

**Hearing before the Senate Committee on Health, Education,
Labor & Pensions**

**Pension Savings:
Are Workers Saving Enough for Retirement?**

January 31, 2013

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I. Introduction

Chairman Harkin, Ranking Member Alexander, Members of the Committee, thank you for the opportunity to appear today to discuss ways Americans can achieve a financially secure retirement. My name is Ed Moslander and I am Senior Managing Director for TIAA-CREF's Institutional Client Services organization. In this capacity, I am responsible for managing relationships with plan sponsors, the consultant community that supports them, and the national associations of which not-for-profit plan sponsors are members.

TIAA-CREF was founded nearly a century ago to assist college professors with achieving financial security in retirement. Today, we manage over \$502 billion¹ in assets for the 3.7 million individuals we serve in the research, medical, and cultural communities. Our primary mission is to serve those who serve others by helping them achieve lifelong financial security.

We believe it is clear the nation is facing a retirement security crisis due to a number of factors, including changes in the way retirement is funded. The traditional "three-legged stool," which consists of "defined benefit" pension plans, Social Security, and personal savings acquired through "defined contribution" 401(k)-type accounts, has become increasingly unsteady.

Retirement has become much more of a "do-it-yourself" proposition, where a large part of an individual's retirement security depends on defined contribution plans. As a result, achieving a comfortable retirement has become a source of increasing concern for Americans, eroding confidence in their ability to do so. Consider that:

¹ As of December 31, 2012.

- Only 14% of Americans say they are “very confident” they will have enough money for a comfortable retirement;²
- 60% of workers say they have less than \$25,000 in retirement savings;³ and
- 66% of respondents in a 2011 Gallup poll said their top financial concern is not having enough money for retirement.

TIAA-CREF’s experience has provided us with a unique perspective on the retirement challenges Americans face, helping us better meet the financial needs of the individuals and institutions we serve. In fact, we have found that, in contrast to the above statistics, our clients generally are more confident about their retirement prospects. For example:

- A survey conducted by the TIAA-CREF Institute found that 75% of higher education employees are either “very confident” or “somewhat confident” in their retirement income prospects, compared with 49% of U.S. workers in general.⁴
- This same survey also found 88% of higher education employees are currently saving for retirement and of these, 60% have tried to determine how much they need to save by the time they retire.⁵

I would like to highlight some of the practices we encourage that we believe have resulted in these higher levels of confidence and savings rates among our clients.

² The 2011 Retirement Confidence Survey: Confidence Drops to Record Lows, Reflecting “the New Normal,” Ruth Helman, Mathew Greenwald & Associates, and Craig Copeland and Jack VanDerhei, Employee Benefit Research Institute. March 2011

³ Ibid.

⁴ Retirement Confidence on Campus: The 2011 Higher Education Retirement Confidence Survey, Paul J. Yakaboski, TIAA-CREF Institute. June 2011

⁵ Ibid.

II. Shared Responsibility

The proliferation of the defined contribution plan model means that saving for retirement has become much more of an individual responsibility. While defined contribution plans enable workers to save for retirement, many eligible workers still do not participate and those that do often have a difficult time saving the 10-15% of their annual income that most financial experts agree is necessary to achieve a secure retirement. For this reason, it is extremely important that employers recognize that attaining retirement savings goals is a shared responsibility between employers and employees, and accordingly should offer matching contributions that encourage employees to contribute.

For example, an employer may provide a dollar-for-dollar match when an employee saves up to a certain percentage of his or her salary. In addition to providing a tangible incentive to contribute, matching contributions demonstrate to employees that their employer values saving for retirement and cares about their employees' financial future. At TIAA-CREF, have found that it is not uncommon for our plan sponsors to offer their employees a matching contribution, while also contributing a flat percentage over and above the match to further incent individual participation in the retirement plan.

III. Advice and Planning Tools

While getting employees to contribute is an important step, we also need to recognize that workers often have to make complex decisions about how much they should be saving and how to invest these savings. However, the pervasive lack of financial literacy across our nation often means that most are not equipped for these tasks.

Therefore, we believe it is important to offer clients tools that can assist them with making these decisions. Such tools include user-friendly online programs, access to

advisors either in-person or over the phone, and comprehensive objective third-party advice programs.

With respect to each of these tools, it is important to ensure that the guidance they provide:

1. Is holistic, taking into account all sources of a worker's savings;
2. Is affordable and accessible to all employees regardless of account size;
3. Takes into consideration asset allocation, fund selection, savings rates, retirement age, and probability of reaching goals; and
4. Includes information on how to structure and invest retirement income.

IV. Importance of Lifetime Income

While there has been much attention paid to the accumulation phase, there has been less of a focus on the draw-down phase, when people are spending the money they have saved for retirement. Due to our increasing lifespans, as well as the aforementioned concerns surrounding Social Security and the movement away from traditional pension plans, the draw-down phase will and should become a greater focus of the retirement security discussion. TIAA-CREF sees the issue of ensuring one does not outlive their retirement savings as the most pressing issue in retirement security today.

A 2011 report by the Government Accountability Office encouraged annuitization as an important means of addressing the issue.⁶ The report noted, however, that just 6% of those in a defined contribution plan chose or purchased an annuity at retirement. It is crucial that those who are saving for retirement receive information not just about their accumulations, but also about how that accumulation translates into income at retirement. TIAA-CREF includes a retirement income projection on all of our clients' quarterly statements that provides a projection of what their monthly income would be at

⁶ Report to the Chairman, Senate Special Committee on Aging: Retirement Income - Ensuring Income throughout Retirement Requires Difficult Choices, U.S. Government Accountability Office. June 2011

retirement, while also providing information about how they could improve the prospects of this income projection by saving more. We believe providing this additional piece of information assists in reframing the conversation about retirement savings by putting some focus on income as opposed to strictly accumulated assets.

TIAA-CREF supported the Lifetime Income Disclosure Act, which was introduced in the last Congress. This proposal would have required all retirement plan participants receive, at least annually, an illustration of how their current accumulation would translate into income at retirement. However, we believe that retirement plan providers should take action now to institute this feature and not wait for policy makers to enact mandates.

V. Conclusion

As the Committee considers the issue of retirement security and improving retirement savings among Americans, we urge you to look at ways of strengthening the means by which Americans can achieve a secure retirement. A number of steps can be taken to accomplish this, some of which I have outlined today. We are confident that policymakers and the private sector can work together to address these challenges and find solutions that guarantee all Americans can attain a financially secure retirement. TIAA-CREF is ready to assist in any way we can as we work towards this goal.

Thank you again for providing me with the opportunity to testify. I look forward to taking your questions.