Target Date Fund Risk and Brad Pitt

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There are a lot of definitions of risk. For an entertaining in depth discussion of risk read Peter Bernstein's ***Against the Gods: The Remarkable Story of Risk***. The definition I like best is that risk is the possibility of failing to achieve objectives. This definition causes us to reflect upon objectives, and the policies we've set for achieving them. What do we really want to achieve and how do we plan to do so? Most target date funds (TDFs) take too much risk because they have set unachievable objectives. It's similar to wanting to look like Brad Pitt and hiring Michael Jackson's plastic surgeon.

The objectives of managing longevity risk or replacing pay should not be taken seriously in a one-size-fits-all TDF because TDFs have no influence on, or relationship to, mortality or savings. At best these TDFs can target the "average" participant, whatever that means. Fund companies conjured up these objectives and imposed Jedi mind control over fiduciaries: "*You don't need to see justification … These aren't the problems you're looking for … Move along*." Obi-Wan (paraphrased). These are objectives that can only be realistically achieved with managed accounts, another choice of Qualified Default Investment Alternative (QDIA).

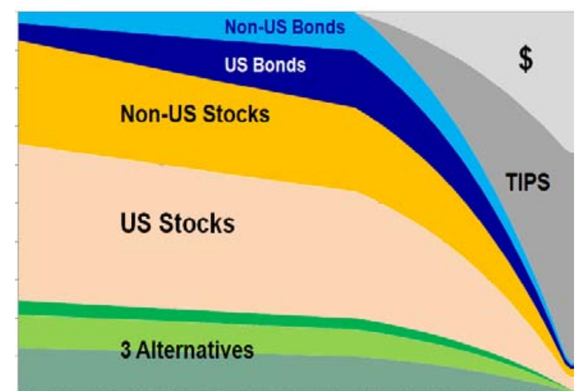
TDFs have been sold, not bought. So what can TDFs realistically achieve? They can bring participants safely to the target date with accumulated contributions intact, and they can also grow assets above the rate of inflation. Attempts to do more come at a risk that fiduciaries should not take. These reasonable and prudent objectives are best met with no risk at the target date – real risk management. The Brad Pitt look would be nice, but let's get real.

The SEC and DOL understand this. The focus of their hearings and proposals has always been on risk at the target date. The 5 years preceding retirement are critical to lifestyle because account balances tend to be at their highest and the ability to recover from loss is limited. There is no fiduciary upside to taking risk during this critical period. Importantly, there are two reasons that fiduciaries should not fall for the longevity risk ruse: participants typically withdraw their

accounts at retirement, and there is no glide path that actually manages longevity risk other than the Hemlock Fund.

Accordingly, we expect the SEC to mandate heightened fiduciary awareness of risk at the target date, which should elicit demand for little or no risk. It's time to set the interests of beneficiaries ahead of those of investment managers. Fiduciaries can and must set the objectives. The Force is with the fiduciaries. *"Many of the truths we cling to depend greatly upon our own point of view."* Obi-Wan (again).

So what should fiduciaries demand? Diversification, real risk management, and a glide path designed to achieve the realistic objectives described above. The Safe Landing Glide Path®[1] does all this. Allocations employ a 2-asset growth-preservation separation principle. In the early years, a very broadly diversified growth portfolio serves to increase wealth, but then about 15 years from target date the Safe Landing Glide Path employs Liability-Driven investing (LDI) principles to defend, moving monies aside into a "Reserve" lock-box of TIPS and Treasuries.



[1] The Safe Landing Glide Path is a patent pending registered trademark of PPCA Inc, San Clemente CA. It's an ideal for target date fund glide paths.