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Panel: Retirement Security for Precarious Employees

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TIAA

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Retirement Security for Precarious Employees

Collective Bargaining After Janus

April 8, 2019
Panelists

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Senior Managing Director, Institutional Financial Services, TIAA

Thomas Anderson
Vice President Union of Part-time Faculty, Wayne State University

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Former Associate Provost for Academic Personnel, Wayne State University

Benny Goodman
Vice President, Annuity Center of Excellence, TIAA
Outline

- Define the “big” problem
- Perhaps it’s not that big?
- Solution while working
- Solution in Retirement
The problem

‘Financially fragile’ employee

Lower paid

Multiple jobs

Aren’t saving enough for retirement?

May not be as bad as we think?

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Social Security replacement

The **less** you make the **higher** the replacement

- 2019 Numbers
- Age 66 retirement

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Social Security Replacement

<table>
<thead>
<tr>
<th>Final Salary 2019</th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$40,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>$80,000</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>$120,000</td>
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<tr>
<td>$160,000</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>$200,000</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

1. Source: www.SSA.Gov calculator
Savings for retirement

The **lower** the raise the **higher** the replacement

- 10% savings
- 6% earnings
- 30 years of saving
- 5% initial withdrawal

### Defined Contribution Replacement

**Future Salary Increase Rate**

1. Source: TIAA Actuarial calculation
2. For institutional investor use only. Not for use with or distribution to the public.
Solution while working—auto escalate

- Hard to ask someone earning $40,000 to save 5%
- But is 1% that hard?
- Then add 1% a year as the employee gets raises

<table>
<thead>
<tr>
<th>Salary</th>
<th>Savings Rate</th>
<th>Savings Amount</th>
<th>Net Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>40,000</td>
<td>1%</td>
<td>400</td>
<td>39,600</td>
</tr>
<tr>
<td>40,800</td>
<td>2%</td>
<td>816</td>
<td>39,984</td>
</tr>
<tr>
<td>41,616</td>
<td>3%</td>
<td>1,248</td>
<td>40,368</td>
</tr>
<tr>
<td>42,448</td>
<td>4%</td>
<td>1,698</td>
<td>40,750</td>
</tr>
<tr>
<td>43,297</td>
<td>5%</td>
<td>2,165</td>
<td>41,132</td>
</tr>
</tbody>
</table>

1. Source: TIAA Actuarial calculation
Twin sisters, Tara and Rachel, retire at age 65, each with $100,000 and earn the same return: 3%

**Tara** takes a lifetime income annuity for $6,000 annually

**Rachel** takes $6,000 from assets using systematic withdrawals

Rachel will run out of money, while there is a greater than 50% chance of being alive. This will be true in all return scenarios, including both up and down equity markets.

1. Source: TIAA Actuarial Department. Life annuity payment is based on 2016 TIAA dividend mortality tables, and a single-life annuity paying 3% interest.
Twin sisters, Tara and Rachel, retire at age 65, each with $100,000 and both earn a 3% return

Rachel takes systematic withdrawal of $5,000 (vs. $6,000) to last until 95 and Tara matches $5,000

Life annuity payment is based on 2018 TIAA dividend mortality tables, and a single-life annuity paying 3% interest.
Starting lifetime income early may be advantageous
The effect of postponing lifetime income start date

<table>
<thead>
<tr>
<th>OPTION 1</th>
<th>OPTION 2</th>
<th>OPTION 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Single life annuity income rate at age 65</strong></td>
<td><strong>Single life annuity income rate at age 70</strong></td>
<td><strong>Single life annuity income rate at age 75</strong></td>
</tr>
<tr>
<td>Income payout rate using a 4.5% payout interest rate</td>
<td>6.94%</td>
<td>7.80%</td>
</tr>
<tr>
<td>Accumulation at annuity start age 65</td>
<td>$100,000</td>
<td>$84,932</td>
</tr>
<tr>
<td>Initial annual annuity income</td>
<td>$6,942</td>
<td>$6,626</td>
</tr>
<tr>
<td>4.5% less in annual payouts</td>
<td>14.1% less in annual payouts</td>
<td></td>
</tr>
</tbody>
</table>

This illustration is hypothetical, and is not intended to predict or project returns. Note that all guarantees are subject to the claims-paying ability of the insurance company.

The income payout rates are for lifetime income without a guarantee period paid once per year from TIAA Traditional under the Standard payment method at 4.5% interest and 2017 TIAA dividend mortality rates.

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Fixed annuities can deliver guaranteed growth while working\(^2\) (interest earnings) and dependable income during retirement (lifelong income payments).\(^2\)

Variable annuities are designed to provide asset and income growth and help offset the effects of inflation and rising costs experienced in retirement.

49% of Americans say their No. 1 goal for a retirement plan is to provide guaranteed monthly income in retirement.\(^1\)

68% of Americans would first choose a retirement “paycheck” (fixed annuities) that lasts as long as they live when given a choice of income options.\(^2\)

1. TIAA’s 2017 Lifetime Income Survey, 9/14/2017.
2. Fixed annuities provide minimum guaranteed rates of interest during the accumulation phase and may provide the potential for additional interest. If additional interest is paid for a particular period by an insurance company, it may not be guaranteed for future periods.
Benefits of annuities

Financial security in retirement can mean maintaining a sustainable standard of living. Annuities can play an important foundational role.

- Can deliver income for life.
- Can help participants transition by replacing work income with lifetime income.
- Can increase participants’ confidence in their retirement readiness.

Annuities, like Social Security, pay participants income for life. No other financial product can do this.¹

¹ Any guarantees under annuities are subject to the issuer’s claims-paying ability. Payments from the variable accounts will rise or fall based on investment performance.
Success will be measured not by account balances but retirement income.

– Fred Reish, Recipe for Success, PLANSPONSOR Magazine

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1. Source: Social Security Administration, ssa.gov/planners/lifeexpectancy.html
Creating a plan with a purpose

Helping employees achieve lifetime income

- Access to independent and objective investment advice
- Relevant communications and education targeted to needs of different employee groups
- Distribution options that offer immediate or deferred income in retirement
- Deferred annuity options that build lifetime income over time
- A plan that focuses on lifetime income rather than wealth accumulation
- Investment options that focus on capital accumulation and preservation

1. TIAA Institute. 
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