



Target Date Trailblazers for 20 Years

Insights from two decades at the forefront of retirement investing.

October 2022

Former and current portfolio managers of our target date solutions marked the 20-year anniversary of T. Rowe Price target date investing with a discussion of the lessons they've learned and shared insights on the target date investing landscape and where they think it is headed.

Can you explain the problem target date portfolios were designed to solve?

Target date portfolios are fairly ubiquitous, but it wasn't long ago that they were a novel concept. The need for a new solution arose in response to the decline of defined benefit (DB) plans. As employers shifted the responsibility of retirement savings to employees, the scope of the problem really came into view. Stocks? Bonds? Mutual funds? And which ones? What's an appropriate asset mix? And when should it change? It's easy to see how the burden of choice could be overwhelming.

Target date portfolios were designed for individuals who wanted a simpler, professionally managed solution to the problem of striving to invest enough money to last through retirement. Important choices like how much to invest, when to retire, and how much to withdraw in retirement remained with the investor, while other technical considerations like diversification, glide

path design, and investment selection were entrusted to asset managers.

We invested heavily in the research and development that led to the creation of our first target date offering designed to help meet these needs, and we actively engaged plan sponsors in discussions to help them better understand this novel product and our approach. Just a few years after the inception of our first target date offerings, the Pension Protection Act of 2006 (PPA) became law. The PPA was a catalyst for the industry because it strengthened protections for workers in DB and defined contribution (DC) plans. Plan sponsors that had been defaulting participants into conservative investment options like money market funds became more receptive to more diversified investment options that, while they took on more short-term market risk, also provided the potential to generate the sort of long-term returns investors needed to adequately prepare for retirement.

Do target date portfolios help support more successful retirement outcomes?

They do. If you look at the adoption of target date solutions, the assets have grown from USD 8 billion in 2000 to more than USD 3 trillion.¹ There are some significant knock-on effects from this trend. Retirement investors own more stocks earlier in their careers when a longer time



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¹ As of December 31, 2021, Morningstar 2022 Annual Target Strategy Landscape.

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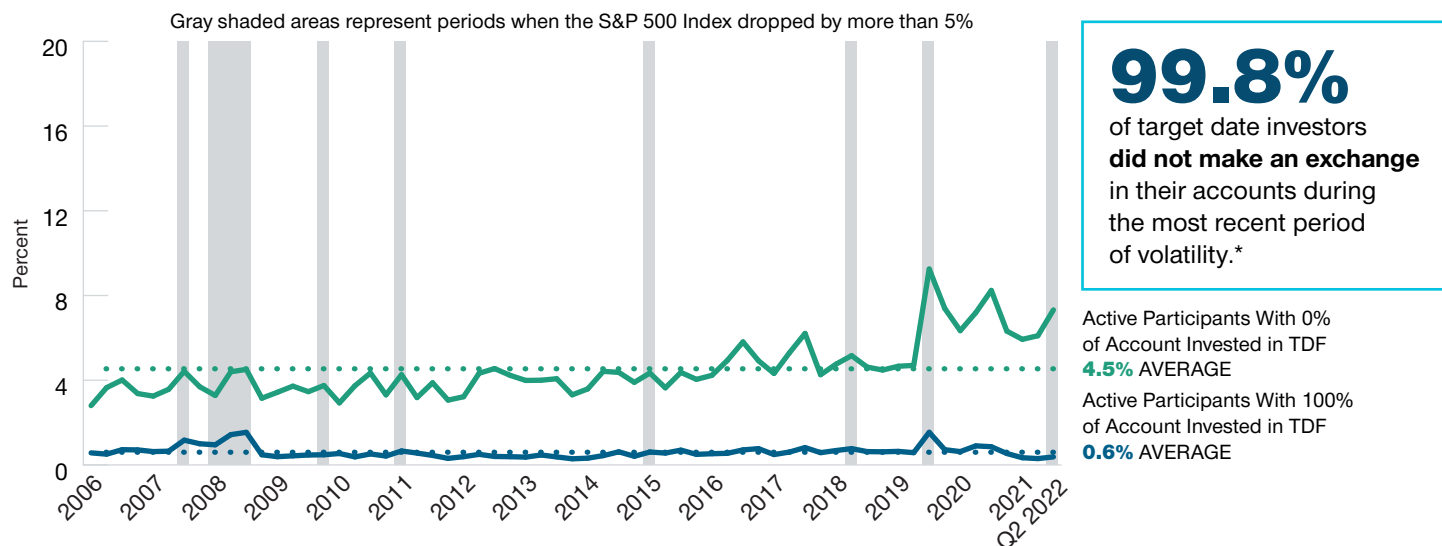
horizon is supportive of taking more risk and promotes adequate accumulation. Rather than static asset mixes, we now see more appropriate rebalancing out of stocks and into bonds as investors age, which helps limit balance variability when assets need to be drawn upon.

As noted, one of the big drivers of the adoption of target date portfolios is that they've become the default option for many plan participants. We've been advocates for the implementation of similar plan features that help participants pursue their retirement goals. Our research shows automatic enrollment nearly doubled plan participation and helped get participants who otherwise might not have saved at all to begin saving.² Higher default contribution amounts, more generous employer matches, and automatic increases to deferral rates provide the opportunity for better retirement outcomes.

And there's one other benefit of target dates worth highlighting: Our research demonstrates that investors in these portfolios have tended to embrace the long-term approach of the investment. In periods of volatility, investors in riskier assets may be prompted to sell at the worst possible time. Similarly, in periods of market excess, it can be tempting for individuals to buy speculative assets at their peak value. On the contrary, investors in target date portfolios have tended to stay the course. For example, during the onset of the coronavirus-related market downturn, over 98% of the target date investors within a T. Rowe Price-administered retirement plan made no changes to their investments.³ Even amid big market swings, it appears that investors in target date portfolios know their assets are being managed for the long term.

Participants Have Stayed the Course

(Fig. 1) Percent of investors that made an allocation change.



September 30, 2006, through June 30, 2022.

Data based on plans for which T. Rowe Price Retirement Plan Services, Inc., provides recordkeeping services.

Source: T. Rowe Price Retirement Plan Services, Inc.

*March 31, 2022 through June 30, 2022.

"Active Participants" are non-terminated participants.

² As of December 31, 2021. Data based on plans for which T. Rowe Price Retirement Plan Services, Inc., provides recordkeeping services. We compared plan participation for plans that have adopted automatic enrollment against those who had not implemented it. Source: T. Rowe Price Retirement Plan Services.

³ Data represent transactions initiated during the three-month period ended March 31, 2020.

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The term “glide path” implies a line of descent with the goal of a soft landing at the end of a long flight. Is that what the glide path is meant to deliver?

Glide path is borrowed from aviation, where it refers to an aircraft’s optimum path of descent. The term was popularized in the investing world in the late 1960s by economists who tried to define the optimal mix of assets for retirement investors over time. And you can get the sense there of how long these questions have been getting attention.

Our glide paths start to roll down exposure to equities and increase exposure to bonds well in advance of retirement, which reflects the increasing emphasis on balance maintenance and income as retirement approaches. But importantly, our glide paths continue to roll down well into retirement, not reaching their final static allocation until 30 years after retirement—a feature we were the first to offer. By comparison, many peers’ equity exposure levels off much earlier. We believe our design reflects the importance of continuing to create income through retirement, particularly as retirements last longer than they once did.

So, from our perspective, retirement isn’t the destination after a long flight with a gentle touch down. It’s the start of a new phase of life, and we’ve designed our target date strategies to continue to evolve alongside our investors throughout that next phase.

What have been some of the more impactful innovations over the past 20 years, and what drove them?

One of the most important drivers of innovation has been our belief that every retirement journey is unique, necessitating robust solutions that aim to deliver successful outcomes across diverse preferences, demographics, and market environments. This recognition motivated our work to reflect the

real-world behaviors and challenges that investors face preparing for retirement, and to help them navigate the complexity of markets over their retirements’ multi-decade time horizon.

Before we brought our first target date strategy to market, we devoted tremendous time and resources to the research and analysis that would guide every element of our design, from our glide path to building blocks to implementing tactical shifts in portfolios. One of our key findings was that glide paths with a higher exposure to equities could help lead to optimal results for most participants. We learned that most participants under-saved, yet also had a long-time horizon over which they needed their retirement assets to last. Moreover, the exact amount of money someone needs for retirement isn’t a science, and it’s important to try to build up a cushion of assets to respond to unexpected expenses or market environments that individuals will face on their retirement journey.

It was a different view than what was commonly accepted at the time, and there were concerns that this atypical approach would not be of interest to investors. In a sense, we had to choose between following popular opinion or following our research on what we felt was best for our clients. We chose the latter, and that core conviction of putting our investors first has always been our guiding principle.

Our research on inflation has been a driver of innovation as well. Since 2010, our target date solutions have included a diversified allocation to real assets, like natural resources, real estate, and metals and mining. Although we introduced this position during a time when inflation concerns were nominal for most market participants, our analysis of previous market cycles demonstrated that a hedge to unexpected inflation could add value for investors.

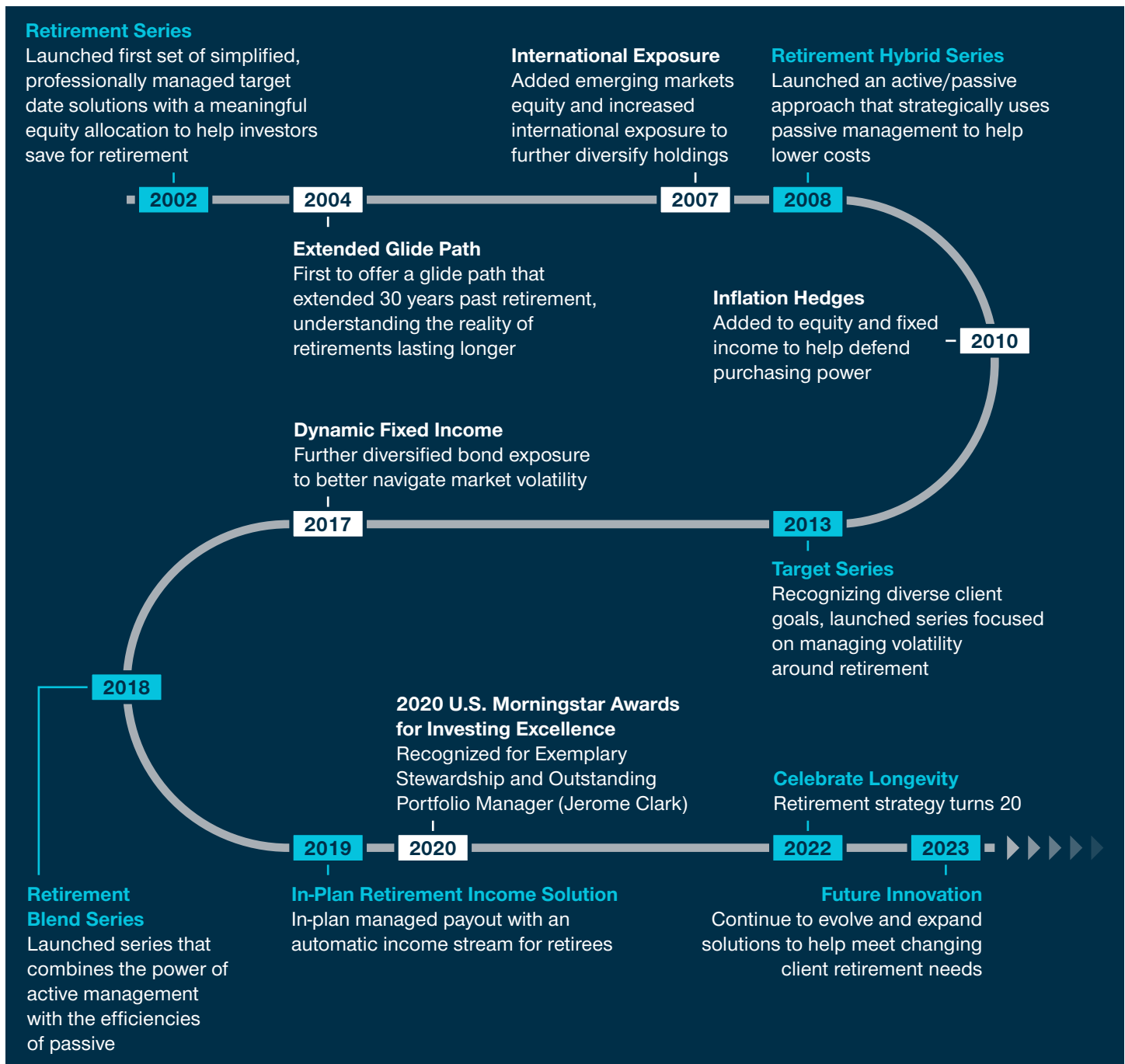
Over time, we've continued to evolve the types of solutions we offer, including portfolios that blend active and passive investments and a managed payout feature.

How has passive investing impacted target date strategies?

Interest in passive investing has been on the rise in recent years, particularly

History of Innovation

(Fig. 2) Notable enhancements and milestones for U.S. target date offerings from 2002 to 2022.



Some strategies mentioned are available only to certain U.S. retirement plans and may not be available to all investors. Diversification cannot assure a profit or protect against loss in a declining market. Please see "Disclosures for Timeline Content" at the end for additional important information.

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among plan sponsors who have to contend with fiduciary pressures to hold down costs. Considering the array of options plan sponsors have to choose from, a passively managed strategy can appear to be an attractive choice at first glance, in part because differentiating between fees is easier than differentiating between the various designs, capabilities, and variety of building blocks offered across asset managers. However, plan sponsors are also obligated to make prudent investment decisions for participants, and we believe those decisions should, in part, be driven by long-term outcomes, not just selecting the lowest cost option available.

Over the years, we've partnered with plan sponsors to understand and anticipate their unique needs, and we recognize that finding the right solution can require a thoughtful balance of different considerations. We launched our first approach that blends active and passive investments into a single solution in 2008, and we've continued to develop and innovate blended solutions that we believe offer a compelling option. These strategies feature a lower historical tracking error and somewhat lower fees than our primarily active strategies while still retaining our hands-on, strategic investing approach. They also evince our core conviction in the ability of our active management to add value over time, as well as our belief that including only passive building blocks can impede efforts to deliver true diversification, especially in fixed income.

What have you learned about navigating down markets over the past 20 years?

We've experienced four equity bear markets over the last couple decades, from the dotcom crash to the global financial crisis to the COVID-19 downturn, and the current bear market. Each of these moments featured unique causes, duration, and severity, and each challenged us to continue to deliver for our investors amid adversity.

The most important lesson for us has been quite simple: Trust our process. In extreme environments, there's an instinctual pull to focus on the near term and to misplace emphasis on recent outcomes. But planning for retirement is the endeavor of a lifetime, not a month or a year. That's why we keep our focus on the big picture—what happens *before* and *after* a downturn and its actual impact on retirement outcomes. While other strategies may take a conservative approach or chase short-term performance, we rely on our core convictions and our commitment to delivering strong long-term outcomes and trust in our experienced team to navigate market ups and downs.

Our experience suggests that investors who remain calm and stick to an established process are more likely to meet their long-term objectives. We believe that our commitment to our process and our values enables us to help meet those challenges and deliver for our clients.

What's next for target date investing?

We can't be certain what will come next, but we can be confident that change is coming. As target date leaders, we've seen how the landscape has evolved over the past two decades. Retirement today is different from retirement 20 years ago, just as we expect retirement will look quite different 20 years from now. It's exciting to think about the different ways we can help our clients navigate their retirement journeys in this dynamic environment.

Twenty years ago, defined benefit plans provided a simple outcome for dependable cash distributions that helped to finance retirement for many individuals. With today's retirees, we are witnessing uncertainty and a new crop of questions. While our internal research shows that people are generally happier in retirement than they thought they would be, retirees are nonetheless forced to manage their retirement savings.

Among the questions we typically hear are: *Should I cash out of my retirement plan? Should I buy an annuity? How much can I take out every month? How long will my savings last?* These are among the emerging problems we're seeking to help address.

Target date portfolios have filled the gap for investors who seek a professionally managed solution as they prepare for retirement and can be an appropriate investment vehicle for retirees. We've also launched tools and products that help investors start to spend down the wealth they've built up over their career and access those funds in a more predictable way. Given the more personalized nature of retirement for each individual, we expect there to

be continued evolution of retirement income solutions, whether linked with target date investments or separate solutions, and that services, tools, and products are likely needed to help investors meet their goals.

Our solutions have really multiplied and developed in so many ways from the launch of our first product. We have evolved as technology, the market, and the world have changed over time, but our obligation to our clients and our conviction to put them first have never wavered. That's why we are committed to continual investment in our capabilities and resources to offer innovative solutions that help our clients navigate a complex environment for generations to come.

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Effective January 1, 2021, Jerome Clark stepped down as co-portfolio manager and cochairman of the funds' Investment Advisory Committee and transitioned from his role as portfolio manager to a new role within the firm.

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