BlackRock

Building retirement resilience

Evolving defined contribution plan menus for a new regime

MKTGH0423U/S-2842600-1/15

Authors

Matt Soifer
Managing Director, Head of Distribution, Retirement Group

Cara Reisman
Director, Head of Commercial Strategy, Retirement Group

Over the last four decades, the shift from Defined Benefit to Defined Contribution (DC) coincided with a period of general economic stability and low inflation. We believe a new regime of greater uncertainty is playing out.

A key feature of the new market regime is that we are in a world shaped by supply. Structural changes are not just from the long tail of the pandemic, but aging populations, geopolitical tensions and the energy crisis are also straining global supply chains and impacting economic output. This new era is not going away, in our view.

Looking ahead, we expect these structural changes will contribute to continued inflation pressure, cross asset class volatility and interest rate uncertainty. Central banks cannot solve supply constraints. That leaves them raising interest rates and engineering recessions to fight inflation, which is why the relationship between stocks and bonds may be more dynamic moving forward.

The recent bank failures of Silicon Valley Bank and Signature Bank highlight examples of financial cracks that can emerge under these conditions. While the dust has yet to settle regarding broader risk of contagion, we expect the key features of the new regime to remain.

It is important that we provide participants with an appropriate set of tools to help navigate the environment ahead and support their retirement objectives. For plan sponsors and advisors, this may require evolving investment menus across asset classes.

Over the following pages, we highlight four investment actions for plan sponsors and advisors to consider within a plan's core menu. While our focus here is on active core menu strategies, we believe many of these themes are relevant for the QDIA as well, including in the selection and evaluation of target-date solutions. It is important that plan fiduciaries consider these ideas among other plan-related factors, as each action may not be applicable to all plans.

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Actions to evolve plan core menus for the new investment regime:

1

Seek consistent alpha
Help solve potential savings challenges that threaten to impact the retirement readiness of many participants through investments in active strategies.

2

Re-think fixed income
Expand the fixed income opportunity set to target the potential for stronger returns and income, while minimizing risk through greater diversification.

3

Withstand volatility
Incorporate strategies that seek to provide downside protection to keep savers invested, protecting their retirements.

4

Diversify return streams
Unlock the potential for diversification through differentiated investment strategies like tactical asset allocation.

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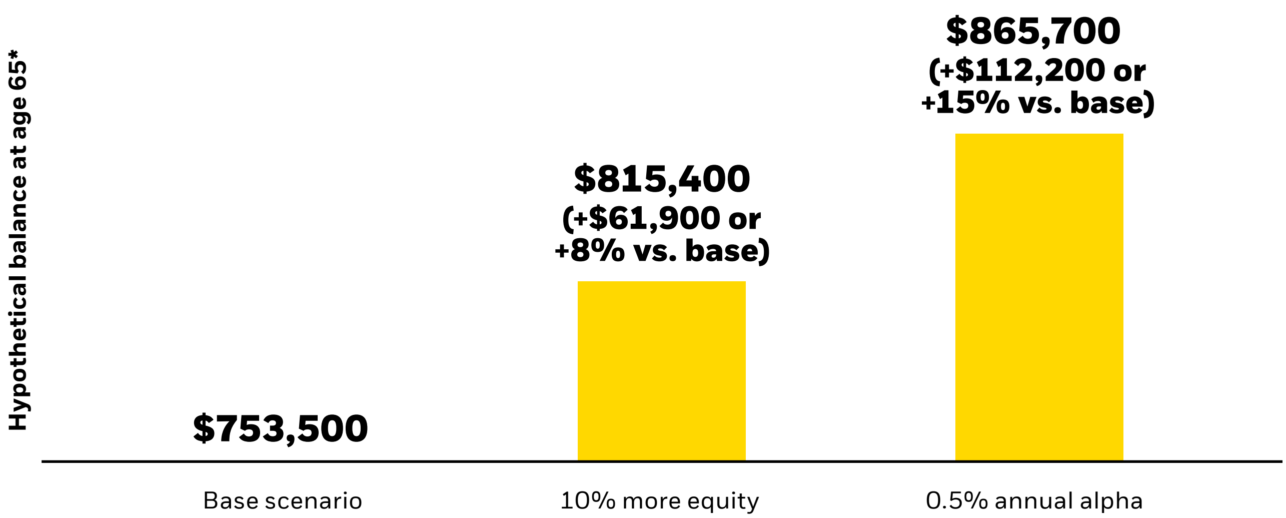
1 Seek consistent alpha

As inflation threatens to impact savings and erodes purchasing power, we believe the need for additional returns from active management is greater today than in prior years.

BlackRock's 2022 Read on Retirement survey confirms this sentiment is shared among plan sponsors and participants. We found that 69% of plan sponsors worry that inflation is eroding the retirement savings of their participants. For the first time in several years, we also found that retirement confidence has fallen among participants, who cite cost of living increases as reasons they are no longer on track to retire with the lifestyle they want.

While broad-based index strategies remain the foundation of DC plan investment menus, active strategies have the potential to augment returns and can be a lever to help solve potential savings challenges and keep participants on track for retirement readiness. Over a retirement saver's lifecycle, we find that even a modest 0.50% of consistent, annualized net of fee return above an index benchmark can create an estimated 15% more wealth at retirement — helping retirement savers maximize what is able to be saved.[1] Our analysis also shows that consistent alpha may lead to better outcomes compared to simply taking more risk.

Consistent alpha can help close the savings gap



For illustrative purposes only. * Analysis based on historical returns of a hypothetical target date strategy using simple equity and fixed income allocations that de-risk over time and net of fee excess return assumptions. Equity returns are based on actual monthly returns of the Russell 1000 Index since January 1, 1983 through December 31, 2022 and are adjusted on a real return basis. Fixed income returns are based on actual monthly returns of the Bloomberg U.S. Aggregate Bond Index since January 1, 1983 through December 31, 2022 and are adjusted on a real return basis. The base scenario assumes 0 bps in annualized net of fee excess returns. The 50 bps scenario assumes 50 bps in annualized net of fee excess returns. The 10% more equity scenario increases equity allocation by 10% across the glidepath subject to a 99% upper bound allocation constraint. See "Important Information, Impact of Active Returns: Assumptions" for detailed demographics assumptions and additional scenario assumptions. **Past performance is no guarantee of future results. Indexes are unmanaged and one cannot invest directly in an index.**

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Best practices to build resilience in your menu

Volatile macro conditions can increase security dispersion — or the divergence between the best and worst performing assets. This is where active investments can have a leg up, though not all active managers will outperform.

In this regime, we believe unique data insights may provide a more comprehensive picture. For example, the path of inflation can be triangulated by tracking a spectrum of unstructured data sources, which can help identify the impact inflation will have on companies and business models before assets are priced in.

The following checklist may help plans as they explore the use of active management to help with potential savings challenges:

Assess where you can make an impact

Active management has the greatest potential to address savings challenges when utilized in large asset classes that participants are already invested in today, which are typically Developed U.S. and International Large Cap equities or even target-date strategies. While some plans may only consider active strategies for Small Cap equities or Emerging Markets, participant allocations tend to be quite low in these asset classes — limiting the potential to make an impact.

Seek a differentiated approach

Asset classes like U.S. Large Cap equities have long been littered with active managers that underperform, but outperformance is possible if the manager has differentiated skill. Looking ahead, we believe active strategies that can process unstructured data to build proprietary insights alongside human insights will have an information advantage in this new regime, particularly in data-rich markets like U.S. Large Caps. This requires significant investment in innovation, research and talent.

Consider the participant experience

We believe active strategies that are low-cost and seek to deliver consistent, incremental alpha, *regardless of market environment*, align with participant preferences and can help keep participants invested over longer time horizons.

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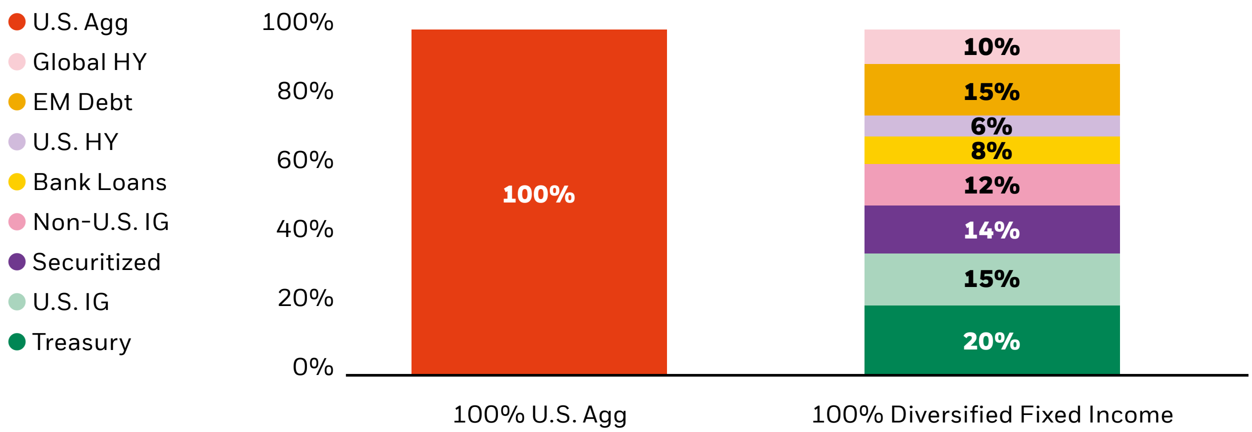
2 Re-think fixed income

With yields reaching multi-year highs against a backdrop of slowing growth and increased market volatility, we believe that retirement plans should reassess bond portfolio construction for the new investment regime ahead.

While higher yields are a benefit to fixed income investors who have long been starved for income, there are also risks that fixed income investors will need to manage, created by higher inflation and a significant shift in monetary policy after a decade of quantitative easing. This means higher interest rates and potential for more volatility in the bond market.

Historically, participants could find safety, consistency of returns, and diversification through core fixed income offerings. However, we think traditional core bond strategies managed against interest rate sensitive benchmarks like the Bloomberg U.S. Aggregate Bond Index, may not have the ability to be dynamic as policy plays out in the new regime, resulting in more potential risk and less potential yield.

Illustrative case study: Allocating to a diversified fixed income solution in your core



	100% U.S. Agg	100% Diversified Fixed Income
Expected return (as of 2022)[1]	3.8%	4.8%
Expected return (as of 2021)[2]	1.4%	2.7%
Portfolio risk[1]	5.1%	3.9%

Neither diversification nor asset allocation can guarantee a profit or prevent loss. The hypothetical performance and risk shown are not guarantees or indicative of future results. Expected Returns shown are net of fees and expenses and are calculated deducting a model fee equal to 30bps, which represents the highest advisory fees charged for the institutional client type. Expected Returns also reflect the reinvestment of dividends, capital gains and interest but do not reflect the impact of taxes. Had those expenses been included, returns would have been lower. The hypothetical returns and risks shown are for illustrative discussion purposes only and no representation is being made that any account, product or strategy will or is likely to achieve results similar to those shown. The hypothetical expected returns and risks shown should be interpreted based upon the inherent limitations and risk of the model and assumptions used to calculated results. Expected risk is calculated using the expected volatility assumptions. Risk: Monthly Constant Weighted (MTC model) with 267 monthly observations; 1 standard deviation; 1yr horizon. There is no guarantee that the Capital Market Assumptions will be achieved, and actual risk and returns could be significantly higher or lower than shown. **See "Capital Market and Modeling Assumptions" and additional important disclosures in the Important Information section.**

1 BlackRock as of December 2022, based on BlackRock's Capital Market Assumptions (CMA). **2** BlackRock as of December 2021, based on BlackRock's CMA.

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Best practices to build resilience in your menu

An aging workforce moving into retirement is seeking both retirement income and reduced risk exposure. Expanding the opportunity set to include flexible fixed income strategies may help improve the outcomes that many participants expect from their fixed income allocation. Flexible strategies can leverage a broader toolkit to capture higher yields, with less risk — including less price sensitivity to changes in interest rates.

The following checklist may help plans as they explore the benefits flexible strategies can provide to DC plan participants:

Asset allocation

Flexible strategies can provide participants with access to broader, non-core exposures such as short-term bonds, high yield and TIPS. Plans that are focused on streamlining investment menus may benefit by consolidating these exposures into a flexible strategy where a professional manager can help actively size and adjust exposures for this portion of the participant's portfolio.

Risk management

By maintaining a more diversified risk profile, flexible strategies can seek better protection on the downside, with less exposure to a single factor (such as interest rates) and can dynamically adjust duration as policy plays out.

Yield and return potential

Looking beyond traditional benchmark constraints can allow portfolio managers of flexible strategies to open additional avenues of return generation, without taking on additional risk.

3 Withstand volatility

The structural changes highlighted in the introduction of this paper have the potential to disrupt economic activity and output, putting pressure on risk assets like equities. At the same time, the diversification benefits of fixed income may not be as strong in a higher inflation and higher interest rate regime — making volatility the new norm for participants and their equity-heavy portfolios.

With more potential market volatility, we expect many plans and participants will need solutions that emphasize greater downside protection to stay invested.

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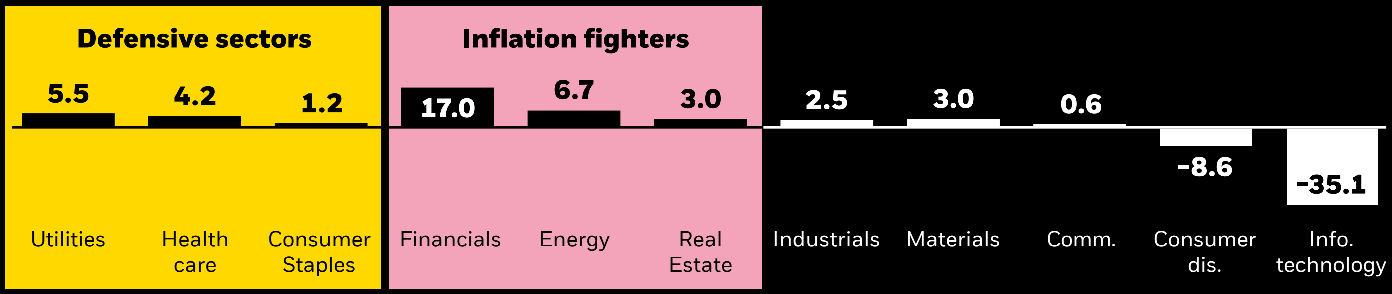
Best practices to build resilience in your menu

Within the core menu, many plans look to value funds as strategies that are supposed to be resilient in down markets. Value benchmarks — relative to their growth counterparts — tend to provide larger exposures to both resilient sectors like Health Care, Consumer Staples, and Utilities and sectors better equipped to fight inflation like Financials, Energy, and Real Estate. Not surprisingly, value benchmarks have historically fared better in periods following rate hikes and recessions.

Specifically, within value, high quality and dividend paying companies are well positioned for today's 'higher for longer' environment. Not only have dividend payers outperformed in periods of higher inflation and interest rates, but they have also delivered strong performance across diverse market conditions over time.

Sector allocation % difference value vs. growth (+/–)



Data source: BlackRock. Based on sector allocations of the Russell 1000 Growth Index and Russell 1000 Value Index as of December 31, 2022. Allocations subject to change.

The following checklist may help plans that are seeking to provide participants with downside protection amid higher potential market volatility:

Review participant behavior

If participants are at-risk to sell in down markets, plans may need to explore investment strategies like value funds that seek to provide greater protection on the downside to help participants stay invested and limit their losses.

Reassess your value managers

For plans that already offer value options, now is a good time to reassess value managers that may have drifted out of style or down in quality to ensure they are prepared to provide resilience moving forward.

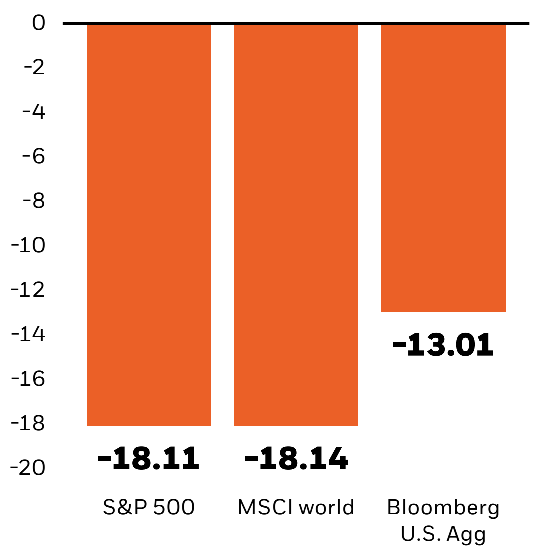
4 Diversify return streams

The benefits of adding tactical asset allocation or macro strategies to retirement portfolios are amplified in this new regime, particularly for plans that are interested in finding return streams that can be a diversifier to traditional investment options.

First, tactical managers can position portfolios around macro themes related to changes in inflation, economic growth, and central bank policy across the globe. Second, the addition of tactical or macro strategies can provide a new source of uncorrelated return relative to traditional stock and bond strategies, which may provide additional diversification benefits to portfolios in a new market regime where the relationship between stocks and bonds may be more dynamic moving forward.

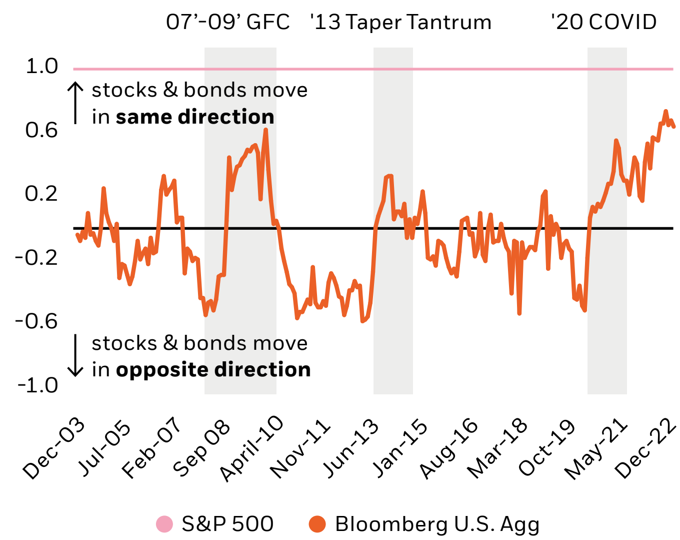
2022 was a tough year for markets...

Annual returns (%)



...and there is nowhere to hide as correlations rise

Rolling one-year correlation last twenty years ending Dec 2022



Source: Morningstar as of December 31, 2022. **Past performance is no guarantee of future results.** It is not possible to invest in an unmanaged index. Correlations describes the relationship that exists between two variables, in this case stocks and bonds. A positive correlation means stocks and bonds move in the same direction. A negative correlation means they move in opposite directions.

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Best practices to build resilience in your menu

The decision around how to implement a tactical strategy within a plan is likely to be unique to the plan and the tools available.

The following checklist may help plans as they explore an element of tactical asset allocation in their menu:

Core menu add

Some plans may already offer an alternatives tier to participants while others are exploring one. These plans may seek to add a tactical strategy as a differentiated stand-alone option for participants building their own portfolios.

Managed account or model portfolio

Some plans may also offer participants access to a managed account or model portfolio. For these plans, tactical strategies can be added to an alternatives budget within these types of custom structures.

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Bringing it all together

The new regime requires nimbleness and less reliance on risk models calibrated to history, which necessitates a fresh look at plan design. While the concepts explored in this paper are focused on building more resilience across the core menu, many of these themes can also be applied when evaluating QDIA solutions. For example, plans that experience participant outflows in volatile markets may need to identify a QDIA solution that seeks to deliver greater protection near retirement or integrates a lifetime income solution to help participants stay invested.

Additionally, plans have more options than ever before when considering how to implement new strategies within their investment menus, as many plans of all sizes now have access to solutions such as white labeled funds, managed accounts, and custom target date funds.

We encourage plan sponsors and their advisors to explore each of the investment actions outlined in this paper and how they may be implemented across plan menus. As retirement professionals, it is our responsibility to ensure participants are prepared with the appropriate tools needed to navigate the uncertainty ahead and stay on track for retirement readiness.

BlackRock is designed to deliver the most extensive set of investment solutions to help meet participant needs. Contact your BlackRock relationship manger to explore how you can evolve DC plan menus for the new regime.

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Important information

Impact of active returns: Assumptions

The following assumptions were used in the chart on titled "Alpha can help maximize what is able to be saved":

	Scenario description		
Inputs	**Base scenario**	**10% more equity**	**0.5% ann. alpha**
Starting age	25	25	25
Starting salary	$50,000.00	$50,000.00	$50,000.00
Annual salary growth rate	1.14%	1.14%	1.14%
Starting balance	$0	$0	$0
Total savings rate	9%	9%	9%
Auto escalation increase	0%	0%	0%
Return start date	1/1/1983	1/1/1983	1/1/1983
Return end date	12/31/2022	12/31/2022	12/31/2022
Investment	100% TDF with "Moderate" Glidepath[2]	100% TDF with "Aggressive" Glidepath[3]	100% TDF with "Moderate" Glidepath[2]
Annual net of fee excess return	0.00%	0.00%	0.50%[4]
Monthly net of fee excess return	0.00%	0.00%	0.04%[4]
Balance at 65	$753,488.86	$815,422.01	$865,654.35
Rounded balance	$753,500	$815,400	$865,700
Cumulative increase vs. base (%)	-	8%	15%

Source: BlackRock, as of December 31, 2022.

Capital market and modeling assumptions

Asset description	Proxy BlackRock CMA	As of 2022 10yr ann. expected return	As of 2022 Expected risk	As of 2021 10yr ann. expected return	As of 2021 Expected risk
Tsy 1-5yr	BBG Barc Treasury 1-5 Yr Index	3.56%	2.29%	1.91%	2.21%
U.S. IG	BBG Barc U.S. Corporate 1-5 years Index	4.12%	2.47%	2.18%	2.16%
Agency MBS	BBG Barc MBS Index	4.87%	6.08%	2.22%	3.94%
CMBS	BBG Barc CMBS, Eligible for U.S. Aggregate	4.76%	5.24%	2.44%	5.89%
ABS	BBG Barc ABS Index	4.27%	3.35%	2.11%	4.04%
Bank Loans	BlackRock – Bank Loans	6.53%	7.95%	4.24%	7.63%
U.S. HY	BBG Barc U.S. Corp High Yield 2% Issuer Capped Index	6.64%	8.08%	3.99%	7.68%
Non-U.S. Credit	BBG Barc Global Aggregate Index Ex. USD Index	4.62%	7.45%	2.38%	7.29%
Non-U.S. Sovereign	BBG Barc Global Aggregate Treasury Index Ex. U.S.	4.59%	7.55%	2.35%	7.37%
EM Debt	JP Morgan CEMBI Broad Diversified Index	6.33%	6.03%	3.79%	6.37%
Global HY	BBG Barc Global High Yield Index	6.91%	8.49%	4.59%	8.39%
Cash	USD Cash Benchmark	3.42%	0.00%	1.55%	0.00%
U.S. Agg	BBG Barc U.S. Aggregate Index	4.15%	5.14%	2.00%	4.84%
Government	BBG Barc Government Index	3.52%	4.97%	1.72%	5.40%

The representative indices listed above may differ from those that are publicly available, but the underlying methodology and assumptions are consistent. BlackRock expected market return information is based on BlackRock's long-term capital market assumptions which are subject to change. Capital market assumptions for 2022 is as of December 31, 2021. Capital market assumptions contain forward-looking information that is not purely historical in nature. **Hypothetical performance is not a guarantee of future results.** The projections in the chart above are based on BlackRock's proprietary long-term capital markets assumptions (10+ years) for risk and geometric return (above) and correlations between major asset classes. These asset class assumptions are passive only and do not consider the impact of active management. The assumptions are presented for illustrative purposes only and should not be used, or relied upon, to make investment decisions. The assumptions are not meant to be a representation of, nor should they be interpreted as BlackRock's investment recommendations. Allocations, assumptions and expected returns are not meant to represent BlackRock performance. Long-term capital markets assumptions are subject to high levels of uncertainty regarding future economic and market factors that may affect actual future performance. Ultimately, the value of these assumptions is not in their accuracy as estimates of future returns, but in their ability to capture relevant relationships and changes in those relationships as a function of economic and market influences. Please note all information shown is based on assumptions, therefore, exclusive reliance on these assumptions is incomplete and not advised. The individual asset class assumptions are not a promise of future performance. Indexes are unmanaged therefore direct investment is not possible. Note: Although the expected risk and returns shown above are gross of fees, all portfolio performance within the presentation has been presented net of either actual fees or a stated model fee that is representative of advisory level and underlying securities or asset class level fees and expenses.

BlackRock Capital Market Assumptions methodology and limitations

BlackRock Capital Market Assumptions

This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise of future performance. Note that these asset class assumptions are passive, and do not consider the impact of active management. All estimates in this document are in U.S. dollar terms unless noted otherwise. Given the complex risk-reward trade-offs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic allocations to all the asset classes and strategies.

References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. Assumptions, opinions and estimates are provided for illustrative purposes only. They should not be relied upon as recommendations to buy or sell securities. Forecasts of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material has been prepared for information purposes only and is not intended to provide, and should not be relied on for, accounting, legal or tax advice.

The outputs of the assumptions are provided for illustration purposes only and are subject to significant limitations. "Expected" return estimates are subject to uncertainty and error. Expected returns for each asset class can be conditional on economic scenarios; in the event a particular scenario comes to pass, actual returns could be significantly higher or lower than forecasted. Because of the inherent limitations of all models, potential investors should not rely exclusively on the model when making an investment decision. The model cannot account for the impact that economic, market, and other factors may have on the implementation and ongoing management of an actual investment portfolio. Unlike actual portfolio outcomes, the model outcomes do not reflect actual trading, liquidity constraints, fees, expenses, taxes and other factors that could impact future returns.

BlackRock 10-year asset return and long-term volatility assumptions

Ten-year and long-term equilibrium annualized return assumptions are in geometric terms. Return assumptions are total nominal returns. Return assumptions for all asset classes are shown in unhedged terms, with the exception of global ex-U.S. treasuries. We use long-term volatility assumptions. We break down each asset class into factor exposures and analyze those factors' historical volatilities and correlations over the past 15 years. We combine the historical volatilities with the current factor makeup of each asset class to arrive at our forward-looking assumptions. This approach takes into account how asset classes evolve over time. Example: Some fixed income indices are of shorter or longer duration than they were in the past. Our forward-looking assumptions reflect these changes, whereas a volatility calculation based only on historical monthly index returns would fail to capture the shifts. We have created BlackRock proxies to represent asset classes where historical data is either lacking or of poor quality. Expected return estimates are subject to uncertainty and error. Expected returns for each asset class can be conditional on economic scenarios; in the event a particular scenario comes to pass, actual returns could be significantly higher or lower than forecasted. The geometric return, sometimes called the time-weighted rate of return, takes into account the effects of compounding over the investment period. The arithmetic return can be thought of as a simple average calculated by taking the individual annual returns divided by the number of years in the investment period.

Index returns are for illustrative purposes only and do not represent any actual fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results

Important notes:

1 The BlackRock Read on Retirement, formerly known as DC Pulse, is a research study of over 300 large defined contribution plan sponsors, 1,300 participants/workplace retirement plan savers, 1,300 people without access to a workplace retirement plan (independent savers), and 300 retirees in the United States. The survey is executed by Escalent, an independent research company. All respondents were interviewed using an online survey conducted from March 25 and April 30, 2022.

2 TDF with "Moderate" Glidepath is a hypothetical target date strategy using simple equity and fixed income allocations that de-risk over time (starting at 99% equity allocation at age 25 and ending at 40% equity allocation at age 65) and net of fee return assumptions based on underlying equity and fixed income returns. Equity returns are based on actual monthly returns of the Russell 1000 Index since January 1, 1983 through December 31, 2022 and are adjusted on a real return basis using the IA SBBI U.S. Inflation Index. Fixed income returns are based on actual monthly returns of the Bloomberg U.S. Aggregate Bond Index since January 1, 1983 through December 31, 2022 and are adjusted on a real return basis using the IA SBBI U.S. Inflation Index.

3 TDF with "Aggressive" Glidepath is a hypothetical target date strategy using simple equity and fixed income allocations that de-risk over time (starting at 99% equity allocation at age 25 and ending at 50% equity allocation at age 65) and net of fee return assumptions based on underlying equity and fixed income returns. Equity returns are based on actual monthly returns of the Russell 1000 Index since January 1, 1983 through December 31, 2022 and are adjusted on a real return basis using the IA SBBI U.S. Inflation Index. Fixed income returns are based on actual monthly returns of the Bloomberg U.S. Aggregate Bond Index since January 1, 1983 through December 31, 2022 and are adjusted on a real return basis using the IA SBBI U.S. Inflation Index. Relative to "Moderate" Glidepath, the "Aggressive" Glidepath increases equity allocation by 10% across the glidepath subject to a 99% upper bound allocation constraint.

4 The 50 bps scenario assumes 50 bps in annualized net of fee excess returns in addition to the hypothetical TDF with "Moderate" Glidepath returns.

Investing involves risk, including possible loss of principal. The target date in the fund's name is the approximate date an investor plans to start withdrawing money. The principal value is not guaranteed at any time, including at the target date.

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Lit No. BUILD-RET-RES-WP-0423 230734T-0423

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