

CASE STUDIES

Target Date Fund (TDF) Projects for DC Retirement Plans

STEP I

TARGET DATE FUND SUITABILITY STUDY FOR PARTICIPANTS

Determine an Appropriate TDF Risk Level for Participants through a Detailed Analysis of over 10 of their Data Points. Confirm if the Incumbent TDF Suite is Appropriate for them or if Alternative TDFs should be considered.

STEP II

TARGET DATE FUND SUITES ANALYSIS & EVALUATION

Identify the Best TDF Suites that Match the Participants' Appropriate Risk Level. Provide a Comparative Analysis of the TDF Suites, across over 50 Qualitative & Quantitative Data Points to help the Committee Make an Informed Decision.

STEP III

OFFERING SOLUTIONS TO ADDRESS IDENTIFIED ISSUES

Work with the Committee Members & Investment Advisor to Identify any Issues with the Incumbent TDF Suite and Participant Investment Allocations. Offer Effective Solutions that can Lead Participants to be Better Invested.

WHAT MAKES CLASSET AN INDUSTRY LEADER

- Leadership Team with Expertise in Data Science, Statistics & Inv. Research, Complemented by Seasoned Experience Working Closely with Committee Members of 401k and Pension plans.
- Inclusion of Actual Participant Data (not just surveys) for Accurate and Comprehensive Analysis and Actionable Insights.
- Inventor of the "Balance Kicker", which Estimates Participants' 401k Assets at Previous Employers for any Analysis of Participant Balances.
- Only Firm that Quantitatively Assesses the Risk of over 150 Unique TDF Suites using both Holdings and Returns-Based Factors.
- Usage of Proprietary TDF Benchmarks Proven to be More Precise than others in the industry.

HOW COMMITTEES BENEFIT FROM CLASSET

- Classet's Detailed Documentation of a TDF Process Helps Protect Committees, and has been Recommended by ERISA Attorneys for this Purpose.
- All Projects Involve Collaboration with the Committee Members and the Investment Advisor to Create Solutions that are Tailored to the Plan and its Participants' Specific Needs.
- Achieving Better Participant Outcomes by Offering Participants TDF Suites that are Truly Appropriate for their Retirement Needs.
- Gaining a Better Understanding of Participants and their Investment Selections & Allocations to Address any Issues through Targeted Participant Education and if required, a Re-Allocation.

Plan Offering a Target Date Fund (TDF) Suite as QDIA with Lower Risk than is Appropriate for Participants

THE SITUATION

Retirement Plan Details (At the Time of Project)

- Industry: Healthcare Services
- Plan Assets: ≈ \$830 Million
- Participants with Balances: ≈ 2,500
- Median Account Balance: ≈ \$200,000

Committee Members & Investment Advisor Concerns and Claset's Initial Plan Observations

1. The current TDF suite was chosen over 15 years ago without considering suitability for the participants. Committee members were concerned about any potential liability from the TDF suite being offered.
2. Participants were well educated about investments and were looking for ways to improve their returns.
3. The Target Date Fund (TDF) suite being offered by the plan was an index option that had low expenses but had a simple and passive approach to investment management.
4. Many participants had self-directed brokerage accounts, which the committee members believed they used to implement a more active and riskier management style.
5. Participants had access to a DB pension plan which needed to be taken into consideration for any analysis.

Claset's Key Findings on Participants through Research of their Data

1. Participants had extremely high compensation relative to national age-based benchmark data.
2. Participants had very high contribution rates.
3. Participants had low account balances relative to their age and compensation-based goals due to their high compensation and the IRS contribution dollar limit.
4. Younger participants generally had investment allocations riskier than a typical TDF suite.
5. Older participants generally had investment allocations as risky as an aggressive TDF suite.
6. Many participants were using younger aged TDFs and TDFs with equity funds, potentially to increase risk.

Client Testimonials

"We Should Consider Conducting a Target Date Fund Suitability Study Every 3-4 Years"

"We've Never Received Such Great Insights into Our Participants and Their Data"

THE SOLUTION

Step I: Target Date Fund Suitability Study

1. Appropriate TDF risk level for the plan's participants was assessed by Claset to be 73 based on an analysis of over 10 participant data points including DB pension data.
Note: Risk level is measured on a scale of 0-100 where 0 is the most conservative TDF suite and 100 is the most aggressive TDF suite).
2. Risk level of the incumbent TDF suite was assessed by Claset to be 38 on the same scale.
3. It was determined that participants could afford to take more risk through their TDFs since they had access to a pension plan acting as a guaranteed payment and floor.
4. Claset concluded that the incumbent TDF suite was likely too conservative for the participants and that more aggressive options should be considered.

Step II: Target Date Fund Suites Analysis & Evaluation

1. Identified 3 new TDF suites which better match the participants' need for a more aggressive TDF suite within a reasonable range of the appropriate risk level of 73.
2. Included active and hybrid/blend TDF suites which offer access to more sophisticated investment processes and more investment asset classes, especially alternatives.
3. Conducted a comparative analysis evaluating the 3 new and 1 incumbent TDF suites based on over 50 qualitative and quantitative data points to help the committee members make an informed decision.
4. Collaborated with the investment advisor through this process to focus on criteria that were important to him.

Actions Taken

1. The committee members brought in 2 of the TDF suites Claset identified for finalist presentations to select a new TDF suite and move away from the incumbent TDF suite which was too conservative for them.
2. The plan sponsor requested that suitability is reviewed every 3 years to ensure the TDF suite being used is still suitable for the participants.

Claset Target Date Suitability Study

Case Study 2

Plan Offering a Target Date Fund (TDF) Suite as QDIA with Higher Risk than is Appropriate for Participants

THE SITUATION

Retirement Plan Details (At the Time of Project)

- Industry: Museums and Related Services
- Plan Assets: ~ \$20 Million
- Participants with Balances: ~ 500
- Median Account Balance: ~ \$18,000

Committee Members & Investment Advisor Concerns and Claset's Initial Plan Observations

1. Committee members and investment advisor were concerned that the TDF suite being used by the plan was too aggressive for the participants.
2. Committee members made a decision to use the recordkeeper's proprietary TDF suite upon their recommendation but was not confident about its quality and its suitability for participants.
3. Participants had expressed concerns to the plan sponsor about potential investment losses and related apprehension to contribute higher percentages.
4. Large proportion of participant base was within 20 years from retirement.
5. Committee members had concerns about the high expenses of the TDF suite being used.

Claset's Key Findings on Participants through Research of their Data

1. Participants had very low account balances relative to their age and compensation-based goals.
2. Participants had low contribution rates.
3. Participants were invested quite aggressively with their core menu investments, even those close to retirement.
4. Participants were actively using the TDFs, investing a majority of their assets in them across age groups.
5. Participants had lower compensation relative to national age-based benchmark data.
6. Employer did not offer a contribution match to participants.

Client Testimonials

"The Research and Analysis You Presented Have Made this Decision a No-Brainer"

"We Would Like to Include Some of Your Charts in Our Employee Education Seminars"

THE SOLUTION

Step I: Target Date Fund Suitability Study

1. Appropriate TDF risk level for the plan's participants was assessed by Claset to be 31 based on an analysis of over 10 participant data points. *Note: Risk level is measured on a scale of 0-100 where 0 is the most conservative TDF suite and 100 is the most aggressive TDF suite).*
2. Risk level of the incumbent TDF suite was assessed by Claset to be 85 on the same scale.
3. Claset concluded that the incumbent TDF suite was likely too aggressive for the participants and that more conservative options should be considered.
4. Claset identified that there were deep underlying issues with participants' investment allocations and a reallocation should be considered to fix these issues.

Step II: Target Date Fund Suites Analysis & Evaluation

1. Identified 2 new TDF suites which better match the participants' need for a more conservative TDF suite within a reasonable range of the appropriate risk level of 31.
2. Included 1 index TDF suite which would substantially reduce expenses from the incumbent TDF suite.
3. Conducted a comparative analysis evaluating the 2 new and 1 incumbent TDF suites based on over 50 qualitative and quantitative data points to help the committee members make an informed decision.

Actions Taken

1. The committee members agreed with Claset's findings and chose to move to the new index TDF suite that Claset brought forward and make it the QDIA.
2. The participants were re-allocated into their age-appropriate TDFs with the option to opt out.

Claset Target Date Suitability Study Case Study 3

Plan Offering a Target Date Fund (TDF) Suite as QDIA with Appropriate Level of Risk for Participants

THE SITUATION

Retirement Plan Details (At the Time of Project)

- Industry: Chemicals Research & Manufacturing
- Plan Assets: ≈ \$140 Million
- Participants with Balances: ≈ 1,400
- Median Account Balance: ≈ \$40,000

Committee Members & Investment Advisor Concerns and Claset's Initial Plan Observations

1. The current TDF suite was chosen primarily for its low expenses and good historical returns but without considering suitability for the participants.
2. The participant base was complex with employees from multiple unions and non-union employees who had different profiles and employer match rates.
3. The retirement plan had recently undergone a merger which could have significantly changed the nature of the plan's participant base.
4. Many participants were new to this 401k plan and possibly had not rolled over assets from previous employers which would make any standard analysis of their account balances at this plan incomplete.
5. Participants could be invested in both TDFs and core funds without understanding the associated issues.

Claset's Key Findings on Participants through Research of their Data

1. Participants had low account balances relative to their age and compensation-based goals.
2. Participants had high contribution rates.
3. Participants were generally invested at risk levels similar to typical lower risk TDFs.
4. Participants had high compensation relative to national age-based benchmark data.
5. Participants had short tenures at the current employer and had low rates of rollovers from previous employers.
6. There were generally no major issues with participants' investment selections and allocations.

Client Testimonials

"Mark and Suhas Truly Care about the Needs of Our Participants, and Their Work Reflects That"

"The Suitability Report is a Great Addition to Our Plan's Documentation"
(Plan ERISA Attorney)

THE SOLUTION

Step I: Target Date Fund Suitability Study

1. Participants' account balances were applied a "kicker", as is done for all of Claset's TDF Suitability Studies. The kicker conservatively estimates participants' 401k assets at previous employers based on multiple factors. This makes the analysis more complete and meaningful.
2. The research accounted for unions and their differing employer match rates and other benefits.
3. Appropriate TDF risk level for the plan's participants was assessed by Claset to be 43 based on an analysis of over 10 participant data points. *Note: Risk level is measured on a scale of 0-100 where 0 is the most conservative TDF suite and 100 is the most aggressive TDF suite).*
4. Risk level of the incumbent TDF suite was assessed by Claset to be 41 on the same scale.
5. Claset concluded that the incumbent TDF suite's risk was appropriate for the participants but other options could be considered.

Step II: Target Date Fund Suites Analysis & Evaluation

1. Identified 4 new TDF suites within a reasonable range of the appropriate risk level of 41.
2. Included active, hybrid/blend and index TDF suites.
3. Conducted a comparative analysis evaluating the 4 new and 1 incumbent TDF suites based on over 50 qualitative and quantitative data points to help the committee members make an informed decision.

Actions Taken

1. The committee members were happy to learn that the TDF suite being used was appropriate for the participants and made a decision to stay with it.
2. Claset's research was documented by the plan's ERISA attorney as proof of process for their TDF decision.
3. The plan sponsor requested that suitability is reviewed every 5 years to ensure the TDF suite being used is still suitable for the participants.

Plan Not Offering a Target Date Fund (TDF) Suite but Potentially looking to Start Offering a Suitable Suite

THE SITUATION

Retirement Plan Details (At the Time of Project)

- Industry: Electronics Manufacturing
- Plan Assets: ~ \$32 Million
- Participants with Balances: ~ 270
- Median Account Balance: ~ \$25,000

Committee Members & Investment Advisor Concerns and Claset's Initial Plan Observations

1. The plan did not have a TDF suite being offered as an option, only a balanced fund which acted as the QDIA.
2. The committee members were apprehensive about offering a TDF suite because of perceived complexity and the wide selection of varying options available.
3. The investment advisor wanted to add a TDF suite and make it the QDIA, but only if the committee members felt comfortable after undergoing a thorough process that helped them understand the participants' needs.
4. Many participants in the plan expressed deep concerns about being inadequately prepared for retirement.
5. Participants' assets were very concentrated in the plan's stable value fund.

Claset's Key Findings on Participants through Research of their Data

1. Participants had low account balances relative to their age and compensation-based goals.
2. Participants had good contribution rates.
3. Participants had low compensation relative to national age-based benchmark data.
4. Participants had low levels of diversification with their investment allocations.
5. Participants were largely invested exclusively in the stable value fund. (Both younger and older participants).
6. The stable value fund was the QDIA until recently which was the cause of participants' high allocations to the funds.

Client Testimonials

"It was Prudent to Consider Suitability Instead of Selecting an Off-The-Shelf TDF Product"

"I Feel A Lot Better About My Own Retirement, I'm Sure the Other Participants Will Too"

THE SOLUTION

Step I: Target Date Fund Suitability Study

1. Appropriate TDF risk level for the plan's participants was assessed by Claset to be 36 based on an analysis of over 10 participant data points. *Note: Risk level is measured on a scale of 0-100 where 0 is the most conservative TDF suite and 100 is the most aggressive TDF suite).*
2. Claset concluded that the TDF suite offered by the plan should have a risk level within a reasonable range of 36, and other TDF suites should be excluded on the basis of not being suitable for the participants.
3. Claset identified that there are deep issues with participants' overall investment allocations. It was agreed upon that either relevant participant education or a re-allocation should be considered.

Step II: Target Date Fund Suites Analysis & Evaluation

1. Identified 3 new TDF suites within a reasonable range of the appropriate risk level of 36.
2. Included active, hybrid/blend and index TDF suites.
3. Conducted a comparative analysis evaluating the 3 new TDF suites based on over 50 qualitative and quantitative data points to help the committee members make an informed decision.

Actions Taken

1. The committee members agreed with Claset's findings. They used the analysis and charts Claset provided to compare the 3 new TDF suites and make a selection. The selected TDF suite was added to the plan as the QDIA for new participants.
2. The committee members worked with the recordkeeper to provide participants with education on the risks of being too conservative, investing solely in stable value and the effects they have on retirement readiness.
3. The committee members later updated Claset that the new TDF suite was very popular, with a large proportion of participants making it their default investment.