

Strategies for Aligning a TDF Glide Path with a Plan's Demographics



Jake Gilliam

Since the passing of the Pension Protection Act (PPA) in 2006, many plan sponsors and their advisers have made target-date funds (TDFs) the qualified default investment alternative (QDIA) for their defined contribution (DC) plans. The TDF selection decision, however, has largely been driven by price or recordkeeper options—as opposed to a glide path's alignment with plan participants. PLANADVISER spoke with Jake Gilliam, Senior Multi-Asset Class Portfolio Strategist with Charles Schwab for insight into how advisers can determine if a TDF's glide path is the right fit for the demographics of a client's plan.

PLANADVISER: What steps can advisers take to determine if a TDF glide path is a good fit for a client's participant or plan demographic?

Jake Gilliam: We suggest advisers overlay the TDF's glide path with the demographics of the plan's participants—evaluating age ranges, salaries, deferral rates and employer match. Look at the concentration of age ranges relative to the levels of risk in a glide path. If there's a concentration of employees at younger ages, for example, it's important the glide path has enough market exposure to help participants accumulate wealth over time. Conversely, if there's a significant portion of the population that's nearer to retirement, ensure that the glide path is conservative enough to protect their nest eggs. As plan demographics mature and change over time, we believe it's prudent for plan sponsors and advisers to do this due diligence on an ongoing basis.

PA: How can plan advisers assess whether a TDF glide path overexposes older participants to equities and associated risks?

Gilliam: We believe that a glide path should assume an appropriate level of risk at the appropriate time in a participant's life cycle. So it's critical to understand what participants are being exposed to during the most sensitive part of the glide path journey—which is as they approach retirement. That is when participants are most likely to react emotionally in volatile or down markets, and that's when fiduciary risk may be higher as plan sponsors could be asked to defend a glide path that is too aggressive for their employee population. The risk exposure should be a conscious and deliberate decision.

If participants can stay in a plan post-retirement, then we'd encourage considering a glide path that continues to manage beyond their retirement years. This is commonly

referred to as a "through" glide path. This type of approach can help provide appropriate levels of market exposure in an employee's retirement years.

PA: What are the key considerations for evaluating a custom TDF versus a packaged target-date fund solution?

Gilliam: We have found that most participant populations are more similar than different. As such, the benefits of a custom design may not justify the added operational cost, greater administration requirements and potential for increased litigation risk. One also has to consider if their staff has the expertise to monitor and evolve the target fund and its underlying components over time. We encourage advisers to conduct a thorough analysis before recommending a custom solution to make sure there are meaningful benefits in that approach relative to a prepackaged solution.

PA: How does Charles Schwab Investment Management align its glide path design with participant outcomes?

Gilliam: Our glide path focuses on how investors tend to invest and respond to risk. It is a behavioral glide-path design based on a framework that quantifies the level of risk investors can tolerate and benefit from as they age and change in life stage. We believe glide path design can help support positive behaviors over time by exposing the investors to appropriate levels of risk at those different age ranges.

For example, our glide path is designed to help protect older participants from downside market volatility, to help encourage them to remain invested in the fund. Our goal is to help participants secure a successful retirement by supporting wealth accumulation without unduly placing savings at risk both during their working years and as they draw income in retirement. ■

For more insights on Charles Schwab Investment Management's behavioral-driven glide path design, visit csimfunds.com/targetdate

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