nuveen
A TIAA Company

Benefits 2.0: The star of your total rewards package

The future of defined contribution

next

Issue no. 12

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

next / The future of defined contribution

02 **Benefits 2.0**

Research shows that workers' expectations aren't being met. But we believe with the right strategies in place, benefits can be a win-win-win for workers, employers and the wider economy.

06 **All about autos**

Plan sponsors have widely embraced automated features. Thanks to recent legislation, employers can now make a lifetime income solution the default investment option.

10 **Investment line-up tune-up**

When evaluating how an investment lineup is doing, plan sponsors should look at the current economic environment, investment performance and participant behavior. It might be time for a tune-up.

14 **Consultant Corner**

More plan sponsors are looking to build out holistic financial wellness programs for their employees. Three consultants discuss how they are working with them to make it happen.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

The evolution of benefits

In this edition of *next* we are proud to introduce our Benefits 2.0 research. This pioneering dataset, commissioned from Economist Impact, covers a range of benefits, including retirement programs, health insurance, life/disability insurance, paid time off, family support (e.g., parental leave, childcare, elderly care and family planning) and education and training. Through our survey, more than 1,500 people from industries across the country and various seniority levels were interviewed to gain their perspectives on what their companies offer and how benefits should continue to evolve. Our research establishes three significant themes: employee priorities are shifting, but businesses aren't answering the call for tailored benefits; as such 70% of workers would consider switching jobs for better benefits; and two-thirds of workers say their organizations don't tout benefits or train sufficiently, so benefits go unused.

We are also proud to introduce our new Consultant Corner in which we feature Kelly Henson, Defined Contribution Investment Strategy Leader at Mercer, David O'Meara, Head of Defined Contribution Investment Strategy at WTW and Bill Ryan, Defined Contribution Team Leader at NEPC. In this article we ask consultants their views on the most pressing matters currently facing plan sponsors, and deep dive into the integration of guaranteed lifetime income into plans. The conversation covers how different products are developing, working with participants on education and benefit clarification, and what the future holds for plan design.

Autoenrollment, autoescalation and autoportability are growing in importance for plan design, as a result of both regulatory shifts and changes to best practices. In this article we examine these shifts and see what plan sponsors can be doing to integrate automatic features into plan design, and what the benefits are for both sponsors and participants as a result of these changes. The combination of benefits for the company and for the employees should make automatic features an area of focus for sponsors, both because of the regulatory pressure to do so, but also because of the positive effect including such provisions can have.

Building on our theme of examining plan structure and design, we also ask a series of questions that plan sponsors can work through with their advisors, consultants and asset managers to ascertain the latest trends. Investment reviews need to look at everything from the economic environment to the manager's decision-making to participant behavior to evaluate whether the plan's lineup is running well or needs a tune-up.

The decisions a plan committee makes are never static. Plan design, strategy and tactics shift according to best practice and regulatory environment, while participant preferences need to be involved as well. Marrying these disparate interests is not easy, but we're here to help.

Your Nuveen Team

Benefits 2.0:

what workers want from their retirement plan

Nuveen has commissioned Economist Impact to conduct research into the future of corporate benefits. The study covers a range of benefits, including retirement programs, health insurance, life/disability insurance, paid time off, wellness, family support (e.g., parental leave, childcare, elderly care and family planning) and education and training. Through the survey, more than 1,500 people from industries across the country and various seniority levels were interviewed to gain their perspectives on what their companies offer and how benefits should continue to evolve.[1]

Benefits have become a key element to attracting and retaining talent, so it's important for employers to ensure their benefits package remains attractive to new recruits and existing workers. The research shows that the benefits priorities of workers vary greatly across age, seniority, race and gender.

Overall benefits priorities

Across the entire survey, 25% of respondents ranked retirement benefits as their top priority. Health/life/disability insurance was a close second at just over 20%.

However, the data becomes revealing once we begin drilling down into the various sub demographics of the respondents. For example, by age breakdown, only 2% of Gen Z ranked retirement benefits their top priority. Instead, over 44% of the youngest cohort ranked education and training benefits as their top priority, and paid time off as their second highest priority.

The data shifts as we age up: 16% of millennials rank retirement benefits as their top priority, while 53% of Gen X and baby boomers rank retirement as their top choice.

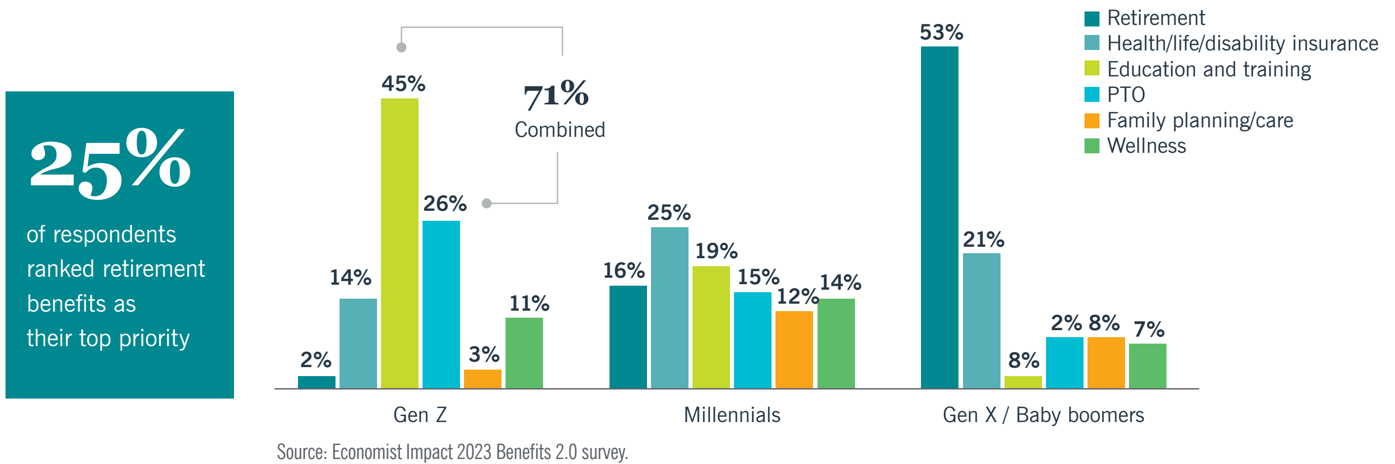
With such drastic differences just on the simplest measure, the age of the participant, we can already see the challenges that a company faces when constructing benefits packages and balancing needs across the generations.

FIGURE 1:

% of respondents ranking the response as number 1 importance

25%

of respondents ranked retirement benefits as their top priority



Source: Economist Impact 2023 Benefits 2.0 survey.

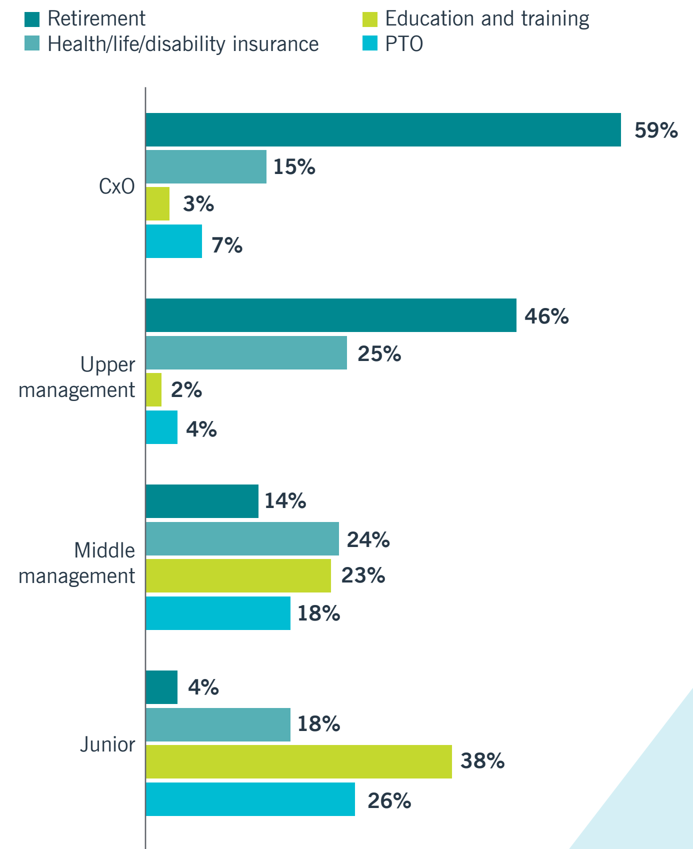
We see further splits when dissecting the responses by race. While nearly 30% of white respondents ranked retirement benefits as their top priority that number falls below 24% for Black, Hispanic and Asian workers. Instead, those groups place higher emphasis on education and training benefits. White respondents are much more likely to rank health, life and disability benefits highly, while Black and Hispanic respondents rank family planning and care higher than other cohorts do. While the splits are greater when divided by race than by generation, it shows how underlying priorities differ among workers.

Analyzing by seniority, we see stark divides between the upper management and the junior workforce. These differences are especially interesting. It is most likely the senior workers who are tasked with designing the overall benefits strategy for the organization, so they need to be careful to not allow their own preferences and priorities to drift into the organization's overall benefits structure.

Nearly 60% of CxO and 46% of upper management rank retirement benefits as their top priority, while those same workers rank education and training and PTO benefits among their lowest priorities. When examining the other end of the corporate structure, junior workers are much more likely to rank education and training as their top benefit, with 38% doing so, and a further 26% ranking PTO second. Even among middle management workers, 23% rank education as their top want.

FIGURE 2:

% of respondents ranking the response as number 1 importance



Source: Economist Impact 2023 Benefits 2.0 survey.

A closer look at retirement

The next stage of the survey drills into retirement benefits, inquiring what is offered to whom, overall satisfaction levels with the retirement benefits offered, and whether people would willingly switch jobs to chase better retirement benefits, if all else was equal. Breaking preferences out along categories of age, seniority, gender and race tells us that there is a wide range of what workers want from their benefits across organizations.

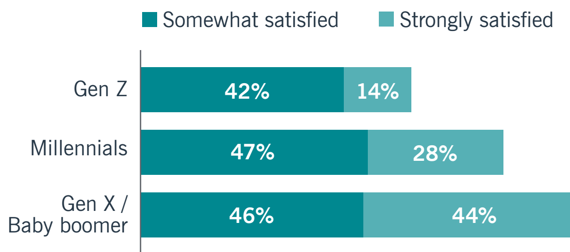
Satisfaction levels

By age, we see that people who are closer to retirement are generally more satisfied with their retirement plan offerings. When asked whether they are satisfied with their employer-sponsored retirement plan, only 14% of Gen Z say that they are strongly satisfied, while 56% are collectively somewhat and strongly satisfied.

For millennials, 28% report they are strongly satisfied, and 75% in total with somewhat satisfied. For Gen X / baby boomers, strongly satisfied climbs to 44% and 90% collectively with somewhat.

FIGURE 3:

% respondents ranking satisfaction with their retirement plan



Source: Economist Impact 2023 Benefits 2.0 survey.

Whether this climb in sentiment as workers age is due to more familiarity with their overall retirement offerings, or just being more satisfied with the higher account balances that are likely to occur toward the end of a working life, requires further study.

Satisfaction regarding worker communication around retirement plans follows a slightly more predictable path, with those closer to retirement obviously receiving more communication from their employer around retirement planning. But there is a potential to increase communication with the younger workforce, as this could drive satisfaction and awareness levels of benefits that are available.

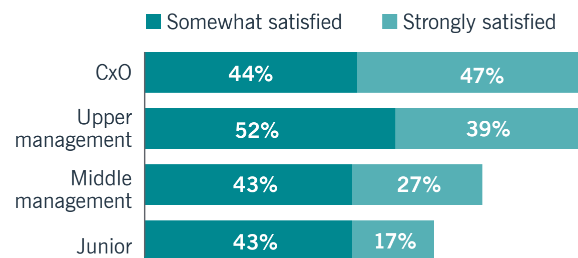
One major area of focus for plan sponsors and participants is to make sure clarity about retirement income is an integral part of retirement plans. While there is growing uncertainty about the future of Social Security payments being maintained at a fully funded level, we see relatively stronger certainty about retirement income by the older cohorts.

Among Gen Z respondents, 52% somewhat or strongly agree that they have enough clarity about how much income they will receive in retirement, which could be seen as an encouraging number seeing as many of this generation are still starting out in their careers. However, this jumps to 77% of millennials surveyed and 88% of Gen X / baby boomers.

By seniority, the most dramatic drop in satisfaction and overall knowledge about the amount of income that will be received in retirement is between upper and middle management. Overall satisfaction levels (those replying somewhat and strongly agree with satisfaction in their current plan) is north of 90% for more senior workers; this declines to around 70% for middle management, and then tumbles below 60% for junior workers.

FIGURE 4:

% respondents ranking satisfaction with their retirement plan



Source: Economist Impact 2023 Benefits 2.0 survey.

The number who are somewhat or strongly dissatisfied climbs for junior workers to over 15%, while this percentage is below 5% for every other level of seniority in the survey. This indicates work needs to be done to help junior workers feel more satisfied with their retirement plan. Whether this is through plan structure and features such as employer contributions or whether it is through knowledge and communication remains to be seen.

Income certainty follows a similar path, although whether this relationship is causal (not knowing how much income will be received leads to lack of satisfaction) or due to a different factor is unknown. It shows again that junior workers are those who may need the most additional work at the firm, to ensure that they gain that certainty as to their retirement income, and hopefully become more satisfied with the retirement plan offered by the company.

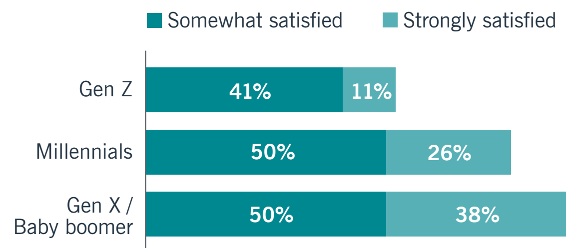
Choosing jobs on retirement benefits

We know that benefits are an important consideration for people when choosing a new job, but the data also highlights how important retirement benefits specifically can be for different cohorts when choosing a job or considering a switch to a new job. Surprisingly, 39% of Gen Z disagree that retirement benefits are an important consideration when choosing a job. However, 53% of millennials consider a retirement program an important benefit when looking for a new job. These percentages only continue to grow as the potential jobseeker gets closer to retirement, with 74% of Gen X / baby boomers seeing retirement benefits as important. This generational shift is also seen when potential job seekers were asked if, all else equal, they would consider switching a job for better retirement benefits. Only 19% of Gen Z would do so, but this climbs to 34% for millennials, and 39% for Gen X and baby boomers. While the percentage of those willing to change jobs for retirement benefits alone is never a majority, that it goes from one-in-five of Gen Z, to at least a third of respondents for all other generations, shows that there is more willingness to chase better retirement benefits as a career develops.

By seniority there is an interesting divide, with many workers feeling relatively strongly one way or another, and few undecided neutrals. Of those with a CxO title, 46% disagree that better retirement benefits alone would be enough to get them to change jobs, while a relatively similar 41% agree with the statement. The numbers are almost identical for upper management, at 47% and 37%, respectively. For middle management the split is even closer, at 37% and 37% in each direction, with more undecideds making up the balance. It is only for junior workers that we see particularly strong data in any direction, with 57% disagreeing that retirement benefits alone would be enough to get them to change jobs, while 20% would consider doing so.

FIGURE 5:

% respondents agreeing "I have enough clarity about how much income I will receive in retirement"



Source: Economist Impact 2023 Benefits 2.0 survey.

Curiously though, when reporting whether retirement benefits are an important consideration in choosing a job, we see much more enthusiasm across the seniority spectrum. Fully 73% of CxO-level respondents agree that retirement benefits are important when choosing a job, as do 74% of upper management. These numbers fall away slightly, with 50% of middle management seeing retirement benefits as important when choosing a job, while only 32% of junior workers feel so.

Different priorities, how to unify?

The data shows that the priorities of different workers across an organization can vary significantly. Even just splitting out the worker base along generational or seniority lines, we can see that there is no easy, one-size-fits-all solution that would generate the most enthusiasm across the spectrum. The role of a plan designer is to find the way to engage the participants at the level at which they find themselves. As workers age closer to retirement, or as employees become more senior within the organization, their needs and preferences are going to change.

The way the plan presents information needs to change with workers so the journeys align. Training and education are a major consideration for plan sponsors when communicating their benefits structures to workers. Educating on benefits according to worker demographics and seniority can allow for a dynamic benefits education throughout a career. On the surface, it should be relatively obvious that people change throughout their lives, but consideration should be given as to how their benefits desires are changing at the same time, and how communication from their employer aligns.

All about autos:

the why and how of making saving for retirement easy

When employers started adding automatic enrollment to retirement plans nearly 20 years ago, many hailed it as the cure-all to getting reluctant, overwhelmed or otherwise disengaged employees to take that first step toward retirement security. Fast forward to 2024 and plan sponsors widely embrace automated features to help employees make other plan decisions that often stop them in their tracks: how to save more through auto increase and what to do with their savings when they leave the company through auto portability. Thanks to recent legislation, employers can take all we've learned about automatic features to help with the more important decision: how to make employees' savings last through retirement.

Why auto features work

It's well documented that workers want to make as few active decisions regarding retirement saving as possible. Data shows that over 83% of participants stick with the default investment in their retirement plans, and half of participants are only invested in only one fund.[2]

83%

of participants stick with the default investment in their retirement plans

One of the advantages of driving automatic plan attributes is that it helps overcome participant behavioral bias and inertia. We know that many people will just do the default, as it reduces overall cognitive load, especially during the early stages of a career when an employee is more focused on other matters (see our Benefits 2.0 article in this edition). This inertia bias means that plan sponsors have a significant responsibility to construct plan design around auto enrollment and auto escalation responsibly and in a way to maximize engagement but doesn't drive participants to opt out. TIAA research shows that light touch interventions can increase retirement savings by 20-70 basis points, while automatic enrollment increases participation by 37%.[3]

The social proof of seeing others contributing to plans is a useful tool as well. Encouraging healthy behaviors by showing that others are engaging in those behaviors is a well-recognized method of encouraging change.

However, the plan sponsor still needs to take a more active role to get participants into the plans and making sure those savings are adequate. Changes in legislation have followed on from academic behavioral studies, with the Pension Protection Act of 2006 and elements of the SECURE Acts 1.0 and 2.0 both being developed after advances in the academic literature around encouraging participants to save.[4] The provisions, outlined below, begin in earnest in 2025, but now is the time to be readying.

For plans started after December 2022 and for new plans to be introduced in 2025, the new rules mandate that there is an initial auto contribution rate of at least 3%, but not more than 10%. The plans must also automatically escalate until participants are contributing at least 10% but not more than 15%. Employees may opt out of either or both of these auto provisions.[5]

Studies show that over half of plan sponsors are currently using auto enrollment to get participants into their plans, while a quarter are already automatically increasing contributions.[6] The changing regulatory environment should drive these percentages higher, but the value has already been identified by many plan sponsors.

Auto portability

It has long been a weakness of the 401(k) system that assets are often stranded when an employee moves to a new company. This especially impacts lower paid participants, as they are most likely to have lower balances that are automatically paid out (if the balance is under $5,000), who are then more likely to not reinvest those assets in a qualified account, losing a number of retirement savings benefits. There are also employees with multiple accounts spread across previous employers, which is itself suboptimal from an asset allocation and fee optimization perspective.[7]

The SECURE Act 2.0 took steps to help alleviate some of this, in lockstep with a number of record keepers and a technology firm, to help automatically roll prior account balances into a new employer's retirement scheme.[8] This is a definite area of focus in 2024 for regulators, with the head of the Employee Benefits Security Administration saying, "there is a particular need for automatic portability solutions that help ensure participants remain connected to their retirement savings when they change jobs."[9] Automatic rollovers encourage participants to stay invested, take an additional set of steps out of the process of starting a new job, and especially help employees who are lower paid or who might not know what to do with their accumulated savings from prior employers.

How it works

There are obviously some considerations when determining the initial level of autoenrollment and where to escalate up to. It can be difficult for employers to pick the default contribution rates, with the risk that if a rate is chosen that is too high, participants may feel the need to opt out in order to protect their take-home pay levels. However, there are also arguments to be made that starting at a much lower level, such as 3%, is too low as it takes too long to get up to a more impactful level, closer to 10%, thus many participants wouldn't be saving enough for those interim years.

The right balance might be to start the default contribution level at the level at which the company matches contributions, thus ensuring that employees are at least taking advantage of the additional contributions that the company is willing to make. The most common matching formula, affecting 72% of plans and 62% of participants, is $0.50 per dollar on 6% of pay.[10] Plan sponsors have to balance the need to boost the retirement savings of participants against an underlying philosophical appearance of paternalistic behavior toward employees and forcing them into certain types of behavior.

The cost of whether to autoenroll or let participants make the active decision is also a major consideration for plan sponsors, with data showing that active choice is most cost effective for small and some medium companies, while autoenrollment is often most cost effective for larger companies.[11]

What's next:

Default investments with lifetime income

Building lifetime income into the decumulation stage of the plan would be the culmination of the automation of a retirement plan. This would complete the employee's cycle, autoenrolling them into the plan, autoescalating to the most effective savings rate, and then creating an automatic allocation to an annuity that would allow the participant the optionality to automate lifetime income upon retirement. The SECURE Act set this process in motion when it included safe harbor provisions for annuities within retirement plans.

This automatic allocation to an annuity product, and the automatic payments for the lifetime of the annuitant, would help alleviate the stress of participants by guaranteeing minimum income levels over and above Social Security payments. This peace of mind, both building in the allocation to annuities to increase familiarity during accumulation, and the guaranteed income offered at retirement, can help participants feel more comfortable with their situation.

Human resources considerations

There are other secondary benefits that follow on from the introduction of automation as well. At a time when benefits offerings are increasingly under scrutiny from potential employees (see Benefits 2.0 article in this edition), having automatic enrollment and escalation features that go above and beyond statutory requirements and that are clearly communicated to employees can be a powerful tool for a people team to engage with new employees.

Taking the stress out of onboarding by automating much of the process can also work to reduce manual processing that comes with new employees and managing retirement plans.

One further advantage of autoenrollment and autoescalation is that it can help with nondiscrimination testing. While many larger companies will have processes in place to pass these tests, companies that may have fewer employees at different compensation levels need to be more aware of the testing requirements.[12]

Employers setting up retirement plans for the first time can also claim tax credits to offset the cost of doing so. These costs, depending on who is in the plan and how it is set up, can be up to $5,000, and a plan that is set up with autoenrollment features can be eligible for a $500 tax credit per year for a three-year period after the feature is added to the plan.[13]

One other point is that these features don't particularly contribute to participant education and engagement with financial literacy and readiness. However, with the key plan decisions well in hand, employers and employees alike can focus on much more important topics, namely why they should keep their money in the plan and how to set themselves up for better overall financial well-being.

The combination of benefits for the company and for the employees should make automatic features a significant area of focus for sponsors this year, both because of the regulatory pressure to do so, but also because of the positive effect including such provisions can have.

n

Behavioral science and three benefits of annuities

1 Being happier

Interestingly, for retirees with guaranteed lifetime income, their retirement satisfaction holds steady over time; for those without, that satisfaction typically decreases with age.[14] The decline makes sense, says Surya Kolluri, head of the TIAA Institute. One-third of today's 65-year-olds will live to age 90, he explains, and one in three will experience cognitive decline after reaching 85. "You're more prone to making financial mistakes if you're dealing with cognitive decline," he says. "Having guaranteed lifetime income allows you to move past that and not have to worry about managing your portfolio."

2 Living better

You don't need a PhD in psychology to understand why a retiree might be less stressed if they know they won't run out of money. But annuities' happiness advantage is about more than just avoiding a worst-case scenario. It's about retirees feeling more free to live their best lives. When retirees know their basic needs are taken care of, it's easier for them to splurge on the things they love. They don't forgo an extra vacation with the grandkids for fear they'll run out of money should they live to 100.[15]

3 Being healthier

Long before scientific research showed annuities might be good for you, 19th-century novelist Jane Austen considered this an open secret. In "Sense and Sensibility" Mrs. Dashwood tells Mr. Dashwood: "People always live forever when there is an annuity to be paid them." People with annuities don't actually live forever, of course. But they do tend to live longer, studies show. According to a 2018 article in the Journal of Financial Services Professionals, a 65-year-old male in the U.S. who purchases a life annuity can expect to live about 20% longer than a 65-year-old male who doesn't.[16] The traditional explanation for why people with annuities live longer has less to do with the annuities themselves than with those who purchase them. But there may be an additional explanation for the extended longevity among those receiving lifetime income: reduced stress. We know a majority of Americans are stressed about retirement savings.[17] Research also shows a strong correlation between high stress and reduced life expectancy, particularly among the elderly.[18]

Investment **line-up tune-up**

When it comes to a retirement plan's investment lineup, employers and consultants ask themselves and one another a remarkably similar set of questions:

- *Does the plan still offer the right funds?*
- *Are they performing as they should?*
- *And most importantly, are participants invested properly to meet our fiduciary responsibility?*

All worthy questions, but not so simple to answer.

That's because the questions can't be answered in isolation. Investment reviews need to look at everything from the economic environment to the manager's decision making to participant behavior to evaluate whether the plan's lineup is running well or needs a tune-up.

Start with the macroeconomics

The last few years have been a tumultuous ride for financial markets, with:

- 2022's correlated declines across both bonds and stocks
- 2023's rapid climb in interest rates and rebounding equity markets
- now 2024's concerns around a potential recession and the volatility of an election year to consider.

So, plan sponsors should not be making quick changes to retirement plan menus simply based on changing economic circumstances, any more than participants should be trading in and out of their 401(k) balances to attempt to time the market. But some awareness of changing macroeconomic environments and ways to best capitalize are reasonable areas for discussion.

How should sponsors think about their participants in times of economic uncertainty? High inflation has impacted the ability of some workers to make ends meet, especially lower-paid employees, while the market volatility of 2022 and ongoing talk around a potential U.S. recession through 2023 and 2024 has caused a lot of investors to gather their cash balances on the sidelines rather than risk investing into a further downturn.

We see this as a mistake. Investors are better served by investing in their retirement plans, at least to take advantage of the tax benefits. In turn, investing logic emphasizes the power of compound interest in driving returns over time.

Care should be taken to discuss investing confidence with employees to ensure that they are allocating to their retirement plans and still saving, while also working to alleviate concerns around budget challenges. Consideration on this point can also be made to where employees are in relation to retirement — those who are rapidly approaching retirement are more likely to be concerned about immediate market performance impacting their retirement savings and elevated inflation levels, as they look to the switch to a more fixed income regime.

A well-constructed plan should have some safeguards to answer these questions, as the very nature of a target date fund would hope to alleviate some market volatility, but communicating with those near retirement about catch-up contributions or potential ways to help mitigate volatility could be worth considering.

Gauge your managers

The fundamental process and aim of investment analysis remains the same, regardless of the market environment. Specific questions asked of asset managers can vary, and pinpointing where the best value might be found will shift with the economy.

While rates remain elevated, at least until the U.S. Federal Reserve begins cutting rates, we see significant value to be found in fixed income. We think that the time is right for plan sponsors to ask questions of their asset managers, making sure they are capturing the most yield that they can from the asset class without taking undue risk, or being unduly defensive.

Similarly, with inflation still generally high, plan sponsors should also be asking their asset managers about allocations within equities. A good starting point is finding out an investment manager's view on sectors that could be insulated during a potential recession or stand to particularly benefit if rates were to begin falling.

It is also worth examining asset classes that stand to benefit if rates do not start to fall but remain elevated for some time. If this happens, our global investment committee thinks investors should look beyond the traditional 60/40 portfolio and consider real assets, including real estate, infrastructure and private credit.

Public real estate appears to be well positioned for the current environment, particularly industrial properties.

Infrastructure should benefit from still-elevated inflation and is usually relatively insulated if the economy were to slow. Private credit sees continued demand, and health care, software and insurance brokers should also withstand any potential economic downturn.[19]

Making sure that an investment manager has the capabilities to look beyond just the traditional core asset classes and reach for yield and value across sectors that are able to benefit from higher rates can be a boon to participants during these periods. The underlying cash balances being held in portfolios are also worth questioning, as while cash-equivalents do have a relatively high yield in this environment, adding marginal credit risk can significantly increase underlying yields.

Responsible investing continues to raise some committee eyebrows, but it's a different story among younger workers who embrace those options with solid enthusiasm. Companies need to be cognizant of their employees' desire to have their retirement plan assets reflect their views. However, the shifting regulatory landscape makes this a tricky needle to thread, so sponsors may need to examine these options with care.

The evolution of the default

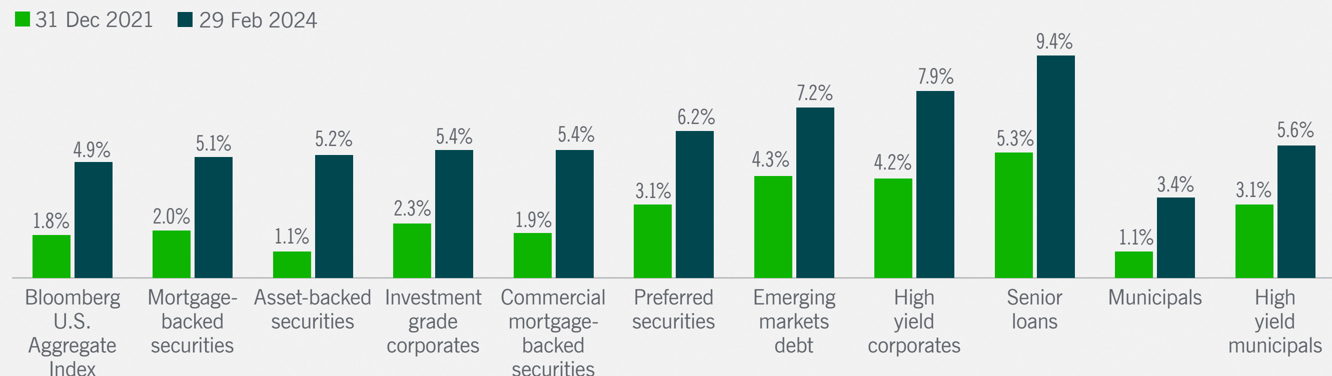
It is worth having plan committees examine the target date funds that probably make up the default investment option within the plan. While target date funds are well established, there is still innovation happening within the product, and there could be options available that might be worth consideration.

For the growing number of participants nearing retirement age, plans need to consider the need for lifetime income options. The SECURE Act created a more favorable regulatory environment for lifetime income, and the industry has recently started to align in terms of product offerings and technology. While it can be a significant shift to add an income element to a retirement plan, the actual transition and implementation can happen quite seamlessly. Integrating a lifetime income option into a target date-like structure allows for the allocation to an annuity to automatically rebalance over time and provide participants the option, but not obligation, to annuitize upon retirement.

The ability of plan sponsors to find the right lifetime income solution is becoming simpler, as the number of record keepers and asset managers offering integrated lifetime income solutions continues to grow. Product needs will vary, depending on industry, size of the plan, participant demographics, and historical comparisons to defined benefit plans, among others. But adding a lifetime income component to a qualified default investment alternative (QDIA) merits sincere consideration in 2024.

FIGURE 1:

Higher yields create compelling options across fixed income markets



Data source: Bloomberg, L.P., Credit Suisse. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: mortgage-backed securities:** Bloomberg U.S. Mortgage-Backed Securities Index; **asset-backed securities:** Bloomberg Asset Bond-Backed Index; **investment grade corporates:** Bloomberg U.S. Corporate Investment Grade Index; **commercial mortgage-backed securities:** Bloomberg Commercial Mortgage-Backed Securities Index; **preferred securities:** ICE BofA U.S. All Capital Securities Index; **emerging markets debt:** Bloomberg Emerging Markets USD Aggregate Index; **high yield corporates:** Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index; **senior loans:** Credit Suisse Leveraged Loan Index; **municipals:** Bloomberg Municipal Index; **high yield municipals:** Bloomberg High Yield Municipal Index. **For index descriptions, please access the glossary on nuveen.com.**

Personalization

The personalization of retirement plans is a growing and important trend. With increasing options to incorporate emerging technologies such as AI (Artificial Intelligence) and robo-advice, plan sponsors can make retirement plans feel more customized than ever. Personalizing financial literacy programs and education can also provide a great benefit to plan participants. By linking prior financial knowledge and readiness and tailoring potential education modules to the right level, plan sponsors can make strides in engaging participants and ensuring that they are approaching retirement with the right knowledge in hand.

Simply targeting firm-wide financial literacy would be too broad an approach, leaving behind employees who need more basic financial readiness training, and not offering advantages to those who are already relatively experienced. For example, TIAA Institute research shows that only 37% of 22–34-year-olds in the U.S. are confident that they will be able to retire when intended. Boosting financial literacy at earlier career stages can help build this confidence.[20]

The growth of managed accounts is one area where plan sponsors should be paying attention. These products offer a range of potential benefits to participants, including personalization, income offerings and more customized risk tolerances, though they can be more complex than traditional target dates or basic investment options. The way that fees are structured and how the portfolio is built can have a huge impact. While we believe that managed accounts are an interesting growth area and will continue to gather assets within the defined contribution space, plan sponsors should consider whether these solutions are right for the majority of plan participants rather than just a smaller portion of the plan population. With the limited time available to plan committees, would that effort be better spent in an area that can help more employees?

One eye on the future

The investment options available to participants should remain as consistent as possible, especially with regard to QDIAs. Ensuring that the underlying asset managers are making the most of the economic situation and have awareness of the potential shifts through this year and next should also be a priority.

Plan sponsors should expect ongoing regulatory updates following SECURE 2.0, particularly with the fiduciary five-part test for any potential changes to consultant/advisor relationships.

Cybersecurity continues to be a growing area of concern for anyone who manages data, and plan sponsors are a part of the ecosystem that needs to protect employee data. Record keepers have a significant role in this space, but plan sponsors need to examine what they can do to help protect data, as litigation risk continues to grow. The Employee Benefits Security Administration (EBSA) has a cybersecurity checklist available. It underlines the ERISA obligations of plan sponsors to "ensure proper mitigation of cybersecurity risks."[21] It is well worth examining the guidance to make sure that proper steps have been taken.

The decisions a plan committee makes are never static. So many of these items can be reviewed periodically to make sure they are still current. Above all, documentation and process management remain vital watchwords for plan sponsors.

CONSULTANT CORNER

Product and platform: a focus on lifetime income

No doubt about it, plan sponsors have full plates. Whether it's implementing regulations such as SECURE and SECURE 2.0, navigating a changing — and increasingly hybrid and remote — workforce, or ensuring that employees are diverse and financially literate, the to-do list is long.

Featuring:

Kelly Henson

Defined Contribution Investment Strategy Leader at Mercer

David O'Meara

Head of Defined Contribution Investment Strategy at WTW

Bill Ryan

Head of Defined Contribution Solutions at NEPC

> *“Employees have numerous and increasing challenges in their lives, and they are looking to employers to help holistically manage what life throws their way,”*

said David O’Meara, Head of Defined Contribution Investment Strategy at WTW. “We have to work with our clients to examine how DC (defined contribution) fits into that puzzle and address a myriad of employee needs.”

“Many DC plan sponsors are in learning, evolutionary mode,” says Kelly Henson, Defined Contribution Investment Strategy Leader at Mercer. This is especially true on the investment and plan design side, as new products come out and investment needs change.

“More plan sponsors are looking to build out robust and holistic plans as they relate to financial wellness more broadly, retirement income, and integrating more personalized advice,” she says. “They see that there are additional features and vendor partnerships that they need to support their employees.”

Evolving plan design

Bear in mind that DC plans weren’t always supposed to have such a broad mandate. Originally, they were designed as a supplemental savings vehicle to enhance defined benefit (DB) plans, and to complement Social Security income after DB plans went away.

Over nearly five decades, however, DC plans have evolved into the primary savings vehicle for most Americans, and plan design must keep pace. O’Meara sees two differing approaches to solving this puzzle, noting that a relevant question has become: “How do we integrate financial resilience into the plan and communicate that out? And should we add that program inside the plan, or outside the DC plan?”

In other words, does the onus fall back on the plan sponsor and, if not them, who is the arbiter of financial resiliency?

“We have to acknowledge that the DC component of retirement savings is important, but is it the overarching vehicle in which resiliency lives, or is financial resiliency the broader issue, and the DC component sits inside that? We are seeing solutions coming from both of those angles.”

To O’Meara, much of the challenge is being driven by litigation and tax policy and the desire to protect the plan sponsor while also keeping at the forefront the participant perspective.

Bill Ryan, Head of Defined Contribution Solutions at NEPC, also identifies litigation as a significant and growing concern. In his view, there is a need to press investment managers on lineups and fees.

“The number of lawsuits goes up year-over-year,” he says. “Investments and fees are the lowest common denominator for these lawsuits, so the purpose and rationale of each investment and the associated fees has to be a specific focus for plan sponsors.”

This is especially true as more asset managers seek to implant their product innovation as the default setting in plan sponsor menus.

> *“We are also aggressively negotiating managed account fees, as fee parity between managed accounts and target date funds (TDFs) would have profound implications for plan defaults,”* **Ryan says.**

Bringing lifetime income into plans

The emergence of in-plan, guaranteed lifetime income solutions continues to be a focus for plan sponsors. Since no two solutions are the same, consultants can have a significant role in the transition toward TDF-like defaults that glide investors into products that guarantee lifetime income.

“This is an area of rapid change that bleeds over into product developments around managed accounts and TDFs,” **Henson says.**

For example, she says, different product providers can use different terminology to talk about similar expected outcomes.

“Most TDFs are built to provide some wealth in retirement. How do we educate our clients on what lifetime income is and isn’t? We have to acknowledge that 86% have some sort of income,”[22] Ryan says, citing recent research from NEPC.

When it comes to the default investments within a retirement plan, O’Meara sees the need to acknowledge that TDFs unquestionably do work for a lot of individuals early on in their investment journeys, but he sees a need to differentiate participants who are nearing retirement.

“As assets flow into the default, namely TDFs, there is a growing recognition that they work really well for individuals who can be grouped together, i.e., those who need to simply participate, save, and grow assets with a reasonable asset allocation,” O’Meara says. “The critical area where TDFs fail is to meet the needs of those near and in retirement.”

He goes on to say that, while product development has been prolific, its deployment has been uneven — making it hard for plan sponsors to readily understand which tools are at their disposal.

David builds on this by breaking down the developments into three areas: platform, product, and the process of bringing those two together. “On the platform side, we have to look at what is available, and what can be made available to plan sponsors. Record keepers are adding new products all the time, but the rollout isn’t necessarily even. We need to find out what is on platform, and what is still being developed,” he says. “On the product side, we have to ask how new products meet participant needs, be that liquidity, growth, cost, income, etc. These may be the basics, but we have to nail it.” And when it comes to integrating the two, “a successful income solution needs to bridge that gap. It has to be an integrated experience that lowers the barriers for entry as far as possible.”

Keeping an eye on the participant

Focus should always be on the participant and making sure that saving for retirement remains simple.

“We have to communicate these changes in a way that is simple for the participant to understand, decide and implement,” **Henson says.** “However, it does not need to be the same for the plan sponsor and vendors. These are complicated products and solutions, especially around decumulation.”

For Ryan and NEPC, pragmatism is the name of the game when it comes to considering participant needs.

“If a participant needs 80% income replacement, and our calculations show that Social Security would get them 30-40%, then we can look for ways to close that remaining gap, be it annuities, an available pension, or distributions of funds from their retirement savings. We solve for that problem. You can loosely group participants into one of three categories; overfunded, funded just enough, or underfunded. And each can initially have a grouped approach with a set of initial products for consideration. Then more complex and custom solutions come in.”

There will remain differences between asset managers and record keepers when it comes to threading the needle on adding products and making clear why those products can be beneficial for participants.

“No one has it exactly right,” Henson says. “Finding that balance between personal, easy, hi-tech, custom, etc., isn’t easy.”

From tactics to strategy

In an industry that continues to be fast-moving, albeit at a time with at least relative regulatory stability, future priorities and plans remain focused on clients and retirement income. Ryan has a simple target for 2024 and beyond, saying

“As always, we will just try to get better. We will have as many conversations with clients as we can, and we will help define what retirement income means. We are also focused on bringing down managed account fees, so there is a much more competitive environment between target dates and managed accounts.”

Product remains a focus for Henson as well, as she sees the work of evaluating new developments as ongoing. “We are working hard to build out teams to do more in-depth reviews, to support clients in that evaluation, to help clients understand their objectives and build tools to help participants. It all builds toward enhancing those retirement goals.”

Having the freedom to find a long-term focus is important for O’Meara: “We are now in a place where sponsors can push past tactical needs and focus on long-term strategy. Sponsors can ask what they should be delegating, how we can facilitate getting to the right solution, how they can keep moving forward to meet the needs of their participants. We’re never standing still.”

Kelly Henson

Defined Contribution Investment Strategy Leader at Mercer

Kelly Henson is a Partner and Senior Investment Consultant with Mercer’s Wealth group in Atlanta, as well as serving as the US DC Investment Strategy Leader. Kelly works primarily with large market corporate DB and DC plan sponsors and assists clients with projects relating to asset allocation, custom fund construction and investment manager selection, performance evaluation, plan structure and fund operation and governance. In addition to client work Kelly is a member of Mercer’s Stable Value Strategic Research Team and Mercer’s National Defined Contribution Investment Committee.

David O’Meara

Head of Defined Contribution Investment Strategy at WTW

David O’Meara has over 20 years of investments and consulting experience and serves as WTW’s Head of Defined Contribution Investment Strategy. He is responsible for developing and bringing WTW’s expertise to all current and prospective DC clients. He also leads WTW’s DC investment research and custom solution development and implementation. David is a frequent speaker at DC industry conferences including P&I, DCIIA, Institutional Investor Defined Contribution Institute and CIEBA. He also authors DC thought leadership.

Bill Ryan

Head of Defined Contribution Solutions at NEPC

Bill leads NEPC’s Defined Contribution (DC) Practice as Head of Defined Contribution with over 20 years of DC-specific experience. Bill is focused on developing a team culture based in designing and implementing innovative DC solutions tailored to each plan sponsor’s unique objectives. He is a currently appointed member of the U.S. Department of Labor ERISA Advisory Council. Bill is a member of the Plan Sponsor Council of America (PSCA) Investment Committee. Bill is a member of both the Operating and Executive Committees for the DC Institutional Investment Association (DCIIA) and has been the Chair of DCIIA Investment Policy & Design Committee.

For more information, please visit us at nuveen.com

Endnotes

1 To read the full research report, please visit www.nuveen.com/global/campaigns/benefits-2-0
2 https://www.shrm.org/topics-tools/news/benefits-compensation/number-401k-funds-offered-to-plan-participants-shrinks
3 TIAA. 2021.
4 https://www.ncbi.nlm.nih.gov/books/NBK593519/
5 SECURE 2.0 Act of 2022, U.S. Senate section summary
6 https://www.businesswire.com/news/home/20230612135445/en/SHRM-Releases-2023-Employee-Benefits-Survey-Results and 2020 SHRM Employee Benefits report
7 https://www.plansponsor.com/in-depth/auto-portability-step-by-step/
8 https://www.dol.gov/newsroom/releases/ebsa/ebsa20240118
9 Department of Labor. 18 Jan 2024.
10 American Society of Pension Professionals and Actuaries. 2021.
11 NBER. Sep 2022.
12 https://www.irs.gov/retirement-plans/401k-plan-fix-it-guide-the-plan-failed-the-401k-adp-and-acp-nondiscrimination-tests
13 https://www.irs.gov/retirement-plans/retirement-plans-startup-costs-tax-credit
14 Panis, Constantijn (Stan), "Annuities and Retirement Satisfaction," RAND Corporation, 2003.
15 Blanchett, David and Finke, Michael S., "Guaranteed Income: A License to Spend," June 28, 2021.
16 Tricker, Patrick, "Annuities and moral hazard: Can longevity insurance increase longevity?" Journal of Financial Service Professionals, July 2018.
17 "Americans' Outlook for Their Retirement Has Worsened," Gallup News, May 25,2023.
18 Tian F, Shen Q, Hu Y, Ye W, Valdimarsdóttir UA, Song H, Fang F, "Association of stress-related disorders with subsequent risk of all-cause and cause-specific mortality: A population-based and sibling-controlled cohort."
19 Views from Nuveen 2024 Global Investment Committee Outlook.
20 TIAA Institute. State of financial preparedness in a diverse America. 2024.
21 Employee Benefits Security Administration. Cybersecurity program best practices. 2021.
22 NEPC. March 2024.

Any guarantees are backed by the claims-paying ability of the issuing company.

Annuity contracts and certificates are issued by Teachers Insurance and Annuity Association of America (TIAA).

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain "forward-looking" information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. **Past performance is no guarantee of future results.** Investing involves risk; principal loss is possible.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professionals.

This information does not constitute investment research as defined under MiFID.

Please note that this information should not replace a client's consultation with a tax professional regarding their tax situation. Nuveen is not a tax advisor. Clients should consult their professional advisors before making any tax or investment decisions.

Nuveen, LLC provides investment advisory solutions through its investment specialists.

nuveen
A TIAA Company

The future of defined contribution

next

Sign up to receive our latest insights straight to your inbox.

GWP-3646947CG-E0524D 1288251