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## **New Celent report forecasts DC trends**

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By Editor Test     *Wed, Dec 7, 2011*

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*The defined contribution industry will see growing use of collective investment trusts and custom target date funds, according to a new report from Celent.*

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After a trillion-dollar decline in valuation in 2008, defined contribution asset levels set new highs in 2010, and DC plans' share of US retirement assets is growing, according to a new report, from Celent, a Boston-based financial research and consulting firm.

The proprietary report, *Developments in the Defined Contribution Market: New Funds and New Investment Vehicles in the US Market*, covers 401(k), 403(b), 457 and Keogh plans, and anticipates these trends:

**Continued emergence of new investment vehicles other than mutual funds in the DC market.**

These will include separate accounts, collective investment trusts, variable annuities, and company stock.

**Continued growth in the DC market.** The DC market's five-year CAGR of 6.4% from 2005 to 2010 is likely to continue going forward. Reasons for this include continued use of auto-enrollment and auto-escalation, as well as continued stickiness of flows.

**Continued dominance of large record-keepers.** The top ten record-keeper will continue to win large plan sponsors and maintain their strong market share of the record keeping business. Fidelity, in particular, will remain the largest record-keeper by a large margin.

**Growth of CITs as an alternative to mutual funds.** Collective investment trusts have cost, performance and regulatory benefits over mutual funds. From 2006 to 2010, CITs have gone from approximately \$400 billion to \$900 billion in the DC market (CITs are also used in the government's Thrift Savings Plan). With many DC plans converting to a CIT vehicle, Celent expects them to grow to approximately \$2 trillion within the DC market by 2015.

**Pressure for regulatory oversight of collective investment trusts.** By law collective funds are on the turf of bank regulators. But increasingly, the SEC has argued that it can look at advisors who sell collective investment trusts.

**Growth of custom target date funds in DC market.** From 2005 to 2010, the target date fund market has a CAGR of over 30%. Target date funds have been beneficiaries of the 2006 Pension Protection Act, and their status as a Qualified Default Investment Alternative.

Going forward, Celent expects growth to continue due to growing adoption of auto-enrollment and auto-escalation; increased plan sponsor demand for innovation, which will lead to growth in custom designs; reduced costs due to passive management for smaller plan sponsors; and increased participation of asset managers, who will be able to enter the market based on their strength in customizing portfolios.

As a result of the increased scrutiny of TDFs' glide paths after larger-than-expected losses in 2008, many funds revamped their offering to include a more conservative glide path. These conservative paths are likely to limit payouts to plan participants.

Close to 18% of plan sponsors who are not currently using custom-designs indicated that they might consider switching from off-the-shelf to custom-designed funds in the next couple of years.

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