



Defined Contribution
Institutional Investment Association

Choice and Evolution in Defaults

August 2023

OVERVIEW

Defaults have proven to be very influential and drive large amounts of assets, while continuing to evolve.

We believe that four main themes—participant objectives and outcomes, ease of use, personalization, and cost—guide both the optimal choice of a default today, and their future evolution.

These themes represent an intersection of current and evolving participant needs, plan sponsor mindset changes such as retaining plan participants through retirement and reframing DC plans as retirement instead of savings plans, and the developing ability to meet those needs through technological and regulatory change.

In this report, building on past DCIIA work, we examine current defaults and emerging solutions in the context of the themes. We provide, as a call to action, questions to reflect and act on for plan sponsors, service providers, and advisors in an Action Kit.

CONTENTS

Discussion

- Four Main Themes of Default Choice and Evolution
- Landscape: How Traditional and Emerging QDIAs Fit the Themes
- Moving Forward: Future Evolution

Action Kit: Questions to Consider, Metrics and Resources

- For Plan Sponsors
- For Service Providers
- For Advisors

CONTRIBUTORS

Vikrant Arya

Nuveen

Thomas Foster

Pinnacle West Capital
Corporation

Chris Nikolich

AllianceBernstein

Sara Shean

PGIM

James Brown

BlackRock

Julija Kod

Wilshire

Jennifer Perkins

Diane Smola

Principal Asset
Management

Rob Capone

LGIMA

Dan Long

DoubleLine Group

Hannah Schriner

Meketa Investment
Group

James Veneruso

State Street Global
Advisors

Chris Eicher

Dominion Energy

John Mitchem

JM3 Projects and
Jasper Forum

Mike Sebastian

Chris Weirath

Morningstar Investment
Management

Steve Ferber

PIMCO

Discussion

INTRODUCTION

Since the Pension Protection Act of 2006, qualified default investment alternatives (QDIAs) have become the largest asset gatherers in most defined contribution plans.* Target date funds, the most popular, are offered by 86%+ of plans. But there is an array of other options, and a next generation of solutions is emerging.

We believe that **four main themes** guide both the optimal choice of a default today, and their future evolution.

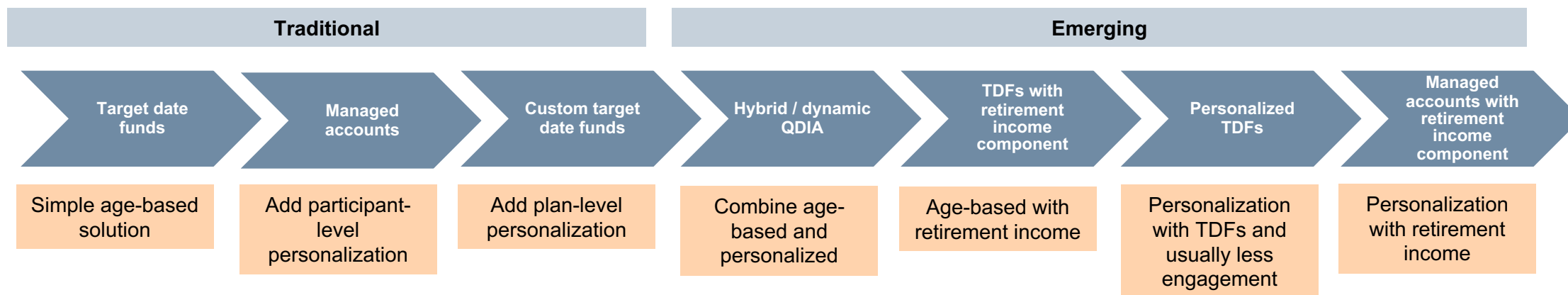
<p>Participant objectives and outcomes through accumulation and decumulation phases</p>	<p>Ease of use for participants</p>	<p>Personalization at the plan and individual level</p>	<p>Cost under continued downward pressure</p>
--	--	--	--

These themes represent an intersection of current and evolving **participant needs**, plan sponsor **mindset changes** such as retaining plan participants through retirement and reframing DC plans as retirement instead of savings plans, and the developing ability to meet those needs through **technological and regulatory change**.

In this report, building on past DCIIA work, we examine current defaults and emerging solutions in the context of the themes, also considering current and likely future **adoption**. We provide, as a call to action, questions to reflect and act on for plan sponsors, service providers, and advisors in an **Action Kit**.

* 2021 PLANSPONSOR Defined Contribution Survey

TIMELINE OF QDIA EVOLUTION



THE FOUR MAIN THEMES OF DEFAULT CHOICE AND EVOLUTION

QDIAs have:

- Specific **participant objectives and outcomes** throughout their lifecycle:
 - Accumulating wealth through an appropriate strategy of saving and investing
 - Positioning oneself for adequate income and spending, potentially managed or guaranteed to help address longevity and investment risk, in retirement
- Utilization risk when one considers their respective **ease of use** and degree of participant engagement
- **Personalization** attributes potentially leading to better outcomes, but also leading to more complexity
- **Cost** considerations which could impact both utilization and inclusion potential with plan sponsors

In the following material, we depict the QDIA landscape – both traditional and emerging solutions – in terms of these themes and review current adoption in the marketplace. We also discuss the importance of data in personalization.

QDIAs' EVOLVING RELATIONSHIP TO PARTICIPANT OBJECTIVES AND OUTCOMES

Solution Type	Observations on Participant Objectives and Outcomes
Target date funds Off-the-shelf and custom	<ul style="list-style-type: none"> Accumulation during participant working years, with a goal of thereby supporting adequate income and spending in retirement
Managed accounts Traditional	<ul style="list-style-type: none"> Accumulation during participant working years, with a goal of thereby supporting adequate income and spending in retirement Seeks to address participant-specific and changing circumstances and needs, through personalization
Hybrid / dynamic TDF then managed account at trigger	<ul style="list-style-type: none"> Blends the objectives and potential outcomes of TDFs and managed accounts, with managed investing typically at later participant age
Personalized target date funds	<ul style="list-style-type: none"> Accumulation during participant working years, using TDF vintages, with a goal of thereby supporting adequate income and spending in retirement Seeks to address participant-specific and changing circumstances and needs, through personalization, typically with automatically-collected data
TDFs or managed accounts with retirement income components	<ul style="list-style-type: none"> Accumulation during participant working years, with a goal of thereby supporting adequate income and spending in retirement (personalized in the case of managed accounts) Managed spending or guaranteed income arrangements in retirement, seeking to address longevity and investment risk

LANDSCAPE: TRADITIONAL DEFAULT OPTIONS

Solution Type	Ease of Use	Personalization	Cost	Adoption
Target date funds (off-the-shelf)	Requires no participant engagement (other than to use as designed)	Age-based	Generally a low-cost solution; average asset-weighted fee = 0.32%*, can be as low as under 10bp	Very widely used (offered by 86%+ of plans)
Custom TDFs (at plan level)**	Requires no participant engagement (other than to use as designed)	Customized to aggregate participant demographics	Varies; plan and provider scale may be leveraged	Less market share (~20% of TDF market)
Managed accounts	Requires participant engagement to provide data beyond what is automatically collected	Portfolio personalized using automatically collected and participant-provided data	Higher cost; typical personalization cost around 40bp	Widely available, but less often used (~10% of participants)

Darker boxes indicate a greater strength or focus of that solution type for that theme / factor. For example, managed account solutions generally feature the greatest amount of personalization, and off-the-shelf TDFs the least (age only)

* Asset-weighted TDF fee source: Morningstar Target-Date Strategy Landscape: 2023.

** See DCIIA's [2022 Custom Target Date Fund \(cTDF\) Study](#) for further discussion.

*** See DCIIA's [four-part series](#) on managed accounts for further discussion.

LANDSCAPE: EMERGING OPTIONS

Solution Type	Ease of Use	Personalization	Cost	Adoption
Hybrid/Dynamic QDIA	TDF then personalized	TDF then personalized	Lifetime cost between TDFs and personalization	Emerging solution*
Personalized TDFs	Typically requires no participant engagement	Typically through automatically collected data; typically age, balance, salary, contribution rate, match rate	Lower cost; typical personalization cost around 10bp	Emerging solution
TDF solutions with retirement income component	Requires only engagement with retirement income option	Age-based; Option to tailor retirement income stream / spending	Lower cost	Emerging solutions: May be component of strategy to retain participants in plan through retirement
Managed accounts with retirement income component	Requires engagement with managed account and retirement income option	Portfolio personalized using automatically collected and participant-provided data	Higher cost	

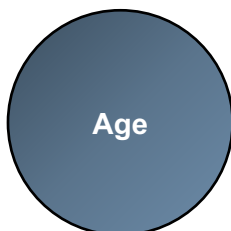
*Darker boxes indicate a greater strength or focus of that solution type for that theme / factor
For example, managed account solutions generally feature the greatest amount of personalization, and off-the-shelf TDFs the least (age only)*

* See DCIIA's [Plan Sponsor Views on Adopting Dynamic QDIAs](#) for further discussion of adoption.

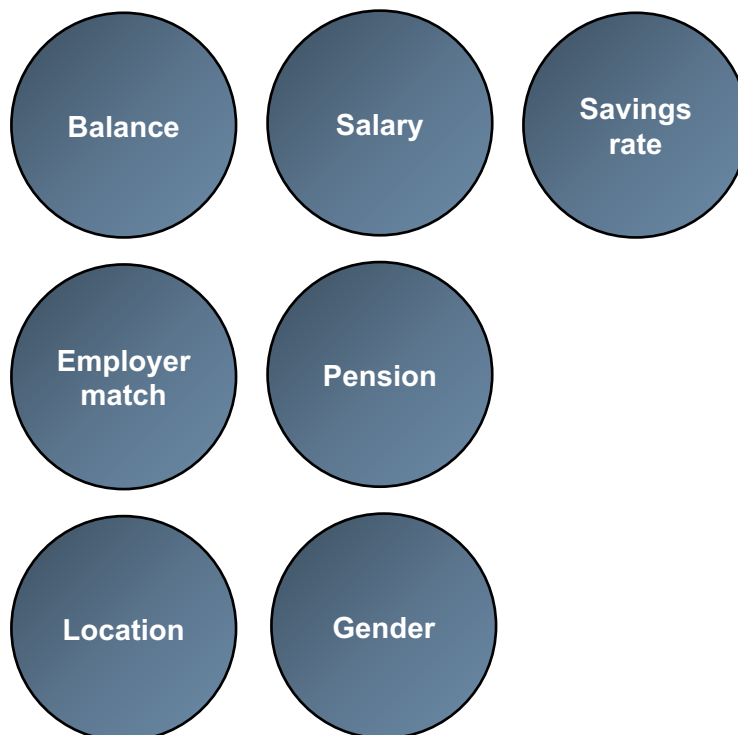
IMPORTANCE OF DATA FOR QDIAs

How much personalization is desired and where does it come from?

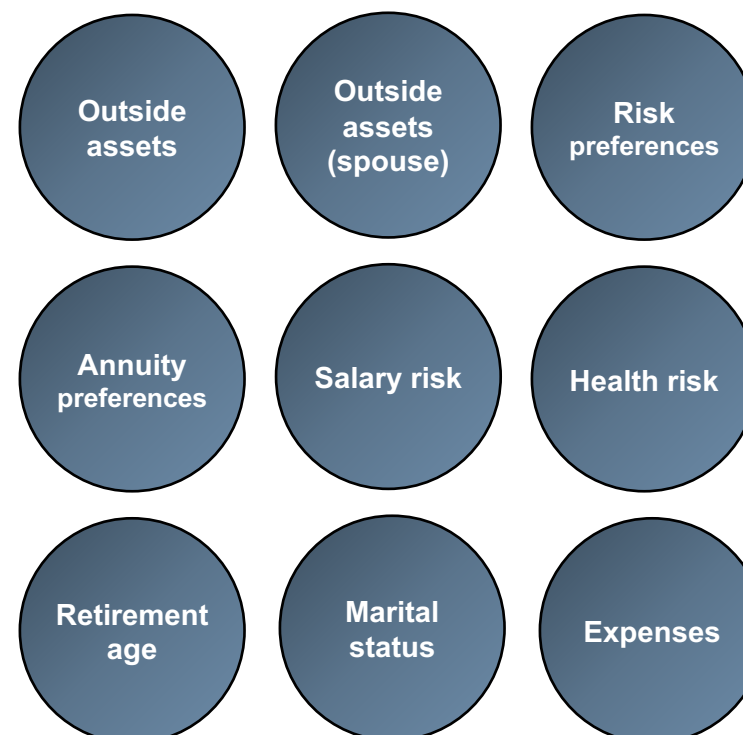
Target-date funds



Data available from RK



Additional data that may provided by participant



Data privacy and security will continue to be top concerns. Participants must be assured that their personal data will be kept private and secure, and used only for their benefit through additional personalization of their retirement and investment plan.*

For illustrative purposes only. Data available from recordkeeper may vary by recordkeeper and other factors.

* See [SPARK Study: Understanding Data Privacy Sensitivities Across the Defined Contribution Industry](#) for more discussion and findings.

HOW CURRENT AND EMERGING QDIAs FIT THE THEMES

Traditional QDIAs, whose objectives/outcomes align more closely toward **accumulation** and **managed investing**, tend to focus on these features:

- Low to no participant engagement / very easy to use
- Low cost
- Low personalization

For **emerging QDIA options**, whose objectives and outcomes align more closely with **managed investing** and **benefit payment/managed spending**, the following evolutionary trends are developing. Adoption and utilization are still to be determined.

- Higher focus on participant engagement
- Varying degrees of cost -- but higher than traditional QDIAs
- Higher focus on personalization, especially through data automatic gathering



MOVING FORWARD: FUTURE EVOLUTION

Defaults have proven to be very influential and drive large amounts of assets. While off-the-shelf target date funds have gained the most assets to date, it may make sound business sense for decision makers and influencers, i.e., plan sponsors, service providers and consultants/advisors, to consider other default options which, as they continue to evolve, may include more of the following attributes:

Customization	Personalization	Use of data
Advice	Risk profiles	Non-traditional investments
Retirement / lifetime income	Dynamic solutions	Participant goals
Outside accounts	Education	Automatic data collection

With a clear trend developing to retain and support plan participants to and through retirement, DC plans are reframing and re-inventing themselves as retirement income plans instead of simpler retirement savings plans. To meet these new DC plan realities, QDIAs and defaults in general will continue to evolve, and DCIIA and all members of the DC community need to continue work together to develop supportive technology, regulations and more to meet those changing needs.

In the following **Action Kit**, we suggest an approach for these decision makers and influencers to more fully understand the QDIA landscape and to help those fiduciaries make more informed decisions on QDIA selection and usage.

Action Kit

TAKING ACTION: QUESTIONS FOR PLAN SPONSORS

WHEN ASSESSING CURRENT QDIA AND CONSIDERING POTENTIAL FOR CHANGE

Participant Objectives and Outcomes

- ① What are the **objectives** that we are trying to achieve?
- ① How important is it for the QDIA to **focus** on: accumulation? managed investing? managed spending/retirement income/benefit payments?
- ① How **retirement-ready** are our participants -- are they on track? Does this vary by demographic? What do their allocations look like?
- ① Does the current default provide sufficient **diversification** across asset classes and strategy types?
- ① How does the current QDIA **glidepath** look in terms of overall conservativeness / aggressiveness and shape, compared with TDF industry consensus and dispersion, and considering plan- and participant-level demographics?
- ① What are the **assumptions** used regarding the average participant, and are these transparent to stakeholders?
- ① Should the QDIA have an **embedded annuity** at retirement as a potential way to provide guaranteed lifetime income?
- ① Are participants interested in **ESG investing**? If so, should that be incorporated into QDIA selection, and with what goals?



TAKING ACTION: QUESTIONS FOR PLAN SPONSORS

WHEN ASSESSING CURRENT QDIA AND CONSIDERING POTENTIAL FOR CHANGE *(CONT'D)*

Ease of Use

- ① How **retiree-friendly** is the plan, and is that consistent with an evolving market focus on retaining participants through retirement?
- ① Is the current QDIA being **used appropriately** by participants?
 - For example, are most participants fully invested in an age-appropriate TDF, if that is the QDIA?
 - If currently using a managed account, is that option receiving sufficient data for personalization and resulting in portfolios appropriately differentiated from the TDF glidepath?
- ① Consider a survey of plan participants—how do the answers vary by **demographic** profile, by age band, by active engaged participants vs. active non-engaged?
- ① How **satisfied** overall are participants with the current default offering? Are they asking for additional features?

TAKING ACTION: QUESTIONS FOR PLAN SPONSORS

WHEN ASSESSING CURRENT QDIA AND CONSIDERING POTENTIAL FOR CHANGE *(CONT'D)*

Personalization

- ① What **education** plans, processes and resources have been used to increase participant engagement?
- ① What participant **data points** are available and utilized in the portfolio construction of our QDIA?
- ① Should we consider a **hybrid QDIA**, that shifts from a target date fund to a personalized solution based on a trigger such as age, asset size, etc.?
- ① Can a provider of personalized solutions **get data** from our recordkeeper to avoid the need for participant engagement?
- ① How **heterogeneous**, and **similar or different from typical**, is our participant base, such that they might or might not benefit a lot from personalization at the participant or plan level?

Cost

- ① What is the **cost** of the current QDIA and how is that benchmarked?
- ① Would there be an **appetite for a greater-cost solution** if it potentially delivered better outcomes across demographics and/or served as a catalyst to engage participants?



METRICS AND RESOURCES FOR PLAN SPONSORS

WHEN ASSESSING CURRENT QDIA AND CONSIDERING POTENTIAL FOR CHANGE

Consideration	Metrics	Resources and partners
TDF / managed account baseline glidepath vs. TDF consensus	<ul style="list-style-type: none"> Measure variation from industry consensus, in overall risky asset level and asset class diversification, looking for all differences to be consistent with differences in views and/or plan demographics 	<ul style="list-style-type: none"> Consensus target date fund data (examples 1, 2, 3) Investment consultant TDF manager / MA service provider
Diversification across asset classes and strategy types	<ul style="list-style-type: none"> Review full list of asset types, including alternative asset classes (private equity, real estate, etc.) with rationale for including / not including 	<ul style="list-style-type: none"> Consensus target date fund indexes World market portfolio (examples 1, 2, 3, 4) Investment consultant TDF manager / MA service provider
Participant portfolios	<ul style="list-style-type: none"> Distribution of participant asset allocation, broken down by age and other variables. Look for most assets to be in an age-appropriate TDF; reasonable, diversified allocations in general. 	<ul style="list-style-type: none"> Recordkeeper Investment consultant
Participant satisfaction	<ul style="list-style-type: none"> Understanding of participant views, looking for overall satisfaction, addressing any significant differences among demographic groups, responsiveness to demand for features (including lifetime income and ESG) 	<ul style="list-style-type: none"> Recordkeeper SHRM sample Employee Survey: Satisfaction with 401(k) Plan

METRICS AND RESOURCES FOR PLAN SPONSORS

WHEN ASSESSING CURRENT QDIA AND CONSIDERING POTENTIAL FOR CHANGE (CONT'D)

Consideration	Metrics	Resources and partners
Retirement readiness	<ul style="list-style-type: none"> • Measure retirement readiness of participants (in aggregate and by demographic group) using income replacement ratio, in addition to participation and deferral rates. • Compare replacement ratio with 70-80% target range and understand drivers of any shortfall. 	<ul style="list-style-type: none"> • Recordkeeper • Investment consultant • TDF manager / MA service provider • External survey comparisons
Data	<ul style="list-style-type: none"> • Examine availability and usage of participant data (plan level for custom TDF) in personalization. • What data is available from the RK? • What data is/can be used by the QDIA solution and is it sourced from RK or participant? • Where sourced from participant, is data being supplied? • How heterogenous is the participant base in terms of this data? 	<ul style="list-style-type: none"> • Recordkeeper • TDF manager / MA service provider • DCIIA “Choice and Innovation in Defaults” list of potential data points
Cost	<ul style="list-style-type: none"> • What is the total cost of the current QDIA, compared with typical cost for that solution type (e.g., MA vs. MA average) and other types (e.g., MA vs. TDF average)? • Consider your appetite for increased costs to get additional personalization/features. 	<ul style="list-style-type: none"> • Recordkeeper • Investment consultant • TDF manager / MA service provider • External sources for average cost

METRICS AND RESOURCES FOR PLAN SPONSORS

WHEN ASSESSING CURRENT QDIA AND CONSIDERING POTENTIAL FOR CHANGE *(CONT'D)*

Consideration	Metrics	Resources and partners
Investment performance	<ul style="list-style-type: none"> • How has the current QDIA performed, compared with stated benchmark, with that solution type (e.g., TDF vs. average TDF) and other types (e.g., MA vs. average TDF)? • How does participant performance compare to that of the TDF? • What metrics are available to measure personalization value added (e.g., retirement readiness vs. with baseline glidepath) and what do they show? • Do personalization results differ by demographic (on track)? 	<ul style="list-style-type: none"> • Recordkeeper • Investment consultant • TDF manager / MA service provider • Target date fund indexes (examples 1, 2)
Education	<ul style="list-style-type: none"> • Do participants have adequate support in terms of education on QDIA and its features? 	<ul style="list-style-type: none"> • Recordkeeper • Investment consultant • TDF manager / MA service provider
QDIA changes	<ul style="list-style-type: none"> • For any considered changes to the QDIA or its features, does integration with the recordkeeper allow for “plug and play” or require additional effort? 	<ul style="list-style-type: none"> • Recordkeeper • TDF manager / MA service provider

TAKING ACTION: QUESTIONS FOR SERVICE PROVIDERS

WHEN ASSESSING CURRENT QDIA OFFERINGS AND POTENTIAL EVOLUTION

Participant Objectives and Outcomes

- ① Is there sufficient **diversification** in our offerings, across accumulation, managed investing and retirement benefit payment objectives/outcomes?
- ① Are we staying current on the **evolving industry landscape** of default options, both currently available and conceptual?
- ① How are we evaluating QDIAs for platform placement and inclusion?
 - What factors do we consider?
 - How are we reacting to the evolving industry landscape, emphasizing participants staying in the plan and viewing plans as retirement savings vehicles?
 - At what point do we need to tweak our approach?
- ① What does my baseline **glidepath** look like, in terms of overall conservativeness / aggressiveness and shape, compared with TDF industry consensus and dispersion?
- ① Do my offerings provide sufficient **diversification** across asset classes and strategy types?



TAKING ACTION: QUESTIONS FOR SERVICE PROVIDERS

WHEN ASSESSING CURRENT QDIA OFFERINGS AND POTENTIAL EVOLUTION *(CONT'D)*

Ease of Use

- ① Are our default offerings being **used appropriately** by participants?
 - For example, are participants investing all their assets in an age-appropriate TDF, if that is the QDIA?
 - Are they engaging with the managed account solution to provide data where needed?
- ① Are we pre-populating as much personalized **data** as possible for the participant?
- ① What do we offer across educational content, website, and call center services to assist plan sponsors in **engaging** plan participants?
- ① What are our **success measures** for adoption and utilization?
 - How do we show success by different QDIA offering? By plan? By participant demographic?
 - What role are we playing in maximizing the success potential of QDIAs available? Is it enough? Should we be doing more?
 - How actively are we engaged as a service provider to ensure success?



TAKING ACTION: QUESTIONS FOR SERVICE PROVIDERS

WHEN ASSESSING CURRENT QDIA OFFERINGS AND POTENTIAL EVOLUTION (CONT'D)

Personalization

- ① For personalized solutions that we offer, how much actual **variation** is there in participant portfolios and results from the baseline?
- ① How can we demonstrate performance **outcomes** for personalized portfolios?

Cost

- ① How can we effectively demonstrate **net of cost value added**?
- ① What is our value added specific to QDIAs?
 - For example, do we focus on offering low/no cost education and engagement plans?



TAKING ACTION: QUESTIONS FOR ADVISORS

WHEN ASSESSING CURRENT QDIA OFFERINGS AND POTENTIAL EVOLUTION

Participant Objectives and Outcomes

- What are my client's **objectives** in offering a QDIA?
- How strong is my understanding of the current **QDIA offering menu** and the emergent offerings in the industry?
- What **factors and characteristics** should I be assessing to make a suitable QDIA recommendation for my client?
- Do I **understand enough about the plan** – its demographics, level of participant engagement, sponsor wants and needs -- to make a recommendation?

For providers of **custom TDFs** and other QDIA solutions, see “Questions for Service Providers”



TAKING ACTION: QUESTIONS FOR ADVISORS

WHEN ASSESSING CURRENT QDIA OFFERINGS AND POTENTIAL EVOLUTION *(CONT'D)*

Ease of Use

- ④ What role am I playing in **maximizing the success potential** of the QDIA available? Is it enough? Should I be doing more?
 - How actively am I engaged to ensure success?
 - To what extent should I be coordinating and spearheading the collaboration between my client and service provider to execute most appropriate educational content and engagement processes to ensure success?

- ④ Do I understand whether current default offerings are being **used appropriately** by participants?
 - For example, are participants investing all their assets in an age-appropriate TDF if that is the QDIA?
 - Are they engaging with the managed account solution to provide data where needed?

TAKING ACTION: QUESTIONS FOR ADVISORS

WHEN ASSESSING CURRENT QDIA OFFERINGS AND POTENTIAL EVOLUTION *(CONT'D)*

Personalization

- ① How much, and in what ways, does my client **differ from typical** in terms of plan demographics, investment views, and other factors?
- ① Does my level of **personalization** differ by client?
 - If so, how do I weigh QDIAs' different levels of personalization against my personalized delivery of services?

Cost

- ① What is the **total cost** to my client of the current solution, and is there reason and appetite to consider a potentially improved solution at greater cost?
- ① Is there room for further improvement in my client's **benchmarking** of net of fee performance results and participant outcomes?



ADDITIONAL RESOURCES

ALSO SEE REPORT LANDING PAGE ([HTTPS://DCIIA.ORG/PAGE/CHOICEINDEFAULTS](https://dciaa.org/page/choiceindefaults)) FOR LINKS TO NOTED RESOURCES.

- [DOL: Target Date Retirement Funds - Tips for ERISA Plan Fiduciaries](#)
- [2022 Custom Target Date Fund \(cTDF\) Survey](#)
- [Managed Accounts: A Primer](#)
- [Managed Accounts: Due Diligence and Implementation Considerations](#)
- [Managed Accounts: What to Consider When Selecting a QDIA](#)
- [Managed Accounts: Asset Allocation Review](#)
- [Plan Sponsor Views on Adopting Dynamic QDIAs](#)
- [SPARK Study: Understanding Data Privacy Sensitivities Across the Defined Contribution Industry](#)
- [Alternative Investments in Defined Contribution Plans](#)

GLOSSARY

Term	Definition
Custom Target Date Funds	Bespoke target date funds with a glide path(s) tailored to the plan's employee population, which often include investment strategies offered by multiple investment managers.
Hybrid (Dynamic) Target Date Series (also known as Dual QDIA)	A target date fund that converts to a managed account when a participant nears retirement (typically age 45-55).
Lifetime Income	An investment strategy for drawing down a participant's retirement plan assets that includes an annuity under which an insurance company guarantees income for life.
Managed Account Service (program)	A personalized discretionary portfolio management service that makes investment decisions, takes necessary actions to structure, monitor and maintain the participant portfolio according to their unique needs based on the information provided, such as investment objectives and assets outside of the plan.
Personalized Target Date Funds	An evolution in target date investing that considers data available from the recordkeeper such as age, salary, balance, participant contribution and employer match rates to blend various vintages in the target date suite to create a more personalized portfolio.
Retirement Income	An income-generating (non-guaranteed) investment option for drawing down a participant's retirement plan assets over time.
Qualified Default Investment Alternative (QDIA)	An investment option that complies with DOL regulations into which participant contributions can be invested absent affirmative election(s) by the participant. Permissible QDIAs include balanced funds, target date fund series, target risk fund family or managed accounts.
Target Date Funds (off-the-shelf)	Multi-asset portfolios that shift asset allocation from a more aggressive to a more conservative risk profile as participant ages. Age is the only factor considered when assigning the appropriate default target date fund in the series (the fund for the year nearest the participant's attainment of age 65). Off-the-shelf target date funds typically include proprietary strategies of the investment management firm offering the target date fund suite.