



GEORGETOWN UNIVERSITY  
McCourt School of Public Policy

## Center for Retirement Initiatives

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### **New Research Identifies Pathway to Increasing Retirement Earnings for Individuals**

*Georgetown University Center for Retirement Initiatives study highlights how using alternate assets through target date funds can increase certain investment returns and lower risk*

**Washington, D.C., June 19, 2018** – A new report from the Georgetown University Center for Retirement Initiatives (CRI) highlights how target date funds (TDFs) can be modified to possibly improve expected retirement income for individuals. TDFs are investment vehicles that become more conservative as the retirement target date nears. The report shows that the strategic use of alternate assets in a TDF can increase retirement income and lower risk.

The report, entitled *“The Evolution of Target Date Funds: Using Alternatives to Improve Retirement Plan Incomes,”* was made public today during the CRI 2018 Policy Innovation Forum. It was produced by the Center in conjunction with Willis Towers Watson, a leading global advisory, broking and solutions company.

TDFs have gained popularity as a defined contribution (DC) investment option because of their prudent risk management and simplicity. The underlying asset classes in TDFs can be broadened to include alternative investment strategies such as private equity, real estate and hedge funds to create a “diversified TDF.” These diversifying asset classes are common in defined benefit (DB) pension programs. Given the trend of sponsors offering less DB benefits to employees, utilizing these strategies in a TDF can help the performance of DC plans by improving returns when compared with a portfolio of equities and fixed income, according to the report.

“Our analysis showed that a diversified TDF could increase the amount of an annual retirement income that can be generated by converting a participant’s defined contribution balance into a

stream of income at retirement by between 11 and 17 percent depending on market conditions,” said Angela Antonelli, the Center’s executive director.

Increasing diversification in TDFs will require education and oversight. Issues such as liquidity, pricing, benchmarking, fees and governance need to be considered. At the same time, given the low savings rates of the majority of workers, there is some urgency to develop new ways to improve retirement outcomes for these employees through holistic planning, including investments, plan design and communication.

“There is a greater need for the DC industry to support adoption of strategies that will improve expected investment performance. DC service providers’ capabilities have vastly improved. Operational challenges, including the need for daily liquidity and daily pricing, and participant-controlled cash flows, can easily be addressed. This can already be seen in the increased use of custom funds in DC plans,” said David O’Meara, Head of DC strategy at Willis Towers Watson.

A diversified TDF has a higher probability of maintaining positive retirement assets after 30 years of retirement spending. It also provides higher expected returns and lower downside risk at the time of retirement, and 10 years post-retirement. This mitigates the negative impact of a short-term market shock for those participants at or near retirement, according to the report.

“Policymakers should consider these findings about the inclusion of alternate asset classes in DC plans, specifically through 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,” Antonelli said.

### **About the Georgetown University Center for Retirement Initiatives**

The Center for Retirement Initiatives is a research center of the McCourt School of Public Policy, one of the top-ranked public policy programs in the nation. Through its academic reputation and ability to engage with policymakers, business leaders and other stakeholders, the McCourt School attracts world-class scholars and students who have become leaders in the public, private and nonprofit sectors.

The Center makes its research reports publicly available. This report can be found on the CRI website at <https://cri.georgetown.edu/> or contact Matt Cookson at 603-782-8192 or at [matt@cooksonstrategies.com](mailto:matt@cooksonstrategies.com) for additional information or media requests related to this report.