
Many Plan Sponsors Puzzled by TDFs

By Editor Test Thu, Nov 11, 2010

Just 34% of plan sponsors responding to a Janus/Asset International poll believe target date funds are the best QDIA for their plan, down from 57% last year.

Defined contribution (DC) plan sponsors are unaware or unsure about many key aspects of target date funds, despite the fact more plans than ever are offering such options, according to a recent survey of 6,300 DC plan sponsors by Janus Capital Group and Asset International Inc.

"A broad gap [exists] between plans' utilization and understanding of target date funds," the survey showed. The poll, which Janus has conducted annually for four years, focuses on DC plan sponsors' qualified default investment alternative (QDIA) fund selection, construction, monitoring and satisfaction.

The survey showed that:

- Compared to 2009 findings, more plans don't know what the end date of the glide path is in their target date funds (50% compared to 32% last year).
- More than one-third of all plans are not familiar with the "to" or "through" glide path dilemma.
- 35% of plans (compared to 29% last year) are not sure what the best QDIA option is for their employee population.

"The findings reveal a disconnect," said Russ Shipman, senior v.p. and managing director of Janus' Retirement Strategy Group. "Respondents believe they're less than well informed about their chosen target date offerings, but remain confident their employees understand the products and use them correctly."

Plan sponsor perceptions of target date funds, as compared to other QDIA options, are shifting, the survey showed. An increasing number of sponsors indicated they believe balanced funds and target risk funds are the best QDIAs for their employee populations. Just 34% of respondents indicated they believe target date funds are the best QDIA for their plan, down from 57% last year.

When asked to compare QDIA options based on fees, transparency, overall performance, risk management and correct usage by participants, balanced funds saw gains in each category compared to last year, while target date funds saw declines.

"With these fairly pronounced changes in plan sponsor perceptions about QDIA options, it seems possible, if not probable, that many early target date adopters are rethinking their selections," said Shipman. "Target date funds are surely a good choice for many, but we continue to believe that balanced funds and other target risk solutions will hold their own—due largely to their simplicity and proven performance histories."

