

Target Date Funds for Public Safety Plans

NCPERS 2018 Public Safety Conference

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OCTOBER 31, 2018

Topics

- Growth of Target Date Funds
- Specific Public Safety Plan Issues Regarding Target Date Funds
- Considerations for Plan Participants
- Considerations for Plan Sponsors
- Considerations for Investment Managers

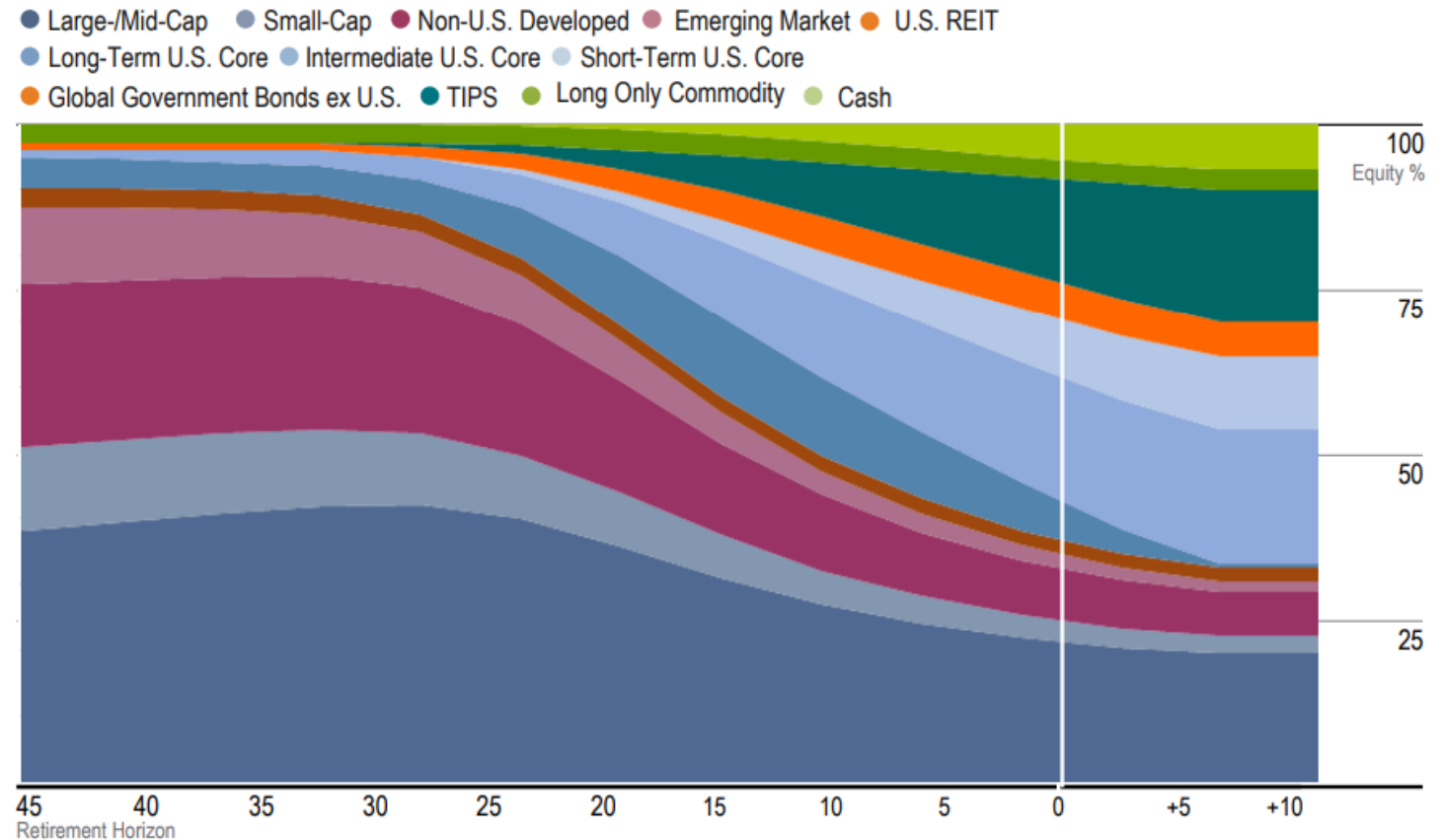
Growth of Target Date Funds

- TDFs First Developed in Early 1990s
- Pension Protection Act (2006): TDFs can be Qualified Default Investment Alternative (QDIA)
- Morningstar: TDF Assets Exceeded \$1 Trillion in 2017
- Pensions & Investments: TDFs >20% of P&I 1000 DC Plan Assets
- Cerulli Associates: TDFs Expected to be Largest DC Plan Allocation by 2020, and to Receive 85% of Contributions by 2021

TDF Issues for Public Safety Plans

Example: Morningstar TDF Index Glidepath

- Typical Target Date Fund Retirement Age is ~65, but Public Safety Retirement Age is Often ~50-55
- *PPA (2006)*: No Penalty on Lump-Sum Payments from DB Plans for Public Safety Employees Age 50+
- *Defending Public Safety Employees' Retirement Act (2016)*: Wider Definition of Public Safety Employee; No Penalty for Withdrawals at 50+ from Govt. DC Plans
- Assets Must Stay in the Plan—No Rollovers



Source: Morningstar.

Considerations for Plan Participants

J.P. Morgan Asset Management: Two Types of DC Plan Risks

- Participant-Controlled Risks (Plan Design)
 - Participant User Risk
 - Accumulation Risk
 - Withdrawal Risk
- Participant-Experienced Risks (Plan Investments)
 - Market Risk
 - Event Risk
 - Interest Rate Risk
 - Inflation Risk
 - Longevity Risk

Considerations for Plan Participants

- Do I have a DB Plan? Will I receive Social Security?
 - DB/SS payments can be considered to be a fixed income allocation
 - Such payments could argue for use of more aggressive (longer-dated) TDFs
 - Required DB Plan contributions may limit ability to contribute to DC Plan
- Do I plan to continue working (in a non-Public Safety job)?
- When will I need the DC Plan money?
- What investment options are available in my DC Plan?
- How confident am I regarding my ability to make investment decisions?

Considerations for Plan Participants

Capital Group: Investments Matter

Sample Plan Participant

- Starting Age: 25
- Starting Annual Salary: \$30,000
- Annual Salary Increase: 3%
- DC Plan Contribution: 10%

Investment Returns

- During Working Career: 5%
- In Retirement: 4%

Considerations for Plan Participants

Capital Group: Retirement Age Matters

65

**Ending Salary: \$98,000; Ending DC Balance: \$635,000
4% Withdrawal: \$25,400; % of Ending Salary: 26%**

55

**Ending Salary: \$73,000; Ending DC Balance: \$321,000
4% Withdrawal: \$12,800; % of Ending Salary: 18%**

45

**Ending Salary: \$54,000; Ending DC Balance: \$146,000
4% Withdrawal: \$5,800; % of Ending Salary: 11%**

Considerations for Plan Sponsors

- Plan Demographics: Public Safety Only, or Broader Employee Population?
- Availability of DB Plan and/or Social Security
- Required Contributions to DB Plan
 - Aggressive DC Auto Enrollment May Not Be Ideal

Considerations for Plan Sponsors

- Customized Target Date Funds Can Better Reflect Workforce Characteristics
- Plan Should Offer a Robust Core Menu Lineup (Possibly Including Brokerage Window)
- Communication is Important
- Advice Could Be Very Valuable
- Attractive Plan Design Helps Keep Retirees In the Plan

Considerations for Investment Managers

- Develop “Mass-Customized” Public Safety Target Date Strategies
- Know Your Audience!



Thank you

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