PANTHEON

PRESS RELEASE

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The urgent case for diversifying TDFs in retirement plans and why now is the moment to do so

Defined Contribution plans will play a significant role in determining the retirement well-being of many American workers: their net investment performance and diversification rather than only low fees should be of paramount concern, particularly as we mark the 10-year anniversary of the public market recovery from the Global Financial Crisis.

This is how Angela Antonelli, Executive Director of the Center for Retirement Initiatives at Georgetown University's McCourt School of Public Policy, framed the discussion at an exclusive roundtable of industry participants on the topic: ***"Act now: The urgent case for diversifying TDFs in retirement plans and why now is the moment to do so"***.

Hosted by Pantheon, an established private markets investor and high-profile advocate of incorporating private market assets within DC plans, Ms. Antonelli chaired a discussion with Washington State Investment Board, AllianceBernstein and Willis Towers Watson. The event followed the Center's recent publication of "The Evolution of Target Date Funds: Using Alternatives to Improve Retirement Plan Outcomes," produced in partnership with Willis Towers Watson.

Theresa Whitmarsh, Executive Director of the Washington State Investment Board, noted that WSIB had been dedicated to significant private market investments for 30+ years. "When it comes to including private market investments in the target-date glide paths of DC retirement funds, the investment case appears clear and advantageous for us - but the nitty-gritty challenges of fund operations, fund construction and participant education are not trivial. At WSIB, we're working through these challenges one at a time. We are optimistic, but not rushing."

David O'Meara, Head of DC strategy at Willis Towers Watson, who was a contributing author of the Georgetown report, shared data from Willis Towers Watson's DC Plan Sponsor Survey that 81% of plan sponsors now only offer a DC plan to their new employees and that Target Date Funds dominated Qualified Default Investment Alternatives - to where the majority of all new DC plan contributions flow. The focus of the discussion was, therefore, on how to encourage policymakers, plan sponsors, service providers, asset managers and other DC market participants to take advantage of all available tools at their disposal to help improve DC participant outcomes with a focus on TDFs - the professionally managed component of DC plans - in particular.

Highlighting certain findings from the Georgetown report, Mr. O'Meara explained how expected annual retirement income increases from $53,000 to $62,200 when a diversified selection of alternative investments is incorporated into a TDF: "The expected retirement income can be increased dramatically while also mitigating downside risks. At age 65, an individual could expect investment returns to increase from 5.1% to 6.1%. The challenges to creating better investment solutions in DC plans can be effectively managed to allow plan sponsors to take steps toward enhancing retirement outcomes for their participants," he commented.

Ms. Antonelli asked panellists: "Why don't we see greater diversification of asset classes in TDFs today? It is accepted in the Defined Benefit world but not in DC plans. What are the challenges to be overcome and can they be easily addressed?" Noting the high valuation of public markets and their recent volatility, Ms. Antonelli also invited panellists to comment on: "If what goes up must come down, should there be a sense of urgency to enabling greater diversification?" In response, Christopher Nikolich, Head of Glide Path Strategies (US), Multi-Asset Solutions, at Alliance Bernstein asked: "Do fiduciaries believe that the robust stock and bond returns that we have experienced since 2009 will continue indefinitely? If not, they had better consider additional forms of diversification within their target date fund."

Fear of litigation and a strong trend towards lowering investment management fees by allocating capital to passive and index strategies present significant hurdles to achieving TDF diversification. "Sponsors look to regulators and policymakers for direct guidance, which is often followed by adoption," noted Mr. O'Meara. "Support is needed to encourage the investment design evolution that can materially improve retirement outcomes."

His comments were echoed in Ms. Antonelli's concluding remarks: "Policymakers should consider these findings about the inclusion of alternate asset classes in DC plans, specifically through professionally managed target date structures. Even absent any additional action by policymakers, plan sponsors with an interest in implementing portfolios with alternate asset classes can work with their advisors, custodians and recordkeepers to implement solutions that enhance participant outcomes for a more secure retirement."

Ends.

References

"The Evolution of Target Date Funds: Using Alternatives to Improve Retirement Plan Outcomes", Georgetown University McCourt School of Public Policy Center for Retirement Initiatives in conjunction with Willis Towers Watson

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