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## TIAA-CREF CEO Suggests Five Principles of Retirement Security

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By Editor Test      Tue, Dec 1, 2009

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Addressing the American Council of Life Insurers on the occasion of National Save for Retirement Week in late October, the president and CEO of TIAA-CREF, Roger W. Ferguson, Jr., defined five principles that he believes should guide retirement planning in the U.S.

Noting that household wealth in the U.S. is still more than \$12 trillion below its pre-recession peak despite a \$2 trillion gain in the second quarter of 2009, he called for a "holistic retirement system" that includes (the following is an excerpt of his comments):

**1. Guaranteed lifetime income.** Let's begin with the ultimate objective-guaranteed income to cover housing, food and power throughout retirement.

In a recent survey of retirees, about half of the respondents (47%) said that they did not receive enough income from Social Security or their defined benefit plans to cover basic living expenses, and were forced to use their savings.

This is disturbing but should not be surprising. The average monthly Social Security payment, for retired workers, is about \$1,160. The average monthly spending for individuals over 65 is about \$3,044. That's a significant gap each month. We can help retirees close it, as ACLI members know quite well.

A holistic retirement system should provide an affordable fixed annuity that guarantees enough income to help meet basic needs. The payout mechanism can include the option to provide monthly income for a surviving spouse or dependent.

**2. Full participation and adequate funding.** Second, we must ensure that everyone benefits. In a holistic retirement system, every employee would be eligible immediately and enrolled automatically, on their first day of work.

We must also recognize that to generate sufficient retirement income, we must ensure sufficient savings. That means we need to increase the current contribution rate, and in some instances double it.

To build sufficient savings, and achieve an income replacement ratio of 70%, contributions in the range of 10% to 14% percent are needed. To help people save more, the system would also include automatic savings provisions and auto-escalation programs that tie savings increases to salary increases.

**3. Broad diversification.** The third principle is diversification to help manage risk.

A menu of 15 to 20 options is generally adequate and should include a target-date life-cycle fund as the

default investment, and a guaranteed annuity option. Research shows that more than 20 options can actually paralyze investors, or cause them to select funds haphazardly, and construct portfolios that are less diversified.

Participants should ideally have the ability to invest in asset classes beyond the traditional mix of stock and bond funds and cash investments that make up the majority of today's plans. These include commodities, real estate and private equity.

**4. Education and Advice.** I've heard it said that people need education. Certainly, more can be done to improve financial literacy. But what people really need is advice. Investors need objective, noncommissioned advice to build a diversified portfolio consistent with their goals and risk tolerance.

A recent TIAA-CREF Institute survey shows that investors in higher education who are approaching retirement age are focused on assuring an income that can maintain their standard of living. And they're seeking advice.

Nearly 9 in 10 (87%) said that advice about retirement income strategies is important to them. Within the past two years, 60% of respondents have sought out objective retirement planning advice.

Providing a broad range of investment options, along with objective advice, can help facilitate rational investment selection and prudent portfolio construction.

**5. Retirement health care savings.** The fifth principle relates to the cost of health care in retirement. Regardless of your position on the health care debate in Washington, we can all agree that health care is becoming much more expensive.

Over the last 10 years, the cost of health insurance for a family of four has more than doubled. Health care spending will account for one-fifth of GDP (20.3%) by 2018. Any initiative designed to promote retirement security must therefore give people ways to amass savings they will need for health care expenses.

Without an employer-sponsored health plan, a couple retiring at age 65 today is projected to need between \$210,000 and \$807,000 to supplement Medicare and cover their out-of-pocket health care expenses during retirement.

Our clients in the not-for-profit community have told us that they are concerned about this issue, which is why TIAA-CREF introduced a retirement health care savings plan as part of our offering.

More broadly, we as a nation must provide individuals with more opportunities to help meet their retirement health care expenses.

I'm often asked about the issue of fiduciary obligation. Some plan sponsors interpret this as providing workers with an account and some choices. To me, the answer resides in a holistic retirement system that can assure workers will have lifetime income through retirement.

