

Improve your employees' financial wellness by upgrading your retirement plan

The pandemic has added another facet to your multidimensional workforce—level of financial (in)security

Addressing the needs of your employees has always required continuous oversight and evolution based on the influence of internal factors (different generations, salaries, socioeconomic backgrounds) and external factors (changing market conditions, legislation at the federal and state levels). However, these unexpectedly became secondary considerations with the alarming rise of the COVID-19 virus at the beginning of 2020.

Financial wellness—the new scorecard for employees' success

The pandemic continues to impact all aspects of our lives personally, professionally and collectively—but not equally. Over the last two years, employees say their financial wellness:



Generally, there are several factors contributing to these results.

- Three out of ten individuals prioritize having an emergency fund more now than they did before the pandemic began. However, 55% can't cover six months of expenses should they lose their job or income source.¹
- Recent legislation like the CARES Act enabled easier access to retirement savings through withdrawals and loans. 58% of Americans took a loan or withdrawal during the pandemic.²
- 40% of all U.S. households are projected to run out of money in retirement, with average shortfalls greater than \$100,000.³

Among women and minority groups, the circumstances are even more ominous.

- 1.8M women have dropped out of the workforce since COVID, and most will never make up for lost earnings and savings.⁴
- 83% of Black seniors do not have enough to retire.⁵
- 69% of Hispanic and Latino households aren't using workplace vehicles to save for retirement.⁶

Plan sponsors are expected to do something about it...and many are

Sixty-three percent of employees feel their mental and emotional health are the employer's responsibility.¹ This has led many companies to increase the resources they offer, including:

- Life insurance, 529 and retiree healthcare savings plans
- Flex time and telecommuting
- A robust employee assistance program that offers counseling and self-help services
- Topical financial education
- Student loan or personal debt assistance

Even with this more holistic approach, 31% of workers still say saving for retirement is the most common assistance provided by employers.¹ This means that an employer's retirement plan—including its provisions like matching contributions and investment menu—is one of the most important factors to an employee's financial wellness. However, the plan is either underutilized through inaction or underappreciated through a lack of awareness.

Enhancing your retirement plan

Based on a sample of more than 1 million TIAA participants, and relative to expectations, almost 40% show good retirement saving behaviors, while 60% may need to adjust their current strategy.⁸ In this section, we'll dive deeper into plan improvements that can help maximize employee outcomes, no matter where they are now.

For the 40% showing good retirement saving behaviors...

They're saving at a high rate in the right ways. This group's average contribution rate, between employee saving and employer match, is 15.8%. And 29% are saving in TIAA Traditional, our flagship fixed annuity, which can provide lifetime income in retirement. Additionally, they may have increased their savings—potentially from reduced spending during quarantine—or at least didn't deviate from their long-term plan by shifting their equity allocation to safer investments.

But there's an opportunity to help those doing well do better. More than 70% are invested in their employer's default target date funds. While a convenient way for employees to invest—and help ensure plan sponsors meet their fiduciary obligation—these investments come with shortcomings that could manifest over time.

The “set it and forget it” allure of these funds could actually lead employees further and further off target if they're saving more, or less for that matter, or if their goals change (e.g., including wanting to retire earlier/later than age 67). But that's not the most overlooked issue that could arise when it's too late—64% of employees believe target date funds provide guaranteed lifetime income, when they don't.⁹



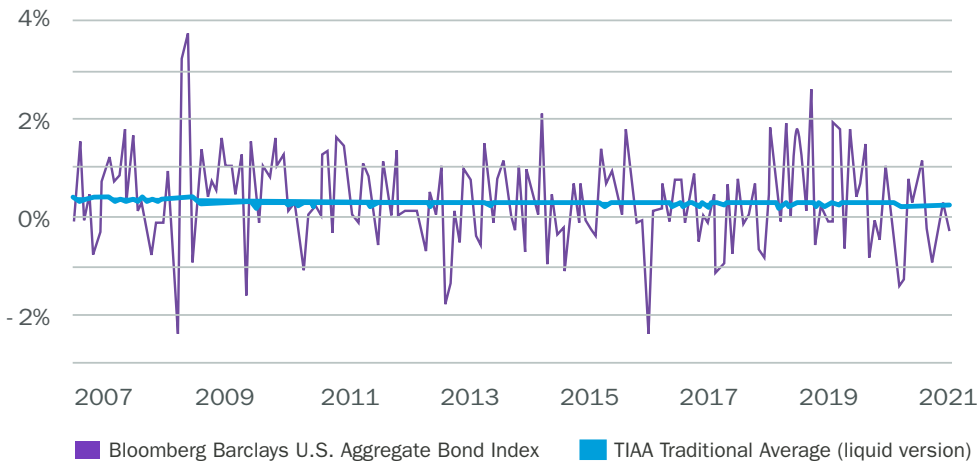
33%

OF COMPANIES
ANTICIPATE SOME
EMPLOYEES' ROLES
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REMOTE IN 2022.⁷

These individuals have placed their retirement entirely in the employers' hands—especially the majority who didn't even make their own investment selection. Instead of fighting inertia, plan sponsors can use it to their advantage by building a custom default solution that includes an allocation to a fixed annuity like TIAA Traditional to replace their off-the-shelf target date fund.

Employees get the benefit of lifetime income when they retire. And during their working years, they'll enjoy gains similar to bonds without the interest rate volatility.¹⁰

Steady growth without volatility



Put another way, over the past 30 years, bonds experienced 119 months of negative returns, versus none for TIAA Traditional.

For the 60% who may need to make changes...

70% should be saving more. This group only has an 8% average contribution rate between what they're saving and the employer match—and only 71% are making voluntary contributions. This is where a plan sponsor can make the biggest impact in several ways.

- Grow participation in the plan through auto enrollment and automatic contribution increases.
- Reconfigure the match to encourage greater saving without affecting your budget (e.g., offer a 50% match up to 12% of salary vs. 100% match up to 6% of salary).
- Educate employees on the pretax value of plan participation—especially during new employee onboarding and as a part of the annual benefits renewal. Also, providing easy online access to retirement plan accounts that includes performance and projected income can help illustrate the benefits on a personal level.
- Add the flexibility of after-tax saving through Roth contributions.



57%

SAY THEIR EMPLOYER'S MATCH IS HIGHLY IMPORTANT TO THEM WHEN MAKING JOB OR CAREER DECISIONS.⁹

37.5% may need to change their asset allocation. This may be the result of several factors, including a shift to more conservative investments during the downturn of 2020. Not only would this have locked in those losses, but it would have also led to missing out on the market correction the following year. Helping this group involves a more targeted approach.

- Educate younger employees on the long-term growth equities can provide—the stock market may fluctuate greatly, but it has grown an average of 10.67% every year since 1957.¹¹
- Provide access to ongoing personalized advice, whether in person or through the retirement plan provider's online tools. This can help employees stay on track throughout their working years and feel comfortable retiring when they are ready.
- Assess the investment menu to ensure that it offers the right mix of options to help employees generate the best outcomes. Consider eliminating redundant asset classes, adding socially responsible options, and building a custom default with a guaranteed income component.

53.8% may need to increase their allocation to lifetime income options. This applies in particular to older employees who need to start planning on how to turn what they've saved into what they'll spend in retirement. More than 70% of workers say they would choose to work for, or stay with, a company that offers access to guaranteed lifetime income in retirement over one that does not.

- Offer annuities individually and within the default option to provide guaranteed lifetime income.
- Educate employees on the key concepts of Social Security, pensions and annuities, especially when only 32% are highly confident their savings will last 30+ years.⁹

Refocus on your employees' futures—by investing time in your retirement plan

Without a doubt, enduring the past two years required unprecedented perseverance and patience. But now is the time to shift from the chaos brought on by the pandemic to proactively moving forward in the new normal. You have the power to create a brighter, more secure tomorrow for your multidimensional workforce by making improvements to your retirement plan. Adding auto enrollment and auto increase provisions, building lifetime income into your default option, and helping those who have fallen behind can lead to greater financial wellness for your employees which, in turn, will improve your institution's ability to retain and attract talent.



IN 2022, 30% OF YOUR PEERS ARE CONSIDERING CHANGES TO THEIR RETIREMENT PLANS.⁷



Visit [TIAA.org/plansponsors](https://www.tiaa.org/plansponsors) today or contact your relationship manager to learn more

¹ 2022 TIAA Financial Wellness Survey.

² Nearly 6 in 10 Americans Withdrew or Borrowed Money From Retirement Amid Pandemic, ValuePenguin, Jan. 6, 2021, <https://www.valuepenguin.com/news/withdraw-borrow-retirement-money-pandemic>.

³ What happens when you spend all the retirement money? The Press-Enterprise, February 2022.

⁴ Improving Retirement Security, National Women's Law Center, March 2022.

⁵ Retiring while Black, Consumer Reports, Inc., April 2021.

⁶ A majority of Hispanics aren't saving for retirement. Lack of financial knowledge is a factor, expert says, CNBC, October 2021.

⁷ Findings obtained from TIAA's proprietary online research communities, composed of not-for-profit plan participants (both TIAA plan participants and non-TIAA plan participants) and not-for-profit plan sponsors (both TIAA plan sponsors and non-TIAA plan sponsors), all powered by C Space, TIAA's Customer Agency.

⁸ This study is based on a sample of TIAA plan data of 1,009,058 actively contributing participants as of December 31, 2021, and aligned to Morningstar advice methodology to in-plan behaviors such as savings, asset allocation (Managing) and investments in guaranteed asset class (Protecting). The individual behaviors are weighted and combined at the participant level. We run this analysis for participants who are active and for whom we have an actual salary.

The Savings analysis is based upon comparing a participant's combined employee and employer savings rate to their Morningstar recommendation. The difference between the two is calculated as a percent and translated to a 4.0 scale. Those who are at or above their recommended savings level are exhibiting "good behavior." A score below 3.7 through 1.7 is assigned a "could improve" designation, and those below 1.7 are assigned a "may need more help" designation.

The Managing grade compares a participant's risk level to the risk level recommended by Morningstar. If the difference between the actual and recommended is "0" or "1," the participant is exhibiting a "good behavior." A difference of 2 or 3 "could improve," and 4 or 5 "may need more help."

The Protecting grade is calculated for participants who have a recommendation for the guaranteed asset class in their portfolio. The logic is the same as with the Savings category in that a difference between the actual and recommended percentage is calculated and turned into a grade based upon a 4.0 scale. Those who are at or above their recommended exposure to the guaranteed asset class are exhibiting "good behavior." A score below 3.7 through 1.7 is assigned a "could improve" designation, and those below 1.7 are assigned a "may need more help" designation.

The overall weighting is age based with an emphasis on savings. The weight of the savings component is derived by subtracting a participant's age from 110. For example, the weight of the Savings component for a 40-year-old is 70%. The other two components, Managing and Protecting, are calculated by subtracting 70% from 100% and sharing that 30% weighting as follows: If that 40-year-old participant has a recommended guaranteed asset class percentage of 5%, that is the weighting for the Protecting component, and the remaining 25% is the weighting for the asset allocation (Managing) component. An exception to this rule occurs when a participant is 60 and older with assets more than \$1M. Then the calculation logic is the same but we begin by subtracting the age from 90 rather than 110.

The Morningstar tool's advice is based on statistical projections of the likelihood that an individual will achieve their retirement goals. Morningstar's advice engine includes tax-rate assumptions, mortality tables, and Social Security estimates. These projections, and other information generated through the Morningstar tool regarding the likelihood of various investment outcomes, are hypothetical, do not reflect actual investment results, and are not a guarantee of future results. The projections are dependent in part on subjective and proprietary assumptions, including the rate of inflation and the rate of return for different asset classes, and these rates are difficult to accurately predict. The projections also rely on financial and economic assumptions of historical rates of return of various asset classes that may not reoccur in the future, volatility measures and other facts, as well as information the individual provides. Results may vary with each use and over time.

By communicating the information contained in this material, TIAA is not providing impartial investment advice or giving advice in a fiduciary capacity regarding any investment by, or other transaction of, the plan(s). TIAA is acting solely in a sales capacity with respect to an arms-length sale, purchase, loan, exchange or other transaction related to the investment of securities or other investment property

⁹ 2021 TIAA Lifetime Income Survey.

¹⁰ TIAA Actuarial Department calculations. Monthly returns are calculated by assuming level deposits each month for 30 years and then calculating the return based on end of month accumulations. The Bloomberg Barclays U.S. Aggregate Bond Index (the "Bond Index") has no expenses subtracted from its returns. TIAA Traditional does not have any explicit expense charges but may impose surrender charges on certain withdrawals. There are substantial differences between intermediate-term bond indices and fixed annuities, including differing investment objectives, costs and expenses, liquidity, safety, guarantees or Insurance, and fluctuation of principal or return. It is not possible to directly invest in an index. Past performance is no guarantee of future results. There is no assurance that additional amounts above the TIAA Traditional Annuity's guaranteed minimum rate will be declared in the future. The chart compared TIAA Traditional to the Bloomberg Barclays U.S. Aggregate Bond Index (the "Bond Index"), an intermediate-term bond index, which could potentially represent the returns of an alternative savings option that participants might choose if available to them under their plan, and (if included) 10-year Constant Maturity Treasury Yields. An intermediate-term bond fund, as defined by Morningstar, is a fund that focuses on corporate, government, foreign or other issues with an average duration of greater than or equal to 3.5 years but less than or equal to six years, or an average effective maturity of more than four years but less than 10 years. Note that there are important differences between a fixed annuity like TIAA Traditional, the Bond Index and Treasury bonds, including but not limited to: TIAA Traditional performance is calculated based on actual interest crediting rates in effect. These rates include a guaranteed minimum interest rate of 3.00% plus discretionary additional interest that may be declared each year and, if declared, is not guaranteed for periods other than the period for which it is declared. (TIAA's newer contracts, Retirement Choice and Retirement Choice Plus, provide for a guaranteed minimum interest rate of between 1% and 3%.) Income is calculated for TIAA Traditional using actual payout rates during each time period. The Bond Index performance is calculated based on the change in value of the index. It is not possible to invest in an index. TIAA Traditional is not a security and does not have any explicit expense charges, but may impose surrender charges on certain withdrawals. Choices of where to allocate retirement savings shouldn't be made solely upon historical performance. Rather, all elements of each product under consideration should be evaluated.

Source: TIAA Actuarial Department calculations. Uses average annual returns for the TIAA Traditional Annuity in a Retirement Choice Plus (RCP) contract each year. TIAA Traditional returns include guaranteed interest between 1.00% and 3.00% plus any additional amounts that may have been declared each year. Additional amounts, when declared, remain in effect for the "declaration year," which begins each March 1 for accumulating annuities, and January 1 for payout annuities and are not guaranteed for periods other than the period for which they are declared. While some characteristics of TIAA Traditional, the Bond Index and Treasury bonds are similar, if they are owned within a tax-qualified retirement plan, there can be substantial differences in investment objectives, costs and expenses, liquidity, default risk, guarantees, and fluctuation of principal or return (including the effect of the vintage system on TIAA Traditional returns). The TIAA Traditional guarantee is based upon the claims-paying ability of TIAA, while the bonds associated with the Bond Index are typically backed by the credit of the issuer or underlying cash flows from other assets. Treasury bonds are backed by the full faith and credit of the U.S. government. A fund attempting to replicate the Bond Index and Treasury bonds are more liquid than TIAA Traditional, which, under the Retirement Choice Plus contract illustrated, can only be withdrawn in 84 monthly installments and not in a lump sum. TIAA Traditional provides the ability to annuitize and receive guaranteed lifetime income (based upon TIAA's claims-paying ability); the Bond Index and Treasury bonds do not provide a guaranteed lifetime-income option. Past performance is no guarantee of future results. There is no assurance that additional amounts above the TIAA Traditional Annuity's guaranteed minimum rate will be declared in the future. You should not make a decision to invest in any option based only on historical performance. Please make sure to consider all available options and all differences between various options to decide which one is suited for your goals. It is not possible to invest in the index.

¹¹ What Is the Average Annual Return for the S&P 500? Investopedia.com, January 13, 2022, <https://www.investopedia.com/ask/answers/042415/what-average-annual-return-sp-500.asp>.

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