BUILDING A BETTER RETIREMENT 2024

TIAA's first annual survey of retirement plan sponsors: How employers are thinking, what they're trying to do, and what's holding them back.

WE TAUGHT PEOPLE TO SAVE. THAT'S NOT ENOUGH.

It's easy to forget that "retirement" has only existed for a handful of generations. America's biggest employers initially led the way for this new—and, at the time, quite short—phase of life when they began offering workers pensions. But it wasn't until Social Security came along in 1935 that income replacement enabled many more Americans to retire without risking financial ruin.

Despite—or maybe because of—how retirement has changed in the past 90 years, we are now coming back to its economic roots. Policymakers, academics and other experts agree retirees need guaranteed income that lasts their whole lives. And employers are preparing to provide that in creative new ways.

Pensions are not coming back—they're simply too expensive. But in our haste to replace them with defined contribution plans, we all became a bit myopic. As a nation we focus relentlessly on saving—teaching the importance of saving, offering tax breaks for savers, and automating it for all the people who don't get the message. Yet beyond a largely misunderstood rule of thumb, there has been little focus on how to withdraw from your savings safely over the course of a lifetime.

Meanwhile, retirement has evolved to a multidecade phase of life. People are living longer and enjoying more active retirements, often with more debt and higher expenses. Their cost of living has not dropped all that much. And most are not prepared for managing all these financial challenges and creating a sustainable withdrawal strategy.

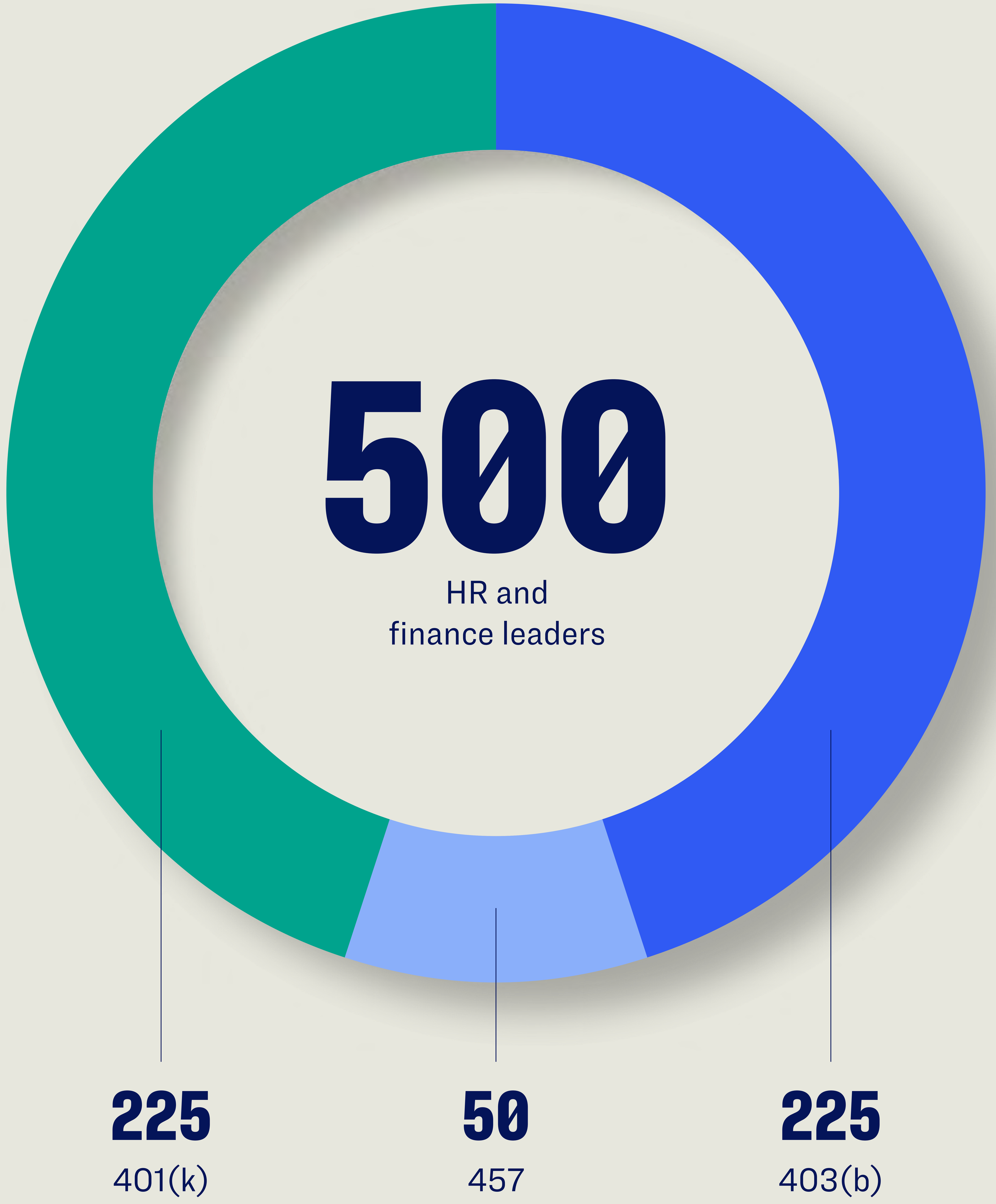
Employers are committed to helping workers retire, and they have the added responsibility of planning for the future of their organizations. An aging workforce drives higher benefits costs and can create a talent bottleneck that can worsen attrition. Could better retirement plans help resolve some of these issues?

Many say yes, especially as more and more people reach retirement age and ask, "Now what?" Employers and policymakers have helped workers build savings. Now they're realizing it's time to talk about how to use those savings. How are employers thinking about building a better retirement? We asked. Here's what we learned.

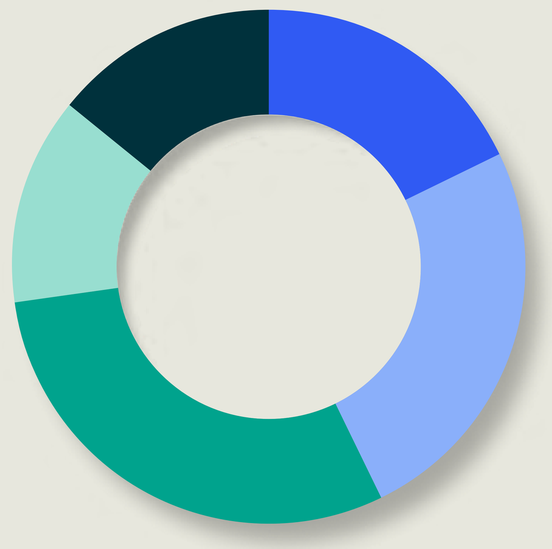
WHO WE SURVEYED.

TIAA's Building a Better Retirement survey consulted 500 C-suite leaders in finance and human resources across 17 industries to elicit their thoughts on how their current retirement plans are working, what they'd like to do next and what's standing in their way. These decision-makers responded to our online survey between June and August 2024 and some gave follow-up interviews through November 2024, facilitating an even better understanding of how they're thinking and the trends they're driving.

This blind survey was conducted with Greenwald Research, and respondents did not know TIAA developed and sponsored it.

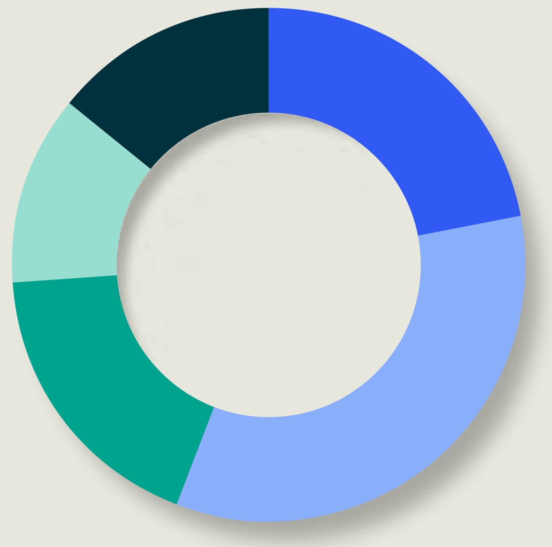


DC PLAN ASSETS



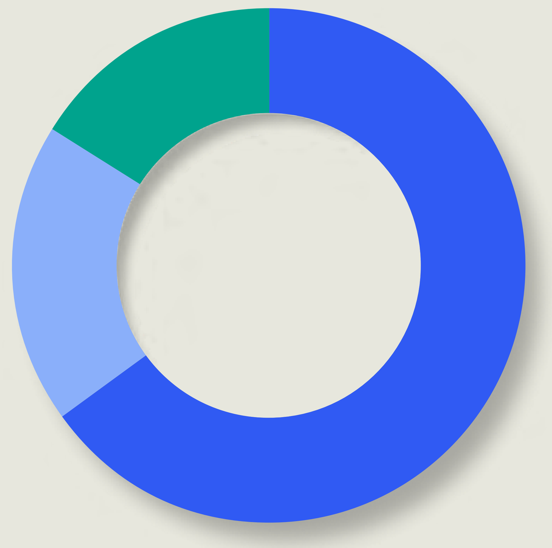
- **18%** $20m to $49m
- **25%** $50m to $99m
- **30%** $100m to $499m
- **13%** $500m to $999m
- **14%** $1b or more

NUMBER OF EMPLOYEES

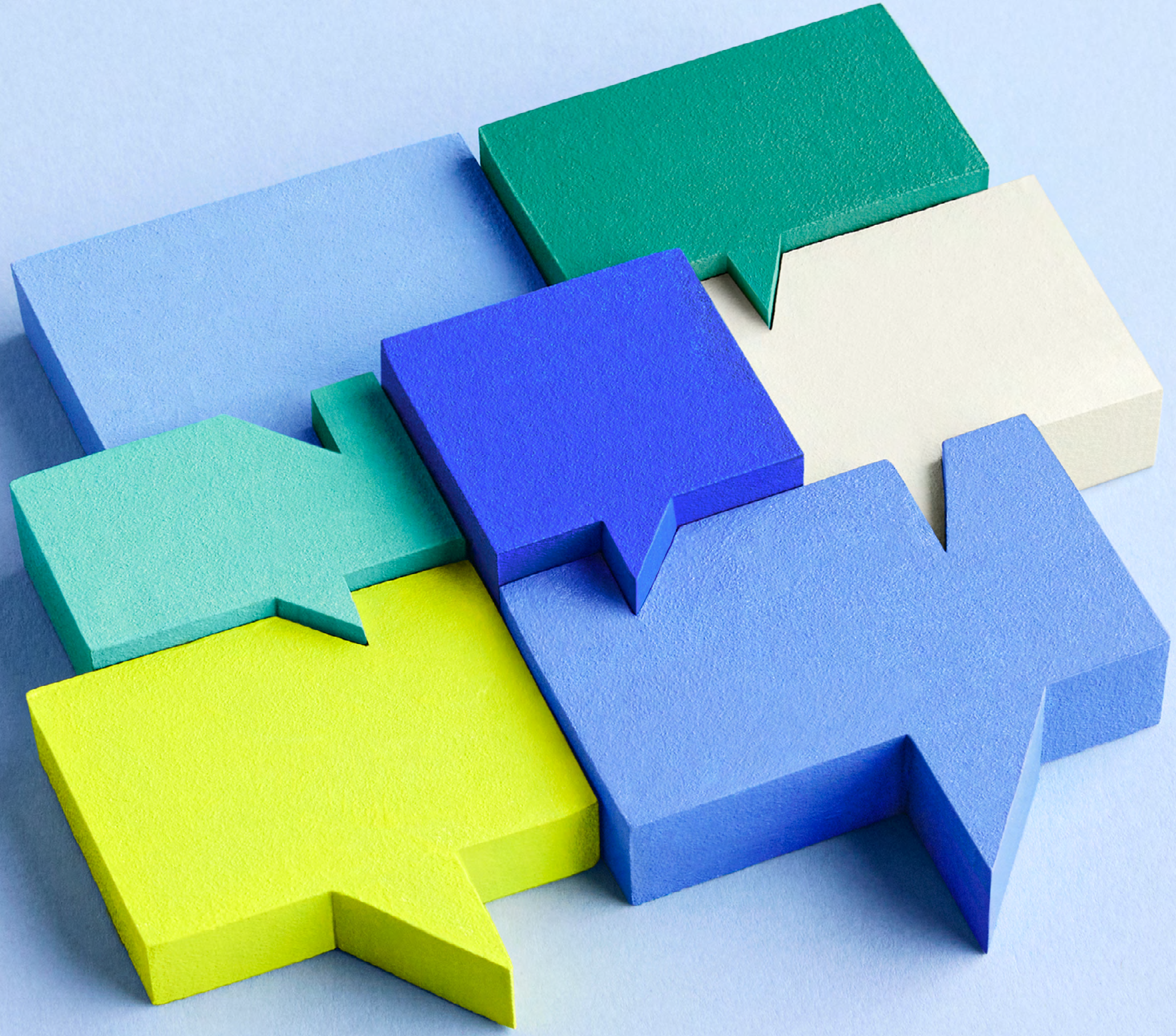


- **22%** 250 to 999
- **34%** 1,000 to 2,499
- **18%** 2,500 to 4,999
- **12%** 5,000 to 9,999
- **14%** 10,000 or more

RESPONDENTS



- **65%** HR/benefits
- **19%** Finance
- **16%** Treasury/operations



WHAT PLAN SPONSORS TOLD US.

Our survey revealed what plan sponsors are doing well, where they are heading and what they need to move forward.

DC plans today

Employers across the board say they have done almost all they can to help employees save and invest. But that's only one piece of the puzzle: There's still a big gap in understanding the mechanisms needed to turn savings into income.

The era of income

Employers recognize retirees need help turning savings into reliable income, and 42% of sponsors who don't offer an annuity expect to add one to their plans in the next two years. But will this be enough to help retirees?

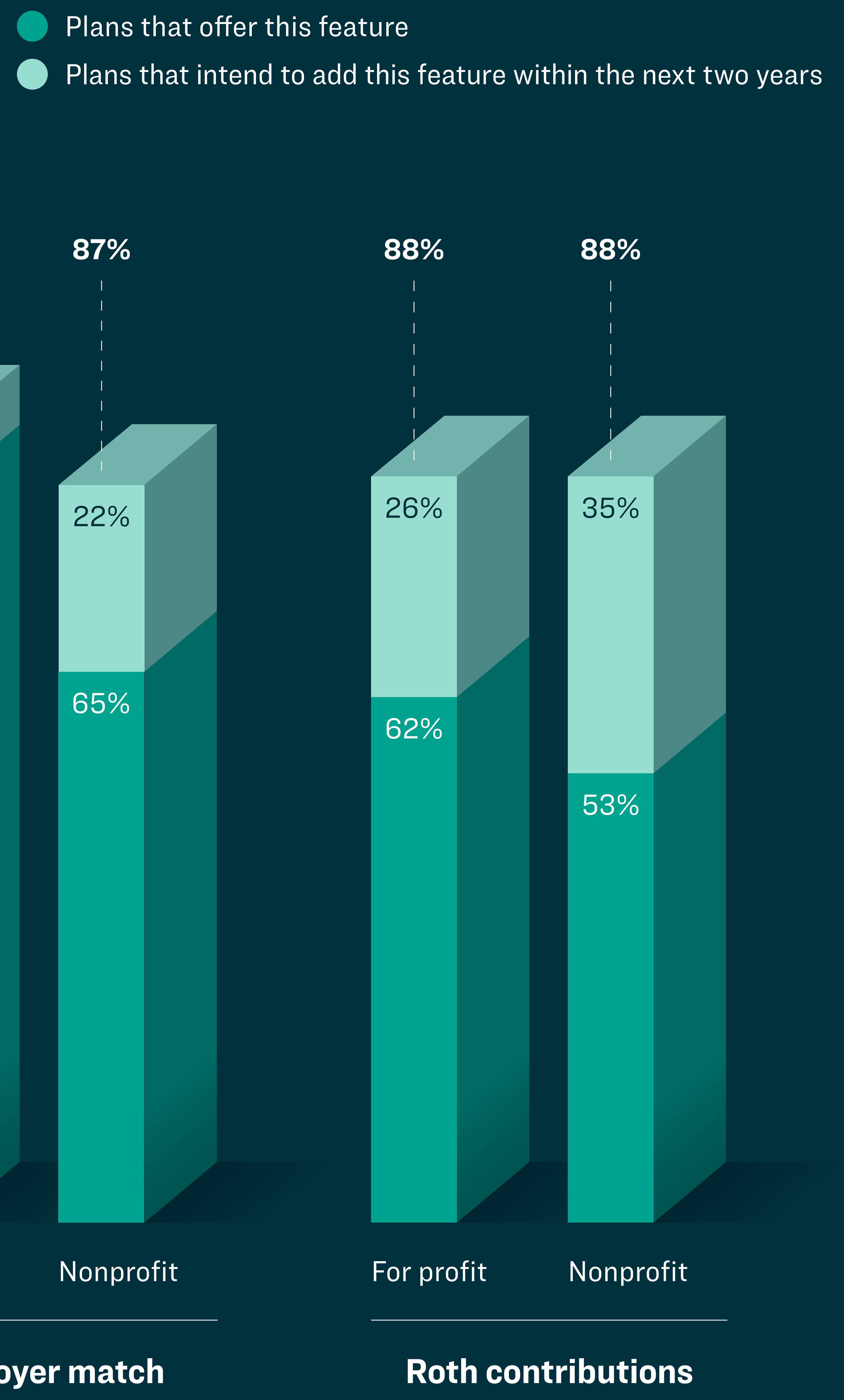
Introducing annuity fluency

Most employers understand the basics of annuities but need help getting conversational. Developing "annuity fluency" echoes the challenge of learning about target-date portfolios, which are ubiquitous today but required a learning curve early on.

SAVING AND INVESTING IS EASIER THAN EVER.

Policymakers and employers have been relentlessly focused on getting American workers to save for retirement—even when the employees themselves don't actively choose to. Today, virtually all plans use all the tools at their disposal to make saving and investing simple and automatic.

Employers have embraced the practices that get people on the right track with saving and investing.

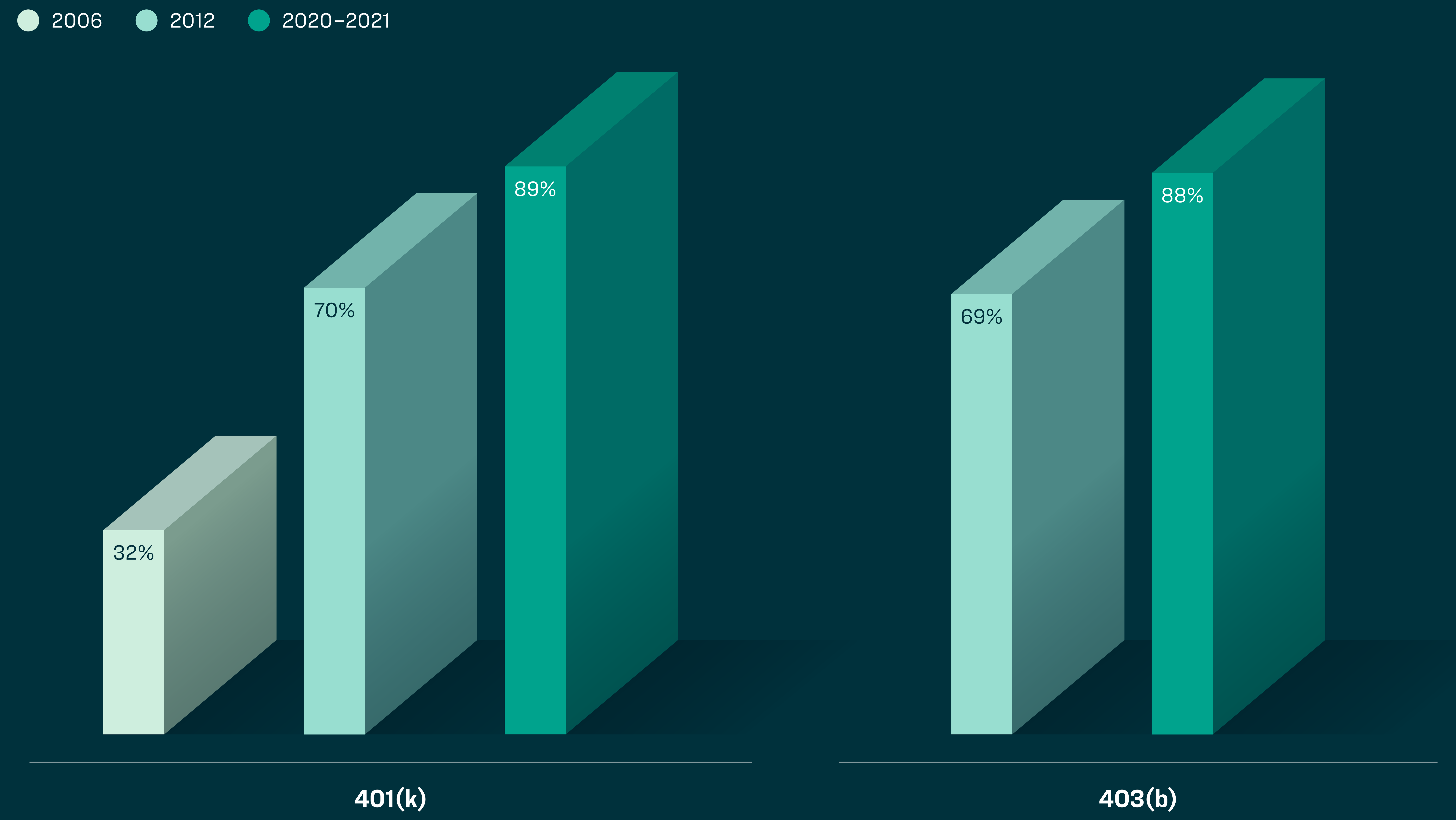


Total (n=500 all survey respondents), data may not sum to 100% due to rounding.

CHANGE HAPPENS FAST...

When the government makes it easy, employers respond quickly. Target-date portfolios, first offered in 1994, languished until the 2006 Pension Protection Act allowed them as a qualified default investment alternative (QDIA). Today, nearly 90% of 401(k) and 403(b) plans offer target-date portfolios, almost always as the default option.

New regulations cleared the way for widespread adoption of target-date portfolios in DC plans.



Note: 2006 data not available for 403(b) plans. In 2009, 51% offered target-date portfolios.

Sources: BrightScope/ICI reports for 401(k) and 403(b) plans, years 2012, 2020, and 2021.

INCOME IS THE NEXT OUTCOME

...AND IT WILL HAPPEN AGAIN.

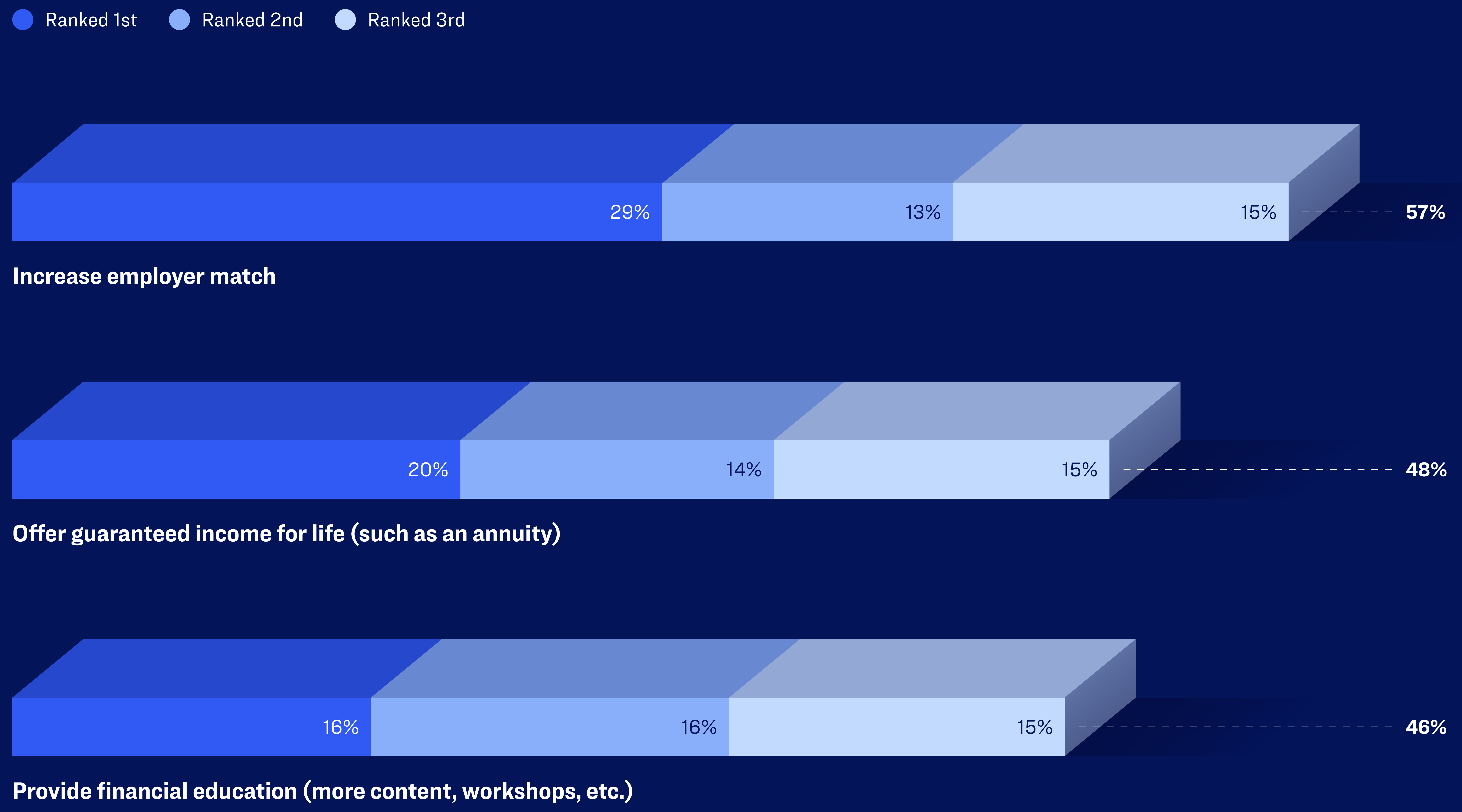
Now that the SECURE Act has paved the way for in-plan annuities—perhaps the biggest change since the inclusion of target-date portfolios—employers say they expect the rate of adoption to be similarly quick. And like target-date portfolios, for annuities to be effective, they must be part of the default.

> “Target-date funds control risk for people as they move towards retirement. Annuities get them through retirement. I think those two strategies marry up nicely. You need both.”
>
> – Investment director for a large grocery chain

MANY SAY INCOME CAN MAKE A DIFFERENCE.

When asked about the top ways they could improve employees' retirements, most employers first went with the familiar—focusing on accumulation by increasing their match. A close second demonstrates the evolution in their thinking: Offering income guaranteed for life.

Top ways employers believe they can improve workers' retirements.



Total (n=500 All survey respondents), data may not sum to 100% due to rounding.

THEY RECOGNIZE SOCIAL SECURITY ISN'T ENOUGH.

When asked why participants might need greater access to guaranteed income, plan sponsors were united in the belief that outside sources will be insufficient.

85%

of plan sponsors say employees need more guaranteed income than Social Security will provide.

Longer retirements

Americans are living longer, healthier lives—with more travel, activities and expenses. They need to plan for 30+ years in retirement—and factor in financial risk (like inflation and market volatility), health risks (like cognitive decline) and medical expenses (some of which Medicare won't cover).

More debt

More than 40% of people aged 65 and older—and 30% of people aged 80 and up—still have a mortgage.[1] That means they likely will need more than the 70%–80% rule of thumb for income replacement. That's especially true for anyone also retiring with car loans and credit card debt.

Not enough guaranteed income

The average Social Security payment is \$1,924 a month, or \$23,000[2] a year. Only 12% of workers today have a defined benefit, or pension, plan. And according to EBRI, 40% of Americans likely won't have enough of their own savings to maintain their standard of living in retirement.[3]

[1] "Housing America's Older Adults," Harvard University, 2023.
[2] Social Security Administration, October 2024.
[3] EBRI Retirement Security Projection Model, 2024.

AND THEY ARE READY TO ACT.

Most employers agree: The most appealing way to ensure workers have retirement income they can rely on is by adding an annuity to the retirement plan. Of the employers that don't yet have an in-plan annuity, 80% say they're actively considering adding one, and half of those plan to offer an annuity within the next two years.

Industry-wide, momentum for annuities is off the charts.

76%

say momentum is growing over the next five years for lifetime income,

similar to the rise of target-date portfolios.

Even 58%

of sponsors *not* planning to offer an annuity acknowledge the momentum.

Of the plans that haven't yet adopted an annuity:

8 in 10

are considering adding an annuity to the plan.

4 in 10

are planning to offer one in the next two years (42% to be exact).

EMPLOYERS WANT BETTER RETIREMENTS.

Employers, policymakers and academics have spent decades trying to get people to save. It worked—for some. But many more were persistently disengaged, and the industry turned to behavioral finance research to make saving and investing automatic. Three-quarters of employers say they take a hands-on approach to their DC plans.

Employers realize that it's time to apply that same approach to retirement income. Living in retirement without fear of running out of money can also be simple and automatic.

75%
take a "hands-on, employer-guided" approach

89%
say annuities provide predictable retirement income

AND THEY NEED TO MAKE IT COUNT.

Workers are comfortable with decisions employers make on their behalf, which has been good for savers: 83% of employees don't move their money out of the default investment option. Things get a lot more complicated at retirement, though. Asking people to suddenly start managing their portfolios at retirement is perhaps too much. As investment professionals know, creating a safe withdrawal strategy while ensuring the right asset allocation that mitigates sequence of return risk, market volatility, inflation and the myriad of tax implications is a job unto itself. Even the most brilliant people can make costly mistakes if this is not their area of expertise.

Let's use what we already know about getting people to save and apply it to the income era. The default works—but it can work better.

83%

of employees don't move their money out of the investment default.[1]

[1] "Opting out of retirement plan default settings," Rand, 2017.

THEY NEED ANNUITY FLUENCY.

The SECURE Act may be the catalyst for employers' interest in adding an annuity to their plans, but the pandemic significantly hampered the amount of time they could devote to research. Employers are caught between momentum for change and the need for greater understanding. They're looking to consultants and providers to help build their annuity fluency.

63%

of plan sponsors say they're unable to articulate the value and importance of annuities.

WHAT ARE THE GAPS?

Most employers—85%—say they understand the basics of how annuities work, but they need to immerse themselves in how annuities fit into a plan and a portfolio in order to have better conversations.

Employers' biggest questions

Are annuities portable?

What are the differences between in-plan and retail annuities?

What are risks and benefits for employers?

How do annuities work in an investment solution?

What are trends in annuity solutions?

What are risks and benefits for employees?

How do different types of annuities compare?

What is the process for implementing an annuity?

What are best practices for adopting annuities?

> "The ability to provide an income stream is going to be more and more important. It's not going to be an option—we just need to get there."
>
> – CIO for a higher education institution

YOU HAVE THE POWER.

No one has more influence over how Americans retire than their employers. Congress makes better retirements possible; employers make them real.

As you think about your DC plan, consider:

How does your plan measure up?

Do you know where *your* retirement income will come from? What about your employees?

What help do you need and where will you get it?

Connect with your TIAA representative and stay tuned for more in 2025.

"Building a Better Retirement" was conducted by Greenwald Research on behalf of TIAA.

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