

The background of the entire image is a black and white checkered pattern, reminiscent of a racing flag, which recedes into a dark gradient on the right side.

**/// DRIVE**  
*2022 NATIONAL CONFERENCE*

***THE ALLOCATION  
CRISIS***



***STATE OF RETIREMENT -  
SOME GOOD NEWS***

***FROM \$1.7 TRILLION IN 2000  
TO \$7.3 TRILLION***

Total 401(k) assets

***75%***

Plans served by an advisor

***\$1 TRILLION***

RPAG advisor influence

***FORCED OUT/ACQUIRED***

Third-tier service providers



Source: <https://www.statista.com/statistics/1096899/value-retirement-assets-401-k-plans-usa/> &  
[http://www.401khelpcenter.com/401k/brambley\\_advisor\\_due\\_diligence.html#.YsTPAihKiUk](http://www.401khelpcenter.com/401k/brambley_advisor_due_diligence.html#.YsTPAihKiUk)

***DRIVE '22***

# ***SAVINGS CRISIS***

**14% avg. (incl. ER)**



**NEW RECORD**

**up from 12%  
a decade ago**

# ***STATE OF RETIREMENT - ROOM FOR IMPROVEMENT***

**Financial Wellness Programs**

**Auto-enroll**

**Increasing  
Employer  
Contributions**

**Mandatory  
Plans**



**Auto-escalation**

**Student Loan Matching  
Programs**



Source:  
<https://money.com/401k-contribution-record/>

***DRIVE '22***

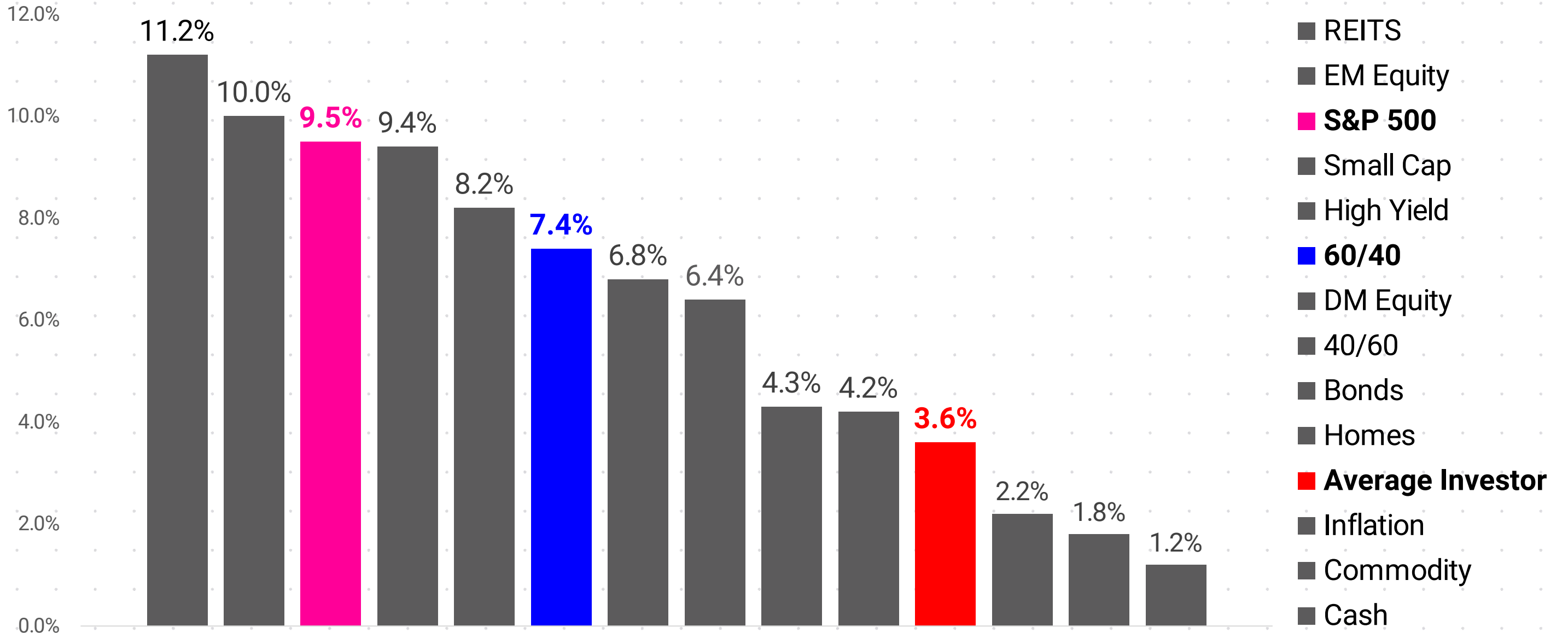
# *ALLOCATION CRISIS*



*DRIVE '22*

# DIY RESULTS

20-year annualized returns by asset class (2002 – 2021)



Source: JPMorgan, Guide to the Markets, page 63: <https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/>



# *ELECTION OPTIONS*

TDF

DIY

RESULTS

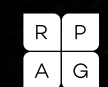
Likely Disastrous



DIFFICULTY

PROCESS

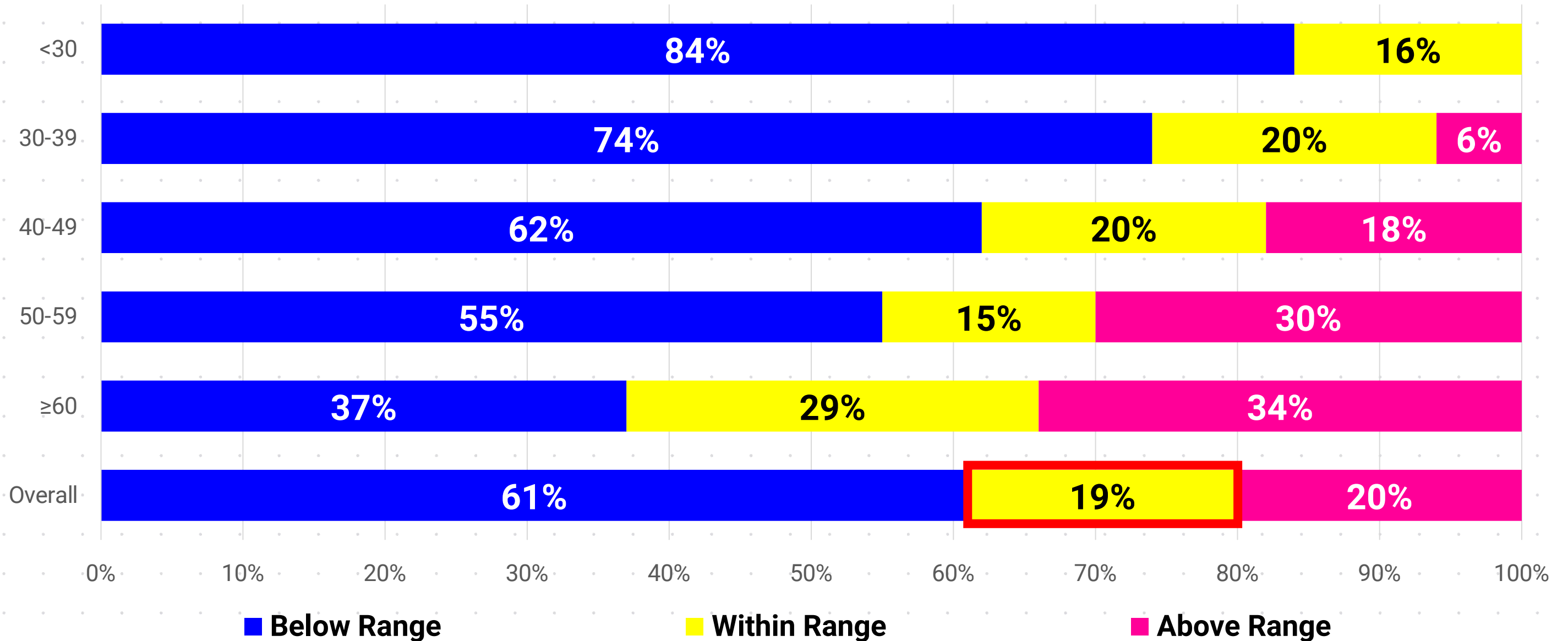
PERCENTAGE OF  
ASSETS



For illustrative purposes only.

# DIY RESULTS

## Self-directed Investors Falling Within and Outside Their Target Equity Ranges



Source: [https://retirement.johnhancock.com/us/en/retirement-readiness?cid=US-EN\\_JH\\_RE\\_EM\\_NAPANet\\_StateOfParticipant\\_ThoughtLeadership\\_InteractivePDF\\_NapaNetHTMLEmail&utm\\_source=EM&utm\\_medium=NAPANet&utm\\_campaign=StateOfParticipant\\_ThoughtLeadership&utm\\_term=InteractivePDF\\_NapaNetHTMLEmail](https://retirement.johnhancock.com/us/en/retirement-readiness?cid=US-EN_JH_RE_EM_NAPANet_StateOfParticipant_ThoughtLeadership_InteractivePDF_NapaNetHTMLEmail&utm_source=EM&utm_medium=NAPANet&utm_campaign=StateOfParticipant_ThoughtLeadership&utm_term=InteractivePDF_NapaNetHTMLEmail)

**DRIVE '22**



# *ELECTION OPTIONS*

TDF

DIY

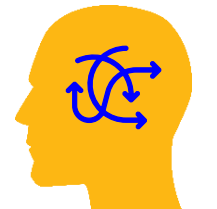
RESULTS

Likely Disastrous



DIFFICULTY

Complicated



PROCESS

PERCENTAGE OF  
ASSETS

# A TALL TASK

STOCKS		New Allocation	Current Allocation
INDEXT	BlackRock Equity Index T	__%	6%
WLCGRX	Large Cap Growth Fund CI R1	__%	19%
WTLRNX	Large Cap Value Fund CI R1	__%	5%
R2INDXT	BlackRock Russell 2000 Index Fund T	__%	2%
DFFVX	DFA US Targeted Value I	__%	9%
JGSMX	JPMorgan Small Cap Growth	__%	14%
RERGX	American Funds EuroPacific	__%	14%
ACWIIMIT	BlackRock MSCI ACWI ex-US IMI Index Fund T	__%	16%
WTIXNX	International Stock Fund Class R1	__%	4%
BONDS			
DEBTWW	BlackRock U.S. Debt Index Fund W	__%	0%
WCBFRX	Core Bond Fund CI R1	__%	0%
CAPITAL PRESERVATION			
WSVABX	Putnam Stable Value Fund	__%	11%
<b>TOTAL</b>		<b>0%</b>	<b>100%</b>



For illustrative purposes only.

**DRIVE '22**

# ELECTION OPTIONS

TDF

DIY

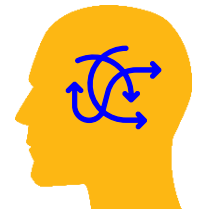
RESULTS

Likely Disastrous



DIFFICULTY

Complicated



PROCESS

PERCENTAGE OF  
ASSETS

WLCVFX - Large Cap Value	__%	6%
WCBFIX - Core Fixed Income	__%	2%
JGSMX - Small Cap Growth	__%	9%

# ELECTION OPTIONS

TDF

DIY

RESULTS

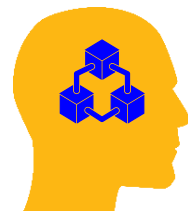


Mostly Effective

Likely Disastrous

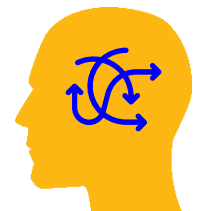


DIFFICULTY



Easy

Complicated



PROCESS



2035

WLCVFX - Large Cap Value	__%	6%
WCBFIX - Core Fixed Income	__%	2%
JGSMX - Small Cap Growth	__%	9%

PERCENTAGE OF  
ASSETS

# ELECTION OPTIONS

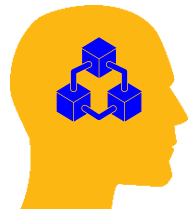
## TDF DIY

### RESULTS DIFFICULTY PROCESS PERCENTAGE OF ASSETS



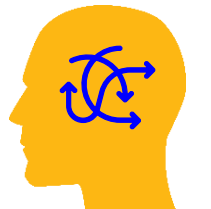
Mostly Effective

Likely Disastrous



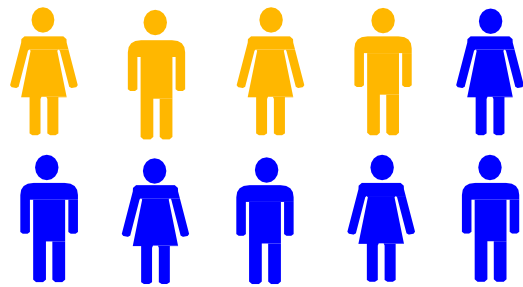
Easy

Complicated

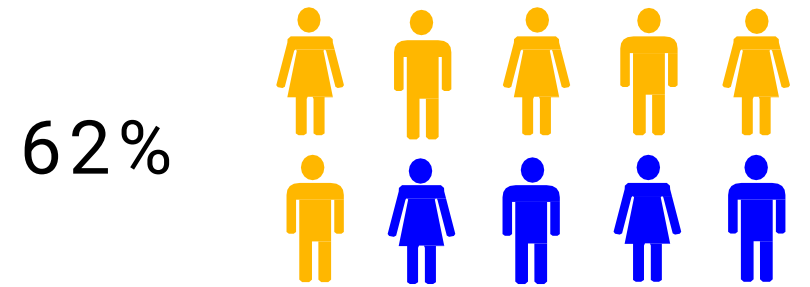


2035

WLCVFX - Large Cap Value	__%	6%
WCBFIX - Core Fixed Income	__%	2%
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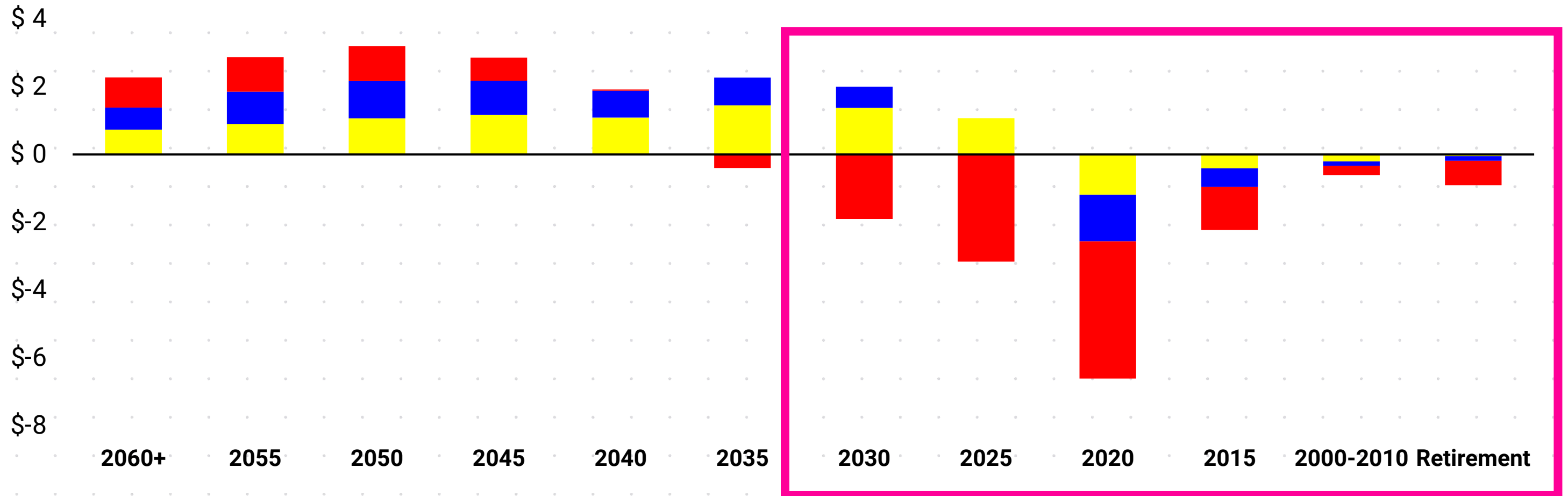
38%



62%

# ARE TDFS THE BEST DEFAULT OPTION?

Monthly Target Date Net Flows  
(in Billions)



■ January

■ February

■ March

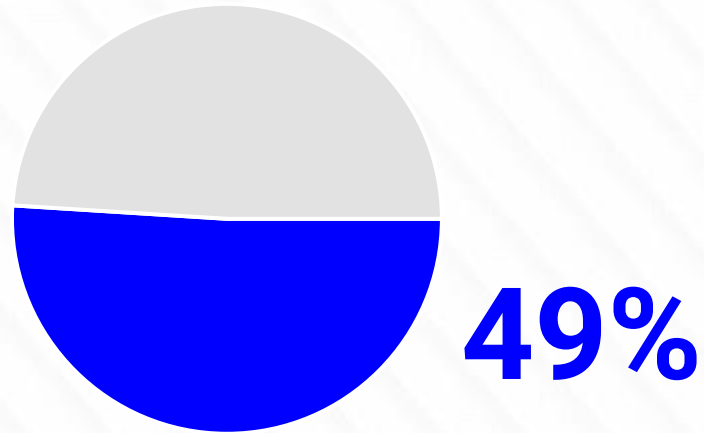


Source: 2020 Target-Date Strategy Landscape, Morningstar, May 2020

**DRIVE '22**



# alight

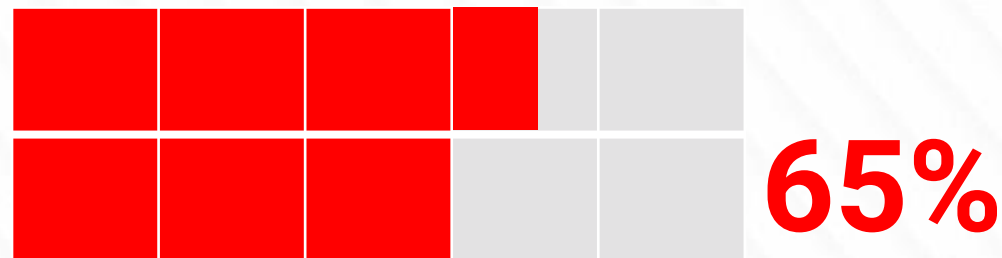


TDF investors that move out of them within 10 years

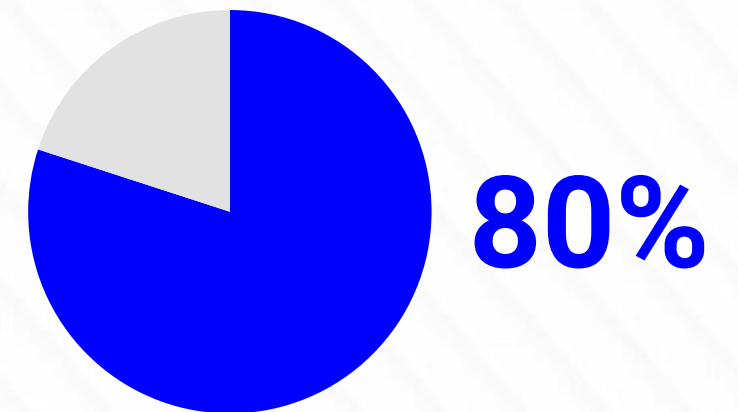


Portfolio allocations that are either all equity or all fixed-income when all money is moved out of TDFs

# Invesco



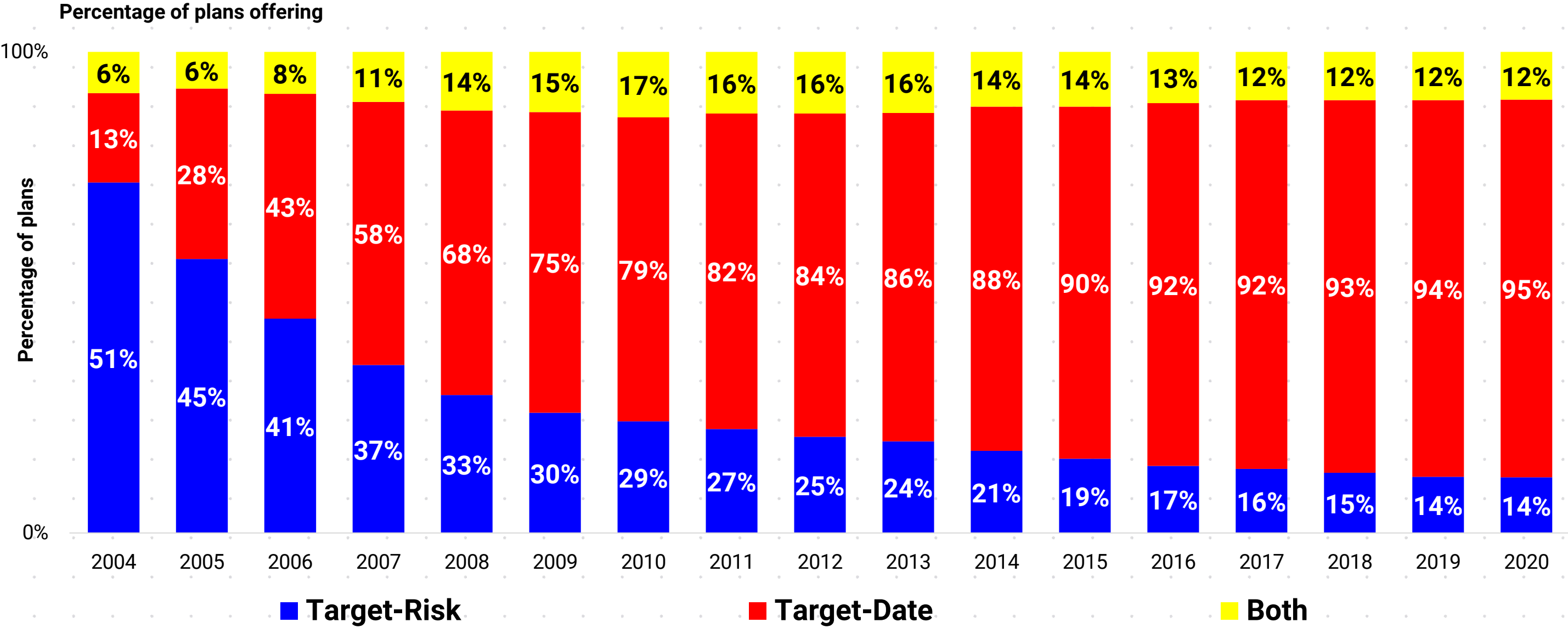
Participants that want a risk-based solution



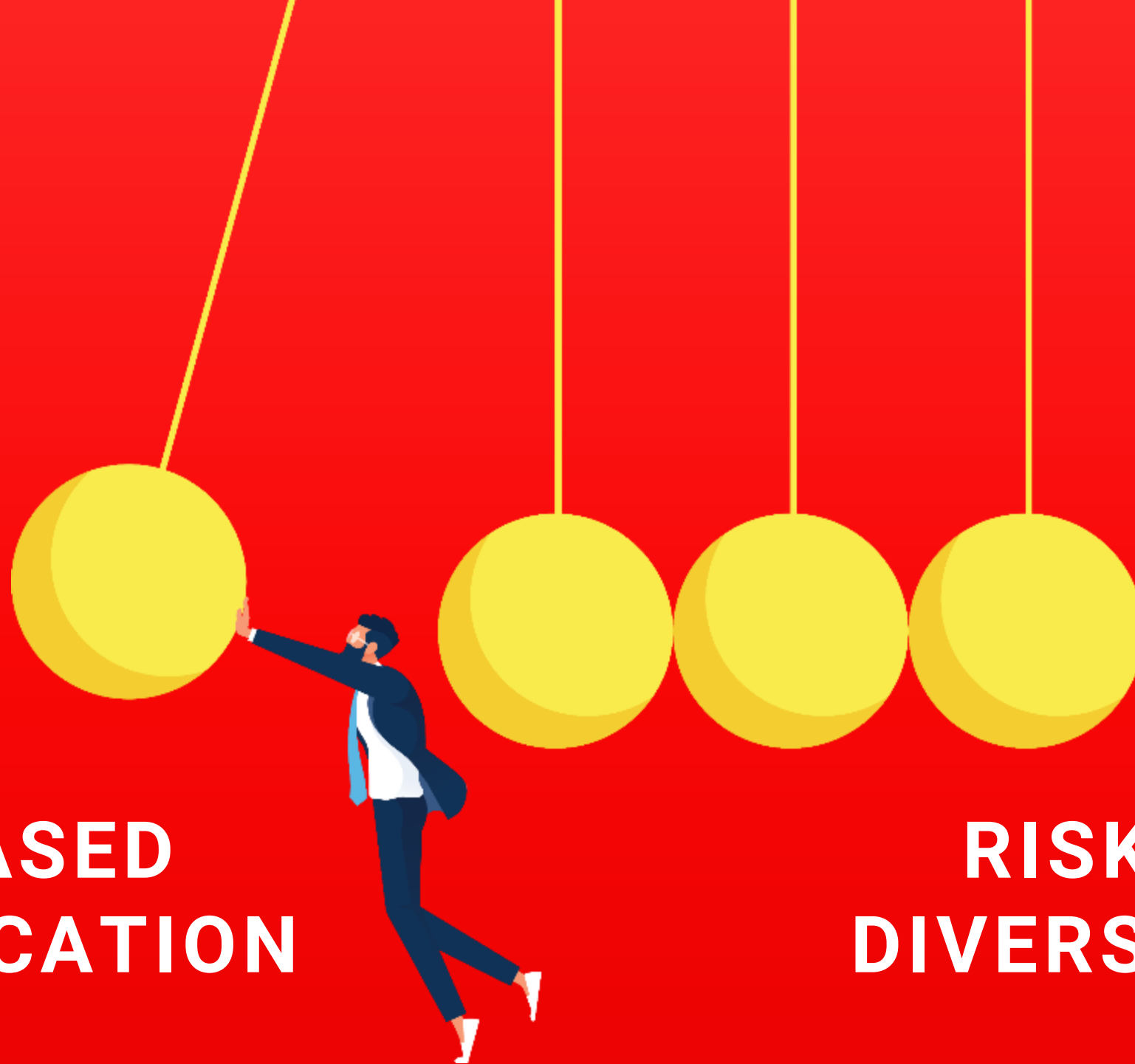
Higher income participants that want a risk-based solution

# TRADING RISK-BASED FOR AGE-BASED

Trend in Plan Adoption of Target-date and Target-risk Funds



Source: Vanguard 2021, Figure 77: Vanguard defined contribution plans



**AGE-BASED  
DIVERSIFICATION**

**RISK-BASED  
DIVERSIFICATION**

# ***POSSIBLE SOLUTIONS***

**38%**

**TDF Investors**



- Pick the “best” TDF
- Follow DOL guidance

**100%**

**All Investors**



- DRIVE TDF utilization
- DRIVE the QDIA forward

# POSSIBLE SOLUTIONS - INSIDE THE BOX?



## DOL GUIDANCE – TARGET DATE FUND TIPS

- Align TDF and participant characteristics
- Understand underlying investments
- Review fees and investment expenses
- Consider custom or non-proprietary options
- Develop effective employee communications
- Document the process

### Target Date Retirement Funds - Tips for ERISA Plan Fiduciaries

U.S. Department of Labor  
Employee Benefits Security Administration  
February 2013

Target date retirement funds (also called target date funds or TDFs) have become an increasingly popular investment option in 401(k) plans and similar employee-directed retirement plans. The U.S. Department of Labor's Employee Benefits Security Administration (EBSA) prepared the following general guidance to assist plan fiduciaries in selecting and monitoring TDFs and other investment options in 401(k) and similar participant-directed individual account plans. Employers and other plan fiduciaries can learn more about their fiduciary responsibilities under the Employee Retirement Income Security Act of 1974 (ERISA) by visiting EBSA's website at [www.dol.gov/ebsa/compliance\\_assistance.html](http://www.dol.gov/ebsa/compliance_assistance.html).

#### Target Date Fund Basics

With the growth of 401(k) and other individual account retirement plans, many more participants are responsible for investing their retirement savings. Target date retirement funds, or TDFs, can be attractive investment options for employees who do not want to actively manage their retirement savings. TDFs automatically rebalance to become more conservative as an employee gets closer to retirement. The "target date" refers to a target retirement date, and often is part of the name of the fund. For example, you might see TDFs with names like "Portfolio 2030," "Retirement Fund 2030," or "Target 2030" that are designed for individuals who intend to retire during or near the year 2030. Because of these features, many plan sponsors decide to use TDFs as their plan's qualified default investment alternative (QDIA) under Department of Labor regulations. A QDIA is a default investment option chosen by a plan fiduciary for participants who fail to make an election regarding investment of their account balances.<sup>1</sup>

TDFs offer a long-term investment strategy based on holding a mix of stocks, bonds and other investments (this mix is called an asset allocation) that automatically changes over time as the participant ages. A TDF's initial asset allocation, when the target date is a number of years away, usually consists mostly of stocks or equity investments, which often have greater potential for higher returns but also can be more volatile and carry greater investment risk. As the target retirement date approaches (and often continuing after the target date), the fund's asset allocation shifts to include a higher proportion of more conservative investments, like bonds and cash instruments, which generally are less volatile and carry less investment risk than stocks. The shift in the asset allocation over time is called the TDF's "glide path." It is important to know whether a target date fund's glide path uses a "to retirement" or a "through retirement" approach. A "to" approach reduces the TDF's equity exposure over time to its most conservative point at the target date. A "through" approach reduces equity exposure through the target date so it does not reach its most conservative point until years later.

Within this general framework, however, there are considerable differences among TDFs offered by different providers, even among TDFs with the same target date. For example, TDFs may have different investment strategies, glide paths, and investment-related fees. Because these differences can significantly affect the way a TDF performs, it is important that fiduciaries understand these differences when selecting a TDF as an investment option for their plan.

<sup>1</sup> More information on QDIAs is available in the Department's publication "Automatic Enrollment 401(k) Plans for Small Businesses" (available at <http://www.dol.gov/ebsa/pdf/automaticenrollment401kplans.pdf>).





# ***IN CASE YOU DON'T REALLY CARE ABOUT THE DOL...***

*Expert Witness in Lowe's case, Eric Dyson*

## **Guidance To Plans Based On Case Proceedings:**

- **Document active/passive discussion**
- **Document potential recordkeeping incentives**
- **Document TDF goal/risk**
- **Document demographics/"Fit"**





# ELECTION OPTIONS

TDF

PERSONALIZED QDIA

DIY

RESULTS

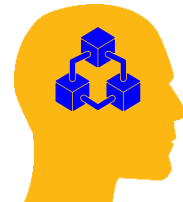


Mostly Effective

Likely Disastrous

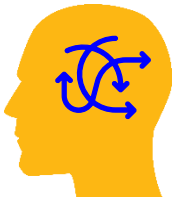


DIFFICULTY

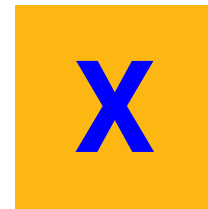


Easy

Complicated



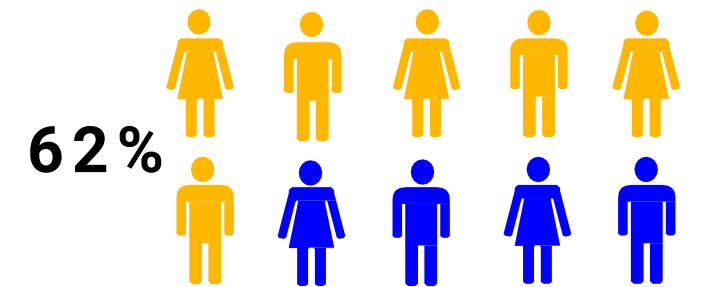
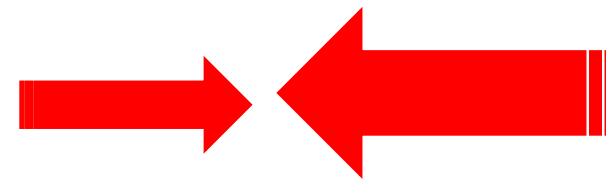
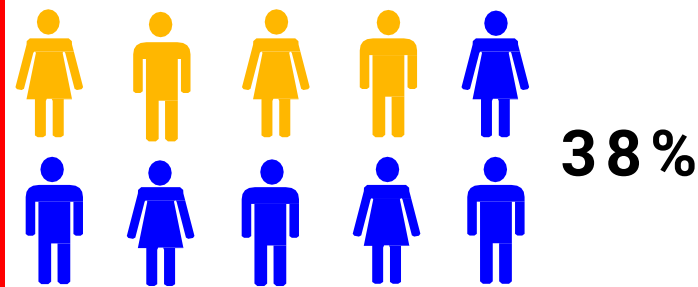
PROCESS



2035

WLCVFX - Large Cap Value	__%	6%
WCBFIX - Core Fixed Income	__%	2%
JGSMX - Small Cap Growth	__%	9%

PERCENTAGE OF ASSETS



***DRIVING THE  
QDIA  
FORWARD***

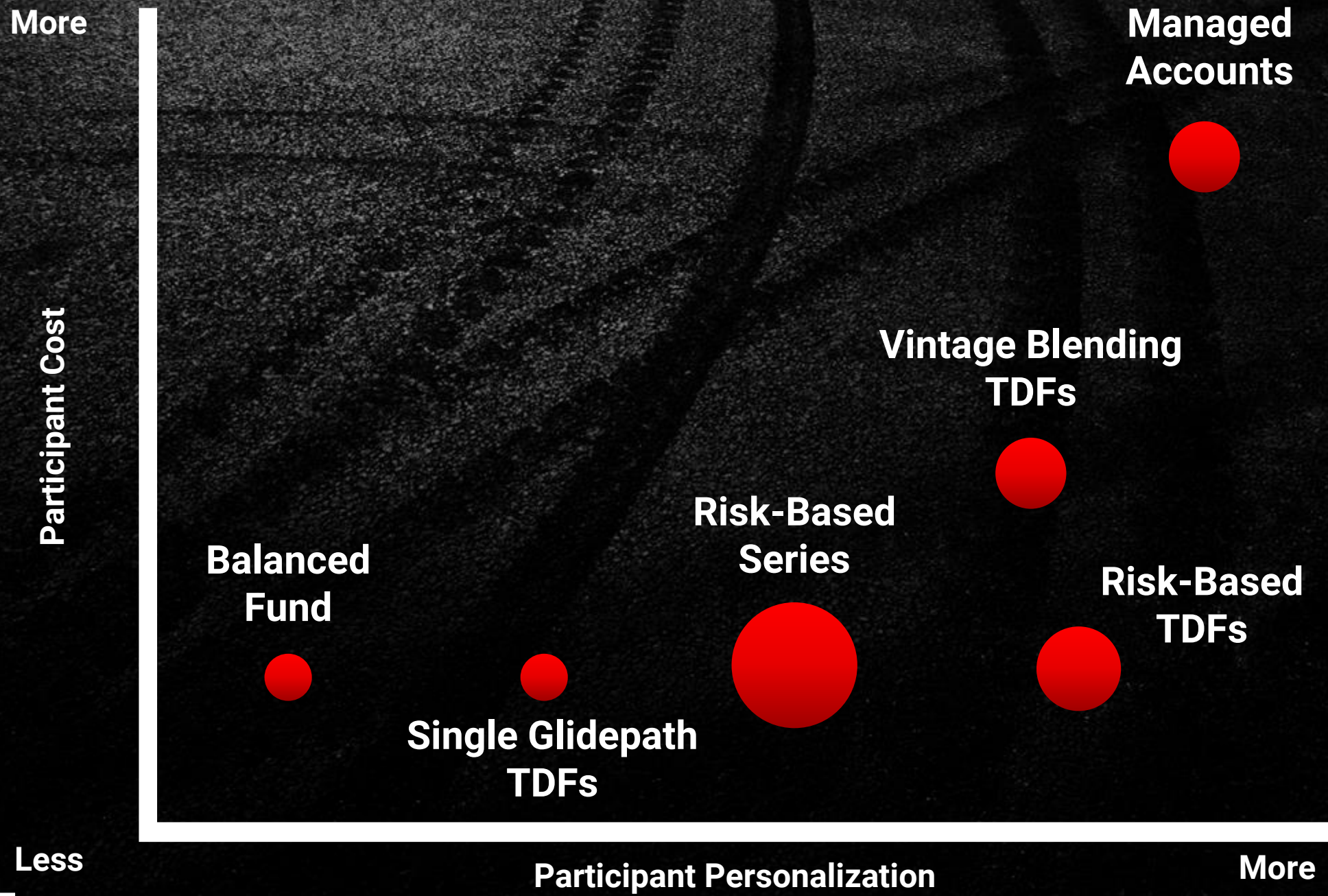
***HOW IS THE INDUSTRY  
RESPONDING?***




***DRIVE '22***

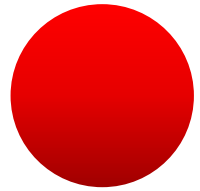


# PERSONALIZING THE QDIA



**LEGEND**

 Less participant engagement

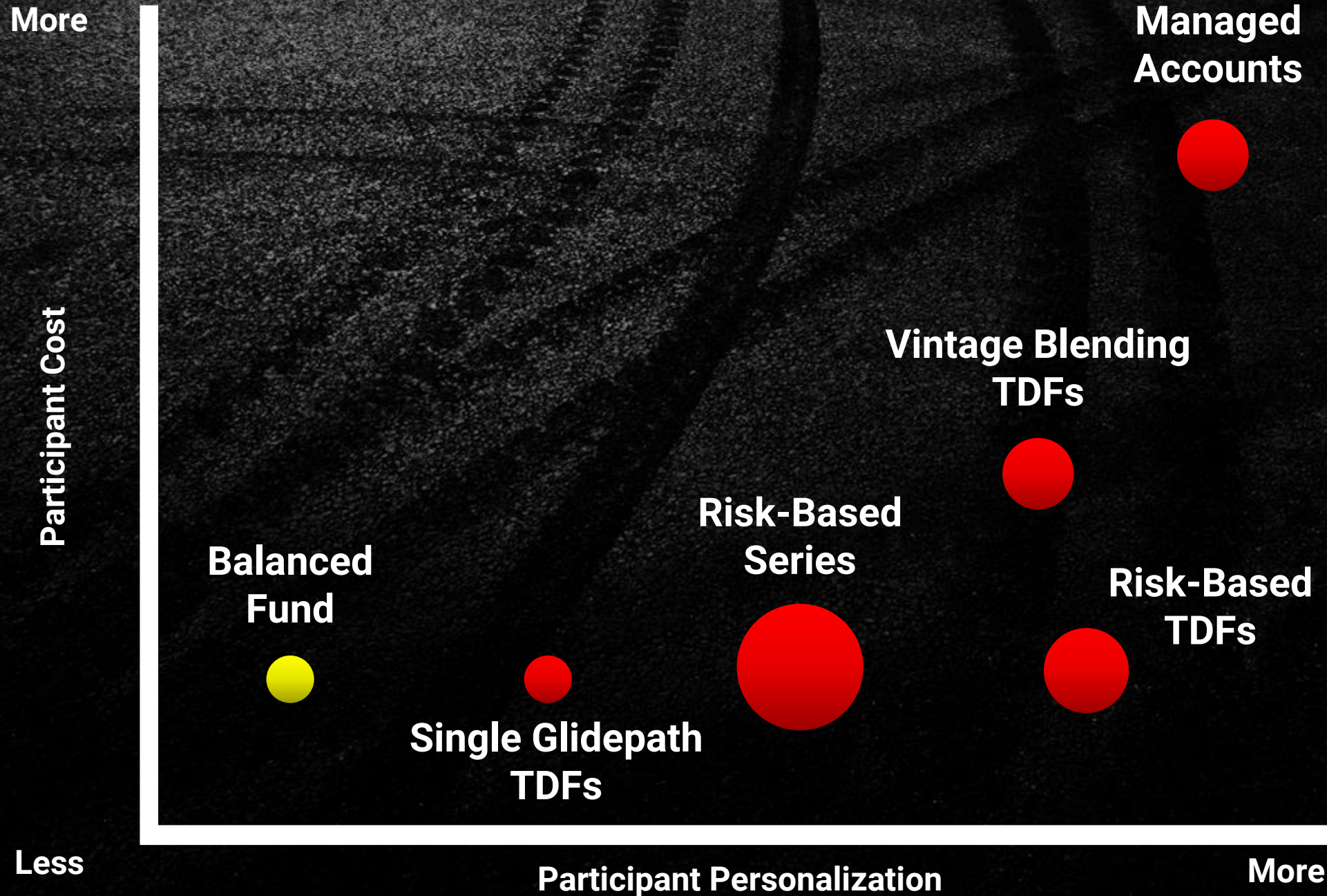
 More participant engagement



For illustrative purposes only.



# BALANCED FUND



## PERSONALIZATION

Not personalized by risk or age

## PARTICIPANT ENGAGEMENT

None to be invested

Unlikely to be a good fit for many participants and no option to personalize

## FEES

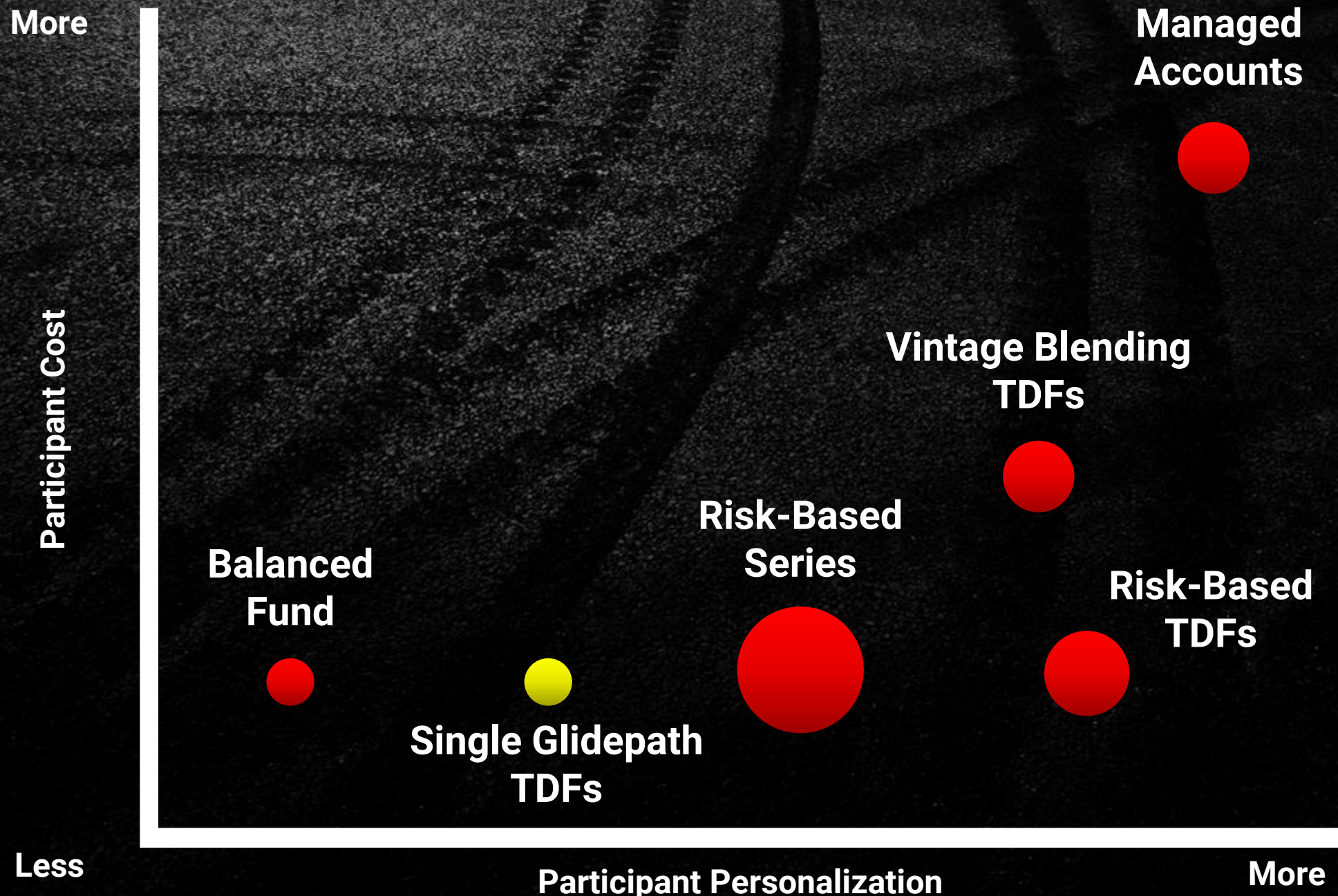
Competitive



For illustrative purposes only.



# SINGLE GLIDEPATH TDFS



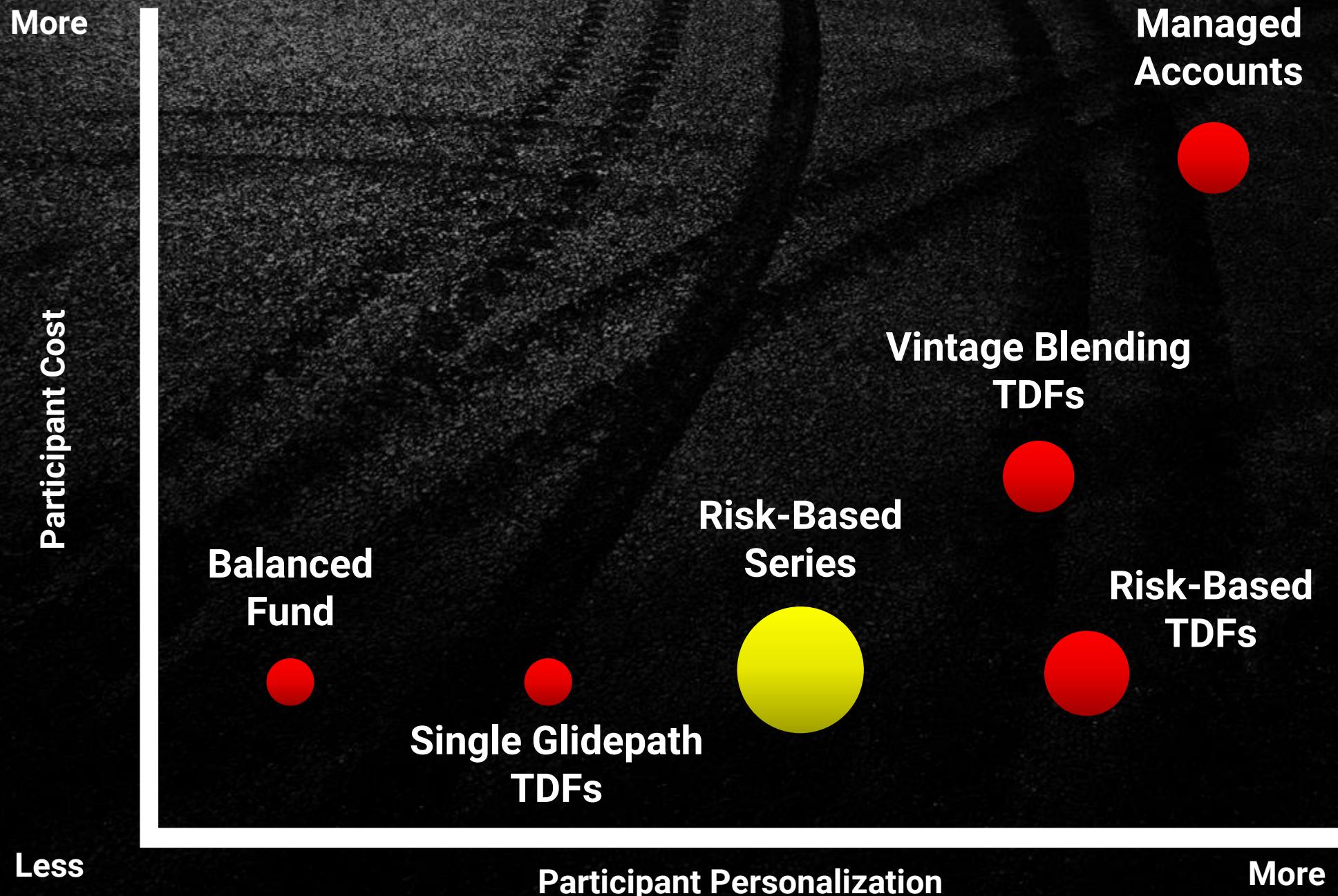
<b>PERSONALIZATION</b>
Age only Does not account for differences in risk tolerance within age band
<b>PARTICIPANT ENGAGEMENT</b>
None to be invested Engagement may be required to understand risk level and/or change date vintage
<b>Fees</b>
Competitive



For illustrative purposes only.



# RISK-BASED SERIES



## PERSONALIZATION

**Risk tolerance**

Does not automatically de-risk over time

## PARTICIPANT ENGAGEMENT

None to be invested in default risk level

Engagement required to change risk level to match risk tolerance and to adjust risk tolerance over time

## FEES

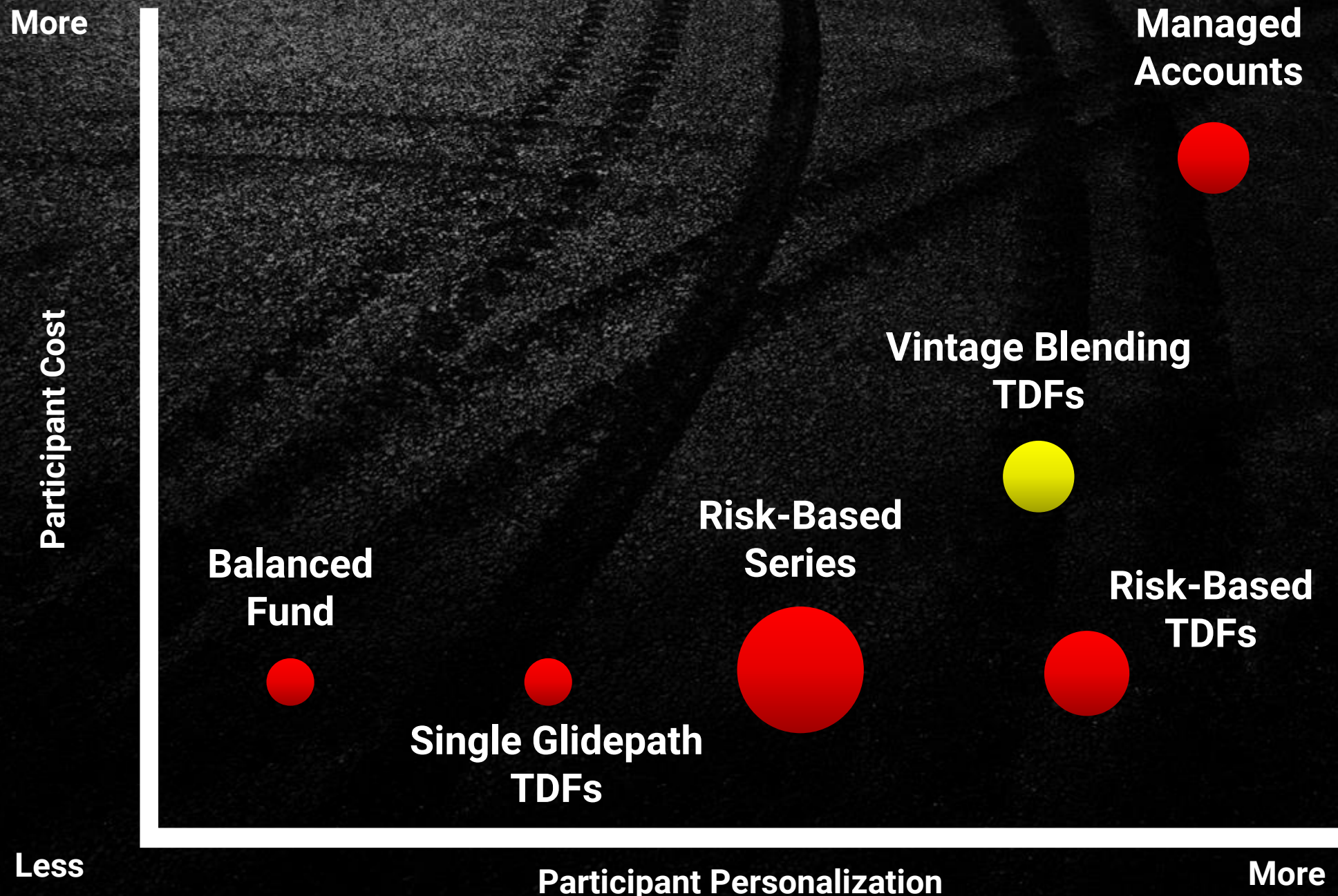
Competitive



For illustrative purposes only.



# VINTAGE BLENDING TDFS



## PERSONALIZATION

By blending various TDF vintages together

## PARTICIPANT ENGAGEMENT

None to be invested, if data provided by recordkeeper

Engagement may be required to understand multiple TDF holdings, and/or provide data to customize further/accurately

## FEES

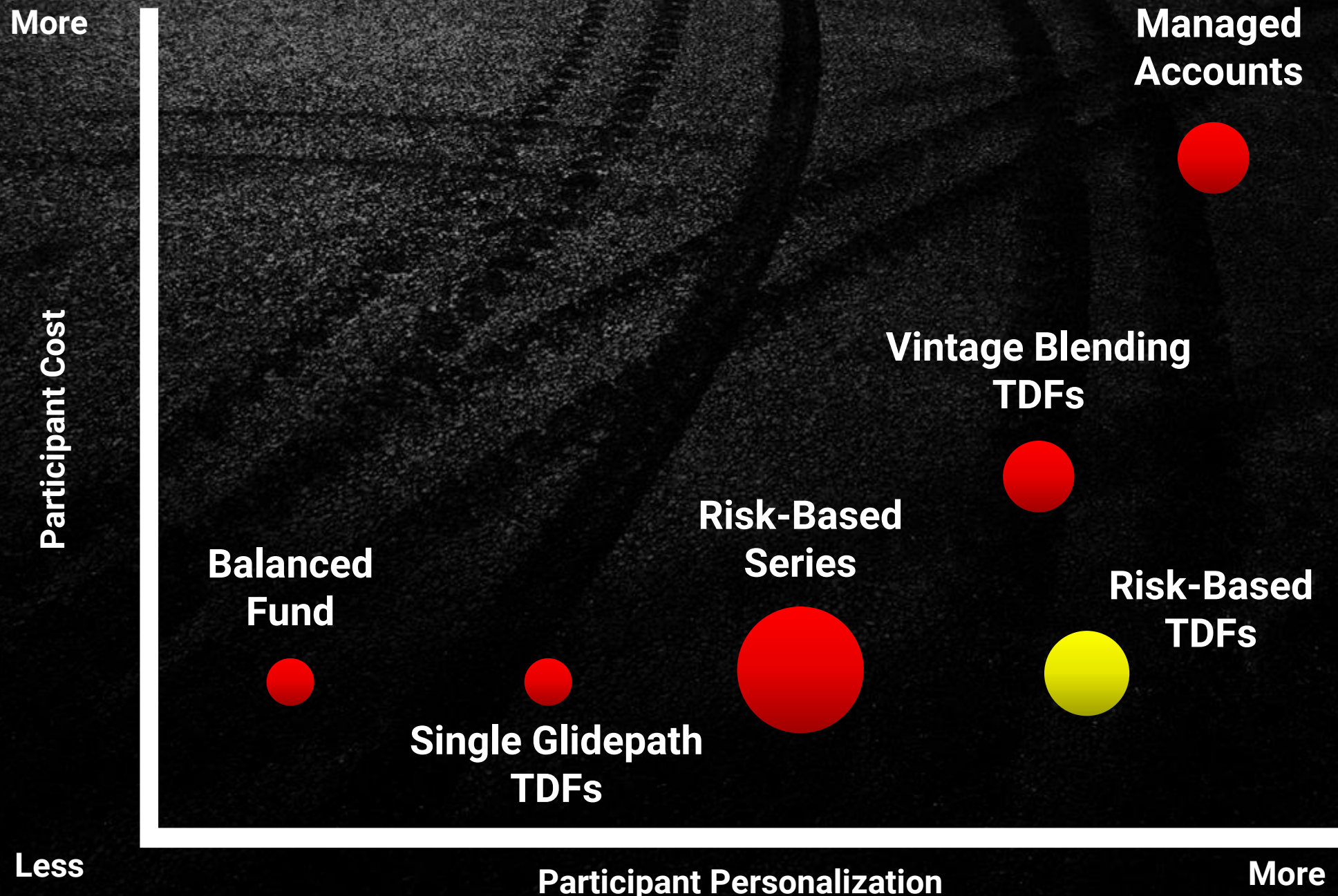
Nominal fee added on to TDF expense



For illustrative purposes only.



# RISK-BASED TDFS



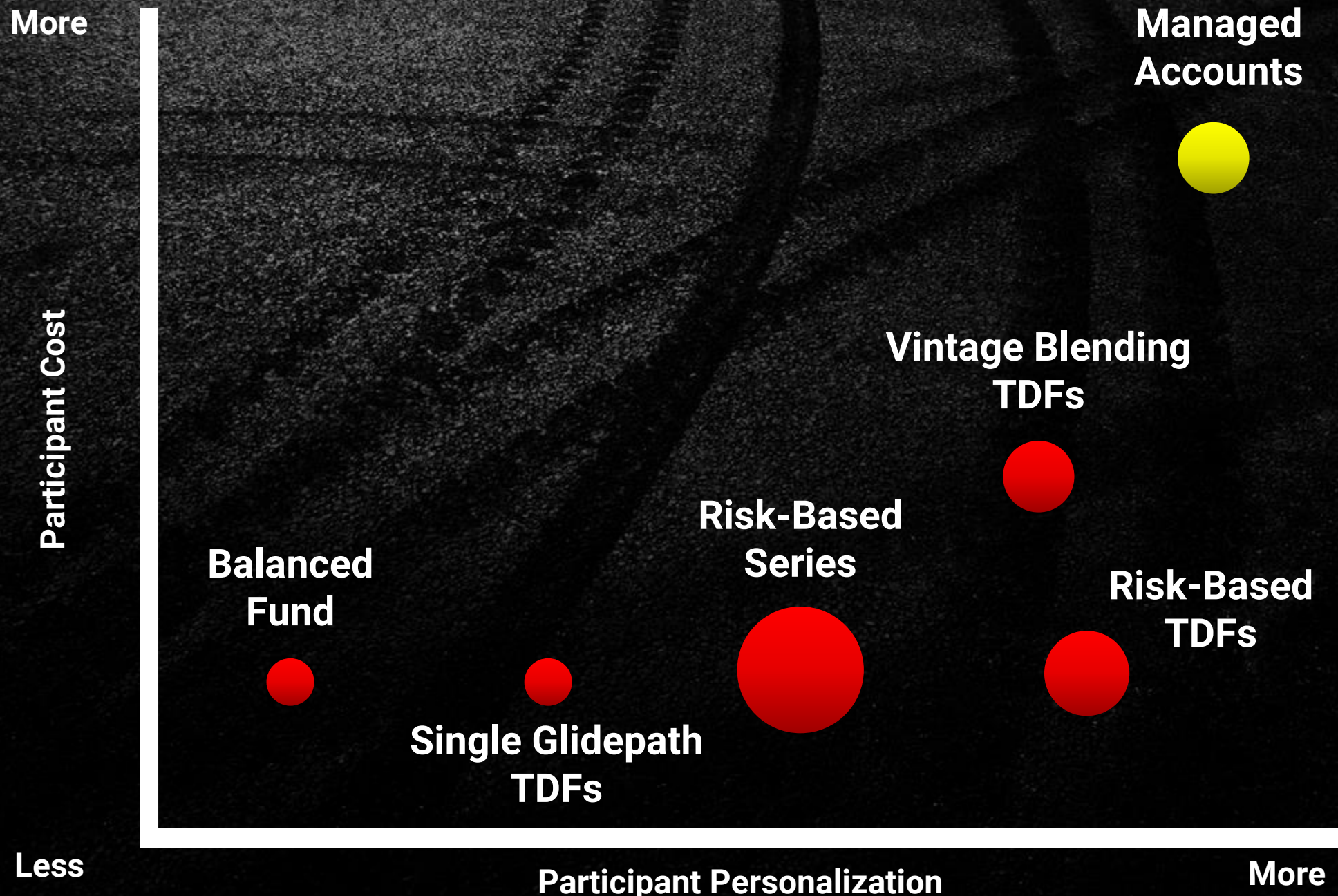
<b>PERSONALIZATION</b>
By age and risk tolerance
<b>PARTICIPANT ENGAGEMENT</b>
None to be invested in default vintage and risk level
Engagement required to change risk level
<b>FEES</b>
Competitive



For illustrative purposes only.



# MANAGED ACCOUNTS



## PERSONALIZATION

Based on participant data

## PARTICIPANT ENGAGEMENT

None to be invested if data provided by recordkeeper

Engagement required to provide data to customize further/accurately

## FEES




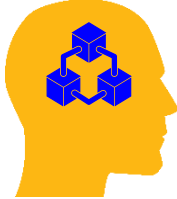

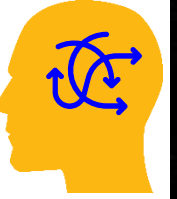







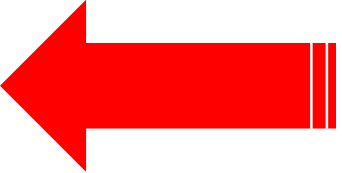








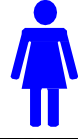

Managed account fee added on to underlying fund fees

**POSSIBLE SOLUTIONS - OUTSIDE THE BOX?**



**TDF PERSONALIZING QDIA DIY**

**RESULTS  
DIFFICULTY  
PROCESS  
PERCENTAGE OF ASSETS**

	<b>Mostly Effective</b>		<b>Effective</b>	<b>Likely Disastrous</b>												
	<b>Easy</b>	<b>Intuitive</b>		<b>Complicated</b>												
	<b>2035</b>	<table border="1"> <tr><td><b>Aggressive 2035</b></td></tr> <tr><td><b>Moderate 2035</b></td></tr> <tr><td><b>Conservative 2035</b></td></tr> </table>		<b>Aggressive 2035</b>	<b>Moderate 2035</b>	<b>Conservative 2035</b>	<table border="1"> <tr><td>WLCVFX - Large Cap Value</td><td>_%</td><td>6%</td></tr> <tr><td>WCBFIX - Core Fixed Income</td><td>_%</td><td>2%</td></tr> <tr><td>JGSMX - Small Cap Growth</td><td>_%</td><td>9%</td></tr> </table>	WLCVFX - Large Cap Value	_%	6%	WCBFIX - Core Fixed Income	_%	2%	JGSMX - Small Cap Growth	_%	9%
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JGSMX - Small Cap Growth	_%	9%														
    		<b>38%</b>			    											
				<b>62%</b>	    											



## STEPS TO TAKE

-  Quantify % TDF vs. % DIY investors
-  Quantify % with allocation outside age band
-  Quantify % glidepath fit/misfit risk
-  Educate and guide to best personalized QDIA

***KEY TAKEAWAYS***



## FINDINGS

## CONCLUSION

- 🚗 **85% TDF investors**
- 🚗 **15% DIY investors**
  
- 🚗 **25% glidepath fit**  
**(75% misfit risk)**

- 🚗 **Emphasize TDF selection**
  
- 🚗 **Conduct TDF Fit Analysis**  
**and change glidepath**

# ***KEY TAKEAWAYS***

## ***CASE STUDY #1***

## FINDINGS

- ⑤ **55% TDF investors**
- ⑤ **45% DIY investors**
- ⑤ **60% allocations outside age band  
(40% appropriate)**
- ⑤ **Less cost conscious, more  
personalization desired**

## CONCLUSION

- ⑤ **Conduct TDF Fit Analysis,**
- ⑤ **Observe DIY behavior**
- ⑤ **Encourage professional mgmt.**
- ⑤ **Introduce more personalized QDIA**
- ⑤ **Favor managed accounts**

# **KEY TAKEAWAYS**

## **CASE STUDY #2**

***THANK YOU***

