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TMRW

BIG IDEAS. BETTER RETIREMENTS. | EDITION 2 | OCTOBER 2023

Everyone wants some measure of safety and security while saving, and in retirement. These strategies can help you get them there.

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Front and back cover photos: Kate Sears, Illustration: Alice Meteignier

Perhaps you will relate when I say the retirement industry found me, and not the other way around.

I didn't set out to work with retirement plans, but after 30 years I can't imagine doing anything else. That's due to the clients and retirement plan consultants we serve and support. Over the course of my career and especially in the last six years here at TIAA, I've been fortunate to work with institutions and organizations that, like my own company, have a strong sense of purpose. That shared purpose is my North Star.

This industry continues to inspire me. I look at the evolution we've undergone over the last three decades and I'm proud. But there's much work still to be done. We continuously examine how we can better serve our clients and our consulting partners as we strive to deliver best-in-class retirement benefits. Employers and their consultants need to scrutinize every dollar going into their retirement programs while also continuing to adapt and evolve amid ever-changing economic conditions and regulatory reforms.

This edition of TIAA TMRW focuses on that need to evolve even further: We must give people the security they're asking for. It starts with the importance of having a guaranteed asset class in the plan. As a former retirement plan consultant, I can think of no better diversification strategy to minimize portfolio volatility. This idea gets explored fully in our "New strategies for protecting portfolios" article.

The desire for financial stability spans every generation. So we're also turning to science to better understand the secret to happier retirements [hint: it has to do with feeling secure]. We also highlight new research about younger workers' attitudes toward their retirements, and how many say they'd trade higher returns for steady growth that also protects against losses. And TIAA trustee and Institute fellow Jeffrey Brown asks us to consider our purpose for offering a retirement plan: Is it just for creating a big pile of money? Or can it be more?

These questions bring us full circle. Your purpose is strong—take a moment to consider how that applies to the people you serve. Here at TIAA, we share your purpose. Let's all follow that same North Star together.

DAVID SWALLOW
Head of Consultant Relations and
Lifetime Income Default Solution Distribution

[redacted]

NEW STRATEGIES FOR PROTECTING PORTFOLIOS

Should annuities be considered a separate asset class?

Photo: Kate Sears

ONCE UPON A TIME,

individual investors had just three asset classes to choose from—stocks, bonds and cash.

Then came the 1990s. A proliferation of real estate investment trusts (REITs) allowed regular investors to easily own stakes in apartment complexes, shopping malls and other commercial property. Before you could say "Sam Zell," real estate became a fourth asset class.

It wasn't long before Wall Street started rubbing its collective chin: What else from the lofty world of pensions and institutional investing—commodities, currencies, private equity, hedge funds—could be packaged for the masses? Before long, alternative assets became part of the mix.

This boom in financial product innovation has helped individuals further diversify their investments across asset classes. But unrelated asset classes don't always perform in unrelated ways. In 2022, for instance, neither bonds nor REITs softened the blow from the bear market in stocks. Stocks, bonds and REITs all went down together.

This isn't as rare as you may think: During the 20-year period from 2003 through 2022, there were only four years when stocks and bonds moved in opposite directions. For stocks and REITs, there were only two years of opposite moves.[1] Such diversification breakdowns can leave investors feeling the highs and lows of their investments more acutely.

There is another option, one that has been around for more than a century but has only recently been considered its own asset class—fixed annuities. Fixed annuities offer capital protection, guaranteed returns and guaranteed income in any market environment, making them not only appropriate for retirement income but investment portfolio resilience as well.

HOW TO EVALUATE FIXED ANNUITIES

Historically, fixed annuities have been lumped into the fixed income category because many of the underlying investments are bonds. However, fixed annuities perform quite differently from bonds and bond funds, especially when interest rates are rising or falling. The market values of bonds and bond funds decline when interest rates rise: Fixed annuities offer a steady, albeit small, return and will not lose money.

"A fixed annuity is always going to have a positive, guaranteed minimum return," says Benny Goodman, vice president for applied insights with the TIAA Institute. "The annuity tells you in advance how much you're going to have in your account by the end of the year. There are other guaranteed income products to consider, like guaranteed investment contracts and stable value funds, but historically those product returns have been lower than fixed annuities."

Fixed annuities, like bond funds and other traditional fixed income products, should be considered in terms of their risk profile. Investors should consider the following four types of risk.

NO SINGLE ASSET CLASS CAN TACKLE EVERY RISK. BUT FIXED ANNUITIES ADDRESS SEVERAL OF THE BIG ONES.

Market risk. The biggie. Fixed annuities' always-positive returns stabilize portfolios in ways bonds and bond funds cannot. Fixed annuities rely on an insurance company's access to long-term, high-yielding assets to ensure a certain return. A bond fund, in contrast, can't ever promise positive returns. Investors will see gains and losses every day even if they plan to hold for the long term. And in times of rising interest rates, bond funds often go down in value.

For example, TIAA Traditional, TIAA's flagship fixed annuity, offers a guaranteed minimum interest rate, plus the opportunity for additional interest thanks to TIAA's commitment to sharing profits with investors.[†] That means investors see their balances increase steadily over time without risk of market losses. "There's no potential for downside because the contract ensures a positive return every month," Goodman says.

Credit risk. Not all fixed annuities are created equal of course—there is a risk the insurer doesn't make good on those promised lifetime payments. Plan sponsors have a fiduciary duty to evaluate the products they choose for their plan. That includes ensuring the company offering the annuity has a high credit rating, which means it has the financial resources to make good on its promises.

Only three insurance groups in the U.S.—New York Life, Northwestern Mutual and TIAA—currently hold the highest rating available from three of the four leading insurance rating agencies.

Longevity risk. Longevity risk emerges upon retirement. People are living longer than ever, which of course is a good thing. But living longer means greater potential of outliving your money. The average 60-year-old man today will live to 82, and the average 60-year-old woman will live to 85.[2] Fixed annuities mitigate longevity risk by offering the option of a dependable retirement paycheck. Whether retirees live to 73 or 103, lifetime income provides a minimum monthly payout for as long as they live.

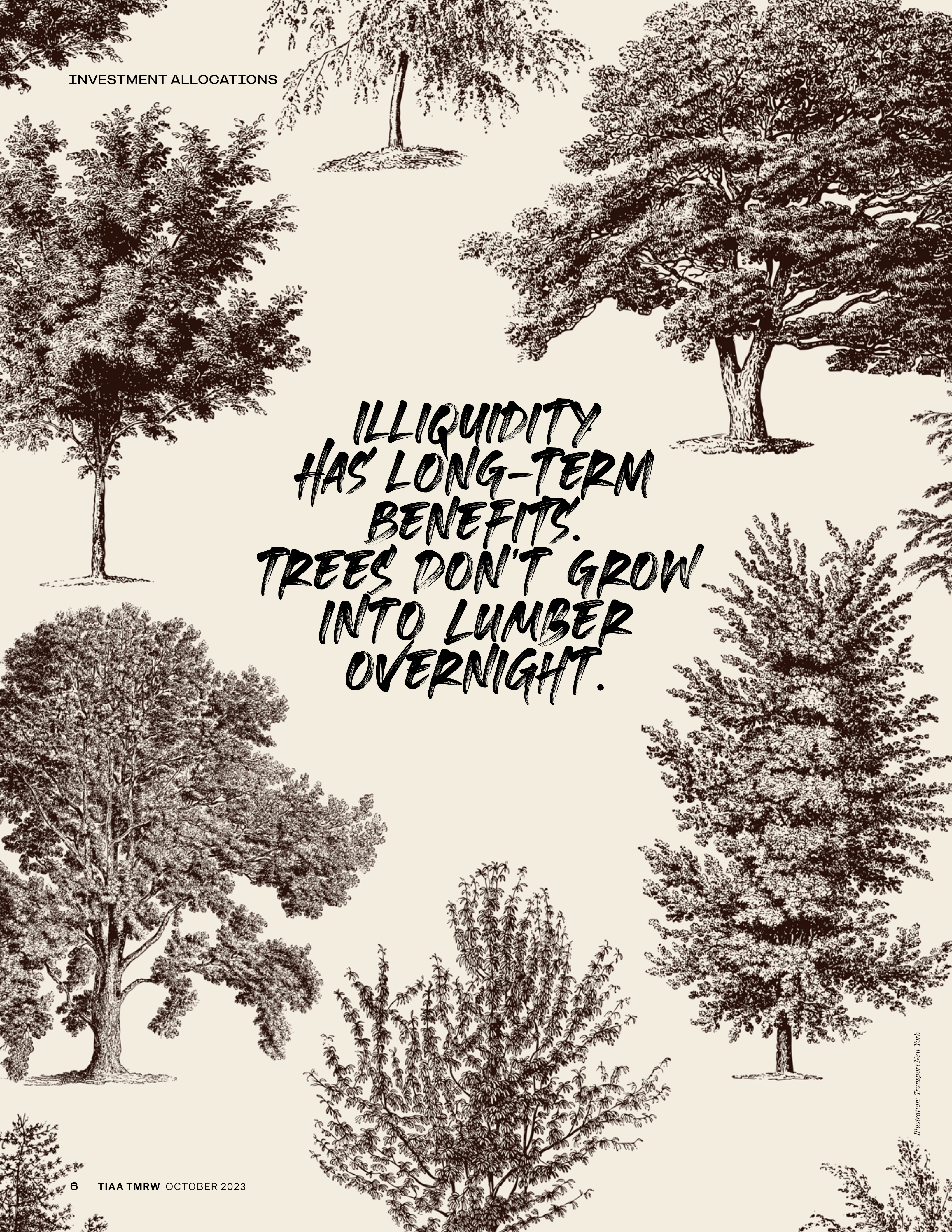
Liquidity risk. Liquidity concerns arise when investors can't access their money as quickly as they'd like. Fully liquid investments, such as money market funds, allow investors to withdraw money as soon as they need it without risk of loss. Stocks and bonds are less liquid, because they need to be sold, and investors can't be sure of the sale price. Homes are even less liquid. But illiquidity has an upside: Illiquid investments can achieve greater long-term value. Think about the time it takes trees to grow and become lumber, a piece of art to appreciate or an early-stage business to become a market leader.

In general, fixed annuities don't mitigate liquidity risk. Many in-plan fixed annuities have delayed liquidity, which means withdrawals must be done in installments over several years or not until employment ends. Some fixed annuities, including TIAA Traditional, do have fully liquid versions but those tend to pay lower interest rates.

Before investing in an illiquid asset, investors need to consider their comfort with not being able to quickly access that principal.

THE SUM OF ALL RISKS

No single asset class can tackle every risk in a retirement portfolio. But an allocation to a fixed annuity addresses several of the big ones. They will not decrease in value, which reduces market risk. They can reduce a portfo-lio's overall credit risk, since fixed



ILLIQUIDITY HAS LONG-TERM BENEFITS. TREES DON'T GROW INTO LUMBER OVERNIGHT.

Illustration: Transport New York

IF SAVERS ANNUITIZE A PORTION OF THEIR PORTFOLIO, IT COULD ALLOW THEM MORE FLEXIBILITY WITH THE REST OF THEIR INVESTMENTS.

annuity providers tend to have superior credit ratings—participants can sleep well at night knowing issuers can and will make good on their promises.

Finally, fixed annuities reduce longevity risk by providing retirement paychecks for life.

Such advantages are why Stacy Johnson, a senior portfolio manager with TIAA's Private Asset Management division, believes fixed annuities and other lifetime income retirement products deserve their own slice in asset allocation pie charts.

"Life doesn't usually have guarantees," says Johnson. "So if you can get financial safety no matter what's happening in the bond or equity markets—and also get guaranteed income for as long as you live—that's a big differentiator. Otherwise, if the markets tank and you're only invested in variable assets, you're out of luck."

THE RIGHT ANNUITY ALLOCATION

So what's the appropriate allocation to fixed annuities?

There's no one-size-fits-all answer, but TIAA Institute's Goodman says "half your age" is a good rule of thumb. That would mean about 30% of a portfolio for someone in their 60s who is getting close to retirement.*

Goodman also advocates including fixed annuities in employer plans' qualified default investment alternatives [known as QDIAs]—the investments newly enrolled employees get automatically if they don't choose their own.

"Just about every economist and retirement expert believes lifetime income adds value in retirement," Goodman says. "The vast majority of new employees use the default investment, so it's probably the single-most important decision a retirement committee can make."

If savers convert a portion of their portfolio into annuity income—locking in a retirement paycheck for life—it could allow more flexibility with the rest of their investments.

Imagine a retirement saver who annuitizes $300,000 of their $1 million portfolio. Their asset allocation for the remaining $700,000 doesn't have to be the plain-vanilla split of 60% stocks, 30% fixed income and 10% cash they may have had prior to annuitizing, Goodman says.

"The whole reason people have 40% of their portfolios in bonds and cash is because they want less-risky investments just in case the market crashes," he says. "But because they annuitized, they already have the less-risky part taken care of. If they want, they can now invest much more aggressively with the rest of their portfolio."

That means the potential for higher investment returns over the course of retirement, which can lead to more discretionary "fun money" or bigger bequests or … the sky's the limit. Ultimately you get more spending flexibility throughout the rest of your life.

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[1] "Historical Returns on Stocks, Bonds and Bills: 1928–2022," NYU Stern School of Business, January 2023. "Annual Returns for the FTSE Nareit U.S. Real Estate Index Series," National Association of Real Estate Investment Trusts.

[2] "Financial literacy, longevity literacy and retirement readiness," TIAA Institute, January 2023.

† All guarantees are based on TIAA's claims-paying ability. TIAA may share profits with TIAA Traditional Annuity owners through declared additional amounts of interest during accumulation, higher initial annuity income, and through further increases in annuity income benefits during retirement. These additional amounts are not guaranteed beyond the period for which they were declared.

* This represents an approximate starting place for investors allocating a portion of their retirement portfolios into a fixed annuity. It is not to be used in place of advice provided by a registered adviser.

THE SCIENCE BEHIND A HAPPY RETIREMENT

Photo: Jocelyn Bain Hogg/VII/Redux

"People always live forever when there is an annuity to be paid them."

—Jane Austen, "Sense and Sensibility"

Photo: Adobe Stock

YOU'LL BE HAPPIER

FOR JOHN BAUMAN, a 91-year-old retired doctor and TIAA participant in North Carolina, the benefits of in-plan fixed annuities go beyond the risk-adjusted returns. The biggest reward is his own peace of mind. Bauman knows that even if all his other investments were to fail, he would still have enough to live comfortably because of the predictable income from a small pension, Social Security and his fixed annuity.

"I think about this all the time," says Bauman. "It's a good feeling."

David Oscarson, a retired college professor in Nevada and another TIAA participant, has this same good feeling. "I'm more relaxed knowing it's there, knowing I've always got that to fall back on," Oscarson, 80, says about his fixed annuity's monthly payments. "I don't have to react to drastic changes in the stock market. I'm just much more relaxed."

Money doesn't always buy happiness, but a steady stream does seem to improve the odds. Ongoing research covering thousands of older Americans shows retirees are happier, healthier and more satisfied when they have guaranteed monthly paychecks to cover basic needs.

They get a happiness dividend, in other words.

"Among retirees with similar wealth and health characteristics," one study concluded, "those with annuitized incomes are happiest."[1]

Here's what behavioral science says about owning annuities.

"Economists don't usually talk about happiness," says Gal Wettstein, senior research economist at Boston College's Center for Retirement Research. "But when you compare people who have annuities to those who don't, there is a sense the ones with annuities are happier."

The studies on annuities and happiness use more than 25 years' worth of data from University of Michigan's Health and Retirement Study (HRS). Funded by the National Institute on Aging and the Social Security Administration, HRS is a continuous panel study covering a representative sample of 20,000 Americans.

A RAND Corporation study analyzed the HRS data and found retirees with a high percentage of annuitized income are significantly happier in retirement than their non-annuitized peers.[2] Among people retired 10 years or more, those with annuitized income are 43% more likely to consider themselves "very satisfied" versus those without.

They're also 39% less likely to report four or more symptoms of depression. The pattern held even when researchers controlled for wealth. The study also found that middle-income retirees who had annuitized more of their retirement income are more satisfied in retirement than higher-income peers who didn't at all.

Interestingly, for those with guaranteed lifetime income, their satisfaction with retirement holds steady over time; for those without, that satisfaction typically decreases with age.

The decline makes sense, says Surya Kolluri, head of the TIAA Institute.

Photo: Shutterstock

One-third of today's 65-year-olds will live to age 90, he explains, and one in three will experience cognitive decline after reaching 85.

"You're more prone to making financial mistakes if you're dealing with cognitive decline," he says. "Having guaranteed lifetime income allows you to move past that and not have to worry about managing your portfolio."

YOU'LL LIVE BETTER

You don't need a PhD in psychology to understand why a retiree might be less stressed if they know they won't run out of money.

But annuities' happiness advantage is about more than just avoiding a worst-case scenario. It's about retirees feeling more free to live their best lives. When retirees know their basic needs are taken care of, it's easier for them to splurge on the things they love. They're not forgoing an extra vacation with the grandkids based on a fear they'll run out of money should they live to 100.

Gary Kimble is a 73-year-old retired college administrator now living in Columbia, S.C. Kimble said a permanent paycheck takes the guesswork out of his budgeting.

"I know how much is coming every month, so it's easy to plan for the things I want to do," he says. In 2022, for example, Kimble planned a trip to Europe, and he knew exactly how he was going to pay for it: "I just saved up for a couple months and then I was going to treat myself."

This "license to spend" is one of lifetime income's big advantages, according to a 2021 study from The American College of Financial Services (ACFS).[3] Retirees with substantial annuitized income are much more willing to spend their savings on travel, leisure, recreation and other discretionary purchases.

In fact, among retirees with comparable household wealth, those with guaranteed lifetime income spend twice as much as those who don't get a monthly paycheck for the rest of their lives.

"An annuity can not only reduce the risk of an unknown lifespan, [but] can also allow retirees to spend their savings without the discomfort generated by seeing one's nest egg get smaller," the ACFS study concluded.

YOU'LL BE HEALTHIER

Long before scientific research showed annuities might be good for you, 19th-century novelist Jane Austen considered this an open secret. In "Sense and Sensibility" Mrs. Dashwood tells Mr. Dashwood: "People always live forever when there is an annuity to be paid them."

People with annuities do not actually live forever, of course. But they do tend to live longer, studies show. According to a 2018 article in the Journal of Financial Services Professionals, a 65-year-old male in the U.S. who purchases a life annuity can expect to live about 20% longer than a 65-year-old male who doesn't.[4]

The traditional explanation for why people with annuities live longer has had less to do with the annuities themselves than with those who purchase them. Quite possibly, individuals who buy lifetime annuities do so because they expect to live longer. Perhaps longevity runs in their families. Maybe they intend to eat well, exercise regularly and stay healthy.

But there may be an additional explanation for the extended longevity among those receiving lifetime income: reduced stress.

We know a majority of Americans are stressed about retirement savings.[5] Research also shows a strong correlation between high stress and reduced life expectancy, particularly among the elderly.[6] As Wettstein explains, "Stress is bad for you, and financial stress is a common form of stress."

Could it be then that living longer is a potential benefit of lifetime income, not just a byproduct of who chooses it?

Less worried about outliving their savings and less concerned about market volatility, annuity holders are less prone to stress, depression and other mood disorders known to affect physical health. TIAA participant Judith Daoust, a 71-year-old retired college professor and physician in Michigan—interviewed during a particularly gloomy week for financial markets—joked about how calm she was despite nosediving stock prices.

"If I didn't have my annuities, I'd be freaking out!" she said.

It's a classic chicken-or-the-egg debate: Do healthy people choose annuities? Or do annuities make people healthier? One Nobel-prize winning economist came down on the side of the egg—or, in this case, the annuity.

"Annuities," wrote University of Chicago professor Gary Becker, "are piece-rate incentives for life-extending health investments."[7]

The Journal of Financial Services Professionals article reached the same conclusion: "An annuity incentivizes individuals to take actions to extend their life expectancy."[8]

The point is that many studies show annuities' advantages go beyond dollars and cents. By reducing the stress associated with longevity and market risks, annuities give retirees license to

Photo: Depositphotos and iStock

Among people retired 10 years or more, those with annuitized income are 43% more likely to consider themselves "very satisfied."

spend and freedom to dream bigger about their golden years. By incentivizing healthy living and promoting mental health, annuities may give people more of those years to enjoy.

In-plan annuities make for happier employees

The happiness dividend could even extend to employers offering annuities in their retirement plans. How so? Four statistics tell the tale:

- 77% of higher ed and healthcare employers are worried about recruiting, hiring or retaining top talent.[9]
- 70% of employees are worried about running out of money in retirement.[10]
- 77% of employees want employers to offer annuities in 401(k) or 403(b) plans.[11]
- 63% of employees say they are more likely to remain with their employer if they like the benefits package.[12]

Bottom line: Employers offering annuities in their retirement plans just might get happier, healthier and more loyal employees.

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Retirement? What retirement?

Today's 20- and 30-somethings are more interested in—and optimistic about—the future of the planet than their own financial stability. How can employers help?

Photos: Kyle Dorosz




Early-career financial decisions are hard, particularly since most people in their 20s and 30s are juggling a lot of firsts: first job, then first job change, first home, first retirement plan.

Add to that the stress of student loan repayments and it's no wonder so many this age say the financial anxiety is overwhelming. So much so, in fact, that young adults are more optimistic about making a difference on global issues than their own retirement outlook, according to a recent survey from TIAA Institute and the AgingWell Hub at Georgetown University's McDonough School of Business.

That millennials and Gen Z think reversing climate change, social injustice and political division seems more feasible than building a secure retirement should be a catalyst for employers and consultants to create more relevant pathways for communication and education.

While it may be tempting to dismiss this as a quixotic attitude of youth, employers and anyone invested in younger workers can use this survey's insights to better help them reach their retirement goals—even, or especially, if those goals seem unattainable.

"Young adults feel like they can participate in global issues," says Surya Kolluri, head of TIAA Institute. "They can be involved. They can organize. They feel like they are contributing to broader goals. But individually, perhaps they do not have enough education, enough guidance, enough conversation to take specific actions to support their own financial futures."

The TIAA Institute surveyed 1,009 full-time workers between the ages of 24 and 35. The research found more than half (56%) said they can make a difference on global issues like social injustice and climate change, but nearly half of young adults said they prefer to live in the present when faced with global challenges.

The survey reflects the thoughts and opinions of a group shaped by the 2008–09 market crash and recession, soaring home prices and skyrocketing student debt. Meanwhile, climate change, social unrest and increased political division have led to increasingly urgent calls to action, particularly among young adults. It's not a stretch to surmise they feel their future retirements are on the line if these issues continue to intensify unabated.

The survey also offers insight into how this generation might be prompted to improve their retirement outlooks while working to make the world a better place. Some highlights:

Young adults are facing tough, and immediate, financial realities.

More than four in 10 young adults (42%) say they live paycheck to paycheck. As a result, two in three say they couldn't handle an unexpected major expense.

But employers can play a role here, more so than in years past. Employers now can help their most vulnerable workers with financial wellness programs and emergency savings products designed to get them through tough times while keeping them enrolled and engaged in saving for retirement.

Figure 1

Young adults: What have they weathered?

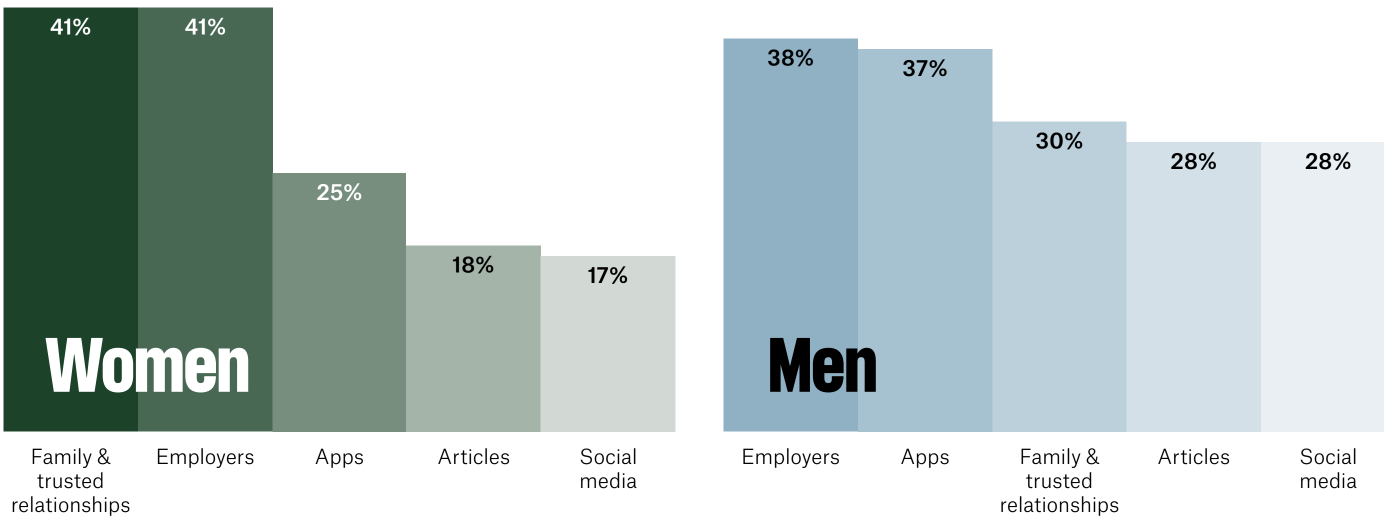
Young adults came of age during the global financial crisis and were just starting careers when the pandemic hit.

Survey respondent age ranges	Financial crisis 2008–09	Covid-19 pandemic 2019–22
Younger millennials *Born 1988–97, 27–35 years old in 2023*	*11–21 years old*	*21–31 years old*
Gen Z *Born 1997–99, 24–26 years old in 2023*	*9–12 years old*	*19–22 years old*

Opposite page: Kyle Dorosz, Banknote photo: Olga Yastremska/Alamy Stock Photo. Medical mask photo: iStock

Figure 2

Trusted sources: Where do they turn?



Women aren't saving enough.

It's no secret women in the workplace face more-complex challenges than men, including lower wages, their default role as primary caretakers and typically longer lifespans. The survey found young men are more likely to save than young women (38% men vs. 30% women), because women are more likely to be focused on paying down debt (17% women vs. 10% men).

Gender also plays a significant role in sourcing the information needed to make better-informed financial decisions. Women tend to look to trusted relationships/family members and their employers for advice more often than men (see Figure 2). Men are more likely than women to seek information from apps, articles and social media. To meet young employees where they are, employers should use their preferred communication channels—consider promoting in-person information sessions aimed at young women and app-based messaging for young men.

Young adults of color seem to be saving more yet still living paycheck to paycheck.

More than a third of Hispanic/Latinx young adults (36%) and a third of Black/African American young adults said they were saving money on a regular basis compared with 29% of white people surveyed.

Notably, while half of Black workers surveyed said they were living paycheck-to-paycheck compared to 44% of white young adults, more than half (55%) of Black young adults said they expect to do better financially than their parents, compared to 35% of white young adults. That's despite the fact 54% of Black Americans risk running out of money in retirement.[1]

"In other words, young Black adults are feeling the pinch today but are optimistic about tomorrow," Kolluri notes. Programs aimed at budgeting and paying off debt would resonate more with this cohort at this phase in their lives.

Virtually all young adults need a better sense of their retirement plan options.

SECURE Act legislation provided more institutional pathways to permanent paychecks in retirement, as participants' investment appetites become more welcoming to annuities. Compared to 2020, when only half of retirement plan participants would consider retirement annuities, now four in five people across generations say guaranteed lifetime income options are very valuable features in retirement plans.[2]

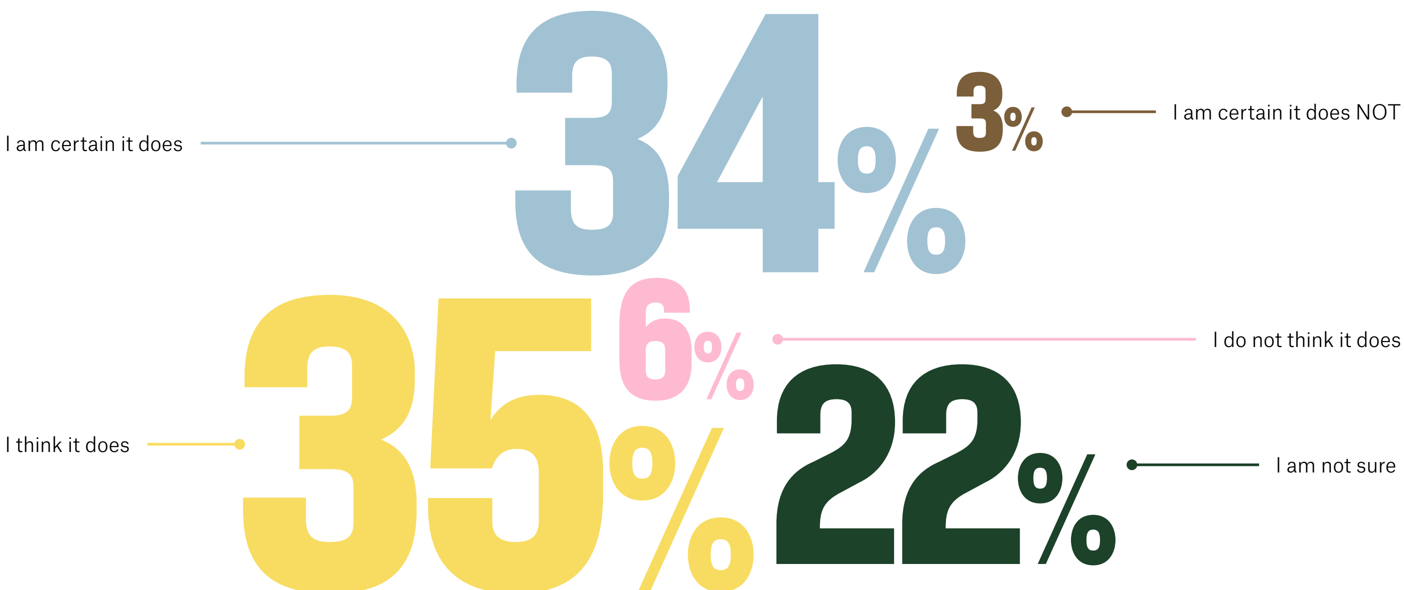
Many young adults now appreciate the pre-retirement advantage of annuities and other guaranteed income products. They offer stability while saving—an appealing option for many young adults. More than half of those surveyed say they want to protect their savings from risk; only about a third said they were willing to take on more risk for higher returns.

Photo: Kyle Dorosz

Figure 3

Guaranteed income: What do they know?

Does your retirement plan provide a guaranteed minimum income?



(n=732 have retirement savings plan)

But far too many young adults don't understand whether annuities are an option within their current retirement plans. Most either think their plans offer a guaranteed minimum income in retirement when they don't, or at the very least aren't sure (see Figure 3).

From this group, men are more likely than women to say they are certain their retirement plan provides for a guaranteed minimum income at retirement (41% vs. 27%). Black Americans in particular are most likely to say they're certain their retirement plan provides for a guaranteed minimum income (47%).

In fact, only about 14% of 401(k) plans offer options for lifetime retirement paychecks.[3] Among 403(b) plans, about half offer similar features.[4]

"Employers and advisors need to clarify how a retirement plan works and what they can expect, and the role a real lifetime income product can play in a diversified portfolio," Kolluri says.

Your recruiting competitive edge: education.

This survey makes clear that for better outcomes, companies and plan sponsors need to meet millennials and Gen Z where they are in life, in technology and in language.

To effectively engage this audience on financial strategies, employers and consultants can look to topics that matter to young adults. Providing financial wellness programs to help young adults reduce financial stress is a start; employers also can establish auto-plan features that remove obstacles to saving.

Employers also need to help young adults understand appropriate retirement portfolio allocations and diversification strategies, and whether their workplace plan provides minimum income guarantees at retirement. Adding investing tools and expanding the lineup of their default investment options to include annuities will help ensure young adults appropriately access guaranteed forms of retirement income. Finally, employers must educate young adults about these benefits in ways most likely to reach them, and schedule periodic check-ins.

Today's young adults have demonstrated their focus and passion for causes. They only need the right information to make their own financial wellness the cause they rally around next.

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1 Boston College Center for Retirement Research, 2018.
2 TIAA 2022 Retirement Insights Survey.
3 2022 PSCA Annual Survey of 401(k) and Profit Sharing Plans.
4 2022 PSCA 403(b) Survey.

Any guarantees are backed by the claims-paying ability of the issuing company.

Photo: Kyle Dorosz

NOW W

You're ready to retire with a big pile of money. What do you do with it?

WHAT?

Jeffrey Brown, a TIAA trustee, is Josef and Margot Lakonishok Professor and Dean of the University of Illinois' Gies College of Business. He also serves as a fellow at the TIAA Institute.

This article was adapted from Jeffrey Brown's presentation at the TMRW conference in February 2023.

Why do we save for retirement?

It sounds like a simple question with an obvious answer: We save (or at least most of us do) so we can maintain our standard of living after we retire. We save so we will have money to spend on the goods and services we need to live comfortably.

But notice what is not included in this answer—a number.

In all the years I've been asking this question, no one has ever said the point of retirement is to have $1 million at age 65—even though much of Wall Street promotes this very concept. That's because "the number," the amount of wealth we're supposed to accumulate, is not the real goal. It's an intermediate step toward what really matters, which is creating a secure and happy retirement.

It's not even a real measure: After all, how much is enough when the number of years you'll live in retirement [your longevity] is unknown?

Guaranteed lifetime income helps solve the longevity problem. Stocks and bonds are good for growth. But according to six decades of academic research, we're likely to be better off when annuities play a significant role in retirement plans, providing a predictable stream of income that never runs out. It shows that income, not wealth, is the outcome that matters most for financial security and peace of mind.[1]

Shooting in the dark

I am the son of two high school teachers. My dad taught social studies, and my mom taught office skills such as typing and shorthand. My parents never earned a lot, but they were savers. They clipped coupons. I wore hand-me-down clothes. Thanks to their saving habits, my parents built up a decent nest egg.

A few years before I entered my PhD program, my parents retired. They were in their mid-50s. They needed to figure out how much they could spend each month, and to do that they had to guess how long they would live.

Mom and dad are now healthy, self-sufficient 84-year-olds. Had they planned for only 25 years of retirement, they could have spent more, but they would have outlived their money. Instead, they lived frugally—too frugally I'd argue. Their biggest fear was running out of money. They never wanted to be a burden to me or my siblings.

When I started graduate school, the subject of retirement planning

"THE NUMBER" IS NOT THE REAL GOAL. IT'S AN INTERMEDIATE STEP.

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resonated with me, and it led to a 25-year career in research and education. Here's what I've learned.

Having enough guaranteed retirement income to cover basic needs provides financial security and peace of mind. Our well-being does not come from how much money is in our account on a given day. It comes from having the money we need when we need it. If we all knew how long we had to live, it would be easy to toggle back and forth between wealth and income. We don't.

We have a retirement system built around wealth [unfortunately]. There's a disconnect between what we want from retirement and how we've been told to get there. We obsess about how much money we will have the day we retire, when what we really need to know is how much money we can spend each month.

Policymakers feed this obsession. The government endorses the use of default investment options in employer retirement plans based solely on how they facilitate wealth accumulation. The IRS requires you to start withdrawing from most of your retirement accounts once you hit a certain age, without considering whether you'll have enough money left at older ages. Regulators impose fiduciary duties on plan sponsors or plan administrators to ensure retirement plans provide diversified investment options and keep expenses low, but no duty to consider lifetime income.

Converting savings to income is psychologically difficult when you've spent your life defining success by how much money you have. The human brain is hard-wired to look for mental shortcuts. These shortcuts are often valuable—hear a growl in the bushes, and nobody sticks around to see if it's a

bear or a possum—but they sometimes mislead. And one of those "sometimes" involves retirement planning. In psychology, the word "framing" is used to describe how decisions can be influenced by mental shortcuts instead of facts and outcomes. About 15 years ago, I partnered with researchers from Harvard University and the Brookings Institution to test the impact of a wealth frame versus an income frame when thinking about retirement. We explained a savings account and a life annuity and gave respondents a choice. In half the test cases, we used words like "spend" and "payment" to get them focused on consumption. Within this group, seven in 10 people chose the life annuity over the savings product. For the other half, we provided identical information but used words like "invest" or "earnings" to get them thinking about wealth instead. When we framed the choice this way, only two in 10 chose a life annuity over a savings product.[2]

People should view guaranteed lifetime income as a glass half full: "I am never going to run out of money no matter how long I live."

Instead, we have conditioned them to think of guaranteed income as a glass half empty: "I used to be a millionaire, but now I live on a fixed income."

What can we do to fix this?

One option is to try to educate. I am an educator, and I almost always believe more education is a good thing. But I am also a social scientist who cares about data and evidence. And what I can tell you is that educating our way toward secure retirements will not be enough.

We also must focus on product design and plan architecture. Think about the powerful influence automatic enrollment has had on savings rates. If we built guaranteed retirement income options into our plans and products—making lifetime annuities a default option in 401(k)s, for instance—people could have happier, more-secure retirements.

The third thing we can do—one that can be implemented right away—is shift our communication strategy away from a relentless focus on wealth accumulation. We should stop obsessing over "the number." We should stop making account balances the yardsticks of success. We should maybe even stop talking about whether someone has "saved enough" for retirement.

Instead, we should be talking about how much future income we have provided ourselves. About how we have ensured we can maintain our standard of living. About what we have done to guarantee we won't run out of money in retirement.

Income is the outcome. It's a powerful frame. It's time we put it to use for good.

THERE'S A DISCONNECT BETWEEN WHAT WE WANT FROM RETIREMENT AND HOW WE'VE BEEN TOLD TO GET THERE.

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[1] Jeffrey R. Brown, 2014. "Income as the Outcome: How to Broaden the Narrow Framing of U.S. Retirement Policy," Risk Management and Insurance Review, American Risk and Insurance Association, vol. 17(1), pages 7–16, March.

[2] Brown, Jeffrey R. and Kling, Jeffrey and Mullainathan, Sendhil and Wrobel, Marian, Framing Lifetime Income (May 2013).

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Photo: Pexels

Q&A

ASK A CONSULTANT

MANY OF US AT TIAA are big fans of advice columns—from the Dear Abby and Miss Manners newspaper columns to the vast amount highly specific advice found online. But to our knowledge, there's no obliging sage dedicated to the retirement industry. So TIAA TMRW is filling that gap with this new feature, "Ask a consultant."

It's simple: Consultants answer real questions from real employers regarding real retirement plans. We anonymize the questions and strip out any plan details. We hope these conversations between plan sponsors and consultants provide fresh perspectives on your burning retirement plan questions. All exchanges are edited for clarity, brevity and context.

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JAKE CONNORS
Senior director of institutional retirement plan consulting
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How will artificial intelligence (AI) enhance—not replace!—consultants and advisors? Will there be better modeling, results or recommendations?

– Small independent college preparatory school

The biggest opportunity for AI is in employee engagement, perhaps even more than [investment] modeling. One of the biggest challenges in employee engagement is making it relevant. Helping employees make better decisions requires customizing the message to their needs. Right now, that's hard.

If you think about AI as the mechanism for creating more customized experiences, that could drive higher engagement and ideally better decisions. Even using AI to include a participant's name in every interaction could create a connection.

Down the line, I can imagine applying AI to create the 70-year-old version of ourselves who could talk to us about what retirement looks like, and how our decisions today can make a difference in the long run.

When I was early in my career, I worked in participant education where I met with employees regularly. I'd ask them to imagine their retirements. I described my own vision of retirement—a house with views of the mountain tops and a double-sided fireplace in the center of a great room.

Today, I can imagine an AI-generated version of my 70-year-old self, talking to me about that double-sided fireplace and how contributing $50 more per week would help me get there.

These conversations and interactions could also generate valuable data for the plan sponsor. Imagine if AI could ask, "What's keeping you up at night?" If most people talked about budget and debt concerns, that data could help plan sponsors respond better to employees' needs.

Naturally, there would be a lot of data integrity and privacy concerns. But we are many years away from using AI for this kind of engagement. That's why it's important to think ahead and get the data in good order so we're in a strong position to leverage AI effectively when we get there.

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Illustration: Lauren Tamaki

BRAD SIENIAWSKI
Vice president of strategic initiatives and business development Retirement & Investment Solutions, a practice of CBIZ

Employers have gained more control over employees' retirement contributions through auto-enrollment and escalation. Are other tools on the horizon for employers to further stimulate retirement savings?

– A small nonprofit plan

I see features like automatic enrollment and auto-escalation as less about control and more about the increased potential for employers to help employees through enhanced plan design.

I expect plan design will only improve going forward. Thanks to SECURE 1.0 and SECURE 2.0, employers have much more at their disposal to create better saving opportunities, and we will see greater adoption of many of these new provisions. Student loan payment matching, increased saving potential with Roth accounts, emergency savings withdrawals, opening plans to include long-term, part-time employees—all create the means for employees to save more effectively. These are wonderful opportunities for employees made possible through plan design.

Going forward, more states likely will enact legislation requiring employers without retirement plans to enroll employees in state-sponsored programs. We may see additional incentives encouraging small businesses to start their own retirement plans. Considering nearly half of U.S. workers are employed by small businesses,[1] there's a significant need to help these employees save for retirement. We also will likely see more requirements mandating the use of automatic enrollment and escalation features in retirement plans.

Of course, we need to evaluate any plan design change carefully to make sure it fits with the employer's goals and resources, but I'm very optimistic about what the future holds for employees and their retirement readiness.

BILL RYAN
Partner, head of DC solutions NEPC

What is the best way to drive employee engagement and education around our retirement plan?

– A large healthcare organization

In most nonprofit organizations, there's a broad age spectrum. That's true in healthcare but it's especially true in higher education, where the range can vary from a 25-year-old staff person to a 75-year-old faculty member still teaching and publishing research. It's hard to solve for that entire spectrum.

Instead, focus on who you want to engage and how. An individual's relationship with their retirement benefits becomes much more personalized as they age. At 25 or 30 years old, their needs are much more homogenous—saving and investing for growth. The issue at that age is disengagement. Applying systematic solutions [like automatic enrollment with default investments and auto-escalation] to create robust contribution strategies and investment allocations for younger workers uses inertia to their advantage.

That frees up mindshare for those approaching retirement—those in their 50s and older and for whom retirement benefits become more nuanced and individualized. That's where you can have a different kind of impact. What kind of income do they need? What kind of planning calculator do they need?

If you're a benefits manager, give yourself permission to focus on the group that's closer to retirement rather than overwhelming yourself with the entire spectrum. If you do that, you can shrink the world into more solvable problems.

[1] U.S. Small Business Administration Office of Advocacy, 2023.

Illustrations: Lauren Tamaki

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