Will employees have a secure retirement? It’s a fundamental question, but plan sponsors are increasingly worried that too many employees are not prepared. TIAA recently surveyed more than 1,000 plan sponsors, with a focus on a variety of issues related to their employees’ retirement readiness. The survey asked about workforce issues, retirement benefits and how retirement plans could help improve outcomes. The survey found that nearly half of nonprofit and corporate employers are only somewhat confident in their employees’ retirement futures, with 19% saying they are not very or not at all confident (Figure 1).

The top two threats they cite are rising health care costs (91%) and the risk that employees will outlive their retirement savings, cited by nearly eight in ten respondents. Close behind those issues are worries that too many employees are not saving enough for retirement in the first place (75%) and that too many eligible employees are not participating in plans at all (55%).

Furthermore, many employees and plan sponsors would prefer that employees have a guaranteed income stream for life when they retire. The survey found that most employers and employees would choose $2,700 per month for life over a $500,000 lump sum, yet only 12% of retirement plan sponsors currently offer in-plan annuities, which can help address the risk of employees outliving their retirement assets.

At a time when fewer and fewer employers offer defined benefit plans and employees are concerned that changes made to Social Security could impact a key source of income for retired Americans, the survey results highlight a significant disconnect between what employees need in retirement and what many retirement plans offer.

In exploring why more plan sponsors don’t offer annuities, the survey found some concerns and misperceptions related to fees, complexity and fiduciary responsibilities. Fortunately, there are solutions, including bipartisan policies that could remove impediments to annuity adoption by employers.

How can plan sponsors better help their employees to secure adequate incomes in retirement in addition to offer-
ing lifetime income options? Here are some actions that plan sponsors may consider:

**Analyze Workforce Demographics**

More than two in five (43%) plan sponsors have not analyzed their workforce demographics at all, or to only a limited extent, according to the survey (Figure 2). But it’s important to analyze employee demographics to better understand the needs of an employee base and its retirement readiness, particularly while the workforce is undergoing significant generational changes. Gathering information will provide valuable insights that can help employers design differentiated, cost-effective offerings supporting employee recruitment and retention.

**Measure Income as the Desired Outcome for the Plan**

The primary objective of a retirement plan is to provide a secure and steady stream of income in retirement. Including lifetime income projections in an annual account statement would enable plan participants to better understand the benefits of lifetime income options in a retirement portfolio. The statement would provide participants with an annual checkup on how their current investments would translate into income in retirement.

**Build Employee Financial Literacy**

Plan sponsors say free financial advice (39%) and comprehensive financial education (33%) are the most useful resources for employees and the most critical areas for improving plans and savings. Plan sponsors should consider providing employees with financial advice, education and retirement planning tools to improve employee engagement and build financial literacy. Younger workers in particular need help. A recent report found that Millennials answered 44% of questions examining financial literacy correctly, compared with 50% among all U.S. adults. Employers can play a key role in
helping this generation obtain knowledge needed to make better financial decisions, starting with their retirement plan.

**Restructure the Match Formula to Help Increase Savings**

The survey showed that 28% of plan sponsors said that increasing or modifying the employer match was the biggest opportunity to help employees maximize their retirement savings.

**Evaluate All Retirement Income Options**

Annuities can play an important role within a diversified portfolio, but many retirement plans lack options that help preserve retirement assets to—and through—an employee’s retirement. Plan sponsors should consider which investment options could help address the risk of employees outliving their retirement savings, including customized default options with guaranteed investments that are easy to implement and could meet the plan’s needs.

**Educate Employees About Health Care Costs in Retirement**

More than 90% of plan sponsors surveyed believe health care costs are the most significant retirement security issue today. Online calculators can help employees better understand the medical expenses they could face in retirement. Another potential solution is to provide a comprehensive health and wealth strategy—one that complements existing retirement benefits and better positions employees to pay for retiree expenses. For example, a retiree health care saving option can provide a powerful triple tax advantage that could potentially stretch benefit dollars by up to 50%.

**Conclusion**

Nonprofit and corporate employers have expressed challenges facing employees and employers in providing adequate retirement income. Fortunately, there are ways to help employees obtain retirement security. Many people who are retiring today can expect to live to their 85th birthday and beyond. The length of time one can expect to live in retirement has never been greater, which makes planning for income throughout retirement more important than ever. Employers who help today’s employees reduce their financial risk also help to ensure the financial well-being of generations to come—supporting the overall economic health of our society.

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**Endnotes**

1. The TIAA 2018 Plan Sponsor Retirement Survey was developed in partnership with KRC Research, which conducted an 18-minute random sample telephone survey of 1,001 plan sponsors from March 5 to April 17, 2018. Available at www.tiaa.org/public/pdf/tiaa_plansponsor_survey_executive_summary.pdf.