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Retirement Perspectives
A Survey of DC Plan Sponsors and Consultants

T. Rowe Price's latest research, **Advancing the Way We Think About Perceptions of Risk and Achieving Outcomes**, offers a unique view of how plan sponsors perceive the retirement life cycle and ensure that their choices align with their objectives. Risk comes in many forms, and we believe plan sponsors need to choose thoughtfully for the long term.

First Findings

Advancing the Way We Think About
Perceptions of Risk and Achieving Outcomes

T. Rowe Price surveyed U.S. defined contribution (DC) plan sponsors to gain a deeper understanding of their attitudes about the risks that their plan participants face as they seek to achieve retirement objectives and how those views are prioritized in the sponsor's investment selection process.

We are particularly interested in how DC plan sponsors and consultants think about sequence-of-returns (SoR) risk—the risk of low or negative returns early in a participant's withdrawal period—and how those views are considered relative to long-term outcomes.

We believe that consideration of SoR risk must be placed within a broader perspective, one that takes into account multiple retirement risks, including the possibility that lower equity glide paths used as a means to "protect" against SoR risk may fail to accumulate adequate savings at retirement. This includes leading up to and into retirement, as people are living longer and retirement savings often need to last decades into retirement. A lower equity glide path may have a material impact on the potential growth trajectory of the participant's underlying balance. These factors suggest that plan sponsors and their consultants should consider the potential trade-offs between short-term downside control and long-term growth when selecting qualified default investment alternatives (QDIAs) such as target date solutions.

Longevity Risk Takes Precedence Over the Risk of Balance Instability in QDIA Selection

Q: Which is most influential when choosing an asset allocation solution (e.g., a target date strategy or other QDIA) for participants?

Nearly two-thirds of plan sponsors identified long-term income potential as the key investment objective driving their selection of target date strategy offerings and other QDIAs.

DC plans are now a central retirement lever, so when we consider that life spans are longer and retirement planning is long term in nature, combined with a focus on workforce management issues, longevity risk is naturally top of mind for plan sponsors.

—LORIE LATHAM
T. Rowe Price Senior DC Strategist

Top Risk Concerns Are Retirement-Related, Not Market-Related

When plan sponsors were asked to rank the risks they are most concerned about for their participants, longevity risk and participant behavior were the top two selected. In fact, a large majority of plan sponsors listed longevity risk in their top three concerns (95%). This suggests that plan fiduciaries are focused on supporting the long-term retirement readiness of their participants.

Top Concern, Plan Sponsors

42% **LONGEVITY RISK**	25% **PARTICIPANT BEHAVIORAL RISK**	14% **DOWNSIDE RISK**
12% **VOLATILITY RISK**	7% **INFLATION RISK**	

More than two-thirds of respondents disagreed with the statement that it is more important to manage potential short-term reductions in account balances versus seeking to maximize long-term balances and income flows.

It is not uncommon to see plan decisions that may overemphasize point-in-time metrics, focus on a specific cohort, or anchor to a worst-case scenario. The intent at the onset of a selection is often to identify the right solution for a heterogeneous plan population, but individual metrics can cause sponsors to become distracted. We believe it is critical to keep the full population top of mind and to maintain a long-term view.

—WYATT LEE, CFA
Co-Portfolio Manager, Retirement Date Strategies

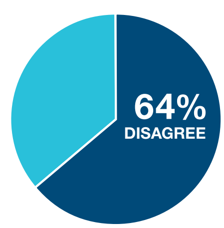
Managing Longevity Risk With Growth-Oriented Asset Allocation Seen as Key

Given the high importance that most respondents assigned to longevity risk, which strategies were most likely to be offered to address it?

- **45%** said they were most likely to **offer target date strategies or other QDIAs with glide paths that pursue growth both to and through retirement**.
- **5%** were most likely to include some **type of guaranteed income product (such as deferred annuities or qualified longevity annuity contracts)** within portfolio construction. Only 2% indicated they are likely to offer managed withdrawal strategies calibrated to market fluctuations.
- **23%** were most likely to offer **a combination of a growth-oriented QDIA path and a managed withdrawal strategy calibrated to market fluctuations**.
- **20%** were most likely to offer **a growth-oriented QDIA glide path combined with income guarantees**.

Reducing Sequence-of-Returns Risk Requires Trade-Offs

The vast majority of respondents agreed that asset allocation and participant cash flow behaviors both can help manage SoR risk. However, most recognized that efforts to mitigate SoR risk through asset allocation could have unintended consequences, including a potential reduction of retirement income.



Almost two-thirds of respondents **disagreed with the statement that "there are no unintended consequences in attempting to mitigate sequence-of-returns risk for participants."**

A majority of respondents (60%) agreed that "the cost of mitigating downside risk and portfolio volatility is a reduced expected withdrawal amount through retirement."

We are encouraged by the mindset surrounding risk and believe it will have a positive impact on strategic decisions versus ones that are more reactionary or focused on a narrow set of circumstances.

—STEPHEN BOZEMAN
Target Date Product Manager

A Primary Focus on All Active Participants When Selecting QDIAs

A relatively heterogeneous participant population adds a level of complexity to sponsor decision-making when identifying suitable QDIAs.

78%

78% of plan sponsors said they **focus on needs of the full active population** when selecting target date strategies or other QDIAs for their plans. This focus underscores the need for a long-term view, solutions based on robust methodology, and tools to address a diverse set of needs.

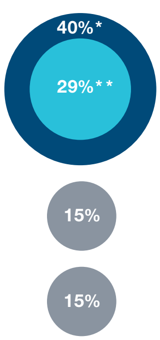
22%

Only 22% of plan sponsors said they **target a specific cohort** (such as early- or mid-career participants, those nearing retirement, or retirees or inactive participants) when making such decisions.

Most Sponsors Would Like Retirees to Keep Their Assets in the Plan

The majority of plan sponsors surveyed were decidedly in favor of retaining participant account balances after retirement.

69% of plan sponsors said it remains or has become more of a priority to keep assets in the plan.



***Remains** a priority to maintain participant account balances in plan at retirement

****More of a priority** to maintain participant account balances in plan at retirement

No preference

Prefer retirees to transition account balances **out** of plan at retirement

The fact that 29% said that it has become more of a priority to maintain participant account balances in the plan at retirement reveals that plan sponsors are more focused on the work that goes into plan setup, leveraging the scale and buying power achieved for their participants, and are indicating the desire to be part of the journey into retirement.

An Objectives-Based Philosophy That Focuses on the Complete Retirement Life Cycle

Might plan sponsors be able to serve their participants better by focusing on the complete retirement life cycle and identifying solutions accordingly?

T. Rowe Price's objective in conducting this survey was to advance how plan sponsors think about risk and outcomes—both of which are critical inputs in the assessment of any default offering. It is important to have greater awareness of the trade-offs embedded in plan sponsor choices.

SURVEY METHODOLOGY

T. Rowe Price's survey was sponsored by *Pension & Investments* magazine (P&I), and conducted from January 29 through February 20, 2018, by Signet Research, a marketing research firm. The survey universe consisted of members of P&I's Research Advisory Panel, a list of plan sponsors and consultants selected from the P&I database, and a list of financial advisors provided by T. Rowe Price. A total of 337 responses were received from 266 plan sponsor officials, 45 plan consultants, three financial advisors, and 23 other individuals active in the DC plan market. Respondents participated via online surveys and were offered a chance to win prize awards as incentives for their participation. T. Rowe Price designed the survey questions and is solely responsible for the interpretation of the results.

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