Building Successful, State Sponsored Retirement Programs for Private Sector Employees

April 25, 2016
Confronting a retirement readiness gap

55 million Americans do not have access to a pension or workplace retirement savings program

Only 1 in 20 workers without access to a workplace retirement plan will open an IRA

A framework to help achieve success

Managing risk

Program Design

Controlling costs

Employee Engagement

Streamlining choice

Program Management

Investment Solutions

Increasing participation
Designing a successful state-sponsored retirement program

1. Make it easy to participate
2. Maximize participant contributions
3. Keep savings in retirement program
Implement automatic enrollment and default rates

Consider a higher default contribution rate of 4% to 6% and allow participants to opt out if compensation does not permit that rate.
Introduce automatic increase program

**Payroll deferral**

Automatically increase by 1%-2% every year unless participant opts out

**Savings rate**

An annual savings rate of 10% to 15% is needed to help maintain an employee’s standard of living in retirement
Limit preretirement withdrawals

Limit or do not permit loans or early withdrawals

Attribute shared by defined benefits plans and defined contribution plans

DOL proposed regulations: a state may not impose any “restriction,” “cost” or “penalty” beyond those that ordinarily apply to IRAs, on employee’s ability to withdraw, transfer or roll over an IRA

Offer a low-cost annuity with liquidity restrictions during accumulation; helps offset leakage
Establish income replacement goals & encourage annuitization

Calculate retirement income replacement ratio to determine if on track to maintain current living standard in retirement.

Target 40%-50% of preretirement income for income floor.

Cover essential needs with guaranteed lifetime income sources.

Annuitize a portion of account accumulation.

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Include low-cost lifetime income options

72% of participants are interested in an investment option that focuses mainly on generating monthly income in retirement¹

9 out of 10 employees between ages 18 and 34 want employers to provide lifetime income options²

8 out of 10 employees believe employers should provide ways to convert savings into lifetime income²

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¹ Source: The TIAA 2015 Lifetime Income Survey was conducted by KRC Research by phone among a national random sample of 1,000 adults, age 18 years and older, from Jan. 7–13, 2015, using a combination of landline and cell phone interviews. The margin of error for the entire sample is plus or minus 3.1 percentage points.

Keep menu simple with prescreened choices

Implications of a complex menu:

- Participant inertia or indecision
- Greater fiduciary rigor and administrative process to manage
Offer a limited-option investment menu

Guaranteed Account
Principal and declared rate of interest backed by insurance company

Target Date with Lifetime Income
A custom target date fund with guaranteed lifetime income and equity exposure
- Could offer guaranteed, passive and actively managed components
- Automatically adjusts mix of exposure based on participants’ years to retirement

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Select program’s default option for those not making election

States electing to use a managed account as a default investment option may wish to use a guaranteed account or FDIC insured bank product for at least 90 days prior to transferring assets.

New contributions

Default option:
Guaranteed fixed account

Gives employees time to opt out after being automatically enrolled

Money transferred into new investment may result in loss, unless guaranteed
Controlling costs is essential

- Most costs to providers are fixed.
- Small accounts do not generate sufficient revenues to cover their costs.
- Impact of average account balances greater on economics over total assets under management.
States and providers need longer-term commitment

Collaborate with provider with long-term outlook

Allow start up costs to be recouped

Expect programs to operate at loss for at least 5 years due to low account balances
Select recordkeeper with a strong investment record

Using proprietary funds in the state’s retirement program will likely be a requirement of most, if not all, service providers.
Eliminate paper as much as possible

- Electronic signatures
- Mobile
- Web tools
- Email
- Data storage
- Reduce print

Containing costs
Leverage state resources to aid and reduce burdens

Remit salary withholdings by employers via states’ tax collection systems

State agency to forward contributions to provider

Offers a cost-efficient structure for states, employers and service providers
Helping millions of Americans to pursue lifetime financial security

$4.8B
paid to retired clients in 2015, including 30,000 annuitants over the age of 90

$431B
in benefits paid since 1918

$854B
total assets under management

HIGH
Financial strength ratings (TIAA)

STRONG
Capital position (TIAA)

Approximately 825
employees in Illinois

153
offices

16K
institutions

5M
individuals

Our customers

All data as of 12/31/2015, unless otherwise noted

1. Through 12/31/2015. Other benefits from TIAA and CREF include: Additional amounts paid on TIAA Traditional annuity contracts above the guaranteed rate, surrender benefits and other withdrawals, death benefits, health insurance and disability insurance benefits, and all other policy proceeds paid.

2. For its stability, claims-paying ability and overall financial strength, TIAA is one of only three insurance groups in the United States to currently hold the highest possible rating from three of the four leading insurance company rating agencies: A.M. Best (A++ as of 6/15), Fitch (AAA as of 9/15) and Standard & Poor’s (AA+ as of 7/15). It currently holds the second highest possible rating from Moody’s Investors Service (Aa1 as of 8/15). Per S&P criteria, the downgrade of U.S. long-term government debt limits the highest rating of U.S. insurers to AA+ (the second-highest rating available). There is no guarantee that current ratings will be maintained. Ratings represent a company’s ability to meet policyholders’ obligations and do not apply to variable annuities, mutual funds or any other product or service not fully backed by TIAA’s claims-paying ability.

3. Capital position applies to TIAA, the insurance company that backs our guaranteed products. Capital and contingency reserves are $38.6 billion as of 12/31/2015.

4. Includes TIAA affiliate companies.

5. Institutional clients include both unique institutional clients with retirement plans in TIAA and Nuveen Investments, and those with Keogh plans.

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