
Target Risk vs. Target Date Funds in 401(k) Plans: Maybe the answer is both

January 14, 2015

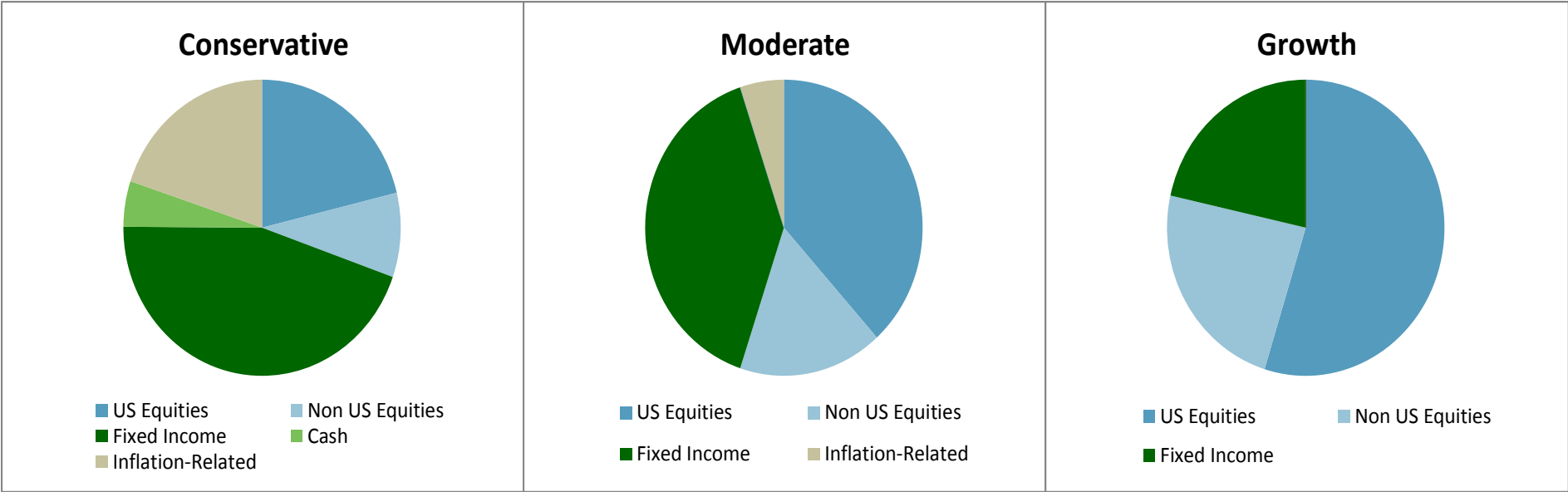


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Outline

- What are Target Risk Funds?
- What are Target Retirement Date (TRD) Funds?
- Plan Adoption Trends: Target Risk vs. TRD
- Are Target Risk Funds Obsolete?
- Conclusions

Target Risk Funds



Target Risk Funds

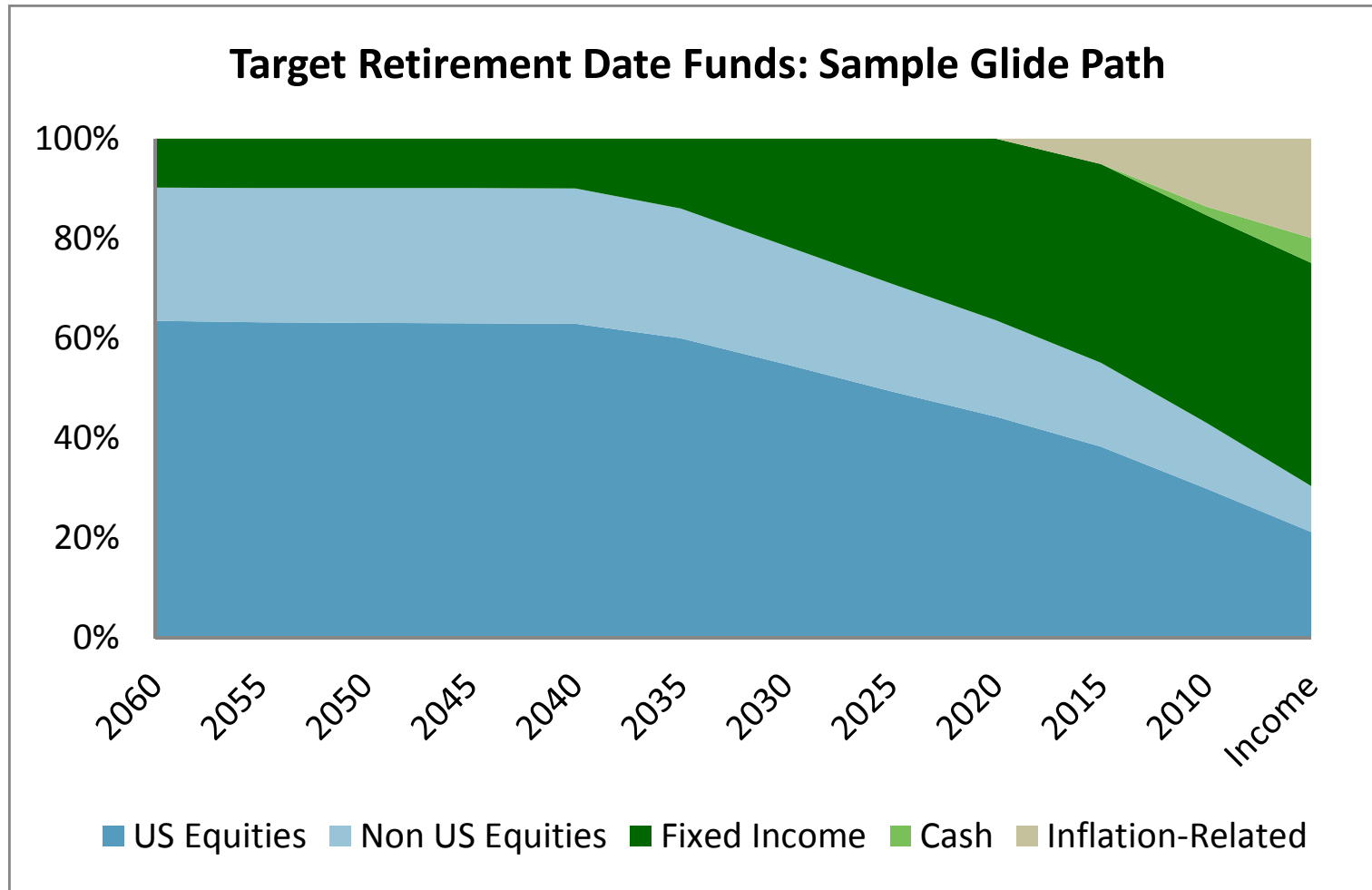
Advantages

- Professional allocation management
- Diversification
- Automatic rebalancing
- Static allocation - *appropriate if risk profile remains unchanged*

Disadvantages

- No ability to change poor underlying funds (if prepackaged)
- Requires investor to assess risk profile
- Static allocation – *inappropriate if risk profile changes*

Target Retirement Date (TRD) Funds



Target Retirement Date (TRD) Funds

Advantages

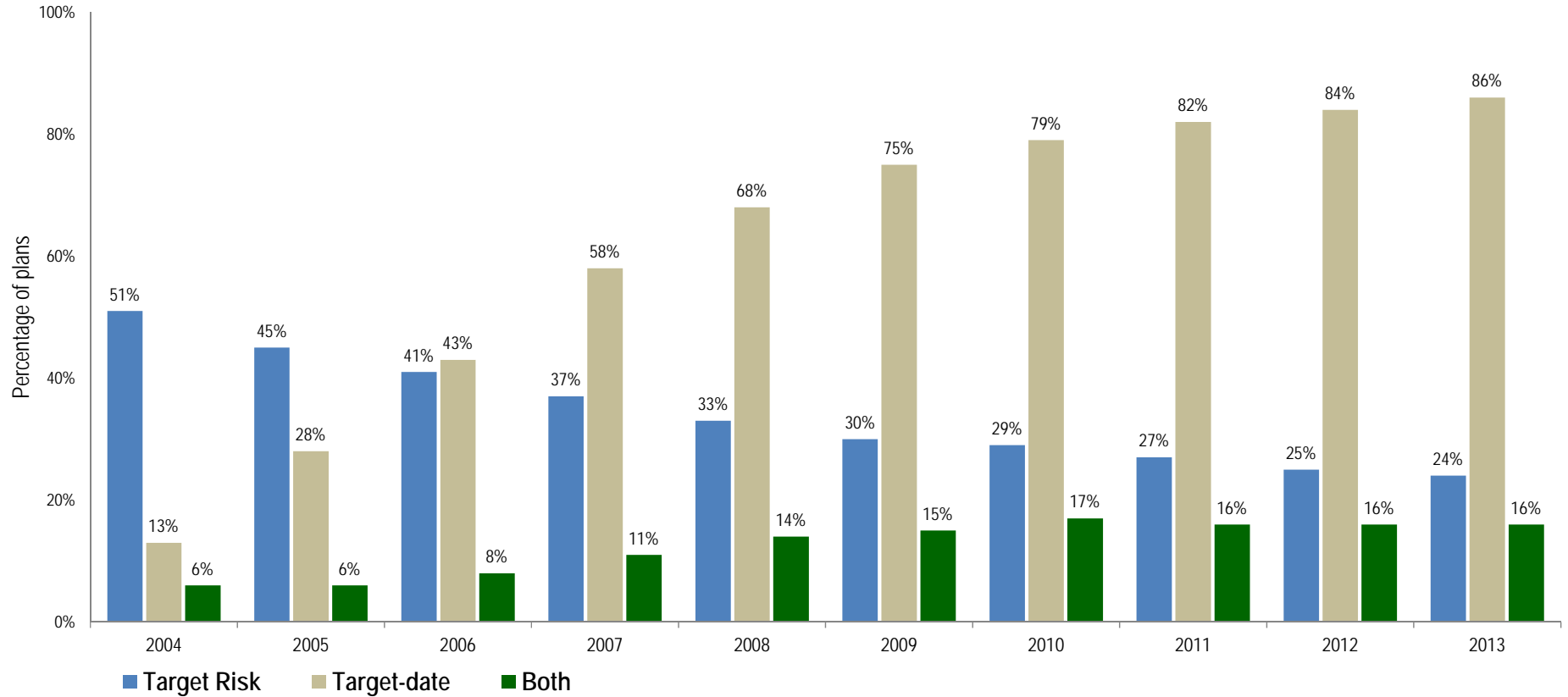
- “Set it and forget it”
- Professional allocation management
- Diversification
- Automatic rebalancing
- Allocation varies by proximity to retirement age – *appropriate if risk profile similar to “average” participant*

Disadvantages

- Glide path is based on “average” participant
- No ability to change poor underlying funds (if pre-packaged)
- Additional education may be needed
- Allocation varies by proximity to retirement age – *inappropriate if risk profile not similar to “average” participant*

Adoption Trend of Target Risk vs. TRD Funds

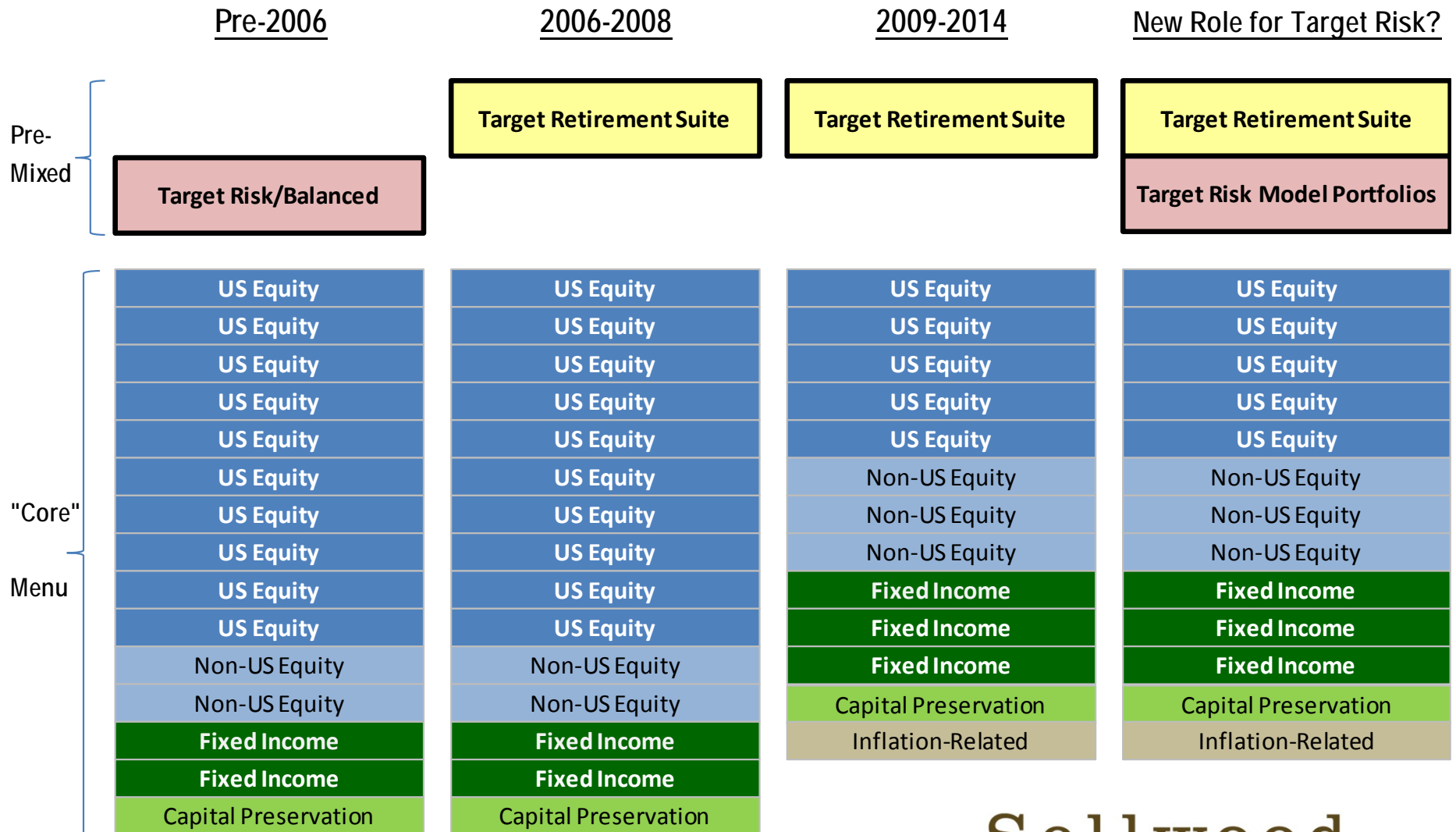
Vanguard defined contribution plans



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Sources: Vanguard, *How America Saves 2014*

Are Target Risk Funds Obsolete?



Conclusions

- TRD funds likely to remain the default option of choice
- Pre-packaged target risk funds will continue to decline
- Target Risk model portfolios comprised of plan's core options can still play a valuable role
 - Cost effective choice for participants wanting more customization than TRD funds but uncomfortable with the DIY approach
 - Leverages due diligence efforts for core options
 - Leverages asset allocation expertise of the plan's advisor
 - DIY investors have a guidepost for how they might construct a conservative, moderate or growth oriented portfolio



About Sellwood Consulting LLC

Sellwood Consulting LLC is an SEC-registered investment advisor providing conflict-free investment consulting services to institutional clients and plan sponsors. Our firm is structured to provide industry-leading investment advice, the highest levels of client service, and uncompromising ethics.

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