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ERISA at 50: past reflections, future possibilities

The future of defined contribution

next

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OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

next / *The future of defined contribution*

Learning from the past, embracing the future

As ERISA turns 50 years old, it's a great time to take stock of everything that has changed in the U.S. retirement landscape over that time and look to the future and what continues to evolve. The disappearance of defined benefit plans has profoundly impacted how people save for retirement and their income security when they do retire. At the same time, the rise of defined contribution plans and the target date funds that they contain has forever shifted the responsibility of retirement planning onto individuals. While this change cannot be reversed, we see the ongoing developments and rollout of guaranteed lifetime income products as one way to help right the balance back in favor of secure income in retirement, lessening the burden and stress on the individual.

To that end, in this edition of *next,* our cover story examines how the legislative and product landscape has evolved since the landmark passage of ERISA in 1974. We also look at what changed with the passage of the Pension Protection Act in 2006 and how managed accounts and guaranteed lifetime income are developing into the future of retirement planning in the U.S. Additionally, we explore the potential impact these developments can have on workers and retirees.

In our second article, we delve into the future with a discussion on how to encourage retirees to spend and the flaws in the 4% rule, which is often used as a yardstick for decumulating assets. We examine how annuities can play a role in guaranteeing income for retirees at a higher level than they might otherwise get from the 4% rule alone.

With one eye still on the future, we also detail a new paper from the TIAA Institute that examines seven different global retirement systems, categorized into those focusing on individual choice and those focusing on collective choice. Through this lens we can see potential best practices and lessons that U.S. plan sponsors could look to emulate.

We close this edition of *next* with an article examining the important role that financial wellness and education can play in promoting mental well-being. This is a complex relationship and a developing area of study, but research underscores that it is a pressing issue that needs a proactive approach.

As we reflect on the past half century and look toward the future, one thing is clear: adapting to these changes and innovations is essential for ensuring a secure and prosperous retirement for all.

Your Nuveen Team

ERISA at 59

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Past reflections, future possibilities

It is hard to overstate the impact that the Employee Retirement Income Security Act (ERISA) has had on the course of the U.S. retirement industry. ERISA was first introduced in 1974 by President Gerald R. Ford and signed into being on Labor Day of that same year. The Act represented a significant expansion of government power into what had largely been a private market area, reflecting a growing need for better regulatory structures to be put in place around disclosures and safeguarding assets within pension plans.

Much has changed within the landscape of American retirement during the past 50 years. This milestone anniversary represents a chance to look back as well as forward into what further steps may still be needed to protect lifetime income for all working Americans, beyond the replacement rates offered by Social Security.

Looking ahead, the retirement industry must keep expanding the number of people who are enrolled in workplace retirement plans. Currently, only about half of workers are participating in an employer-sponsored plan. Astonishingly, around 75% of the workers who aren't participating aren't doing so because their employers do not offer these types of plans.[1]

Target date assets have grown rapidly

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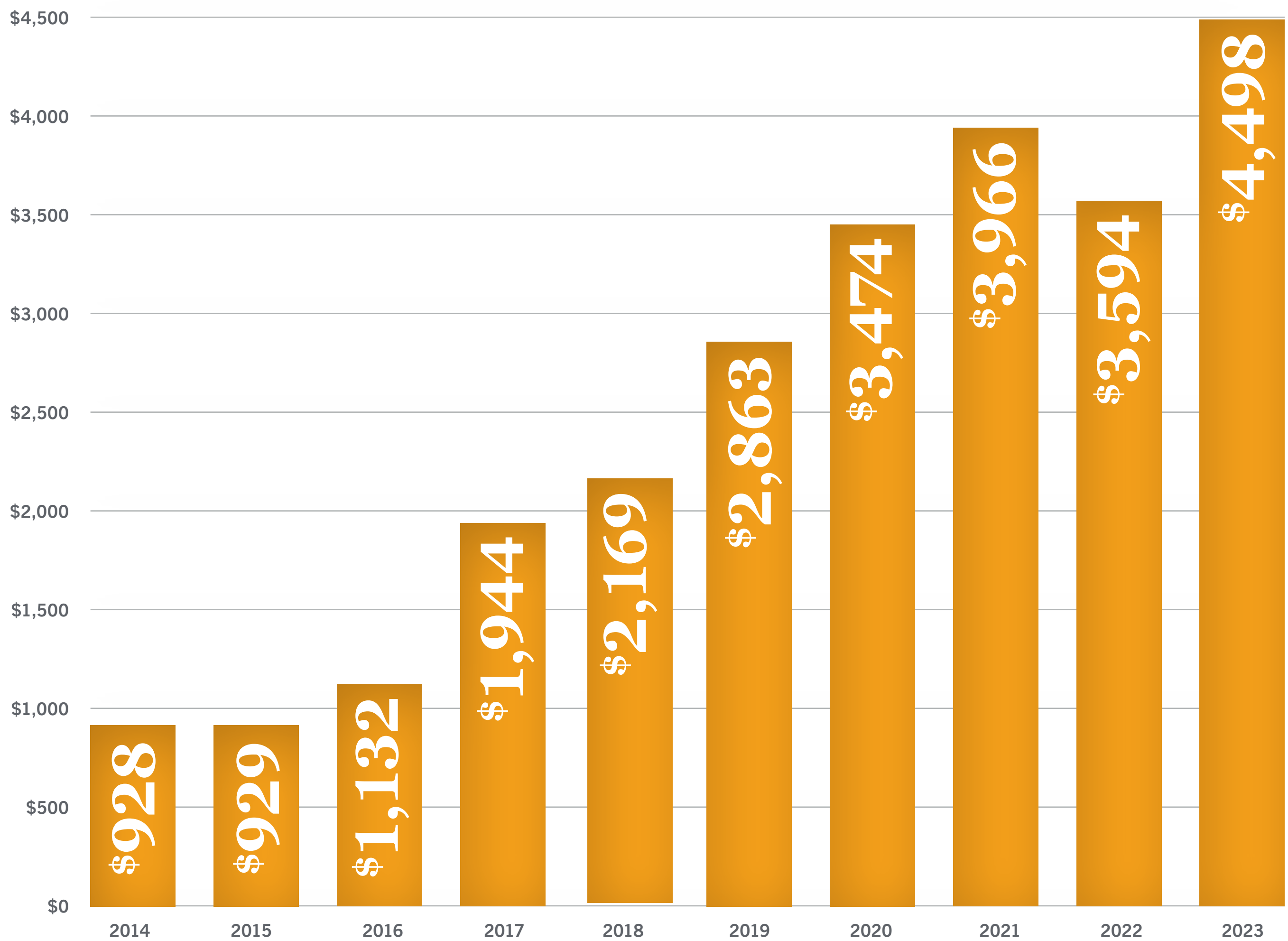


Data source: Morningstar. 18 Jul 2024.

ERISA isn't wholly responsible for the system currently available today. The 401(k) retirement savings plan wasn't formally created until 1978 and wasn't widely adopted by corporate retirement plans until the 1980s/1990s. The shift from defined benefit plans to defined contribution plans was motivated by companies' desire to move the liability of defined benefit plans off their balance sheets. However, this transition came with a profound impact on the retirement security of millions of Americans, as their guaranteed income plans have largely disappeared. The emphasis has shifted ever-increasingly onto individual workers who must now be in charge of their own retirement savings, while not helping them generate the income needed to fund their retirements.

The next significant step in the legislative retirement landscape was the Pension Protection Act of 2006 (PPA), which is coincidentally celebrating its 18th birthday in 2024. This Act was designed to build on the foundation of ERISA, to further strengthen protections for workers and to allow for workers to save significantly more in their retirement accounts than was previously allowed. It also gave permission for automatic enrollment, a facet of retirement planning still firmly advocated for today.

One of the most significant provisions to come out of the PPA was the Qualified Default Investment Alternative (QDIA). QDIA is a default investment option that employers can offer in their employee retirement plans. These default investments essentially gave rise to the modern 401(k) investment landscape and the diversified "life-cycle" fund (greater equity exposure for younger participants, more fixed income for older participants), i.e., the now ubiquitous target date fund.

The growth of target date funds has been rapid, largely thanks to the safe harbor language in the PPA that protects employers in the event of a market downturn. Prior to the PPA, default investments were usually money market funds, or other vehicles that were less likely to lose value during adverse market conditions. By helping capital appreciation to become part of the recognized goal of a retirement account, alongside the greatly raised limits on contributions, the PPA allowed for workers to properly build a nest egg. The growth of target dates is now well known, and they continue to hold a significant position among in-plan retirement assets.

The shift of U.S. retirement is toward personalization, more decisions being made by individuals and more crossover between the traditional areas of retirement and wealth financial planning.

What's next?

The U.S. retirement industry is never really standing still, despite the relatively stable regulatory environment. We don't see any major retirement legislation currently on the horizon, especially as SECURE Act I and II provisions are being worked through, and the Tax Cuts and Jobs Act is set to expire at the end of 2025.

That said, new products are always in development. One area currently driving development within the retirement planning landscape is the growth of advisor managed accounts. These accounts allow for significantly more customized options than those offered by target date funds. Beyond age and target retirement year, these managed accounts incorporate factors including non-retirement account assets, detailed information about participants' salaries, contribution rates and histories, and overall risk tolerances.

By 2021, advisor managed account assets had grown to more than $400B from approximately $150B in 2014. While most plan sponsors now offer managed accounts within their plans, there is still work to be done to establish the value proposition.[2] The higher costs associated with managed accounts naturally act as a barrier to entry and make for a more difficult conversation with participants, so plan sponsors need to carefully consider the additional value that participants will receive from the more personalized service.

The fact remains though that the U.S. retirement system is largely predicated on individuals making their own decisions regarding how much to save and where to direct their dollars. And, while the majority of these individuals default to their employer-sponsored retirement plans, those who would prefer more customized advice or whose situations are more complex and could benefit from more directed financial planning could be well served by a managed account offering such as advisor managed accounts or an SMA.[3] The shift of U.S. retirement is toward personalization, more decisions being made by individuals and more crossover between the traditional areas of retirement and wealth financial planning. Managed accounts may represent the next step in the retirement planning evolution.

The future is lifetime income

Conversely, there is one area in the retirement landscape that is reversing back toward the pre-ERISA era, a time when most workers had defined benefit pensions and knew exactly what income payouts they would receive in retirement. This area of growth is the in-plan guaranteed lifetime income solution, a retirement option that is designed to replicate the worker's paycheck during retirement.

This growth area was cemented by the SECURE Act of 2019 through the safe harbor provisions for lifetime income solutions that are a part of retirement plans. The Act, which amends ERISA Section 404, lays out the process that plan sponsors have to engage, in order to include guaranteed income contracts within their retirement plans. **As the Act pertains to the selection of an insurance company to provide the guaranteed retirement income contract, those with fiduciary responsibilities will be deemed to have satisfied their fiduciary obligations if they:**

1. Engage in an objective, thorough and analytical search for the purpose of identifying insurers from which to purchase such contracts,

2. Consider the financial capability of each insurer to satisfy its obligations under the guaranteed retirement income contract, and

3. Consider the cost (including fees and commissions) of the guaranteed retirement income contract offered by the insurer in relation to the benefits and product features of the contract and administrative services to be provided under such contract.[4]

These provisions allow for the inclusion of annuity contracts within the retirement plan, and for the integration of lifetime income. This will help retirees think about their spending plans and convert their savings balances into a stream of income that can last them throughout their retirement. And while much of the legislative work has been done to allow for guaranteed lifetime income products to be embedded within retirement plans, we still see a lot of work to be done to work with plan sponsors, their advisors and consultants, and individual plan participants. Work also remains on education around the value that lifetime income can provide, what these products fundamentally are and how they can work within a plan, and how the area of lifetime income is going to continue to evolve as more record keepers integrate these products and more plan sponsors take them up.

It has been a fascinating few decades for retirement industry legislation, from ERISA through the PPA and now with the implementation of the SECURE Acts. We believe the growth of managed accounts will continue to have an outsized impact on how retirement assets are managed, and the integration of guaranteed lifetime income is poised to make retirement more accessible and manageable for millions of American workers.

License to spend: fading the 4% rule

The American retirement system has long been focused on one principal aspect: getting workers to save early so they will have enough money to live on during retirement. While the U.S. retirement system offers Social Security as a broad, government-run savings vehicle, the income replacement rates offered by Social Security are not designed to provide enough money for most workers to count on throughout their retirement years.

The Social Security monthly check for the average retired recipient is currently $1,907, or just under $23,000 a year.5 Given this low level of income, U.S. workers need to have some form of private retirement plan. The growth of the 401(k) plan, and the diminishing number of employees who are enrolled in a DB plan, have shifted the burden of managing retirement savings into the hands of individual workers.

This transition has led to a mentality and culture of accumulating assets. When today's workers log into their retirement savings accounts, they see a total balance of their accumulated assets, a mix of contributions and market returns that have occurred over time. What they don't see is a monthly income benefit they will enjoy in retirement, akin to the monthly paycheck they are used to seeing deposited into their bank accounts during their working years.

A new mentality is required when workers reach retirement as they are forced to pivot toward drawing down accumulated assets. This new reality can be a difficult pill to swallow. 30+ years of consuming articles about saving and not touching account balances except in case of emergency can lead many workers to believe their 401(k) balances are inviolable. Research suggests that 25% of retirees reduce their spending upon entering retirement, with the numbers especially concentrated in those who are using accumulated savings balances in retirement (as opposed to those who rely on guaranteed sources of income such as Social Security, DB plans or annuities).[6]

The approach to spending in retirement has historically been governed by the so-called 4% rule. This is a loose guideline that says a retiree can withdraw 4% of their balance in the first year of retirement, and then in subsequent years adjust for inflation and make withdrawals accordingly. For example, a retiree with a $1 million dollar balance would withdraw $40,000 in the first year, and then in a 2.5% inflationary environment, $41,000 in the second year, $42,025 in the third year, etc. This rule, however, was designed for a 30-year retirement time horizon and does not consider the prevailing interest rate or market returns on a portfolio. In today's environment where the 10-year Treasury alone at auction is yielding around 4%, it certainly seems inadequate given yields that are available in other asset classes.[7]

The role of guaranteed lifetime income

We think a more helpful approach to retirement planning is to evaluate the income levels needed to sustain the worker's retirement, then go back into asset allocation and withdrawals from that starting point. Studies have shown that the spending habits of many workers change as they enter retirement. While retired workers are no longer spending as much money on work- and commuting-related expenses, such as prepackaged meals and clothes, the overall spending picture is somewhat mixed. The psychological impact of retirement and the transition away from a regular employer-provided paycheck can also impact spending and savings habits.[8] These studies also showed that new retirees increased their liquid savings, again suggesting a possible nervousness about retirement and the changing income routines it represents.

Workers entering retirement can benefit from guaranteed income solutions. These solutions offer the ability to feel similar to the end-user to the income that many workers are used to receiving during their working years. The role of an in-plan, institutionally priced annuity allocation that grows throughout a career, and can be converted into a stream of lifetime income at the point of retirement, is a way to smooth the transition for workers at the point of retirement.

Such products encourage workers to think about their retirement income needs and more confidently achieve their spending goals.

The annuity advantage

TIAA has also run the numbers on the advantages that an integrated annuity can have for income levels in retirement compared with the 4% rule approach. Let's look at a hypothetical example, based on a $1 million balance. According to the 4% rule, the participant would withdraw $40,000, or $3,333 per month from retirement savings, in the first year of retirement.

Compare this with a participant who annuitizes a third of their $1 million balance. As of March 1, 2024, for a 67-year-old who selects a single-life fixed annuity with payouts ensured for at least 10 years, we can assume that income rate is 7.8%. In a year this retiree would get $26,000 in annuity checks from the $333,333 they converted into guaranteed income. Now if they apply the 4% rule to the remaining $666,667 of their original balance, this gives them an additional $26,667.

Combining the two streams, by annuitizing a third of savings with a fixed-rate annuity, our hypothetical participant would get a total of $52,667 in 2024 — 32% more than the original $40,000. That's $1,056 more per month in the first year of retirement. Obviously, the assumptions underlying this are constructed on prevailing interest rates, and generally, the higher the interest rate, the higher the advantage offered by annuities. The annuity also continues to offer this income stream even if the market were to experience a downturn, which could impact the withdrawals under a 4% rule.

A further consequence of securing necessary expenditures through a combination of an annuity and Social Security, is that it potentially allows a retiree to accept more risk with their remaining balance. If a retiree is concerned that their assets may run out in retirement, they may allocate more conservatively than they otherwise need to. Whereas, for a retiree who doesn't have to be so conservative, they could potentially allocate to a higher risk tolerance, which could generate more returns for the portfolio. Depending on risk appetite for the investor, allocations to more illiquid investments, such as private markets, could also be a way to further diversify the balance of retirement assets.

The other consequence of securing necessary expenses through the use of guaranteed income products and Social Security is that it could allow a retiree to feel empowered to use their remaining balances on discretionary spending, such as travel. And the data backs this up, showing that those with more guaranteed sources of income spend around 75% of their income, whereas those who are more reliant on self-directed withdrawals spend around 65% of their income.[9]

The role of advice and knowledge

Financial literacy especially is something that can be built throughout a worker's career. As part of an ongoing human resources program, financial literacy can help to build knowledge of both saving and spending best practices. TIAA research has focused on longevity literacy as well. This research covers for both underestimating and overestimating the length of time that will be spent in retirement, and the potential role that guaranteed lifetime income solutions can play in securing the dollars that are necessary for income throughout retirement.

Another element is engaging workers with financial advisors. A number of best practices can help educate workers around financial planning and further those discussions around what savings they have and how that will translate to income in retirement. This should include one-on-one financial education-based conversations, regardless of job rank, to engage employees throughout their careers. Specifically, younger individuals should be a focus so that they understand the benefits of saving sooner. And it is worth ensuring that any advisors brought into the workplace are drawn from a diverse group that represents the individuals seeking financial advice. This can help bridge gaps, and help minority employees by offering a deeper understanding of idiosyncratic factors that can impact financial preparedness.

It is also worth considering individuals that are at the lower end of the pay scale, as regardless of financial literacy, individuals that may be struggling to make ends meet have different needs, focused on emergency savings and having a buffer for immediate expenses.

The ability of retirees to spend is worth consideration alongside their ability to save. These need to be balanced, and the role of guaranteed lifetime income to help retirees meet their necessary expenditures while giving the greatest freedom for discretionary spending needs to be highlighted. Programs that can help to educate employees throughout their careers, and provide financial advisers and holistic views of the way retirement savings plans operate can help smooth the gap between an employee's work years and retirement years. Knowledge and preparedness can help and allow retirees to enjoy their golden years to the fullest.

The role of an in-plan, institutionally priced annuity allocation that grows throughout a career, and can be converted into a stream of lifetime income at the point of retirement, is a way to smooth the transition for workers at the point of retirement

Lessons for U.S. retirement systems: Insights from global practices

The U.S. retirement system faces significant challenges in ensuring adequate retirement savings for its participants. As the U.S. grapples with these challenges, valuable lessons can be drawn from other countries' pension systems.

A recent study by the TIAA Institute, titled "The future of retirement security," analyzed seven countries, categorized into "individual choice" (IC) systems (Australia, Canada, United Kingdom, U.S.) and "collective choice" (CC) systems (Netherlands, Singapore, Sweden). The IC countries — Australia, Canada, United Kingdom and United States — focus heavily on individual responsibility and personal choice in retirement planning. In contrast, the CC countries — Netherlands, Singapore and Sweden — emphasize collective risk-sharing and limit individual choice to ensure broader, more equitable retirement outcomes.

Against a backdrop of increasing lifespans and the decline of traditional defined benefit (DB) plans and growth of defined contribution (DC) plans, here we explore the study's insights and provide actionable recommendations for U.S. plan sponsors seeking to improve participant outcomes.

Success of auto-enrollment

One of the most significant findings from TIAA is the success of auto-enrollment in increasing participation rates. In countries like New Zealand and the U.K., auto-enrollment has led to high participation rates, with opt-out rates remaining low. Australia has a mandate whereby participants cannot opt-out. This has been instrumental in encouraging retirement savings among workers who might otherwise neglect it. In the U.K., the success of auto-enrollment and master trusts has doubled coverage rates among private-sector employees without imposing a heavy burden on employers.[10] This model has helped ensure that more workers are saving for retirement, leading to better financial security in the long term.

Auto-enrollment addresses a key behavioral challenge: many employees want to save for retirement but are overwhelmed by the choices and decisions required to enroll. Automatic enrollment effectively addresses decision paralysis by making saving the default option, significantly boosting participation rates. In fact, studies have shown that automatic features like auto-enrollment and auto-escalation can increase retirement savings by up to 70 basis points.[11] Moreover, the Pension Protection Act of 2006 and the original SECURE Act of 2019 and the SECURE 2.0 Act of 2022 have further encouraged the adoption of automation by providing safe harbor provisions and tax credits for plans that implement these features.

The future of global retirement: A comparative analysis of global pension systems

Countries around the world are considering and implementing reforms to their retirement systems due to increasing demographic and economic pressures. A key driver of these reforms is human longevity. For example, the average retiree today can expect to spend about two decades in retirement, roughly double the time from 50 years ago. In the U.S., life expectancy has risen by 17 years since the Social Security program debuted nearly 90 years ago.

As part of this demographic megatrend, fewer workers have access to DB plans, which are centered around a consistent income stream in retirement. Instead, many save for retirement through DC plans, which do not automatically convert into retirement income. Many of the reforms observed worldwide currently revolve around adapting to improve participant outcomes.

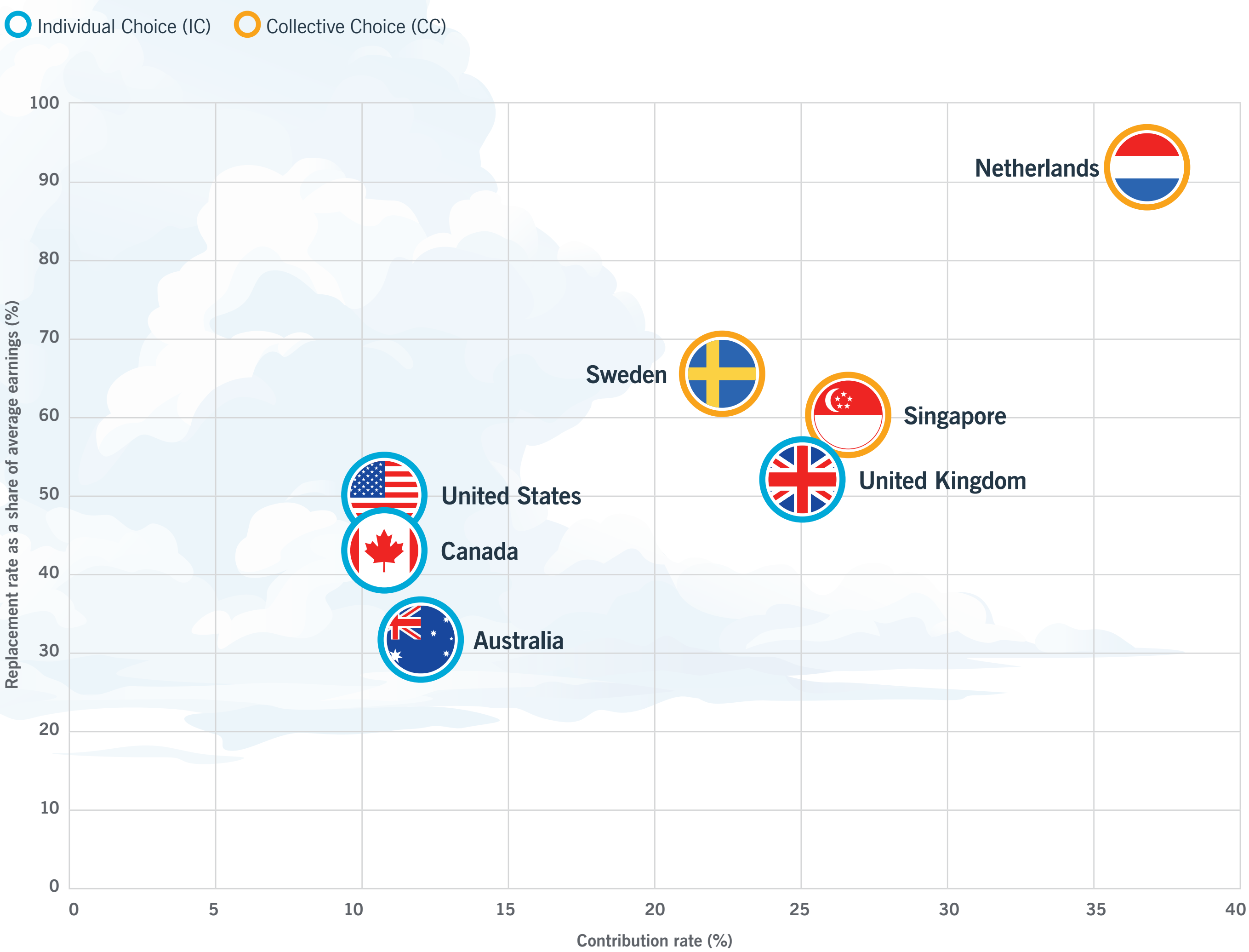
The TIAA Institute studied the experiences of seven countries, developing a framework for understanding how various factors affect different retirement systems. The goal was to identify the best ideas from these countries and use them to develop an actionable template for a well-designed retirement system of the future.

Optimizing retirement savings accumulation

Two key factors are vital for optimizing retirement savings: maximizing inflows through contributions and employer matches and investing savings in a manner suited to each worker's needs. The Netherlands is often quoted as an example of a country with a high income replacement rate. What is less often mentioned is that it also has a very high total contribution rate to retirement savings — 37% including employer contributions. There is no way around it: those countries with higher replacement rates in retirement have higher contribution rates during their working careers.

Auto-enrollment is not just about getting employees into the plan; it also involves ensuring that contributions are sufficient. New legislation in the U.S. mandates initial auto contributions of at least 3%, with automatic escalation up to 10% – 15%.[12] Plan sponsors must balance the need to boost retirement savings with the risk of participants opting out if the auto contribution rates are perceived as too high.

Projected replacement rate for full career average income earner from current mandatory system



Balancing choice and guidance

While choice is generally viewed positively, too much choice can be counterproductive. Many individuals, due to inertia or lack of confidence, fall back on default options. This makes the quality of these default options crucial.

Plan sponsors can benefit from focusing on providing high-quality default options and simplifying investment choices. Singapore's financial literacy test, for example, provides flexibility while ensuring that participants are well-informed about their investment choices if they choose to self-manage their investments. Offering clear guidance and support can help participants make informed decisions without feeling overwhelmed by too many choices. Furthermore, the countries with high annuitization rates offer participants income as a first choice and give some options regarding timing or type of income. Updating U.S. platforms and interfaces to allow an income as the first option at retirement can help participants focus on long-term financial security.

Transition to hybrid plans

Globally, there is a shift toward hybrid solutions combining elements of DC and DB systems. Policymakers in the U.S., Australia, Canada and the U.K. are introducing more mandates and promoting lifetime income, while those in the Netherlands, Sweden and Singapore are allowing participants more individual choices.

In the U.S., the decline of DB plans and the rise of DC plans has shifted the responsibility of retirement income planning to individuals. Sponsors should consider moving toward hybrid solutions that combine the flexibility of DC plans with the guaranteed income of DB plans to provide a predictable income stream in retirement.

While there is no optimal one-size-fits-all approach, a hybrid system with the following features can combine the best elements of both DB and DC plans:

Addressing income adequacy and longevity risk

The TIAA study underscores the need for lifetime income solutions to ensure financial security in retirement. Countries like the Netherlands or Sweden have pioneered models that provide lifetime income with variable levels, making it possible to temporarily adjust benefit payments if the system becomes unsustainable. This model offers an innovative approach to managing longevity risk and ensuring income adequacy.

Fortunately, many U.S. plan sponsors are considering offering lifetime income options and promoting annuitization. Developing frictionless pathways that include allocations to lifetime income will make it easier for participants to secure a stable income in retirement.

According to Nuveen's 2024 Global Institutional Investor Survey, "EQuilibrium," over half of respondents who oversee DC plans say guaranteed income solutions can improve retirement readiness. Enhanced account portability would make it simpler for participants to consolidate their savings, which in turn would make lifetime income options easier to implement, and perhaps further encourage adoption.

Default investment and income options in DC plans in different countries

	Default accumulation	Default decumulation
Australia	• Multi asset class fund • Static or dynamic allocation with age	• Minimum drawdown rates apply • Income product must be purchased separately
Canada	• Target date fund • Target risk fund	• Minimum withdrawal schedule • Income product must be purchased separately
Netherlands	• Risk-based lifecycle fund	• Choose from variable or fixed annuity provided • Option to take 10% as lump sum
Singapore	• Central Provident Fund	• Choose from variable or fixed annuity provided by plan
Sweden	• Multi asset class fund with a risk profile that evolves with age (AP7 Såfa)	• Choose from variable or fixed annuity provided by plan • Periodic lump sum options also available
United Kingdom	• Lifecycle fund	• Drawdown, 25% tax free cash • Income product must be purchased separately
United States	• Target date fund	• Required minimum distributions • Income product must be purchased separately • New TDFs with embedded annuity option increasingly available

Data source: TIAA. The Future of Global Retirement.

Summary of recommendations for U.S. plan sponsors

Implement auto-enrollment:
Consider making auto-enrollment the default option to boost participation rates and encourage retirement savings from the outset.

Simplify investment choices:
Offer high-quality default options and clear guidance to lower costs and help participants make informed decisions without feeling overwhelmed.

Encourage higher contributions:
Highlight the benefits of employer matches and tax incentives to maximize inflows and boost retirement savings.

Offer lifetime income solutions:
Develop and promote annuitization options to ensure stable income in retirement, combining guaranteed income with liquid assets for flexibility.

Indeed, the U.S. retirement system can significantly benefit from the experiences of other countries. By implementing auto-enrollment, simplifying investment choices, encouraging higher contributions and offering lifetime income solutions, plan sponsors can take practical steps to improve retirement outcomes for American workers.

Connecting the dots: financial and mental well-being

The complex relationship between financial and mental health has profound implications for workplace productivity, employee engagement and overall well-being. For plan sponsors, addressing these interconnected issues can produce a more supportive and productive work environment. To tailor effective support programs, it is essential to understand the specific financial and mental health challenges that employees face.

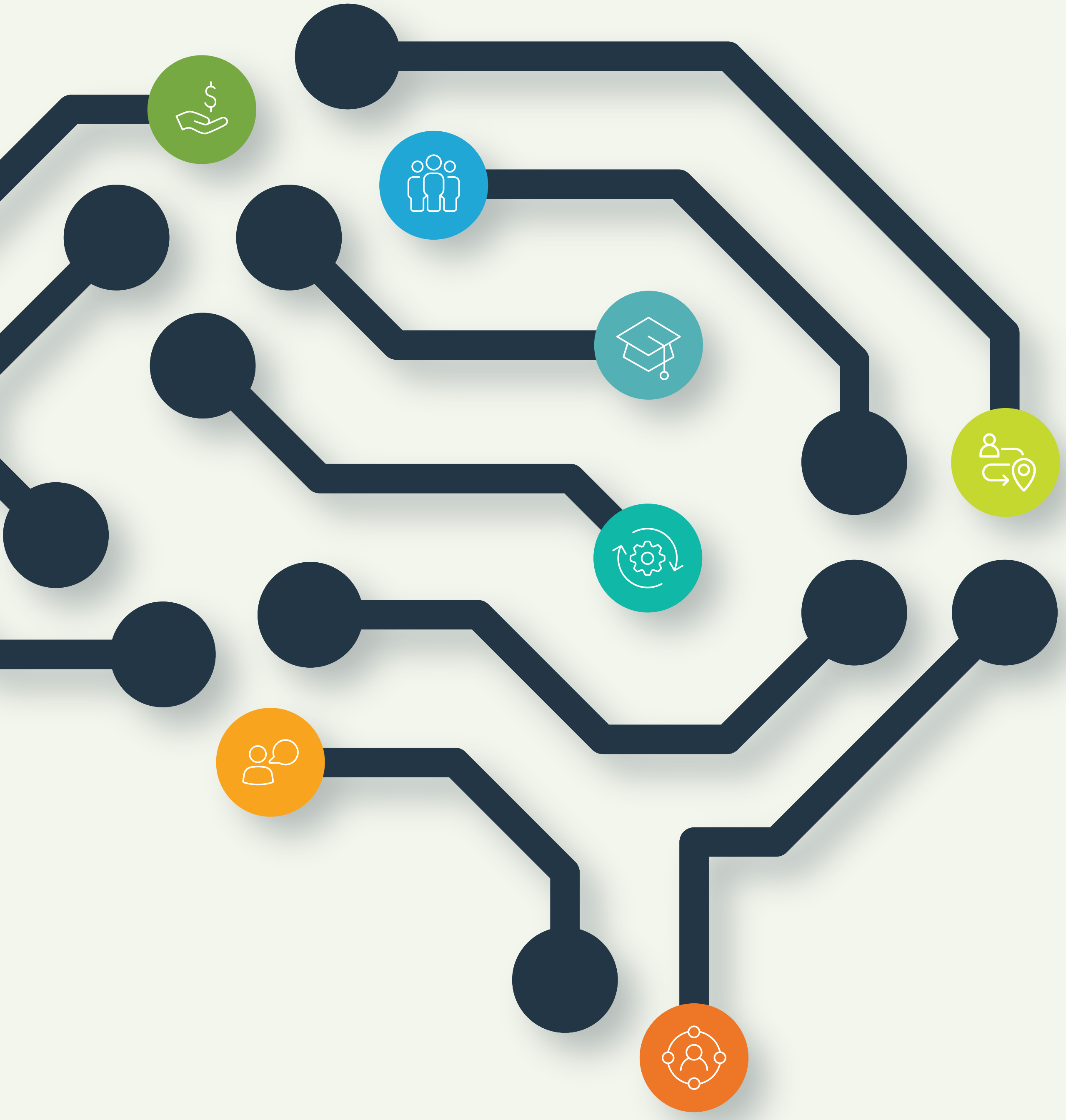
Here, we explore actionable, research-driven insights to promote both financial and mental well-being among employees.

Post-pandemic, there has been a rise in reported mental health symptoms, which highlights a growing crisis.[13] The World Health Organization (WHO) reports that over 1 billion people globally live with mental health conditions. The percentage of adults struggling with mental health is higher in high-income countries, where it is estimated to impact about 15% of the adult population at any given time.[14] Research also shows that younger working-age adults are particularly affected, with 68% of millennials and 81% of Gen Z indicating they have left their jobs due to mental health issues.[15]

Although there's a growing focus on mental health among various organizations, a sizeable gap remains between employee needs and available support, particularly for traditionally disadvantaged or underserved groups. Financial stress, including debt, plays a critical role in mental health challenges, affecting personal relationships, work performance and overall well-being.

Financial health is deeply intertwined with mental health. Financial stresses contribute significantly to mental health challenges. For instance, high debt levels are associated with increased symptoms of depression, anxiety and anger.[16] Poor mental health also impairs one's capacity for evaluating financial options and risks, leading to impulsive spending and poor financial planning.[17] Employers can play an outsized role in positively addressing this mutually reinforcing relationship by providing integrated education and support.

An effective support system for employees requires recognizing and addressing the unique needs of each employee, offering easily accessible services that combine mental and financial health resources, encouraging the sharing of knowledge and adopting a comprehensive approach to employee care. Developing such a program involves understanding the various factors influencing mental health and customizing solutions to meet these diverse needs.



"Providing the right support to employees is critical to ensuring their well-being and thus their ability to be happy, healthy and productive at work. Financial education and planning can contribute to feeling secure and reducing stress in order to concentrate on the things that matter to employees — a worthwhile investment for employers, too."

— Ned Godwin, Vice President of Benefits, TIAA

Actionable insights for plan sponsors

Regularly conducting surveys to understand the specific financial and mental health challenges employees face can help identify common issues like student loans, high cost of living or medical expenses. Analyzing the composition and background of the employee population can also provide insights into the most effective support types that consider socio-economic and demographic characteristics that may influence financial and mental health needs.

Offering programs that educate and assist employees in managing their finances, such as debt management, budgeting workshops retirement planning, and mental health promotion to recognize the stress and anxiety caused by financial concerns. Clearly communicating how benefits that include mental health services, such as therapy and medication, can be accessed with little or no financial obligation reduces employee concerns regarding financial barriers to care.

Providing access to financial advisors who can offer personalized advice tailored to individual circumstances helps employees develop long-term financial plans and mitigate stress. Utilizing digital tools and resources that provide ongoing education and support, such as financial calculators, planning apps and informative webinars, is also beneficial.

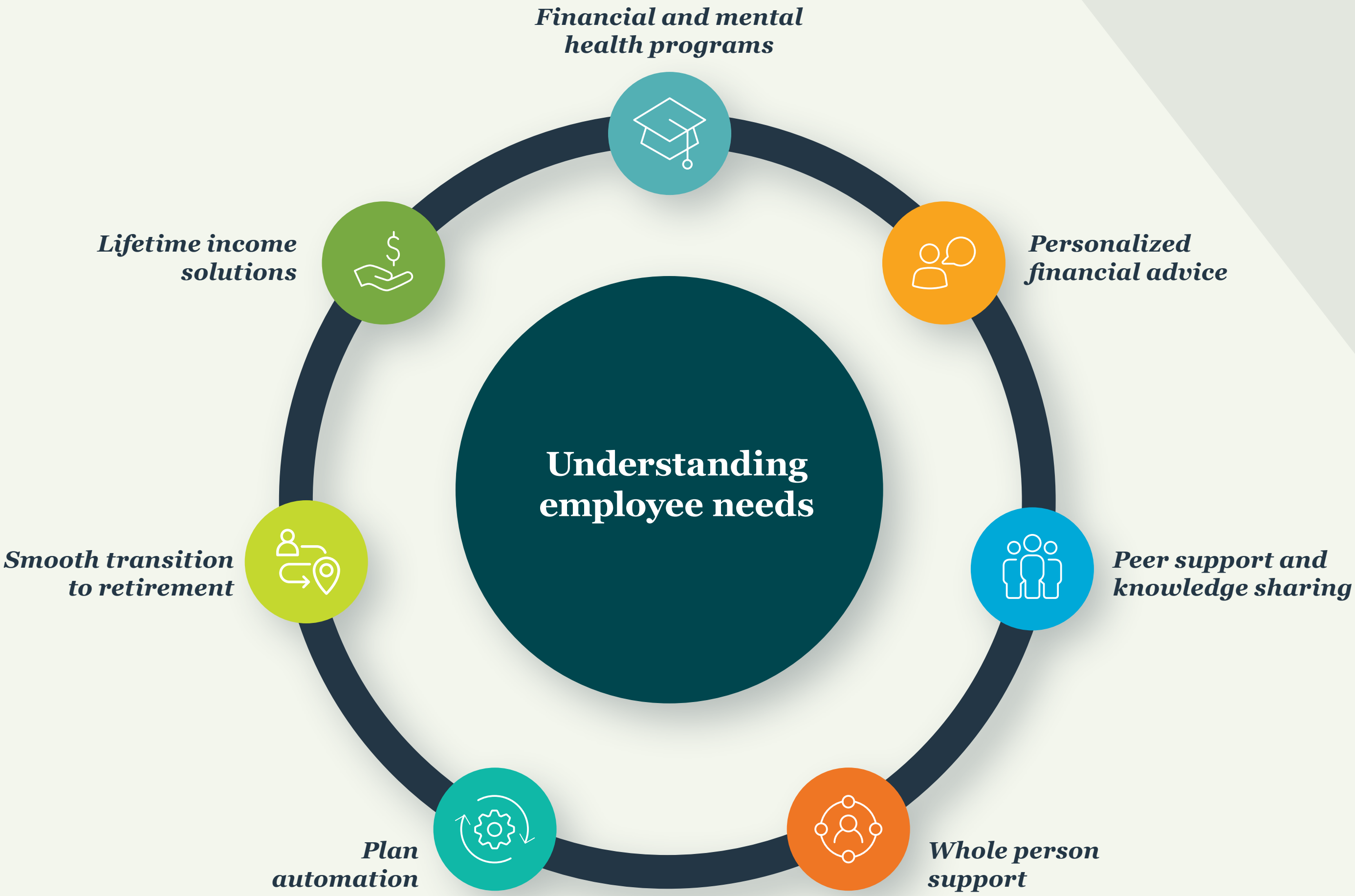
Establishing employee resource groups focused on mental health or shared experiences like grief, parenting and caregiving provides peer support and connections to resources. This fosters a sense of community and increases awareness of available services. Organizing regular workshops and seminars on stress management, financial planning and mental wellness helps employees manage potential issues before they become bigger problems.

Supporting the "whole person" also involves offering flexible work schedules and settings to reduce stress and improve mental health. Providing comprehensive benefits that support employee goals outside of work, such as paying off student loans, home-buying assistance, saving for a child's college fund or emergency financial support, prevents financial problems from negatively impacting mental health and work performance. Investing in employees' professional development can support their growth in your organization, reducing anxiety related to their job security and career progression.

Enhancing plan automation can meaningfully reduce the burden of financial decision-making for participants. Plan sponsors can implement automatic enrollment to ensure participation from the start of employment, removing initial barriers to entry and establishing consistent savings behavior. Automatic contribution increases can further help employees save more without the need for manual adjustments. Offering professionally managed default investment options, such as target-date funds that align with employees' retirement timelines, simplifies investment decisions and reduces anxiety about managing portfolios.

Creating a smooth transition to retirement can help prevent a significant source of stress for employees. Plan sponsors can ease this transition by conducting pre-retirement planning workshops that focus on retirement readiness, covering topics such as health care, Social Security and lifestyle adjustments. Offering phased retirement options that allow employees to gradually reduce their working hours while transitioning into retirement can provide a smoother adjustment period and reduce financial stress.

Safeguarding a steady income throughout retirement is also crucial for financial security and mental well-being. Plan sponsors can work to examine and include lifetime income options in their retirement plans to provide employees with a guaranteed income stream for life, reducing the risk of outliving savings. Educating employees on various income strategies available in retirement helps them understand how to effectively manage and draw down their savings. Offering customizable retirement solutions allows employees to tailor their income plans according to their unique needs and preferences.



Implementing solutions across organizations and beyond requires understanding that mental health is influenced by individual, family, community and structural drivers. Plan sponsors should consider tailoring solutions to the diverse needs of different workforce segments, recognizing variations in age, gender, cultural background and personal circumstances. Ensuring effective communication so employees are aware of the available support through regular updates, workshops and seminars, targeting moments of onboarding or transition, is essential. Collaborating with stakeholders, including financial advisors, healthcare providers and community organizations, creates a network of support and education.

Summary of actionable insights

The connection between financial and mental health in the workplace is a pressing issue that requires comprehensive and proactive approaches. By implementing these actionable insights, plan sponsors can create a supportive environment that promotes both financial and mental wellbeing. This not only enhances employee satisfaction and productivity but also contributes to the overall health and success of the organization.

Understanding and addressing the complex relationship between financial stress and mental health is crucial for fostering a resilient and adaptive workforce, ultimately benefiting both employees and employers. By promoting financial literacy, enhancing plan automation, smoothing the transition to retirement and offering lifetime income solutions, plan sponsors can significantly improve workplace productivity, employee engagement and overall well-being.

For more information, please visit us at nuveen.com

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