they could get by converting some savings into lifetime retirement paychecks, guaranteed by TIAA.

THE 2024 TIAA ANNUITY PAYCHECK ADVANTAGE IS 32%[2]

If a new retiree dedicates one-third of their savings to lifetime income through TIAA Traditional, our flagship fixed annuity, they'll get 32% more to spend each month in their first year of retirement than if they applied only the typical rule-of-thumb withdrawal rate.[3] We'll continue to update this percentage so new retirees can find out how much more income they might expect when they retire with us.

Think of TIAA's Annuity Paycheck Advantage and that 32% figure as a new North Star to help steer new retirees toward higher earnings potential and greater control over how much they can spend.

AN INCREASINGLY ARTHRITIC RULE OF THUMB

The go-to guidance for retirement spending has long been the so-called 4% rule. It states that new retirees who want a reasonable chance to make their savings last their lifetime can withdraw no more than 4% in the first year they retire. The rule dictates, for example, that a couple with $100,000 across their retirement accounts ought to withdraw no more than $4,000 in their first year of retirement, while a couple with $1 million shouldn't take more than $40,000. In subsequent years, retirees should withdraw the same dollar amount, adjusted for inflation.

The 4% rule is a starting point and was never right for everyone. It was originally calibrated to a 30-year timeline—not a helpful guidepost for someone who wants to retire young, or is already in their 70s—and has been increasingly problematic in recent market conditions. It may be too aggressive when bond yields are low, as they were for much of the past decade, or when inflation is rising fast, as it did during and after the COVID-19 pandemic era. To boost the probability of not running out of money in retirement, research firm Morningstar ratcheted down its safe-withdrawal guidance to 3.3% of total savings in 2021, and then moved it back up to 3.8% in 2022, given changes in inflation forecasts and prevailing interest rates. They landed back at 4% in 2023.[4]

There are many other caveats. For one thing, the 4% rule assumes someone will always keep about half of their portfolio in stocks throughout retirement. If the stock market falls, the strategy may require spending a greater percentage of the remaining savings to deliver adequate monthly income. And that could increase the risk of running out of money.

"If you're a big believer in the 4% rule, you're also supposed to believe you should be really aggressive with your investments," says Wade Pfau, author of the "Retirement Planning Guidebook" and professor of practice at the American College of Financial Services, in a recent conversation with TMRW. "I don't think most people understand that."

That fairly aggressive portfolio means the 4% rule makes more sense for people who can cover large portions of their expenses with guaranteed income sources such as Social Security, pensions and fixed annuities.

Social Security payments are adjusted for inflation; pension payouts typically are not. And neither income source is swayed by market conditions. Annuity payouts depend on long-term interest rates. And because current long-term interest rates are near their highest levels in decades, now is an especially attractive time to annuitize. Annuity income rates are largely based on the yield generated by the investments inside an insurance company's general account, which funds the payouts. The reliability of annuity payments can help a retiree be more comfortable with the amount they invested across financial markets.

Says Pfau: "By having the annuity, you're able to invest more aggressively with the rest of your money."

Preceding page photo: Kate Sears, Photos: Jake Chessum

A tale of two sisters

A hypothetical example that shows how partially annuitizing with TIAA Traditional in 2024 compares with the standard 4% withdrawal strategy.

Twin sisters Tara and Rachel were always joined at the hip. By age 67, each had $1 million in savings and was ready to retire. In 2024, Tara pulled 4% from her investments, giving her $40,000 in income that year. Rachel followed the 4% rule for two-thirds of her savings, and annuitized the remaining third. This allowed her to take less money from her retirement accounts—$26,667 instead of $40,000—and still have more income, since her fixed annuity provided $26,000, for a total of $52,667—a 32% increase.

TARA

TOTAL SAVINGS
$1 million

RETIREMENT INCOME STRATEGY
4% rule

YEARLY INCOME
$40,000

RACHEL

TOTAL SAVINGS
$1 million

RETIREMENT INCOME STRATEGY
⅔ 4% rule
$666,667
ANNUAL SPENDING FROM SAVINGS
$26,667

RETIREMENT INCOME STRATEGY
⅓ annuitization
$333,333
ANNUAL FIXED ANNUITY INCOME
$26,000

YEARLY INCOME
$52,667
32% more than Tara

How much should I annuitize?

Experts have many reasons for suggesting people buy an annuity with some portion of their retirement balance—diversification, protection from loss, predictable income that never runs out. An annuity's ability to offer all that while also maximizing total retirement income is another.

How much to annuitize is a highly personal decision, so broad-stroke recommendations are hard to make—which is why the standard advice is the fairly wide range of 25% to 40% of savings. To determine the Annuity Paycheck Advantage, we chose the midpoint, 33%, as our baseline assumption. Using TIAA Traditional to annuitize a third of a $1 million portfolio amounts to an extra $1,056 a month in 2024.

Photo: Kate Sears, Following page photos: Jake Chessum

To be clear, the TIAA Annuity Paycheck Advantage can't forecast the future. There's no crystal ball. Instead, the Annuity Paycheck Advantage shows just how much more spending power people can enjoy by annuitizing with TIAA Traditional.

HOW WE GET TO A 32% BIGGER RETIREMENT PAYCHECK IN 2024

Bear with us: The math here is not difficult, and there are just two important steps to our methodology. First, though, recall how a fixed annuity such as TIAA Traditional works. It's an agreement that comes with a guaranteed minimum rate of interest while you save and, if you choose lifetime income, a minimum monthly amount in retirement that pays for the rest of your life.

The Annuity Paycheck Advantage focuses on that last bit: if you choose to convert a portion of savings into guaranteed lifetime income—a retirement paycheck for life—at retirement.

Now here comes the math: Imagine you have $1 million in savings, in one account or across several. According to the 4% rule, you would withdraw a total of $40,000 in your first year of retirement. (Keep in mind you might owe tax on that withdrawal, which means you'd have less money to spend. To keep things simple, all numbers are pre-tax amounts.) That $40,000 amounts to $3,333 per month to live on, not including Social Security. A retiree following the 4% rule will typically withdraw the same dollar amount each subsequent year, adjusted only for inflation. Note that this is not the same as withdrawing 4% every year, which is a common misunderstanding of the 4% rule.

For step two, compare that $40,000 against a scenario where you elect to convert, or annuitize, one-third of your savings into monthly paychecks with TIAA Traditional. As of March 1, 2024, for a 67-year-old who selects a single-life annuity with payouts ensured at least 10 years, the TIAA Traditional income rate is 7.8%. In a year, this retiree would get $26,000 in annuity checks from the $333,333 they converted into guaranteed income, plus $26,667 based on withdrawing 4% of the remaining $666,667. All in, by annuitizing one-third of your savings with TIAA Traditional, you'd get a total of $52,667 in 2024—32% more than $40,000. That's $1,056 more per month in the first year of retirement than by using the 4% rule alone.

Benny Goodman, vice president with the TIAA Institute, says the Annuity Paycheck Advantage has been persistent over time. Generally, the higher the prevailing interest rate, the higher the advantage. Goodman notes that, with TIAA Traditional, there has been an Annuity Paycheck Advantage of between 16% and 44% every month since at least 1994—the year the pioneering research on the 4% rule was first published.[5]

"There's no voodoo here. It's just math," Goodman says. "A retiree who has opted to annuitize has historically been in a better financial position than the person who simply pulled out money each year from their accounts."

Imagine the possibilities

Think of what you could do with an extra $1,056 a month this year. Business-class flights on a trip you always wanted to take. A bottle of champagne and a fancy meal at your favorite special-occasion restaurant. Toys for a grandchild while you can still enjoy watching them play.

Of course, there are the more practical advantages of having more money to spend. A fatter monthly paycheck could mean your children aren't on the hook to pay for your medical or assisted living care and other such expenses. After all, an average healthy 65-year-old man retiring in 2023 will need $185,000 in savings to cover healthcare expenses during retirement, while a healthy 65-year-old woman would need $203,000, according to the Milliman Retiree Health Care Cost Index.[6]

Extra income from an annuity can open the door to new spending strategies. For example, a retiree might combine the guaranteed annuity income with Social Security or pension payments to cover essential needs such as housing, car and food costs. Then, they could apply the 4% rule to their remaining investment portfolio for discretionary spending. Or they can take a variable approach to withdrawing from their remaining savings, taking more in years when the market is up and less when it's down. This adds another layer of safety, since there's a real danger in withdrawing too much after the markets fall. By using this strategy, a retiree can cut back a bit after a market loss without affecting the essentials.

1 Cerulli Associates, "The Cerulli Edge Retirement Edition," Second Quarter 2023.

2 The 2024 Annuity Paycheck Advantage is hypothetical and for illustrative purposes only. The Annuity Paycheck Advantage calculations use the TIAA Traditional "new money" income rate for a single life annuity (SLA) with a 10-year guarantee period at age 67 using TIAA's standard payment method beginning on March 1, 2024. Individual results may vary. Example: Participants A and B both had a retirement savings balance of $1 million as of March 1, 2024. Participant A withdrew 4% ($40,000) in year 1. Participant B made a one-time transfer to TIAA Traditional and selected an SLA with a guarantee period of 10 years at age 67, starting on March 1, 2024. Participant B received an income rate of 7.8% ($26,000) on $333,333 annuitized in year 1; Participant B also withdrew 4% ($26,667) from the $666,667 remaining saving balance in year 1. The result ($52,667) is initial income for Participant B in year 1 that is 32% higher than the initial income of Participant A ($40,000). Income rates for TIAA Traditional annuitizations are subject to change monthly. TIAA Traditional Annuity income benefits include guaranteed amounts plus additional amounts as may be declared on a year-by-year basis by the TIAA Board of Trustees. The additional amounts, when declared, remain in effect through the "declaration year," which begins each January 1 for payout annuities. Additional amounts are not guaranteed beyond the period for which they are declared. TIAA has paid more in lifetime income than its guaranteed minimum amount every year since 1949. Over the past 30 years, TIAA has given 19 income increases to existing annuitants (as of January 2024). Past performance is not a guarantee of future results. An annuity is a product issued by an insurance company. It is an agreement that comes with a contract outlining certain guarantees. Fixed annuities guarantee a minimum rate of interest while you save and, if you choose lifetime income, a minimum monthly amount in retirement. Converting some or all of your savings to income benefits (referred to as "annuitization") is a permanent decision. Once income benefit payments have begun, you are unable to change to another option.

3 The 2024 Annuity Paycheck Advantage uses the income rate on a new money annuitization as of March 1, 2024. TIAA Traditional income rates are subject to change monthly. Additionally, the exact amount of spending money available to both a retiree who uses a withdrawal strategy and one who combines that with an annuity of one-third of their portfolio may rise or fall in subsequent years based on the performance of financial markets and annuity income rates.

4 Morningstar, "The good news on safe withdrawal rates," Nov. 13, 2023.

5 Bengen, William P. 1994. "Determining Withdrawal Rates Using Historical Data." Journal of Financial Planning 7, 4 (October): 171-180.

6 Robert L. Schmidt and Eric Walters, "Retirement Planning: How Much Money Will You Need To Cover Your Healthcare Expenses?" Milliman, May 1, 2023.

This point of view is designed to be a starting point for the retirement income conversation. It is not a recommendation.

Annuity contracts may contain terms for keeping them in force. TIAA can provide you with costs and complete details.

TIAA Traditional is a fixed annuity product issued through these contracts: Form series including but not limited to: 1000.24; G-1000.4; IGRS-01-84-ACC; IGRSP-01-84-ACC; 6008.8. Not all contracts are available in all states or currently issued.

Meet three retirees

A 32% larger paycheck is only a starting point for the Annuity Paycheck Advantage. These examples show how it can mean even more in some cases. For easier comparisons, all three retirees start with a $1 million retirement portfolio and choose a single-life annuity with a 10-year guarantee period. Remember: No two situations are alike; it's always wise to talk with a financial advisor for help.

All pictured are TIAA participants

The steady contributor

You've had it drilled into your head for as long as you can remember: Saving was the ticket to feeling comfortable. You saw firsthand how stressful money issues became for your parents, especially mom, who needed years of long-term care. At home, you were careful to pay off your credit card in full each month. At work, you signed up for (and actually attended) educational seminars hosted by your HR department; you made sure you contributed enough to your retirement plan to get the full employer match.

Diligent saving included putting money into TIAA Traditional during your working years. You thought of those dollars as part of the fixed income portion of your 60% stock/40% bond portfolio. After years of continually holding a TIAA Traditional balance, you qualify for an exclusive benefit called the TIAA Traditional Loyalty Bonus. Our Loyalty Bonus is the result of our longstanding practice of returning TIAA's General Account profits to participants. Historically, the longer someone has been saving in TIAA Traditional, the larger their Loyalty Bonus, and the more income they could receive when lifetime income payments begin. See chart below.

THE STEADY CONTRIBUTOR'S ANNUITY PAYCHECK ADVANTAGE

The Loyalty Bonus is not guaranteed but, as of March 1, 2024, a plan participant who has contributed for 20 years could receive a 10.2% Loyalty Bonus. That boosts the first-year paycheck another $221 a month ($1,277 instead of $1,056), making their Annuity Paycheck Advantage 38% rather than 32%.

TIAA TRADITIONAL LOYALTY BONUS

As of March 1, 2024

5 YEARS 2.5%	10 YEARS 4.0%
20 YEARS 10.2%	30 YEARS 19.1%

Available to a 67-year-old who selects a single-life annuity guaranteed for 10 years. Rates apply to annuitants using the Retirement Annuity (RA) contract.

The play-it-safe spender

Even the thought of rushing through the airport gives you anxiety. Why risk it? You'd much prefer getting there with a few hours to spare than having your plans upended by bad luck.

The same principle guides a lot of the risk-related decisions in your life, including how much you're planning to spend down from your nest egg each year. You've heard of the 4% rule, but, you figure, why risk it? Ultimately, you decide that, given uncertainty about inflation and market volatility, you want to start at a more conservative 3.3% rate during the first year of retirement. Using this revised 3.3% rule on a $1 million total portfolio leaves you with $33,000 in total income, or $2,750 to spend each month (not including Social Security).

THE PLAY-IT-SAFE SPENDER'S ANNUITY PAYCHECK ADVANTAGE

The benefits of annuitizing one-third of your portfolio are even more clear if you're more conservative in spending down your investments. Compare your $33,000 withdrawal against a scenario where you elect to convert, or annuitize, one-third of your savings into monthly paychecks. Based on TIAA Traditional's March 1, 2024, income rate of 7.8%, a 67-year-old who converts $333,333 into guaranteed income with TIAA would get $26,000 in annuity paychecks in 2024, on top of another $22,000 coming from a 3.3% withdrawal on the remaining $666,667. In all, by annuitizing one-third of your savings with TIAA Traditional, you're due to get $48,000 this year (45% more than $33,000). That's another $1,250 more per month. It would be higher if you receive a Loyalty Bonus.

The reluctant retiree

You've got a lot of irons in the fire and like it that way. Your job has always been meaningful to you and so it was natural to slow down at age 67 but continue to freelance and take on smaller projects. Because you never fully "retired" and continued to earn a salary into your early 70s, it never made sense to withdraw much money from your workplace retirement plan.

But now your 73rd birthday is around the corner, which means the IRS mandates a required minimum distribution (RMD) to be taken from your tax-deferred 403(b) plan, which holds nearly all your savings. An RMD is calculated for each account by dividing the previous year's December 31 account balance by an IRS-provided life expectancy factor. Per current IRS guidelines and assuming a $1 million balance, the RMD from your 403(b) would be 3.77%, or $37,736, for 2024.

THE RELUCTANT RETIREE'S ANNUITY PAYCHECK ADVANTAGE

Again, the benefits of annuitizing one-third of your portfolio are stark when compared to a strategy of spending only an RMD. Compare your $37,736 in spending according to the RMD schedule against a scenario in which you annuitize one-third of your savings through TIAA Traditional. Older annuitants receive higher rates. So, based on the March 1, 2024, income rate of 8.84%, a 73-year-old who converts $333,333 into guaranteed income with TIAA would get $29,467 in annuity paychecks in 2024, on top of another $25,157 when taking the RMD on the remaining $666,667. All in, by annuitizing one-third of your savings with TIAA Traditional, you'd get $54,624 in 2024—45% more than the RMD withdrawal amount of $37,736. That's another $1,407 more per month this year. It would be higher if you receive a Loyalty Bonus.

Core strength: Inside TIAA's $294 billion investment engine

A conversation with TIAA General Account Chief Investment Officer Emily Wiener

Photo: Ben Alsop

One of the most powerful women in asset management got an auspicious start in the business of financial security—but not in the way you might expect.

A teenage Emilia "Emily" Wiener cut her teeth inside the bill-counting "cash cage" at her local Kmart in Long Branch, New Jersey. It was an eye-opening glimpse at the responsibility of handling stacks of money, and an early sign of her affinity for numbers.

"My father, God bless him, marched me into Kmart and said: 'She needs a job,'" Wiener says. "So they gave me a math test and put me on the cash registers. Before long they said, 'Oh, she's going to the cage.'" Hours were long, dinners were eaten during short breaks and homework awaited after clocking out.

Fast forward to today and Wiener is the chief investment officer for the $294 billion TIAA General Account, or "GA," the investment engine that paid out more than $5.7 billion in retirement income to clients in 2023. She joined TIAA as head of fixed income for the GA in 2016. Over a 30-year investment management career, Emily has spent much of her time specifically managing insurance company investment portfolios.

TMRW checked in with Emily at a time when many market commentators believe the U.S. Federal Reserve may be finished raising interest rates after a historic flurry of hikes that began in early 2022. We chatted with her about how the GA is managed, what's next for the U.S. economy and how first jobs can help shape careers.

Thanks for chatting with us, Emily. For starters, can you give a high-level overview of the GA's investment approach? What are you trying to accomplish?

The GA is specifically built around delivering lifetime income primarily through TIAA Traditional,[1] our flagship fixed annuity product for 403(b) plans. In recent years, the GA also has begun to support lifetime income in 401(k) plans where more workers are gaining access to such products, in many cases for the first time.

We are a liability-driven investor, so we focus on generating predictable, stable and recurring income from our investment portfolio to provide participants access to lifetime income.

Uniquely, TIAA can pass on additional crediting rates and dividends to our participants after we pay our minimum guaranteed rates, expenses and outlays. TIAA has credited above minimum rate guarantees every year for over 70 years, a streak made possible through careful portfolio construction and diligent capital management.[2]

What's inside the GA's portfolio?

We maintain a highly diversified, multi-strategy and global portfolio. Broadly speaking, about 85% of the GA portfolio is invested in fixed income strategies to produce stable, predictable and recurring income through scheduled coupon interest payments.

Our anchor allocations within fixed income are investment-grade bonds, both public and private, and high-grade commercial mortgages. We also include allocations to high-yield fixed income, structured credit and what can be considered "safe haven" assets such as U.S. Treasuries.

Our strategy is to maximize risk-adjusted returns within our risk appetite and we invest with the intention of holding to maturity. We do not actively trade the portfolio to beat any total return benchmark. We proactively manage risk to minimize credit losses and to deliver sustainable and predictable investment income.

Photo: Jason Schmidt

How does the GA invest the remainder of the portfolio, the other 15% that isn't in bonds or commercial mortgage loans?

One thing that sets TIAA's GA apart is that we have one of the largest capital bases in the industry, meaning we have a financial surplus well in excess of our liabilities. This financial underpinning, combined with the inherent stability of our liabilities, earns TIAA one of the highest credit ratings among U.S. insurance companies.[3]

This positioning allows us to dedicate a higher allocation to alternative investments than many of our insurance company peers. Alternatives offer opportunities for diversification and higher long-term risk-adjusted returns not available in traditional markets. To that end, we generally hold around 15% of the GA portfolio in real estate equity, private equity and real assets including timber, infrastructure and farmland—think grapes used for wine from Napa, Monterey, Sonoma and Madera counties in California, almonds and pistachios. In real estate, we recently invested in housing opportunities for low-income residents across the U.S. as part of our impact investing strategy. There are many other examples.

We've been able to do this and maintain our strong financial risk profile by leaning into the deep expertise of Nuveen, TIAA's wholly owned asset management subsidiary.

Let's talk about interest rates, which have been top of mind for so many people. What have higher interest rates meant to the GA portfolio?

Rising interest rates generally benefit the GA as we can reinvest new money flows and portfolio turnover at higher interest rates for the ultimate benefit of our participants. Because interest rates had been low for so long, the rise in market rates has been a welcome reprieve in our work to support participants with strong crediting rates.

Higher rates can also tap the brakes on economic growth—what are you watching in the U.S.?

For most of 2023, higher rates did not translate into slower economic growth. Crystal balls are often unreliable, particularly in a U.S. presidential election year. With that caveat, my view is that growth will likely slow in 2024 as the full effects of the rapid rise in rates work through the system. Inflation should moderate and move toward the Fed's policy target of about 2%. But I do not anticipate a slowdown or even a mild recession would result in a meaningful pivot by the Fed toward

> "We recently invested in housing opportunities for low-income residents across the U.S. as part of our impact investing strategy."
>
> **Emily Wiener**

pronounced easing, despite some recent speculation about the potential for multiple rate cuts in 2024. I believe the Fed will want evidence that inflation is sustainably at its target before changing course on rates, and I think this evidence may prove elusive in 2024.

We're also watching commercial real estate, which is clearly in a downcycle, where a lack of liquidity is impacting valuations. Corporate balance sheets remain relatively strong but the impact of higher rates has not yet been fully reflected and we expect companies that borrowed the most to come under some stress.

Remember that TIAA's portfolio is mostly made up of investment-grade bonds without significant credit concerns. We work closely with Nuveen to detect early signs of credit stress and take appropriate defensive actions. Our disciplined risk framework and financial strength ensure our ability to weather downturns and allow some room to take advantage of market dislocations—buying when others are selling.

> "Because of what I saw growing up, all this work we do at TIAA resonates so deeply with me."
>
> **Emily Wiener**

You've been thinking a lot about how to position the GA with regard to the risks and opportunities associated with climate change.

Our obligation to TIAA retirement plan participants is long term, which means it is our responsibility to consider investment risks—including climate risks—over a similarly long horizon.

Financial markets will eventually price in the risks of climate change, so the GA is taking steps to manage climate risks in the portfolio and seek opportunities to invest strategically in solutions addressing climate change.

What actions has the GA taken to address the climate challenge?

Starting in 2022 we developed and continue to refine a set of core climate beliefs to help guide decision-making around climate risk in the GA. These build on our plan to significantly reduce the carbon intensity of the GA's investments, consistent with the global transition to a low-carbon economy and our commitment to work toward net zero by 2050.

Through hard work with Nuveen, the GA remains on track to meet TIAA's 2025 interim carbon intensity targets for public corporate debt and direct real estate. I'd urge anyone interested in reading more about our strategies related to climate to read the 2023 TIAA Climate Report.

Switching gears a bit: TIAA has a mission to help workers retire with dignity. How does that mission resonate with you?

This is personal for me. My dad was a blue-collar worker. He operated a forklift at a warehouse for many years. I don't know if the companies he worked for had any kind of retirement plan, so his savings were whatever he could get, after tax, from his paycheck.

I saw that effort and how difficult it was to build financial security. My parents were Cuban immigrants. They had to learn a new language, raise a family with very limited income, educate us and make sure we had a better future.

So, because of what I saw growing up, all this work we do at TIAA resonates so deeply with me. We're in a position to really make a difference in people's lives—in their family's lives—with solutions that can help them be comfortable in retirement.

Thanks for chatting with us.

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[1] TIAA Traditional is issued by Teachers Insurance and Annuity Association of America (TIAA), New York, NY. TIAA Traditional is a guaranteed insurance contract and not an investment for federal securities law purposes. Any guarantees under annuities issued by TIAA are subject to TIAA's claims-paying ability. Past performance is no guarantee of future results.

[2] TIAA may share profits with TIAA Traditional retirement annuity owners through declared additional amounts of interest and through increases in annuity income throughout retirement. These additional amounts are not guaranteed other than for the period for which they were declared. Since 1948, TIAA has credited interest above the guaranteed minimum on one or more contracts every year.

[3] For its stability, claims-paying ability and overall financial strength, Teachers Insurance and Annuity Association of America (TIAA) is a member of one of only three insurance groups in the United States to currently hold the highest rating available to U.S. insurers from three of the four leading insurance company rating agencies: A.M. Best (A++ as of 7/23), Fitch (AAA as of 8/23) and Standard & Poor's (AA+ as of 9/23), and the second highest possible rating from Moody's Investors Service (Aa1 as of 9/23). There is no guarantee that current ratings will be maintained. The financial strength ratings represent a company's ability to meet policyholders' obligations and do not apply to variable annuities or any other product or service not fully backed by TIAA's claims-paying ability. The ratings also do not apply to the safety or the performance of the variable accounts, which will fluctuate in value.

3D illustration: Jérôme Laurendeau

TIAA General Account diversification

Source: TIAA, as of December 31, 2023

- **47%** Public fixed income
- **24%** Private fixed income
- **13%** Commercial mortgages
- **5%** Real estate
- **4%** Operating subsidiaries and other investments
- **4%** Private equity funds and co-investments
- **3%** Natural resources

Photo: Dani Fresh

The 104-year life

What a retired chemistry professor teaches us about longevity

Dr. Gerald Meyer's longevity story is an amazing triumph. It's also a cautionary tale.

Meyer's story is a triumph for one obvious reason: He's alive and living very well at 104. A TIAA participant since the 1950s, Meyer retired as a chemistry professor and dean of arts and sciences at University of Wyoming in 1990. He's hardly slowed down since. If anything, he's busier than most folks. Meyer spent 30 of his retirement years serving as president of a company developing green coal processing technologies. In his mid-80s, he rode his Harley Davidson halfway across Alaska to present a paper at an American Chemical Society meeting in Fairbanks.[1] An avid runner, Meyer competed for years in the National Senior Games, most recently running the 50 meters in the Wyoming regionals last June.[2]

"A chart says that your lifetime is supposed to be so and so," Meyer says. "I am way beyond that."

So why is Meyer's story also a cautionary tale? It's a reminder that retirement savers must account for potentially longer-than-expected lifespans, in terms of both money saved and time spent. As of the end of 2023, Meyer was one of 1,479 TIAA participants aged 100 or older (which means about 1.5% of all American centenarians are TIAA clients). Not everyone will make it to 100, of course, but living to age 90 and beyond is no longer a rarity. Many of the luminaries we lost at the end of 2023—Henry Kissinger, Charlie Munger, Roslyn Carter, Sandra Day O'Connor—lived well into their 90s. According to the TIAA Institute, 30% of men and 40% of women aged 65 today are likely to live to at least age 90, and the likelihood is even higher for the educated and affluent. Yet few Americans understand the amount of retirement years they should be planning for, a notion known as longevity literacy.[3]

Poor longevity literacy proves costly in two ways. The obvious one is financial.

Photo: Wyoming Senior Olympics

According to the Employee Benefit Research Institute, more than 40% of U.S. households are expected to exhaust their savings in retirement.[4] A fixed annuity can help address this problem by turning savings into retirement paychecks for life, no matter how long you live.

When Meyer retired at age 70, he wasn't planning on 34 years of retirement. He has been a client of TIAA since his 30s and began receiving monthly annuity payments after turning 67. "I'm ahead of the game," says Meyer, who acknowledged having little investment expertise when he opened his account.

"Having a dependable annuity, I think, as the basis of your retirement is essential," he says. "You continue to receive the money as long as you're alive."

The consequences of poor longevity literacy extend beyond finances. According to Dr. Joseph Coughlin, director of the Massachusetts Institute of Technology's AgeLab, too much of today's planning is built around an outdated vision of retirement—a vision that's essentially the polar opposite of what makes Gerald Meyer's retirement so inspiring.

"What we call retirement today is not a brief trip to Disney and a few beach walks with the grandchildren," Coughlin says in an interview with Surya Kolluri, head of the TIAA Institute. "It's actually one-third of your adult life. It's an entire life stage."

RETHINK RETIREMENT

Greater longevity puts different demands on anyone advising employers on their employee retirement plans, Coughlin says. Advisors need to think not only about plans for saving and investing but about how that money will be spent. "Wealth advisors and financial investment advisors now need to look across the lifespan. I call it whole engagement," says Coughlin. The lessons for financial advisors working with individual clients also apply to employers. "People want to talk about their portfolio for about 10 minutes, and then they want to talk about their well-being and who's going to take care of them [when they get older]. If you have those conversations about how they're going to spend the money, you'll be amazed at how deep and emotional and empathetic you will be seen, and how the client will be more engaged with you than ever."

Employers need to think more creatively, beyond people's financial lives. In his 2017 book, "The Longevity Economy," Coughlin wrote about the challenge companies face when it comes to retaining older workers. Older workers tend to be more productive, which is why employers tend to prefer they retire later rather than sooner. A big reason some people opt for early retirement, according to Coughlin, is because their employers didn't offer proper accommodations and incentives to stay.

Coughlin tells the story of how BMW retained more of its older workforce by making minor changes in factory design. BMW added low-impact wood flooring in lieu of concrete, provided ergonomic benches and chairs and instituted rotating work assignments, all in order to reduce repetitive-stress injuries. The result? Absenteeism fell, the defect rate fell even more and productivity improved by 7%.

Some workers just want a more gradual off-ramp. The executive search firm Korn Ferry has suggested some employers adopt a so-called "legacy track" for older employees who still want to contribute but may not want to work full-time.[5] Coughlin endorses the idea but noted it requires flexibility from workers, too.

"Employers do need to think more creatively about sliding people into different positions and about offering flexibility," says Coughlin. "We see universities trying to do that with emeritus professors, who still have an office and privileges and still sit on committees. We see companies like IBM, Procter & Gamble and GSK that have created pools of experts from their retiree population.

"At the same time, we also need to ensure our employees realize that just because they have 35 years on the job, it does not mean they keep the same pay grade if they change roles or change tracks."

1,479

of all American centenarians are TIAA clients[6]

Testimonials have been provided by current clients, and no direct or indirect compensation was given in return. No material conflicts of interest exist on the part of the individual(s) giving the testimonial, resulting from their relationship with the adviser. Results experienced by individuals may not be representative of the experience of other clients, and there is no guarantee of future performance or success.

1 "Sustained by Science," Chemical and Engineering Science, volume 93, issue 29, July 20, 2015.

2 "103-year-old runner shares his tips for living a long life," Today.com, July 10, 2023.

3 An unrecognized barrier to retirement income security: Poor longevity literacy. TIAA Institute and the Global Financial Literacy Excellence Center, August 2023.

4 Retirement Savings Shortfalls: Evidence From EBRI's 2019 Retirement Security Projection Model, 2019.

5 "Staying on: Why workers aren't retiring," Korn Ferry, April 25, 2023.

6 Source: TIAA Analytics, as of December 31, 2023.

All pictured are TIAA participants

CLASS IN SESSION

Employee Retention 201

New research says colleges and universities should adopt employee value propositions as corporations have done for years.

POP QUIZ

Which kind of career path would you prefer?

A. One where salaries are low, the opportunity for advancement is scarce, remote work is a fantasy and the balance between work and life is tipping more toward work

B. One where employees love their jobs, feel their work has purpose, enjoy their retirement and tuition benefits and paid time off

C. Is this a trick question?

If you answered C, you are correct. Answers A and B are actually two facets of the same industry: They reflect the Jekyll-and-Hyde scenario facing many who work in higher education.

New TIAA Institute research uncovers some significant contradictions that employers looking to recruit and retain workers need to address.[1] The research presents a cohort of higher ed employees who value their retirement benefits (98%), health insurance (94%), amount of paid time off (92%) and tuition reimbursement (62%). Yet more than one in three say they are likely to leave within the next two years for better pay (49%), work-life balance (35%) and advancement opportunities (34%).

Another revelation: The power of higher ed's mission may be losing primacy among employees' other priorities. While 45% of those who hire employees in colleges and universities said that mission was a top reason employees choose to work at their institution, only 32% of the employees said the institution's mission was a key factor in their recruitment or retention.[2]

This is a big problem for employers in higher ed: More than half of colleges and universities saw an increase in employee turnover last year, with smaller schools particularly vulnerable.[3] Employers need to do a better job of demonstrating the tangible and intangible benefits of working for them, to better compete for new employees and satisfy current workers.

ENTER THE "VALUE PROP"

Long embraced by Corporate America, employee value propositions (EVPs) highlight an organization's comprehensive benefits to help hire and retain employees. Ideally, an EVP is an employee communication that identifies the mix of tangible (compensation, medical, retirement plan, tuition reimbursement, etc.) and intangible rewards (culture, community, mission) that make working at an organization especially attractive. Essentially, a value prop acts like a mission statement to answer the question: Why would someone want to work here?

"Employees sometimes leave for bigger jobs outside and inside the University of Arkansas system," notes Christopher Hickman, director of administrative services and chief human resources officer at the University of Arkansas at Pine Bluff. "We've used this process of creating an employee value proposition to understand and define UAPB as a place to join and grow professionally before moving on—and are beginning to market our proposition as a launch pad."

LESSONS FROM CORPORATE AMERICA

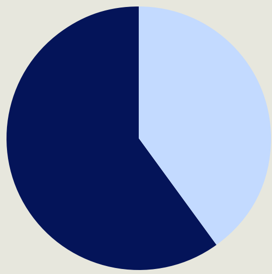
While employee value propositions have been a fixture of Corporate America for decades, less than 40% of higher ed institutions use them—or use them effectively. Only 12% of higher ed employees said they were aware of their institution having one, according to TIAA Institute research.[4]

"If Corporate America is good at anything it's responding to market signals with new ideas," says Mark Barden, an expert in brand transformation and author of "A Beautiful Constraint: How to Transform Your Limitations into Advantages and Why It's Everyone's Business."

Barden continues: "You need to play your hand very well if you can't win on salary alone. The same applies for hourly labor. When all employers are trying to hit the same salary or wage in a market, other things come into play, like workplace culture and benefits. It comes down to the basics of strategy: What do those folks value above and beyond their pay? How are you uniquely qualified to offer that?"

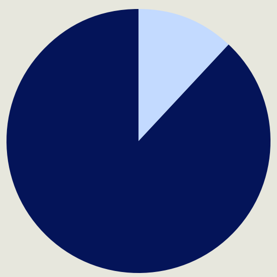
> "We've used this process of creating a value prop to understand and define [our school] as a place to join and grow professionally..."
>
> **Christopher Hickman, University of Arkansas at Pine Bluff**

Preceding page photo: Jake Chessum, Photo: Ben Alsop



LESS THAN 40%

of higher ed institutions use any kind of value proposition to attract and retain talent.[5]



ONLY 12%

of higher ed employees said they were aware of their institution having a statement highlighting all the reasons to work there.[6]

The TIAA Institute brought together 30 HR leaders from nearly two dozen institutions for a full-day workshop on crafting compelling EVPs. A crucial takeaway: It all starts with asking the right questions.

- Where are you currently experiencing success with employee satisfaction?
- What's working/not working around messaging?
- Which positions are the most critical? Do you communicate well with the employees in those roles?
- Would investing in areas such as culture, community and professional development improve hiring and retention?
- What is truly unique about your institution and how do you best communicate that to prospective and current employees?

The TIAA Institute analyzed our own data and worked with research from the College and University Professional Association for Human Resources (CUPA-HR) to define some compelling reasons to work in higher ed.[7] See page 26.

Those who work in the higher education industry have never been there to collect Wall Street salaries, and many do truly value the advantages of working at a college or university. Ironically, taking a page from Corporate America's playbook could help higher ed polish its own value proposition and understand what's most important to different groups of employees.

1–6 TIAA Institute, Employee Value Proposition—Quantitative Research September 2023.

7 "Why would someone want to work for my college or university?" TIAA Institute, 2023.

Photo illustration: Transport NY/Stephen Kent Johnson/OTTO

An A+ employee value proposition needs these five elements

TOTAL COMPENSATION

Salary is just one component of compensation, and it may not be the most compelling part. Higher education's employee value proposition should call attention to their typically generous medical insurance and tuition benefits in the total compensation portfolio, perhaps even using a calculation showing the dollar value of these benefits.

WORK-LIFE BALANCE

Remote work has proven challenging in most areas of higher ed, and that's an issue for many employees. The opportunity to work remotely was the reason nearly a third of respondents said they would consider leaving for another job. Yet benefits such as generous vacation, flexible summer hours, many holiday breaks and child or elder care benefits not offered in other industries can mitigate limitations around remote work.

PROFESSIONAL DEVELOPMENT

According to the TIAA Institute, 34% of professional workers cite a lack of advancement opportunities as a reason for leaving higher education. Professional development sends a strong signal that employers are investing in their employees, and provides a sense of job security. Higher ed institutions can use their value propositions to create and highlight dynamic career paths and offer professional development opportunities that help employees feel more engaged.

MISSION AND PURPOSE

A college's mission and purpose are often cited as a comparative advantage to the corporate world, but that might not always be the case. While 45% of HR leaders surveyed said their institutional mission was a top-three factor for hiring and retention, only 32% of higher ed professional staff said the mission was a compelling factor for staying in their jobs.

COMMUNITY AND CULTURE

The culture at colleges and universities is, no doubt, a workplace advantage. Events such as college symphonies, art installations, guest speakers, family recreational facilities, football games and Frisbee® on the quad can all be thrilling and create a community. Data backs this up: More than three quarters of employees surveyed (77%) cited work culture as a driver of professional satisfaction in higher ed. Campus culture may be one universal factor in what makes it an attractive place to work.

Photo: Ben Alsop

Ask a consultant

Something for everyone

When we first started “Ask a consultant,” we learned a couple of important lessons from employers. First, there’s no end to the questions you might have—and that’s a good thing. You all want to keep learning and improving. So do we.

Second, and even more remarkable, is that size really doesn’t matter. Whether you’re responsible for a few hundred employees or several thousand, you’re thinking about the same things: investment options, Roth accounts, plan withdrawals and overall priorities. In other words, this edition of “Ask a consultant” has something for everyone.

NO QUESTION IS OFF THE TABLE
We welcome anyone involved with running a retirement plan to share what’s on your mind. Send your questions to TMRWpublication@tiaa.org

Are our investment options the best ones for our employees?

– SMALL HEALTHCARE ORGANIZATION

VERN CUSHENBERY
TwoWest Advisors
Chief Investment Officer

I always start by asking, “How do you measure ‘best’?” There’s a lot of room for interpretation with that term. Then I want to know who’s asking—is it the board room or the break room?

Too often, we hear from employees in the break room wanting to chase performance. We need to address that behavior—and quickly—by having the board room or the committee establish clear goals for the retirement plan investments.

As fiduciaries, we need to think about the employees’ goals and optimize the investments accordingly, whether it’s for the 25-year-old investing for growth or those near or in retirement who need to generate income. How do we design an investment lineup to meet those different goals and needs?

We also want to protect the board room, which means offering an appropriate level of diversification across asset classes on the investment menu. Looking back at 100 years of investment history, everything points to having the broadest possible diversification at the lowest cost. It’s worked across many different market cycles and it generally puts the plan’s investment options in the 80th percentile of returns over time.

Can you find funds to outperform? Sure, but they tend to cost more and the evidence of outperformance tends to be slight, especially over the long term. But for some clients, finding that outperformance is important. In that case, we draw upon academic research on historical prices and statistical analysis to identify opportunities to add alpha—whether that’s through size, growth versus value or even credit quality. Then, we look for evidence of manager skill. Can a fund manager demonstrate a repeatable pattern of outperformance consistently over time? That kind of evidence-based approach leaves the fiduciary in the strongest, most defensible position.

Photo illustration: Transport NY, Illustration: Lauren Tamaki

Our employees don't understand Roth accounts. How do other plans present them as a valued benefit?

– A LARGE HEALTHCARE INSTITUTION

RYAN CAMPAGNA
Partner, Head of Sales
Sentinel Group

What's interesting about Roth accounts is they're widely adopted by retirement plans but not by the participants in those plans. Among corporate plans, about three quarters offer a Roth feature, but only about one in seven participants make Roth contributions in their plan. Among 403(b) plans, fewer plans allow Roth contributions, and adoption among participants is equally low.

Participants can be overwhelmed by plan decisions. They need to decide when to join, how much to contribute and then how to invest. As an industry, we make those decisions easier with auto-enrollment, target date funds and managed accounts. When it comes to Roth contributions, they really need us to make it easy.

Here's what we tell them: Let's not try to figure out what's perfect for you today. In the same way you diversify your investments, making Roth contributions can diversify your tax benefit.

Rather than deciding between pretax or Roth, why not do both? By putting some contributions in pretax and some in Roth, you add some flexibility. When it comes to withdrawing money in retirement—when no one knows what their tax rates might be—you'll have more control from a tax perspective.

One last point here: You don't have to be a tax expert to encourage workers to make Roth contributions. Since we don't know what the future holds, let's plan for the unknown. Encourage them to diversify, hedge their bets on taxes and give themselves options in the future. We don't have to decide which one is better. They offer different benefits for different scenarios.

Illustrations: Lauren Tamaki

What's the No. 1 most important item to focus on right now?

– SMALL NONPROFIT ASSOCIATION

MARK OLSEN
Managing Director
PlanPILOT

Employers have a lot of retirement plan decisions to weigh in 2024, especially with SECURE 1.0 and 2.0. But there's something every employer should do before starting those conversations: Take a moment and reconfirm you have the right fiduciary oversight in place.

In organizations small and large, there's been incredible turnover in staff and leadership. Those changes can create a huge gap in knowledge and experience. Recently we met with a small nonprofit because the head of finance needed help. The head of human resources had left, and the finance department was left with sole fiduciary responsibility for a growing retirement plan. This organization's plan committee didn't meet regularly. Many didn't know what it meant to be a fiduciary. It's not unusual, especially with smaller organizations, but it's a liability for any organization.

Organizations often want committee members who bring different points of view to the retirement plan—whether that's operations, IT, administration—but often they don't come in understanding the plan committee's purpose or their roles as fiduciaries. They need to learn the questions to ask and the factors to consider to effectively protect the organization and its employees. Even those leading the committee may not know the issues to bring to the committee, the cadence of their meetings and committee member term limits.

This fiduciary oversight is critical for committees to operate efficiently. It should start with fiduciary training and documentation of roles and responsibilities, so everyone knows why they are there. After we have these conversations with clients, the committee members start to think about what it means to protect the plan. And in the end, they feel even better about the decisions they're making on behalf of employees.

How can I offer plan withdrawals and still keep participants on track for retirement?

– LARGE HIGHER EDUCATION INSTITUTION

MIKE VOLO
Principal, Financial Advisor
CAPTRUST

This topic is especially important right now as employers consider the new withdrawal options in SECURE 2.0. Lawmakers intended for these features to give employees more flexibility and more access to their savings, but it's not that simple when it comes to plan design.

When talking with employers about adding new withdrawal provisions, we start by examining the plan's demographics along with the utilization rate of withdrawals and loans—what we often call plan leakage. How many loans and withdrawals do employees take? Are certain demographics using loans and withdrawals more than others? How many ways can employees take money from the plan? If employers want to add some of the newer withdrawal features, it's important to examine plan leakage and plan design in a broader sense.

Part of that conversation should consider money coming into the plan, too. Many plans in higher education offer a healthy employer contribution with no required employee contributions. As employers think about how employees can access their savings in the plan, it's an opportune time to consider how much employees contribute on their own as a preemptive measure in the event of needing a withdrawal.

We also advocate for ongoing employee education and advice. A robust financial wellness offering can help employees understand the tradeoffs of taking withdrawals—not to mention the value and benefit of saving more! And plenty of evidence supports the efficacy of personalized advice.

Lastly, we need to monitor any plan changes regularly. Whether it's on a quarterly or semiannual basis, you need to examine the impact in terms of money coming into the plan versus leaving, and how education and advice influence the decisions employees make. Then we can iterate and adjust our approach based on what we learn.

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Illustration: Lauren Tamaki; Photo: Ben Alsop

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