



Benefits of Flexible Target Date Funds

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DC Savers

Know Your Customers

Inertia

Behavioural biases

Capital ownership

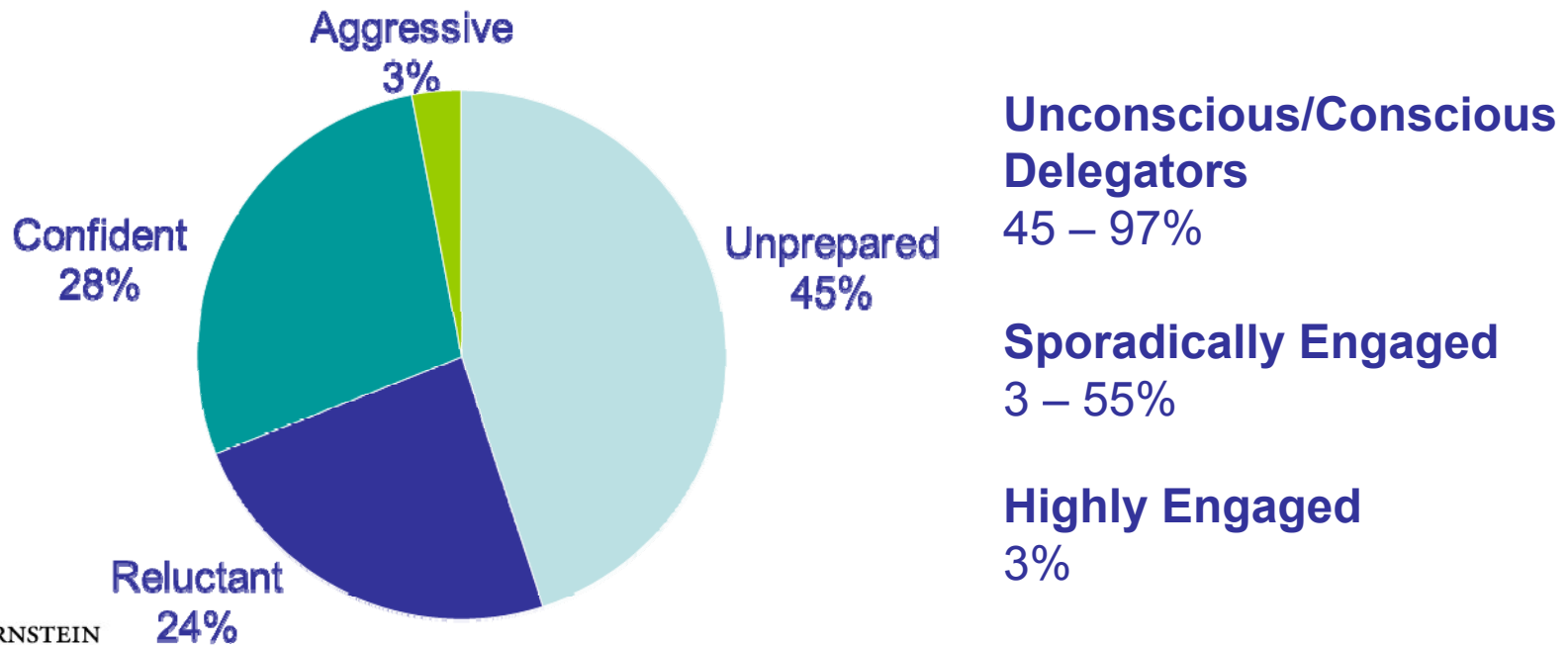
High individual uncertainty

Not stupid





Savers Attitudes to Investing Want Someone To Do It For Them



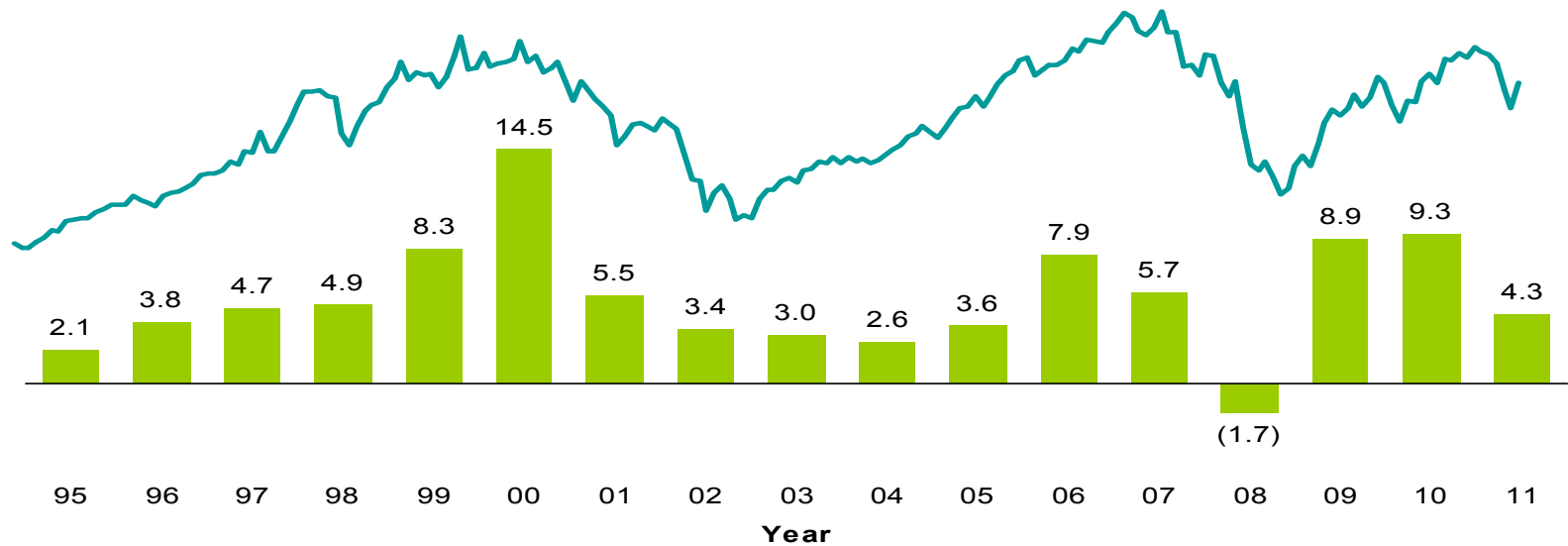

ALLIANCEBERNSTEIN

Source: AllianceBernstein & Harris Research 2009 UK pension scheme members



Beware Semi-Engaged Investors Need Someone To Do It For Them

FTSE All Share
Index
Net Retail Flows
Into UK Equity
and Property
Collective Mutual
Funds £bn




ALLIANCEBERNSTEIN

Source: FTSE, Investment Management Association and AllianceBernstein 1 December 2011



Good DC Design Provides a Good Nudge

Joining	→	Auto-enrolment
Contributions	→	Auto-escalation
Investment	→	Default
Decumulation	→	Auto-income?





Default Strategies Improve Outcomes

- ✓ Reduce Costs
- ✓ Manage Behavioural Biases
- ✓ Overcome Inertia
- ✓ Improve Engagement Quality



Features of Good Default Strategies

- ✓ **Align Competence, Control and Responsibility**
Avoid “Help me do it” and “Default options”
- ✓ **Robustly Designed**
Individual assumptions flawed
- ✓ **In-built Future-Proofing**
To overcome inertia and implement change
- ✓ **Good Governance**
Decisions made on member behalf need independent oversight



Robust Default Design Takes Account of Individual Uncertainty

Set in Stone



Outlook Uncertain

Earnings and Inflation
Savings Rates and Costs
Retirement Age and Needs
Investment Returns
Legislation and Taxation



Target Date Funds

What are They?

A range of investment funds suitable for individuals saving for retirement in or around the years stated in each fund's name

2002 to 2004	2005 to 2007	2008 to 2010	2011 to 2013	2014 to 2016	2017 to 2019	2020 to 2022	2023 to 2025	2026 to 2028	2029 to 2031	2032 to 2034	2035 to 2037	2038 to 2040	2041 to 2043	2044 to 2046	2047 to 2049	2050 to 2052	2053 to 2055	2056 to 2058	2059 to 2061
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Objective of each fund is to maximise the savers' potential retirement income, having consideration to the remaining time to retirement over which any losses can be recovered and how income will be provided

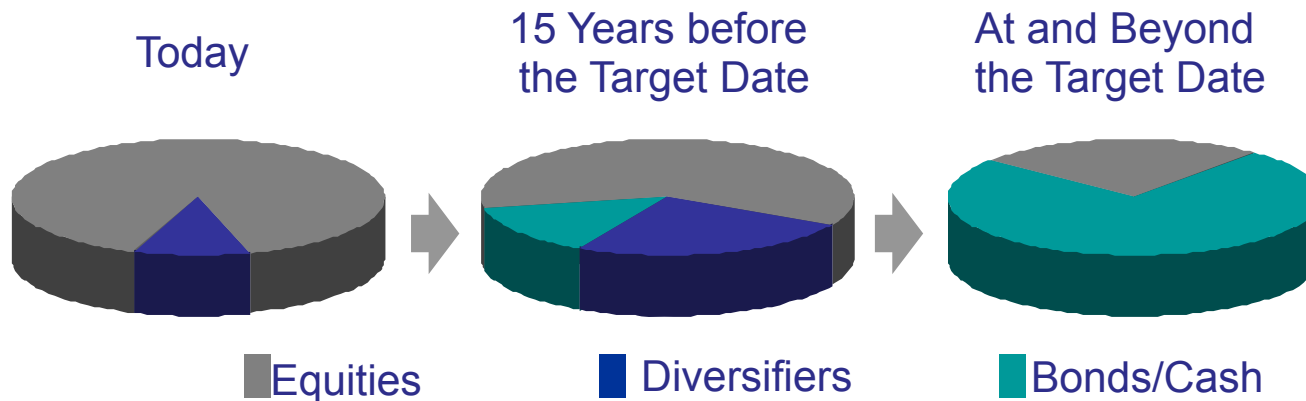


A Single Fund That Lasts a Lifetime

Age Appropriate DGFs

2029
to
2031

Example:
XYZ Retirement Fund 2029-2031



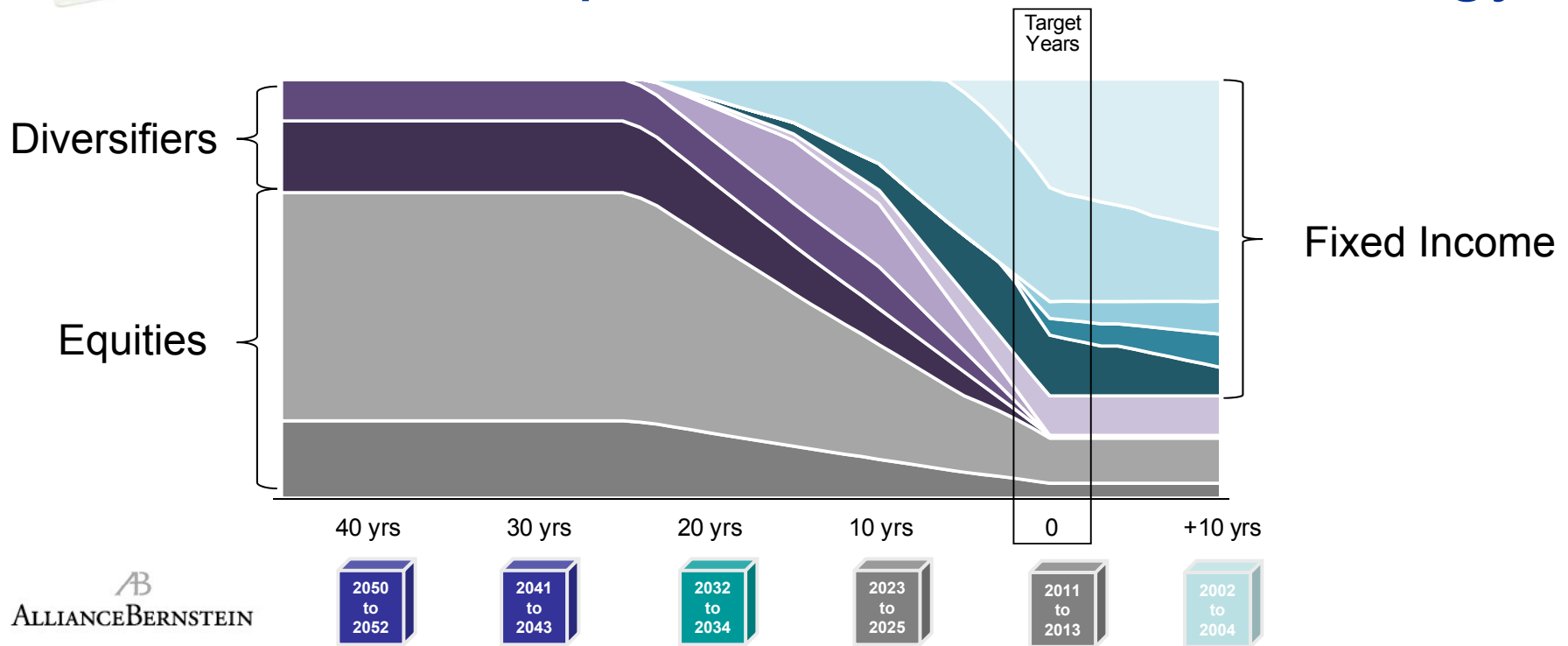

ALLIANCEBERNSTEIN

Source: AllianceBernstein



Typical TDF Glidepath Strategy

Example Asset Allocation Strategy





Different Types of TDFs

Not All TDFs are Created Equal

	Packaged	Flexible
Objective(s)	Generic	v Bespoke
Daily Oversight	Administrator	v Manager
Architecture	Closed	v Open
Asset Allocation	Static	v Dynamic
Pricing	Retail	v Institutional



Flexible Target Date Funds Benefits And Common Misconceptions

Benefits

Simple to change

- Member engagement not a necessity
- Timely manager changes possible
- Low operational risks/costs – easy to check

Enable a more sophisticated strategy

- Not constrained by member administration
- Diversification of manager risk
- Age appropriate strategic asset allocations
- Age appropriate dynamic asset allocations

Easy to Communicate

- Single fund solution focused on outcomes
- Changes not focused on mechanics

Good Trustee/Adviser oversight

- Based on actual member experience
- Independent of implementation

Misconceptions

Focus on capital not income accumulation

- Depends on the objectives

End point sensitive

- Gradual de-risking running to retirement and beyond

Inflexible packaged solution

- Fully open-architecture flexible TDFs available

Expensive c100bps +

- Age appropriate Diversified Growth at a quarter of the TER

Same as lifestyle, de-risk as you get older

- But they can do so much more, with all the benefits opposite



Flexible Target Date Funds

Open Architecture TDFs

- ✓ Clear saver orientated objective(s) Chosen by Plan
- ✓ Clear “Roles and Responsibilities” Objective oversight by Plan
- ✓ Robust age appropriate investment Diversification and Dynamic
- ✓ Simple to communicate Single Fund for Life
- ✓ Easy to change through time Simple and efficient to change
- ✓ Value for money Available at 0.3% pa in UK



Beyond Retirement Retirement Bridge

Based on Investment & Saver Research

Income Paying TDFs until Late 70s Investment Optimal

Meet Savers' needs for continued

- Choice
- Accessibility
- Flexibility
- Growth

Can be used as a Default

**Retirement BridgeSM:
Providing a Real Choice for Retirees**

Most savers in defined contribution pension schemes buy an annuity when they retire, but most annuities still give no protection against inflation nor any ability to be liquidated. We believe that, given much longer life expectancies, savers are often forced to make this irrevocable decision too quickly. There is a clear need for the market to evolve to provide them with better income choices in retirement. We believe a "Retirement Bridge" could both improve choices and provide more income in most circumstances. It would be delivered as a range of professionally managed, age-based income paying funds either as a default or stand-alone option. It would offer savers:

- **More choice**, allowing them more time to engage with their retirement needs before committing themselves to an annuity using the same market option view of date
- **More flexibility**, giving them the ability to manage their assets in a way that reflects their changing needs, particularly with regards to inheritance
- **More accessibility**, lowering costs to allow those with smaller retirement funds to gain access to the benefits of professionally managed investment funds
- **More growth potential**, providing the potential for future growth, as well as the potential for inflation protection

We would have a crystallised version of our proposed strategy might have performed best of fund in each 10 year period from 1970 to 2012, covering the best markets, the worst and every type in between. We found that, over the whole period, the Retirement Bridge would have left retirees with an average of:

■ **Higher annuity rates** are currently at a generational low, driven by increases in life expectancy and low interest rates. Against this background, our projections suggest that, assuming best markets in the future, retirees would not be much, if at all, worse off in a Retirement Bridge (Table 2). Moreover, in typical markets, our approach would offer similar average income to the annuity between the ages of 65 and 75, and an annual income more than 25% higher after normal annuitisation at 75.

We believe a Retirement Bridge giving savers a period to draw profitably from their savings and annuities in their 70s would provide more choice, more flexibility and could, ultimately, offer substantially more retirement income.

Table 1: Retirement Bridge Would Have Outperformed in the Past...

As a result of 100% of Retirement Bridge compared with an annuity bought at 65, based on a 10 year period of savers' retirement income every 10 year period from 1970 to 2012. Retirement Bridge savers might enjoy a higher average income than the Best of Fund alternative after the 70s. 100% of Retirement Bridge savers would have outperformed the Worst of Fund alternative in every 10 year period of the time and 200% monthly rate for each alternative for substantially more than 50% of the time. Source: Allianz-Bernstein

Table 2: ...and Could Be a Golden Opportunity for Today's Retirees

As a result of 100% of Retirement Bridge compared with an annuity bought at 65, based on a 10 year period of savers' retirement income every 10 year period from 1970 to 2012. Retirement Bridge savers might enjoy a higher average income than the Best of Fund alternative after the 70s. 100% of Retirement Bridge savers would have outperformed the Worst of Fund alternative in every 10 year period of the time and 200% monthly rate for each alternative for substantially more than 50% of the time. Source: Allianz-Bernstein

Smoothing the transition from work into retirement
To learn more read our research paper at www.abdc.com/uk





Decumulation Research Conventional Wisdom Flawed

“An annuity is safer than income drawdown”

“Income drawdown is too risky for those with small funds”

“We should engage earlier about the kind of annuity someone will buy”

“Individuals do not understand risk and return”

“Annuities are easier to understand than income drawdown”



Conclusion DC is Evolving

Beyond Retirement
Retirement Bridge

Delaying annuitisation until needed

Around Retirement
Target Date Funds

Assumes flexible age based needs

To Retirement
Lifestyling / Managed DC

Assumes certainty of needs and requires engagement

What Retirement
Balanced Funds

No individual alignment



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Through Retirement
401k

No Annuitisation

