TIAA

Focus on income: Help shape your participants' retirement

Target Date Plus Models offered as part of the TIAA Custom Portfolios Model Service

BUILT TO PERFORM.

CREATED TO SERVE.

A new retirement plan investment solution focused on retirement income

As traditional defined benefit (DB) plans become less prevalent in the market, defined contribution (DC) plans have become the primary retirement savings program for American workers.

In the past, retirement was typically funded through a combination of Social Security, an employer's DB plan and a DC plan. The original intent of a DC plan was to provide supplemental savings, not be a primary source of income. However, many employers who had DB plans in the past have closed them to new participants:

- 26% of those still in private-sector DB plans are in frozen plans, meaning that the employer has either closed or limited the plan to new participants.[1]
- 41% of DB plans open to new participants[2]

With this shift, defined contribution plans are now the primary source of retirement income for many people.

But there's a drawback with the DC investment model. DB plans and Social Security focus on providing lifetime monthly income, which offers a degree of retirement security that's easy for employees to understand. However, in a typical DC plan the primary focus is on the accumulation of assets with no real focus on how to derive income in retirement.

The next evolution in investment offerings will be one that focuses on helping provide participants lifetime income in retirement.

Evolution of retirement plan investment solutions

1980s	1990s	2000s	Present

Investments

Individual Mutual Funds

- Investment offerings generally focused on accumulation
- Allocation and rebalancing left to participants; they must select the funds to diversify their portfolio

Target Date Funds

- Simple to use
- Mix of stocks and bonds
- Typically becomes more conservative as the fund's target date approaches

Target Date Plus

- The Next Generation
- Benefits of a target-date option
- Provides opportunity for lifetime income
- Eligible to be a Qualified Default Investment Alternative (QDIA)

1. U.S. Bureau of Labor Statistics (2013) "Table 4. Defined benefit retirement plans: Open and frozen plans, private industry workers, National Compensation Survey, March 2013." Employee Benefits Survey, March. Available at https://www.bls.gov/ncs/ebs/benefits/2013/ownership/private/table28a.htm
2. https://www.bls.gov/ncs/ebs/benefits/2016/ownership/govt/table05a.pdf; **Defined benefit retirement plans: Open, soft and hard freeze plans, State and local government workers**, March 2016

Making income—and security—the new retirement goal

A benefit attitudes survey from Towers Watson* revealed that employees are increasingly concerned about retirement security. The survey found that 66% of boomers and 59% of millennials were willing to take a reduction in their current compensation in exchange for a guaranteed retirement benefit and that more than half would sacrifice some pay for a more generous benefit.

In this evolving retirement plan landscape, employees are looking to:

- Make sure they can replace a portion of their working salary when they retire, minimally covering their basic expense needs in retirement
- Feel secure that they won't outlive their income
- Be less concerned with how market volatility and interest-rate risk might impact their retirement security

For nearly 100 years, TIAA has focused on helping our customers seek retirement security.

Target-date funds (TDFs) have become popular because they provide a one-choice, professionally managed option based on a retirement date time horizon and are often used as a plan's QDIA. Although TDFs have done a good job of helping investors accumulate wealth, they are not able to offer lifetime income during retirement.

Income has a lot to cover in retirement.

Housing	Money to travel	Funds for personal interests and hobbies
Funds for medical care	Dining, entertainment	Unexpected expenses (home repairs, etc.)

* Towers Watson 2016 Global Benefit Attitudes Survey

Many participants are confused about target-date funds.

64% of investors either didn’t know if, or mistakenly believed that, target-date funds provided guaranteed income in retirement.*

* Investor Testing of Target Date Retirement Fund (TDF) Comprehension and Communications Submitted to: The U.S. Securities and Exchange Commission February 15, 2012

Managing for multiple risks

To help provide plan participants with the kind of retirement income security they need, plan sponsors can offer ways to help them manage many of the underlying risks that may negatively impact monthly income in retirement.

The importance of income for life

Lifetime income is critical to funding a participant's lifestyle in what's likely to be a decades-long retirement. However, plan participants face a number of risks that can impact their income stream. Market, inflation, longevity and interest-rate risks are well known and these risks may be difficult to manage in retirement with traditional investment options, including one-size-fits-all target-date funds.

A range of risks, some new and some old, can negatively impact retirement income.

Longevity risk

Today, a 65-year-old couple has a 94% chance of at least one spouse living to age 81 and a 75% chance of living to age 88.*

Cognitive risk

The prevalence and severity of impairment rises exponentially with age, with 45% of the population between 80-84 experiencing some form of this condition which could impact their ability to manage financial situations.**

Withdrawal-rate risk

The timing and amount of withdrawals in retirement can have a big impact on participant outcomes. Missteps can be difficult to overcome.

Market risk

Portfolio losses due to market crashes or interest rate changes can force preretirees to postpone retirement.

* Based on 2016 TIAA dividend mortality tables

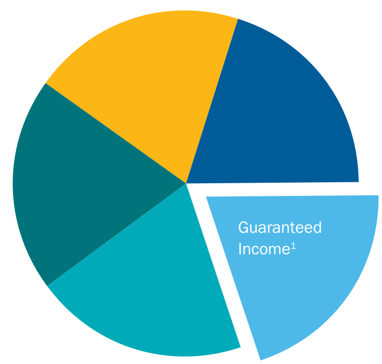
** Source: COGNITIVE AGING AND THE CAPACITY TO MANAGE MONEY, January 2017, Number 17-1, Center for Retirement Research at Boston College

A customized target-date solution - with guaranteed lifetime income

Target Date Plus Models are a custom target-date asset allocation solution with the opportunity to provide income in retirement. The models combine the familiar structure of glidepath-based target-date options with an annuity component that can offer lifetime income and help manage some of the risks participants may face in retirement.

Traditional target-date structure

- Age-based asset allocation
- Asset allocation typically consists of equity and fixed-income investments
- Becomes more conservative as retirement date nears
- QDIA eligible
- The "plus" can be the added component of a fixed annuity to offer a guaranteed lifetime income component. A variable annuity may also be used.



Target Date Plus Models give plan sponsors and their investment advisors the flexibility to customize portfolio allocations—including equity, fixed income and annuity components—along with glidepaths and rebalancing specifications to match the unique needs of an employee population.

With this new solution, plan sponsors and their consultants can leverage the recordkeeping capabilities developed by TIAA under the Custom Portfolios Model Service to build income-focused portfolios specific to the demographics of their plan.

The plan sponsor, their consultant or asset manager has the responsibility to:

- Build the models
- Recommend the underlying investment options and glidepaths
- Allocate the plan's participants to the Models created for that plan

Target Date Plus Models are one approach plan sponsors or consultants can use with TIAA's Custom Portfolios Model Service. The plan sponsor or consultant may choose to utilize a methodology different from the concept described in this material. TIAA does not build the models or recommend underlying investment options that comprise the models.

Target Date Plus Models considerations for PLAN SPONSORS

- Offers a more customized QDIA compared to traditional off-the-shelf target-date funds
- Leverages existing plan investment options chosen and overseen by the plan sponsor or consultant
- Provides options for a built-in lifetime income guarantee
- Leverages existing plan investment options that are selected and overseen by the plan sponsor or consultant
- Income models can be created to meet the unique needs of an organization's workforce demographics
- Can be branded to the plan

Target Date Plus Models considerations for PARTICIPANTS

- Delivers a well-diversified asset allocation designed by the plan sponsor or its consultant
- Helps improve retirement readiness by providing a choice of guaranteed lifetime income in retirement
- Offers a customized option for hands-off investors

For more information on the Target Date Plus Models, you can contact your TIAA representative today!

As with all mutual funds, the principal value of a target-date fund isn't guaranteed and will fluctuate with market changes. The target date approximates when investors may plan to start making withdrawals. However, you are not required to withdraw the funds at that target date. After the target date has been reached, some of your money may be merged into a fund with a more stable asset allocation. A TIAA financial consultant can help you decide whether a target-date fund is right for you.

Target-date funds share the risks associated with the types of securities held by each of the underlying funds in which they invest. In addition to the fees and expenses associated with the target-date funds, there is exposure to the fees and expenses associated with the underlying mutual funds.

This material is for informational or educational purposes only and does not constitute a recommendation or investment advice in connection with a distribution, transfer or rollover, a purchase or sale of securities or other investment property, or the management of securities or other investments, including the development of an investment strategy or retention of an investment manager or advisor. This material does not take into account any specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made in consultation with an investor's personal advisor based on the investor's own objectives and circumstances

You should consider the investment objectives, principal strategies, principal risks, portfolio turnover rate, performance data, and fee and expense information of each underlying investment carefully before directing an investment based on the model. For a free copy of the program description and the prospectus or other offering documents for each of the underlying investments (containing this and other information), call TIAA at 877-518-9161. Please read the program description and the prospectuses or other offering documents for the underlying investments carefully before investing.

The Model is an asset allocation recommendation developed by the Plan Sponsor in consultation with consultants and other investment advisors designated by the Plan Sponsor whereby assets are allocated to underlying mutual funds and annuities that are permissible investments under the plan. Model-based accounts will be managed on the basis of the plan participant's personal financial situation and investment objectives.

Any guarantees under annuities issued by TIAA are subject to TIAA's claims-paying ability.

The Plan Fiduciary and the Plan Advisor may determine that an Underlying Investment(s) is appropriate for a Model Portfolio, but not appropriate as a stand-alone investment for a Participant who is not participating in the Program. In such case, Participants who elect to unsubscribe from the Program while holding an Underlying Investment(s) in their Model-Based Account that has been deemed inappropriate as a stand-alone investment option by the Plan Fiduciary and/or the Plan Advisor will be prohibited from allocating future contributions to that investment option(s).

Established Restrictions: Each Plan Participant may, but need not, propose restrictions for his or her Model-Based Account, which will further customize such Plan Participant's own portfolio of Underlying Investments. The Plan Fiduciary is responsible for considering any restrictions proposed by a Plan Participant, and for determining (together with Plan Advisor(s)) whether the proposed restriction is "reasonable" in each case.

No registration under the Investment Company Act, the Securities Act or state securities laws – The Model is not a mutual fund or other type of security and will not be registered with the Securities and Exchange Commission as an investment company under the Investment Company Act of 1940, as amended, and no units or shares of the Model will be registered under the Securities Act of 1933, as amended, nor will they be registered with any state securities regulator. Accordingly, the Model is not subject to compliance with the requirements of such acts, nor may plan participants investing in underlying investments based on the Model avail themselves of the protections thereunder, except to the extent that one or more underlying investments or interests therein are registered under such acts.

No guarantee – Investments based on the Model are not deposits of, or obligations of, or guaranteed or endorsed by TIAA, the Investment Advisor, The Plan or their affiliates, and are not insured by the Federal Deposit Insurance Corporation, or any other agency. An investment based on the Model is not guaranteed, and you may experience losses, including losses near, at, or after the target date. There is no guarantee that investments based on the Model will provide adequate income at and through your retirement. Investors should not allocate their retirement savings based on the Model unless they can readily bear the consequences of such loss.

The TIAA Custom Portfolio Program Model-Based Service is administered by Teachers Insurance and Annuity Association of America ("TIAA") as plan recordkeeper.

TIAA Individual & Institutional Services, LLC, Teachers Personal Investors Services, Inc., and Nuveen Securities, LLC, Members FINRA and SIPC, distribute securities products. If offered under your plan, TIAA and CREF annuity contracts and certificates are issued by Teachers Insurance and Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF), New York, NY, respectively. Each is solely responsible for its own financial condition and contractual obligations. Transactions in the underlying investments invested in based on the Model on behalf of the plan participants are executed through TIAA-CREF Individual & Institutional Services, LLC, member FINRA.

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