Target Income Models

Help participants target the retirement income they need
Retirement savings focus moves from wealth to income

As traditional defined benefit (DB) plans continue to disappear from the workplace, defined contribution (DC) plans are now the primary retirement savings programs for American workers.

But there’s a drawback to the DC investment model. DB plans, and even Social Security, focus on providing lifetime monthly income, which offers a degree of retirement security that’s easy for employees to understand. However, DC plans are managed to maximize account balances at retirement—and it’s difficult for participants to look at their account balances and understand how, or even if, those assets will translate into retirement income security.

Evolution of retirement plan investment solutions over time

<table>
<thead>
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<th>1980s</th>
<th>Present</th>
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<tbody>
<tr>
<td><strong>Defined Benefit (DB) Plans</strong></td>
<td><strong>Defined Contribution (DC) Plans</strong></td>
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<tr>
<td><strong>Investments:</strong></td>
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<tr>
<td>Individual Mutual Funds</td>
<td>Target Date Funds</td>
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<tr>
<td>Allocation and rebalancing left to participants</td>
<td>Simple to use; participants select fund based on year they will retire</td>
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<td>Target Income Models</td>
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<td>Simple to use; targets income replacement based on the year of retirement, not wealth accumulation</td>
<td>Also can qualify as a QDIA</td>
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Target date funds (TDFs) have become popular because they provide a one-choice, professionally managed option based on a retirement-date.

**Making income—and retirement 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 62 percent of employees 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:

- Change their retirement savings goal from accumulating wealth to generating monthly income
- Understand how much income they’ll need to maintain their standard of living throughout a long retirement
- Feel secure that they won’t outlive their income
- Be less concerned with how market volatility and interest rates might impact their retirement security

Clearly, a new approach is required.

* Casey, Quirk & Associates LLC, 4/30/12

“*The seeds of an investment crisis [in DC plans] have been sown. The only way to avoid a catastrophe is...to shift the mind-set and metrics from asset value to income.*”

With this innovative solution, plan sponsors and their consultants can leverage the recordkeeping capabilities developed by TIAA as the program sponsor under the Custom Portfolios Model Service to build income-focused portfolios specific to the demographics of their plan. The plan sponsor or their third-party fiduciary (such as an investment consultant or asset manager) has the responsibility to build the models and recommend the underlying investment options and glide paths, and to allocate the plan’s participants to the Models created for that plan. The plan sponsor or their third-party fiduciary 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 Income Models promote better participant outcomes

Target Income Models are the next-generation solution for custom target income investing, and focus on retirement income. This program is based on the lifecycle concepts pioneered by Nobel laureate economist Robert C. Merton* and offers a DB-type solution to DC plan participants. Its focus is on working toward an income goal, and managing the volatility of that income over time.

Target Income Model features

* Robert C. Merton provides consulting services to Dimensional Fund Advisors LP ("Dimensional"). DFA Securities LLC, a FINRA registered broker-dealer and an affiliate of Dimensional, is the licensor of the Dimensional Target Income Allocations, a series of asset allocations. Dimensional has also licensed to TIAA a plan assessment tool that helps to identify and sort categories of plan participants. Dimensional is not affiliated with TIAA.
Customized for your plan and your employee characteristics

Target Income Models can be tailored to the specific needs of employees. Unlike traditional “one-size-fits-all” target-date funds, this income-focused approach allows for customization that goes beyond age and retirement date to incorporate a participant’s savings habits, progress toward income goals, additional income sources and other personal characteristics.

Working with a consultant, advisor or asset allocation partner, the plan sponsor can:

- Design the asset allocation of the portfolios using investment options from the plan and the Dimensional Target Income Allocations
- Develop and manage custom glide paths based on employee demographics

Target Income Models seek to place participants on the appropriate glide path to help them meet their income objectives. The three allocations relate to the likelihood of participants meeting their retirement income goals based on current deferrals and assets. For instance, participants who have a higher certainty of reaching their income goal may be able to assume less risk (fewer stocks) and may fit into the Conservative Allocation while remaining on target to meet their income objectives.

Plan-level glide paths based on current income certainty status

For illustrative purposes only.

About Dimensional Target Income Allocations

Target Income Models may be developed by the Plan Sponsor and, if applicable, the Plan Advisor, using Dimensional Target Income Allocations, a series of allocations licensed to the Program Sponsor by DFA Securities LLC and authorized for use by the Plan Sponsor and, if applicable, the Plan Advisor.

“Rather than trying to make employees smarter about investments, we need to create a smarter dialogue about how plan providers can help them achieve their income goals.”

Hedging income risk

Similar to traditional target date funds, Target Income Model allocations get more conservative over time. What makes them different is that they balance growth assets with income hedging assets, primarily through high-quality Treasury Inflation Protected Securities (TIPS), one of the most effective ways to help reduce the impact of interest rate risk on retirement income.*

Portfolios are regularly analyzed and can provide future income estimates at any time, similar to a DB plan calculation. Participants can see if they are on track to replace a target percentage of their working income in retirement, plus they can see how any changes they make may impact their retirement income projections.

Flexible participant-directed options at retirement

At retirement, participants can choose to:

- Annuitize for guaranteed lifetime income. Participants may choose to annuitize some or all of their account balance to lock in a guaranteed lifetime monthly income benefit.
- Leave assets in the plan. If participants simply stay the course as they move into retirement, they will potentially maintain a degree of income protection through their TIPS allocations.

Participant income projections at a glance

Participants can access an interactive tool through the Plan’s website to see their projected retirement income based on their current strategy.

Participants can also:

- View current retirement plan savings balance
- See an estimate of Social Security benefits and their role in income
- Use interactive sliders to change parameters, such as contribution rate and retirement date, and instantly see how the changes affect their projected income in retirement

For illustrative purposes only.

* Fixed-income securities are subject to increased loss of principal during periods of rising interest rates and may be subject to various other risks including changes in credit quality, liquidity, prepayments, and other factors. Inflation-protected securities may react differently to changes in interest rates compared with other debt securities.
Target Income Model benefits for PLAN SPONSORS

- Lets the plan sponsor work with a consultant or investment advisor to customize an income solution based on the employee population characteristics
- Provides more control over investment choices and costs
- Offers a more customized solution by using the level of retirement income certainty—determined by age, salary, contribution rate and plan assets, not just retirement year—as the risk measure to sort participants into the appropriate Target Income Model*
- Can be used as a more targeted QDIA for unengaged participants

Target Income Model benefits for EMPLOYEES

- Encourages participants to think in terms of retirement income rather than wealth accumulation
- Provides the opportunity for more certainty and security about income to and through retirement
- Offers hands-off investors a more customized option than typical target date funds
- Includes flexible options for more hands-on investors

* The Plan Sponsor and, if applicable, the Plan Advisor may use an assessment tool to identify plan participants with similar characteristics. The Program Sponsor licenses the tool from Dimensional Fund Advisors LP and the tool is authorized for use by the Plan Sponsor and, if applicable, the Plan Advisor. Neither TIAA, as the Program Sponsor, nor Dimensional Fund Advisors LP plays a role in or is responsible for how the Plan Sponsor and/or the Plan Advisor identifies and groups plan participants.

For more information on the Target Income Model concept, please contact your TIAA representative today!
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 fund prospectuses or other offering document for each of the underlying investments (containing this and other information), please call TIAA at 877-518-9161 or log on to TIAA.org. Please read the Program Description and the prospectuses or other offering documents for the underlying investments before investing.

Asset allocation and rebalancing do not protect against losses or guarantee that an investor’s goal will be met.

The TIAA Custom Portfolios Program Model-Based Service (the “Program”) is implemented by the Plan Sponsor to meet the unique retirement requirements of the plan. The Program is administered by Teachers Insurance and Annuity Association of America (“TIAA”) as plan recordkeeper. The Target Income 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.

Certain Models may be developed by the Plan Sponsor and, if applicable, the Plan Advisor, using Dimensional Target Income Allocations, a series of allocations licensed to the Program Sponsor by DFA Securities LLC and authorized for use by the Plan Sponsor and, if applicable, the Plan Advisor. Neither TIAA, as the Program Sponsor, nor DFA Securities LLC plays a role in or is responsible for developing or selecting the Model. Additionally, the Plan Sponsor and, if applicable, the Plan Advisor may use a plan assessment tool to help identify and sort categories of plan participants. The Program Sponsor licenses the tool from Dimensional Fund Advisors LP and the tool is authorized for use by the Plan Sponsor and, if applicable, the Plan Advisor. Neither TIAA, as the Program Sponsor, nor Dimensional Fund Advisors LP plays a role in or is responsible for how the Plan Sponsor and/or the Plan Advisor identifies and groups plan participants. Neither DFA Securities LLC nor Dimensional Fund Advisors LP provides any investment, legal, accounting or tax advice in connection with the Program.

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.

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