One Size Fits None

Managed Accounts vs. Target Date Funds: A More Personalized QDIA

With all the attention focused today on improving retirement outcomes, plan sponsors and plan advisors alike would be better served searching for qualified default investment alternatives (QDIAs) that are more personalized to each investor's individual goals, life stories and risk tolerance — something unavailable in target date funds (TDFs).

That's why using a managed account as a QDIA is an important option for plan sponsors to consider.

The ability to apply more precise risk-tolerance metrics is designed to make managed accounts more attractive to plan sponsors who are concerned about meeting their responsibility to act in the best interest of participants. This document offers advisors a way to present managed accounts as a viable QDIA option for retirement plans.

Managed Accounts and TDFs Side-by-Side

Since 2006, TDFs have become the preferred QDIA option, as plan sponsors have readily recognized the value to participants of adjusting asset allocation based on their anticipated retirement date, and taking decision-making out of their hands.

A managed account may be a more appropriate option for investors of any age and every account size — especially if they have other factors that should be considered in the asset allocation decision.

Why Stadion?

- **StoryLine Managed Accounts:** Customizable strategy that considers participants' unique situations, expectations and goals
- **Scales to All Accounts:** Stadion's customized solution allows plan fiduciaries to offer more personalized financial help to all their employees
- **Dedicated Customer Service:** U.S. call center staffed by retirement service specialists
- **Communications Program:** Engagement focused on improving retirement readiness and outcomes

4 Key Differences

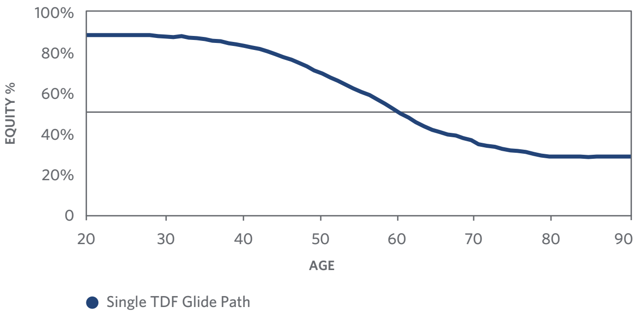
between Managed Accounts and TDFs

1. **Number of glide paths**
2. **Fit with organization's unique demographic**
3. **Participant misuse**
4. **Pathway to add value**

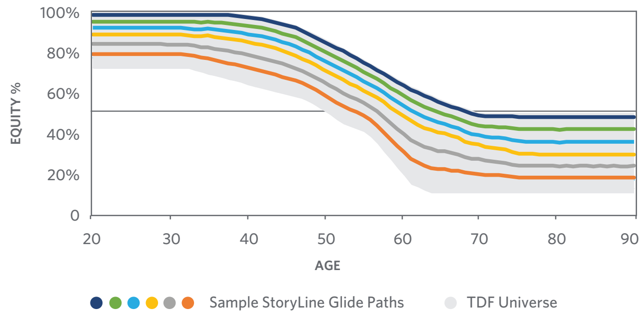
1 Number of glide paths

Most TDFs typically offer only one glide path per series — there's no accommodation for a participant's individual risk tolerance or goals. In addition, our research shows that there is significant disparity in equity exposure across TDF families. Someone retiring in 2020 could have anywhere from ~15% to ~60% of their assets invested in equities.[1] It is nearly impossible for plan fiduciaries to select a single glide path that fits all of their participants' needs or risk tolerance.

TDF Single Glide Path Approach



Stadion StoryLine Sample Glide Paths vs. TDF Universe[2]



Managed accounts have multiple asset allocations that can be precisely aligned with each investor's goals and risk profile, eliminating the need for plan sponsors to try to pick and choose the TDF series that offers the "best" glide path.

Someone retiring in 2020 could have anywhere from

~15% to ~60%

of their assets invested in equities.[1]

2 Fit with organization's unique demographic

Every organization has a unique story. But because TDFs are designed to be an all-in-one solution, they are not built to consider what makes each company different. By contrast, certain managed accounts can facilitate plan-level customization that aligns a company's demographics with the appropriate glide path — an important consideration that is difficult to accomplish with TDFs. Whenever possible, Stadion uses insights from our plan sponsors to align managed account portfolios and strategies with each organization's goals, employee demographic and culture — seeking to provide a QDIA for organizations whose employees may have diverse needs.

[1] Stadion Retirement Data, Dec. 31, 2018.

[2] The StoryLine glide path lines represent the midpoint between the maximum and minimum equity exposure for each of the paths presented. As market conditions fluctuate, actual equity exposure of StoryLine glide paths will be more or less than the midpoint. The grey "TDF Universe" graphic reflects the total range of possible equity exposures across the entire universe of Target Date Funds. Results based on 156 Target Date Fund Series, which includes registered mutual funds, and non-registered collective investment funds and insurance accounts. Collective investment funds and insurance accounts are only available for investment to qualified retirement plan assets such as 401(k) plans. Data source for industry information: Stadion Retirement Data, Dec. 31, 2018. Past performance is no guarantee of future results. Investments are subject to risk and may lose value.

3 Participant misuse

TDFs are intended to be used as a single investment solution by creating a suitable asset allocation based on a person's estimated retirement year. Many participants, however, misuse TDFs, either by investing in multiple funds or including them alongside other investments. Many TDF owners are unaware of the negative impact that such misuse can have on investment returns. In fact, one study showed that partial use or misuse of TDFs eroded annual returns by as much as 2.11%, net of fees![3]

Managed accounts, by contrast, are managed by a team of professionals who oversee participants' investments, thereby reducing the likelihood of participants acting on fear and emotion. They integrate recordkeeper and participant data (such as age, time horizon, risk tolerance, account balance/composition, and outside assets) in an effort to deliver a more customized, accurate and integrated accumulation solution. In addition, participants are more likely to use a managed account for their entire retirement account balance, as this is typically a requirement of the managed account provider.

> **Partial use or misuse of TDFs eroded annual returns by as much as 2.11%, net of fees![3]**

4 Pathway to add value

Managed accounts allow the plan sponsor to maintain control over the underlying investments and glide paths, unlike TDFs that don't offer that level of flexibility. Particularly when supported by participant engagement and advice (with modern engagement tools and education platforms increasingly shown to improve participant outcomes), plan sponsors using a managed account service as a QDIA can better prepare their participants for retirement.

Looking Ahead

Managed accounts should be considered as an alternative to TDFs for use as a QDIA option because they are designed to solve the asset allocation question for participants whose investment profiles may differ markedly from the so-called "average employee" that TDFs are typically designed to serve.

More Information:

To learn how including a managed account as a QDIA can better meet participants' needs and demonstrate your value as an advisor, please contact your Stadion Representative or contact us by email at advisorsupport@stadionmoney.com.

[3] Source: Financial Engines. Returns data for the period 2010–2012. Earlier years are not included due to insufficient amount of data to calculate separate returns for managed account and target date fund users.