

## TDF FIT ANALYSIS GUIDE

Target date funds (TDFs) represent one of the most critical investment decisions fiduciaries must make about their retirement plan. While TDFs represent a growing share of retirement plan assets, these investments have a high degree of variability and are commonly misunderstood.

To assist fiduciaries with glidepath identification and selection, TDFs are categorized into one of three risk postures; conservative, moderate and aggressive. Fiduciaries must understand the plan's objectives, demographics and participant behavior in order to select a suitable TDF. The TDF Fit Analysis aims to identify the proper glidepath risk for a particular plan based on key plan-specific factors. While the Fit Analysis helps establish a process, other important variables may also influence the appropriate TDF design.

Please use the guide below to assist you with the TDF Fit Analysis.

### Plan Objectives

Plan objectives impact participant savings and their 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?

A retirement plan or a supplemental retirement plan: A retirement plan is considered to be the primary source of retirement income for an employee. Typical features found with these types of plans include high matching employer contributions, auto-enrollment and escalation plan design features (employees should be in the plan with a plan design set up for them to retire on). A supplemental plan, accordingly, does not share these similarities, and tends to be optional for the employee as another (but not primary) source of retirement income. Supplemental plans typically accompany defined benefit plans.

#### Do participants generally stay in the plan through retirement?

Determined if over half of employees stay in the plan beyond age 65. The recordkeeper can supply data that indicates how many participants stay in the plan after retirement.

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

This is specific to the defined benefit plan and the level of benefits (income) it pays in retirement. In general, benefits replacing half or more of income can be considered "above average."



## Plan Demographics

Plan demographics drive glidepath strategy based on the funded status of the participants, which is 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?

The average investor would be better suited in a professionally managed asset allocation solution versus doing it alone. Above average knowledge would include employees in certain industries where there is presumably more knowledge in this subject (financial services companies, banks, investment managers). Some companies may also have a highly educated workforce, which potentially increases the likelihood of having a financial advisor (or access to one) to help them make these decisions.

### Does the plan have high average contribution rates?

The recordkeeper can supply data that indicates the contribution rates (employer and employee). High contribution rates are considered to be in double digits.

### Does the plan have high average account balances at retirement?

This is specific to the plan and the salary levels at the company (higher account balances are needed to replace high salary levels). National averages are not applicable. If account balances are not six digits, they are not considered high.

## Participant Behavior

Participant behavior influences optimal glidepath strategy to the extent that participants are more or less 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 participation rate?

The recordkeeper can supply data that indicates the level of involvement (web usage, phone calls, re-balancing, etc.). High participant involvement means the majority of participants are actively engaged in the plan.

### Do participants expect to stay in the plan through retirement?

Plan design is an influential determinant of participant behavior. Presentation of the plan is another measure. For example, if plan design or investment options/advice encourages participants to remain in the plan post-retirement, then more participants can be expected to stay in the plan. Most participants leave the plan shortly after retirement due to the plan (historically) being positioned as an accumulation vehicle.

### Are participants generally risk-averse?

There are different types of participants, some willing, and some not willing to accept risk. Risk neutral means the participant is comfortable accepting risk for the opportunity of a certain range of return. Risk averse means the participant is not comfortable accepting risk if there is a chance for a similar degree of loss (there is more “pain” when experiencing a loss). If it is perceived that the majority of participants are comfortable with a wide range of returns (or short term volatility), that would indicate risk neutral behavior. The balance of plan assets in money market, stable value, or other conservative investments is another indication of risk tolerance.