



Senate Finance Committee

A Government Risk Managed Retirement Plan Presentation

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Financial Services

Hybrid DB/DC and Core DC plans offer two options for managing pension funding risks

Hybrid DB/DC Plan

- Features a reduced DB benefit with a new risk-managed DC component, so that the two plans exist side-by-side or stacked
- Reduces sole reliance on traditional DB plans

Core DC Plan

- Eliminates sole reliance on traditional DB plans

- Unlike traditional 401(k)-style plans, which focus on asset accumulation, both of these plan models focus on seeking to help provide retirement security
- The Hybrid and Core DC plans are typically mandatory for new employees, and may be an option for some existing employees depending on plan structure and state regulations
- Both plan structures help provide government plan sponsors with more predictable costs and financial control

Core DC plans are designed differently than 401(k) plans

The objective of a risk-managed DC plan is to provide employees with the means to replace income in retirement and maintain their pre-retirement standard of living. The plan should also meet plan sponsor workforce needs, recognize modern career patterns and provide necessary financial stability and budgetary predictability.

Primary Provisions:

- A limited low cost* investment menu with a maximum of 15 to 20 preselected options that are pooled and professionally managed
- Automatic asset allocation vehicles such as lifecycle funds**
- Individual investment advice to educate participants as part of a comprehensive communication and education strategy
- No loans
- Lifetime Retirement Income provisions
- Low total plan expenses

* Fees on TIAA-CREF variable annuity accounts and mutual funds are generally half the industry average. Source: Morningstar Direct, June 30, 2012, based on Morningstar expense comparisons by category. Lower fees do not necessarily provide higher returns.

**There is no guarantee that asset allocation reduces risk or increases returns.

Four drivers of a risk-managed plan



Plan Design

That builds a strong foundation for the plan's structure and services

Investment Solutions

That provide participants with lifetime income options

Employee Engagement

With a focus on outcomes-based education and advice

Plan Management

That helps mitigate fiduciary risk, drive efficiency and maximize value



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