Retirement Income
JOURNAL

T. Rowe Price adds growth to its TDFs

By Editorial Staff *Thu, Feb 13, 2020*

The third-largest issuer of target date funds, which reportedly lost TDF market share from 2017 to 2019, said it will raise the equity allocation of the funds' glide paths at the beginning of the lifecycle.

T. Rowe Price Group, one of the “big three” target date fund issuers (along with Fidelity and Vanguard), announced in a release this week that, over a two-year period, it will “gradually increase equity exposure in the Retirement and Target portfolios’ glide paths early in the accumulation years and post-retirement and add emerging markets and U.S. large-cap core equity strategies to further diversify the underlying investments.”

Such enhancements, based on proprietary research, “are designed to help improve retirement outcomes and address the headwinds investors face in achieving retirement security, including longevity risk, inflation risk, and market risk,” the release said.

T. Rowe Price’s research finds that “outcomes in retirement may be improved by adjusting the amount of growth-seeking assets in the longer (pre-retirement) and shorter (post-retirement) ends of the glide path without increasing the level of risk at retirement. For example, raising equity levels led to higher average balances at retirement, more sustainable levels of income and consumption replacement, and greater residual wealth,” the release said.

Based on T. Rowe Price’s research, the following changes will be made:

Retirement glide path

- Raise the equity allocation of the glide path at the start of the investing lifecycle (30 or more years from retirement) to 98% equity from the current 90% equity
- Hold the 98% equity allocation constant until 30 years from retirement
- Maintain a 55% equity allocation at retirement
- Raise the equity allocation after retirement, reaching a final 30% equity allocation 30 years past retirement, an increase from the current 20% allocation

Target glide path

- Raise the equity allocation of the glide path at the beginning of the lifecycle to 98% equity from the current 90% equity
- Hold the 98% equity allocation constant until 35 years from retirement
- Maintain a 42.5% equity allocation at retirement

- Raise the equity allocation after retirement, reaching a final 30% equity allocation 30 years past retirement, up from the current 20%

The transition will occur over a two-year period starting in April 2020. Portfolios closest to retirement will not experience an increase in equity from their current levels, while other vintages/dates will adjust their equity allocations gradually each quarter.

As a result, many investors will see no change to their current equity allocation. The firm believes these updates will help preserve the wealth investors have worked hard to build while seeking growth, both in the early accumulation years and post-retirement, to help preserve spending power and keep pace with inflation.

Building-block additions

T. Rowe Price also announced the addition of two investment strategies to the underlying building-blocks of several target date products:

Emerging Markets Discovery Stock will be added to all the firm's target date strategies

U.S. Large-Cap Core will be added primarily to actively managed strategies (Retirement Funds, Retirement I Class Funds, Retirement Income 2020 Fund, Retirement Trusts, Target Funds, and Target Trusts).

Adding the Emerging Markets Discovery Stock further diversifies target date portfolios' existing exposure to emerging markets stocks. U.S. Large-Cap Core helps diversify strategy concentration in longer-dated portfolios and reduces the concentration of S&P 500 exposure in the shorter-dated portfolios.

Mutual fund fee structure changes

For its Retirement and Target mutual funds, T. Rowe Price is moving to a unitary, top-level fee structure in which expense ratios will no longer vary depending on the management fees and expenses of the underlying funds.

This modification provides shareholders a simplified fee approach across the firm's target date mutual funds that provides greater predictability around the fees they will pay. The new fee structure will be implemented in April 2020. There are no current plans for pricing changes on collective investment trusts (CITs) or other vehicles.

As a result of this change, none of the firm's target date portfolios will experience an increase in expense ratios, and some will see their expense ratios decrease.

According to an **article** in PlanSponsor magazine, "Vanguard, which managed 33.6% of TDF assets in 2017, has grown to control 37.8% of the marketplace. The four next-biggest providers are Fidelity, which controlled 21.2% of assets in 2017 versus 19.4% in 2019; T. Rowe Price, controlling 16.4% in 2017 and 12.4% in 2019; American Funds, managing 7.2% in 2017 and 10.5% in 2019, making it the only other top-five provider besides Vanguard to gain market share; and J.P. Morgan, which managed 5.0% of TDF assets in 2017 and now manages 4.3%.

All other TDF providers manage 15.6% of the marketplace—down from 16.6% in 2017. The other largest providers include Nuveen/TIAA, BlackRock, Principal Funds and John Hancock Investments.