

# The evolution of defined contribution

- After 30 years, participant behavior suggests that the majority remains “accidental investors” in the “do-it-yourself” core menu
- The core menu has not evolved at the pace of programmatic QDIA solutions such as target date funds
- Core menu investors can be better served with fewer, yet more sophisticated, investment choices that leverage the diversification benefits consistent with target date funds

## 1 1980s: 401(k) popularized as supplemental savings plan

- Three-legged stool of defined benefit, Social Security and personal savings fully intact
- 401(k) emerges as efficient supplemental savings plan
- Defined contribution plans offer limited investment choice

## 2 1990s: Adoption of “do-it-yourself” model

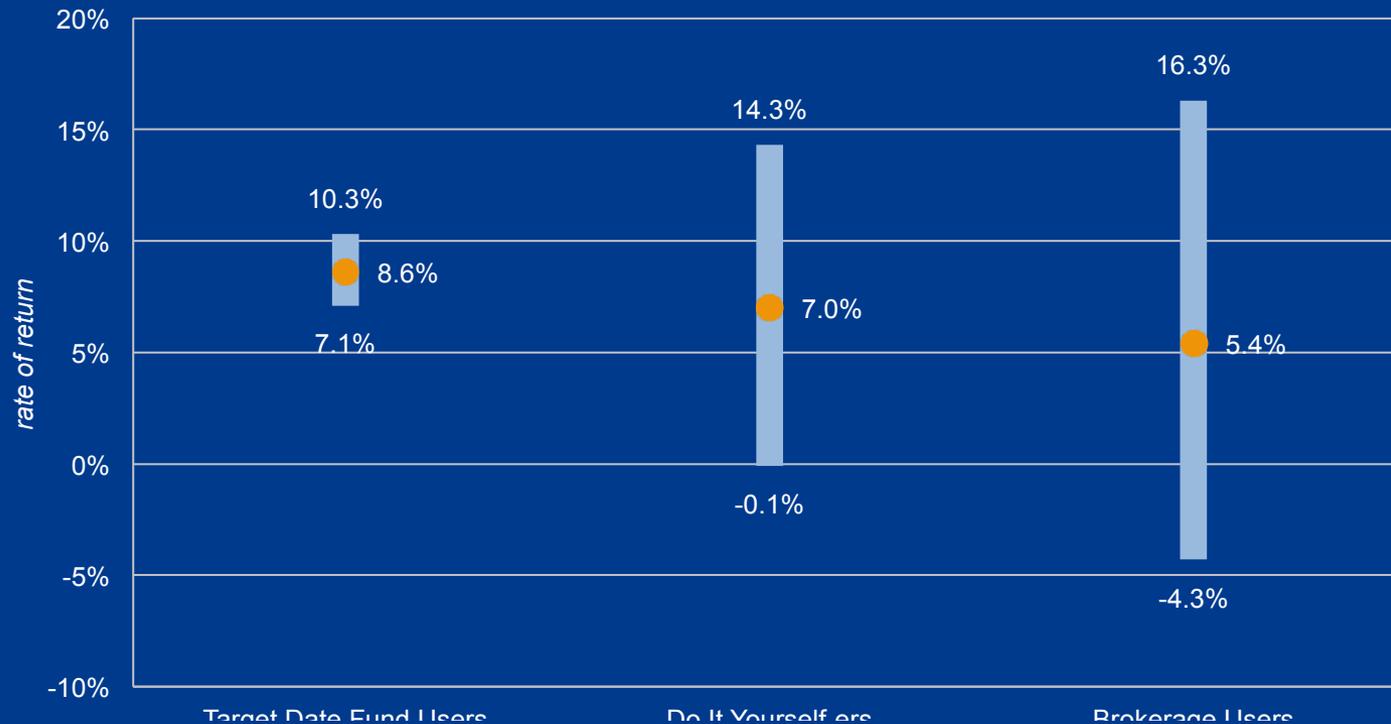
- DB plans less meaningful
- Mutual fund industry becomes the dominant DC solutions provider
- Participants demand investment control and choice

## 3 2000–2009: “Do-it-for-me” model introduced, gains popularity

- DC plans become the primary retirement savings vehicle
- Unprecedented market volatility drives call for “do-it-for-me” solutions
- Target date funds and “auto” features introduced

# Are DC plans structured to deliver the best outcomes for participants?

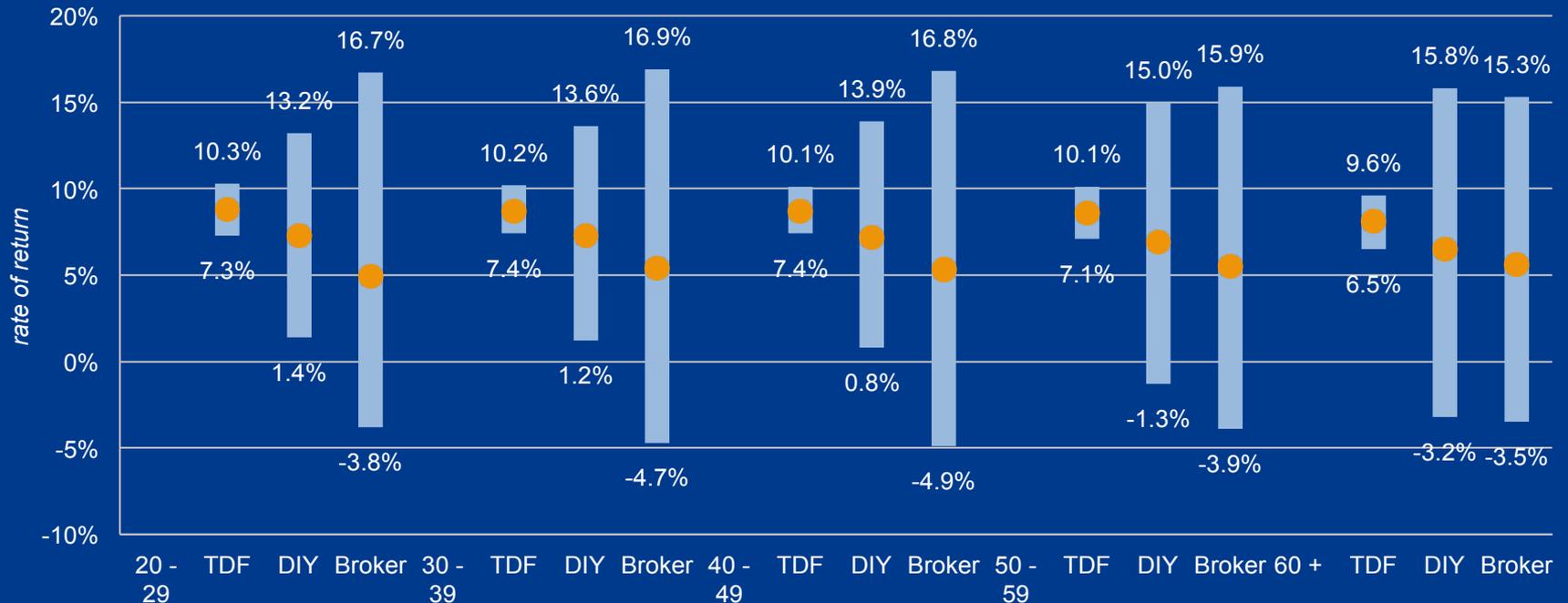
Standardized<sup>2</sup> three year returns: Highs, lows and medians by investment strategy



<sup>1</sup> Source: J.P. Morgan Retirement Plan Services proprietary research. Analysis measurement period is December 31, 2009 through December 31, 2012. The above data represents a sampling of participant data. It does not represent the returns of any individual product or portfolio. Exclusive reliance on the above is not advised. This information is not intended as a recommendation to invest in any particular manner. Rate of return for the measurement period is aggregated by investment strategy. Historical rate of return is not a guarantee of and may not be indicative of future results. <sup>2</sup> Returns are standardized using the Interquartile Methodology. See the following slide, "Important Disclosures for Personal Rate of Return Methodology," for additional information.

# Are DC plans structured to deliver the best outcomes for participants<sup>1</sup>? (cont' d)

Standardized<sup>2</sup> three year returns: Highs, lows and medians by investment strategy, by age

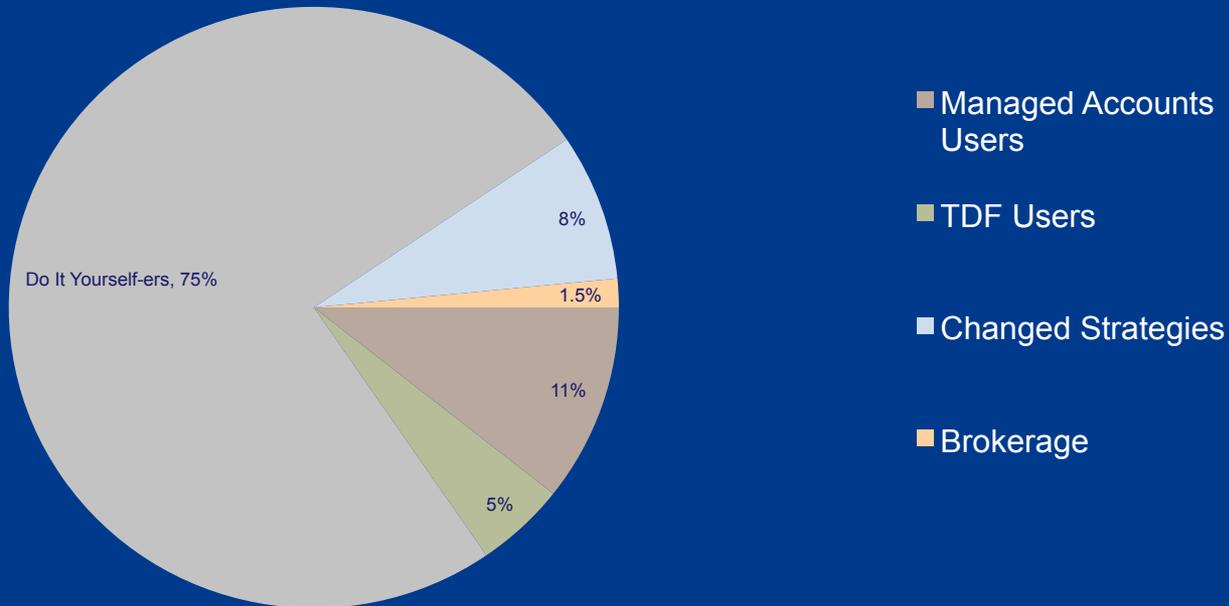


## Investment Strategies by Age

<sup>1</sup> Source: J.P. Morgan Retirement Plan Services proprietary research. Analysis measurement period is December 31, 2009 through December 31, 2012. The above data represents a sampling of participant data. It does not represent the returns of any individual product or portfolio. Exclusive reliance on the above is not advised. This information is not intended as a recommendation to invest in any particular manner. Rate of return for the measurement period is aggregated by investment strategy. Historical rate of return is not a guarantee of and may not be indicative of future results. <sup>2</sup> Returns are standardized using the Interquartile Methodology. See the following slide, "Important Disclosures for Personal Rate of Return Methodology," for additional information.

# Participant Investment Strategies

For 450,386 participants at J.P.  
Morgan with five years of personal rate  
of return



# Important disclosures for personal rate of return methodology

Rate of return for the measurement period is aggregated by investment strategy. Historical rate of return is not a guarantee of and may not be indicative of future results.

Rate of return is calculated for active participants by investment strategy using the Modified Dietz method and is based upon volatility between the highest rate of return and lowest rate of return associated with each investment strategy among such participants.

Services associated with the identified investment strategies were available as of the last day of the measurement period but may not have been available throughout the measurement period.

Target date fund users are participants with at least 70% of their account balance invested in target date funds as of the first and last day of the measurement period.

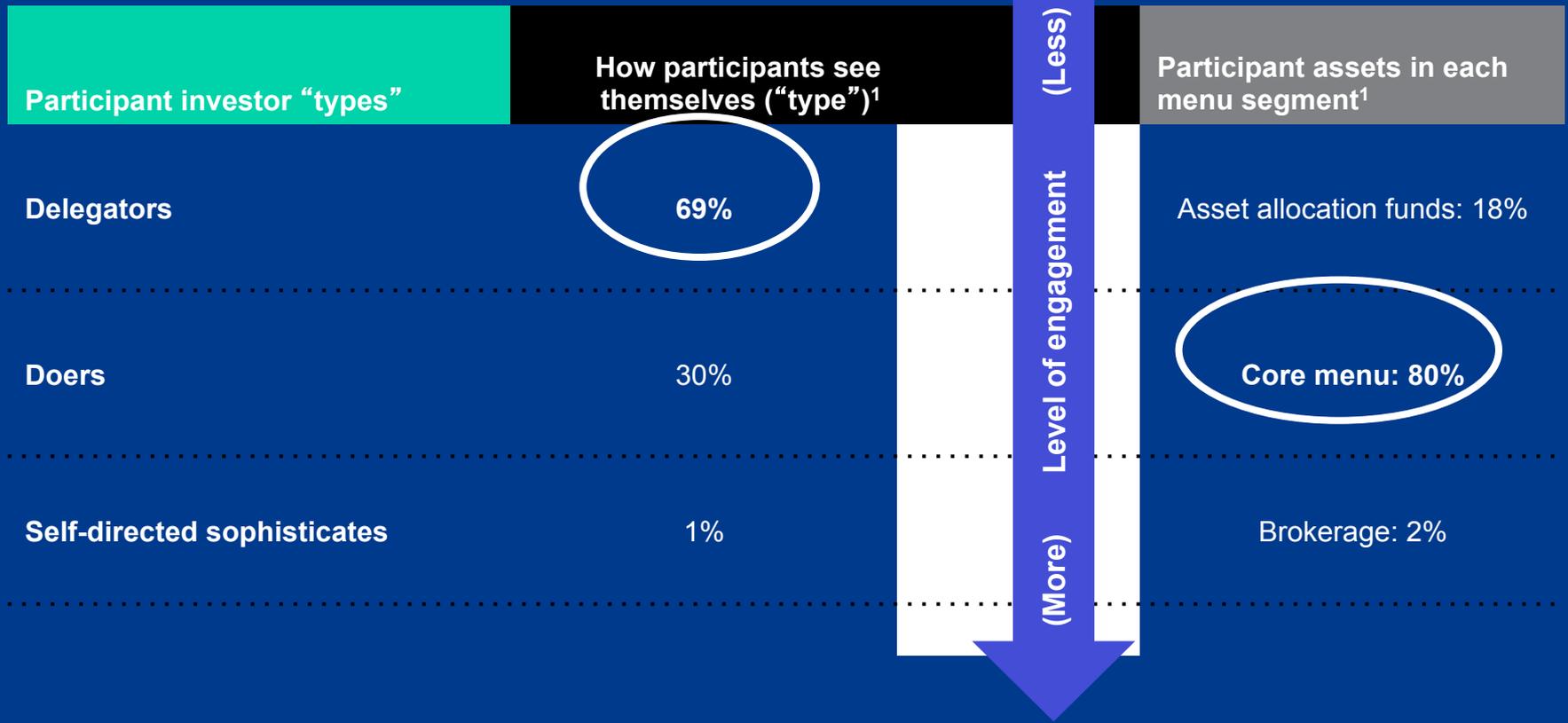
Do-it-yourselfers are participants with less than 70% of their account balance invested in one of the other investment strategies as of the first and last day of the measurement period and includes participants using online advice services, if applicable.

Brokerage users are participants with at least \$1,000 in a brokerage account as of the last day of the measurement period.

The benchmark for each investment strategy or age group in the standardized returns graphs correlates to the target date fund's glidepath for each age group presented.

# Simplifying core menu choices

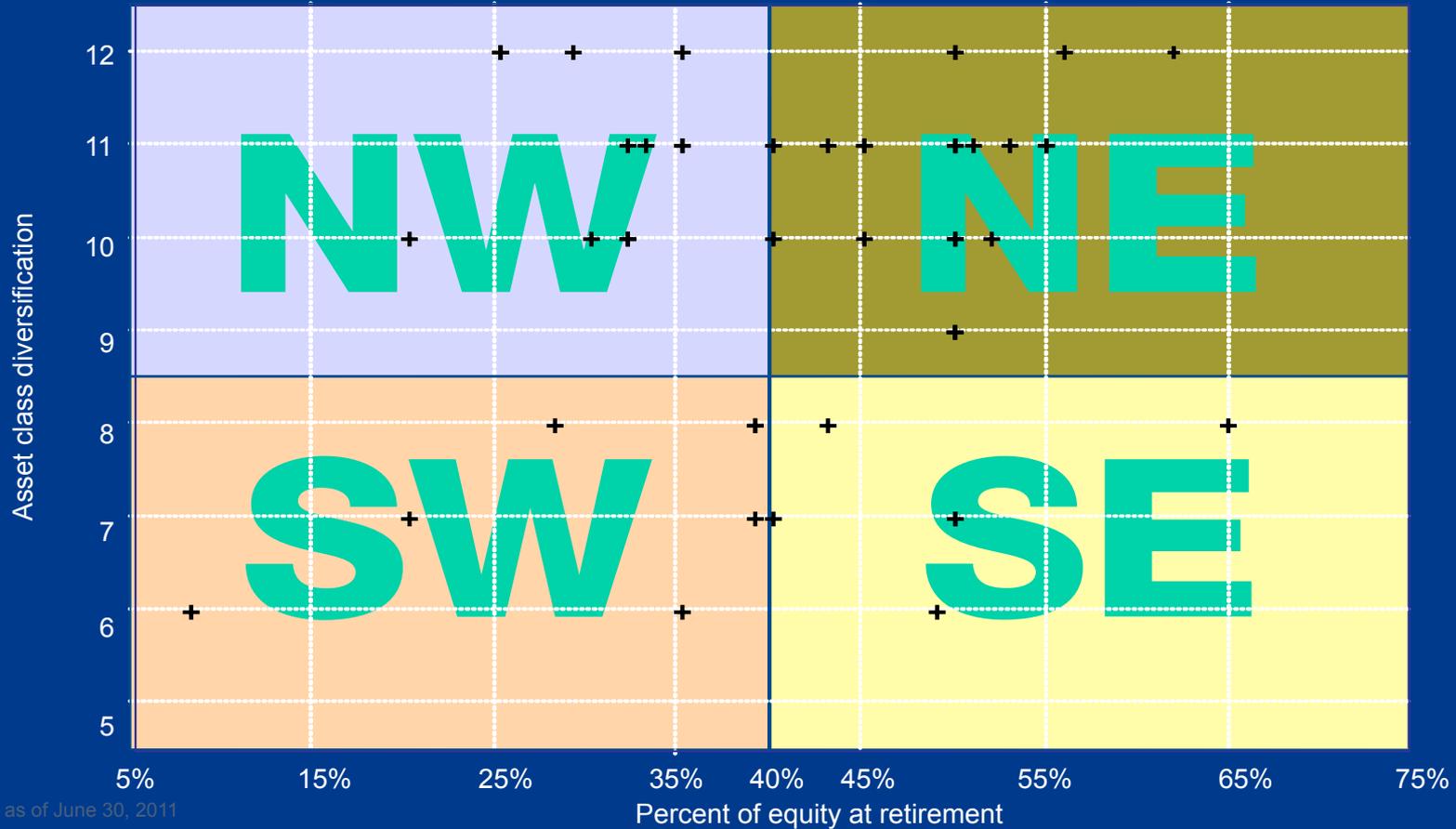
The defined contribution plan disconnect  
Percent of total Retirement Plan Services population



<sup>1</sup> For illustration and discussion purposes only.  
<sup>1</sup> Source: J.P. Morgan Retirement Plan Services; as of December 31, 2010.

# Choosing the right target date implementation option for your plan

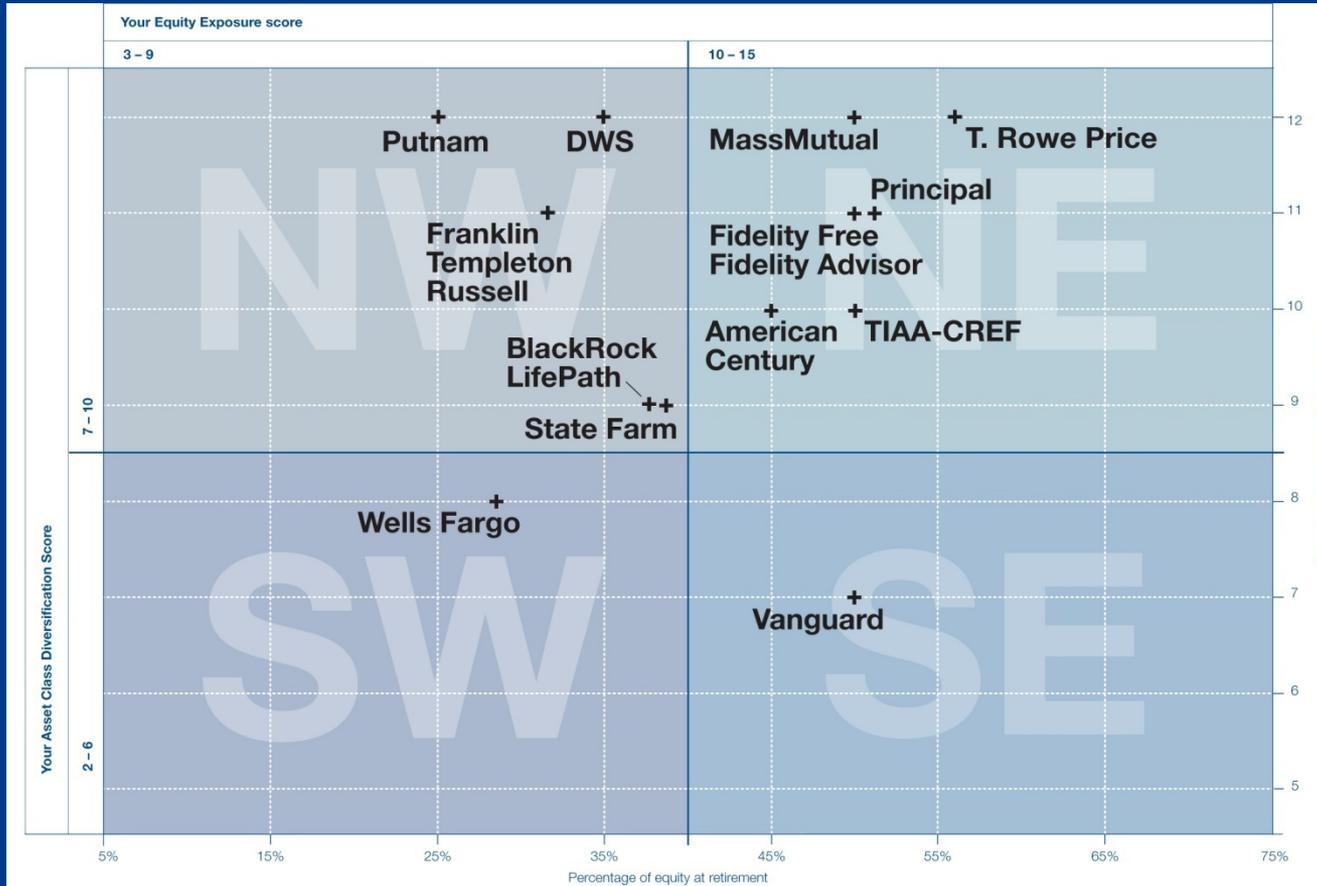
# Four quadrants: target date funds seek to produce different outcomes



Powered by Lipper, a Thomson Reuters Company. Of the mutual funds available in Lipper's databases, as of 6/30/11, 47 fund suites were identified by Lipper as open end target date funds and are available for purchase by qualified retirement plans. Old Mutual is excluded from the above chart as Lipper is currently unable to accurately assess their percentage of equity at retirement based upon publicly available data. Due to restructuring of their investment vehicle, Lipper is unable to assess the glide path and equity exposure of AIM and as a result the fund family is no longer plotted. The ETFs — iShares and TDX Independence Funds — are also excluded. Percentage of equity exposure at age 65: Strategic allocation to non-fixed income asset classes at target date, typically age 65. Asset class diversification: Determined by exposure, across each company's suite of target date funds, to 12 separate asset classes as reported to Lipper through asset allocation, capitalization, credit quality, sector, region and country data as well as underlying fund categorization. The 12 asset classes include: Large Cap Equity, Mid Cap Equity, Small Cap Equity, Developed International Equity, Emerging Markets Equity, REITs, Commodities, U.S. Fixed Income, High Yield, TIPS/Inflation, International Fixed Income and Emerging Markets Debt. Please see the Target Date Compass Methodology booklet for additional information.

# Available 5 years ago with 3-year track record

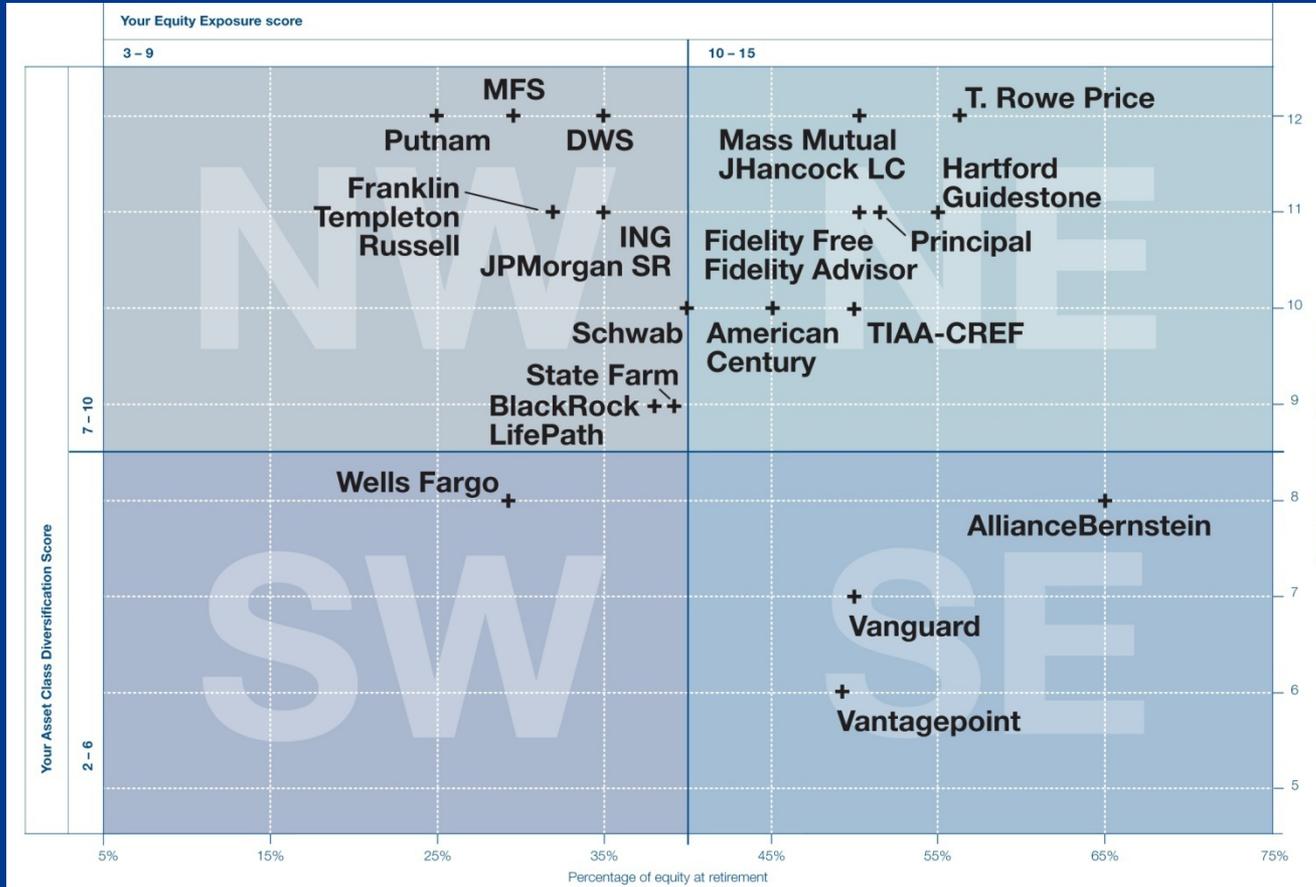
data as of December 31, 2012



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# Available 3 years ago with 3-year track record

data as of December 31, 2012



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# How do plan fiduciaries navigate the universe of TDF solutions?

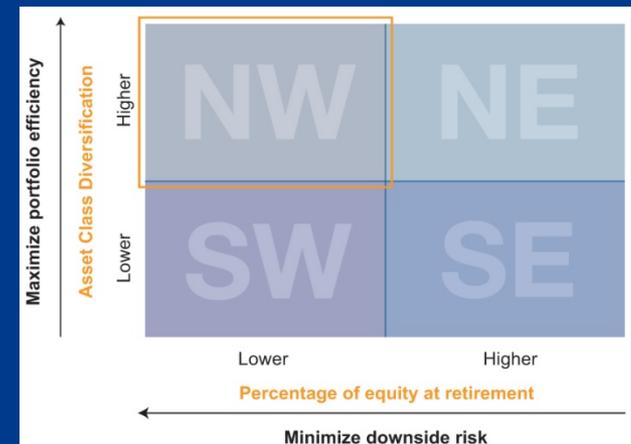
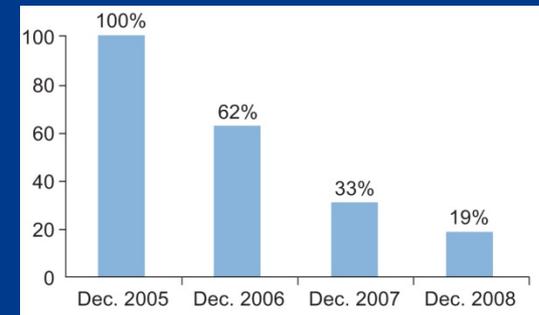
## Challenges faced by plan sponsors today:

- How to prevent participants from being exposed to too much risk at/near retirement
- How to define a plan's "goal", or the desired outcomes for participants in the target date fund (TDF):
  - Identify participants' risk tolerance
- How to identify TDFs that seek to produce outcomes that align with your plan's goals
  - Determine the right level of diversification
  - Decide on a "to" versus "through" objective
  - Align target date design with real participant behavior

Fred Reish is an ERISA attorney, Partner, and Managing Director at Reish, Luftman, Reicher & Cohen, Attorneys at Law. He has been compensated by J.P. Morgan Asset Management to provide advice and to give an opinion regarding the Target Date Compass.

## Post-retirement withdrawals:

Participants over 65 who stopped working in 2006 and remained invested in their plan



# Evaluating and selecting a target date fund involves a rigorous process

The fiduciary process for selecting target date funds involves\*:

- The traditional qualitative and quantitative analysis utilized for mutual funds at large, including the reasonableness of expenses
- An analysis of the asset allocation
- An analysis of the glide path
- An analysis of the knowledge and interest of the fiduciaries
- An analysis of the needs of the plan and the needs and abilities of the participants

\*Analysis of the J.P. Morgan Target Date Compass — A White Paper by C. Frederick Reish and Joseph C. Faucher (2008), pp. 9–11, C. Frederick Reish and Joseph C. Faucher, Reish, Luftman Reicher & Cohen, Attorneys at Law

# A Checklist

## Review QDIA default (TDF) selection

- Ensure your QDIA (TDF) is aligned with your plan's goals, participant behaviors and needs, if:
  - your selection was more than three years ago, you may want to re-evaluate your choice using a process that ensures you meet your fiduciary responsibilities, factoring in the broader selection of TDFs currently available, and:
  - your selection was more recent, then:

## Update IPS

- Ensure your Investment Policy Statement includes language supporting the inclusion and choice of target date fund in your plan — if no, update it (see J.P. Morgan's QDIA IPS Template)

## Document and file

- Ensure you have a documented process supporting your choice of QDIA (TDF)

## Professional advice

- Work with your advisor to help you with the evaluation and final selection process

# Target Date Funds: An Investment Consultant's Perspective

April 23, 2013

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# Target Date Fund (TDF)

## Current Environment

1. Dec. 2012, 71% of TDF assets are held by participants that are in the “Transition Phase” (i.e. from today to 2030 or close to retirement date)
2. TDFs will continue increase their allocation of DC assets
3. TDFs are well-suited for “delegators”, who account for up to 80% of plan participants. 90% + of participants who are defaulted into target date funds tend to stay.
4. The “To” or “Through” glide path approach has become accepted but only 21% of TDF prospectuses list a target date benchmark index
5. Morningstar recently created new conservative, moderate & aggressive TDF indexes
6. Concerns about the use of proprietary funds may encourage custom target date options
7. Some support for one-time re-enrollment or annual re-enrollment to TDF

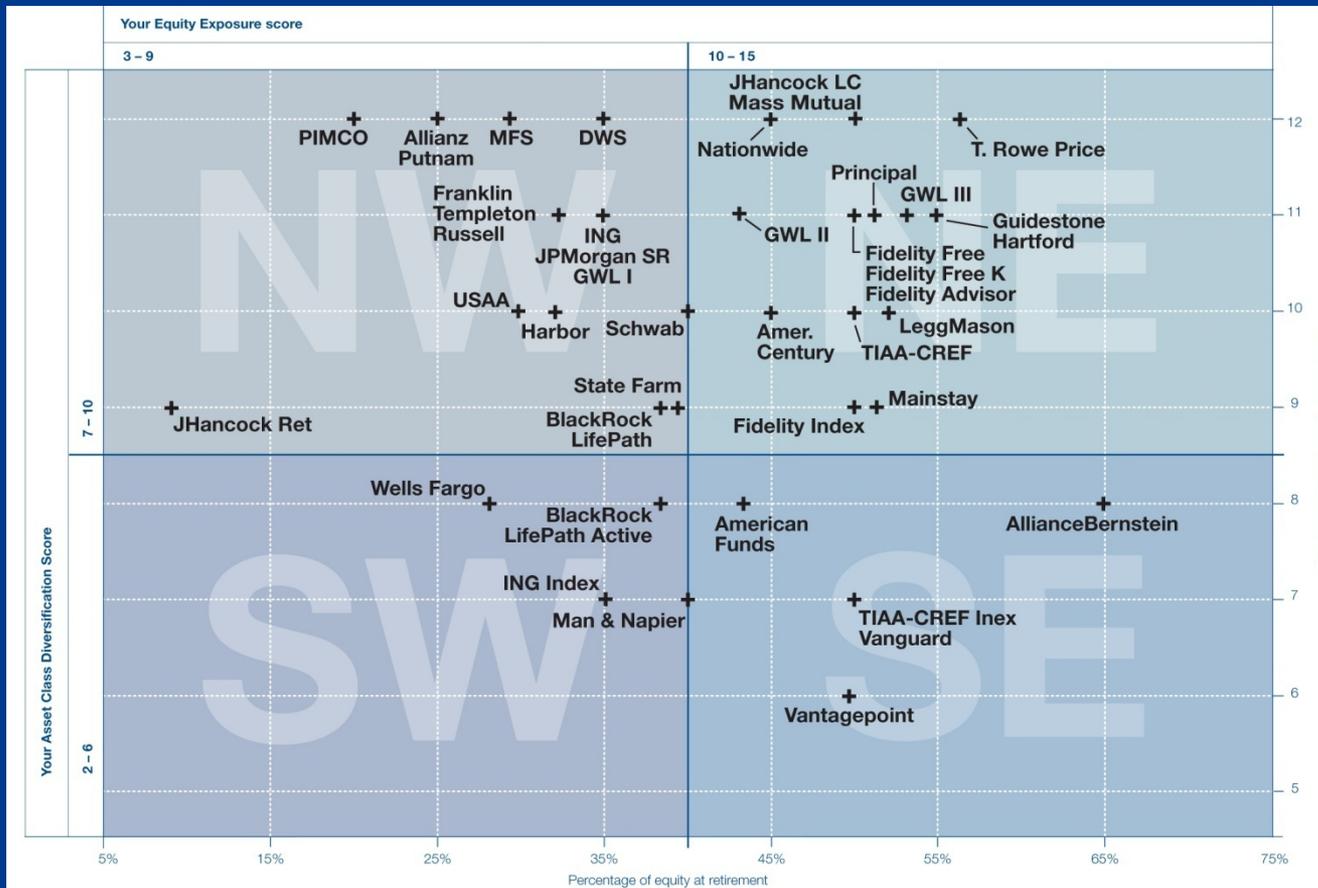
# Target Date Funds (TDF) Fact Sheet

1. Dec. 2012, \$485 billion in target date mutual funds with annual cash flows of \$55 billion
2. Dec. 2012, 46 fund families with 403 funds
3. Top three are: Fidelity, Vanguard & T Rowe Price have 75% of total TDF assets
4. Dec. 2012, 75% of fund families are experiencing inflows
5. Notable firms with outflows: Alliance Bernstein, Principal & ING
6. TDFs that closed: Goldman Sachs, Columbia, Oppenheimer and American Independent
7. TDFs that lack a proprietary recordkeeping system are generally at a disadvantage when gathering assets
8. Most TDFs are moving to fill the 5 year increment gaps

# Available today with 3-year track record

as of December 31, 2012

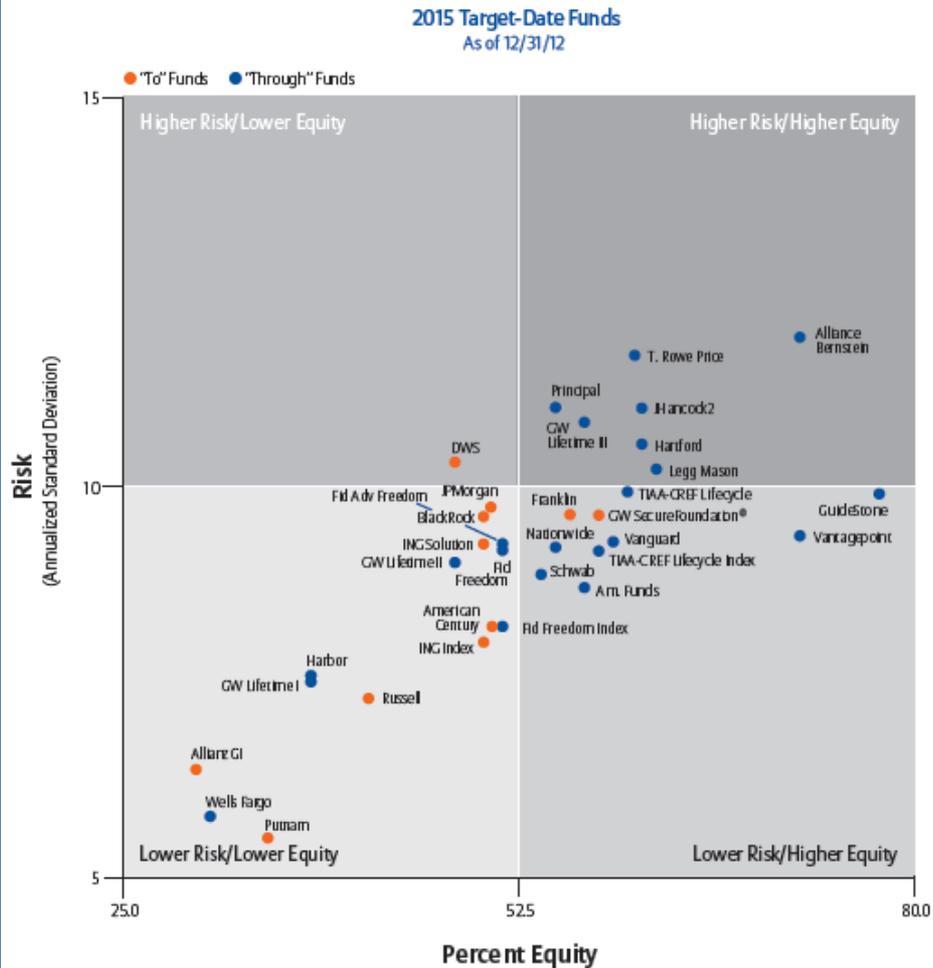
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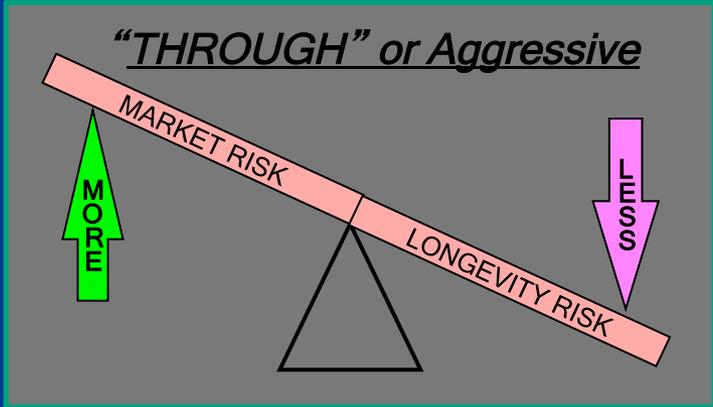
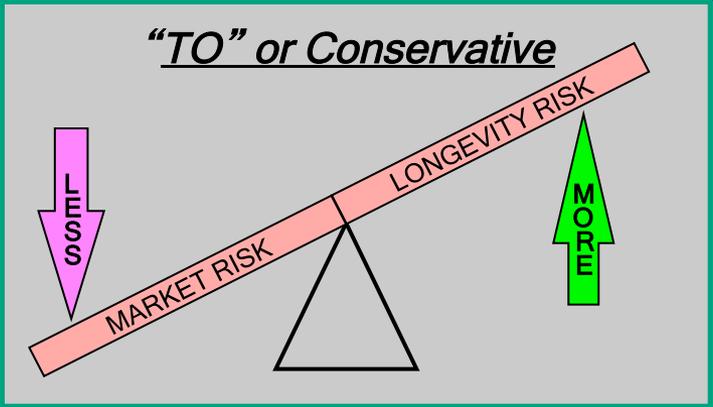
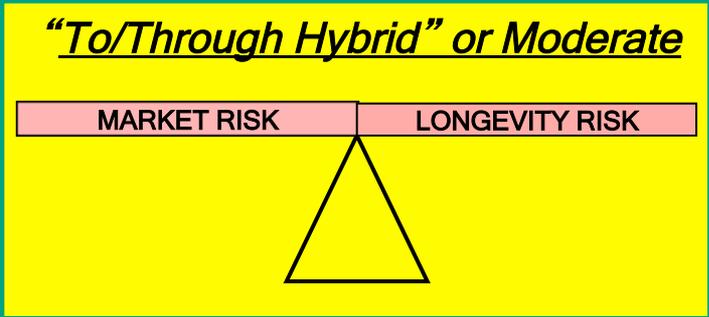
# Target-Date Profile Chart

A look at the dispersion among target-date funds for participants approaching retirement.



"To" and "Through" target-date classifications based on Morningstar definition. When Morningstar definition is not available, funds with a glidepath that plateaus at target date are considered a "To" fund.  
For financial professional use only. Not for use with the public.

# GLIDE PATHS & RISK



# Resources Available

## Target Date IPS

- Allianz

## Plan Sponsor Questionnaires to Assess Possible Target Date Options

- JP Morgan
- Allianz
- Transamerica/Diversified

## Target Date Suite Analysis

- Morningstar
- BrightScope/Target Date Analytics (TDA) - Popping the Hood study
- JP Morgan - Compass
- PIMCO
- Allianz
- American Century



# TARGET DATE FUNDS IS ONLY ONE TYPE OF *DB-IZATION*

**Bill Rodenbeck, Investment & Cash Manager  
Gwinnett County, Georgia  
April 23, 2013**



# Gwinnett County “DB-ization” Goals

## GOALS OF DB-IZATION

- ✓ Improve Participant Savings Rates and Contributions;
- ✓ Improve Participant Returns while Managing Risk.



gwinnettcounty

# Returns & Contribution Rates Drive Balances



"It's the new man - he wants to know what the company retirement plan is."



# Gwinnett County Approach is Trivector

## THREE PRONG APPROACH

- Managed Accounts for New Hires;
- Lifestyle funds For Those Directing Asset Allocation;
- Target Date Funds Tied to Guaranteed Lifetime Withdrawal Benefit.



# Managed Accounts Work for New Hires

## MANAGED ACCOUNTS

- Professionally managed by Ibbotson.
- Fees are low on a relative and absolute basis:
  - Range between .20%-.50%;
  - \$5,000 balance incurs an annual fee \$25;
  - \$50,000 balance incurs an annual fee \$250.
- Returns beat group returns not enrolled in Advisory Services by over 3.0% over a 3-year period (Q1 2008 thru Q1 2011).
- Selected by new hires 90% of the time.
- Represents 11% of Assets and 20% of accounts.



# Target Date Funds

## TARGET DATE FUNDS

- Introduced Fall 2012.
- Tied to Guaranteed Lifetime Withdrawal Benefit.
- Invest in only index funds.
- Guaranteed Lifetime Withdrawal Benefit costs .90% annually + index fund expenses. Benefits of Guaranteed Lifetime Benefit:
  - Lifetime income regardless of market performance;
  - Benefits increase with investment performance;
  - Benefits ratchet up with an income floor;
  - Removes non-participation risk with equity exposure;
  - Removes longevity risk;
  - Balances remaining in the account after death go to Spouse or to beneficiary.



gwinnettcounty

# Lifestyle Funds

## LIFESTYLE FUNDS

- Offered since 2000.
- Represents about 19% of Assets.
- Allows participant to choose their Asset Allocation.
- Works well with Stable Value Products (can avoid bonds).
- Adjusts to changes in economic conditions.
- May have low or high risks and not be balanced.



# Conclusions

- **Asset Allocation Drives Return.**
- **Diversify to manage risk.**
- **Participants need autopilot.**
  - **Avoid procrastination.**
  - **Fear and Greed create bubbles.**
  - **Retirement Plans are more than savings vehicles.**