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National Conference of State Legislatures
August 13, 2013

It’s a pleasure to be here today, and indeed an honor to have the opportunity to speak to all of you.

You are on the front lines of dealing with the most important challenges facing states today – in education, healthcare, transportation, the economy, job creation, and more.

The work you are doing is not for the faint-hearted – there are no easy answers to any of the issues you grapple with, day in and day out.

All of us at TIAA-CREF have great respect for what you do, and for your commitment to building the strength of your states and in turn the strength of our nation as a whole.

I’m proud to be here with you as part of this important conference.

I hope you leave here at the end of the week energized, inspired, and equipped with the information, ideas, and tools you need to help you tackle the challenges at hand.

Today, I will focus on one of the most profound of those challenges – and that’s retirement, or more specifically, the challenge of ensuring that Americans can achieve lifetime financial security in an age of great demographic and economic change.

Retirement is an issue that TIAA-CREF naturally feels strongly about.

We were founded nearly a century ago for the sole purpose of providing financial security in retirement to people working in higher education.

Today, we serve nearly 4 million Americans and 15,000 institutions across the 50 states – not just in academia but also across the non-profit sector and at the state and local government level.

We have become more than just a retirement company. But our focus remains on serving those who serve others and helping them achieve lifelong financial security.

TIAA-CREF’s long experience and our long-time focus on lifetime financial security have given us a unique perspective, and I’m happy to be able to share it with you today.

In my talk, I’ll first take a look at the landscape in the U.S. and discuss how we’ve reached the point of a “retirement crisis” in our nation.

Next, I’ll explain why the issue of financial literacy is more important than ever before in this environment.

I’ll describe why TIAA-CREF believes that one of the most pressing issues of the day is lifetime income – specifically, the need to make sure that our aging population can fund retirements that may stretch for 20, 30, or even 40 years.
And finally, I’ll outline TIAA-CREF’s viewpoint about the need for a new retirement system in the U.S., one that fits the realities of 21st-century America and that can help Americans achieve true lifetime financial security.

**THE RETIREMENT LANDSCAPE**

So to begin, let’s take a look at retirement in the U.S.

An article in the Washington Post earlier this year perfectly captured the snapshot of where we are today.

The article said that for the first time since the New Deal, a majority of Americans are headed to a retirement in which they’ll be worse off than their parents.

The reason is the huge deficit in retirement savings in our country.

Last year, a Senate report calculated that deficit to be as much as $6.6 trillion, or about $57,000 for every household in America.

Against this backdrop, Americans’ confidence about having a comfortable retirement has hit record lows.

More than a quarter of workers say they are “not at all confident” that they will have enough money for a comfortable retirement.

Certainly, the financial crisis and economic downturn have been big factors in creating this pessimism.

But the bigger effect is from longer-term factors such as the shift away from traditional pensions to 401(k)s in the private sector, and with it, the shift in the responsibility for funding retirement from employers to employees.

Today, more than half of workers say they and their spouse have less than $25,000 in total savings and investments. 28 percent have less than $1,000.

Only 57% of workers say they are currently saving for retirement.

And even among people approaching retirement, the most recent national data show that median combined 401(k)/IRA balances were just $120,000 per household.

That data is from 2010, so the balances are likely somewhat higher today, given the stock market's performance.

But of course many households in America do not even have a 401(k).

Meanwhile, the explosion in healthcare costs threatens the long-term viability of even nest eggs that are well-funded.

The public sector faces its own challenges with unfunded liabilities for state and local pensions systems, of course, and I don’t need to detail those for you.
I know that many of you will be delving into those issues in the special pension track at the conference.

As part of that track, on Wednesday my colleague Paul Yakoboski of the TIAA-CREF Institute will be presenting data we collected about retirement confidence among public-sector employees.

As a preview, I can tell you that they are more confident than other workers – but still anxious about having enough money to live comfortably in their retirement years.

This is a tough issue for the states. Providing more sustainable lifetime income security for state and municipal employees is challenging, but it can be done, and I applaud states like Tennessee and Rhode Island that are taking the lead on this issue.

Across all sectors, future retirees worry – with good reason – that they will be unable to count on Social Security, Medicare, and Medicaid to the same degree that previous generations of retirees have.

These programs are under great pressure due to the aging of the population, a huge demographic trend that is surely one of the most critical issues underlying any discussion about retirement policy.

The aging population has significant implications for our economy.

Dr. Ronald Lee of UC-Berkley and I co-chaired a National Academy of Sciences committee looking at what those might be in the years and decades to come.

We submitted our report to Congress last year, and I’d like to share some of the highlights with you.

Population aging is the result of two trends – the rise in average life expectancy and the decline in the fertility rate.

Today, the average life expectancy for men is 76 and for women it’s 81 – compared to 67 for men and 73 for women fifty years ago.

As for the fertility rate, today there are 2.1 births per woman, compared with 3.7 births per woman in 1957 at the height of the Baby Boom.

Together, these trends mean our population is getting progressively older.

Indeed, the fastest-growing segment of the population is Americans over age 85.

And it’s not just about the Baby Boom generation – although the entry of the oldest Boomers into retirement has certainly shined a spotlight on the phenomenon.

It’s bigger than the Boomers.

Moreover, aging is not just an American story – it’s global.
By mid-century, many developing nations will catch up to the developed world in terms of the old-age dependency ratio – the number of elderly people as a share of working-age people.

The upshot is that there are fewer and fewer people working, and they are supporting more and more people who are retired and not working – a recipe for big fiscal challenges everywhere.

In the U.S., the major impact will be on Social Security, Medicare, and Medicaid – programs that already account for roughly 40 percent of all federal spending and 10 percent of the nation's gross domestic product.

The strains to the programs are well-documented.

The Trustees of Social Security have projected that the combined Trust Funds will be exhausted in just 20 years.

The ratio of workers paying taxes per Social Security beneficiary is projected to be 2.9 this year, down from 3.4 per beneficiary in 2000 – and 16.5 per beneficiary in 1950.

It’s clear that reforms are needed.

In our NAS report, we concluded that we’ll need changes in three areas.

- First, we’ll need major structural change to Social Security, Medicare, and Medicaid. These programs are the foundation of our nation’s retirement security, and they must be made sustainable so that Americans have confidence they will endure; in particular, we must make sure the Social Security system remains adequate for people with low earnings over the course of their work histories, who are much less likely to have supplemental retirement savings in private plans;

- Second, for all workers but especially middle income earners and above who have the most capacity to save, we’ll need for individuals to save more of their earnings during their working years;

- And third, we’ll need individuals to extend their working lives and delay their retirement beyond what they may have planned.

It’s clear the nation must take action sooner rather than later.

The longer we delay making needed changes, the larger will be the “legacy liability” that will be passed on to future generations.

The longer we wait, the larger the tax increases we’ll need on future workers, and the larger the benefit reductions we’ll need on future retirees.

**FINANCIAL LITERACY**

Our NAS report also emphasizes that financial literacy has become an even more critical issue in light of these challenges.
That’s because people who are not financially literate will have a much tougher time preparing themselves for a financially secure retirement in this environment.

Whereas once, employers shouldered the responsibility and risks of funding retirement, today it’s the workers who must bear that burden.

Workers who may have no formal education or training in investing are being called on to manage their assets in a way that will generate enough income to fund years of life in retirement.

Yet far too many Americans lack the financial literacy skills they need to make wise decisions about saving and investment.

Research by Annamaria Lusardi of George Washington University and Olivia Mitchell of The University of Pennsylvania – who we are proud to count as fellows of our think tank, the TIAA-CREF Institute – has shown just how unprepared many Americans are.

In their study of people over age 50, only one-third of respondents were able to correctly answer three basic questions that required an understanding of interest rates, the effects of inflation, and the concept of risk diversification.

One of our own recent TIAA-CREF surveys found that nearly half of Americans don’t have a basic understanding of one of the most important types of retirement savings vehicles – IRAs – and how they are used.

TIAA-CREF cares deeply about financial literacy because research has shown that financial literacy is important to achieving retirement security.

People with a high degree of financial literacy are more likely to plan for retirement.

And in turn, planning for retirement is a powerful predictor of wealth accumulation. People who plan for retirement have more than double the wealth of people who do not plan.¹

Conversely, people with a lower degree of financial literacy tend to borrow more, accumulate less wealth, and select mutual funds with higher fees.

They are less likely to invest in stocks, more likely to experience difficulty with debt, and less likely to know the terms of their mortgages and other loans.

The lack of financial literacy among Americans is certainly a national issue. But when we view it through the prism of race, the effects are greatly magnified.

Minorities, along with women and the least affluent, have some of the lowest financial literacy rates in the nation.

So it’s not surprising that when it comes to saving for retirement, studies have found serious gaps in the preparedness of African-American and Hispanic workers.
The overall problem is likely to become worse. The latest JumpStart Coalition survey of high school seniors showed that the financial literacy of high school students has fallen to its lowest level ever.ii

I should point out that TIAA-CREF is trying to do its part on the issue of financial literacy. We are partnering with the Council of Graduate Schools on a program to improve financial education among college students.

We'll be working with Blue Ribbon programs at a number of universities across the nation to develop best practices.

And at the end of the three-year program, CGS will publish a guide for every college and university in America.

We also dedicate a lot of time to programs in which our own employees teach financial literacy skills to K-12 students in their local communities.

But it's clear that much more work needs to be done on the national, state, and local levels.

THE CHALLENGE OF LIFETIME INCOME

Financial literacy is also a factor in what we at TIAA-CREF see as one of the most pressing issues of the day – the challenge of lifetime income.

Essentially, the issue is making sure Americans can achieve lifelong financial security even as rising life expectancies mean they are living longer and longer in retirement.

This is a particularly important issue for women, who can end up with a retirement nest egg that's half that of a man of the same age and occupation.

That's because on average, women still earn 77 to 81 cents for every dollar men earn – and they often spend an average of 10 to 12 years out of the workforce caring for children or elderly parents.

Yet they also live longer than men. So they are having to support themselves through a longer retirement with a smaller nest egg.

For both sexes, the bottom line remains: how do we ensure that people whose primary savings vehicle is the defined contribution plan can convert their savings into an adequate and secure income stream that lasts as long as they do?

This is a challenge not just for those of us in the retirement industry, but for policymakers and researchers as well.

A report by the Government Accountability Office encouraged annuitization as an important means of addressing the issue.

But it also noted that just 6 percent of workers in defined contribution plans chose or purchased an annuity at retirement.
Moreover, many people took Social Security benefits before full retirement age – passing up the opportunity for higher benefit levels and additional lifetime retirement income.

The report found a big disconnect between what the experts recommend and what people actually do.

The experts called for retirees to convert a portion of their savings into an income annuity to cover necessary expenses. In the case of people with employer-sponsored defined benefit plans, they recommended an annuity instead of a lump sum withdrawal.

They also recommended that people delay taking Social Security benefits until reaching at least full retirement age and, in some cases, that they continue to work and save, if possible.

The fact that people’s actions did not line up with what is considered “best practice” in planning for retirement income again underscores the critical need for wider financial literacy in our nation.

The situation described by the GAO has implications for the industry and for policymakers.

We know that annuitization is the only means to guarantee a consistent income stream that cannot be outlived.

We also know that annuitization can help mitigate morbidity risk. That’s the risk that as people age, they become unable to handle the complex decisions involved in managing an investment portfolio and a drawdown strategy of their savings.

Unfortunately, the reality is that most participants in private-sector defined contribution plans do not have the option to annuitize their savings in their plans. It’s even less common for an annuity to be offered as an investment option during the accumulation phase.

**RETIREMENT FOR THE 21ST CENTURY**

We at TIAA-CREF have been making the case that our nation needs to rethink, repair, and restart our nation’s retirement system. We need a system that meets the needs of 21st-century Americans.

There is ample evidence that the current model is not getting the job done in terms of adequately preparing workers.

- Many eligible workers don’t participate in their workplace retirement plans;
- Many employers and employees don’t contribute enough;
- Many employees don’t implement an appropriate asset allocation strategy;
- Many employees get caught up in the size of their account balance, with no real or informed knowledge of the income flow they will need in retirement;
- And finally, many fail to preserve assets for retirement – rather, they borrow against their account or liquidate it for living expenses.
What would an ideal 21st century retirement system look like?

- It would continue to recognize that helping employees achieve financial security during retirement is a shared responsibility of employers and employees.
- It would provide income that can last a lifetime – through decades of retirement.
- It would help retirees meet their uninsured healthcare expenses, which loom as a large financial burden as people live longer and with chronic illnesses.
- It would recognize that a “one-size-fits-all” approach won’t work, given the demographic and other changes in our society.
- It would be sustainable even as the nearly 80 million Baby Boomers head into retirement over the next two decades.
- And it would include strong education and advice components, recognizing that most people need help in making decisions about achieving retirement security.

One model that is working well, and that can therefore inform our thinking, is the model commonly used in higher education and many parts of the nonprofit world, which was pioneered by TIAA-CREF.

While there are differences between plans, most feature mandatory participation.

Employees have access to an appropriate mix of investment options that help them to build savings.

Institutions contribute to employees’ retirement security.

Employees typically have access to either a defined benefit plan or an annuity that provides a level of guaranteed income in retirement.

And finally, they have access to education and advice programs to help support their decision-making.

We believe, this model is, on the whole, serving the academic community quite well.

Research from the TIAA-CREF Institute found that 75% of higher education workers are confident they will have enough money to live comfortably in retirement.

By comparison, just over 50% of all U.S. workers have that same level of confidence.

Higher education is clearly doing something right, and we ought to think about ways to emulate that success in other sectors.

Our long experience informed our thinking as we’ve pioneered a new model in the public sector – a hybrid defined contribution/defined benefit plan for clients like the state of Rhode Island and Orange County, California.

This new model brings greater cost certainty to public employers while providing retirement security to workers.

And it addresses the challenge of lifetime income.
For TIAA-CREF, that’s the bottom line.

In conversations about the public-sector retirement system, we are not proponents of any one approach.

What we are proponents of is lifetime income.

We believe strongly that retirement systems should be about one thing only: helping workers to achieve financial security in retirement, even as they are living longer and longer in that stage of life.

We believe that both defined benefit plans and defined contribution plans have strengths and weaknesses. Neither is perfect, but neither deserves to be demonized.

We believe it’s important to be open to taking the best from both worlds in order to get workers to lifelong financial security.

That’s what we’ve done at TIAA-CREF in building our retirement plans, and we’ve done it to great success.

We’re proud to be able to use what we’ve learned to help innovate solutions to this critically important challenge in the public sector.

CLOSING

I’ll close now with a recap of what I’ve discussed today:

- A number of factors have shined a spotlight on the retirement crisis facing our nation, including the aging population, the lack of savings, the shift from traditional pensions to 401(k)s in the private sector, and unfunded liabilities in the public sector.

- Financial literacy is more important than ever in today’s environment – yet we have much work to do to boost the rates of financial literacy among Americans.

- The issue of lifetime income for retirees is one of the most pressing challenges today, as many people must plan for living for decades in retirement.

- Given the new realities around funding retirement, our nation desperately needs to rethink its retirement system to meet 21st-century needs.

Thank you again for the opportunity to speak today.

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1 Baby Boomer Retirement Security: The Roles of Planning, Financial Literacy, and Housing Wealth, by Annamaria Lusardi and Olivia S. Mitchell, NBER Working Papers, November 2006. This paper utilizes data from The University of Michigan Health and Retirement Study (HRS), a longitudinal panel study that surveys a representative sample of more than 26,000 Americans over the age of 50 every two years.
