Navigating the evolving landscape of target date solutions

From the Field

Key Insights

- Over the past two decades, target date investing has grown to become a key component in most DC plans, with almost USD 4 trillion in assets at the end of 2024.
- We believe active management can play a crucial role in target date investing, as it offers potential opportunities for diversification and outperformance.
- Blended target date solutions that combine active and passive components potentially offer investors some of the benefits of both approaches.

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Target date investing has undergone significant transformation over the past two decades, evolving from a niche option to a cornerstone of many defined contribution (DC) retirement plans. This evolution has been driven by legislative changes, market dynamics, and the increasing complexity of plan sponsor objectives and participant needs.

Let's start by looking at how the target date market has grown and evolved since these solutions were first introduced in the early 2000s.

In 2006, passage of the Pension Protection Act (PPA) gave a major boost to the target date concept by providing plan fiduciaries with relief when investing participant assets in qualified default investment alternatives (QDIAs). Just under a year later, the U.S. Department of Labor defined the types of accounts that would be considered QDIAs. These included "life cycle" (or target date) funds, balanced funds, and diversified managed accounts.

Since that time, target date solutions have become by far the favorite of the three QDIA investment types, thanks to their potential to dynamically reduce exposure to market volatility as savers move through their investing life cycle, ensuring a smoother transition into retirement.

The potential of active management

(Fig. 1) Percentage of time that more than half of active managers outperformed their benchmarks, 2014–2023.[1]

U.S. Markets		Global Markets	
Equity	Fixed Income	Equity	Fixed Income
50%	100%	30%	80%

As of December 31, 2023. Based on annual performance.
Past performance is not a guarantee or a reliable indicator of future performance.
Source: eVestment Alliance LLC, Active Manager Outperformance 2024, released April 2024. All data analysis by T. Rowe Price.
[1] Benchmarks were selected at a more granular strategy level, then aggregated into regional and asset class groupings. Results based on manager self-reported returns, gross of fees. Please see Figure 2 and the Appendix for more information on the methodology for this exhibit.

Since enactment of the PPA, target date assets under management (AUM) have exploded, from USD 127 billion in 2006 to USD 3.97 trillion as of year-end 2024.[1] They are now the designated QDIA for 90% of U.S. defined contribution plans.[2]

Facing the either/or fallacy

As the market has grown and matured, plan sponsors and their consultants or advisors have faced a lengthening list of variables to consider when selecting a target date provider. These include the asset allocation mix, the shape of the glide path, the specific investment vehicles used—such as mutual funds or common investment trusts (CITs)—and, not least, whether the underlying building blocks should be actively or passively managed.

While we strongly believe that plan sponsors benefit from a diverse target date market, which allows them to select a target date solution based on their plan demographics and preferences, we also understand that "choice overload" sometimes can lead to inaction—and/or lead decision-makers to overly simplify their options.

Simply put, when faced with a menu of multiple possible solutions, individuals often tend to boil them down to an either/or choice—even though a more structured analysis may reveal additional options that are more appropriate for their needs.

The either/or fallacy has particular application to the active versus passive debate—not just for target date solutions but for investing in general. T. Rowe Price conducts an annual survey of the 35 largest DC-focused U.S. consultant and advisor firms, and one of the topics we explore is the preferred method of implementation by asset class.[3] A key takeaway from our latest survey was that we are no longer living in an active versus passive world. It's both active and passive.

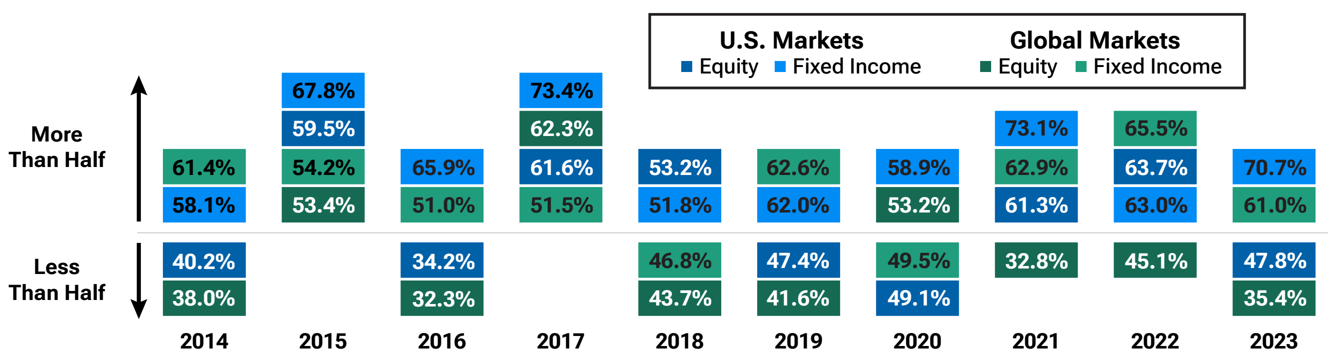
The potential of active and passive

T. Rowe Price believes that active management can and should play a crucial role in target date investing, offering potential opportunities for diversification and outperformance. Conversely, passive management potentially offers cost-effective exposure to more efficient asset classes or specific market segments, reducing overall costs.

[1] Sway Research, The State of the Target-Date Market, 2025. Total does not include assets held in custom target date funds.
[2] Callan LLC, 2024 Defined Contribution Trends Survey.
[3] Source: T. Rowe Price 2024 Defined Contribution Consultant Study, September 2024.

Even efficient asset classes may offer active opportunities for skilled managers

(Fig. 2) Share of active managers outperforming their benchmarks, by year[1]



As of December 31, 2023. Based on annual performance.
Past performance is not a guarantee or a reliable indicator of future performance.
Source: eVestment Alliance LLC, Active Manager Outperformance 2024, released April 2024. All data analysis by T. Rowe Price.
[1] Benchmarks were selected at a more granular strategy level, then aggregated into regional and asset class groupings. Results based on manager self-reported returns, gross of fees. Please see the Appendix for more information on the methodology for this exhibit.

Where market inefficiencies exist, an active approach provides the potential for managers to generate excess returns. Active management may improve portfolio diversification, given that benchmarks for some asset classes—such as high yield credit and emerging markets debt—can be difficult or impossible to replicate with a purely passive approach. A broader tool kit of underlying building blocks also may improve durability when different factors are driving the market.

Figure 1 shows the percentage of time that more than half of actively managed investment strategies outperformed their benchmarks in four broad asset categories over the 10 years ended in 2023. Some asset classes provided relatively consistent excess return opportunities during that period. More than half of active U.S. fixed income strategies, for example, outperformed their designated benchmarks in every calendar year over the 2014–2023 period, gross of fees (Figure 2).

Some analysts have argued that certain asset classes, such as U.S. equities, are simply too efficient to justify the use of active management. But even efficient asset classes may offer excess return opportunities. Note that at least a third of active U.S. equity managers outperformed their benchmarks in every year shown in Figure 2. Clearly, this is an area where there are still market inefficiencies that can be exploited by skilled managers.

When we look at the magnitude of active equity outperformance, the potential to add value can have a meaningful impact on retirement outcomes. Just 50 basis points (bps), net of fees, in excess returns over a 40-year savings period could equal five or more years of spending in retirement for a hypothetical target date investor (Figure 3).

82%

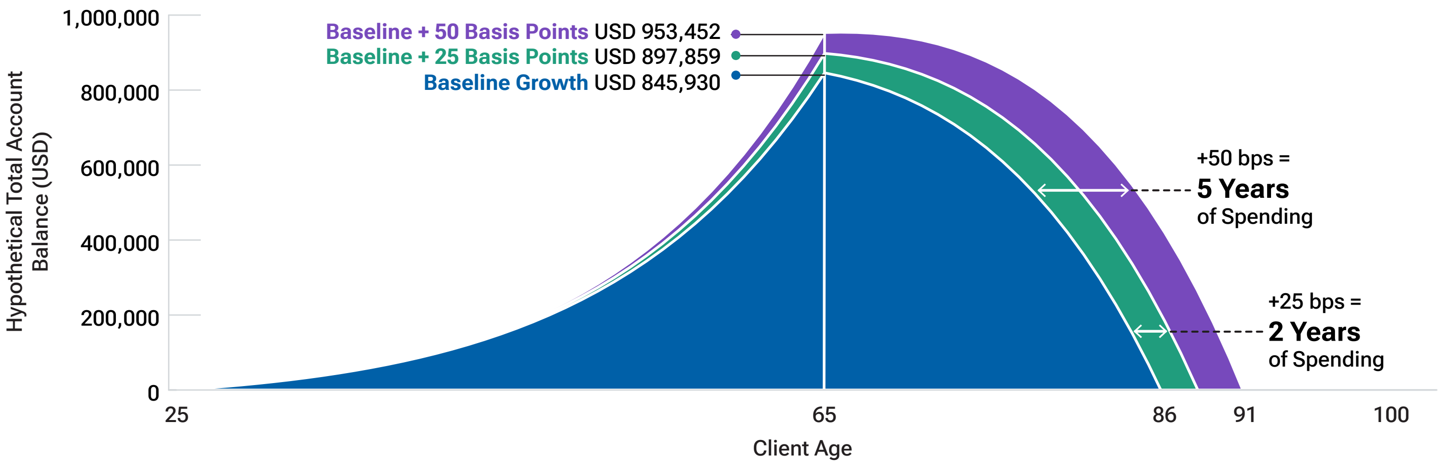
Share of DC plan sponsors who agreed that active management can help mitigate downside risk.

The potential risk mitigation benefits of active management also appear to be well understood within the retirement industry. A T. Rowe Price survey of roughly 120 U.S.-based DC plan sponsors, conducted in the fourth quarter of 2024, found that 82% of them agreed with a statement that active management can help mitigate downside risk due to heightened market volatility.[4]

[4] T. Rowe Price, 2025 DC Plan Sponsor Survey.

How active management can improve outcomes

(Fig. 3) Even modest return improvements can have a meaningful impact.[1]



Salary and Contribution Assumptions
Starting salary of USD 30,000 at age 25
Contributes 9% of salary per year
Salary rises 3% per year

Retirement and Distribution Assumptions
50% of salary (USD 49,000) withdrawn at retirement
Withdrawal increased 3% per year until portfolio exhaustion

Analysis by T. Rowe Price.

[1] Values based on hypothetical experience of a DC plan participant starting with a USD 0 retirement balance. Baseline scenario assumes 7% annual returns prior to retirement at age 65 and 5% annual returns thereafter. Baseline + 25 basis points scenario assumes 7.25% annual returns before retirement and 5.25% after retirement. Baseline + 50 basis points scenario assumes 7.5% annual returns before retirement and 5.5% after retirement. Demographic assumptions, contributions, and investment returns are shown for illustrative purposes only and are not intended to provide any assurance or promise of actual returns and outcomes.

The results shown above are hypothetical, do not reflect actual investment results, and are not a guarantee of future results. Hypothetical results were developed with the benefit of hindsight and have inherent limitations. Hypothetical results do not reflect actual trading or the effect of material economic and market factors on the decision-making process. Results do not include the impact of fees, expenses, or taxes. Results have been adjusted to reflect the reinvestment of dividend and capital gains. Actual returns may differ significantly from the results shown.

Given the current uncertain market environment, it was not surprising that market volatility was top-of-mind for many plan sponsors and that they saw active management as a valuable tool for addressing this concern.

We interpret the data as showing a widespread recognition among plan sponsors that active management can play a meaningful role in impacting retirement outcomes and that focusing on cost above all other considerations is not the best path forward.

An emerging "blend trend"?

For plan sponsors who place an emphasis on limiting investment costs, is there an alternative that avoids the either/or fallacy? We believe there is. Our research suggests a blended approach—one that combines active and passive building blocks, depending on the characteristics of each asset class—can harness the strengths of both management styles, delivering a solution that offers some of the benefits of a fully active approach but at a lower fee profile to accommodate plan sponsors who are looking for a lower-cost solution.

The potential benefits of a blended approach also are widely recognized among investment professionals. A 2022 study by market research firm Cerulli Associates found that almost half (47%) of all consultants surveyed said they were most likely to recommend a blended target date solution.[5]

We can put those findings in context with some market size data. The left panel in Figure 4 shows that blended solutions represented just 10% of the total target date market in 2024, with active vehicles capturing 29% and purely passive ones representing the remaining 61%.

But to get a better sense of where the retirement market may be headed, it is instructive to look at trailing three-year compound annual growth rates (CAGR). Here we see a different story, with blended solutions exhibiting a significantly faster CAGR in recent years compared with fully active or fully passive target date solutions (Figure 4, right panel).

We believe that the DC industry, primarily in reaction to fee-related litigation, may have moved too quickly to implement target date solutions that allocate entirely to passive underlying building blocks, and that we now may be poised to see some passive target market share shift to blended target date solutions.

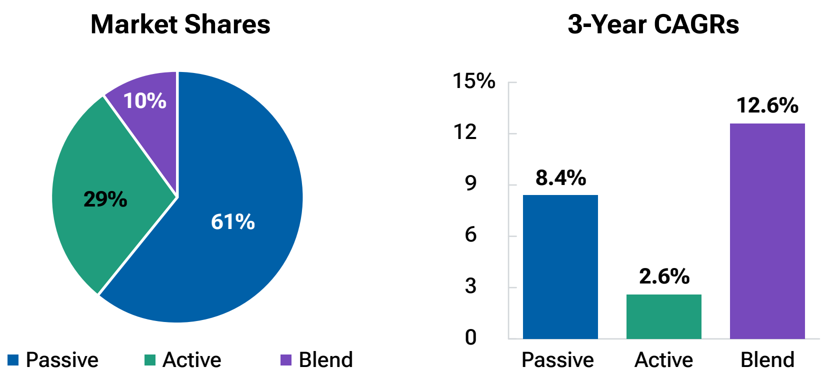
However, even within the blend category, there are a range of options for when and where to use active or passive vehicles. In other words, not all blend target date solutions are created equal. Some providers combine a mix of active and passive components within each asset class. Others may designate whole asset classes—such as all equities—for passive treatment.

Note that the latter approach can impact the overall balance between active and passive as target date portfolios move along their glide paths—starting with an almost entirely passive blend and transitioning to a more active mix as participants approach retirement.

Different target date providers also will offer different value propositions when implementing blended target date solutions. Much depends on how plan sponsors weigh the necessary trade-offs between the lower fees made possible by a purely passive approach and the potential diversification and return benefits of active management.

Blended target date solutions are gaining market share

(Fig. 4) 2024 AUM market shares and three-year CAGRs.



As of December 31, 2024.
Source: Sway Research LLC, The State of the Target-Date Market: 2025.
AUM = assets under management. CAGR = compound annual growth rate.

The T. Rowe Price advantage

When T. Rowe Price launched its first target date solution in 1996, we believed we could offer investors a superior target date design, one that focused on the primary issue facing most DC plan participants: the need to support income during retirement. We viewed running out of money—either by living longer or withdrawing unsustainable amounts to meet basic needs—as the most significant risk that most retirees faced.

This same emphasis also guided us when we designed and launched our Retirement Funds—a fund family designed to help investors prepare to retire with confidence—in 2002.

[5] Cerulli Associates, Cerulli Defined Contribution Consultant Report 2022.

However, our ongoing research in the years that followed revealed the importance of plan sponsor preferences and objectives as key inputs in the glide path design process. In particular, we identified a set of plan sponsors who preferred a glide path with a greater focus on limiting volatility around retirement. Accordingly, in 2013 we launched the T. Rowe Price Target Funds, featuring a glide path that seeks to strike a more moderate balance between providing growth and managing volatility around retirement.

Fast forward to today, and T. Rowe Price manages over USD 475 billion in target date assets as of December 31, 2024, making us the largest provider of actively managed target date solutions in the industry. We offer five off-the-shelf target date products, in addition to codeveloped products and custom glide path services.

T. Rowe Price has been purposeful in its approach to blended solutions. Our blended strategies employ passive building blocks in core asset categories within both fixed income and equities but use actively managed components in style-specific and satellite strategies. This structure mirrors what we see in terms of the investment menus in most DC plans.

We believe that our approach provides the potential for our managers to add excess return in segments where we have a strong track record and differentiated investment approaches, while using lower-cost passive vehicles for more easily replicated exposures in order to lower the total fee to a level that meets the preferences of some plan sponsors. Our goal is to address the different risks that target date investors face as they move through their investing life cycles, while also offering the potential for higher returns net of fees.

Conclusions

The target date investment concept has evolved and grown significantly over the past few decades, leaving plan sponsors and retirement plan advisors with a plethora of choices. Blended target date solutions potentially are emerging as a new area of opportunity for plans that wish to offer participants some of the benefits of active management but with a lower fee profile.

However, it's important to understand that not all blended solutions are created equal. Different providers will have different approaches. In choosing among these competing approaches, we think plan sponsors and their consultants or advisors may want to keep the following points in mind:

- Seek to understand how the plan's objectives and preferences can influence the target date fit.
- Look for a robust solution that uses a diverse tool kit to seek consistent outcomes.
- Choose a solutions partner who can help navigate the changing retirement landscape and match the right solution for the plan.

We also believe strongly that plan sponsors and consultants and advisors should consider all of the factors that potentially can shape retirement outcomes and not let fee considerations alone drive their decisions.

T. Rowe Price Sources

2024 Defined Contribution Consultant Study: This study included 48 questions and was conducted from January 12 through March 4, 2024. Responses were from 35 consulting and advisory firms with over 134,000 plan sponsor clients and more than USD 7.5 trillion in assets under advisement (AUA). The AUA figures were self-reported.

https://www.troweprice.com/content/dam/retirement-plan-services/pdfs/insights/research-findings/2024_DC_Consultant_Study_Executive_Summary.pdf

2025 DC Plan Sponsor Survey: T. Rowe Price's, 2025 DC Plan Sponsor Survey included 39 questions and was conducted from November 6, 2024 through December 16, 2024. The report is based on 116 respondents who describe their company's structure as a corporation or partnership, union, government organization, nonprofit educational institution or healthcare, or other nonprofit organization or foundation, are involved in retirement plan(s) that either their organization sponsors or they personally advise on, have a role in overseeing and/or selecting their organization's DC plan investment offerings and indicated a combined approximate asset size of $100 million USD or greater for their DC plans they advise.

Appendix

Figure 1 and 2 methodology

The "success rates", or percentage of managers in a given roll-up universe outperforming the selected benchmark over the specified year, on the preceding page are determined by roll-up groupings of products (U.S. Equity, U.S. Fixed Income, etc.) in eVestment compared to benchmarks selected for a more granular selected grouping. Details on those benchmarks can be seen below.

Each section's universes were chosen based on year-end 2023 total AUM. The top 10 are shown in the exhibit below. Cash management, passive, and enhanced index universes were excluded.

The Roll-Up Universe chart consists of an aggregated view for select asset class and geographic cross-sections. Products' performance comparisons are made at the primary universe level, with benchmarks chosen for the primary universes as shown below, then aggregated to the Roll-Up universe level (e.g. US Large Cap Core products are compared against the S&P 500, US Small Cap Value against the Russell 2000 Value within the US Equity Roll-Up). Although not listed below, primary universes outside of the top 10 (not shown in the listing) are included in these Roll-Up universe calculations.

To be included in each year's calculations, products must have reported gross-of-fees returns for the full year. All comparisons between products and benchmarks are made gross of fees, dividends, and distributions and on a USD basis. All performance calculations are based on data reported as of February 16, 2024.

Appendix continues on the next page.

Roll-up groupings and primary universes with benchmarks selected for analysis

U.S. Equity	
Primary Universe	**Selected Benchmark**
US All Cap Core	Russell 3000
US All Cap Growth	Russell 3000 Growth
US All Cap Value	Russell 3000 Value
US Large Cap Core	S&P 500
US Large Cap Growth	Russell 1000 Growth
US Large Cap Value	Russell 1000 Value
US Mid Cap Value	Russell Midcap Value
US Small Cap Core	Russell 2000
US Small Cap Growth	Russell 2000 Growth
US Small Cap Value	Russell 2000 Value

Global Equity	
Primary Universe	**Selected Benchmark**
Global All Cap Core	MSCI World
Global All Cap Growth	MSCI World Growth
Global All Cap Value	MSCI World Value
Global Large Cap Core	MSCI World
Global Large Cap Growth	MSCI World Growth
Global Large Cap Value	MSCI World Value
Global Small Cap Growth	MSCI World Small Cap Growth
Global REIT	FTSE EPRA/NAREIT Developed
Global SMID Cap	MSCI ACWI SMID Cap
Global Extended	MSCI World

U.S. Fixed Income	
Primary Universe	**Selected Benchmark**
US Bank Loan	Credit Suisse Leveraged Loan
US High Yield	Bloomberg US Corporate High Yield
US Corporate	Bloomberg US Credit
US Long Duration Credit	Bloomberg US Long Credit
US Core Plus	Bloomberg US Aggregate
US Core	Bloomberg US Aggregate
US Short Duration Gov/Cred	Bloomberg US Govt/Credit 1-5 Year
US Interm. Duration Gov/Cred	Bloomberg US Interm. Govt/Credit
US Long Duration Gov/Cred	Bloomberg US Long Govt/ Corporate
US Interm. Duration Muni	Bloomberg US Municipal 1-10 Year

Global Fixed Income	
Primary Universe	**Selected Benchmark**
Global Bank Loan	75% CS Lev Ln/25% CS W. Eur Lev Ln
Global High Yield	ICE BofA Global High Yield Const.
Global Credit	Bloomberg Global Agg.- Credit
Global Core Plus	Bloomberg Global Agg.
Global Government	FTSE WGBI
Global Aggregate	Bloomberg Global Agg.
Global Inflation Indexed	Bloomberg Global Inflation Linked
Global Multi-Sector	Bloomberg Multiverse
Multi-Asset Credit	50% CS Lev. Loan/50% ICE BofA GHY
Global Unconstrained	Bloomberg Multiverse

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Past performance is not a guarantee or a reliable indicator of future results. All investments are subject to market risk, including the possible loss of principal. All charts and tables are shown for illustrative purposes only.

The principal value of the target date strategies is not guaranteed at any time, including at or after the target date, which is the approximate date when investors plan to retire (assumed to be age 65). These target date strategies invest in a diversified portfolio of other T. Rowe Price stock and bond strategies and, at times, derivatives that represent various asset classes and sectors and are therefore subject to the risks of different areas of the market. The allocations of the target date strategies among these underlying investments will change over time to reflect the changing emphasis from capital appreciation to income and less volatility as investors approach and enter retirement. The target date strategies are not designed for a lump-sum redemption at the target date and do not guarantee a particular level of income.

Active investing may have higher costs than passive investing and may underperform the broad market or passive peers with similar objectives. Passive investing may lag the performance of actively managed peers as holdings are not reallocated based on changes in market conditions or outlooks on specific securities.

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