GEORGETOWN UNIVERSITY
McCourt School of Public Policy
Center for Retirement Initiatives

Can the Use of Alternative Assets in Target Date Funds (TDFs) Improve Outcomes?

Most DC Retirement Plan Assets Flow into Target Date Funds (TDFs)[1]

In 2017, **93%** of retirement plan QDIAs were TDFs, up from **64%** in 2009.

New contributions to DC plans being invested in TDFs

2007	2016
8%	49%

Alternative Asset Classes Smooth Volatility and Improve Outcomes

The following asset classes are estimated to affect the annual inflation-adjusted retirement income for every $100,000 in pre-retirement annual wages earned by a full-career employee:

Private Equity[2]

Increases retirement income between 6% and 13%, depending on the private equity allocation, and between 6% and 12% in a worst-case scenario.

Real Estate[3]

Provides downside improvements in retirement income between 2% and 3%.

Hedge Funds[4]

Increase retirement income between 2% and 4% depending on the allocation, and between 4% and 8% in the worst-case scenario.

A Diversified TDF With a Mix of Alternative Asset Classes Performs the Best

A diversified TDF increases median annual inflation-adjusted retirement income by 17% or by 11% in a worst-case scenario.[5]

Diversifying asset exposures and broadening the investment opportunity provides benefits when markets are stressed.[6]

More Large Plan Sponsors Are Using Custom TDFs and Alternative Assets

66% of sponsors with more than $5 billion in assets said they are using custom core funds, which include portfolios that include alternative assets.[7]

Source: Angela M. Antonelli (2018), "The Evolution of Target Date Funds: Using Alternatives to Improve Retirement Plan Outcomes," Center for Retirement Initiatives, McCourt School of Public Policy, Georgetown University and Willis Towers Watson, Policy Report 18-01, Washington, DC.

1: p. 8
2: p. 12
3: p. 14
4: p. 15
5: p. 4
6: p. 19
7: p. 9