

# Meeting Targets

Target-date funds (TDFs) continue to be the go-to default option for defined contribution plans. Not all TDFs are the same, however, and it is critical for plan sponsors to make sure they know exactly how the funds in their plans are structured.

This year marks the 12th anniversary of the PLANSPONSOR/Janus Henderson Investors annual defined contribution (DC) investment study, which analyzes information collected from approximately 4,000 U.S. plans of all sizes. This year's results indicate a continuation of the multi-year trend of plans selecting target-date funds (TDFs) as the qualified default investment alternative (QDIA) option for plan participants. Another finding, however, seems to be that the most utilized TDFs tend to be made up of funds from a single investment manager, and plan sponsors this year are less confident than they were a year ago about how well their employees understand and use TDFs.

A majority of plans – 63% overall – believe that TDFs are the best QDIA for their plan participants, and that is most notable among mega plans (those with more than \$1 billion in DC assets), where more than 90% say that TDFs are the best QDIA. Fewer plan sponsors this year are “not sure” which QDIA option is best, which is a good indicator that plan sponsors of all sizes are paying attention to what investments are most appropriate. When plan sponsors are choosing and evaluating their plan's QDIA, fund performance is still the most important consideration overall, but smaller plans seem to put more emphasis on performance than larger plans do. Mega plans are more focused on investment allocation within the QDIA, and plans of all sizes are together in placing high importance on the quality of the underlying funds in the QDIA.

## Time to Take a Look?

Despite the importance plan sponsors continue to place on having high-quality funds within a QDIA, nearly half of plans (47.4%) that have a TDF as their default are still using a single-manager TDF. This far exceeds the percentage using multi-manager TDFs (13.9%) and custom TDFs (8.7%). “Single-manager TDFs may have served many plans and participants well thus far, but as with every investment option embedded within a plan menu, these funds need to be evaluated by plan fiduciaries regularly by means of a thoughtful, deliberate process,” notes Russ Shipman, Managing Director and Senior Vice President of Janus Henderson's Retirement Strategy Group. “As participant assets continue to be defaulted into these options, and the possibility of a market correction remains ever-present, plan sponsors need to be sure they are directing participant assets into appropriately diversified options,” he adds.

TDFs are generally structured to gradually decrease allocation to equities – which are considered to be more volatile and thus more “risky” – and increase allocation to “safer” fixed income investments as the participant gets older and the TDF nears its target (end) date. This year, only about 24% of plan sponsors are monitoring the duration of the fixed income portion of their TDFs.

“As the workforce ages and more assets are accumulated in fixed income instruments, it becomes even more imperative that plan sponsors pay special attention to not just the equity portion within TDFs, but to the fixed income component as well,” Shipman says. “Definitionally, time horizons are shorter when fixed income allocations ratchet up, so participants have less opportunities to make up for performance missteps,” he concludes.

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## Confidence Drop

Despite the prevalence of TDFs in DC plans and a long running bull market – or perhaps because of these factors – plan sponsors are decidedly less confident this year about a few things relating to TDFs. For instance, last year, almost 68% of plan sponsors were “very confident” that their employees were using the TDF as a single, all-inclusive fund.

This year, that number dropped to less than 26%. Similarly, when asked whether employees understand the structure and intent of TDFs, just 25% of plan sponsors are “very confident” versus 60% who were last year. Both are very notable reductions given the breadth of plan sponsor respondents.

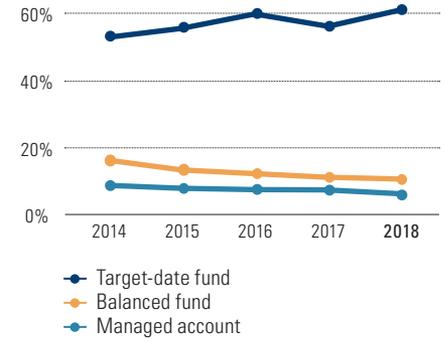
Plan sponsors are also less confident this year that the education around TDFs is effective and that employees are selecting the correct target date for their expected retirement. Confidence remains high, however, that the plan's current QDIA is the best option for the majority of employees. “Ironically, it is actually good to see that plan sponsors are not brimming with confidence as we have seen in the past,” observes Shipman. “Complacency is the death knell when trafficking in plan oversight and all matters fiduciary duty, and it appears those entrusted with such oversight and decisions generally have an appropriate level of concern this year – not overconfident, and not overly concerned either.” ■

**METHODOLOGY:** In conjunction with PLANSPONSOR, Janus Henderson Investors developed a series of questions for defined contribution plan sponsors specifically pertaining to target-date and QDIA fund knowledge, satisfaction, and construction. These questions were included in the PLANSPONSOR 2018 Defined Contribution Survey, which was conducted via an online questionnaire from July to September 2018. More than 4,000 respondents participated in the survey. For more information, contact [surveys@strategic-i.com](mailto:surveys@strategic-i.com).

Micro=<\$5MM; Small=\$5MM-\$50MM; Mid=>\$50MM-\$200MM; Large=>\$200MM-\$1B; Mega=>\$1B

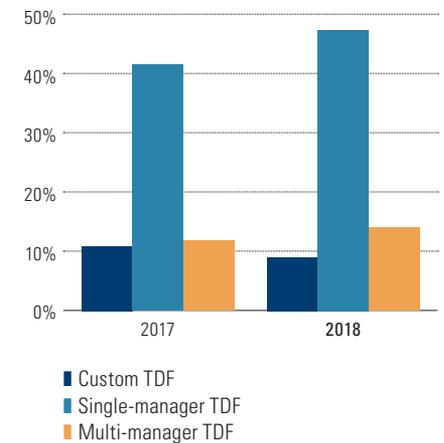
## Which of the following is the best QDIA option for your employee population?

	All	Micro	Small	Mid	Large	Mega
Target-date fund	63.0%	48.2%	61.9%	73.3%	78.9%	90.9%
Balanced fund	10.4%	11.5%	12.5%	7.8%	7.2%	3.5%
Professionally managed account	6.7%	7.5%	6.9%	4.6%	9.4%	3.5%
Not sure	17.1%	30.8%	15.1%	8.9%	3.9%	1.4%
Other	2.9%	2.0%	3.6%	5.3%	0.6%	0.7%



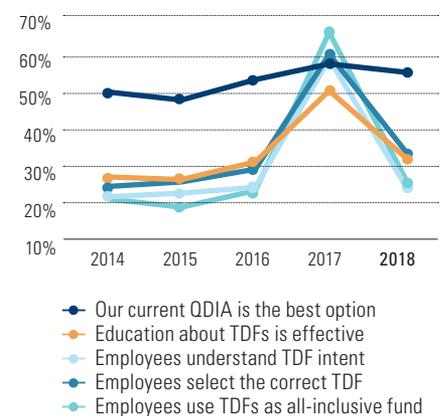
## If you've selected a target-date fund as your QDIA, what type are you using?

	All	Micro	Small	Mid	Large	Mega
Custom TDF (made up of existing investment options in the plan lineup)	8.7%	7.1%	13.8%	4.0%	0.0%	18.2%
Single-manager target-date fund	47.4%	42.9%	41.4%	68.0%	76.5%	36.4%
Multi-manager target-date fund	13.9%	7.1%	15.5%	24.0%	23.5%	9.1%
Not applicable – use a professionally managed account (participant-level allocation model) as our QDIA	8.7%	12.5%	10.3%	0.0%	0.0%	18.2%
Not applicable – use a balanced/target-risk fund as our QDIA	8.7%	10.7%	12.1%	8.0%	0.0%	0.0%
Not applicable – we do not use a TDF for our QDIA	12.7%	21.4%	10.3%	4.0%	5.9%	18.2%



## How confident are you that:

	Very confident	Somewhat confident	Not at all confident	Don't know
Your plan's current QDIA is the best option for the majority of employees?	56.3%	34.1%	1.1%	8.5%
Your plan's participant education about TDF is effective?	31.1%	48.1%	6.1%	14.8%
Employees understand the structure and intent of TDFs?	25.3%	51.6%	9.3%	13.8%
Employees are selecting the correct target date for their expected retirement?	31.8%	46.4%	5.8%	16.0%
Employees are using TDF as a single, all-inclusive fund?	25.6%	44.9%	9.8%	19.7%

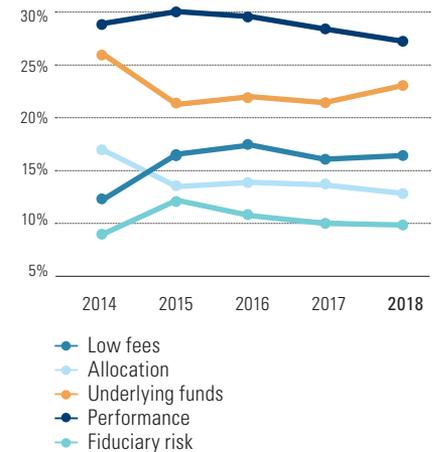


Note: Totals may not add to 100% due to rounding.

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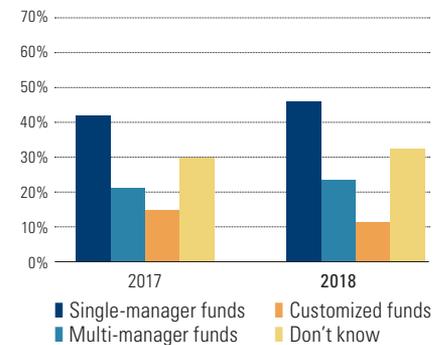
## What is the most important consideration for your plan when selecting a QDIA? (% ranked first)

	All	Micro	Small	Mid	Large	Mega
Low fees	16.5%	21.4%	14.0%	16.1%	13.4%	13.3%
Investment transparency	5.8%	7.8%	5.6%	3.3%	4.9%	4.7%
Investment allocation	13.8%	6.1%	13.3%	21.3%	18.0%	27.6%
Quality of fund/underlying funds	23.5%	20.0%	26.0%	23.5%	22.7%	25.6%
Best overall performance	27.1%	33.6%	28.7%	22.1%	19.6%	10.9%
Fiduciary risk	9.5%	8.6%	10.1%	7.7%	14.8%	7.0%
Participant demographics	3.4%	2.7%	2.7%	3.3%	4.9%	8.5%
Other	0.4%	0%	0%	2.7%	1.7%	2.4%



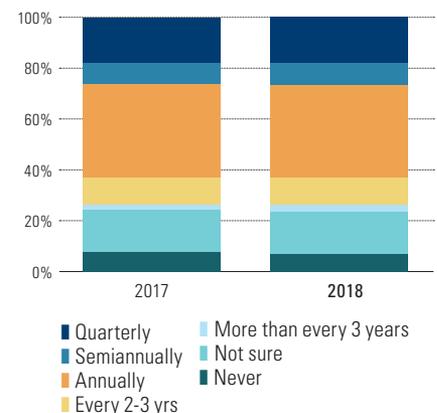
## What type of target-date funds does your DC provider/recordkeeper offer?

<i>Multiple answers possible</i>	All	Micro	Small	Mid	Large	Mega
TDFs composed of funds from one firm (single-manager funds)	45.9%	37.2%	45.7%	52.6%	40.0%	60.0%
TDFs composed of funds from multiple firms (multi-manager funds)	23.3%	14.0%	32.6%	31.6%	13.3%	20.0%
TDFs composed of funds from plan's current fund lineup (customized funds)	11.3%	7.0%	15.2%	5.3%	6.7%	30.0%
Don't know	32.3%	39.5%	28.3%	10.5%	40.0%	30.0%



## How frequently do you evaluate or benchmark your target-date fund series to determine "best fit" for your participant demographics?

	All	Micro	Small	Mid	Large	Mega
Quarterly	18.1%	8.3%	19.3%	30.0%	31.7%	15.2%
Semiannually	8.3%	6.4%	12.2%	8.6%	3.0%	2.3%
Annually	36.7%	39.5%	37.0%	30.0%	32.3%	40.9%
Every 2-3 years	10.6%	9.5%	8.9%	12.1%	14.6%	15.9%
More than every 3 years	2.5%	2.6%	2.3%	1.2%	2.4%	6.1%
Not sure	16.8%	22.1%	15.0%	13.6%	12.2%	15.2%
Never	7.0%	11.7%	5.2%	4.7%	3.7%	4.5%

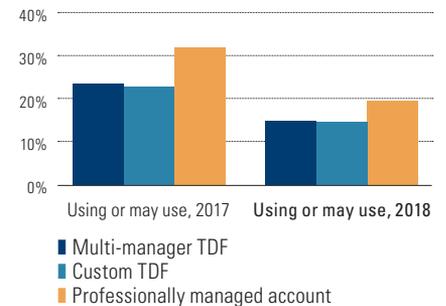


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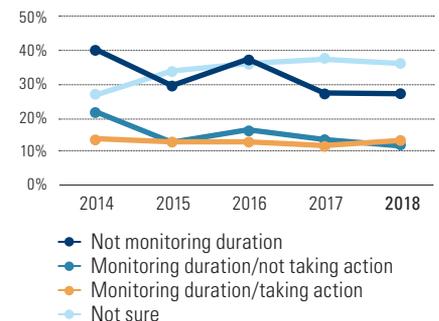
## Have you considered utilizing any of the following in your plan?

	Already use	Considered, may use in the future	Not sure	Have not considered	Considered, but decided not to use
Multi-manager target-date fund	14.9%	7.9%	32.7%	36.7%	7.9%
Custom target-date fund (made up of investment options in the plan lineup)	14.5%	9.9%	27.8%	38.7%	9.0%
Professionally managed account (participant-level allocation model)	19.6%	8.5%	28.6%	35.5%	7.7%



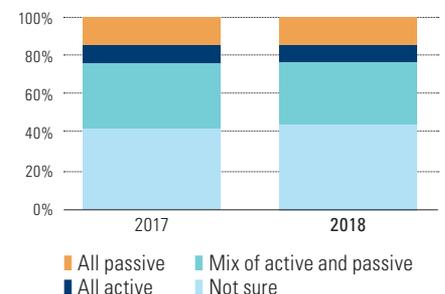
## Within your target-date fund series, are you monitoring the duration of the fixed income component, and if so, are you taking action to address and adjust duration?

	All	Micro	Small	Mid	Large	Mega
No, not monitoring duration	27.5%	30.2%	31.4%	18.1%	19.1%	25.6%
Yes, monitoring duration; not taking action	11.6%	5.1%	11.3%	16.1%	20.4%	20.2%
Yes, monitoring duration; taking action	12.2%	7.1%	11.9%	16.5%	19.8%	17.1%
Not sure	36.7%	43.0%	33.4%	38.2%	30.9%	31.0%
Not applicable – do not offer TDFs	12.1%	14.6%	12.0%	11.0%	9.9%	6.2%



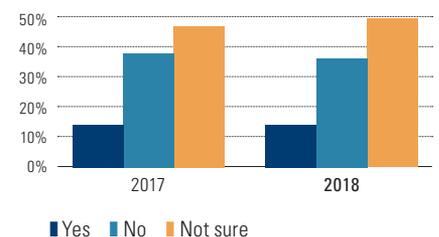
## What is your target-date fund composed of?

	All	Micro	Small	Mid	Large	Mega
All passive investment strategies	14.3%	9.9%	10.6%	12.9%	26.9%	38.9%
All active investment strategies	9.2%	6.0%	8.6%	15.3%	10.9%	11.5%
Active and passive investment strategies	32.1%	25.6%	35.4%	35.1%	39.1%	29.0%
Not sure	44.4%	58.5%	45.3%	36.7%	23.1%	20.6%



## Does your target-date fund series currently utilize alternative asset classes such as hedge funds, real estate, commodities and others to provide diversification?

	All	Micro	Small	Mid	Large	Mega
Yes	14.1%	8.6%	13.1%	19.3%	18.2%	27.5%
No	36.4%	30.9%	36.4%	39.8%	44.8%	42.7%
Not sure	49.5%	60.5%	50.5%	41.0%	37.0%	29.8%



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