Target Practices

Lifecycle funds—target-date funds in particular—have found their way into the majority of mid-size and large defined contribution plan investment menus. Small plans, however, have been a bit slower on the uptake, new research shows.

As is frequently the case in the institutional retirement space, large plans tend to be the first to adopt and embrace new and innovative products and services as smaller plans take a "wait and see" approach. Such was the case with daily valuation and automatic enrollment plan features, for instance. This may be a result of marketing practices in the provider community—where new products are rolled out to the most profitable customers first—or perhaps large plans as a group tend to be more focused on keeping abreast of the latest products the industry has to offer, or even that some products just are not as applicable to a small plan.

In any case, the topic that is currently getting the most "ink" in institutional retirement—lifecycle funds—is another example of how the large plan community has led the charge. In the current RiverSource Investments/*PLANSPONSOR* research on target-date fund usage by plan sponsors, 89% of mid-size plans (defined as having $20-$200 million in defined contribution assets) and nearly the same percentage of large plans (having more than $200 million in defined contribution assets) have at least one lifecycle fund in their investment menu—2,335 small, mid-size, and large plan sponsors participated in the study (see Methodology for details).

"We see the widespread adoption of lifecycle funds within defined contribution plans to be an affirmation that these products are perceived as an effective solution for retirement savings," notes Chris Keating, Head of Institutional Sales and Client Service at RiverSource Investments. "We find that large plan sponsors are the toughest critics of new products, and their opinions can be incredibly valuable when it comes to product development. We expect the strategies they adopt will challenge providers to create similar solutions for smaller plans," notes Keating.

Of the plan sponsors who participated in this study that offer lifecycle funds, more than two-thirds offer a target-date fund, which adjusts over time as the participant nears retirement, and nearly 42% of plans offer a risk-based lifecycle fund, which adjusts according to a participants' given risk tolerances.

Based on the study, approximately 73% of plans with lifecycle funds in their investment menus have selected proprietary funds from their recordkeepers. Large plans,

RiverSource® Investments

RiverSource Investments, LLC, an SEC-registered investment adviser and sponsor of lifecycle funds, provided financial support for this study and developed the questions jointly with *PLANSPONSOR*. RiverSource Investments' role in the study was not disclosed to research participants. *PLANSPONSOR* is not affiliated with RiverSource Investments and nothing herein should be taken as an endorsement by *PLANSPONSOR* of RiverSource Investments' products or services.

however, are more likely than their smaller counterparts to offer nonproprietary lifecycle funds.

Participant balances in lifecycle funds weigh in at 21.5% of overall balances—a very high figure considering that industrywide uptake of lifecycle funds is a fairly recent trend. "The data point to the end of one phase in the development of lifecycle funds and the start of another," says Keating. "With high acceptance of these funds among participants and growing balances, primarily in proprietary offerings from recordkeepers, it is clear that lifecycle funds are here to stay. Going forward, we believe the marketplace for these vehicles will become more competitive as plan sponsors evaluate best in breed funds seeking to provide participants with the lifecycle options that will give them the highest probability of achieveing participants' retirement savings goals," he adds.

When asked whether the "set it and forget it" approach of lifecycle funds is appropriate for most participants, and whether participants feel the need for lifecycle funds, the study found that mid-size and large plans were more likely than small plans to embrace the lifecycle approach. Small plans were also almost twice as likely to "strongly agree" with the statement that lifecycle funds require too much education for participants to understand. As more and more of their mid-size and large plan peers express their satisfaction with lifecycle funds, however, some of this skepticism among small plans is likely to dissipate, if not disappear altogether.

Research Study Methodology

In July and August 2007, the *PLANSPONSOR* research department solicited feedback from small, mid-size, and large defined contribution plan sponsors on their utilization of and perceptions about lifecycle funds. A total of 2,335 firms participated in the study, which was conducted via a Web-based anonymous questionnaire. Of these, 1,326 or 56.8% were small plans (having less than $20MM in defined contribution assets), 623 were mid-size plans ($20MM-$200MM in assets), and 385 were large plans (more than $200MM in assets). The questionnaire, developed jointly by RiverSource Investments and *PLANSPONSOR*, consisted of 22 questions pertaining to whether or not lifecycle funds are used, types of lifecycle funds used, average participant balances in lifecycle funds, and perceptions about lifecycle funds among plan participants. For any questions about the research or for more information on RiverSource Investments, please contact Chris Keating at chris.p.keating@ampf.com.

Number of responses by asset size

SMALL <$20 MM	MID $20MM–$200MM	LARGE >$200MM
56.8%	26.7%	16.5%

Illustration by Richard Borge

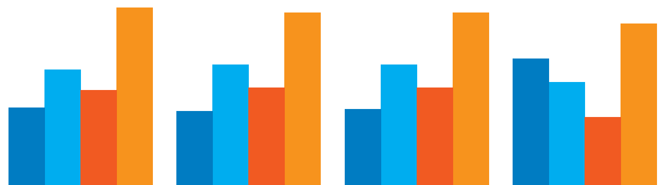
Do you currently have a lifecycle fund in your investment menu?

Lifecycle funds have become popular options in defined contribution plan investment lineups. Nearly 70% of all defined contribution plans in this study have at least one lifecycle fund option in their menu, and nearly 90% of mid and large plans that responded have one.

	OVERALL	SMALL <$20 MM	MID $20MM–$200MM	LARGE >$200MM
yes	69.3%	53.9%	89.9%	89.1%

If no, why not?

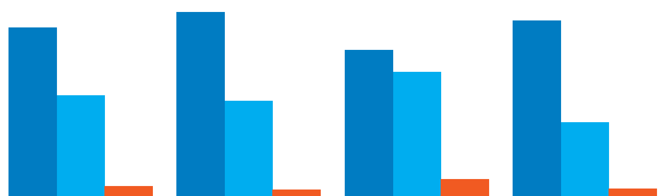
Lack of board approval is the most common reason cited for why plans in this study do not have a lifecycle fund in place. The opinion that the plan already has a sufficient number of investment options in the lineup is the next most common reason cited.



	OVERALL	SMALL <$20 MM	MID $20MM–$200MM	LARGE >$200MM
don't know enough	16.2%	15.5%	15.9%	26.2%
have enough options	24.0%	25.0%	15.9%	21.4%
too many options	19.8%	20.3%	19.0%	14.3%
not board approved	36.6%	35.5%	49.2%	33.3%

If so, what kind?

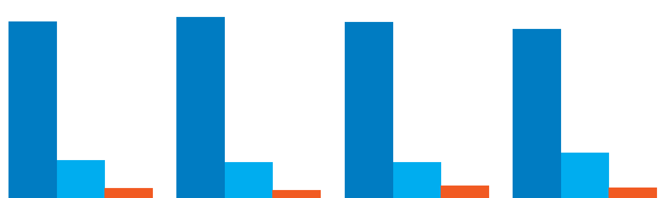
For plans in this study with a lifecycle fund in place, target date funds are the most prevalent type of lifecycle fund used. Interestingly, half of mid-sized plans claim to have a risk-based lifecycle fund in their defined contribution investment menu.



	OVERALL	SMALL <$20 MM	MID $20MM–$200MM	LARGE >$200MM
target-date	68.1%	73.9%	59.4%	70.8%
risk-based	41.8%	39.7%	50.8%	31.5%
balanced	6.9%	5.5%	9.5%	5.8%

Are these funds proprietary to the recordkeeper, or are they offered from a separate investment manager?

Regardless of plan size, more than 70% of defined contribution plan sponsors in this study which have a lifecycle fund option in place use a fund that is proprietary to the plan's recordkeeping firm. Large plans are only somewhat less likely to use a proprietary fund from the recordkeeper.



	OVERALL	SMALL <$20 MM	MID $20MM–$200MM	LARGE >$200MM
proprietary	72.9%	74.5%	72.6%	70.0%
non-proprietary	19.0%	18.2%	18.2%	21.9%
combination	8.1%	7.3%	9.1%	8.2%

What is the average % of participant balances in asset allocation/lifestyle/lifecycle funds?

Compared to participants in small and mid-size plans, participants in large defined contribution plans in this study tend to have lower percentage of assets in lifecycle funds as a percentage of their total balance.

	OVERALL	SMALL <$20 MM	MID $20MM–$200MM	LARGE >$200MM
average	21.5%	22.9%	22.9%	17.0%

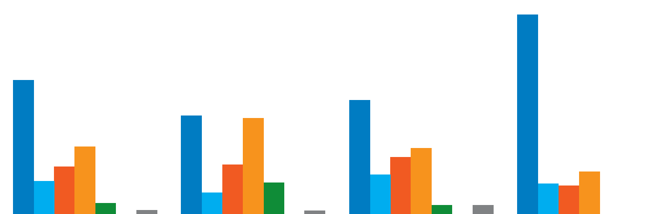
Do you use automatic enrollment?

Nearly one quarter of all plans in this study have an automatic enrollment feature in place. Mid-size and large plans, however, are more than three times as likely as small plans to have implemented such a feature.

	OVERALL	SMALL <$20 MM	MID $20MM–$200MM	LARGE >$200MM
yes	23.4%	11.0%	39.8%	36.9%

If so, what is the default investment?

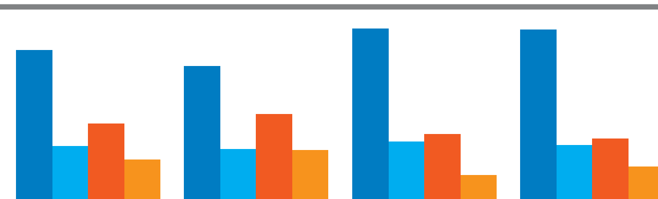
Target-date funds, particularly among large plans in this study, are the default option of choice for automatic enrollment programs. Among small plans, balanced funds are nearly as popular as target-date funds.



	OVERALL	SMALL <$20 MM	MID $20MM–$200MM	LARGE >$200MM
target-date	42.3%	31.5%	36.2%	62.1%
risk-based	11.4%	7.9%	13.4%	10.7%
stable value / GIC	15.9%	16.5%	18.7%	10.0%
balanced	21.9%	30.7%	21.5%	14.3%
money market	4.7%	11.0%	4.1%	0.7%
bond fund	0.0%	0.0%	0.0%	0.0%
other	2.5%	2.4%	4.1%	0.7%

Respondents were asked to rate their level of agreement or disagreement to the following statement: “Most participants in our plan like the ‘set it and forget it’ approach to DC plan investing, so lifecycle funds are appropriate for most participants.”

Nearly 70% of plan sponsors in this study at mid and large plans agree with this statement. Small plans seem less convinced, with 43% in disagreement.



	OVERALL	SMALL <$20 MM	MID $20MM–$200MM	LARGE >$200MM
strongly agree	44.6%	40.1%	50.6%	50.4%
somewhat agree	17.6%	16.8%	18.9%	17.9%
somewhat disagree	24.0%	26.6%	21.0%	19.7%
strongly disagree	13.8%	16.5%	9.5%	11.9%