The Case Against Excessive Risk in Target Date Funds.

Fiduciaries **have failed to protect** defaulted 401(k) participants as they approach retirement

- Fund companies have built TDFs for profit, ignoring Sequence of Return Risk
- Fiduciaries – namely consultants – have failed to vet TDF selections
- There are serious **conflicts of interest**

37 million people are in TDFs Investing $3.5 Trillion

The next market crash will expose excessive risk near retirement, again.

Shocking Target Date Fund Facts

Glidepaths are *ad hoc* , despite claims they are based on academic theory.

Holdings are way too risky at the target date. You'll see it in the next crash.

TDFs are <u>not</u> vetted. Not a surprise, but still shocking.

Unbelievable!!

Click image to read

Every slide that follows has links to articles that provide details

Theory Vs. Practice

Theory: 80% Risk-free at retirement date

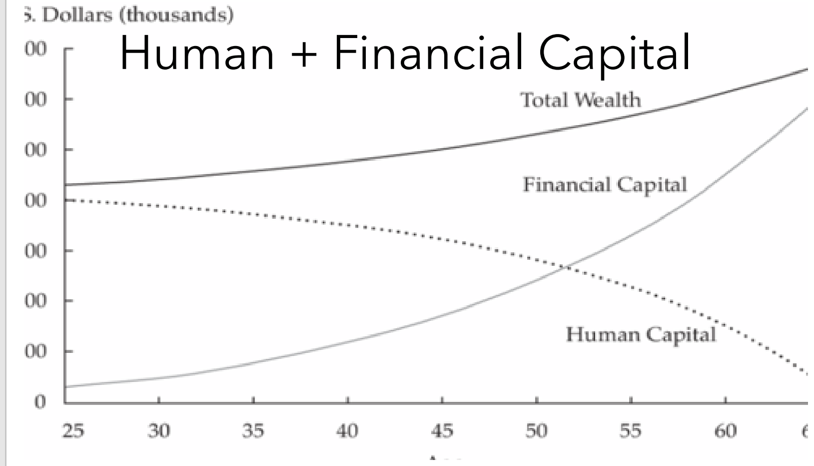
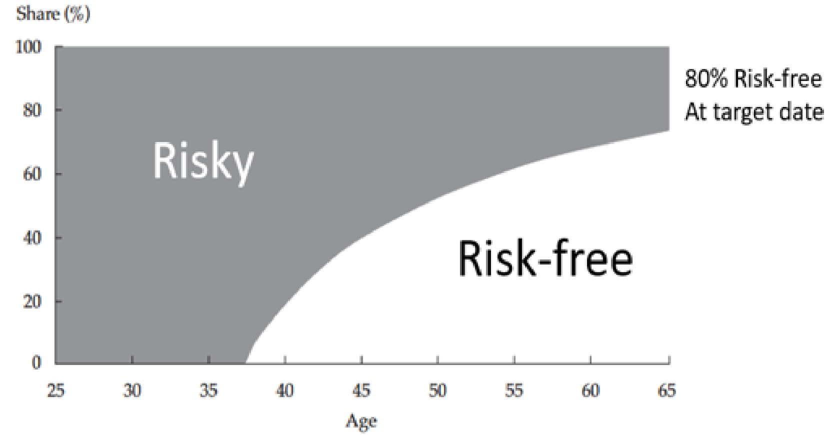
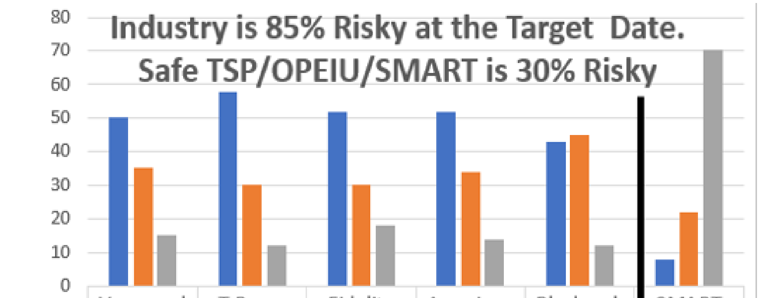


Figure 2.4. Case #1: Optimal Asset Allocation to the Risk-Free Asset over Life Cycle

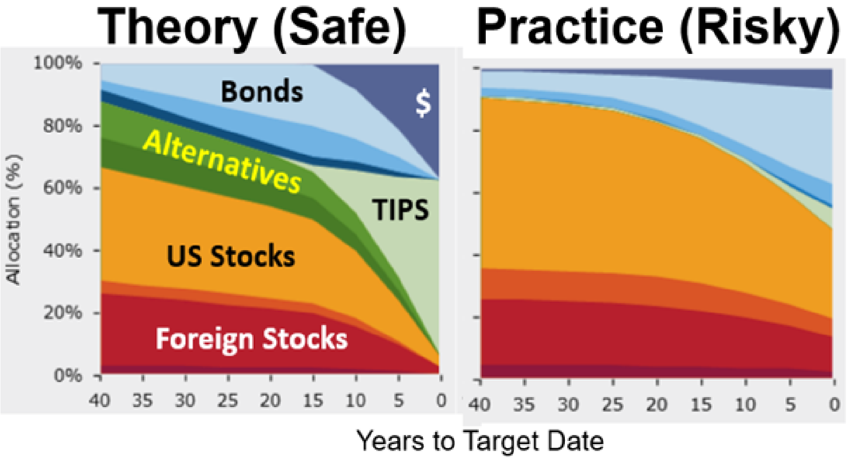


Practice: 85% Risky Higher Profits



	Vanguard	T Rowe	Fidelity	American	Blackrock	SMART
Equity	50	58	52	52	43	8
Bond	35	30	30	34	45	22
Safe	15	12	18	14	12	70

Source: PIMCO Glidepath Analyzer



Substantive vs Procedural Prudence

Click images for articles

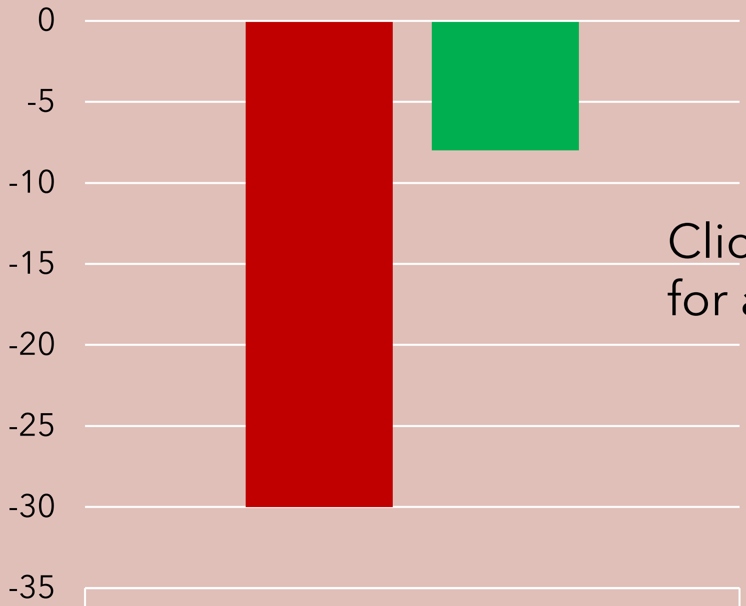
Lawsuits would correct excessive risk

In their sales pitches fund companies say they follow the theory.

Target Date Fund Losses Near Retirement

Loss of more than 10% is excessive

2008 Losses in 2010 Funds



	2008 Losses
Practice	-30
Theory	-8

Click < **Here** > for article

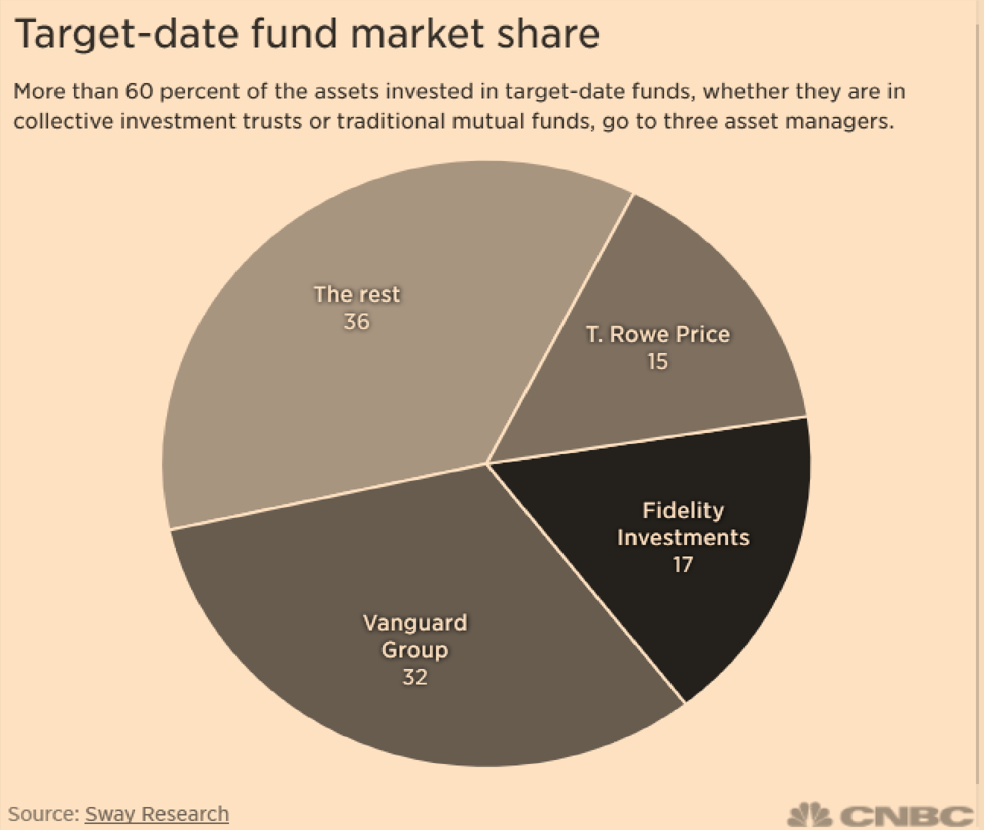
2022 Losses in 2020 Funds

More losses on the way

	2022 Losses
Practice	-13
Theory	-3

Practice is the S&P TDF Index. Theory is the “Safe Group”: TSP, OPEIU and SMART.

TDFs are **NOT** Vetted



Consultants believe that they protect themselves by choosing the oligarchs because – hey – everyone else does. Consultant best interest supersedes beneficiary best interest – beneficiaries bear excessive risk.

The Birth of the TDF Oligopoly

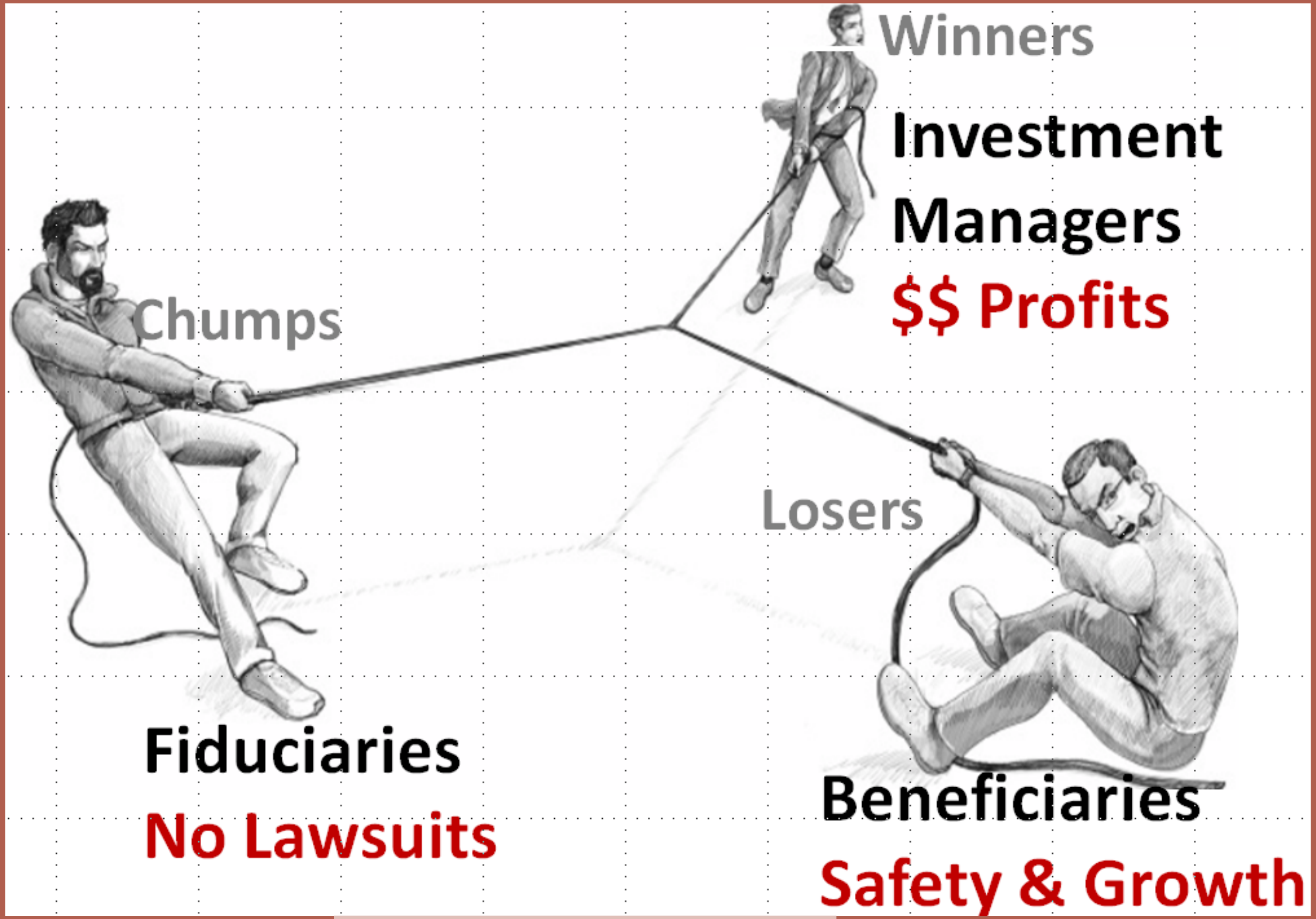
Consultants choose their client's bundled service provider out of convenience and familiarity. No vetting.

TDF assets of the largest bundled service providers snowball, creating the "Big 3."

Procedural prudence dictates use of the Big 3, perpetuating the snowballing.

High risk at target date is the *de facto* standard

Conflicting Interests. **Beneficiaries** want protection from losses as they near retirement because lifetime savings are at stake.



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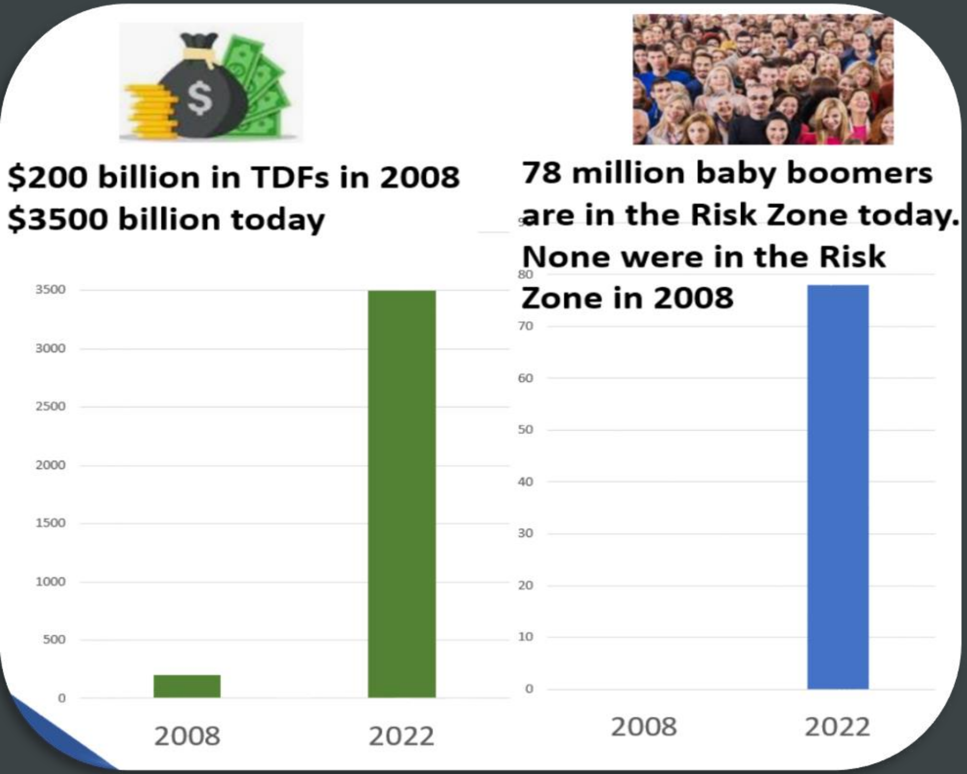
Consultants willingly & recklessly expose defaulted participants to excessive risk at the target date because they believe that procedural prudence – doing what everybody else does – will keep them out of court.

Investment managers merely package product for profit because that's what they do.



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Reasons that, unlike 2008, there should be lawsuits this time

- Excessive fee lawsuits demonstrate that substantive prudence takes precedence over procedural prudence (common practice).
- It's accepted fact that TDFs are not vetted
- Fiduciaries are either hypocrites or confused. Read article < Here >
- **TDFs are much more important today – see image on the left .**

A Good Heart but an Empty Head is NOT Alright

Fiduciaries must understand and vet their target date funds. They don't and they're not.

At $3.5+ trillion, TDF assets are more than half of 401(k) assets. And 37 million TDF participants are 60% of total participants.

Most don't know what they don't know, but they think they know. The fact is most TDFs are way too risky at their target date.

Now You Know

The Whole Shocking Story

Explains why fiduciaries have chosen TDFs with Excessive Risk

Next step

Contact Ron Surz, President of Target Date Solutions.

Ron@TargetDateSolutions.com
(949)488-8339