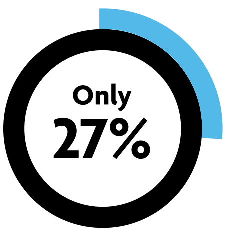
Industry Brief

Standard measures don't fully reflect retirement readiness

Preparing the healthcare workforce for successful retirement



of workers are highly confident that they will never run out of money in retirement.[1]

Serving patients is at the heart of not-for-profit health systems. There has never been a more dramatic demonstration of this than the COVID-19 pandemic and the response and commitment of countless clinicians and staff. Helping these everyday heroes get back on track with their retirement planning is a crucial step in getting organizations back on track, as well.

To promote employees' financial well-being, many health systems have set objectives for and are measuring savings rates, retirement plan participation, plan fees and fund performance. But improvements in those areas alone can't guarantee the end goal. The reason? The journey toward retirement is less certain and more complex than it used to be.

Here's why:

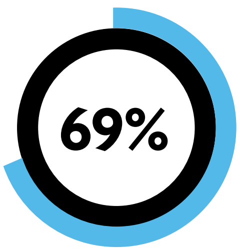
- Defined benefit (DB) plan use is declining, replaced by defined contribution (DC) plans that require employees to be more financially savvy.
- Health systems employ one of the most multidimensional workforces in the United States, so retirement plans need to account for widely varying ages, salaries, debt burdens and communication preferences.
- Not focusing on outcomes can create risk, which means employees could run out of money in retirement.

Addressing these issues is critical to mitigating risk and increasing employee's confidence in their financial future in retirement. Let's look at how these challenges are manifesting in health systems and how they can be overcome by defaulting properly, engaging appropriately and focusing on outcomes as measured by projected income replacement.

The demise of defined benefit plans

Faced with costly and often underfunded pensions, many health systems have opted to terminate or freeze their DB plans and transition to DC plans. This move is understandable as it eliminates a major liability, but it can create a disparity among those who still qualify for DB plans and newer employees who don't. Meanwhile, long-held expectations remain: that participation in a retirement plan should lead to lifetime income in retirement.

However, the new plan structure presents challenges for employees who lack financial confidence. They often gravitate to or remain in the default option to deliver the retirement income they need—even though it's typically using an off-the-shelf target date fund that comes with no income guarantee.



of plan participants surveyed still want and expect lifetime income in retirement.[2]

Offer "personal pensions" without weighing down the balance sheet

This situation creates greater urgency for an alternative that can provide employees with income that lasts a lifetime. To that end, health systems need to be able to design a custom default investment that supports both accumulation and guaranteed lifetime income.

Through this approach, they can reduce financial liabilities and offer "personal pensions" that may potentially limit disparity between DB and DC plan participants. Health systems also need the ability to assess employees' retirement progress at the DB plan level—not just how much employees are saving, but also where income replacement gaps may be occurring. Afterward, they can develop programs to educate employees and help close those gaps. This way of quantifying outcomes based on projected income replacement rates also makes it easier for health systems to both understand the ROI of their DB plan and show participants how they're benefiting from it.

Multidimensional demands from a multidimensional workforce

Health systems manage among the widest range of ages, demographics and professions found anywhere. Employees' ability to save and understand how to prepare for retirement can vary tremendously in this environment, and there's no one-size-fits-all engagement program that can bridge all these differences.

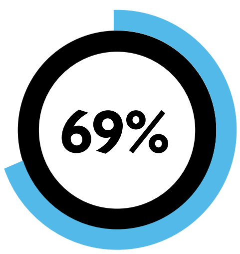
For example, short- and long-term savings goals may vastly differ between a cafeteria worker and an IT professional. Debt burdens are another factor to consider. Many millennial workers carry student debt—and so do their parents on their behalf, who may also work for the same health system. Likewise, medical professionals may have huge levels of debt that they can't start paying off until their 30s. How employees work and communicate impacts plan engagement, as well. Medical professionals are largely deskless in a 24/7 work setting, so—unlike administrative staff—it's harder to engage them with benefits emails or workshops. Meanwhile, unmet employee preferences in how they receive communications—from snail mail to texting—can undermine engagement.

The more connected people are with retirement planning and the better understanding they have of their plan's design, the higher their engagement with the employer.[3]

Show each employee a clear path to retirement

Health systems need to be able to show each employee a clear path to retirement, regardless of individual financial stresses or burdens. This calls for employing research-based engagement strategies that align with the different employee segments and demographics within the health system. Through this approach, health systems can communicate the right information over the right channels at the right time. This includes connecting each employee with personalized, in-plan asset allocation advice at no additional cost, so employees at any income level can establish an action plan for their financial goals.

It's also critical to meet the more complex financial needs of employees such as doctors and executives. Health systems should be able to match these employees with a wealth management advisor to answer questions on long-range planning, including the payoff of medical school debt and estate needs. Through these combined steps, health systems can help boost the financial well-being and literacy of a diverse workforce.



of workers say guaranteeing money every month to cover their living expenses is one of their top two most important goals.[4]

Not focusing on outcomes can create risk

With the passage of the SECURE Act, there's a new congressional policy focus on encouraging lifetime income solutions in DC plans. However, many of today's retirement plans focus solely on accumulating savings—not on generating lifetime income. Within these plans, many employees view target date funds—the most common type of QDIA investment—as a way to reach their financial goals for retirement. Consequently, 75% of employees are currently directing their plan contributions into these funds.[5] Yet, since these off-the-shelf target date funds do not provide a lifetime income component, employees risk becoming more financially strapped and less secure than those who are participating in a traditional DB plan.

Quantify outcomes in terms of income replacement

Health systems need to recognize and respond to employee over-reliance on this type of QDIA, which can lead to retirement income shortfalls. This means shifting from a primary focus on off-the shelf investment options to ones that also embrace value as an element essential to producing guaranteed lifetime income solutions.

Under this approach, health systems can offer each employee annuity income similar to a "personal pension," which can level the playing field for employees who didn't have the opportunity to participate in a DB plan. To be effective, this approach requires a reliable mechanism to assess progress, with a plan-level view of all participants. With these capabilities, plan sponsors can measure income replacement rates, identify gaps and then engage with off-track employees. For best results, health systems should consider how providing no-cost financial advice to all employees can help everyone from maintenance workers to physicians stay aligned with their financial goals. Ultimately, by focusing on outcomes in this way, health systems can reduce the risk of employees being financially unprepared when they reach retirement.

Next steps

Leading health systems realize the need to support greater retirement readiness for every employee.

TIAA is here to help.
For more information,
go to **TIAA.org/public/plansponsors**

[1] TIAA 2019 Lifetime Income Survey.

[2] TIAA 2019 Lifetime Income Survey.

[3] The DC Plan's Effect on Participant Engagement, NAPA Net the Magazine, Fall 2013.

[4] TIAA 2019 Lifetime Income Survey.

[5] The Cerulli Edge U.S. Retirement Edition: Improving Participation Outcomes, Issue 43, 2Q17.

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