

**TIAA-CREF Testimony for the DOL/Treasury Hearing on
Certain Issues Relating to Lifetime Income Options for Participants and
Beneficiaries in Retirement Plans**

**Delivered by
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Good afternoon. My name is Paul Van Heest and I am Senior Vice President for Institutional Product Management at TIAA-CREF. On behalf of the company, I would like to thank the Department of Labor and the Department of the Treasury for holding this hearing on what we consider to be one of the most important issues concerning the financial future of all Americans.

TIAA-CREF is the leading provider of retirement services in the academic, research, medical, and cultural fields. We manage over \$400 billion in retirement assets on behalf of 3.7 million participants and serve more than 15,000 institutions.

We have more than 90 years of experience providing retirement plans to non-profit organizations, which has allowed us to gain a unique perspective on paying out lifetime income from defined contribution plans. We currently pay out more than \$10 billion in lifetime income to thousands of retirees.

My testimony will focus on three issues: (1) how we address our participants' concerns about choosing lifetime income options; (2) the efficient management of our participants' spend down plans; and (3) the importance of disclosing retirement accumulations as a monthly income stream on participant statements.

Participant Concerns Affecting the Choice of Lifetime Income

When retirement plan participants begin considering how to convert their retirement savings into an income that will last throughout retirement, they often find they are faced with a number of difficult and confusing choices. Allowing participants to make these decisions without proper guidance can often lead to poor decisions that can have repercussions affecting not only their quality of life in retirement, but also the quality of life for spouses, partners, and dependents. Some of the questions participants often have include:

1. How much income will my retirement savings produce?
2. What are my options for receiving retirement income and which options are best for me?
3. How can I structure my income so that it will not only last, but continue to grow throughout my retirement?
4. How can I ensure my spouse/partner/children will be provided for when I pass away?

To address participant concerns, TIAA-CREF offers multiple resources to meet their retirement planning needs. Some of these resources include one-on-one counseling sessions with TIAA-CREF's non-commissioned consultants either over the phone or in person; interactive online planning tools such as retirement income illustrations; and literature that provides insights on retirement planning and explains income options. Our goal is to ensure we address all of our participants' concerns early in the process and well before they need to make an income decision so when the time comes to execute their plan, they can feel confident they are making the right decisions.

Part of ensuring each participant's concerns are addressed is recognizing there is no "one-size-fits-all" solution to retirement. Each individual's situation is unique and, accordingly, TIAA-CREF offers its participants a number of options for structuring their retirement income to meet their unique needs, including lifetime income annuities, monthly systematic withdrawals, interest only payments, and required minimum distributions. While we stress individual choice and believe most retirement situations require multiple solutions, we also believe one of the most effective and efficient ways to address concerns about preventing shortfalls in retirement is through a guaranteed lifetime income annuity. For this reason, our clients have annuities available directly through their employer-sponsored plan in both the accumulation and income stages of retirement.

We believe offering annuities during the savings stage helps address and alleviate participant concerns about lifetime income by prompting them to think about their retirement accounts throughout their careers as a vehicle that will provide income in retirement rather than being faced with the concept of lifetime income shortly before retirement. One of the benefits of offering annuities within a retirement plan is that it ensures plan participants receive a constant reminder that they are saving not just to accumulate wealth, but also to ensure they will receive an adequate income in retirement. We have also found both in research and in practice that this focus on retirement income has a positive influence on the decisions clients make at retirement. A recent study by the TIAA-CREF Institute found that retirees who have annuitized their retirement savings are more than twice as likely, compared with retirees who have not annuitized, to have saved through an annuity in a DC plan while working. Our experience indicates that nearly one-third of those who begin taking an income stream with TIAA-CREF select an annuity.

The Efficient Management of Spend Down Retirement Benefits

While many people focus on the accumulation of retirement savings, the issue of managing retirement income often does not receive the attention it deserves. Participants must make tough decisions and choose from a number of options, often with little assistance. TIAA-CREF provides clients with access to many of the same resources for managing their spend down plans as they have when they are attempting to address their concerns about lifetime income. In addition to utilizing these resources, we recommend clients take a number of additional steps to ensure they are making appropriate decisions and effectively managing their retirement income plan.

Since retirement income may originate from several sources, it is important to take a complete inventory of all potential income sources such as Social Security and defined benefit pension plans, employer-sponsored defined contribution plans, and IRAs and personal savings. Participants should then create a retirement budget based on

current essential and discretionary expenses that takes into consideration major lifestyle changes that may affect their required retirement income. Retirement plan providers can assist in the process by providing participants with tools to help organize this information.

After participants' determine the amount of fixed income they will receive and the total monthly expenses they will have, they should determine if there is an "income gap" and plan for how they will fill this gap. This can, and often should be, accomplished through a guaranteed lifetime income annuity. However, recognizing each situation is unique, participants should receive appropriate counseling on their options to ensure they make appropriate decisions.

Participants considering lifetime income annuities should understand it is not always necessary, nor required, to use all of one's retirement savings when purchasing an annuity. For this reason, TIAA-CREF not only allows for partial annuitization of retirement savings, we rarely recommend full annuitization. We counsel our participants to purchase an annuity that will provide the necessary level of income to cover basic expenses. In addition, we encourage participants to consider their health, expected longevity, and other potential threats to retirement income before making a final decisions on a spend down plan.

We firmly believe the most effective way to help participants manage spend down plans is to encourage them to think about retirement income throughout their careers, not just at retirement. Two ways of doing this are to (1) ensure retirement plans offer options that encourage employees to focus on retirement, and (2) increase awareness by providing participants with a regular statement illustrating the income they could expect to receive in retirement.

Disclosure of Account Balances as Monthly Income Streams

Current law requires retirement plan participants receive regular statements that provide a summary of their current accumulations. While these statements are an important tool in keeping participants informed and engaged in their retirement goals, providing *only* account balances can have the adverse effect of encouraging individuals to view their retirement savings as an amount to be withdrawn at retirement, rather than as a sum to be used to provide income in retirement.

To address this, TIAA-CREF began providing our participants with retirement income projections on a regular basis in the early 1960's. Currently, we include a retirement income projection on the first page of all of our participants' quarterly review statements. This projection uses certain assumptions to show what participants' monthly income would be at retirement. While we do not see this as a silver bullet to changing the way people view their retirement, it allows participants to become familiar with the concept of a lifetime income stream early in the saving and planning process. This can help them to make informed decisions both today and in the future, based on a goal of receiving adequate income in retirement as opposed to just building wealth.

Each time we send out our quarterly review statements we generally receive an influx in calls to our retirement counselors. Because we include income projections on our statements, we are able to have meaningful conversations about lifetime income and can use the opportunity to provide participants with more detailed information and/or direct them to other resources, such as our web site.

While the anecdotal feedback we receive from our participants on this feature has been positive, an official survey of defined contribution plan participants published recently by the ACLI found that 91% of respondents would like to see such illustrations and 60% indicated that if this illustration showed their monthly income would be inadequate, they would start saving more immediately. In addition, 85% expressed an

interest in having this information available on their regular retirement statement or on a secure website.¹

We support the Lifetime Income Disclosure Act (S. 2832) sponsored by Senator Jeff Bingaman (D-NM) with co-sponsors Johnny Isaakson (R-GA) and Herb Kohl (D-WI). This proposal would require all retirement plan participants receive, at least annually, an illustration of how their current accumulation would translate into income at retirement. However, we believe that retirement plan providers should take action now to institute this feature and not wait for policy makers to enact mandates.

Conclusion

We commend the Agencies for continuing to bring attention to this very important issue and appreciate the opportunity to share our insights with you today. This hearing, in conjunction with the Lifetime Income RFI issued earlier this year, has set the stage for real reforms in the retirement planning arena. We hope as the Agencies continue to seek ways to improve retirement security for all Americans, you will consider TIAA-CREF a partner in this effort and look to us to provide input based on the unique perspective we have developed through providing these services to clients for more than 90 years.

¹ ACLI Retirement Choices Study. May 2010.