

**ERISA Advisory Council**

**Examining Successful Retirement Plan Communications for Various Population Segments**

**TIAA-CREF Statement for the Record**

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**Statement of TIAA-CREF Panelists**

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## **I. Introduction**

Mr. Chairman, Ms. Vice Chair, members of the Working Group and the Advisory Council, thank you for the opportunity to appear today to participate in this panel on Examining Successful Retirement Plan Communications for Various Population Segments.

TIAA-CREF was founded nearly a century ago to help college professors achieve financial security in retirement. Today, TIAA-CREF manages more than \$500 billion in assets. We serve more than 16,000 institutional clients and nearly 4 million active and retired participants in the academic, medical, cultural and research fields. Our mission has always been to provide those participants with information and services to help them prepare for retirement and maintain financial well-being throughout retirement.

Given our longstanding commitment to retirement readiness, we believe TIAA-CREF is well positioned to contribute to this dialogue about successful retirement plan communications. With that in mind, we would like to share some knowledge we’ve gained to help improve participation and encourage employee engagement in their retirement plans.

First, we will discuss some of the plan design features that contribute to better savings behavior. Then we will provide an overview of some fascinating research we have conducted into the financial needs and communication preferences of various segments of today’s diverse employee population. We will also discuss some specific programs TIAA-CREF is undertaking to engage women and Hispanic employees. Finally, we will review a new TIAA-CREF tool that can provide plan sponsors with an unprecedented plan-level view of how successful their employees are at achieving retirement readiness.

## **II. Designing a plan for retirement readiness**

Plan design is the most influential factor in driving positive retirement outcomes. We believe that all decisions plan sponsors make about plan design, plan features, investment menu design, communications and education should be single-mindedly focused on achieving retirement readiness.

It’s clear that the right plan features can help employees build adequate savings for retirement. For example, evidence indicates that automatic enrollment programs are successful at improving participation. But employers typically adopt a relatively low default savings rate of 2% or 3%, and many employees continue saving at that default rate — which is far too low to provide enough money for retirement. Offering a higher default contribution rate of 4% to 6% can help overcome this employee inertia and encourage better savings behavior.

An employer match can also enhance participation. In fact, research shows that an employer match is the single most significant factor in determining whether employees contribute to a defined contribution plan, nearly tripling the odds of participating.

Once enrolled, employees should be encouraged to target an income replacement rate of about 80% of preretirement income from all sources, including Social Security. This typically requires a combined employer/employee contribution rate in the range 10% to 15% over an average working lifetime. We strongly support maintaining the current contribution limitations in order for all American workers to be able to save adequately for retirement.

It is important for the retirement plan to address, and employees to understand, the risk of retiring without having enough money to meet basic living expenses: food, shelter, clothing and other nondiscretionary items. The “retirement income gap” is the shortfall between what people will receive from Social Security and what they will need to meet those basic needs. To be effective in driving retirement readiness, the plan should give employees the opportunity to invest in a guaranteed income product — a lifetime annuity — during their savings years. When combined with Social Security, this income will create a guaranteed income “floor” to cover life’s necessities.

The benefits of in-plan annuities are significant:

- **People want in-plan annuities.** A recent survey found that 72% of participants surveyed wanted an annuity as an investment option in their retirement plan.
- **In-plan annuities encourage better investor behaviors.** Individuals are more than twice as likely to annuitize in retirement if they save through an annuity in a defined contribution plan during their working years.
- **Employees will not run out of money in retirement.** Research concludes that if retirees were to take systematic withdrawals that are equal to the payments they would receive from a life annuity, there is a greater than 50% chance they will run out of money.
- **Plan sponsors are reassured.** Offering a lifetime income option increases sponsors’ confidence that employees can retire more comfortably, consistent with their fiduciary duty and safe harbor regulations.

The plan’s design should also provide a simplified, building-block approach to the investment menu, with between 15 to 20 investment options. These options should include a Qualified Default Investment Option (QDIA), along with a lifetime income option, as soon as the employee begins to engage with the plan. It should then offer core investment options and even a brokerage window for those who want more expansive choices.

Education and advice are critical factors in whether and how employees engage with the plan and make successful investment decisions. In our experience, individuals who

receive advice are five times more confident about their retirement than the average American worker. Advice spurs positive action as well. Approximately two-thirds of individuals who received advice from TIAA-CREF chose to either save more, revisit their portfolio allocation or rebalance their portfolio. And, among contributing participants, approximately half increased their savings rate with a median contribution increase of 25%. Those who receive advice feel better about their financial well-being too. Approximately 8 in 10 individuals who receive advice from TIAA-CREF are more confident that their assets are invested in the right place and that they are getting good returns on their investments.

### **III. Understanding real needs; engaging real people**

Retirement readiness begins long before retirement does. To engage employees effectively, plan sponsors must help them address the financial challenges they face today so they can make better decisions to support a secure future. In many cases, their needs will be related to issues other than retirement savings. That means sponsors need to understand who their employees are, what matters most to them, how they think about their finances and how their needs evolve at every stage of their financial journey.

TIAA-CREF has conducted in-depth data analysis and research about how employees think about their money. We know the issues that individuals face as they consider their financial goals, including those that create barriers to their engagement with their retirement plan. These insights go beyond simple demographic overviews of age and income, diving deeply into the psychology of attitudes toward saving and investing, and providing a window into how to best engage employees for successful outcomes.

This approach acknowledges the differences among individuals while uncovering common needs and priorities at each of the following life stages.

***Meeting basic financial demands.*** Many employees live paycheck to paycheck, carry unproductive debt and feel they have limited ability to plan, save and invest. They may not be receptive to education that doesn't clearly speak to their immediate needs. The most successful messages often focus on budgeting, developing a simple savings plan, managing debt and credit, and understanding retirement savings concepts. This understanding can open them up to a discussion about the products and services most relevant to them.

***Juggling priorities.*** Other employees are pursuing life goals such as buying a home, paying or saving for education and enjoying leisure activities. They earn enough to live securely and save for things like retirement, a home or a college education. But, with limited resources, it's a constant balancing act between interim and long-term goals; there's rarely enough to fund everything. Our research shows that 86% of young people agree that retirement is important to consider, but 51% feel other savings are more

important now. Employees at this stage of life need advice and guidance to help them manage their priorities.

***Accumulating assets.*** As employees begin building a nest egg and saving for long-term goals, they face very different issues. More likely to say they have limited time than limited money, such employees recognize that their financial decisions have become more complex and significant, and that they require a different degree of help. This group craves guidance and advice to navigate the complex situations that they often face.

***Looking ahead to retirement.*** Employees who are beginning to plan for retired life are focused on making sure they have enough retirement savings to shift from accumulation to generating retirement income. This is a major concern for employees. Although 56% of consumers save as much as they can for retirement, 48% still cannot save as much as they'd like, and 30% are very worried about retirement. Whether these employees envision an active or a more leisurely future, they are thinking about shifts in their earnings, careers and financial situations. For this group, the focus is on discussing options and developing a firm plan for their next phase of life.

***Learning to live in the next phase.*** The final group includes those employees who have begun to draw down on their retirement savings — either completely or partially. This group is engaged in their financial decisions and confident about their financial futures. However, they recognize the need to live within their current assets; there is little or no time for those funds to grow dramatically. Despite income restrictions, this group is very interested in the ability to leave a legacy.

***Different people; different messages***

No matter which life stage individuals are in, the best way for plan sponsors to engage them is by communicating about plan features and benefits that are relevant to their unique needs. Communications should help them make useful decisions, and should be supported with educational materials that address a variety of retirement and financial topics, as well as personalized advice and support for investment decisions.

And, sponsors must meet them where they want to be met. People have a variety of communication preferences. Some want to be handed materials in a seminar, while some want to track down information on their own using tablets or smart phones. All of these employees must be targeted with messages that encourage them to be active in the plan and give them a simple way to take action. Techniques include online enrollment, deferrals and investment changes; personalized advice via phone, Web and face to face; income and retirement planning tools; and targeted programs for groups such as high-net-worth individuals or others with specialized needs.

Women and minorities are among those groups whose low participation rates who present a challenge to many plan sponsors. At TIAA-CREF, we pay special attention to women and Hispanic employees and have realized tremendous success in targeting them with content to help engage them and raise their participation in retirement planning.

#### **IV. Women face special challenges**

Women have unique needs when it comes to achieving financial well-being. In general, women are not saving enough for retirement based on their unique needs. Some statistics about women illustrate the problems.

- Women, on average, earn 77 cents for every dollar men make in comparable jobs.
- Women, on average, save less than men.
- For women, life expectancy at retirement age (65) is nearly three years longer than men, which means they will need more resources to finance their retirement.
- Women, on average, take 11 years off from the workforce to care for children and/or elders.

In October 2011, we began our *Woman to Woman Financial Empowerment Series*, consisting of four educational workshops targeting different life stages and needs for women.

- Workshop 1: *She's Got It: A Woman's Guide to Saving and Investing* covers the basics so that women can feel empowered rather than intimidated about taking action.
- Workshop 2: *Postcards from the Future: A Woman's Guide to Successful Retirement Planning* focuses on the importance of taking immediate action on financial planning for women who are less than 15 years away from retirement.
- Workshop 3: *Start to Finish: The Early Career Woman's Guide to Financial Wisdom* targets women who are just beginning their careers to help simplify saving and investments topics, and demystify retirement through emphasis on financial wellness and preparation. We will be rolling this out later this year.
- Workshop 4: *Attention to Detail: Financial Finishing Touches for Women* focuses on high-net-worth women and discusses estate planning, trusts and related topics. We also will be rolling this out later this year.

Since we began the program, the results have validated the need for women-specific educational materials and focus. For example:

- As of April 30, 2013:
  - More than 130 workshops have been held
  - More than 4,500 women have attended one of our workshops.

- 40% requested a one-on-one appointment
  - 85% rated the workshop valuable to extremely valuable
  - 39% registered for another workshop
  - We have reached women across all life stages, incomes, ages, etc.
- As of October 2012:
    - 74% increased their contributions over the previous year
    - There has been a 65% increase in the number of roll-overs/transfers (vs. baseline)
    - There has been a 200% increase in rebalances (vs. baseline)

TIAA-CREF is in the process of expanding the current women’s program, building on the success of these workshops. We are building a digital community to continue the dialogue with women – something they are telling us they want. Additionally, we are targeting specific life events most relevant to women and providing the right guidance on how to manage these events. We are looking to engage women in the way they want to engage with the content that is most relevant to them. We want to give women the choice to direct their engagement with us.

## **V. Serving the Hispanic population**

In 2009, TIAA-CREF launched a Hispanic Initiative to help this group reach their financial goals and experience financial well-being. This population also has distinct characteristics that have an impact on retirement savings and planning. Hispanics tend to have a lower level of trust in financial institutions. Hispanics do not save adequately for retirement for several reasons, including having other savings priorities, more limited educational opportunities, and particular cultural perspectives — for example, the belief that children will take care of their parents

Since our initiative began, we have delivered three workshops in Spanish, and one more is in the process of being developed.

- Workshop 1: *Save for Tomorrow. Start Today.*
- Workshop 2: *Retirement 101*
- Workshop 3: *She’s Got It: A Woman’s Guide to Saving and Investing*

We have adjusted how we typically host these events to meet the needs of Hispanic employees. For example, we may host an event at 9:00 in the evening to better accommodate varying work schedules. Anecdotally, institutional plan sponsors have expressed surprise at the level of interest and attendance at these events. Plan sponsors had assumed that lack of engagement meant lack of interest by this group. This initiative demonstrates that effective communication about the workshops, and the

ability to make a personal connection, can boost engagement. To date, we have achieved the following results:

- 200-plus workshops and/or benefit fairs held
- 100-plus institutions reached
- More than 2,500 attendees
- 78% requested a one-on-one appointment
- More than 41,000 Spanish calls have been serviced

We continue to update our Spanish language outreach, with materials that include a microsite; educational articles, videos and testimonials; and a range of plan sponsor materials. We also provide valuable Spanish language service options through a bilingual national call center team; a 24-hour automated hotline; an enrollment hotline; and a dedicated Hispanic servicing team led by bilingual consultants. We continue to refine and augment our efforts to help Hispanic employees achieve financial well-being. As with the work we’re doing with women, we focus not only on our customers, but on all the employees of our institutional partners.

## **VI. Plan Outcome Assessment: A measure of success**

Plan design features can help employees plan, save and invest for retirement. TIAA-CREF’s *Plan Outcome Assessment* is designed to take the next step and provide plan sponsors with analysis and insights that will help them evaluate how prepared participants are for retirement, and measure the overall effectiveness of their retirement plan.

This retirement readiness measurement capability will gather a broad set of data to calculate income replacement potential of plan participants. By using a sophisticated forecasting engine that includes Monte Carlo analysis at the individual level, TIAA-CREF can examine each participant’s plan assets, current savings rate and asset allocation to measure a participant’s potential to replace income in retirement. The data will be rolled up to the plan level and evaluated by demographic categories including gender, age, years in the plan, and life-stage segment. What’s more, these results can provide benchmarks to other plans that allow sponsors to make plan design decisions that can provide greater retirement security. Benchmarks can also be used to establish other plan outcome goals for the future.

When combined with our broader offer—a multi-channel engagement model, targeted communications and education programs, and personalized, actionable advice—the benefits of a tool like *Plan Outcome Assessment* can be impressive. By establishing quantifiable, outcomes-based measures of retirement readiness, we have the ability to more directly measure, influence and report on the steps a sponsor is taking to adequately provide employees with the means to save for retirement.



Thank you very much for the opportunity to share these thoughts with you today. We and the people of TIAA-CREF are pleased to be a part of the ongoing conversation about how to encourage retirement savings in America. Providing retirement security is the reason we're in business. And we will continue to deliver innovative services, and work with plan sponsors to help provide employees with a lifetime of financial well-being.

We would be happy to take your questions at this time.