TIAA
BIG IDEAS. BETTER RETIREMENTS. | EDITION 4 | OCTOBER 2024 | TIAA.ORG/TMRW

TMRW

One-size-fits-all fits no one

Our lives don't look the same. Why would our retirements? Read more in our 2024 Retirement Income Roundtable.

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.

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Front cover photo: iStock, Photo: Ben Alsop

Back to the future for retirement security

For history and retirement policy enthusiasts, 2024 offers plenty to celebrate. There's the 50th anniversary of the Employee Retirement Income Security Act, or ERISA, the landmark legislation governing retirement plans. It's also been 100 years since mutual funds were invented, bringing diversified investing to the masses; 40 years since the first retirement plan added automatic enrollment; and 30 years since the first target-date funds delivered a set-it-and-forget-it strategy that's rapidly evolving to include lifetime income.

Each advance reminds me that innovation and the spirit of reform can improve the financial futures of millions of workers. That same spirit led Andrew Carnegie to create TIAA—the functional equivalent of a fully funded pension system for teachers in America. Since 1918, we've returned our earnings to the workers we serve—paying more than $585 billion in lifetime income and other benefits.

We emphasize our history regularly with policymakers to demonstrate what's possible when institutions put people first. No other financial services organization is as qualified to speak for American workers when it comes to securing their right to retire with dignity.

You'll find these themes throughout this edition of TIAA TMRW. Our cover story recaps our second Retirement Income Roundtable discussion—three industry experts surveying the American retirement system and opining on how to make it better. We reflect on ERISA's first 50 years, and consider how we can evolve it for the next 50.

We expect annuities—and the guaranteed lifetime income they uniquely provide—will become more prominent in retirement plans, so we debunk some misconceptions still surrounding them. Lastly, we examine how employers can help workers achieve better financial well-being, which gives them a better shot at retirement security.

I hope you enjoy this edition. If you have feedback, please share it with us at TMRWpublication@tiaa.org.

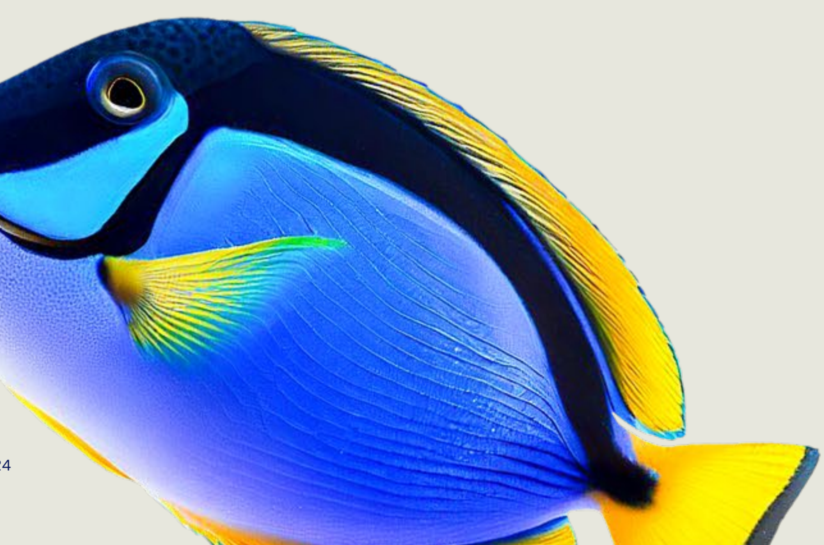
Bret Hester

BRET HESTER
Executive Vice President, General Counsel
Strategy, Policy and Operations

Creating retirements that fit

2024 RETIREMENT INCOME ROUNDTABLE

For our second annual gathering, TIAA TMRW hears from an annuity expert, a policy wonk and a financial planner on how more people can get an income edge in retirement.



More than 11,200 Americans will turn 65 every day for the next four years, the largest surge of retirement-aged people in U.S. history (also known as Peak 65®).[1] And it's highlighting many of the flaws in our retirement system.

Pictured left to right: Wade Pfau, author of the "Retirement Planning Guidebook" and professor of practice at the American College of Financial Services; Dana Anspach, founder and CEO of fee-only wealth manager Sensible Money; Jason Fichtner, chief economist at the Bipartisan Policy Center and executive director of Alliance for Lifetime Income's Retirement Income Institute

Preceding page photos: Adobe Stock/iStock/Depositphotos/Pngtree/Alamy, Photo: Andrea Ferenchik

For most workers, the classic three-pronged approach to retirement income—employer pensions, personal savings and Social Security—no longer applies. Only about one in 10 private-sector workers has a job that comes with a pension.[2] Nearly half of American workers in the private sector don't have an employer-sponsored retirement plan.[3] And, absent a major overhaul, Social Security benefits may face cuts over the long run.

How many of the more than 16 million people hitting 65 in the next few years feel prepared for retirement? Fewer than most of us would like.

2024 Retirement Income Roundtable

At TIAA's annual TMRW client conference, Beverly Goodman, TIAA's editor in chief and a CERTIFIED FINANCIAL PLANNER™, sat down with three leading retirement industry thinkers to discuss changes to improve the system and how individuals can set themselves up for secure retirements. The result is a free-wheeling conversation relevant to policymakers, employers and workers.

Our 2024 Retirement Income Roundtable included Dana Anspach, founder and CEO of fee-only wealth manager Sensible Money; Jason Fichtner, chief economist at the Bipartisan Policy Center and executive director of Alliance for Lifetime Income's Retirement Income Institute; and Wade Pfau, author of the "Retirement Planning Guidebook" and professor of practice at the American College of Financial Services.

TIAA: Let's start with the underlying premise of so many retirement conversations: the American retirement crisis.

Jason Fichtner: We definitely have a retirement income *challenge,* especially as more people live longer. When employers offered defined benefit (DB) pensions, people kept getting a paycheck when they retired. Today we do a better job making sure people save in a defined contribution (DC) retirement plan, but they struggle to convert their savings into a protected and guaranteed income stream. Crisis or no crisis, it's a major challenge we need to solve.

Dana Anspach: I see bifurcation across the system. Some people saved well for retirement, while other people never had the means to save in the first place. But even for the people who saved, it's not clear they know how to *spend* in retirement. The others will need Social Security to replace a significant portion of their income.

Wade Pfau: I worry a bit telling people who live paycheck to paycheck that they are in crisis may be counter-productive, like they think there's no point in doing it. There's so much pressure and so many obligations—student debt, life insurance to protect their families—that for a whole lot of people there really isn't anything left to save.

Fichtner: We have to find a way to show the benefit of starting earlier—that even small amounts that come out of your paycheck can grow—so more people can have a mentality that they can succeed. We have to figure this out for the Millennials who are roughly 30-plus years behind, because they are now the largest generation and are also the true 401(k) generation.

What about 401(k)s and 403(b)s?

TIAA: DC 401(k) plans have been prominent since the 1980s and we still have shortfalls in saving, much less

"Even for the people who saved, it's not clear they know how to *spend* in retirement."

Dana Anspach, Sensible Money

making savings last. The 401(k)'s inventor has said that it wasn't intended to replace DB plans, although it largely did so in the corporate world—and most nonprofits have followed. What is the legacy of this transition?

Fichtner: People liked DB pension plans because they got a paycheck for life. But many companies that offered pensions couldn't fund them. So now we've transferred the risk from employers to the individual, who has to fund their own retirement.

Pfau: And DC saving is all voluntary. Other than Social Security payroll taxes, there are no mandated retirement savings.

Anspach: The rules of the DC system are hard to understand. We need protection, but many layers of rules were put in place that changed the nature of what we were trying to do in the first place. I learned at a conference recently that the financial industry is more highly regulated than the nuclear industry.

Fichtner: We need to get the best of the DC system—personal responsibility, individual growth and access to markets—and pull in what we liked about the DB system, which is a paycheck for life.

TIAA: So how do we get that "best of both worlds" scenario? Let's start on the savings side.

Fichtner: I'm a fan of automatic defaults in retirement plans.

TIAA: So employers should automatically enroll workers into a plan, and if individuals don't choose their own investments,

Photo illustration: Derek Brahney

then the plan automatically directs those savings into something like a target-date fund?

Fichtner: Right. And after the SECURE 2.0 Act passed in 2022, more people could be opted into retirement plans in this way. Will it add up to several hundred thousand dollars for most people? No. Will it be enough to delay taking Social Security so they can maximize income? Maybe.

The most powerful (retirement) outcomes are delayed

TIAA: That's an interesting approach to increasing lifetime benefits: Nudge people to automatically save so they can afford to delay claiming Social Security.

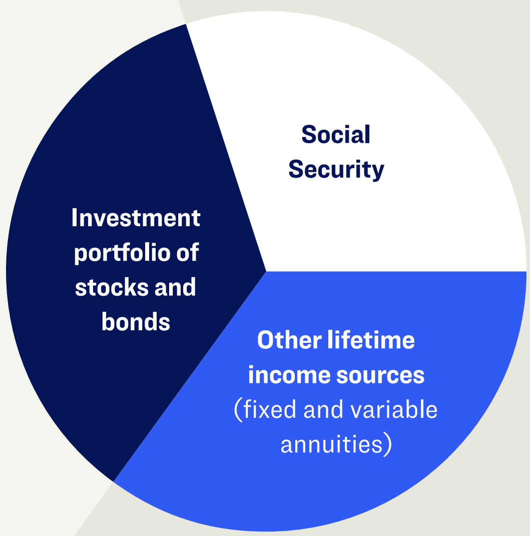
Fichtner: Lower lifetime-earners are going to be more reliant on Social Security, so it's important they get the most out of it. I used to work at the Social Security Administration, and we saw people's behavior change when you frame the decision of when to claim your benefits. People don't understand that if you claim at age 62, you get a reduced benefit versus the full retirement age of 67, or that you'd get more if you waited until 70.

Instead of calling 62 the "early eligibility age," it ought to be called something like the "minimum monthly benefit age." Anything to change the conversation and prompt people to think, "I can get more?"

Anspach: Imagine if there were some app to help reinforce that 70 should be the default age for claiming Social Security. You could round up every purchase and eventually it could say

Diversified income sources can support retirement security

For illustrative purposes only.
Not an investment recommendation.



Annuities
Fixed annuities like TIAA Traditional offer the promise of lifetime income to give retirees money they can count on, no matter what.

Variable annuities provide greater opportunity for growth because payouts are based on the performance of the underlying portfolio of stocks, bonds or other assets.

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

something like, "You've saved enough to claim Social Security at 70 but retire at 68."

Fichtner: Unless someone needs the money immediately, the rule of thumb should now be claiming at 70. One out of seven 65-year-olds today will live to 95. That's 30 years you'll need income! And that difference really adds up. Someone scheduled to get $1,000 at 67 would get only $700 if they started to receive their benefit at 62; if they wait until 70 it's $1,240. That's a 77% increase in a monthly paycheck by waiting to claim Social Security.

TIAA: How should retirees think about income if they don't want to wait until 70 to stop working?

Pfau: If you are delaying Social Security, you'll probably need to draw from investments. That comes with sequence-of-return risk. That's the risk of markets falling early in your retirement, because in order to cover your expenses, you need to sell more when they're down in value. The problem is you won't have that money in the markets to enjoy the recovery, so it's hard to get back to an amount that supports your initial spending plan.

Anspach: A reason people don't delay Social Security is that it feels scary to rely on investments even for a few years. It can feel like a lot when they're taking 6% or 8% out of their retirement accounts each year for up to eight years. This is the better strategy when you look at a lifetime of spending, not just a few years, but it can be emotionally hard.

Pfau: To cover the missing Social Security benefit in those years, you can carve out income, either through an annuity or a bond ladder. That way you are not as vulnerable to the markets.

Fichtner: I call that a "bridge annuity."

Where fixed annuities enter the picture

TIAA: Did someone say annuity? How do you all think they fit into retirement planning?

Pfau: Annuities can be workhorses for retirees because they provide protected, reliable income that can cover disproportionately more of your spending needs than other investments. And, the more you have, the less vulnerable your spending is to market downturns. Your portfolio may decline, but your lifestyle isn't going to be affected as negatively.

Fichtner: If people have enough protected income, they can use the rest of their assets for growth. For higher-income people, Social Security will only replace maybe a third of their income. They need something on top of that to maintain their lifestyles.

There's research that says getting regular paychecks from an annuity can help you budget, because your recurring income is basically your license to spend until you get that bump in Social Security.

Anspach: I like the term protected income. This truly is a different asset class: you have upside assets for growth, reserve assets for the unexpected and then there's protected income that's allocated to lifetime income.

Pfau: Since you have that protected income, you don't have to rely on your investments to fund your essential expenses, which means you have the capacity to invest more aggressively with the rest of your assets.

Anspach: We model out how much cash flow will be covered by guaranteed income in a person's early or mid-70s. Anything less than 50% is a trigger

> “Annuities can be workhorses for retirees because they can provide protected, reliable income.”
>
> **Wade Pfau, American College of Financial Services**

for us to have a conversation around adding protected income. We might bring up annuities for those who may want an additional layer of security. We also have clients who are somewhat constrained by their spending. Even for some very wealthy clients, I get worried if they retire early and are big spenders. Since there’s a long timeline ahead, annuities provide a baseline of guaranteed income they can’t outlive.

TIAA: What about annuities before you retire? Are they useful while still saving for retirement?

Pfau: We know bond funds can have double-digit annual losses, as they did in 2022. Annuities can change the structure of risk because there’s principal protection, so you have a better sense of what you’re going to get. That could be competitive with owning bonds as you’re building assets before retirement.[4]

TIAA: In what other scenarios does protected income make sense?

Anspach: It’s important for potential cognitive decline. We don’t know what decisions people might make. Having additional guaranteed income at that point adds a layer of security that’s different than anything else you can do with your money.

Pfau: I’ve done a lot of work to break retirement strategies into four categories that match different personality types. One of the primary factors we consider is the idea of commitment versus optionality.

Having a commitment orientation is when people prefer to find something that solves a lifetime need and stick with it, whereas optionality orientation

Photo illustration: Derek Brahney

is when people want to be free to change up investments when they see fit. If you are this type of person, an annuity isn't going to feel right for you. But cognitive decline is one of the concerns people identify if they are commitment-oriented: "I may have trouble making these decisions in the future, so I want to take care of it now and protect my family."

TIAA: Do you find some people still have an aversion to annuities?

Anspach: I've encountered all kinds of situations where you say the word "annuity" and people act like you said a four-letter word. It clearly comes from something they've seen or read or an experience a family member had. You can try and explain how it's a tool—but if they need a hammer and they're using a screwdriver, of course it's the screwdriver's fault it didn't work, right? Bottom line: nothing is perfect. An annuity is great at guaranteeing lifelong income, but it can't also double your assets.

TIAA: Perhaps the biggest trend in the retirement industry today is the embedding of annuities in workplace plans, often into the plan's default target-date strategy. What do you think of that?

Fichtner: A challenge of putting annuities inside retirement plans is you can't annuitize someone's savings as the default because it's irreversible. But automatically putting money into an annuity that can be converted into income in retirement is a great option, if the individual chooses to do so. People can then see "this is how much protected income I could get if I pull the lever and turn that into income."

"We have to democratize financial advice because people need financial checkups like they need health checkups."

Jason Fichtner, Bipartisan Policy Center

Photo illustration: Derek Brahney

Anspach: These products can be really useful if they are easy to understand.

Fichtner: This kind of product does a lot. It gives people an allocation that basically pays for the bridge annuity we talked about earlier. You want the default investment to be something that's powerful and meaningful. Employers could include annuities in their retirement plans, fulfill their fiduciary responsibility and allow people to opt out if they never need or want to annuitize.

Who doesn't need some advice?

TIAA: We all hear regularly from educated people who say, "This is all so complicated." Should everyone have a financial advisor? Most people don't cut their own hair or fix their own cars. Is retirement planning better left to the professionals?

Anspach: Yeah, it's difficult to find valid advice that applies to you and is objective. I mean, look at what's out there on TikTok as an example. It can be pretty wild. Even if you find good information, it's still difficult to know whether it applies to you.

Fichtner: We need to talk more about the role of the employer and financial wellness and financial advice. Where I work, we have a third-party advisor who comes to ask, "Do you have questions about your student loan? Do you have questions about your investments?" We have to democratize financial advice because people need financial checkups like they need health checkups.

TIAA: Your work points out that a person's retirement strategy ought to match their personality type. What does your personality work tell you about the kinds of people who need or are most receptive to financial advice?

Pfau: My work looks at people who feel comfortable making financial decisions versus those who aren't or maybe are happy to delegate major decisions and enjoy collaboration. There is a personality characteristic we call self-efficacy—for these people, making financial decisions is almost like a hobby; they get really into it. These self-directed personalities aren't going to perceive much value in working with an advisor.

People who aren't quite this extreme we call validators; they aren't totally comfortable doing it all themselves and may seek out advice once in a while with specific questions or gut checks about whether they are on track.[5]

Anspach: I had one client come in with double degrees in nuclear engineering and medicine. He knew a lot about his plan, so I asked: "Why see me? You're obviously very knowledgeable." He said: "There's going to be some things I know that you don't know. There's going to be things you know that I don't know. We each score points, but in the end they're really all points for me."

But the big shift for people is realizing that high returns while saving and investing for retirement doesn't necessarily correlate to successful spending in retirement.

I picture a squirrel running around and piling up its acorns and they work and work to accumulate this pile of acorns. Then winter comes around and they don't want to take one. They would rather admire the acorns because the acorns make them feel safe.

TIAA: Thank you all very much. This has been a terrific conversation.

1 "The Peak 65® Zone is Here: Creating a New Framework for America's Retirement Security," Retirement Income Institute, January 2024.

2 Employee Benefit Security Administration, Department of Labor, October 2022.

3 U.S. Department of Labor Statistics, February 1, 2023.

4 Pfau, Wade D., "Protection as an Asset Class," Retirement Income Institute of the Alliance for Lifetime Income, June 2023.

5 Murguia, Alejandro and Pfau, Wade D., "Retirement Income Beliefs and Financial Advice Seeking Behaviors," February 1, 2021.

Retirement is different today. We need to modernize the policies supporting it.

At 50, ERISA is showing its age. How we got here and what to do about fixing retirement for more Americans.

President Gerald Ford mingles with attendees after the signing of ERISA on September 2, 1974.

The modern American retirement system was born on Labor Day 1974, with the stroke of a pen in the White House Rose Garden. President Gerald Ford signed into law a measure intending to secure workers' retirements and employer-sponsored pension plans. The symbolism of the holiday matched both the new law's spirit and name: the Employee Retirement Income Security Act (ERISA).

As ERISA turned 50 in September, policymakers, think-tankers and plan sponsors all saw the golden anniversary as an opportunity to reflect on its successes while acknowledging the gaps still within our retirement system. Many are focused on a key challenge for the next 50 years: the absence of predictable retirement income to ensure retirees won't run out of money.

ERISA's intricate and ever-evolving web of tax and labor rulemaking expanded the federal government's role in regulating the employer-sponsored benefit system. It also grew to regulate numerous nonretirement benefits such as health insurance and long-term disability insurance. Originally hailed as "the greatest development in the life of the American worker since Social Security," ERISA's sprawling reach now covers more than 150 million workers, retirees and dependents.[1]

> **A key challenge for the next 50 years: the absence of predictable retirement income.**

ERISA secured private pensions and changed the way many workers save for retirement. But as groundbreaking as it was, ERISA ultimately left promises unfulfilled, workers uncovered and retirements underfunded; four in 10 Americans now risk exhausting their savings during retirement.[2]

OVERDUE FOR AN OVERHAUL

Today's retirement landscape is vastly different from 50 years ago, when retirement plans were built around full-career employees. People are living much longer, and fewer workers stay with the same employer—much less the same career—for decades. The number of gig-working freelancers in the U.S. sits at an all-time high, and most are left to cobble together retirement savings on their own.

To shore up the retirement system for the future, advocates are pushing an approach that reprises the best of the pension era—guaranteed income for life—while helping more people access and automate retirement saving at work.

"The great frontier is how we deal with the conversion to retirement income," says David John, senior strategic policy advisor at the AARP Public Policy Institute. "The way ERISA has been administered placed burdens on the defined benefit pension system and until recently made it very hard to create a retirement savings system that offers lifetime income."

A LEGACY OF INDIVIDUAL RESPONSIBILITY

For workers, ERISA rulemaking created a new calculus they had to apply to their finances ahead of and through retirement. Individual savings became the heart of the U.S. retirement system. Before ERISA, private employers assumed responsibility for funding workers' retirement income. After ERISA, workers bore most of the responsibility—and the risk—that comes with funding their savings and managing their retirement income.

ERISA also introduced a jumble of new responsibilities and potential legal liabilities for employers. The law elevated employers to fiduciaries, who must provide plan information to participants and ensure plan assets get invested in prudent and diversified ways. It required pension plan sponsors to pay into the government's insurance system against defaults and adhere to new funding and vesting standards.

ERISA's implications are so far-reaching that Justice Ruth Bader Ginsburg, in reference to her first

> "The great frontier is how we deal with the conversion to retirement income."
>
> **David John, AARP Public Policy Institute**

Preceding page photo illustration: Transport NY/Getty Images. Opposite page photos: Gerald R. Ford Presidential Library

77% of people agree not having a pension "makes it harder to achieve the American Dream."

Source: National Institute on Retirement Security, 2024.

Supreme Court opinion assignment—an ERISA case—called the law a "candidate for the most inscrutable legislation Congress ever passed."[3]

The twist is that the pension-centric retirement system ERISA was built to protect has largely faded away. In 1974, seven in 10 private-sector workers with access to retirement plans had pensions. Fast-forward five decades, and only one in 10 private-sector workers has access to a pension.[4]

THE ROAD TO ERISA

Many workers today are nostalgic for the bygone era when pensions held sway. Three-quarters of respondents to a National Institute on Retirement Security survey agree that not having a pension "makes it harder to achieve the American Dream."[5]

Predictable payments that last through retirement are a key advantage of a pension-based retirement system—which remains the norm for state and local government workers. They are also simple: At retirement, a worker (and often their spouse) receives recurring income that lasts for the rest of their lives.

But the pension-based system for private workers came with major deficiencies. For one thing, most workers didn't have one. After World War II, labor unions helped broaden access to newly created pension plans for workers in a few industries—automobiles, steel, railroads. Many smaller employers didn't offer pensions and, by one estimate, only about 40% of private-sector workers ever had one.[6] That's even lower than the 49% of today's private-sector workers (including those not offered an employer plan) who participate in a defined contribution (DC) plan.[7]

Even if your employer offered a pension, benefits were hard to come by and inflexible. Receiving payouts in retirement required decades of uninterrupted work for the same employer, penalizing younger people who quit or lost their jobs. Women (who moved in and out of the workforce to have children) and part-time or seasonal workers were left out.

Worse, pre-ERISA pension plans were precariously underfunded. The catalyst for the pension reform movement culminating in ERISA was the 1963 closure of the Studebaker-Packard Corp. factory in South Bend, Ind. The automaker terminated its pension plan, leaving 4,500 active workers with a fraction of promised benefits and about 3,000 workers with nothing.

Studebaker became a call to arms for public officials and private-sector experts. Among them was Senator Jacob Javits, who introduced a series of pension-reform bills in the 1960s and was a leader in drafting ERISA. The cause carried into the early 1970s, when high-profile investigative news reports took aim at gaps in the pension system and cemented reform's spot on the national agenda. Mike Wallace on "60 Minutes" highlighted the mismatch of employee tenure and eligibility, and an award-winning NBC News documentary interviewed a slew of retired workers who didn't receive expected pension benefits.

Data on page 17

* January 1974 and June 2024, U.S. Bureau of Labor Statistics

† 1975 and 2021, Employee Benefits Security Administration

‡ December 1974 and 2023, Social Security Administration

§ 1974 and 2022, Centers for Disease Control

Photo: Shutterstock, Opposite page photo: Getty Images

Then and now

MID-1970s

86.6M
Number of U.S. workers*

38.4M
Employees actively participating in employer-sponsored plans†

103K
Number of DB plans†

208K
Number of DC plans†

$260B
Total assets in private retirement plans†

$2K
Average annual Social Security retiree benefit‡

68.2 / 75.9
Life expectancy men/women§

2020s

161M
Number of U.S. workers*

99.5M
Employees actively participating in employer-sponsored plans†

46K
Number of DB plans†

719K
Number of DC plans†

$13.2T
Total assets in private retirement plans†

$23K
Average annual Social Security retiree benefit‡

74.8 / 80.2
Life expectancy men/women§

"The most important thing we should think about over the next 50 years is going back to a system where we don't have do-it-yourself retirement."

Phyllis Borzi, former assistant secretary for Employee Benefits Security, U.S. Department of Labor

"After 30 years and I've got nothing," lamented one unidentified auto worker on the NBC program. "I mean, it's gone down the drain, 30 years of service."[8]

THE RISE OF DC PLANS

ERISA's provisions ushered in a do-it-yourself savings ethos that birthed the individual retirement account (IRA), extending tax-advantaged saving benefits to workers without access to an employer-sponsored plan.[9] And while ERISA didn't create the 401(k)—that came a few years later—its stricter rules for operating pension plans helped accelerate adoption of the arcane-sounding savings tool that became shorthand for personal retirement savings.

In 1978, Congress authorized 401(k) plans, and in 1981 the IRS drafted the regulations that allowed employees to fund them. While 403(b) plans already existed (often called tax-sheltered annuities), ERISA permitted investments in mutual funds for the first time. Other types of DC plans had been around for decades, but worker-funded, tax-deferred 401(k)s proliferated rapidly. Within two years, nearly half of all large firms—names like Johnson & Johnson and PepsiCo—were either already offering a 401(k) or considering one.[10]

It wasn't that employers immediately dropped defined benefit (DB) pensions and adopted DC plans. The first 401(k)s were supplemental to existing pension plans, and few employers offered them as standalone options.

But economic and regulatory forces conspired against pensions. By the mid-1970s, U.S. manufacturers faced competition from overseas, supply chains globalized and the term "Rust Belt" spread across the Midwest. Patterns of employment and the nature of work itself were changing. Knowledge workers were more inclined to switch jobs, eschewing the one-firm careers familiar to the post-war Silent Generation. Meanwhile, ERISA rules added to the cost and complexity of managing pension plans. As a result, employers leaned into DC plans as an alternative.

ERISA rules added to the cost and complexity of managing pension plans.

Employers were quick to add 401(k) provisions to DC plans or establish new plans with 401(k) provisions, while freezing, phasing out and not starting new DB plans. In 1985, 41% of private workers participated in DC plans compared with 80% of workers who participated in DB plans; by 1993, the numbers had nearly equalized, with 49% participating in DC plans versus 56% in DB plans.[11] Today, about half of private workers continue to participate in DC plans while just 11% of private workers participate in DB plans.[12]

AN OUTMODED SYSTEM

The rapid transition from DB to DC plans has not kept pace with how we work today, the financial decisions we have to make and how long we live. As a result, too many workers remain ill-prepared for retirement. We can and must do better for the next five decades of retirees. By eroding access to pension-based guaranteed lifetime income, ERISA diminished retirement security and increased retirement anxiety for millions of workers. Nine in 10 DC plans have no in-plan option for guaranteed lifetime income.[13]

Furthermore, too many workers with DC plans must make complicated and consequential decisions on their own. They must decide whether to participate, in what amounts and how to invest. What's more, they must make these decisions every time they change jobs.

Finally, workers face daunting decisions about when and how to spend their money in retirement so they don't run out—a massive challenge. The challenge can become even greater for retirees dealing with cognitive decline, as they are more prone to making financial mistakes.

"We're trained to preserve savings and spend income throughout our entire careers," says AARP's David John. "Then at retirement you're handed more money than you've ever seen in your life even if you have absolutely no experience managing investments."

A system that is already inadequate will confront the reality that Americans are living longer—increasingly 30 years or more after they retire. Increasing longevity and rising healthcare costs have made outliving retirement savings the top retirement fear voiced by savers across every generation. And as more of today's children will live past 100, it's critical to act now and renew our retirement system for the next half century and beyond.

> **Longevity and healthcare costs have made outliving savings the top retirement fear.**

"The most important thing we should think about over the next 50 years is going back to a system where we don't have do-it-yourself retirement ... and people don't have to be their own investment manager," said Phyllis Borzi, former assistant secretary for Employee Benefits Security of the U.S. Department of Labor, at a May 2024 forum sponsored by the Employee Benefit Research Institute and the American Benefits Council.[14]

RENEWING ERISA'S PROMISE OF RETIREMENT INCOME SECURITY

TIAA believes future improvements to the U.S. retirement system involve designing retirement plans that encourage workers to save, expanding access to those plans, automating important behaviors like saving and escalation and making it easier to include lifetime income in DC retirement plans. More also needs to be done for people who don't have a workplace retirement plan: 57 million American workers, many employed by small businesses, don't have access to one of any kind.[15]

"ERISA focused on getting Americans *to* retirement, but we need to help Americans *through* retirement," says Bret Hester, general counsel and head of TIAA's Government Relations and Public Policy group. "In the 50 years following ERISA's enactment, a lot of workers lost access to guaranteed monthly income payments. There's work to be done to renew and deliver the promise of 'retirement income security' reflected in ERISA's name."

Make it easier for those without a workplace plan to save in IRAs

The right collaboration between employers and policymakers can help workers with no access to workplace plans, especially small-business employees. This is critical since moderate-income workers are 15 times more likely to save for retirement if they have access to payroll deductions at work.[16]

Automatic-enrollment IRAs are one solution gaining traction at the state level. Auto IRAs work by requiring employers without retirement plans to automatically enroll their employees in state-run, private-sector-managed

57 million American workers don't have access to retirement plans.

Source: Wharton Pension Research Council, March 2022.

Photo: Getty Images

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>
> **Bret Hester, TIAA**

IRAs. Under these plans, the role of the employer is administrative, limited to enrolling workers and facilitating payroll contributions into tax-favored IRAs. IRAs are personal savings accounts, not employee benefit plans, and a key feature of auto-IRA programs is that IRAs are portable and move with workers from employer to employer.

In June 2024, Rhode Island became the 17th state to enact an auto-IRA program. Federal auto-IRA legislation also has been introduced multiple times in the U.S. House of Representatives, most recently in February 2024.

Help workers save and access lifetime income in their DC plan

Retirement plan design enhancements can nudge workers through the maze of decisions around saving. Fortunately, plan sponsors are well-placed to help workers make better decisions.

Auto enrollment and qualified default features have long helped people start saving earlier than when enrolling on their own. A complementary plan feature can automatically increase an employee's contribution amount annually. Employees can opt out of those defaults and make their own choices, but if they don't, they get

Photo: Getty Images

enrolled in the plan's choices. With SECURE 2.0 Act of 2022, 401(k) and 403(b) plans established after December 31, 2024, must include an automatic-enrollment option.

Both the SECURE Act of 2019 and SECURE 2.0 provided regulatory certainty and flexibility for plan sponsors and participants interested in incorporating guaranteed lifetime income. Key provisions cleared the way for employers to select investment products for their employees that could include annuities.

These investments make it easier for workers to convert their savings into guaranteed lifetime income at retirement. Often such products embed guaranteed lifetime income into target-date strategies, which also can be used as a plan's default investment option. We believe such product innovation will help broaden access to pension-like lifetime income solutions within DC plans.

Guide savers toward a retirement income plan

While features like auto enrollment and auto escalation encourage workers to save, we believe retirement plans should also provide workers access to solutions that could provide retirement income for life.

To help retirees make their savings last, TIAA believes in requiring employers with 401(k) and 403(b) plans to offer a menu of retirement payout options as well. Our proposed approach—called the "Retirement Q-PON," or qualified payout option—would require one or more options in a menu of choices including systematic withdrawals, guaranteed annuity income or managed payouts. Workers who wish to work with a financial professional could also opt for a lump-sum withdrawal.

The idea is to spare workers the burden, stress and guesswork associated with generating retirement income from their savings. The Retirement Q-PON proposal would embed retirement payout into plan design, making it easier for retirement plan participants to choose a useful retirement income solution at the point of retirement.

Such a policy change should also include an educational component to ensure workers approaching retirement age can understand and appropriately consider their income and retirement payout options as they weigh their retirement needs and priorities.

Retirement plans should provide access to income solutions.

"Plan sponsors offering easy-to-implement income payout options and accompanying education can significantly improve workers' abilities to transition into and thrive in retirement," TIAA's Hester says. "ERISA needs to evolve and modernize for today's workplace."

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The crossroads of global retirement

TIAA Institute study notes a cross-border shift toward hybrid approaches.

Longer lives, changing working patterns and the precarious funding for traditional pensions—the U.S. is far from alone in grappling with a stressed retirement system. Countries are addressing the challenges in disparate ways. The TIAA Institute recently undertook a rigorous review of six of them (in addition to the U.S.) to spotlight the best ideas and biggest takeaways.

MAKING LIFETIME INCOME FLEXIBLE

The TIAA Institute report, "The Future of Retirement Security," includes countries that have historically emphasized personal responsibility and choice in their retirement systems (U.S., Australia, Canada, U.K.), and countries that have prioritized collective risk-sharing over individual choice (Netherlands, Sweden, Singapore). Each system was analyzed with respect to its ability to provide adequate income through retirement, sustain the current level for the long run and deliver good outcomes for different types of people (by age and income).

The study identified a range of policies: Singapore introduced a financial literacy test and asset minimum for savers who wish to self-direct their own investments rather than save through the government-run Central Provident Fund. In Sweden, which has a state-run pension, participants can choose to take only a partial benefit at first and leave the rest invested, or they can pause payments mid-retirement if they return to work.

MAKING LIFETIME INCOME SUSTAINABLE

Each system has found its own way to balance personal responsibility and top-down mandates. Despite their different starting points, all the countries appear to be moving toward hybrid solutions that combine the flexible and sustainable elements of DC systems with the lifetime income and longevity risk-sharing elements of DB plans. For example, policymakers in the U.S., Australia, Canada and U.K. are on a trajectory of introducing more mandates and promoting lifetime income, while policymakers in the Netherlands, Sweden and Singapore are allowing participants to make more individual choices.

Countries that continue to offer guarantees in workplace pensions, such as Sweden and the Netherlands, have been most aggressive in raising future retirement ages to improve sustainability. They have also introduced mechanisms to allow income levels to adjust based on market rates, cohort life-expectancy and plan solvency. Meanwhile, the U.K. has mandated that all employers provide workplace plans and automatically enroll employees into them. Australia's system has for 30 years required employers to make contributions on behalf of their employees into a superannuation fund that employees cannot touch before age 60.

MAKING LIFETIME INCOME SECURE

Fiduciary standards aren't established overnight. Sweden's hybrid retirement system suffered a string of scandals in the 2010s after some funds being offered on its platform proved fraudulent. As a result, Sweden established a fund-selection agency in 2022 to monitor which funds can be offered through the government's platform. The example shows the importance of having a strong fiduciary standard when offering investment choices, something the U.S. established

through ERISA. Systems seeking to allow more choice must ensure oversight and governance to protect savers against potential bad actors, combined with clear and regular communications that help people understand the choices available to them.

MAKING LIFETIME INCOME AUTOMATIC

Behavioral nudges matter everywhere, and policymakers can have a large impact on behavior through the defaults they set. Most savers across borders accept the default investment or income option and relatively few want to choose their own investments. The U.K. experience is a compelling example of the power of defaults; since employers were required to enroll employees into a retirement plan, coverage among private-sector workers doubled to almost 90%, even though workers can opt out.

"A clear takeaway is that policymakers should aim to design systems that lead to expected good outcomes for the average worker, especially because most do not engage," says Surya Kolluri, head of the TIAA Institute.

For the U.S., which comes from a starting point of individualized, voluntary DC plans, moving toward a hybrid retirement system implies introducing more forceful nudges and more guarantees. Additionally, measures to ensure the long-term financial viability of Social Security will be key to ensuring the long-term sustainability of the U.S. retirement system.

Photo illustration: Transport NY/Getty Images/Shutterstock

Mind the gap: retirement in motion

1935

The Social Security Act of 1935 establishes the Social Security program.

1958

Tax code change creates 403(b) plans for employees of tax-exempt organizations such as schools, hospitals, religious organizations and other nonprofits.

1961

Public education employees are offered 403(b) plans; annuities are the sole option.

2000

Social Security Act eliminates the earnings limit for people who reach normal retirement age.

2001

Economic Growth and Tax Relief Reconciliation Act raises many DC contribution limits, introduces catch-up contributions, allows retirement account rollovers and adds Roth contributions to DC plans.

2006

The Pension Protection Act creates qualified default investment alternatives (QDIAs); establishes automatic enrollment safe harbor and loosens managed account conflict-of-interest rules.

2019

Setting Every Community Up for Retirement Enhancement (SECURE) Act eases retirement plan access for part-time employees, raises the RMD age from 70½ to 72 and offers employers safe harbor when adding annuities to plans.

2022

SECURE 2.0 Act extends RMD age further, designates certain catch-up contributions as Roth, adds more withdrawal options and allows employer matches on student loan repayments.

2023

TIAA develops a Retirement Bill of Rights as our philosophical framework for improving the U.S. retirement system.

1974

ERISA becomes law, protecting employees with pension plans. 403(b) plans can invest in a broader range of investments, such as mutual funds.

1978

401(k) plans are established via a provision in the tax code.

1981

The IRS formally recognizes 401(k) plans as defined contribution plans.

1983

Social Security Act gradually raises the retirement age from 65 to 67.

1984

The Retirement Equity Act addresses gender-based disparities in retirement plans and enhances protections for spouses and beneficiaries.

1997

Taxpayer Relief Act expands eligibility for deductible IRAs and creates Roth IRAs.

Retirement Bill of Rights

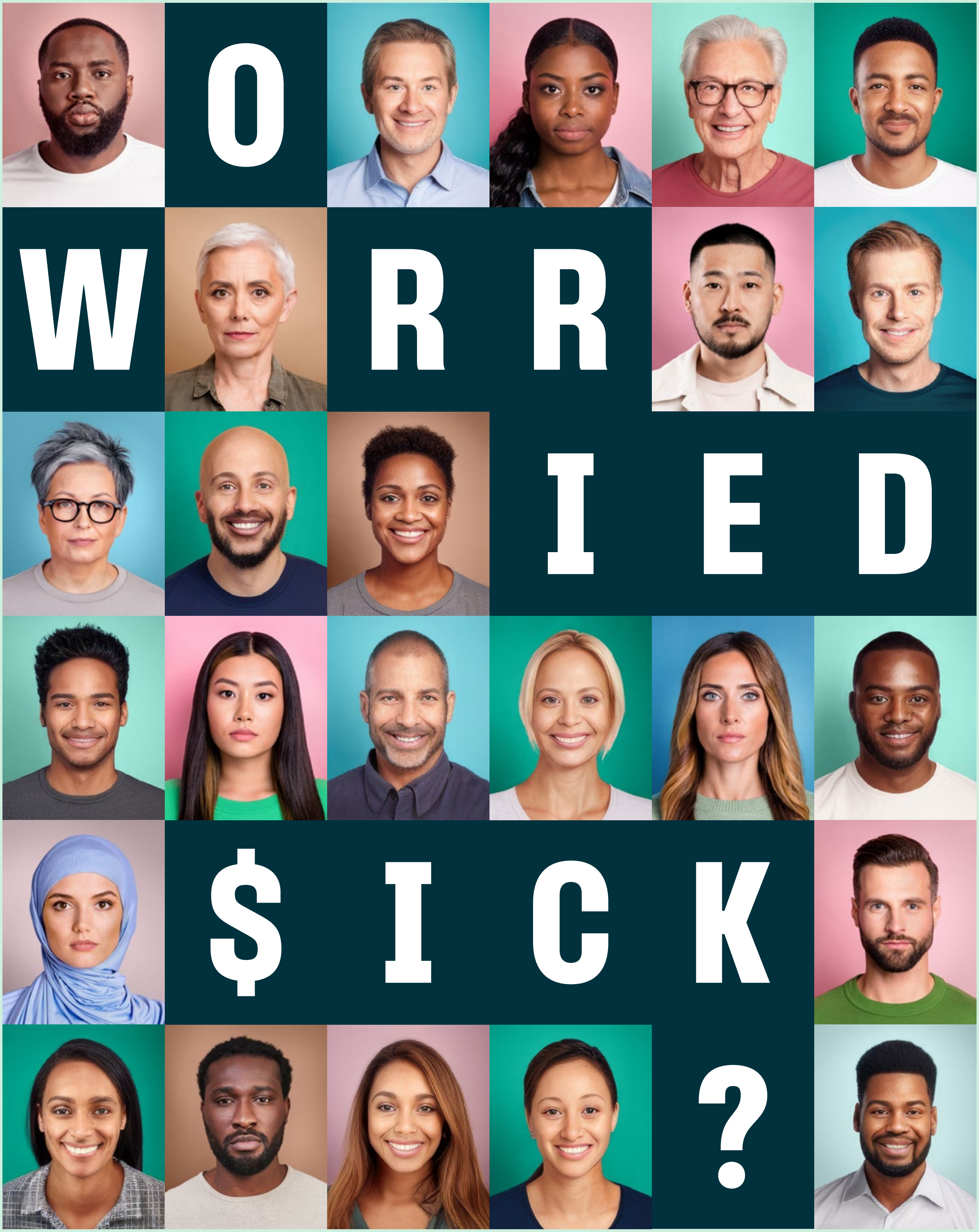
Scan here to read more about TIAA's Retirement Bill of Rights.

EVERY WORKER in America has the right to save for and achieve a financially secure retirement.

EVERY WORKER should have access to low-cost investment options that help provide ample income for a dignified retirement.

EVERY WORKER deserves clear information that allows them to compare saving and income options, make informed choices and meet their retirement goals.

The public and private sectors share responsibility for helping **EVERY WORKER** access retirement income that will last the rest of their lives.


WORRIED
$ICK?

Money affects mental health, even at work. How employers can help.

Back in simpler times, employers paid employees, and that was that. Whatever employees chose to do with their money was of little or no concern to the folks writing the checks.

In hindsight, perhaps there should have been considerably more concern. Employees who struggle with managing their debt, saving and spending—who lack financial wellness, in other words—tend to be less productive and less loyal, according to research from the TIAA Institute.

IMPACT OF FINANCIAL LITERACY ON PRODUCTIVITY

Workers coping with financial stress demonstrate 34% higher rates of absenteeism and tardiness according to the Institute's research on the connection between financial and mental well-being. Stressed-out employees also miss about twice as many days of work compared to their more sanguine counterparts.[1]

Another recent TIAA Institute study found that employees with low financial literacy scores (one measure of financial wellness) spend seven hours per week *at work* dealing with or thinking about financial concerns.[2]

These are all reasons why Annamaria Lusardi, who coauthored the Institute's most-recent financial literacy research, believes more employers should offer financial wellness programs as a benefit.

These programs educate and assist employees in managing their finances by offering debt management services, budgeting workshops, retirement planning, savings strategies and other resources. And they try to take the stigma out of the mental health challenges connected to financial stress. About half of all employers now offer such programs, up from 25% in 2015.

> "Financial wellness matters because it's affecting the work of your employees."
>
> **Annamaria Lusardi, Stanford University**

Opposite page photos: Adobe Stock/Shutterstock/Freepik/123RF/Alamy, Photo: Getty Images

Three questions at the heart of effective financial wellness programs.

What are your employees' financial concerns?

1

Are they struggling with day-to-day finances or bigger issues like repaying debt, buying a house, paying for college or something else? Chances are it's all of the above. To help prioritize the needs to address, look at data around retirement plan loans and withdrawals. That data, coupled with anecdotal feedback, can help focus financial wellness on what matters to your employees.

What's the best way to reach your employees?

2

Naturally, the nature of work and an organization's culture will dictate how you deliver financial wellness. A 24/7 operation like health care might need to use staff meetings to get the attention of busy employees, while other institutions might use incentives to encourage attendance for a lunch-and-learn program.

How will you know if it's working?

3

Decide at the start how you'll measure your program's effectiveness. Fewer loans and withdrawals from the retirement plan, fewer calls from financially worried colleagues and post-event satisfaction surveys are a few ways to track success.

"Why should financial wellness matter to employers?" asks Lusardi, senior fellow at Stanford University's Institute for Economic Policy Research and director of Stanford's Initiative for Financial Decision-Making. "Financial wellness matters because it's affecting the work of your employees."

WHERE TO START A FINANCIAL WELLNESS PROGRAM

Employers don't typically construct their own financial wellness program from scratch, says Chianoo Adrian, product leader for TIAA's financial wellness offering, but programs can and should be customized to a particular employee base.

The process starts with assessing employee demographics such as age, location and compensation. An institution with a disproportionate number of older workers might be less oriented to, say, student loan repayment programs and more focused on elder care programs. Employers need to ask good questions about what their workers need and the best way to provide them information. (See page 28.) From there, employers can zero in on the priorities for program design.

Employers often turn to benefits consultants and financial partners like TIAA for help tailoring pre-built services and educational programs that meet the needs of their employees.

"If someone is struggling with debt, they often can't afford to save for retirement," Adrian says. "It's an equity issue: Are we here to only serve those who can afford to save for retirement? No. We want to deliver on our mission to those who haven't been participating in the plan as well."

PACKAGING A WELLNESS SOLUTION

Most financial wellness services are free to employees, though some programs, including TIAA's, can include premium services available for a fee. Programs tend to focus on the following big financial wellness drivers.

Daily finances and debt

People are more likely to rack up debt—be it overspending on a credit card or financing a car they can't afford—when they don't have a good handle on how much they can spend each month. According to the TIAA Institute, 27% of Americans report debt prevents them from adequately addressing other financial priorities.[3]

Student loan debt is the biggest financial constraint for many, especially employees in health care and education. Nearly 75% of higher-ed employees with student loan debt self-identify as debt-constrained.[4] In health care, 76% of employees with student loan debt and less than five years' work experience said it would be "very valuable" to them if their employers offered debt management assistance programs.[5]

Thanks to the SECURE 2.0 Act, help can come through the retirement plan. Employers now can make matching contributions to 403(b)s, 401(k)s or other qualified retirement accounts based on employee repayment of student loans.

Another option outside the plan helps students overcome a big barrier

"If someone is struggling with debt, they often can't afford to save for retirement."

Chianoo Adrian, TIAA

Photo: Shutterstock

"The more of a financial plan employees have, the more in control they'll feel."

Richard Amos, University of Kentucky

to debt repayment. Public Service Loan Forgiveness (PSLF) is a federal program designed to reduce the burden of student loan debt for people with government and nonprofit jobs. The application process is complicated, so TIAA has partnered with Savi, a registered public benefit company, to help PSLF applicants navigate the program's complicated rules and paperwork requirements. The cost for employees is $70 a year.

The cost to use Savi is worth it, says Adrian, because the application process is so complex. The success rate for applicants seeking PSLF debt relief on their own is only about 2.3%,[6] versus 98% for those using Savi's Essential service.[7] "About one-third of our participants have student loan debt," she says. "This could lower their monthly payment from $300 to $150, and after 10 years, the loan could be forgiven altogether."

Saving and planning

Most large employers offer some routine investing advice as part of their workplace plan, but there's room to do more. That was the case at University of Kentucky before Richard Amos came aboard as the university's chief benefits officer in 2016.

Amos expanded the number of saving and planning benefits available to University of Kentucky's 21,000 employees. "The data show that financial well-being affects people's mental and emotional health," says Amos. "It weighs on them at work, it weighs on them in general. So the more of a financial plan employees have, the more in control they'll feel."

One of University of Kentucky's newest initiatives is something called UK Invests. UK Invests started out as a program for students: Students open a brokerage account through one of the university's financial partners and receive a 10% savings match, up to $300, if they complete tasks like a financial literacy course or meet with a financial advisor. Based on UK Invest's initial success with students, the university will begin rolling the program out to employees this fall.

Financial protection

Insurance—life, health, long-term care, etc.—is the most familiar type of financial protection. Another less well-known type is a guarantee you won't outlive your money, from a lifetime income annuity. Emergency savings is another type of financial protection that often falls under the radar.

Financial protection helps mitigate an all-too-common source of financial stress: the unexpected expense. The car needs a new transmission. A family member makes a pricey emergency-room visit. A spouse loses their job. Because unexpected events can have disastrous effects, most financial advisors urge people to maintain an emergency fund large enough to cover three to six months of expenses.

Unfortunately, many people fall well short. According to the TIAA Institute, only 42% of college and university employees have enough nonretirement savings to cover even *one* month

Photo: Alamy

of expenses, never mind six. The percentage is even lower for employees under age 40.[8]

To address this, some financial wellness plans offer tools that help employees build emergency savings. Delta Airlines, for instance, started matching $250 of employee contributions to a short-term savings account in 2023, according to a TIAA Institute report.[9]

"It's important that employees have enough savings to withstand small financial shocks," says Lusardi. When they don't, she says, they sometimes pull money from retirement accounts or stop contributing altogether. "They can make poor decisions because of financial worries. Financial education in the workplace is a win-win for everyone."

NEXT STEP: ENGAGEMENT

The biggest challenge with any financial wellness service is getting employees to use it, Amos says. He's optimistic the financial incentives built into UK Invest will lead to meaningful improvements in employee financial literacy. "There's an element of throwing spaghetti at the wall to see what works and what doesn't," says Amos. "There's a lot of positive excitement this one will stick."

While it'd be wonderful if everyone prepared monthly budgets and followed them to a T, the reality is most don't and won't. Behavioral finance principles can help address overspending from a different angle. "People reject the idea of budgeting, and there's a lot of joy in spending," Adrian says, noting TIAA's financial wellness offering includes budget worksheets and similar tools, which tend to be underutilized. "So we asked ourselves: How do we help people spend better and still save?"

So now a new TIAA tool called "The Joy of Spending" is available to plan participants on the TIAA app. The tool walks employees through a series of questions designed to determine the amount of joy they derive from various types of spending. If Jane gets more joy going to Starbucks with friends than she does burning off steam on the treadmill, the suggestion might be to continue enjoying her daily caramel macchiato—but also to quit her expensive gym in favor of the local YMCA.

"It's just a different method for finding ways to manage finances," Adrian says. "A small step forward is better than no step forward."

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"A small step forward is better than no step forward."

Chianoo Adrian, TIAA

Photo: Shutterstock

Financial health, for health's sake

As burnout continues to fuel health care's talent exodus, employers need to support workers' mental health in new ways.

America's healthcare workers are done. Exhausted. Enervated. And they're getting more vocal about what they want from their employers.

One in four healthcare workers intends to leave their job in the next two years, according to a TIAA Institute study.[1] More than 90% cite burnout as their top reason for wanting to leave—putting mental health at the epicenter of healthcare talent recruitment and retention conversations.

Burnout in health care is hardly new. Mounting administrative tasks combined with higher patient loads and staffing shortages—to name just a few challenges—made it tough to meet standards of care even before the pandemic. Things haven't improved.

"The shortage of staffing ... leaves us feeling like we are drowning. It feels relentless with no time to gather our thoughts, to take the most basic of breaks, let alone recover from what we are witnessing," a physician shared.[2]

Clocking out doesn't always provide a respite either. Many say they finish a 12-hour shift only to start their next one at home caring for family. Physicians also report spending hours finishing notes and administrative work from the day. It leaves even less time to decompress or find time to tend to personal matters.

FINANCIAL HEALTH MEETS MENTAL HEALTH

In 2022, the U.S. Surgeon General released a five-part plan aimed at relieving the pressure and burnout among healthcare workers by making well-being a priority.[3] Many employers now offer training to help manage stress and build resilience, which has shown positive results for improved mental health, higher job satisfaction and lower perceived stress, but not burnout.[4]

One way to curb burnout is to look at stress beyond work. Financial stress might be a place to start. Almost two in

Photo: Ben Alsop

> "Many people want to save more for retirement but they have more immediate needs."
>
> **Craig Parkin, TIAA**

five healthcare workers say financial stress is their top worry outside of work.[5] Growing research draws a strong connection between finances and mental health conditions, including anxiety, depression and anger, according to the TIAA Institute.[6]

TIAA recently interviewed a broad range of healthcare workers, including physicians, nurses and health aides. Their financial concerns include everything from digging out of debt and managing their spending and saving to being unsure their savings will be enough to support them in retirement. Most agreed on one thing: They want to find a better work-life balance and remain financially stable.

"I easily work 11.5 to 12 hours per day. The lack of free time is having an impact on my overall well-being. That is why it is so crucial for me to see if I can reduce my hours and still have enough to live on and to save enough for the future," a 52-year-old physician said.[7]

For a 23-year-old nursing assistant, it's about advancing her career: "I would like to get my degree and become an RN. I am not sure how to make that work with my finances and my life."[8]

EMPLOYER STRATEGIES FOR SUPPORTING FINANCIAL WELLNESS

For healthcare employers, it's important to support workers' diverse financial needs and goals, but that's no small task. Still, the solution might not call for an entirely new effort either. Incorporating one-to-one advice into existing wellness programs can help honor individual differences and encourage financial health throughout the organization.

Treat financial stress with advice

One-to-one financial advice can help. A recent TIAA Institute study looked at retirement readiness among healthcare professionals. While nearly all were saving for retirement, half of those savers received financial advice. And of those, over 75% felt confident about their ability to retire. Nine out of 10 felt confident they could retire once they applied the advice they received.[9]

Most people seeking advice don't start off terribly confident, according to Craig Parkin, head of retirement advice and consulting at TIAA. Most feel reluctant to seek advice, worried they're too far behind to get on track. With that comes a lot of guilt and even shame, but Parkin says the experience is far different.

"When someone meets with a financial consultant, they talk about where they are today and where they want to go. Many want to save more for retirement but they have more immediate needs: getting out of debt or building a budget, or bigger goals of buying a home or paying for college. Together they walk through the steps to meet that goal and the next one, and so on. But the individual needs to take that first, intentional step to meet with a consultant. That's where confidence starts to build."

Getting healthcare workers to take that first step can be hard, says TIAA's Brian Munnelly, a senior director of financial consulting. A 30-year TIAA veteran, Munnelly has spent the last 15 years serving healthcare institutions and appreciates the demands on healthcare workers, especially that their mission comes first.

"Shifts start and end around the clock and we're there," explains Munnelly. "We even meet over Zoom® on off-hours. Sometimes people miss their appointments—usually for very good reasons. We follow up and offer to reschedule. And since it's the same consultant showing up every time, employees start to recognize them as part of the community."

Build financial health into overall wellness

Healthcare workers, tired from a long shift, might need an incentive to think about getting advice. Munnelly says some employers grant wellness credits to employees who meet with a financial consultant. "It sends the message that their financial health is an important part of overall health."

Healthcare workers see it the same way. "I would appreciate it if that discussion included our goals for physical and emotional health as well as financial," reported a 48-year-old nursing director. "That makes me feel like you care about me as a person."[10]

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Annuities

Ye olde annuity myths

Few financial ideas are as misunderstood as annuities. We're here with the facts.

Breakfast is the most important meal of the day. Sitting too close to the TV will make you go blind. George Washington had wooden teeth.

Myths can become so culturally ingrained that we stop questioning whether they're true. Annuities are like the "wooden teeth" of finance. From your uncle or hairdresser, you might have heard that annuities are expensive, complicated or simply not useful.

The truth is annuities check a lot of boxes for a lot of people. A retiree can rely on an annuity for guaranteed income that lasts a lifetime. A saver can use an annuity for steady income or growth ahead of retirement. Despite these benefits and others, the myths persist. So let's tackle them head-on. Here's the truth behind some of the most common myths.

MYTH I:

Annuities are complicated.

Modern investing can get wonky fast. Algorithms, risk models, crypto-currencies. Annuities are simple—so simple that their underlying concept, guaranteed income, goes back to Roman times as a way to protect aging citizens.

Annuities are insurance contracts—promises—that retirees purchase in exchange for an income stream that lasts as long as you're alive. When you "annuitize," or tell the insurer you're ready to stop saving and want to start using your savings, the insurer guarantees you'll get income for the rest of your life.

The oldest and simplest annuity, a fixed annuity, is a contract mainly backed by bonds and other fixed income investments. They offer savers a guaranteed interest rate and a guaranteed payout rate if you decide to annuitize.

A second type of annuity—pioneered in the 1950s—is a variable annuity, a contract that delivers income that can rise or fall with specific stocks or bonds chosen to generate the income.

These variable annuities don't offer a guaranteed rate while saving or as a payout, because their returns depend on the performance of their underlying investments. However, both fixed and variable annuities guarantee you'll get income as long as you live.

MYTH II:

Fixed annuities are all the same.

When financial firms talk about their annuities, they might sound similar, but they often work quite differently.

Preceding page photo: Ben Alsop, Photos: Ben Alsop

Take TIAA Traditional, our flagship fixed annuity.

Unlike any other fixed annuity, TIAA Traditional was built around our culture of profit sharing, which has rewarded savers and annuitants for decades. We've paid annual interest rates higher than the minimum guaranteed rate since 1948, so savers have gotten more. And in 19 of the past 30 years, we've given annuitants higher payout rates than they were promised.

TIAA Traditional has another unique feature in our Loyalty Bonus℠. The longer you contribute to TIAA Traditional, the larger your Loyalty Bonus is at retirement. The Loyalty Bonus isn't guaranteed, but TIAA has added it to retirement checks for the past 30 years, in addition to other ways we've shared profits.

MYTH III:

Annuities are expensive.

Fixed annuities offered inside retirement plans do not cost participants or employers anything. Really. Pricing of in-plan annuities works like a certificate of deposit you get from a bank. With a CD, you pay no fees because the bank invests to earn a return on your money—typically expressed as an interest rate. Any investing fees come out of that interest before it ever hits your account.

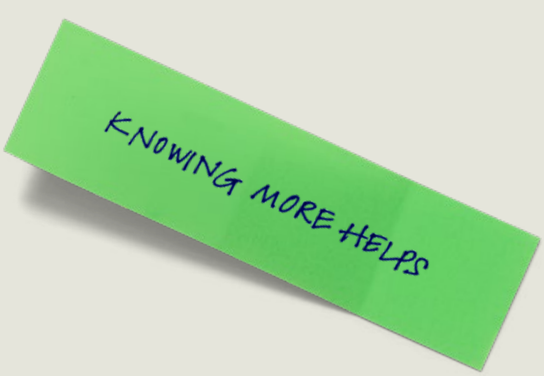
With your in-plan annuity, TIAA posts an annual interest rate every March that's guaranteed to savers for the following 12 months. In other words, what you see is what you get in terms of in-plan annuity returns.

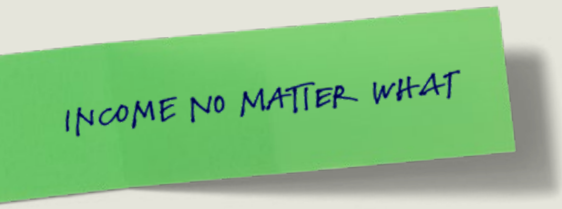
Contrast in-plan annuities with "retail" annuities—those bought directly through an advisor or a broker. Because they are sold outside a retirement plan, buyers usually pay a hefty sales charge at the time of purchase. Retail annuities can offer more options, which typically results in added costs.

MYTH IV:

I'm still saving, and too young for an annuity.

Annuities can be effective even if you're just starting to save. For example, fixed annuities may complement a saver's fixed income allocation by providing steady growth at the specified rate without the volatility of bond funds. Even when other investments are down, the money in your annuity continues to grow.





MYTH V:

I've saved my whole career and have plenty of money. I don't need an annuity.

Maybe your savings really *will* last your lifetime. There are a few reasons you still might want to consider an annuity.

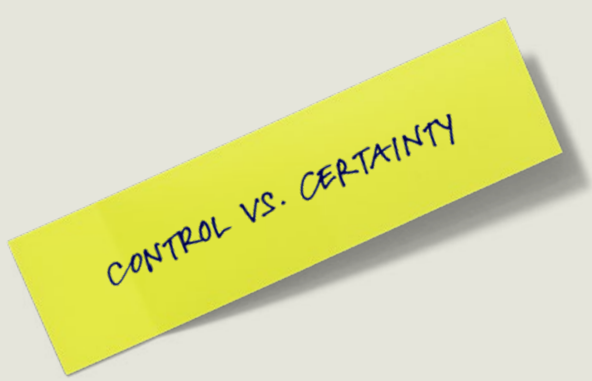
First, no one knows how long they'll live. A 67-year-old man today has a 66% chance of reaching age 80; a 67-year-old woman has a 75% chance.[1] Even if you, at age 65, are certain your money will last 30 years, what if you live 31 years?

Further, there's no way to know how much money you'll have left at age 75 or 85, or what medical and longevity advances might occur in the next 20 years that could extend your lifespan. Odds are you'll need more retirement savings over a longer period of time than you might expect. An annuity ensures that you will have an income stream no matter how long you live.

Second: Turning that big pile of money into an income stream in retirement is a complex undertaking. It only gets harder as you age and are more likely to face unexpected medical costs and cognitive decline.

But even young, healthy retirees struggle to know how much money they can take out in any given year, depending on how the markets have performed and what expenses they're facing. The income stream from an annuity makes managing your portfolio easier and, as a result, facilitates better spending decisions in retirement.

Third: Your heirs. If a good portion of your expenses are covered by income from an annuity, you can take a bit more risk with the rest of your portfolio and orient it toward growth—for you or your heirs.



MYTH VI:

I'd have to give up control of my savings.

Annuitizing at retirement inherently means committing a portion of your savings to "buying" future income. It also means gaining control over your retirement.

There is a real trade-off between liquidity (the ability to convert your investments into cash) and stability (a guaranteed rate of return). Some people want more control over their retirement investments. Others see value in a fixed annuity's guarantee of retirement income. Still others prefer a mix of both.

No one should annuitize their entire savings. Depending on what your necessary expenses are, and how much you expect to get from Social Security and a pension (if you have one), experts recommend annuitizing 15% to 40% of your total portfolio at retirement.

That leaves retirees with money they can allocate to cash, stocks and bonds to meet variable expenses (be it a vacation or hospital bill Medicare doesn't cover) and other needs.

MYTH VII:

The 4% rule is all I need.

Retirement is full of rules of thumb. Perhaps the biggest is the 4% rule to govern spending. The rule is if retirees withdraw 4% of their savings in their first year of retirement, and keep withdrawing that same dollar figure annually, adjusted for inflation, they have a good chance of weathering market ups and downs and not outliving their savings.

Sounds simple, right? Well, you'll need to be heavily invested in stocks throughout retirement and willing to cope with volatility (at least half a portfolio must be invested in stocks to make the math work). The research also is based on a 30-year timeframe, so people retiring early and/or living longer probably won't be able to spend that much each year.

Moreover, while this strategy can work pretty well in steadily growing markets and among financially savvy people, it gets complicated (and less predictable) in volatile markets.

When the 4% rule is used in connection with TIAA's fixed retirement annuity, however, retirees can eliminate some of the guesswork and reduce the stress of watching the markets.

TIAA recently published research that shows first-year retirees could get 32% more income in 2024, by dedicating one-third of their savings to lifetime income with a TIAA Traditional fixed annuity and withdrawing 4% of their remaining portfolio balance. For more information, read up on the advantage of annuitizing with TIAA in Edition 3 of TIAA TMRW. (Please visit tiaa.org/public/plansponsors/insights/tmrw/edition-3.)

MYTH VIII:

People don't have the attention spans to understand annuities.

Study after study shows people are attracted to the concept of lifelong, predictable income, but when the term "annuity" enters the equation their eyes glaze over. They love the income annuities can provide, but not the label.[2]

There may be a learning curve, but you can motivate employees to ensure they'll have payments coming in after they stop working. Consider a recent study that found 70% of workers worry about not having enough to retire, and more than half of employees are "very" or "extremely" interested in retirement plans that include guaranteed lifetime income.[3]

How you address income matters. Education matters too. That's why more employers are adding or bolstering financial wellness benefits that include independent financial advice. Pre-retirement financial planning can kickstart thinking about where a soon-to-be-retiree can derive income after they stop working—meetings that can include frank and personalized conversations about how annuities can help them.

1 Social Security Administration 2019 mortality data. "Longevity Literacy: Planning for 100-year Lives," TIAA Institute, 2023.

2 "Framing and Annuities," Jeffery Brown et al., TIAA Institute, January 2009.

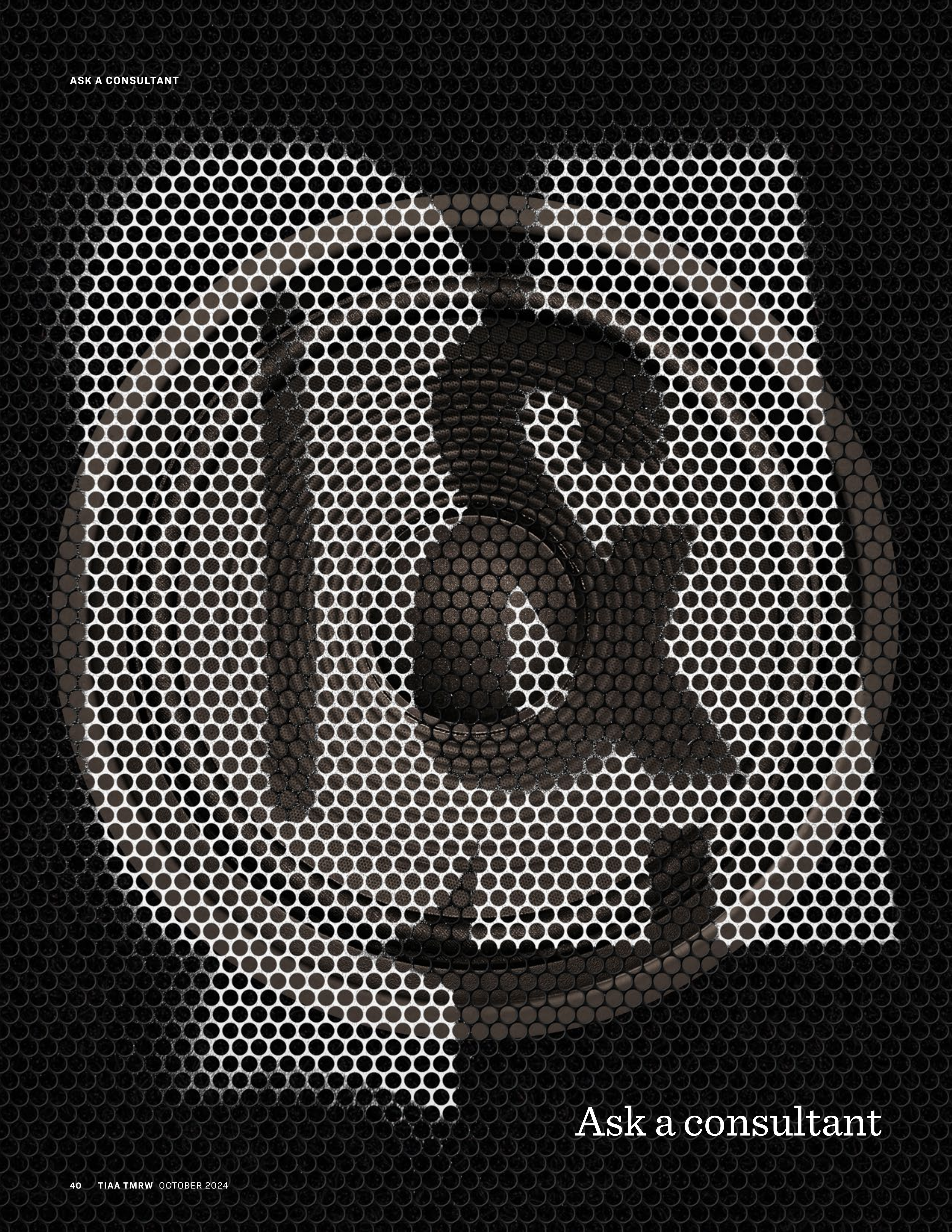
3 In-Plan Insights Study, Greenwald Research, January 2023.

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.

Photos: Ben Alsop



Ask a consultant

Listen up!

How to get busy, distracted, uninvolved employees to engage.

When you're engrossed in running a retirement plan and other benefits, it's easy to forget not everyone knows the details of, say, the contribution limits or the target-date glide path design. Many employees may not know whether they're investing, much less on track, for retirement. And no shame on their game—our minds can't be everywhere at once. You may not think about your tire pressure or the age of your roof as often as you should, though both are important.

In truth, it's a struggle to get employees to pay attention to far-off-seeming concepts like retirement savings unless they are preternaturally interested. We turned to some experts for new thinking around engaging employees so they can better help themselves.

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.

Opposite page photo illustration: Transport NY/Adobe Stock

What are the best ways to help younger employees start saving for retirement earlier?

– HEALTHCARE ORGANIZATION

VIN SMITH
Partner and Defined Contribution Practice Leader
Fiducient Advisors

To start, let's look at why employee engagement is so hard. We're in a battle with the attention economy—the demands far exceed supply. And it's worse with younger workers. Very little gets through, especially when it comes to retirement.

It's even harder to get healthcare workers' attention. They're constantly on the move: multitasking, caring for patients, responding to emergencies. Retirement seems like a world away. Younger workers also have more immediate financial concerns: student loans, credit card debt and daily living expenses. Those are strong headwinds to saving.

For all these reasons, we believe automatic enrollment and auto escalation make the most sense to help employees start saving when they feel they can't do it themselves. We recommend a conservative starting point—say 1% to 3%. It's less about how much they save on day one and more about establishing the saving habit. Then we pair automatic enrollment with auto escalation to give their savings a better chance of growing.

When it comes to getting employees to engage, we focus our efforts on education to help younger workers avoid negative behaviors that could interfere with saving. Student loan debt, credit card debt, emergency savings—all can pressure an employee to opt out or decrease their retirement contributions.

But education doesn't look the same in every workplace. Healthcare workers can't leave their shift to attend a meeting. Consider more creative or organic conversations—such as a human "mobile financial wellness help desk" who walks the floor with teams during their shifts. If we expect to get their attention, we need to meet them where they are.

Illustrations: Lauren Tamaki

What should employees focus on when they approach retirement? What specific steps would you recommend?

– SMALL HIGHER EDUCATION INSTITUTION

GLENN JENSEN
Managing Director
New England Retirement Consultants

About seven to 10 years ahead of time is a good time to ask: "Do I have the right investment mix for my time horizon? Am I comfortable with the risk level, knowing I'll need to draw upon that money soon?" It's about striking a balance between stability and growth.

Within about two to three years of retirement, employees should get serious with post-retirement planning. It starts with two key questions:

What retirement expenses will I have?
Look at your fixed costs: rent, mortgage, taxes, transportation, food and other things you'll need. Then, consider some bigger questions: How's your health? Will you have immediate healthcare costs such as premiums, copayments, prescriptions or other costs not covered by an HSA? The more specific you get about expected expenses, the better.

What are my income sources?
How will you pay for those expenses? Most people get some Social Security income. You also might get income from a part-time job. The rest comes from savings.

One of the biggest retirement fears is outliving one's savings. And let's not lose sight of inflation—over time, it can erode your spending power. While Social Security has a cost-of-living adjustment each year, it doesn't always keep up with rising costs. At retirement, it may be wise to consider an income annuity with a cost-of-living adjustment, or COLA. It guarantees income for life and can keep pace with inflation.

Beyond these basic questions, retirement planning can get complicated quickly—when should I take Social Security, how does Medicare work, how do I choose supplemental health insurance? Many employers partner with accredited, independent retirement experts to host employee education sessions. It helps alleviate some of the burden on employers and helps employees retire with less stress.

We provide a very high employer contribution. How can we get employees to contribute more of their own money?

– LARGE HIGHER EDUCATION INSTITUTION

CHRIS SCHAEFER
Senior Advisor
MV Financial

Short of automatic enrollment, it's hard to get employees to contribute to a plan when they think they're covered by generous employer contributions. So getting employees to save their own money typically involves several strategies tiered to meet their needs.

The first tier is plan design—does the plan offer the features and benefits employees need to feel comfortable putting money into it? We look at eligibility requirements, vesting and distribution options, and help employees understand how they can get their savings if needed or if they leave.

The next tier is education. Educate workers about important financial concepts, such as compound interest, to demonstrate the benefits of saving early. Talk about asset allocation to address risk concerns. Often education alone isn't enough. Employees need action steps, such as "10 ways to get on track." And we need to tailor those steps to their personal circumstances.

That gets to the top tier: one-on-one advice. For some, saving 15% to 20% can feel unattainable, even with healthy employer contributions. Advice can help them make incremental changes that fit their circumstances.

In some cases, voluntary participation isn't always the next best step. Some people may need to pay down credit card or student loan debt or build an emergency fund. Help them cross those things off the list, and then they can start contributing to the plan.

Lastly, I can't overstate the value of employer support. I've always found a strong employer message around wellness goes a long way—not only physical wellness, but also financial well-being too. Employers can heavily influence how employees get the financial education and advice they need.

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