Real Assets in Target-Date Funds

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Over a 40-year work life cycle, people who invest in defined contribution (DC) retirement-savings plans try to maximize two major outcomes: 1. wealth accumulation and 2. wealth preservation.

To help solve for these outcomes, plan sponsors have flocked to the target-date fund (TDF) as a solution for participants to save for retirement. Regulatory direction has anointed the TDF as a Qualified Default Investment Alternative (QDIA), which has prompted substantial and ongoing inflows to these types of savings vehicles across the DC plan universe. Callan Associates' DC Index supports the notion of both the increasing prevalence and utilization of TDFs. As of the first quarter of 2015, Callan estimated that 89% of the DC plans tracked included TDFs with an average allocation of 31%. Also in the first quarter, an estimated ~66% of new cash flows to DC plans were allocated to TDFs. Though TDFs have become the most popular DC investing vehicle, we believe that several shortcomings should be addressed to more reliably maximize retirement outcomes.

In this issue of the DC Solutions Series, the authors focus specifically on the need for TDFs to better protect against the risk of rising inflation and to better diversify their asset allocations. They suggest incorporating real assets as a potential solution to these issues, and discuss the protection benefits this may have for participants.

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