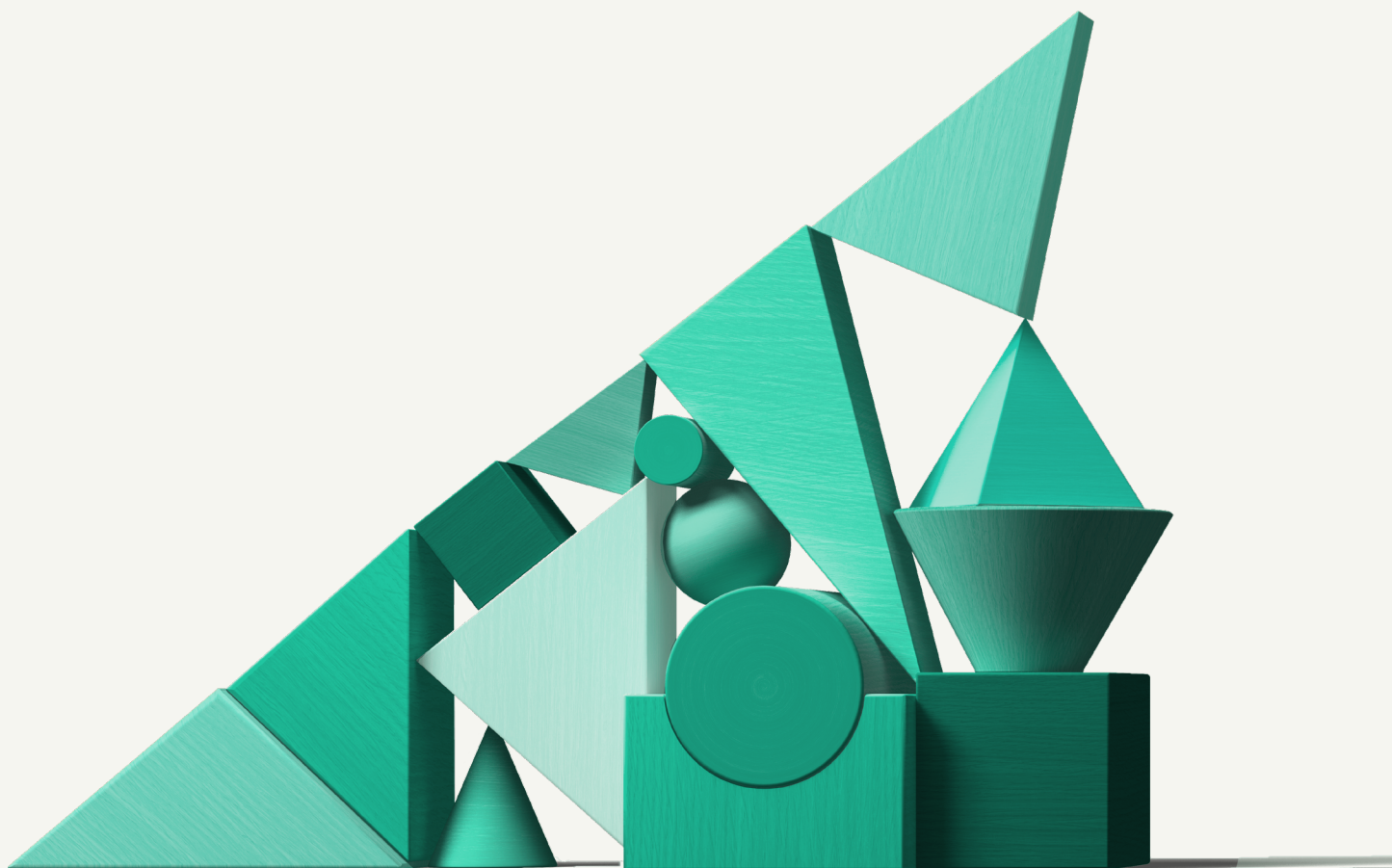




TRENDS 2025

What to watch in the retirement industry

1. MACROECONOMIC OUTLOOK

2. POLICY OUTLOOK

3. PLAN DESIGN

4. TECH SECURITY

5. GEN Z

WHAT'S AHEAD FOR 2025

Last year saw steadily declining inflation, lower interest rates and a surging U.S. stock market.

A repeat is unlikely in 2025. Our outlook suggests that retirement plan participants should expect an uptick in market volatility, particularly in bonds, while sponsors will consider novel forms of financial education and confront the threat of digital security.

Savers and retirees alike will be affected by the battle brewing between the Federal Reserve and a Republican-controlled Congress, which is considering potentially inflationary policies. TIAA Wealth Management Chief Investment Officer Niladri “Neel” Mukherjee digs into what this dynamic may mean for retirement portfolios in 2025.

TIAA’s government relations team, with its finger on the pulse of D.C., delves into what sponsors can expect from the new administration and a Republican-controlled Congress. Among them could be the outline for the next big comprehensive retirement reform bill—a successor to 2022’s SECURE 2.0 Act.

Consideration of annuities inside retirement plans is on the rise, according to a new TIAA blind survey. Responses from 500 decision-makers for defined contribution (DC) retirement plans found that an overwhelming majority of sponsors (eight of 10) currently not offering an in-plan annuity are considering doing so soon. Education around lifetime income, however, will be the key to moving forward.

Emerging technology is almost always worth highlighting, and this year we examine how sponsors are dealing with cyberfraud and cybersecurity. Fraudsters are increasingly using AI in new and sophisticated attempts to make off with retirement funds of Americans. At the same time, new technologies are being built to keep the bad guys out. According to a TIAA poll, cybersecurity is one topic that all plan sponsors consider to be at the top of their to-do lists for 2025.

To build out our annual report, we spoke with consultants, plan sponsors and experts in markets, both within TIAA and elsewhere, and dipped into salient new research to identify the major trends we expect in 2025.

No. 1



MACROECONOMIC OUTLOOK

The GOP v. the bond market.

The U.S. economy faces policy shifts that could inject uncertainty and create market volatility.

1. MACROECONOMIC OUTLOOK

“Markets will be sensitive to the Trump administration’s policy choices, and we will likely see volatility return in 2025, after the S&P 500 delivered more than 50 record highs in 2024.”

NEEL MUKHERJEE

TIAA Wealth Chief Investment Officer

The GOP sweep of the White House and Congress will usher in a new paradigm for the economy, says CIO of TIAA Wealth Management Mukherjee. Markets will be sensitive to the Trump administration’s policy choices, and we will likely see greater volatility in 2025 after the S&P 500 delivered more than 50 record highs in 2024.

Mukherjee says the tug-of-war between the bond markets and Washington, D.C., will be a prime focus for savers and retirees. At one end of Constitution Avenue, the Federal Reserve weighs whether to continue cutting short-term interest rates as inflation cools. The Consumer Price Index, the most common measure of inflation, has fallen from 9.1% in June 2022 to 2.9% by the end of 2024, giving the Fed solid justification for lower interest rates.

On the other end of Constitution Avenue, the Republican-controlled Congress seems committed to enacting President Trump’s tax, trade, and immigration policies, which could cause inflation and work against the Fed’s efforts to lower interest rates. President Trump has suggested eliminating income tax on tips, overtime pay and Social Security benefits. He proposed cutting corporate income taxes and renewing 2017’s Tax Cuts and Jobs Act.

More tax cuts would lead to bigger budget deficits and increased bond issuance by the Treasury. This could raise the hackles of bond investors, who would demand higher yields in an attempt to impose fiscal discipline on Washington. Already yields on 30-year Treasury bonds have risen to 4.9% in January from 4.1% in October 2024. Mukherjee and team are waiting to see if this modest reaction turns into another “Liz Truss moment”—the bond

market rebellion that forced the former prime minister to abandon her own tax-cut plan in 2022.

Tariffs, a cornerstone of President Trump’s economic agenda, could also have inflationary implications, as higher tariffs on imported goods would likely be passed along to consumers in the form of higher prices. Curbs on immigration, including deportations, could also be inflationary, with a trimmed workforce exerting upward pressure on hourly wages.

Mukherjee favors U.S. stocks over international. His enthusiasm for U.S. growth stocks is tempered by high prices, however. The S&P 500 in December traded at 22 times forward 12-month earnings, above its five-year average of 20 times and 10-year average of 18. With valuations already stretched, further upside for stocks will be highly dependent on strong earnings growth.

Any escalation of trade tensions would dampen growth prospects for China, Japan, export-oriented economies in Europe, and markets like Mexico and South Korea. The economic outlook for Europe and China is also clouded by their shrinking populations and labor forces.

Despite so much in flux, retirement savers should remain anchored to their long-term financial plans, Mukherjee says. Employers may wish to promote financial advice benefits to help keep participants on track amid increased volatility.

No. 2



POLICY OUTLOOK

Build it up. Blow it down.

How Republican control inside the Beltway may affect plan sponsors.

2. POLICY OUTLOOK

“Think of the next big reform as in the development stages, a bucket that we’re filling with proposals that’s maybe a quarter full.”

CHRIS SPENCE

TIAA managing director for federal government relations

Retirement, long considered a bipartisan issue, will be on the table in 2025 in three ways that bear watching for plan sponsors—new reform bill provisions, reversing Biden-era rulemaking and debate over forcing more Roth contributions within workplace retirement plans.

Enter ‘SECURE 3.0’

Among the measures that could form the basis for a “SECURE 3.0” retirement bill include lowering the minimum contribution age for more retirement plans to 18 from 21, enhancing automatic enrollment and escalation plan features, and making it easier to include lifetime income in plans.

“Think of the next big reform as in the development stages, a bucket that we’re filling with proposals that’s maybe a quarter full,” says Chris Spence, TIAA’s managing director for federal government relations.

Another access point for lifetime income could come in the form of a proposed retirement “Q-PON,” or qualified payout option, that would require retirement plans to provide a menu of payout options for plan participants who are retiring—such as systematic withdrawals, guaranteed annuity income or managed payouts.

The Automatic IRA Act, one approach to increase access to workplace plans modeled on state-level programs, is unlikely to move ahead in a GOP-controlled Congress. It was reintroduced by a Democrat in 2024.

ERISA rulemaking and ‘Rothification’

An embattled U.S. Labor Department rule to protect retirement savers—

officially the Retirement Security Rule—looks sunk in 2025. The rule redefines who qualifies as a fiduciary under ERISA and would cover one-time recommendations such as retirement plan rollovers. Implementation has been delayed because of court rulings, and many assume it will be invalidated. The Trump administration could simply stop defending the rule in court and then decline to appeal, ensuring its demise.

Meanwhile, a top GOP priority is extending 2017’s Tax Cuts and Jobs Act and doing so could cost upward of \$4.5 trillion. If 2017 is prologue, fiscally conservative Republicans may discuss covering some of the tab by forcing more 403(b) and 401(k) contributions to be made on a Roth, or after-tax, basis.

In focus is the upfront tax deduction employees get when they contribute to a traditional workplace retirement plan, which is among the most generous tax incentives in the U.S. tax code. Traditional contributions generally aren’t taxed before money is withdrawn. Roth contributions are subject to ordinary income tax.

In 2017, Republicans discussed capping annual pre-tax contributions and requiring any additional contributions to be made on a Roth basis. The proposal was controversial and ultimately excluded. But a provision of 2022’s SECURE 2.0 Act required higher-income participants to make catch-up contributions on a Roth basis. Employers must retool their plans by 2026 to accommodate the change, and future debate around “Rothification” could include new requirements.

No. 3



PLAN DESIGN

Is lifetime income poised for the main stage?

Higher education and healthcare have been ahead of the curve in offering in-plan annuities, but annuity fluency is still a challenge.

3. PLAN DESIGN

Eight in 10 employers currently not offering an in-plan annuity are considering doing so, and four in 10 say they will do that in the next two years.

Retirement plan sponsors have for years prioritized making it easier for employees to save for retirement. Their attention is now turning to how best to ensure employees can replace their income throughout retirement.

TIAA's first annual survey of 500 decision-makers for DC retirement plans demonstrates that employers are ready to take advantage of the all-important safe harbor protections for in-plan annuities, courtesy of the SECURE Act of 2019.

Critically, eight in 10 employers currently not offering an in-plan annuity are considering doing so, and four in 10 say they will do that in the next two years. In fact, nearly half of survey respondents (48%) say that offering guaranteed lifetime income through the retirement plan was second only to increasing the employer match as a top way to positively impact an employee's retirement.

A year of annuity fluency

Most drivers can't describe how their engine works but are still comfortable getting behind the wheel. For in-plan annuities, however, an "annuity fluency" gap could be standing in the way of broader adoption.

TIAA's survey found that 85% of plan sponsors acknowledge that employees will need more guaranteed income beyond Social Security. They get that, as people live longer, there's a greater risk that some retirees—even the most disciplined savers—will outlive their savings.

Most employers understand the basics of annuities but more than six in 10 can't explain why they matter. They want help with the specifics. Some confusion stems from the differences between annuities offered through a DC plan and ones people can purchase individually on the retail market, but in-plan annuities are generally more straightforward than the retail alternatives, and vetted by the plan sponsor.

The good news is that employers have a track record for embracing innovative plan design. Two decades ago, target-date portfolios were newcomers on the block, but a combination of regulatory support and education cleared the way for widespread adoption by employers. Today, target-date portfolios have become mainstays in defined contribution plans.

Indeed, in-plan annuities themselves are increasingly available as components of target-date portfolios. Research firm Morningstar began covering the target-date portfolios that include annuities in 2024, often a sign that a nascent product is growing.

One clear message from the survey is that employers want more support from consultants, particularly when it comes to big ideas and strategies for their retirement plans. If consultants needed any more impetus to brush up on in-plan annuities, plan sponsors rank "consultant advice" first among their motivators for adding annuities.

No. 4



TECH SECURITY

Something sounds phishy.

Cybercriminals are getting smarter. So are we. The new policies and practices to adopt this year.

4. TECH SECURITY

“It’s not just about securing the plan itself. It’s about securing the entire ecosystem, including recordkeepers, third-party administrators, participants, and anyone else with access to plan data.”

NICK BREZINSKI

CAPTRUST director of information security and network

In 2016, Bangladesh’s central bank was the setting for the heist heard around the world. Hackers exploited the global financial payment messaging system, SWIFT, and made off with \$101 million. That may seem like a one-off caper in a far corner of the world, but it revealed a fragile, networked future, where a thief in Bangladesh could bankrupt retirees in Boston.

A wash of system hacks, phishing, stolen credentials, employee extortion, AI executive voice and video deepfakes and other misdeeds has driven cybersecurity to the forefront of every institution along the retirement industry’s delivery chain.

“It’s not just about securing the plan itself,” Nick Brezinski, CAPTRUST director of information security and network said in an October 2024 whitepaper.ⁱ “It’s about securing the entire ecosystem, including recordkeepers, third-party administrators, participants and anyone else with access to plan data.”

Artificial intelligence, or AI, is used in phishing attacks in personalized emails, texts, and social media that appear to be from family, friends or an authority figure who demands personal information, money, or both. One fraudster can now engineer thousands of these attacks each day.

In another well-publicized scam this year, fraudsters preyed on devotees of Elon Musk using a deepfake video of the Tesla CEO touting “a modern technology for making money.”

By 2027, losses stemming from AI deepfakes are expected to reach \$30 billion, according to Deloitte.ⁱⁱ

U.S. regulators jump in

In 2023 The Securities and Exchange Commission issued a proposal that requires financial services to maintain and enforce written policies and procedures that are “reasonably designed to address their cybersecurity risks.”

The Department of Labor confirmed in September 2024 that its cybersecurity guidance applied to all retirement plans governed by ERISA. (See the Department of Labor’s Cybersecurity Program Best Practices on the next page.)

A poll of higher education plan sponsors at the TIAA 2024 Advisors Summer Meeting found that all respondents were concerned (70%) or very concerned (30%) about cyberattacks at their institutions. Even so, a significant gap remains between fear and action. Only 27% of plan sponsors have a written cybersecurity policy, according to the Plan Sponsor Council of America (PSCA).

“A whole new wave of cyberattacks and fraud schemes has been unleashed in the past year, and this trend will gain momentum in the years ahead,” says Upendra Mardikar, TIAA’s chief information security officer. “We’re using generative AI tools and processes to modernize, automate, and accelerate detection and prevention of these crimes. Cybersecurity is a collaborative community initiative: We all need to work together to win this battle.”



U.S. Department of Labor Cybersecurity Program Best Practices.

First steps to create a formal cybersecurity policy.

Establish strong security policies, procedures, guidelines, and standards that meet the following criteria:

- Approval by senior leadership
- Review at least annually with updates as needed
- Terms are effectively explained to users
- Review by an independent third party auditor who confirms compliance
- Documentation of the particular framework(s) used to assess the security of its systems and practices

Create formal and effective policies and procedures governing all the following:

- Data governance and classification
- Access controls and identity management
- Business continuity and disaster recovery
- Configuration management

- Asset management
- Risk assessment
- Data disposal
- Incident response
- Systems operations
- Vulnerability and patch management
- System, application and network security and monitoring
- Systems and application development and performance
- Physical security and environmental controls
- Data privacy
- Vendor and third party service provider management
- Consistent use of multi-factor authentication
- Cybersecurity awareness training, which is given to all personnel annually
- Encryption to protect all sensitive information transmitted and at rest

No. 5



GEN Z

Generation Meh: Zoomers aren't vibing retirement savings.

Plan sponsors will seek new ways to engage Gen Z, including climbing inside their video games.

5. GEN Z

The majority of this generation get its financial advice from home and online, with a third (33%) saying that influencers are a part of their financial education.

A new survey from the TIAA Institute of more than 1,000 18- to 24-year-olds depicts a generation in which many have started saving but reject traditional ideas of retirement. Facing high housing costs and student debt, it is no surprise that retirement seems other-worldly to this young generation. In fact, TIAA research shows that one out of five Gen Zers say they don't expect to ever retire.

The good news for plan sponsors is that this tech-savvy cohort—despite their headwinds—is off to a good start and offers a digital map of how to find and connect with them.

Who is Gen Z and what do they want?

Generation Z—those born after 1996—make up 20% of the U.S. population, and the most educated and diverse generation to date. They're digitally savvy, many just graduating from college, living paycheck to paycheck, and jaded from a global pandemic and environmental angst.

If the retirement industry thrived on a generation of career-motivated Alex P. Keatons in the '80s, it now encounters its antithesis with a generation whose life goals embrace job mobility, career breaks, exploring the world and learning new skills that don't require neckties. No doubt Gen Z is a product of their inherited environment and fears that they will miss their opportunity given the pace of climate change. A plurality of Gen Z (19%) says they prefer to save for travel over other things such as building up savings, housing or living expenses.

Winning over Gen Z will require finesse and meeting them where they are. The majority of this generation gets

its financial advice from home and online, with a third (33%) saying that so-called “influencers” are a part of their financial education. Online communities such as Reddit and Robinhood became popular engines for meme stocks such as GameStop, where social media fanfare brings disproportionate attention to a stock.

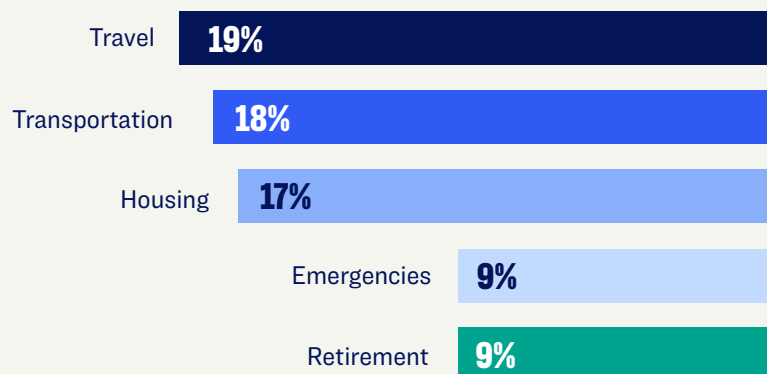
Successful solutions will have to vibe with this generation's characteristics: digital, social media forward and mobile. Platforms with the best technology will appeal to a generation that influences algorithms and vice versa. Future messaging that frames retirement as deferred financial freedom to travel and have more experiences will resonate.

Some of the most creative consumer and automotive brands are beginning to meet Gen Z in its signature safe place—inside the world of top video games. French carmaker Renault and American toymaker Hasbro are cutting-edge examples of companies slipping inside gaming worlds to connect branding and messaging to this screen-time generation.

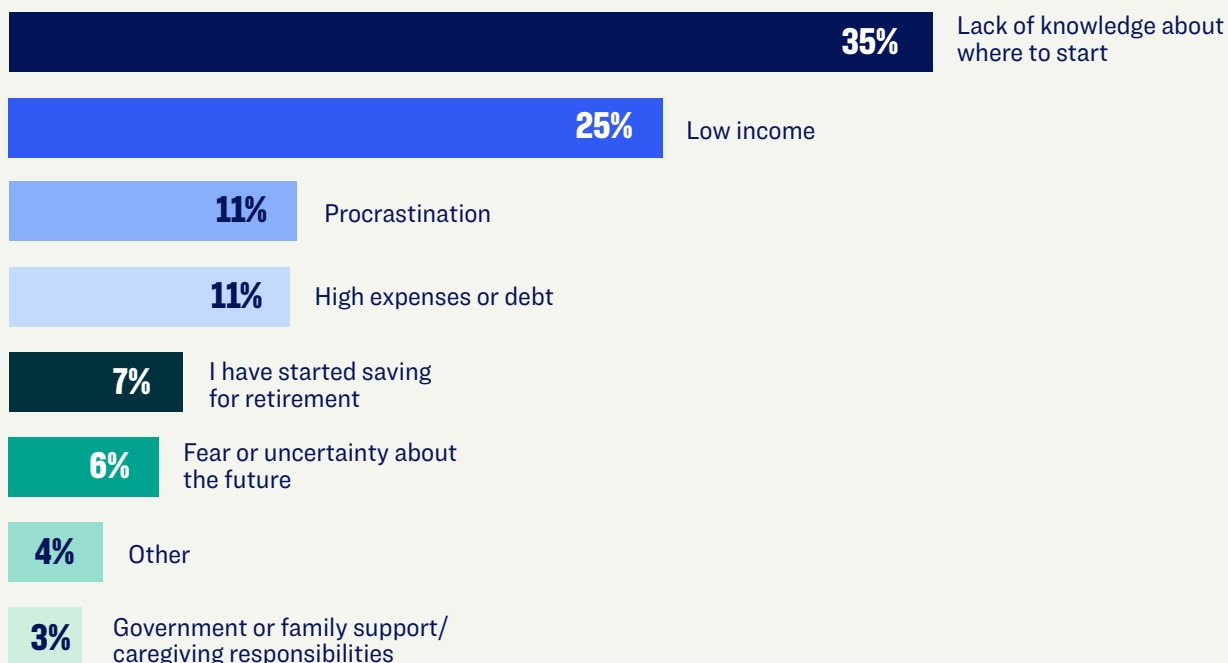
Could the retirement industry also meet Gen Z in their happy place of gaming? In-game awards of matching contributions? Earning points for an advice session with an advisor? Updated financial roadmaps from your advisor, should you choose to accept it? Gen Z invites plan sponsors to help them discover their future lives by finding them where they are.

Savings priorities: Save for tomorrow or live for today?

Current saving priorities are mixed: balancing the basics with a little fun. And when they are saving, here is what Gen Z is saving for most.



Why 80% of Gen Zers aren't saving for retirement.



SOURCE: From Gap Years to Golden Years, 2024

Connect with your TIAA representative about how we can help, and stay tuned for updates on the industry trends worth watching in 2025.

i Cyber Risk and Cyber Security Plan Sponsors, CAPTRUST, October 2024.

ii Deloitte, May 2024: Generative AI is expected to magnify the risk of deepfakes and other fraud in banking.

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