



# Occupy Target Date Street

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*You say you got a real solution. Well, you know. We'd all love to see the plan.*
Lyrics from "***Revolution***" by the Beatles

Despite the outcry for reform in target date funds (TDFs), little has changed. Oh sure, fees have come down a little and some providers have moved to "to" funds but nothing of real substance is different. It's time for plan participants and their supporters to express their dissatisfaction. Occupy Target Date Street. Most readers of this publication are not in TDFs. But most readers care about the little guy, the guy who lost a fourth of his savings in 2008 because he trusted that his default investment would be safe.

Contrary to popular participant belief, TDFs do not protect the vulnerable from equity loss. They sure didn't in 2008, and nothing has happened to change that. Most participants in TDFs are defaulted into this product, which means that most participants rely upon their employers to do the right thing by protecting participant assets, especially near retirement (even though they are not).

Resisting reform, the industry has forgiven itself for 2008's losses by noting that these losses were subsequently recovered. "Forget 2008" is the industry's Jedi mind trick (Star Wars Chapter 1, 1977). Fiduciaries are not falling for this insult to their intelligence. Rather a new "Occupy Target Date Street" coup is underway and "Remember 2008" is the battle cry for positive change.

Fiduciaries are duty bound to seek solutions rather than settling for high-risk products that are oblivious to history. Ignoring the past and hoping its different the next time is not an option, and it's certainly not an enlightened view of risk management. Fiduciaries are obligated to actually vet their TDF selections and to establish objectives that are truly in the best interests of employees.

So what reform do protesters want to elicit from "Occupy Target Date Street"? Here's the plan. Start by eliminating objectives that make no sense – a clean slate. **An objective**

**without a reasonable plan of action is merely a hope.** The stated objectives of TDFs are to replace pay and to manage longevity risk. And these would be alright if it weren't for the fact that target date funds are not a sensible plan of action. One-size-fits-all-set-it-and-forget-it bears no relationship to these personal objectives. Saving enough is the right plan of action for these objectives.

Get mad. These phony baloney objectives – "hopes" – are simply hypes for product sales. All TDF products, from high risk to low risk, boast simulations that justify their unique path to the "hope." That's why there is such a wide dispersion of equity allocations at the target date – everyone is selling product. Some TDFs are selling stocks and some are selling bonds, but all are using hope and cooked-up simulations to make their pitch. It's no wonder that equity shops have the highest equity allocation at target date while bond shops have the lowest. See the glide path graphic below for details.

Get even. The next part of the plan is to replace hope and hype with real objectives that are actually quite simple and obvious:

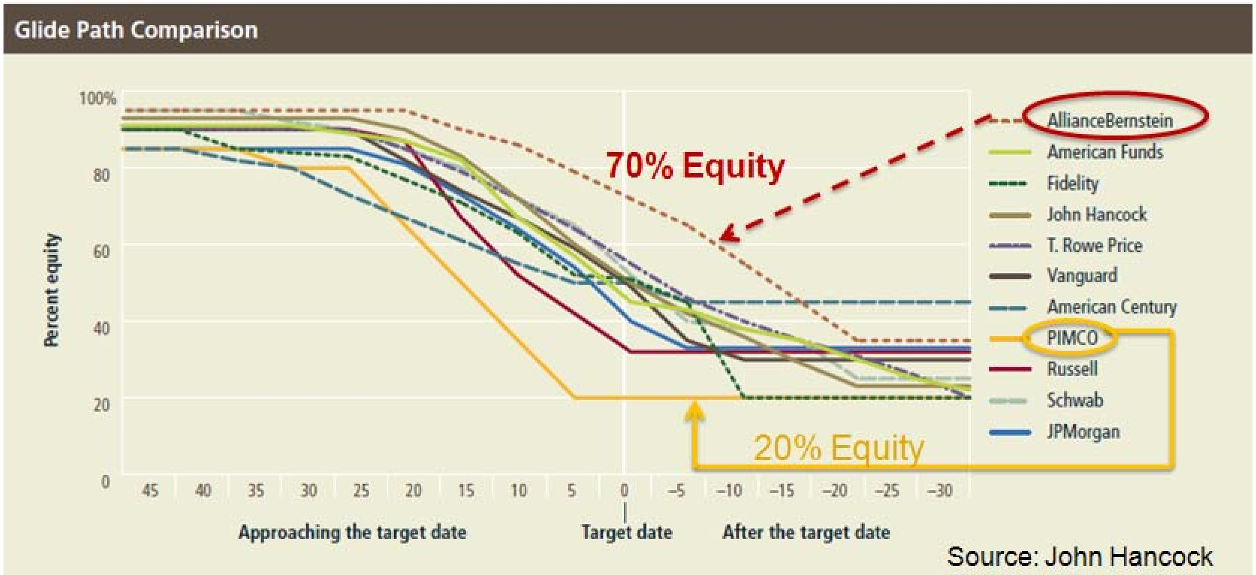
(1) Don't lose participant savings, and
(2) Make as much as you can but don't lose participant savings

These create real reform to protect the vulnerable.

Taking a lesson from 2008, the course of action for achieving these objectives is the patent-pending Safe Landing Glide Path® (SLGP) that integrates the tenets of Modern Portfolio Theory (MPT) with the disciplines of Liability Driven Investing (LDI). Yes, this one-size-fits-all-set-it-and-forget-it glide path is the plan for achieving these straightforward objectives. The SLGP is a concept, a blueprint, for target date funds. It's like an "ideal gas" in physics. It is not a product per se – you can't buy the SLGP target date fund. But you can design a TDF to follow the SLGP. For example, the SMART Funds® are collective investment trusts that follow the SLGP, offered by Hand Benefit & Trust, Houston.

Importantly, the emphasis is placed on safety, as it should be, so asset allocation at target date is mostly TIPS and T-bills. The mission of a TDF is to get the beneficiary safely to the target date. Attempts to extend the mission beyond target date lead to the "hope" problem and ignore the fact that most withdraw their accounts at retirement.

That's the solution. That's the plan. Occupy Target Date Street. See our short movie at Target Date Movie.



Glide Path Comparison
100%
80
60
40
20
0
Percent equity
45
40
35
30
25
20
15
10
5
0
–5
–10
–15
–20
–25
–30
Approaching the target date
Target date
After the target date
70% Equity
20% Equity
AllianceBernstein
American Funds
Fidelity
John Hancock
T. Rowe Price
Vanguard
American Century
PIMCO
Russell
Schwab
JPMorgan
Source: John Hancock