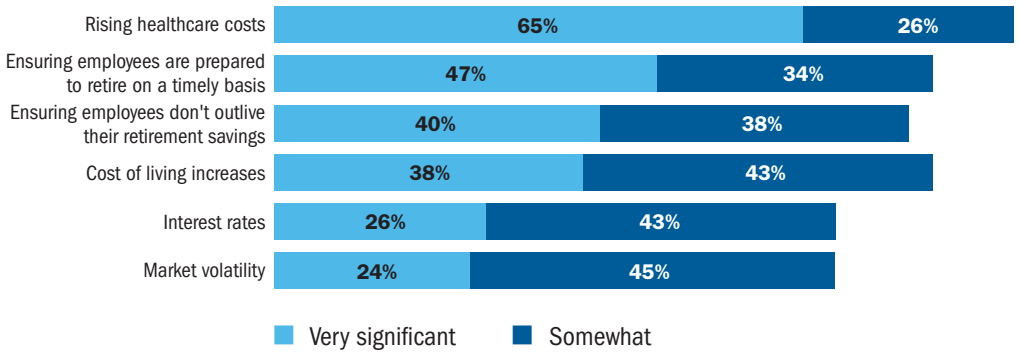
Timely insights to improve retirement outcomes

A variety of concerns dampen plan sponsor confidence about their employees' retirement security.

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.

Significance of issues for employee financial security in retirement



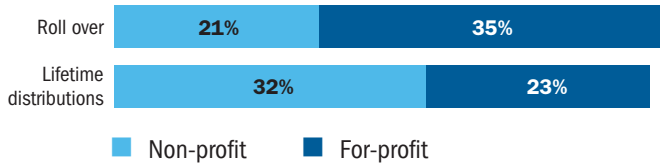
Note: Exhibit is intended to only capture significant issues. Other categories added up to less than 50 percent in each case and include *Not very significant; Not significant at all; and Don't know/refused*.

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).

The survey reveals a significant disconnect between participant needs and plan structure, which has implications not only for retirement security in the future, but for workforce management right now. Despite concerns, a surprising number of plan sponsors do not offer lifetime income options; only 12 percent of plan sponsors, for example, offer in-plan annuities. Nonprofit plan sponsors are more likely than corporate, for-profit plan sponsors to prefer their employees put their savings into an investment that offers lifetime distributions once they retire (32 percent versus 23 percent).

Preference for what employees do with their retirement savings



Note: Other categories combined account for less than 50% and include *Keep assets in your company's 401 plan; Take a full cash distribution or lump-sum withdrawal; and Don't know/refused.*

Offering a lifetime income option—such as an annuity—helps address the risk of employees outliving their retirement savings.

Workforce management matters

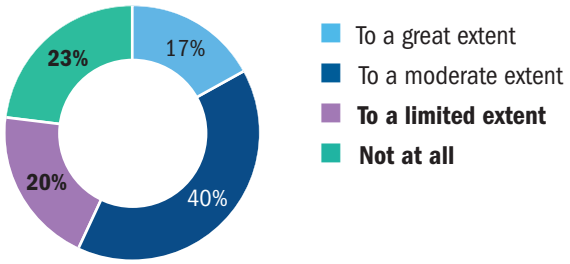
Plan sponsors must balance immediate needs against long-term goals. They are grappling with budget and workforce challenges today, while thinking about the retirement readiness of their employees tomorrow.

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).

With baby boomers retiring at a fast pace and millennial turnover out-pacing other generations, retaining younger workers is increasingly important.[1]

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.

Extent of workforce demographics analysis



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. While plan sponsors measure the success of their plans in a variety

of ways, the most common measures used—such as growth in balances and participation rates are more focused on asset accumulation; only 13 percent of plan sponsors use a plans' effectiveness in providing lifetime income in retirement as a top measure of success. This is at odds with employee needs and plan sponsor concerns noted earlier about employees outliving their savings.

Top ways of measuring plan success
(% selected as a top-two way of measuring)

Growth in balances	27%
High participation rates	26%
Strong investment performance	24%
Retain, attract employees	22%
Timely retirements	16%
Meet/exceed target income replacement metric	**13%**
Cost to administer plan	9%
Fiduciary compliance	8%

Note: Each respondent was asked for top two ways to measure plan success and total will exceed 100 percent.

Plan sponsors acknowledge the need for consistent income in retirement. They offer a variety of retirement income options, yet 57 percent typically expect employees to rely on systematic or lump sum withdrawals—methods that don't provide guaranteed retirement income and, moreover, are subject to risks related to longevity, market conditions, cognitive decline and interest rates. Only 14 percent of plan sponsors expect their employees to generate income from an annuity.

Expected methods for participants to generate retirement income

Take systematic withdrawals	41%
Take a lump sum withdrawal	16%
Purchase an immediate annuity outside the plan upon retirement	8%
Annuitize from an in-plan annuity option	6%
It's up to the employee/their choice	1%
Something else	1%
Don't know	**27%**

Surprisingly, more than one quarter (27 percent) of plan sponsors don't know what type of retirement income solutions they offer, nor how their employees will generate income.

Meeting employee demand

One tactic that could ease concerns about employees outliving their retirement savings would be to allow them to choose retirement investments that guarantee a lifetime income stream when they retire. More than half (51 percent) of all employers think their employees would prefer receiving $2,700 a month for life rather than a $500,000 lump sum at retirement. This echoes an earlier TIAA study, in which 62 percent of employees said they would make the same choice.[2] Nonprofits are twice as likely to believe their employees would prefer monthly lifetime income (56 percent) over a lump sum (25 percent).

The reality is, however, that few employees now have this choice. Only 12 percent of employers offer annuities among their choice of retirement solutions; the options most often offered are target date funds (31 percent), mutual funds (30 percent) and stable value funds (20 percent). About half of plan sponsors (45 percent) say they are not familiar with annuities and, consequently, may have inaccurate opinions about their complexity and cost. Promoting awareness and education about annuities would benefit plan sponsors and participants alike.

Managing risk

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

For many plan sponsors, this could indicate an opportunity to explore a customized default option, which would allow for the creation of income solutions on a plan-level to meet the unique needs and demographics of the workforce. Currently, slightly more than half of all plan sponsors offer a customized default option.

Risks being effectively managed by default investment option(s)	
Market volatility	30%
Longevity	**27%**
Interest rates	21%
Inflation	20%
Insurer's risk	15%
Cognitive decline	10%
Don't know	**33%**

Note: Responses reflect percent of plan sponsors that say their default investment option effectively manages each risk category independently. Total will be greater than 100 percent.

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.

Survey Methodology: TIAA's 2018 Plan Sponsor Retirement 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 non-profit organizations. In addition, for the first time, this year's study includes an equivalent sample of corporate for-profit plan sponsors.

Click here for more on retirement insights or how to leverage lifetime income in your retirement plan.

[1] Gallup, How Millennials Want to Work and Live, May 2016.

[2] 2017 TIAA Lifetime Income Survey

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