
TIAA offers double-shot of income solutions for DC plans

By Editorial Staff *Thu, Jan 26, 2017*

Plan sponsors and/or their third-party consultants select the investment options and design the glide paths formulas for their TDFs and combine them with one of two income solutions on TIAA's recordkeeping platform, a TIAA release this week said.

TIAA is launching two new custom target date fund series, both of which are designed to add an ingredient to defined contribution plans that they usually lack: a mechanism for converting savings to a pension-like income stream in retirement. TIAA calls them "Custom Default Solutions."

The two solutions are called Target Date Plus Models and Target Income Models. Plan sponsors and/or their third-party consultants select the investment options and design the glide paths formulas for their TDFs and combine them with one of two income solutions on TIAA's recordkeeping platform, a TIAA release this week said.

Target Date Plus Models allows plan sponsors to combine their own investment choices with the equivalent of "TIAA Traditional," the fixed deferred annuity that has long been used by millions of TIAA's 403(b) university clients for a portion of their savings. Retirees typically take the income over no less than 10 years or as a life with period-certain annuity.

"Target Date Plus Models substitute standard bond funds with a guaranteed fixed annuity, such as TIAA Traditional, that provides certainty of income, within the familiar target-date structure," the release said.

"These models typically follow the automated glide path many participants expect. However, plan sponsors and their consultants can use their own in-house expertise to manage the glide path and investment options to fit the specific demographics of their participants."

"With Target Date Plus Models, we can leverage TIAA's open architecture platform to combine best-in-class mutual funds with TIAA Traditional," said plan sponsor advisors Pete Kaplan and Brian Petros, President and CEO of PKFinancial Group in Twinsburg, Ohio, in the release.

"In addition to guaranteed income in retirement, TIAA Traditional offers a proven historical crediting rate, reduced volatility compared to bond funds and a guaranteed minimum rate of return," the release said.

The second solution, Target Income Models, employs a TDF product design that TIAA is licensing from Dimensional Fund Advisors. DFA bought it from Nobel Prize winner Robert Merton, who developed it with Zvi Bodie in the early 2000s and piloted it under the trade name SmartNest at Philips Electronics in the Netherlands.

Target Income Models aim to replace a specific portion of income in retirement using the same investment approach of many defined-benefit plans: a liability-driven investment (LDI) strategy. They “allow for customization that goes beyond age to incorporate savings habits, additional income sources,” the release said.

“Participants are seamlessly moved among multiple glide paths based on their personalized funding ratio, income replacement goal and market conditions. The models in this solution become more conservative over time, similar to target-date funds.”

Target Income Models balance growth assets with income-hedging assets, primarily through high-quality Treasury Inflation-Protected Securities (TIPS) to lessen the impact of interest rate and inflation risk on retirement income.

Target Date Plus Models and Target Income Models are eligible to be selected as Qualified Default Investment Alternatives (QDIA).

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