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The Honorable Austen Schauer, Chairman
House Government and Veterans Affairs Committee
State Capitol
600 East Boulevard Avenue
Bismarck, ND 58505
Submitted Electronically

Re: North Dakota House Government and Veterans Affairs Hearing on House Bill No. 1040

Dear Chairman Schauer:

Teachers Insurance and Annuity Association of America (“TIAA”) appreciates the opportunity to provide written testimony regarding House Bill No. 1040 (“Retirement Bill”), a bill that relates to the state’s retirement policies and programs. We want to clarify TIAA’s role in this important policy deliberation. As a matter of corporate policy, we do not take positions, for or against, any pending legislation that affects defined benefit (DB) plans. These policy decisions are best left to the elected officials in close consultation with the impacted retirement system and various employee groups.

TIAA’s specific role in this legislative effort is to provide our perspective on best practices in the design of the defined contribution (DC) plans. Leader Mike Lefor asked us to share our expertise and insights based on our successful partnership with the North Dakota University System (NDUS). Our experience since our founding over 100 years ago, and our collaboration with the NDUS for nearly 60 years, informs our recommendations to the State. Our recommendations are intended to assist the State by providing a best-in-class DC program designed to improve retirement security and provide employees a “pension-like” benefit. The plan design that could provide this type of benefit includes: (1) ensuring plan participation; (2) providing adequate savings; (3) offering diverse investment options, including investments that can provide guaranteed lifetime income; and (4) ensuring that employees have access tools and advice to help them remain engaged through all of life’s events.

About TIAA

Founded in 1918, TIAA is the leading provider of retirement services for those in academic, research, medical, and cultural fields. Over our century-long history, TIAA’s mission has always been to aid and strengthen the institutions, retirement plan participants, and retail customers we serve and to provide financial products that meet their needs. TIAA is a leading provider of secure retirements and outcome-focused investment solutions to millions of people and thousands of institutions. It is the #1 not-for-profit

retirement market provider¹, paid more than \$545B in guaranteed retirement income payments to millions of educators, healthcare professionals, and others in service through the governmental, cultural, and research communities and \$6.4 billion in lifetime income to retired clients in 2021 and has \$1.2 trillion in assets under management².

I. General Background on the Retirement Industry

Before we discuss defined contribution plan design best practices, we must understand the challenges we as an industry are trying to solve when it comes to individuals and ensuring they retire with dignity. This challenge becomes even more critical when Americans face a projected \$4 trillion retirement income gap³. More than 40% of households are forecast to exhaust their savings during retirement⁴. Finally, if we fail to address this retirement income gap, not only will this shortfall severely impact the quality of life in retirement, but it could also have a devastating impact on our economy.

Until 30 years ago, most employers offered DB Plans with a relatively singular design and a guaranteed outcome. As private employers switched to DC only models, retirement outcomes became more dependent on the quality of plan design. A well-designed plan, makes participation easy, provides an adequate level of savings, offers investment choices based on an individual desired outcome, and provides the tools to make informed choices throughout a career.

II. Ensuring Employees' Plan Participation Into Appropriate Plan Investments

Research has demonstrated that auto enrolling employees into a default plan, significantly increases participation and therefore improves retirement outcomes. According to the Bureau of Labor Statistics, allowing employers to auto-enroll employees into a default investment such as a target date fund, increased participation rates from 42% to 77%⁵. We applaud the inclusion of automatic enrollment in HB 1040.

III. Driving Adequate Savings

While participation is vital, so are contribution rates. TIAA and other experts believe that having a total savings rate of 12% to 15% of an employee's compensation should be the target. This total savings rate can be achieved through a combination of both employee and employer contributions. To that point, TIAA encourages employers to establish a strong employer contribution floor combined with features that either encourage participant savings via match, mandatory employee contribution or auto-escalation. Auto-escalation is a plan design feature that, after the employee is enrolled, the default contribution rate automatically increases based on a specific time. For example, the employer may automatically increase the employee's contribution rate by 1% at the beginning of each year or the employee's employment anniversary date. The increase could continue until the total contribution rate caps at 15%.

¹ As of July 21, 2022. Based on data in PLANSPONSOR's 403(b) 2022 DC Recordkeeping Survey, combined 457 and 403(b) data.

² As of September 30, 2022, assets under management across Nuveen Investments affiliates and TIAA investment management teams are \$1,179 billion.

³ VanDerhei, Jack, EBRI Retirement Security Projection Model (RSPM) - Analyzing Policy and Design Proposals, EBRI, No. 451, May 31, 2018

⁴ <https://www.ebri.org/content/retirement-savings-shortfalls-evidence-from-ebri-s-2019-retirement-security-projection-model>

⁵ <https://www.bls.gov/news.release/ebs2.t01.htm>

IV. Offer Diverse Investment Options, Including Guaranteed Lifetime Income

A key part of a best practices plan design is offering diverse investment options, including guaranteed lifetime income within the default plan. Including a “defined benefit-like” component of guaranteed lifetime income as part of the default can protect retirement savings and ensure an income stream throughout the employee’s life. Principal and earnings will grow every day — guaranteed — even in the most volatile markets, and at the time of retirement, convert retirement savings into monthly income payments that participants can always rely on to help meet everyday living expenses.

There are some misconceptions about in-plan, guaranteed lifetime income solutions, including expenses or fees, and that guaranteed lifetime income solutions are a “one size” approach. On the contrary, in-plan guaranteed lifetime income solutions can be relatively cost-effective, and include features that can protect not only the employee, but their partner or spouse, and even other loved ones. It is also clear that people want guaranteed lifetime income. According to a recent study by AARP, 78% of retirement plan participants expressed interest in enrolling some or all of their retirement savings into a guaranteed lifetime income product at the time of retirement⁶. We believe the requirement for in plan lifetime income solutions included in HB 1040 is essential for providing strong retirement outcomes for North Dakota public employees.

V. Drive employee engagement

Providing ongoing retirement planning is essential for improving retirement outcomes. As employee’s lives change, access to financial advice and tools helps them adjust their savings behavior to account for significant life events and their changing goals. The 2022 Planning and Progress Study revealed that 80% of people who worked with an advisor increased their savings during the pandemic compared with 49% of savers who did not seek advice⁷. HB 1040 requires that these services are made available and this will significantly improve the outcomes for North Dakota public employees.

Conclusion

TIAA appreciates the opportunity to provide written testimony related to defined contribution plan design best practices. We look forward to providing assistance to enhance the current defined contribution program to provide the best outcomes, including providing a pension-like benefit, for the defined contribution plan’s participants.

Sincerely,



Zeny Agullana
Senior Director, TIAA Government Relations

⁶ AARP, “Almost Half of Americans Fear Running Out of Money in Retirement,” May 2019

⁷ Northwestern Mutual, The 2022 Planning and Progress Study