

# *It's All About the Beneficiaries*



## Target Date Funds: Fiduciary Responsibilities and the Need for Simplification

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# Goal: Take Back Control

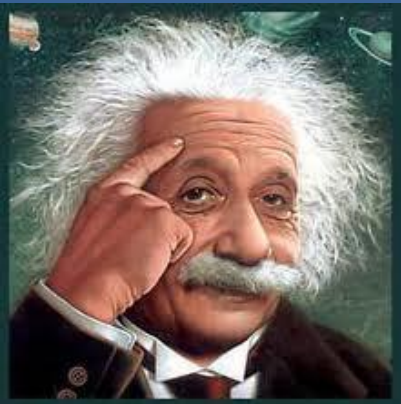


Fiduciaries have a responsibility to choose GOOD Target Date Funds (TDFs). Status as a Qualified Default Investment Alternative does not mean that any TDF will suffice.

Fiduciaries, not fund companies, need to establish objectives:

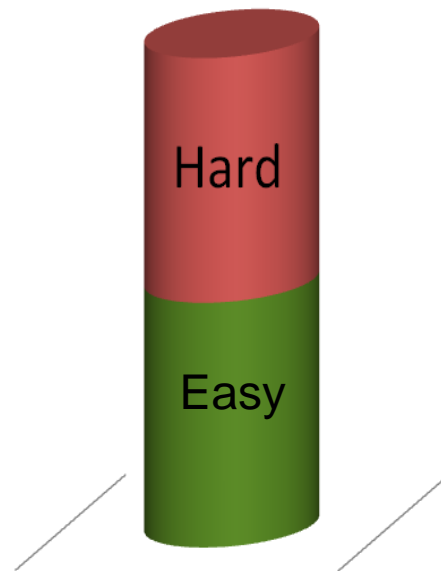
**Safety or Growth**

# Approach: Work Smarter



*Everything should be made as simple as possible, but not simpler.*

- Albert Einstein



# Agenda

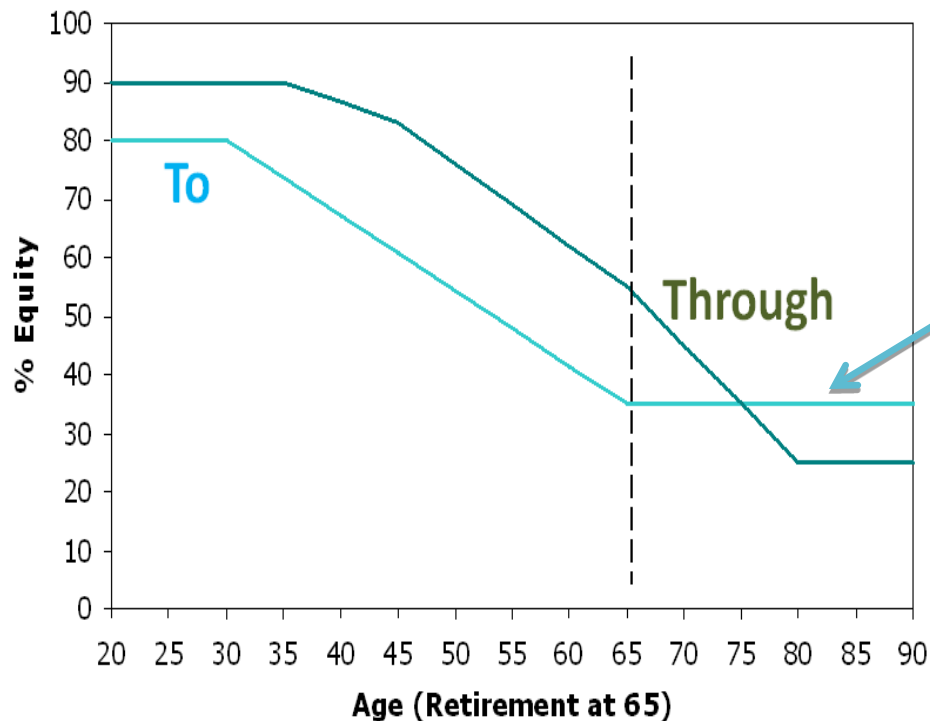
- **Complexities and Confusion**
- Simplification: What Matters & Why
- Implementing a Better Solution
- Live Results
- Fiduciary Imperative

# Complexities & Confusion

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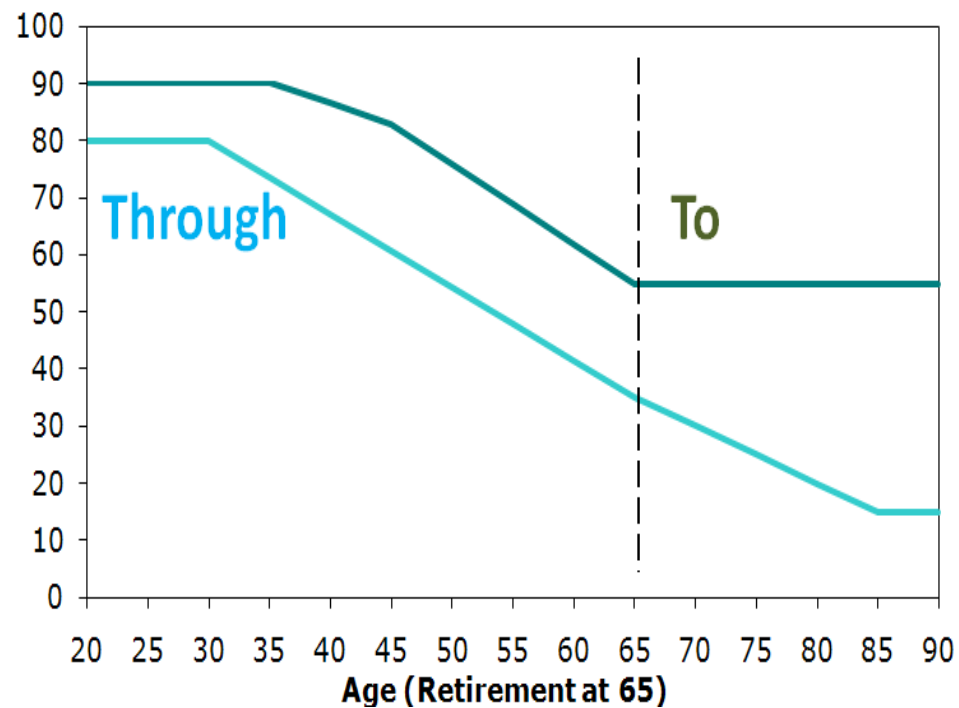
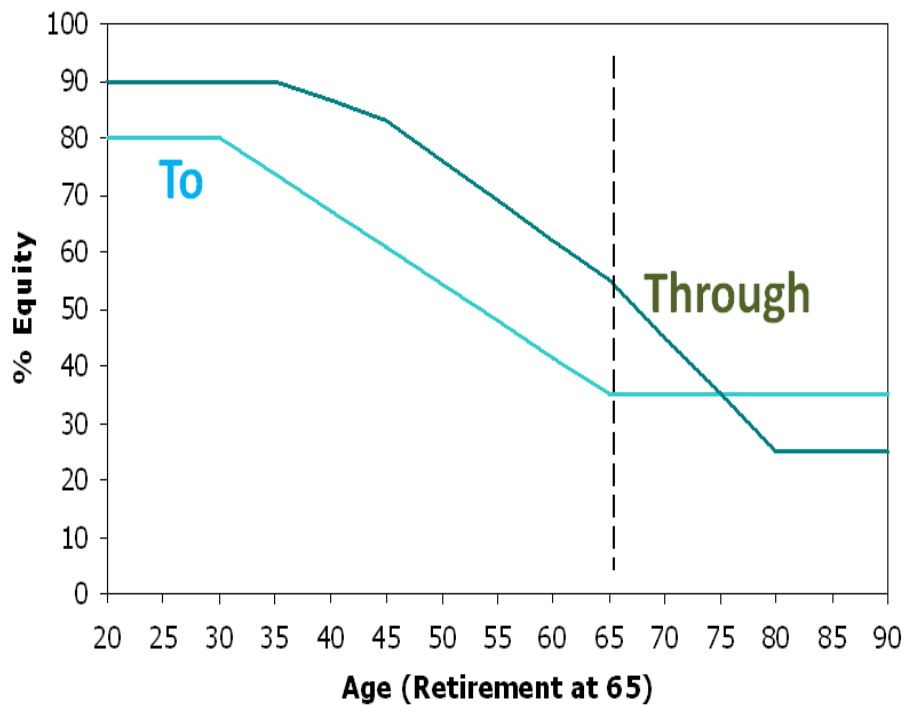


# The “To – Through” Nonsense



“To” is flat allocation after the target date

# The “To – Through” Nonsense



# Regulatory Focus

1. Risk (Equity Exposure) at Target Date:  
End of the Glide Path
2. Underlying Assumptions: Shape of the Glide Path



# Assumptions

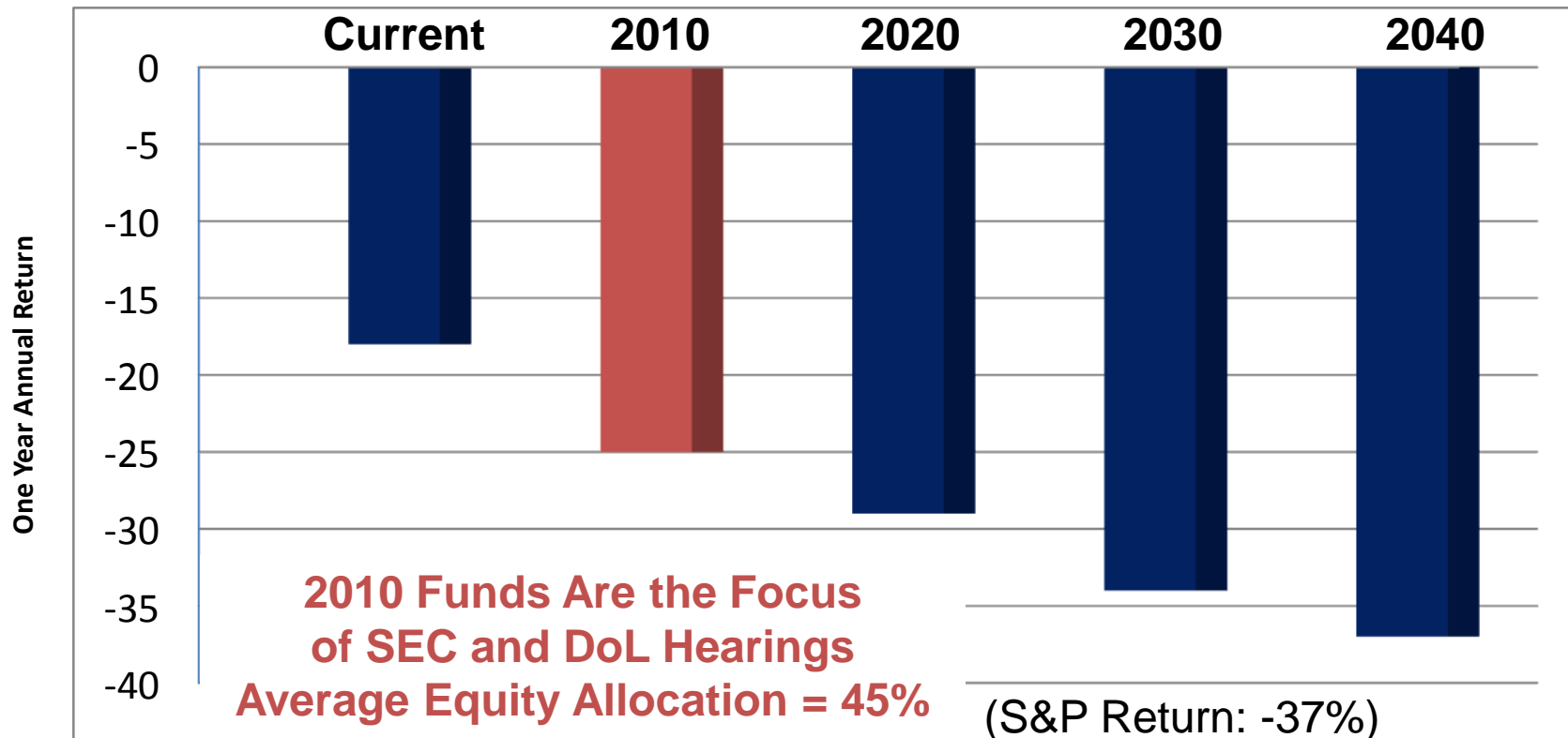
- Savings for the Typical Participant (Pay Replacement Objective)
  - Current savings
  - Other sources of retirement income
  - Desired pay replacement at retirement
  - Current pay and projected pay increases
  - Savings pattern through time, employee plus employer
- Spending for the Typical Participant in Retirement (Longevity Risk Objective)
  - Spending discipline, perhaps as a fixed percent of current market value
  - Other assets, like Social Security
  - Life expectancy
  - Life events, like medical costs, college funding, whatever ... stuff happens
- Capital Markets
  - Asset classes: stocks, bonds, ...
  - Sub-asset classes: styles, countries, alternatives
  - Risk & return & correlations
  - Glide path shape: linear, geometric, step, Mobius strip

# A Closer Look at Objectives

- Replacing Pay: Key is Savings, much more important than investments
- Longevity Risk: *The Hemlock Fund*
- Neither can be managed with a one-size-fits-all set-it-and-forget-it vehicle



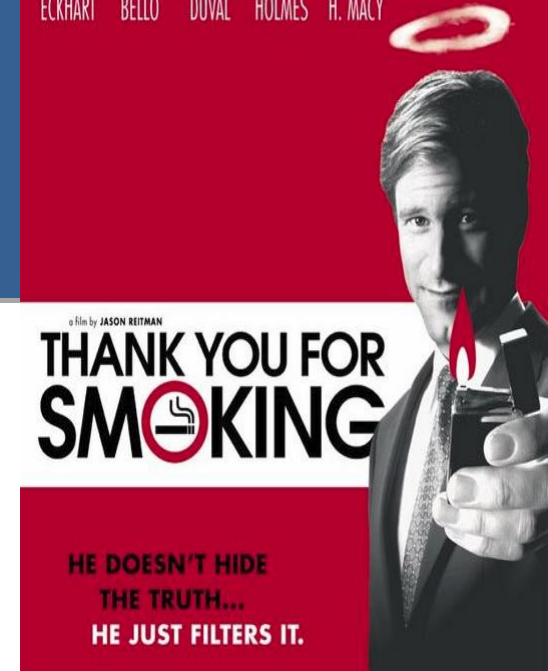
# Let's **NOT** Forget 2008



Fund companies assure all is OK

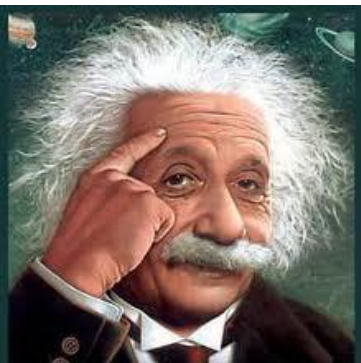
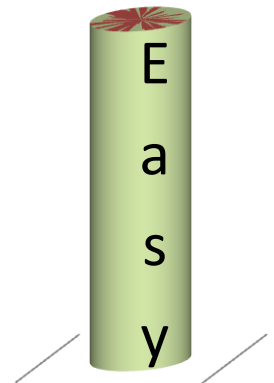
# Forget 2008: Losses Have Been Recovered

- 2008 was a wake-up call. Ignoring it is like smoking after a heart attack – not smart, and bad for your wealth.
- The lost are lost: many moved to cash.
- The emotional toll cannot be recovered.
- Lifestyles have been irreversibly diminished.
- The (annoying) hype doesn't check out:  
Down 25% in 2008, “recovering” 30% in 2009-10, is NOT 5% above water. It's a **loss of 2.5%**.
- What are the objectives?



# Getting Through the Complexity

## Choose Your Bundled Service Provider



*Everything should be made as simple as possible,  
**but not simpler.***



Current Solution is **WAY TOO SIMPLE**  
and **WAY TOO RISKY**



**Bundled is Bungled**



# Agenda

- Complexities and Confusion
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# Simplification: Goals-Based

Hard

Easy

Diversification



Objectives:  
(1) Preserve Assets  
(2) Risk-controlled  
Growth

Safe Landing  
Glide Path®





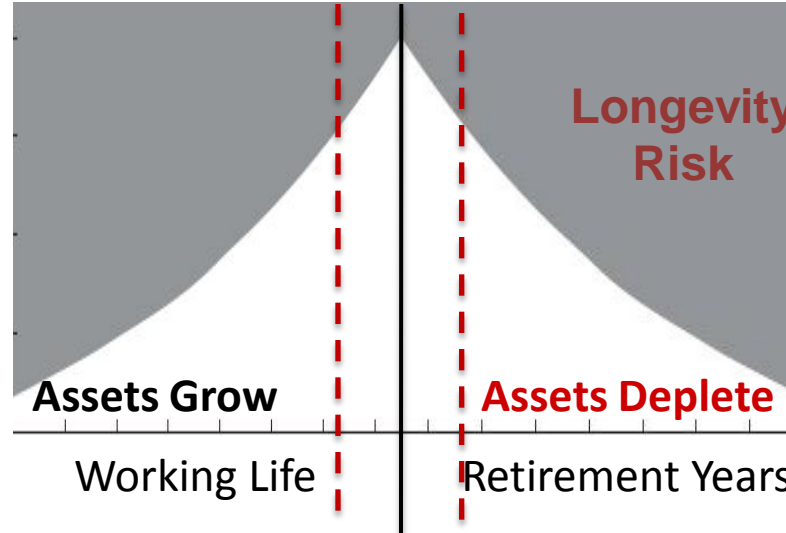
# The Transition from Accumulation to Distribution is Critical



Qualified Default Investment Alternatives (QDIAs) should protect as retirement approaches since savings are especially dear then.

With REAL “To” funds, someone needs to make a decision during the Transition Phase

Accumulation



Distribution  
Annuities  
Guaranteed Payouts  
Etc.



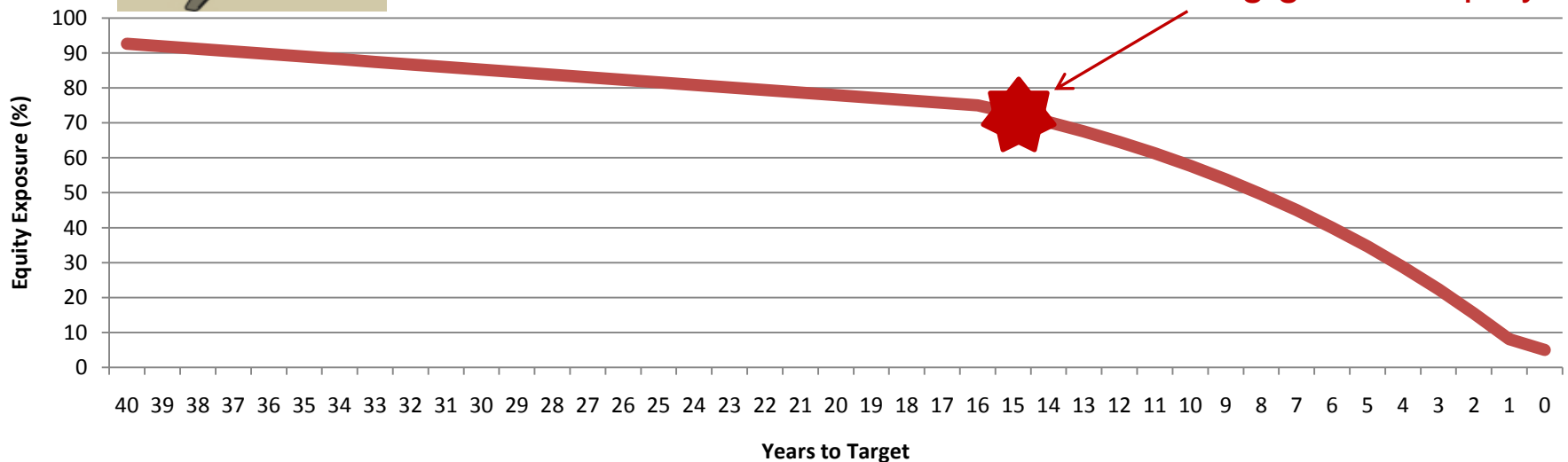
# The Journey: Glide Path

If we can agree on the destination (safety first at the target date) let's discuss the best way to get where we're going:



**Equity Exposure**

Landing gear is deployed



# Agenda

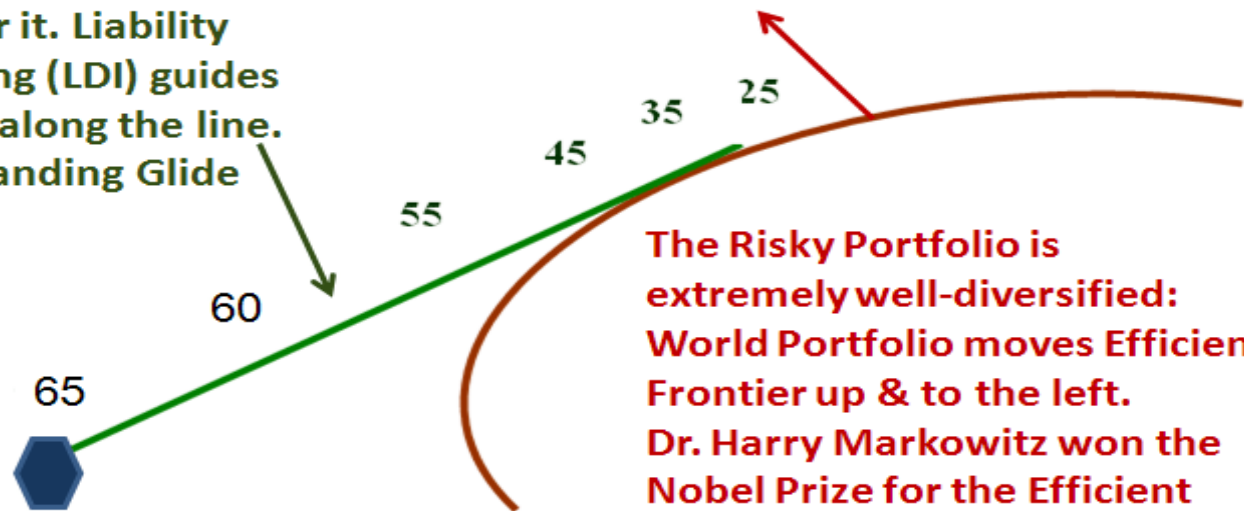
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# Safe Landing Glide Path

## Unique Investment Structure

### Using Separate, Diversified Segments

The “Capital Market Line.”  
Dr. William F. Sharpe won a Nobel Prize for it. Liability Driven Investing (LDI) guides the allocation along the line. It is the Safe Landing Glide Path®.



The Reserve Asset protects against losses,  
both absolute & against inflation:  
TIPS and Treasury Bills

# Two Separate, Well-Diversified Portfolio Segments for (1) Growth and (2) Safety



## The World Market Portfolio

- Designed to provide **growth potential** in early years
  - Broad diversification
  - US stocks and bonds, Foreign stocks and bonds, Global real estate and commodities, Opportunistic
  - Mostly Passive

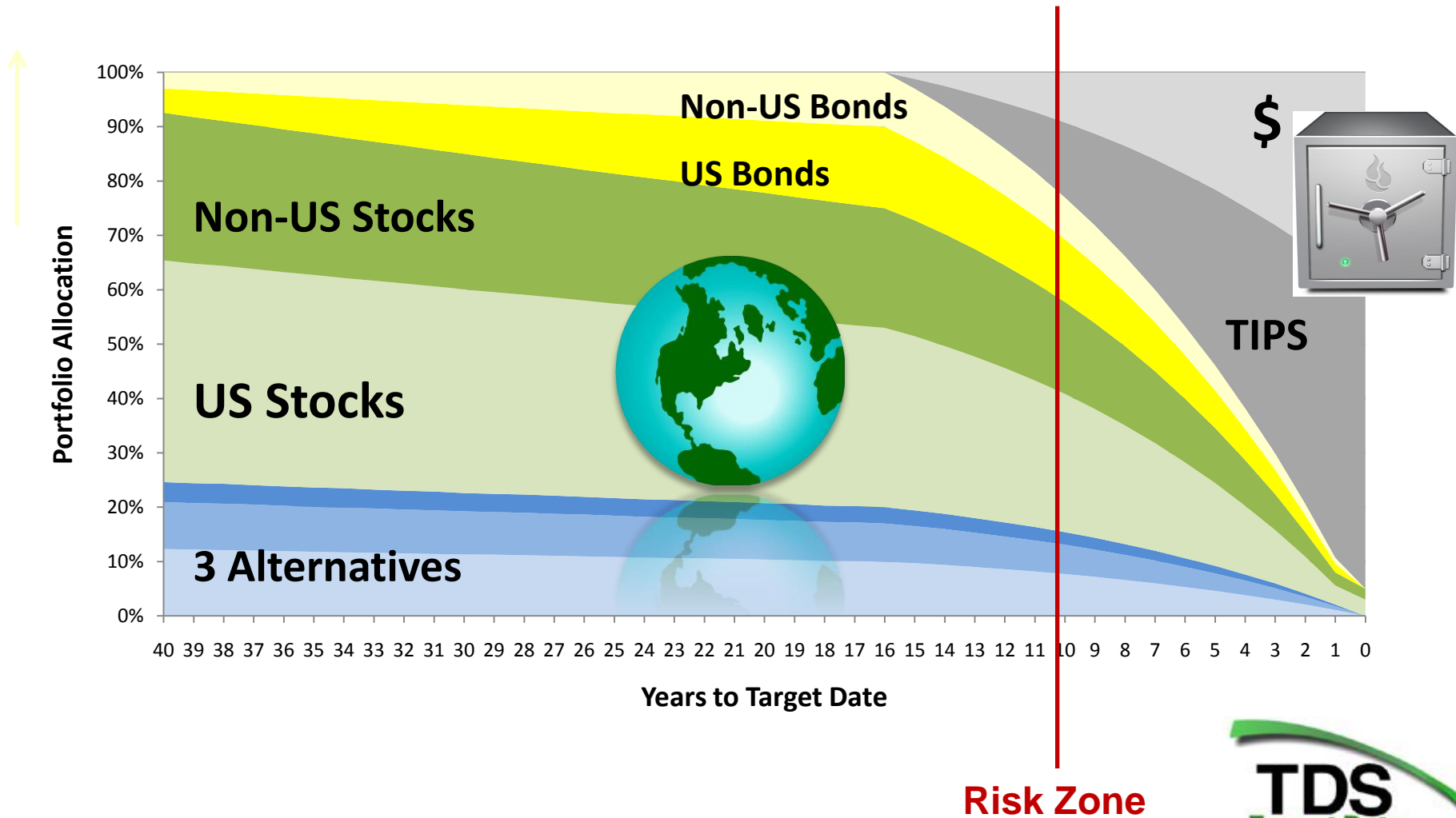
Liability-Driven Investing



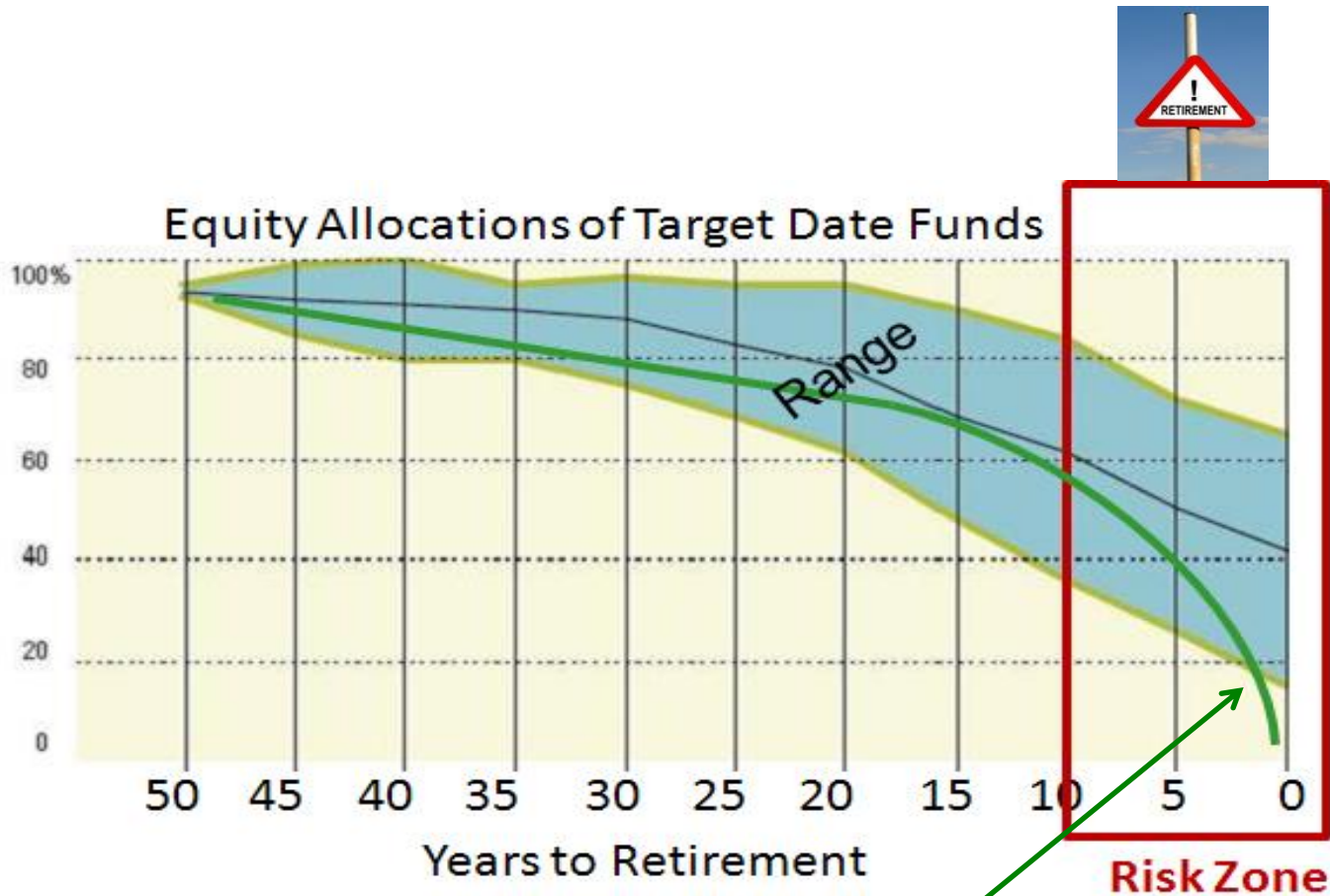
## The Reserve Portfolio: 15 years from target

- Designed to **preserve assets** as retirement nears
  - Treasury securities to mitigate credit risk
  - TIPS to protect against inflation
  - Lock box discipline avoids whipsaws

# Safe Landing Glide Path



# Current Industry Glide Paths Disagree



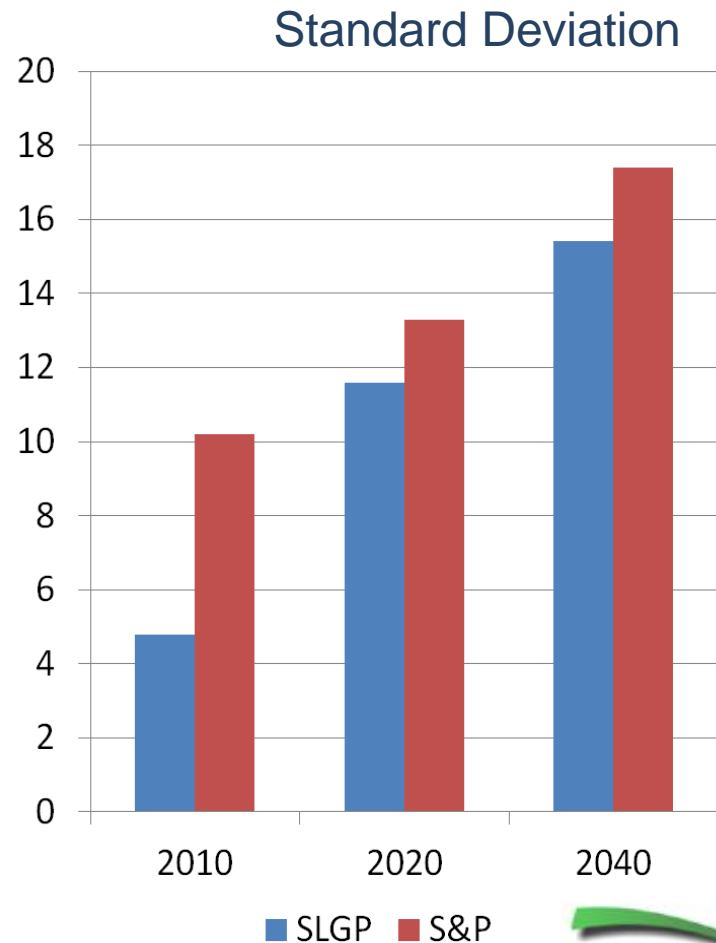
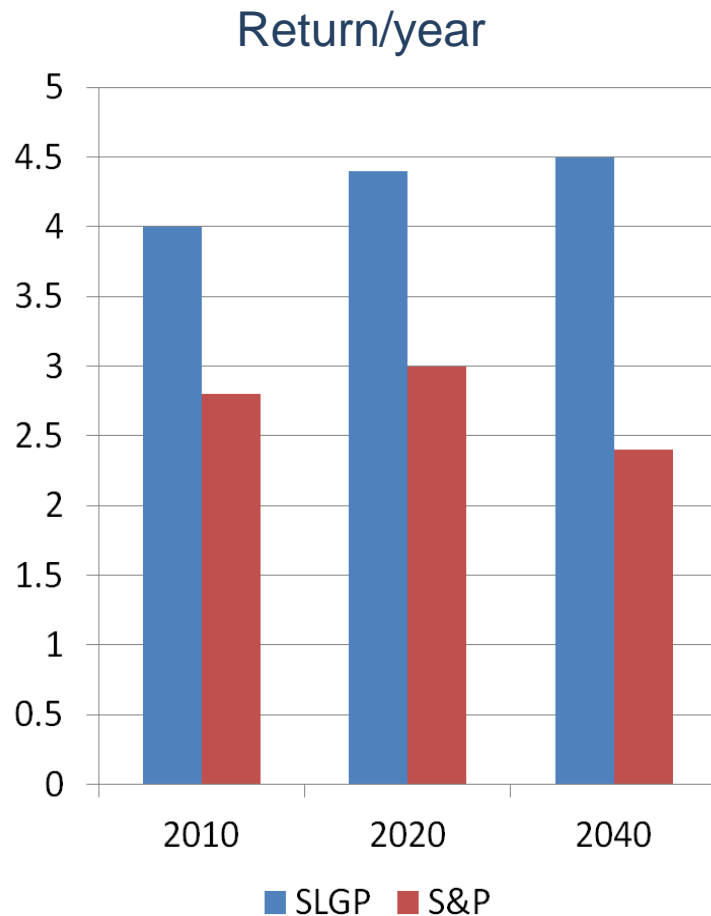
**Safe Landing Glide Path**

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# 5-Year Return and Risk through 12/31/10



SLGP track record is Brightscope On-Target Index for 2006-2007  
And SMART collective investment funds for 2008-2010



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# Employer Carrots and Sticks of the RISK ZONE

- Litigation



- Employee Morale

# Fiduciary Considerations

- Objectives: (1) Don't lose money  
(2) Earn as much as practical
- Policies: (1) All safe at target date  
(2) Diversified growth at long dates
- **Investment Policy Statement:** TDFs are NOT participant-directed. They are employer-directed.

# Summary

1. The key decision is Safety near target date.
2. Investment managers are mostly providing “Growth” products. Profits are a probable reason.
3. Plan sponsors are responsible for selecting & monitoring. Convenience and familiarity with the plan’s bundled provider are not suitable criteria.
4. The Safe Landing Glide Path exemplifies a good target date fund glide path.



# Believe in Change



Fiduciaries have a responsibility to choose GOOD Target Date Funds (TDFs). Status as a Qualified Default Investment Alternative does not mean that any TDF will suffice.

Fiduciaries, not fund companies, need to establish objectives:

**Safety**  
(Give up a little Growth)



# A Key Decision: Choosing a GOOD Target Date Fund

Plan sponsors have a fiduciary duty to select and monitor GOOD target date funds.

*It's All About the Beneficiaries:  
What are **Their** Objectives?*



Bundled is Bungled with excessive risk.

**TDS**  
Target Date  
Solutions