

# Target Date Fit Analysis

**KC Chiravanich**

INVESTMENT ANALYST

FLEXPATH STRATEGIES

# Need for Due Diligence Process



**Increased usage  
of TDFs**



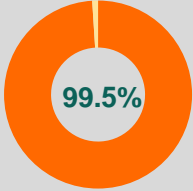
**Differences  
among like-  
dated TDFs**



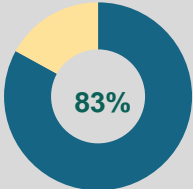
**Protect plan  
participants and  
mitigate  
fiduciary risks**

# Proliferation of Target Date Funds (TDFs)

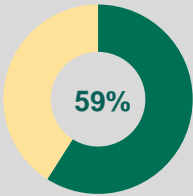
One of the most widely used investment options in defined contribution plans.



Participants offered TDFs

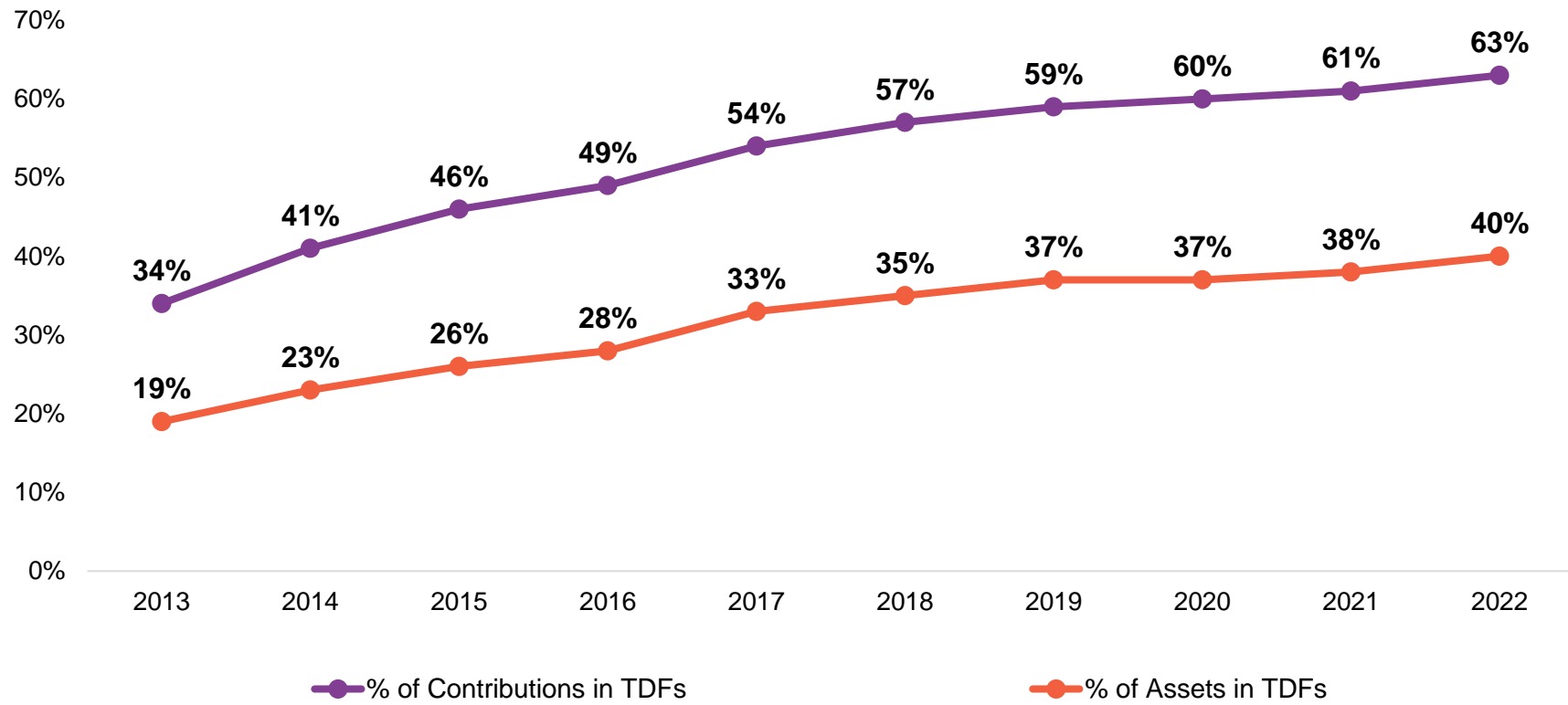


Participants using TDFs



Participants with entire account invested in single TDF

TDF prevalence necessitates increased due diligence by fiduciaries.

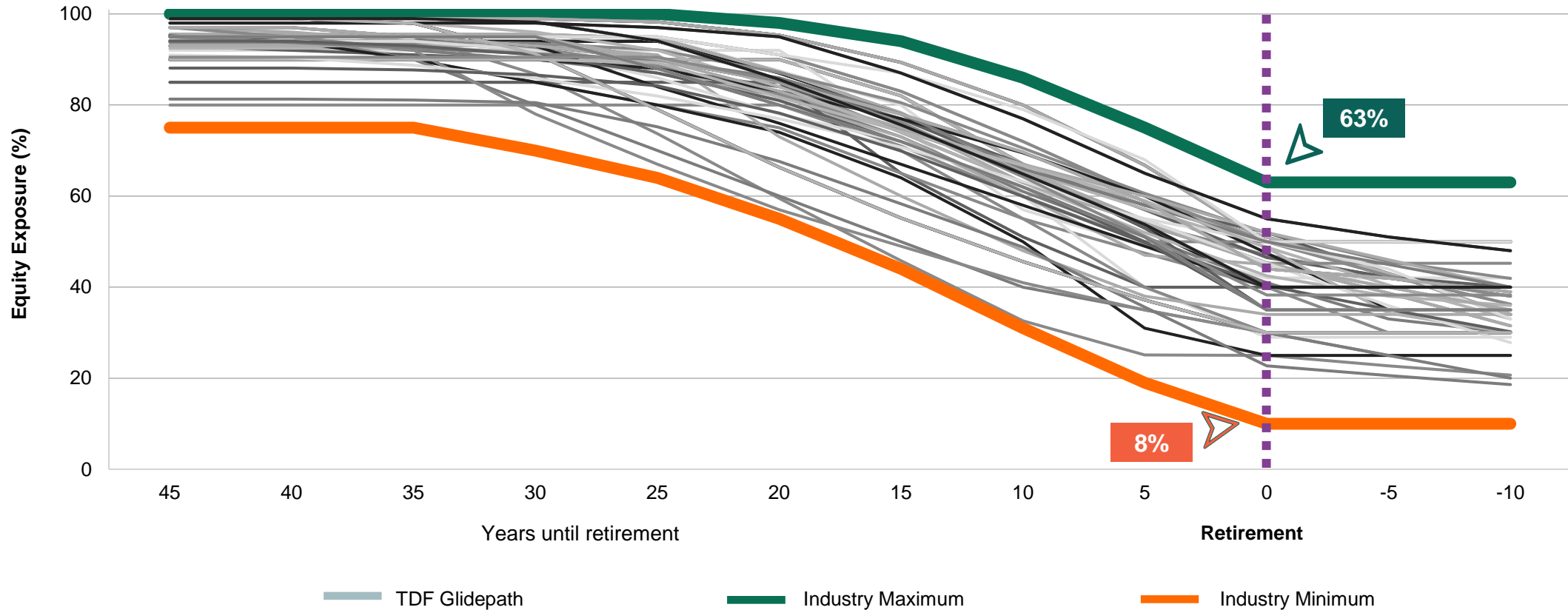


<https://institutional.vanguard.com/content/dam/inst/iig-transformation/has/2023/pdf/has-insights/how-america-saves-report-2023.pdf>

# Differences Among Target Date Fund Glidepaths

TDFs have never been more widely available or more diverse.

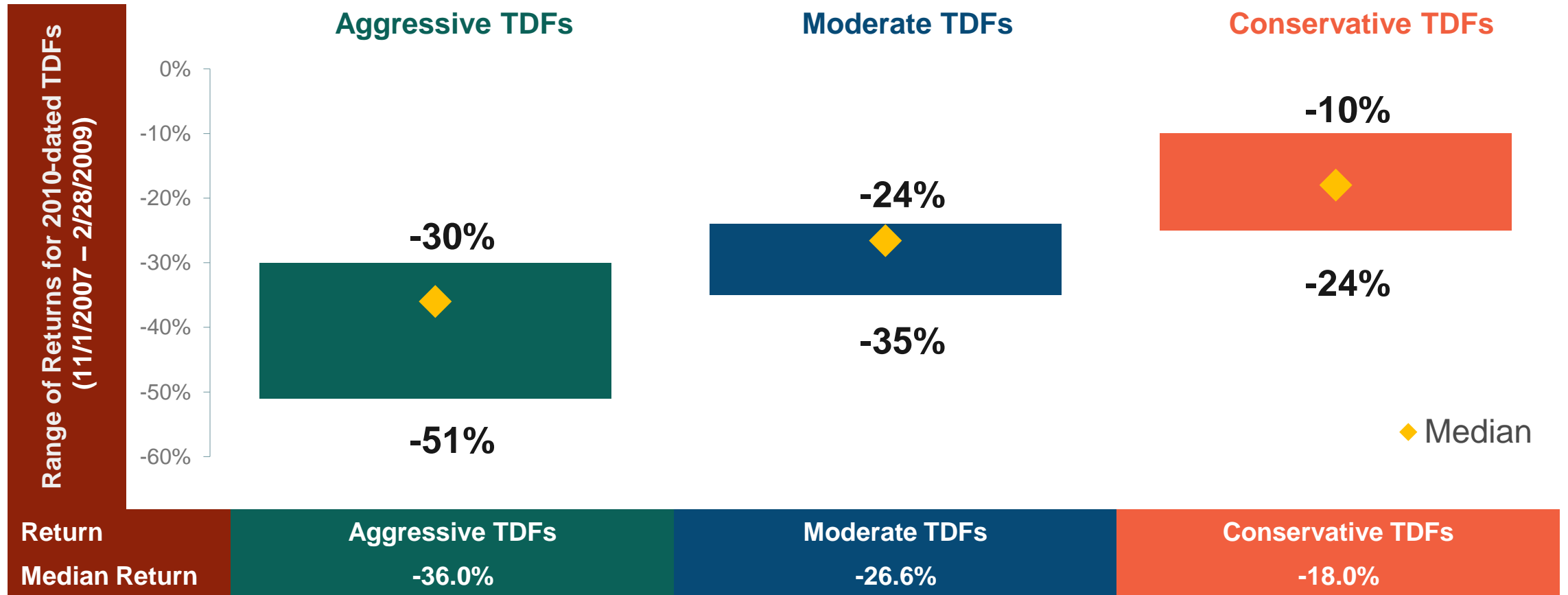
## TDF Glidepath Universe



Data as of 12/31/2023.  
Source: RPAG System. The multiple lines represent various TDF glidepath options available within the marketplace.

# Pre-Retirement Drawdown Risks of TDFs – Global Financial Crisis

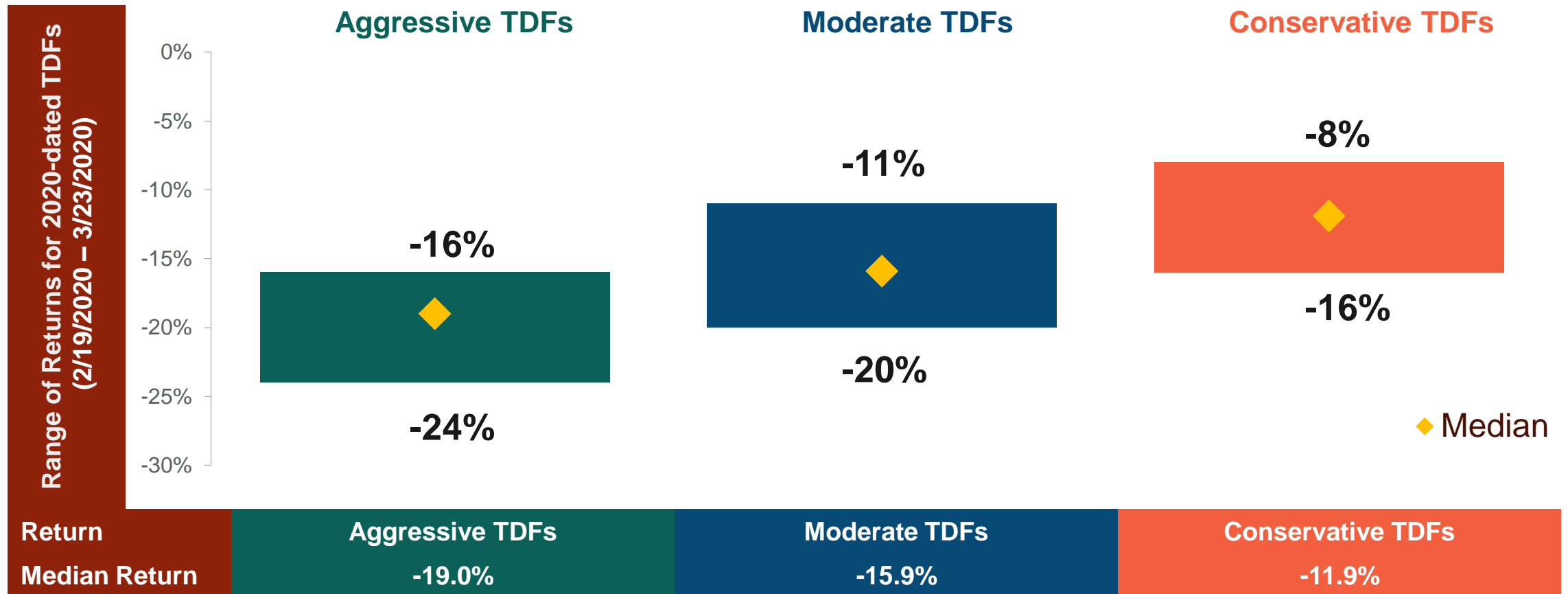
Differences in glidepath risk posture can lead to extreme differences in returns for participants.



Source: Morningstar Direct, as of 30 June 2019. Conservative, Moderate and Aggressive TDFs are classified utilizing the RPAG TDF Risk Index. Past performance is no guarantee of future results. Indexes are unmanaged and one cannot invest directly in an index.

# Pre-Retirement Drawdown Risks of TDFs – COVID Pandemic

Differences in glidepath risk posture can lead to extreme differences in returns for participants.



Source: Morningstar Direct, as of 30 April 2020. Conservative, Moderate and Aggressive TDFs are classified utilizing the RPAG TDF Risk Index. Past performance is no guarantee of future results. Indexes are unmanaged and one cannot invest directly in an index.

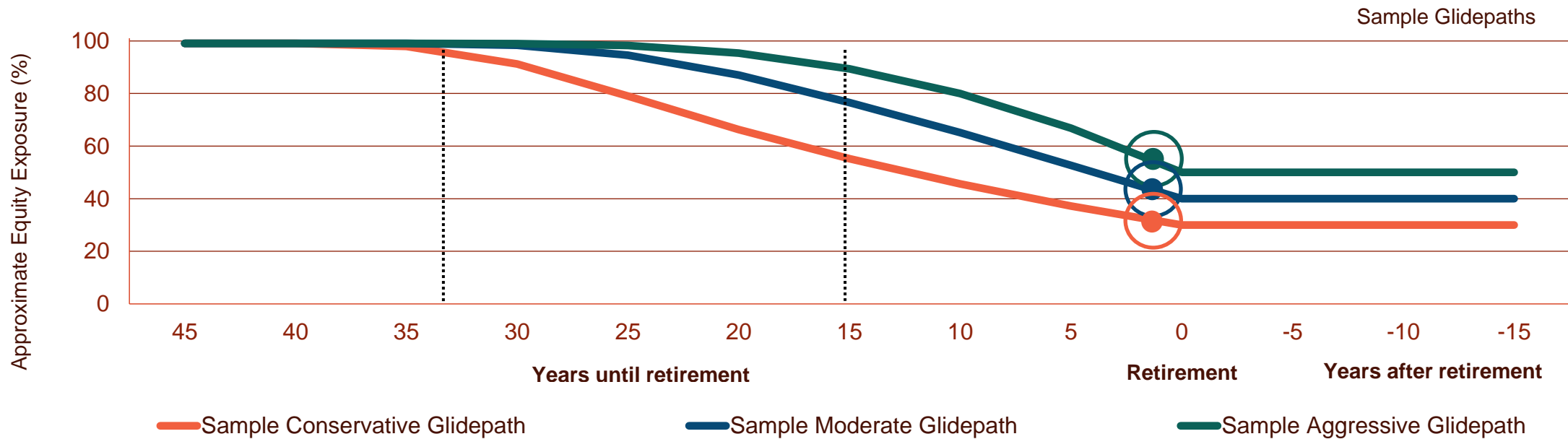
# DOL GUIDANCE – TARGET DATE FUND TIPS

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



# Target Date Fund Risk Postures

TDFs are categorized into one of three risk postures. Equity exposure at various points in time and the rate of transition away from riskier investments are key factors.



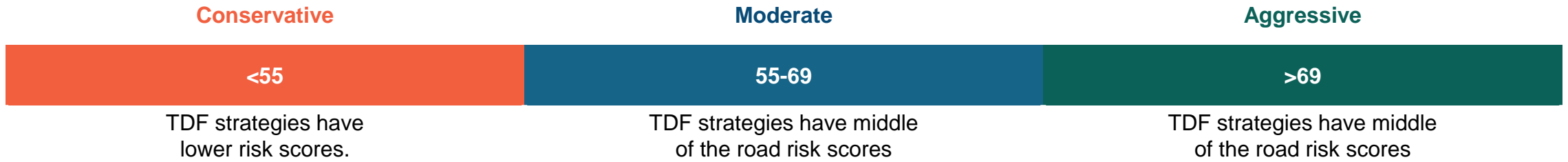
| Conservative<br>Objective: Stability | Moderate<br>Objective: Balance | Aggressive<br>Objective: Growth |
|--------------------------------------|--------------------------------|---------------------------------|
|--------------------------------------|--------------------------------|---------------------------------|

- |  |  |   |
|--|--|---|
| <ul style="list-style-type: none"> <li>▪ Lower equity exposure at retirement</li> <li>▪ Incorporates a long and gradual transition away from risky assets</li> </ul> | <ul style="list-style-type: none"> <li>▪ Moderate equity exposure at retirement</li> <li>▪ Incorporates a more steady transition away from risky assets</li> </ul> | <ul style="list-style-type: none"> <li>▪ Higher equity exposure at retirement</li> <li>▪ Incorporates a faster transition away from risky assets</li> </ul> |
|--|--|---|



# Target Date Fund Risk Postures

TDFs are categorized into one of three risk postures. Equity exposure at various points in time and the rate of transition away from riskier investments are key factors.



| Metric  | Description  | Index Weight |
|---|--|--------------|
| Equity exposure at retirement (age 65)        | Equity risk is responsible for a large portion of the volatility in broadly diversified portfolios. The time around retirement is an especially critical period for participants, and thus this metric has the highest weighting in the index. | 65%          |
| Glidepath slope                               | A steeper glidepath that transitions away from high-risk to risk-free assets near retirement age limits the ability to recover large losses and is more susceptible to sequencing risk.  | 25%          |
| Equity exposure at the start of the glidepath | A glidepath's beginning equity percentage.   | 2.5%         |
| Equity exposure at the end of the glidepath   | A glidepath's ending equity percentage, which may be at retirement age or past retirement age depending on the structure of the glidepath.   | 7.5%         |

TDF data is updated at least annually, and the risk index for any particular fund may change to reflect updated information. The risk index is limited to only target date fund asset allocation series. IMPORTANT: The projections or other information generated by the risk index regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.

# PLAN FIT ANALYSIS

The plan fit analysis incorporates “average participant” assumptions regarding funding adequacy and participant tendencies in order to identify a “best fit” risk profile for a plan.

| Participant Account Balance Status and Salary |   |  |  |  |
|---|---|--|--|--|
|   | Total Participants with Account Balance | Active Participants with Account Balance | Terminated Participants with Account Balance | Total Number of Terminated Participants (with and without account balance) |
| <44   |   |  |  |  |
| 45-54   |   |  |  |  |
| 55-64   |   |  |  |  |
| 65+   |   |  |  |  |
| <b>Total</b>                                  | <b>0</b>                                | <b>0</b>                                 | <b>0</b>                                     | <b>0</b>   |
|   |   |  |  |  |
|   | Average Account Balance                 | Median Account Balance                   |  |  |
| <44   |   |  |  |  |
| 45-54   |   |  |  |  |
| 55-64   |   |  |  |  |
| 65+   |   |  |  |  |
|   |   |  |  |  |
| Average participant age                       |   |  |  |  |
| Average participant account balance           |   |  |  |  |
| Average participant salary                    |   |  |  |  |

| Plan Design   |  |
|---|--|
| Is there a company match and/or non-elective contribution?          |  |
| If yes, what is the average total employer contribution percentage? |  |
| If yes, what is matching formula and/or non-elective contribution?  |  |
| Does the plan have automatic enrollment?                            |  |
| If yes, what is the starting percentage?                            |  |
| Does the plan have automatic escalation?                            |  |
| If yes, what is the annual increase?                                |  |
|   |  |
| TDF Series Name   |  |
| TDF Series Assets (\$)  |  |
| Total Plan Assets (\$)  |  |
|   |  |
| % of Total Participants invested in a TDF                           |  |
| % of Total Participants 100% invested in TDFs only                  |  |

# Request for Information Template





Menu

[Resource Center](#) [Advisor IQ](#) [Fund Lookup](#) [Client/Prospect](#) [Ask RPAG](#)

Dashboard

- Clients
- Prospects
- My Calendar

Plan Asset Link (PAL)

- Manage PAL Feeds
- Consent Forms

Resources

- My Documents
- Resource Center
- RPAG University
- Video Learning Center

Financial Wellness

- Rollover Analyzer
- WellCents Website
- WellCents Resource Center

Support

- FAQ
- Contact Us
- Ask RPAG

Practice Management

- Advisor IQ
- Advisor Reports
- Compensation
- Client Servicing
- To-Dos
- Wise Rhino Firm Valuation

Tools

- Plan Fees
- Advisor Fee Calculator™
- Fiduciary Briefcase
- Larkspur Executive
- Larkspur Pro
- mpi Stylus Web
- PLANavigator
- Stable Value Analyzer
- TDF Analyzer**

Scorecard System

- Asset Class Review
- Batch Considerations
- Batch Reporting
- Fund Mapping
- Fund Research
- Lineup Comparison
- My Custom Models
- My Fund Menu
- My Special Funds
- Provider Scorecard

Admin

- Company
- User Profiles
- Manage Templates
- Manage Report Themes
- Manage Historical Data

02-13-2023 09:57 AM

Recession, Inflation and Small Caps

Despite above average inflation and the risk of a recession, the small cap value style of investing appears well-positioned to outperform over the long term. [See Why](#)

02-09-2023 12:58 PM

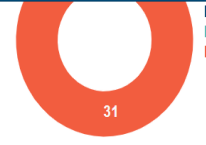
Average Plan Size \$18.6 M

Plans With Compensation<sup>0</sup>

Plans Without Compensation 32

2023 2022

In Progress Completed



My Calendar

RPAG Events



March 2023



Meetings

Details

# TDF Analyzer Tool

# TDF Analyzer

## Start New Report

Report Name

Fit Analysis - Spring Summits

Method Of Analysis ?

TDF Fit Analysis

Custom TDF Comparison

Start

## Saved Reports

Fit Analysis - Spring Summits

Fit Analysis - Spri...

TDF Fit Analysis



Status: In Progress

Start Date: 03/21/2024 05:56 PM EST

Date Modified: 03/21/2024 05:56 PM EST

Meeting Date:

Created By: Lauren Neeno fiduciaryPATH

Score as of: Q4 2023

**Step 1**

TDF Fit Analysis

View

**Step 2**

TDF Series Selection

View

**Step 3**

Build report

### Plan Objectives

Plan objectives impact participant savings and ability to take risk. It is important that the plan's glidepath aligns with the plan's structure, including whether or not supplemental savings plans exist and the level to which these other plans provide income in retirement.

Is this retirement plan a supplement to another retirement savings plan?

Yes  No

Do participants generally stay in the plan through retirement?

Yes  No

Does the company's other retirement savings plan, if one exists, offer significant income in retirement?

Yes  No

Glidepath Risk Consideration **Conservative**

### Plan Demographics

Plan demographics drive glidepath strategy based on the funded status of the participants, primarily driven by contribution rates and account balances. These factors, in addition to the sophistication of the participants, dictate their need to take risk.

Do plan participants have above average investment knowledge?

Yes  No

Does the plan have high contribution rates?

Yes  No

Does the plan have high account balances at retirement?

Yes  No

Glidepath Risk Consideration **Aggressive**

### Participant Behavior

Participant behavior influences glidepath strategy to the extent that participants are engaged with their retirement plan. Their expectations regarding the timing of distributions and overall willingness to take risk are also key factors.

Does the plan have high participant engagement?

Yes  No

Do participants expect to stay in the plan through retirement?

Yes  No

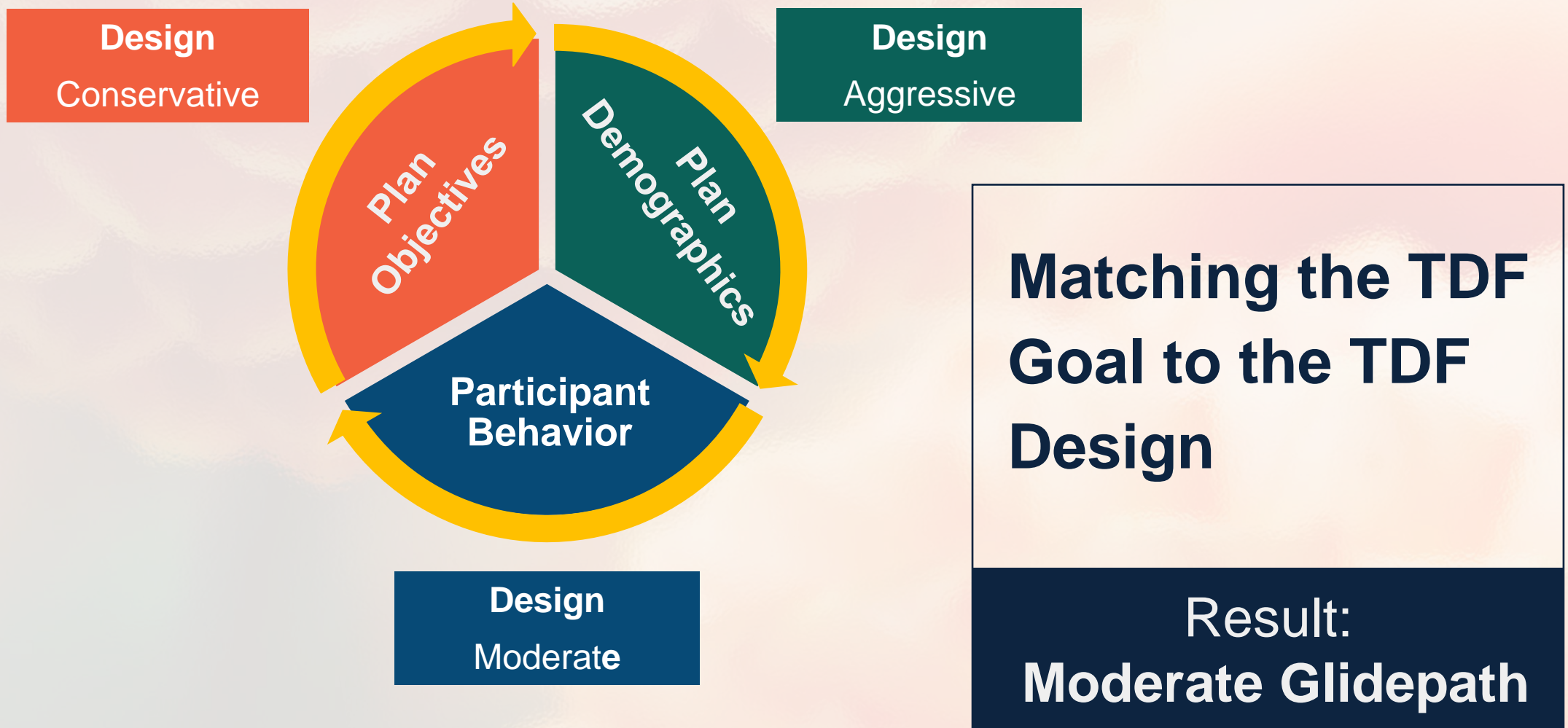
Are participants risk-averse?

Yes  No

Glidepath Risk Consideration **Moderate**

# Step 1 – Plan Fit Analysis

# Fit Analysis Overall Plan Result





Your responses to the TDF FIT Analysis questions resulted in different risk levels for the different categories, indicating the plan may have a diverse participant base and risk requirements. These needs may be best addressed using a multiple glidepath approach. If a multiple glidepath approach is not available, the most appropriate single glidepath risk level is **Moderate**. TDF series that fit these criteria are included in the chart below.

## TDF Series Selection

- All
- flexPATH Index
- flexPATH Index+



| Product Name  | Risk Category | Risk Index Score | Average Underlying Score | Include                  |
|---|---------------|------------------|--------------------------|--------------------------|
| Blackrock LifePath Index MF                         | Moderate      | 68               | 10                       | <input type="checkbox"/> |
| Manning & Napier Target Date Series CIT Class U1    | Moderate      | 64               | 10                       | <input type="checkbox"/> |
| BlackRock LifePath Index Target Date Series F CIT   | Moderate      | 68               | 9.7                      | <input type="checkbox"/> |
| flexFIT+ Moderate                                   | Moderate      | 68               | 9.6                      | <input type="checkbox"/> |
| IndexSelect Moderate                                | Moderate      | 68               | 9.6                      | <input type="checkbox"/> |
| Flex Focus Moderate                                 | Moderate      | 68               | 9.5                      | <input type="checkbox"/> |
| MyCompass Index Moderate Target Date Series Class R | Moderate      | 68               | 9.5                      | <input type="checkbox"/> |
| RetirementTrack Moderate                            | Moderate      | 68               | 9.5                      | <input type="checkbox"/> |
| Blackrock LifePath Index CIT                        | Moderate      | 68               | 9.4                      | <input type="checkbox"/> |
| RetirePilot Moderate                                | Moderate      | 68               | 9.4                      | <input type="checkbox"/> |
| Transamerica ClearTrack                             | Moderate      | 62               | 9.4                      | <input type="checkbox"/> |
| Transamerica LifeGoalSM Target Date Series (.07)    | Moderate      | 60               | 9.4                      | <input type="checkbox"/> |
| JPMCB SmartRetirement Commingled Funds              | Moderate      | 68               | 9.2                      | <input type="checkbox"/> |

Include incumbent TDF Series

flexPATH Index Moderate

### Industry Comparisons

Select one or more to include

Industry Minimum

Industry Average

Industry Maximum

Save

# Step 2 – TDF Series Selection



Step 1 ✓  
TDF Fit Analysis  
View

Step 2 ✓  
TDF Series Selection  
View

Step 3  
Build report

Select Template

RPAG Templates  
Standard Template

My Templates  
Select  
[Delete Template](#)

Custom Template  
Custom


Report Builder

Report Theme  
RPAG Theme

[+ Add New Report Theme](#)

Click and drag a feature to your Report Layout on the left. Rearrange as needed. Features listed in red require action.

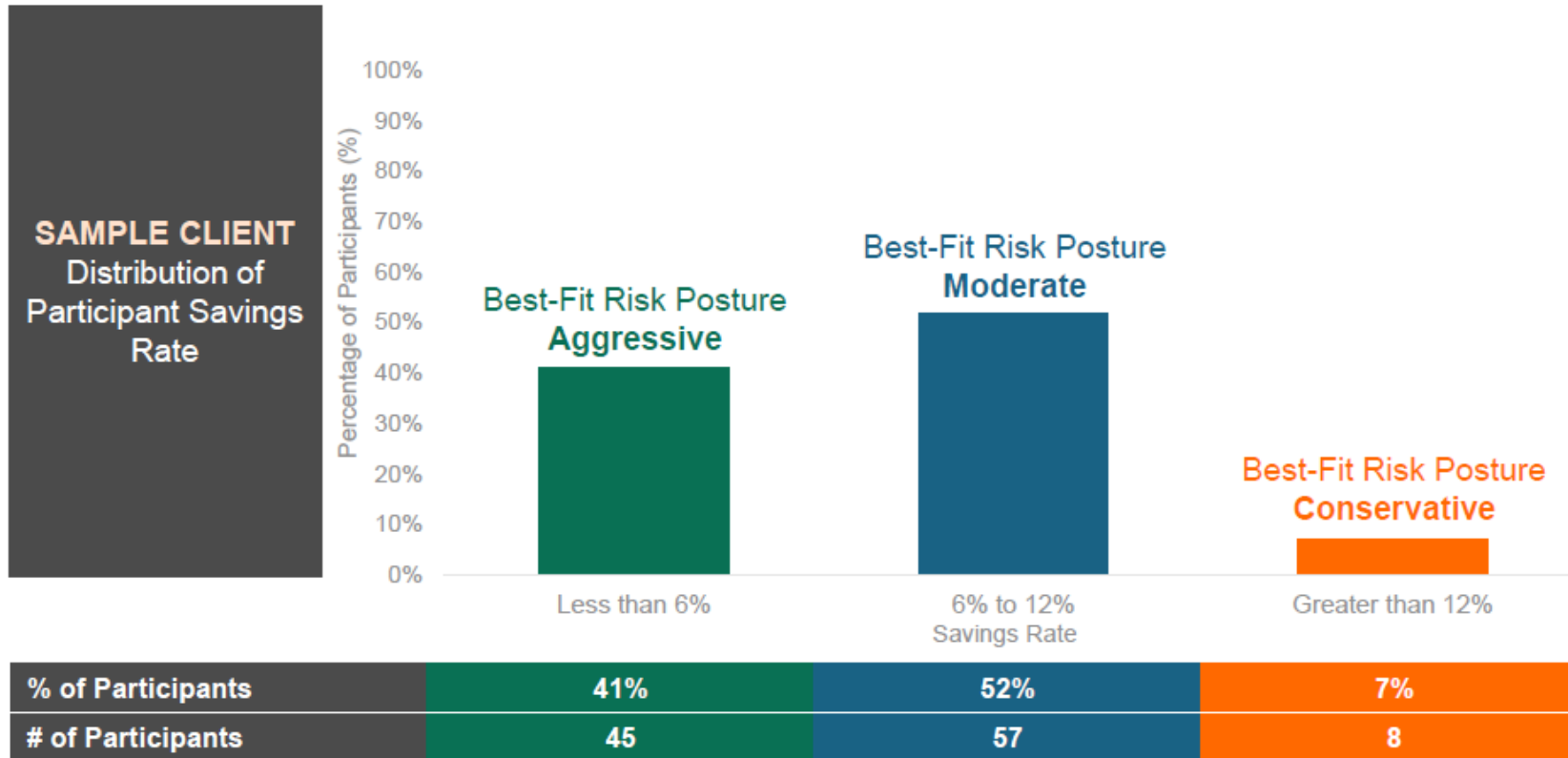
Report Layout | Features | Documents & Disclosures | Investments | Structure

 View All

# Step 3 – Build Report

## Does One Size Fit All?

- ✓ Misfit risk occurs when a participant's actual savings rate differs from the TDF's assumed savings rate
- ✓ Participants saving more for retirement can afford to de-risk while participants saving less may need to be more aggressive

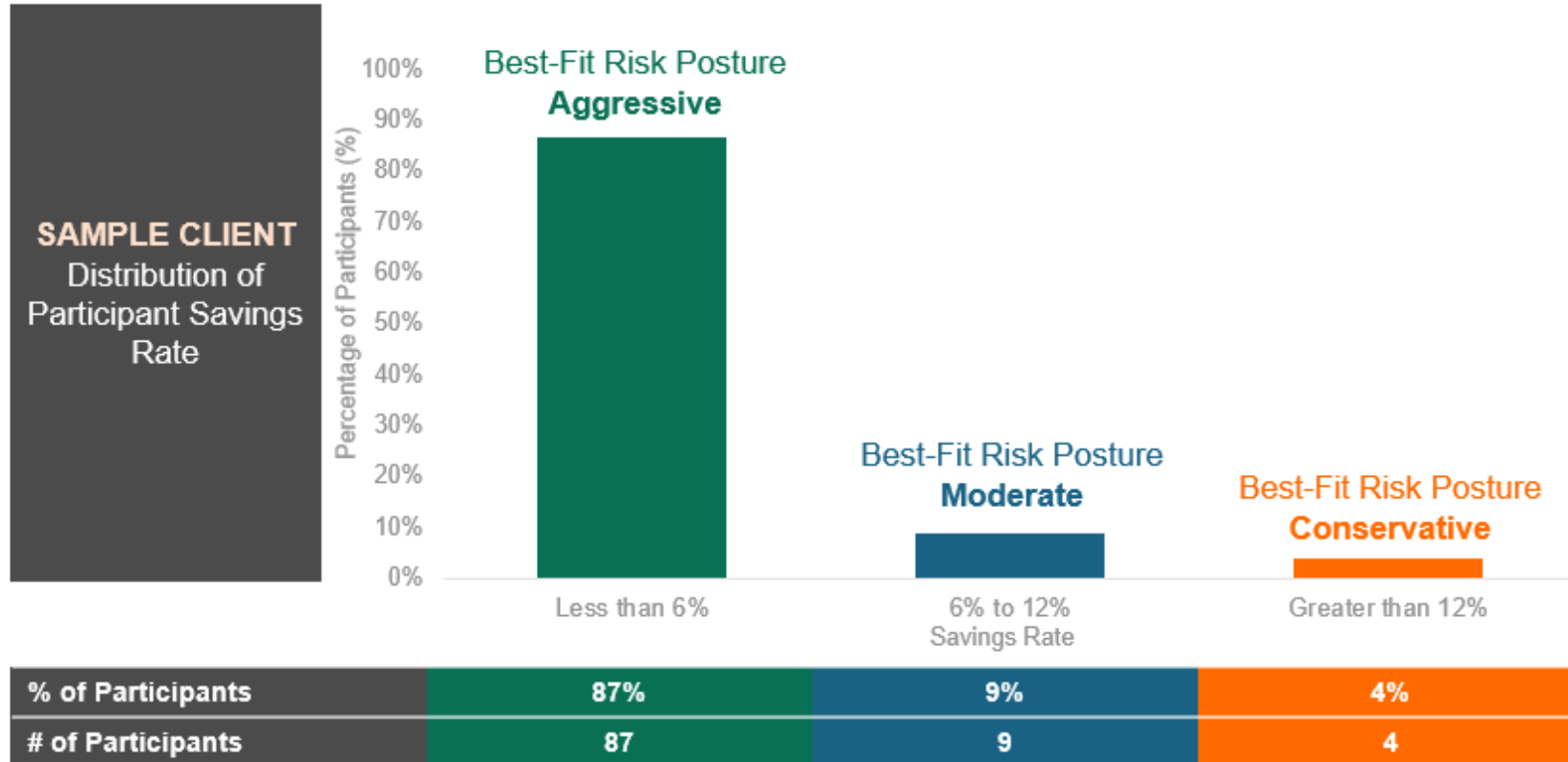


Source: Recordkeeper as of 12/31/2023..  
For employees with an active deferral rate greater than 0.00%  
Employee match included: 50% up to 6%.

# Savings Rates – Diverse Group

## Does One Size Fit All?

- ✓ Misfit risk occurs when a participant's actual savings rate differs from the TDF's assumed savings rate
- ✓ Participants saving more for retirement can afford to de-risk while participants saving less may need to be more aggressive



Source: Recordkeeper as of 12/31/2023.  
For employees with an active deferral rate greater than 0.00%  
Employee match included: 50% up to 6%.

# Savings Rates – Homogenous Group

# KEY TAKEAWAYS



TDF prevalence necessitates increased due diligence by fiduciaries

Aim to run a Plan Fit Analysis every 3-5 years, or as needed

Leverage the TDF Analyzer tool in the RPAG system

flexPATH Team is happy to run manual tests



# 2024 REGIONAL SUMMIT