New Celent report forecasts DC trends

By Editor Test *Wed, Dec 7, 2011*

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

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.