Timely insights to improve retirement outcomes

2018 TIAA Plan Sponsor Retirement Survey Executive Summary

August 2018

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Survey overview

Findings from the 2018 TIAA Plan Sponsor Retirement Survey show nonprofit and corporate, for-profit employers are concerned about their employees' retirement futures. Most worrisome: rising healthcare costs and the possibility that employees will outlive their savings. Employers must also contend with significant budget constraints and challenges with recruiting and retaining employees when managing their workforce. The findings offer important, timely insights as lawmakers and industry leaders, including TIAA, work to remove obstacles that deter many plan sponsors from offering investment menu options that can provide guaranteed* lifetime retirement income.

Survey methodology: TIAA's 2018 Plan Sponsor Survey was developed in partnership with KRC Research, who conducted an 18-minute random sample telephone survey of 1,001 plan sponsors from March 5 to April 17, 2018. The margin of error for the total sample is 3.1 percent. Plan sponsors participating in the survey represent higher education institutions, private K-12 schools, not-for-profit hospitals, government agencies, and other nonprofit organizations. In addition, for the first time, this year's study looks at for-profit as well as nonprofit plan sponsors.

*GUARANTEES ARE BASED UPON THE CLAIMS-PAYING ABILITY OF THE ISSUING COMPANY.

Plan sponsor perceptions

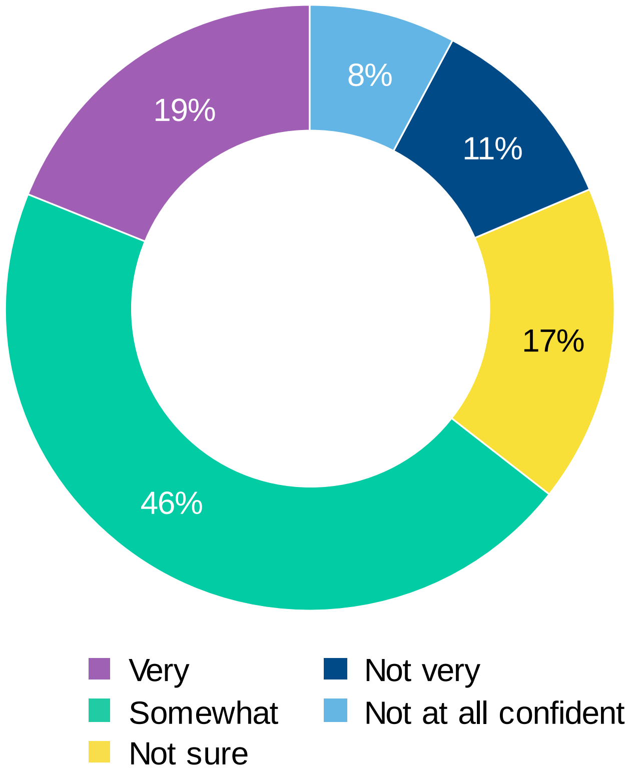
Nearly half of nonprofit and corporate, for-profit employers are only somewhat confident in their employees' retirement futures, and one in five say they are not confident. This low confidence is primarily due to rising healthcare costs (91 percent) and outliving retirement savings (77 percent) and how this could affect their employees' retirement security. Separately, employers also worry that many of their employees are not saving enough (75 percent) or are choosing not to participate in a retirement plan (55 percent).

Yet on the issue of retirement income, opinions differ among plan sponsors: nonprofits are more likely to recommend lifetime distributions—income payments in retirement that are guaranteed for the participant's lifetime—while for-profits are more likely to recommend that participants roll over to an IRA and regularly manage withdrawals on their own.

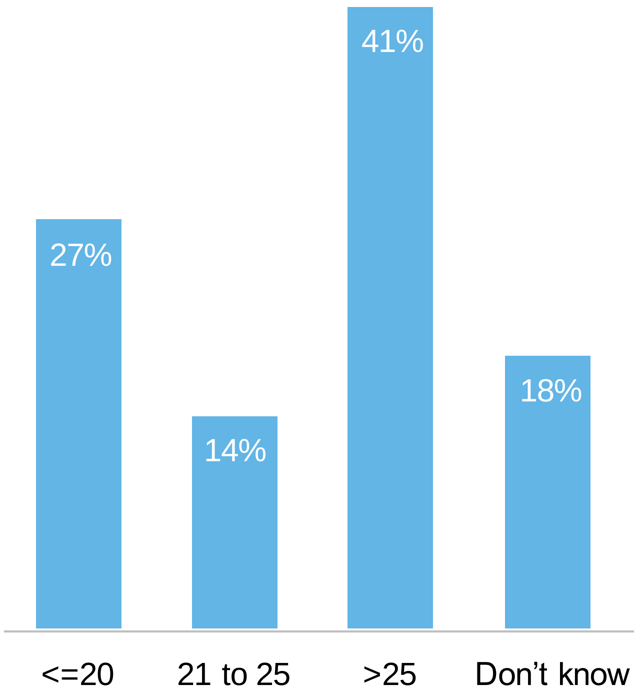
Plan sponsors are only somewhat confident in employees' retirement readiness, and one in five are not.

Almost half recommend employees plan for retirement savings to last less than 20 years or don't know how long.

Confidence in employee retirement preparedness



Recommended years for retirement savings to last

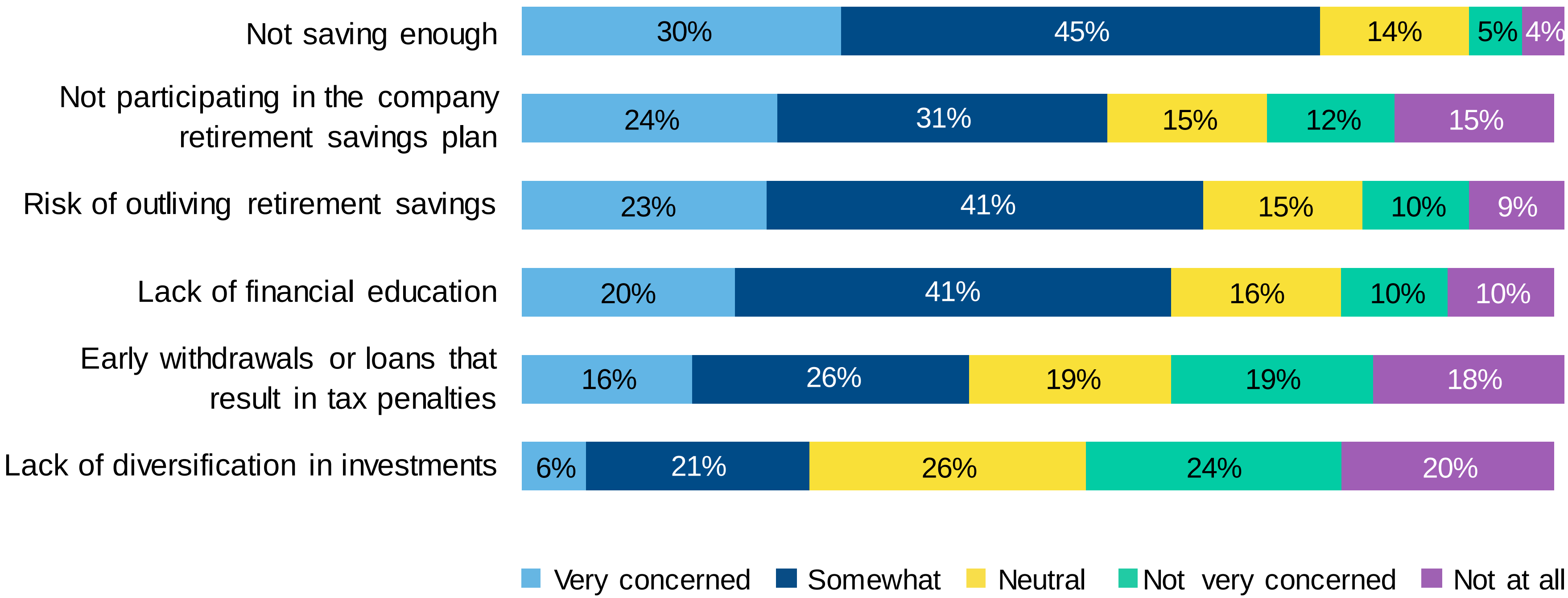


NOTE: ALL DATA ARE ROUNDED TO THE NEAREST PERCENT FOR EASE OF VISUALIZATION. THE TOTAL OF SUMMED RESPONSES MAY ADD TO 99% OR 101% DUE TO ADDING ROUNDED NUMBERS.

Three in four plan sponsors are concerned employees aren't saving enough.

Sponsors also voice concern about outliving savings, not participating in plans and general lack of financial education.

Concern for employees saving and planning for retirement*

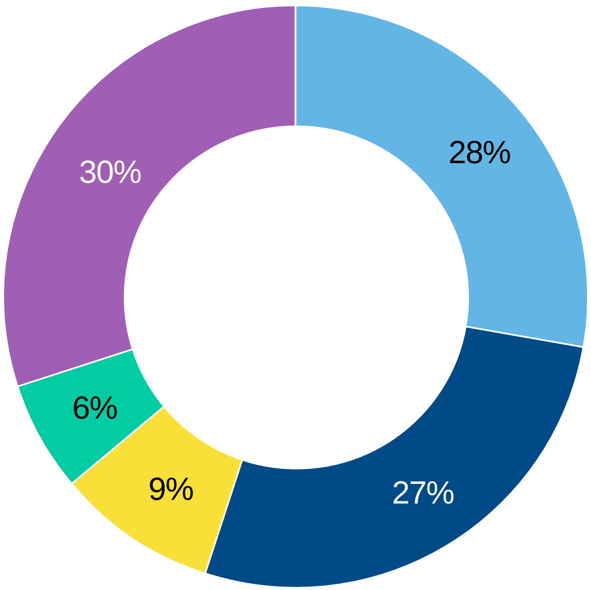


*NOTE: PERCENT SAYING 'DON'T KNOW' ARE NOT SHOWN.

Nonprofits are more likely to recommend lifetime distributions; corporate, for-profits are more likely to recommend rolling over to an IRA.

One-third have no preference for how their employees disburse their retirement savings.

Preference for what employees do with savings



- Roll over assets to an IRA
- Receive lifetime retirement income distributions, meaning Income payments in retirement that are guaranteed for one's lifetime
- Keep assets in your company's 401(k) plan
- Take a full cash distribution or lump-sum withdrawal
- Don't know

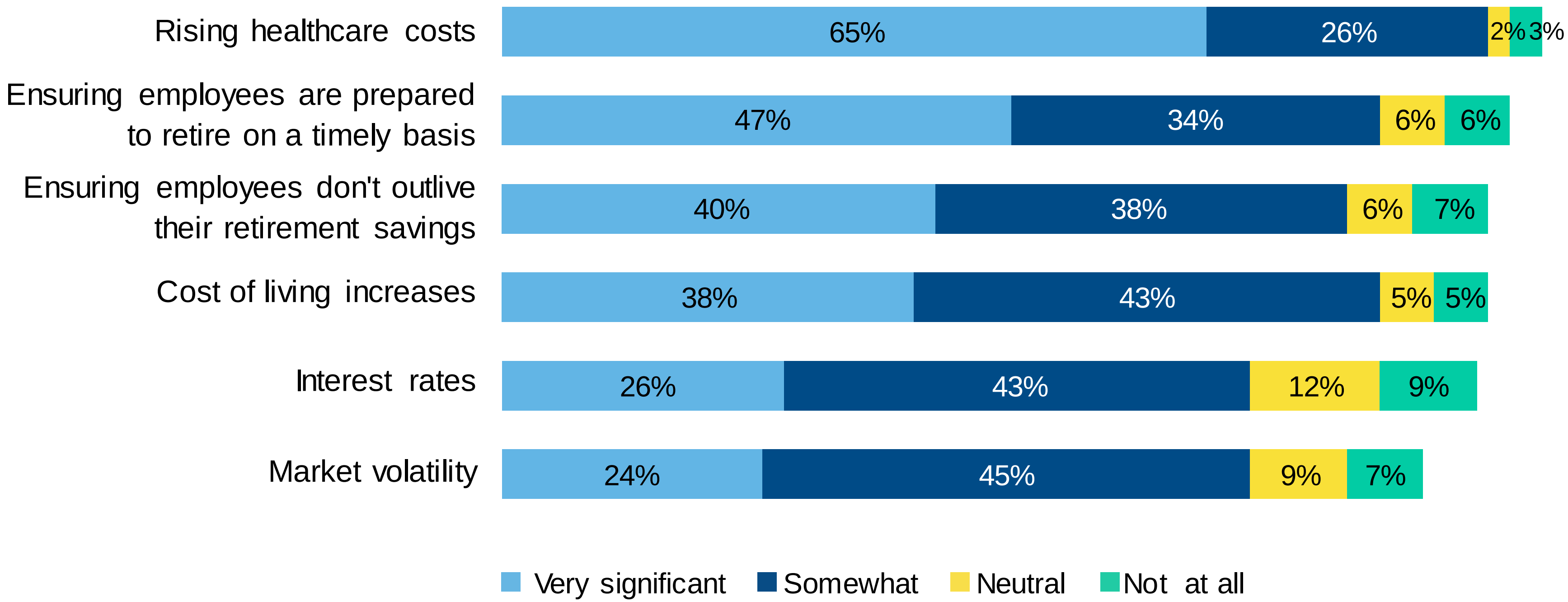
Preference for what employees do with savings: Non and for-profit

	Nonprofit	For-profit
Roll over	21%	35%
Lifetime distributions	32%	23%
Stay in 401(k)	10%	8%
Cash or lump withdrawal	7%	5%
Don't know	30%	29%

Healthcare costs are cited as the most significant issue for financial security in retirement.

Preparing to retire in a timely manner and outliving retirement savings are considered significant issues by more than three-quarters of sponsors.

Significance of issues for employee financial security in retirement*



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Managing the workforce

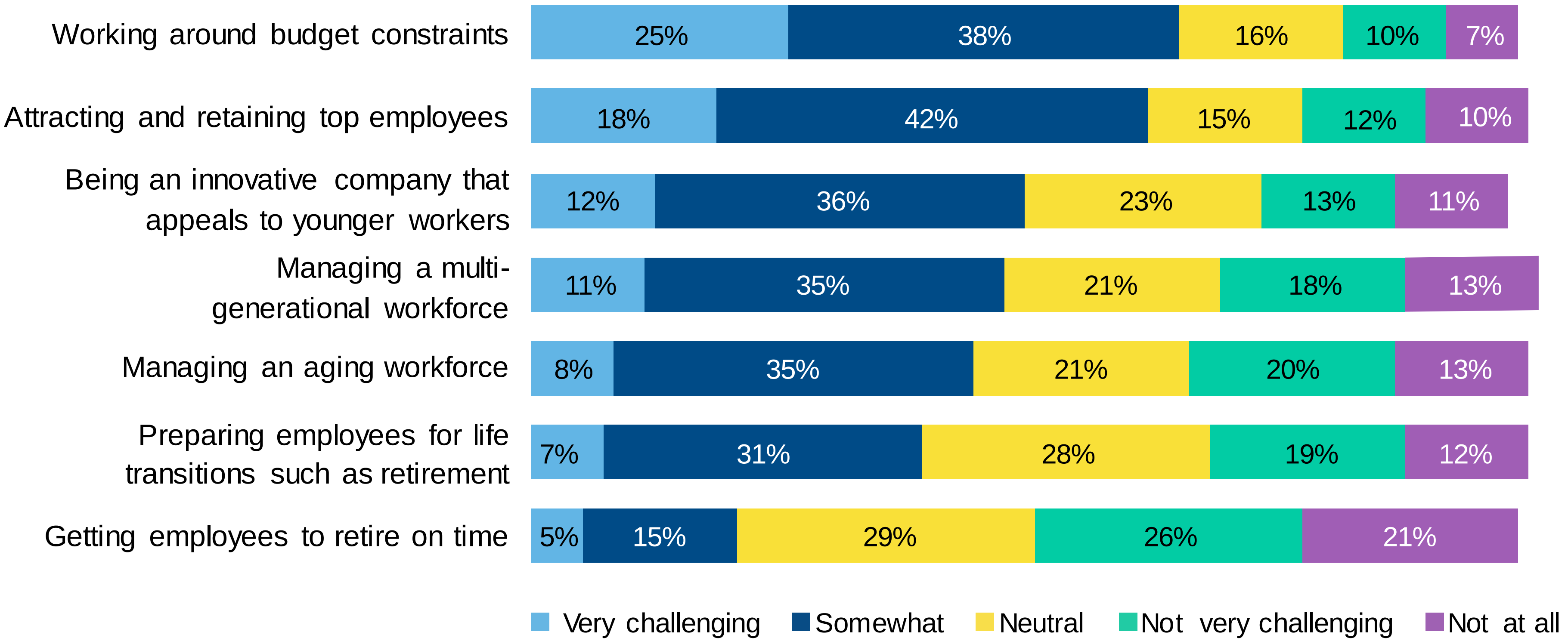
Plan sponsors must balance immediate needs against long-term goals. They are grappling with budget and workforce challenges today, while thinking about the retirement readiness of their employees tomorrow. And "today" demands a lot of attention: the majority of plan sponsors say that budget constraints (63 percent) and issues such as attracting and retaining top talent (60 percent)—particularly millennial talent, whom they seek to retain by offering compelling benefits packages—are bigger challenges than preparing employees for retirement (38 percent).

While a slight majority of plan sponsors have analyzed their workforce demographics to better understand their employees' wants and needs, most haven't done so to a great extent. Four in 10 plan sponsors (43 percent) have not done so at all, or only in a limited way. This highlights an area of opportunity: by gathering additional insights into workforce characteristics and dynamics, plan sponsors would be better equipped to identify more cost-effective, differentiated offerings that could more closely meet employee needs across generations, and thus improve recruitment and retention.

Budget constraints and attracting and retaining talent are the biggest challenges in managing the workforce.

In contrast, preparing employees for life transitions such as retirement are less often cited as a concern.

Concern for managing workforce and talent pool*



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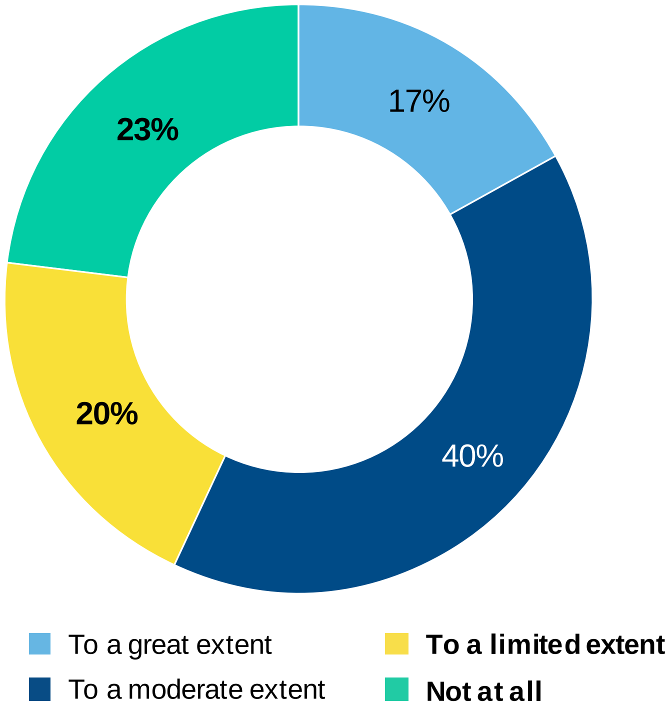
One in four plan sponsors have analyzed their workforce demographics not at all or only to a limited extent.

Plan sponsors at large organizations are more likely to have analyzed their workforce demographics to a great extent (one-fourth).

To what extent have you analyzed your workforce demographics?



	Non-profit	For-profit	0–99 empl.	100–499	500+
To a great extent	19%	16%	15%	19%	25%
To a moderate extent	41%	38%	38%	42%	41%
To a limited extent	19%	22%	23%	20%	13%
Not at all	22%	24%	25%	19%	21%

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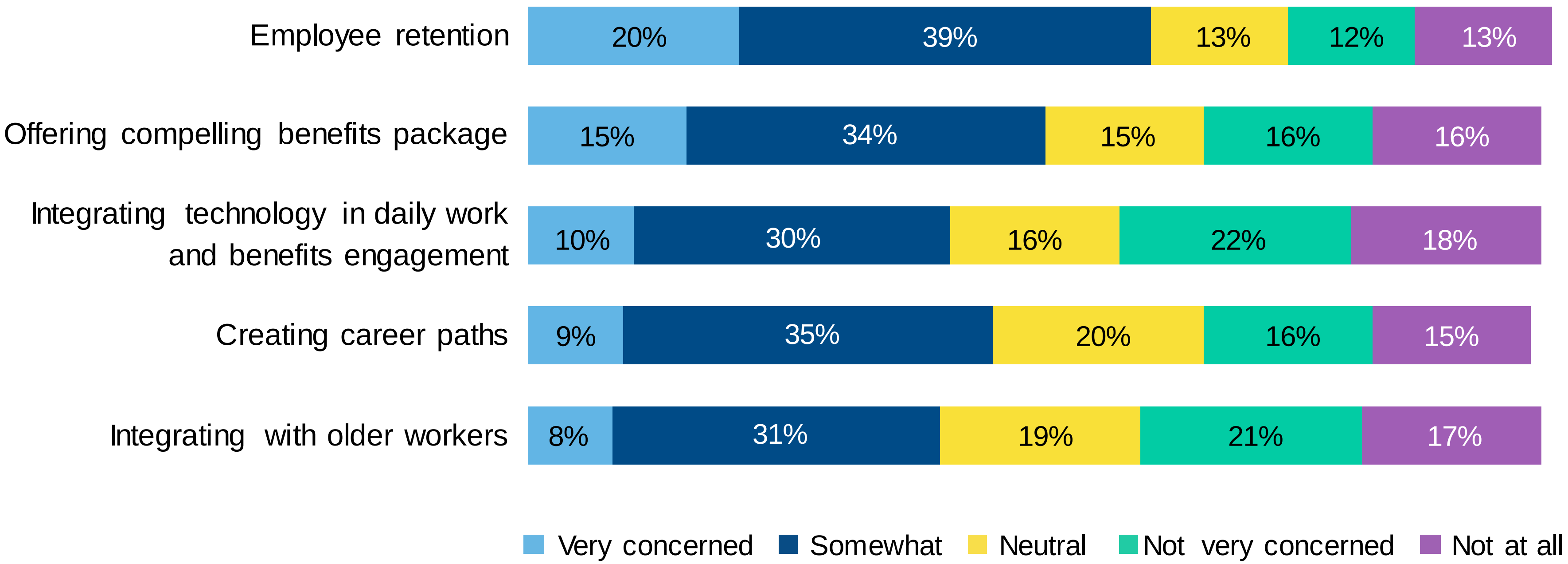
More than half of plan sponsors are concerned about millennial employee retention.

About half say offering compelling benefits packages to this generation of workers is a concern while two in five cite concern over integrating technology in daily work and benefits engagement.

Concern for managing millennials in the workforce*



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Plan design and lifetime income

With competition for talent intensifying, the lack of a comprehensive benefits program can make it far more difficult for employers to attract and retain top performers. A robust retirement savings and income plan is a key component of any competitive workforce and benefits strategy, and most plan sponsors (53 percent) say their plans are intended to help employees retire on time and maintain their standard of living. However, plan sponsors measure the success of their plans in a variety of ways and only 13 percent of plan sponsors consider a plans' effectiveness in providing lifetime income in retirement as a top measure of success.

Plan sponsors offer a variety of retirement income solutions, but surprisingly, more than one in four plan sponsors don't know what type of retirement income solution they offer.

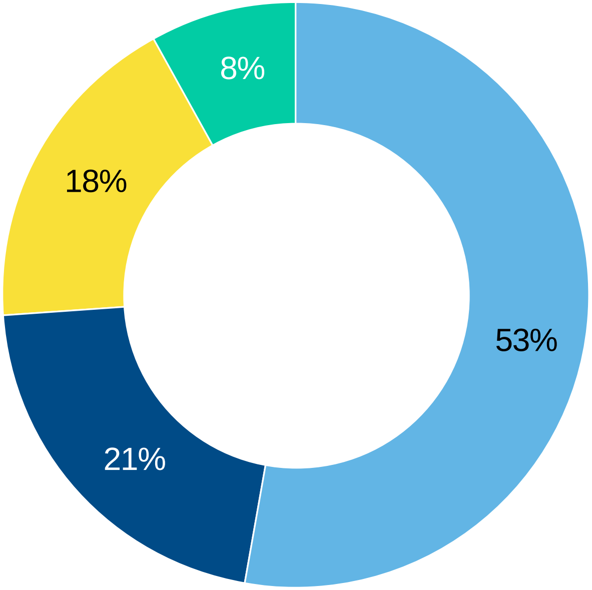
While plan sponsors acknowledge the need for consistent income in retirement, 57 percent typically expect employees to rely on systematic and lump sum withdrawals—methods that don't provide guaranteed retirement income.

Plan sponsors are diligent about reviewing their default investment options frequently, but one in three (33 percent) don't know which risks are being managed effectively. Only one in four (27 percent) say that their current default investment option adequately manages longevity risk—which is at odds with the more than half (55 percent) of plan sponsors that recommend saving for a retirement of at least 20 years.

Most plans are intended to help employees retire on time and maintain their standard of living.

Attracting and retaining talent is also a goal for about one in five, with nonprofits being somewhat more likely to say this is the primary goal of their plan than for-profits.

Primary plan goal



- Help participants retire on time and maintain their standard of living
- Enable employees to build their savings over time
- Attract and retain employees and round out benefits offerings
- Help employees replace their paycheck with regular checks in retirement like a defined benefit plan

Primary plan goal: Non and for-profit

	Nonprofit	For-profit
Retire on time and maintain their standards of living	50%	56%
Building savings over time	19%	22%
Attract and retain talent	21%	15%
Replace paycheck with regular payments in retirement	10%	7%

Lifetime income in retirement is not a top plan success measure.

Growth in account balances and participation rates—metrics focused on asset accumulation and not retirement income—are fairly common measures, but so too are investment performance and employee retention.

Top ways of measuring plan success

(% selected as a top-two way of measuring)

	Total	Nonprofit	For-profit
Growth in balances	27%	29%	26%
High participation rates	26%	24%	27%
Strong investment performance	24%	22%	26%
Retain, attract employees	22%	22%	22%
Timely retirements	16%	14%	19%
Meet/exceed target income replacement metric	**13%**	**11%**	**15%**
Cost to administer plan	9%	10%	8%
Fiduciary compliance	8%	9%	8%

Plan sponsors offer a variety of retirement income solutions, but one in four don’t know what type.

Target date and retirement income mutual funds are the most cited investment solutions offered. Nonprofits are twice as likely as for-profits to offer in-plan annuities.

Types of retirement income solutions offered

	Total	Nonprofit	For-profit
Target date funds	31%	29%	32%
Retirement income mutual funds	30%	27%	34%
Stable value funds	20%	17%	23%
In-plan annuities	12%	16%	8%
In-plan managed account services with pay down features	11%	11%	11%
Out of plan annuity shopping services	5%	5%	5%
Other	2%	3%	1%
None of these	12%	12%	13%
Don’t know	**27%**	**28%**	**25%**

Consistent income is the top reason to include a guaranteed lifetime income option.

Protecting against longevity risk and enabling timely retirement are secondary reasons to include a guaranteed option.

Top reason to include a guaranteed lifetime income option

	Total	Nonprofit	For-profit
Consistent income to cover essential expenses to alleviate worry in retirement	**30%**	**27%**	**34%**
Provide employees an income strategy that protects against longevity risk	17%	18%	16%
Enable employees to retire in a timely manner	14%	14%	14%
Participant demand or employee inquiry	8%	7%	8%
Retain assets in the plan	6%	9%	4%
Elimination of a current defined benefit plan	5%	6%	5%
None of these	8%	9%	8%
Don't know	11%	10%	12%

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Plan sponsors expect employees to take systematic withdrawals to generate retirement income.

Plan sponsors are significantly more likely to believe their employees would prefer a monthly payment for life over a lump sum at retirement.

Expected method of participant retirement income

	Total	Non-profit	For-profit
Take systematic withdrawals	41%	46%	37%
Take a lump sum withdrawal	16%	13%	18%
Purchase an immediate annuity outside the plan upon retirement	8%	6%	10%
Annuitize from an in-plan annuity option	6%	6%	5%
It's up to the employee / their choice	1%	1%	1%
Something else	1%	2%	1%
Don't know	27%	27%	28%

Expected employee preference

Approximately half of plan sponsors at both nonprofit and for-profit organizations believe employees would prefer a monthly income instead of a set lump sum at retirement.

	Total	Non-profit	For-profit
$2,700 / month for life	51%	56%	46%
$500,000 lump sum	33%	25%	42%

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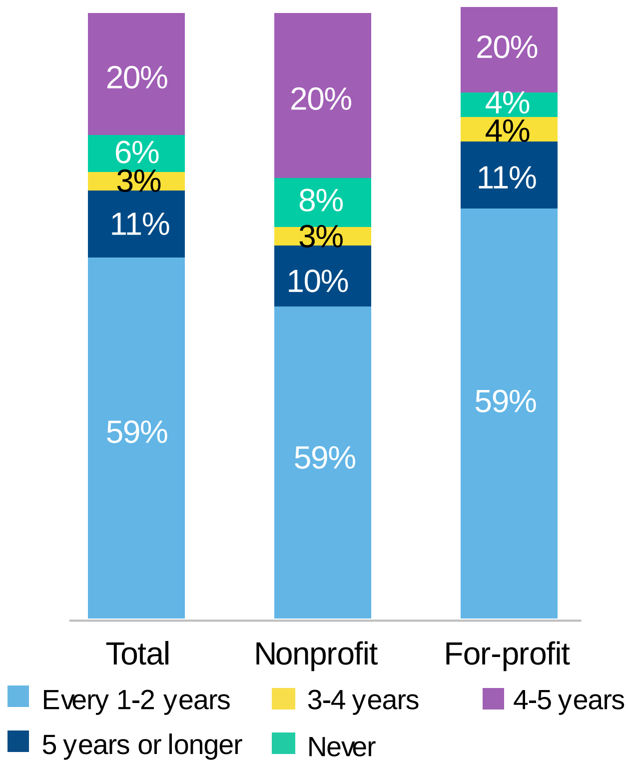
Plan sponsors tend to review default investment options often, especially at for-profit organizations.

Though most plan sponsors are reviewing their default investment options frequently (every one to two years), no more than one in three say their current default investment options are effectively managing each of several possible risks. One in three do not know which risks are being effectively managed.

Frequency of default investment option review



Risks being effectively managed by default investment option(s)

	Total	Non-profit	For-profit
Market volatility	30%	32%	28%
Longevity	**27%**	**27%**	**27%**
Interest rates	21%	19%	23%
Inflation	20%	20%	21%
Insurer's risk	15%	14%	17%
Cognitive decline	10%	9%	10%
Don't know	**33%**	**34%**	**33%**

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Taking action

Survey findings highlight a number of opportunities that plan sponsors may wish to consider:

Rethinking current strategies

Set lifetime income as the primary measure of retirement plan success.

Meeting or exceeding income replacement currently ranks six out of eight key success metrics among plan sponsors.

Offer more effective solutions by better understanding employee demographics and retirement readiness. This can help optimize overall plan effectiveness.

Forty-three percent of plan sponsors have not analyzed workforce demographics at all, or only to a limited extent.

Evaluate all retirement income options—including those providing guaranteed lifetime income—and consider a customized default investment option to meet your plan needs.

Forty-five percent of plan sponsors are not familiar with annuities.

Maximizing available resources

Work with your providers to offer free financial advice, education and retirement planning tools to improve employee engagement and build financial literacy.

Thirty percent of plan sponsors say that providing more educational resources and advice is the most critical area to improve plans and savings.

Educate employees about healthcare costs in retirement and consider offering a retiree healthcare savings option.

Ninety-one percent of plan sponsors consider healthcare costs to be a significant issue for financial security in retirement.

Restructure your match formula to help increase savings.

Twenty-eight percent of plan sponsors cite increasing or modifying the employer match as the biggest opportunity within their plan menu design to help employees maximize their retirement savings.

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