

Survey Results: Investors' Beliefs about the Role of Target-Date Funds in Retirement Planning

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Survey Purpose: TDF Misperceptions

Evidence suggests that people may have misperceptions about target-date funds (TDFs). Case-in-point, Senator Herb Kohl:



-WSJ, March 23,
2009

“Some more-aggressive target-funds posted substantial declines during the market downturn. Now, some are criticizing their performance and a senator is calling for possible regulation of their investments...

Investors may be unaware of vastly different levels of stock-market exposure in different funds, even those with similar retirement target dates...

Senator Kohl said the funds are designed to change allocations over time ‘so that, when a person reaches their retirement age, the majority of their investments are no longer in equities.’”


Survey Purpose: TDF Misperceptions


Wikipedia definition of target-date funds:


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Target date fund

From Wikipedia, the free encyclopedia

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A **Target date fund** - also known as a lifecycle or age-based fund - is a collective investment scheme, usually a mutual fund, designed to provide a simple investment solution through a portfolio whose asset mix becomes more conservative as the target date (usually retirement) approaches.


Lifecycle funds were first introduced in the 1990s (Fidelity introduced their first target date fund in 1996), but their popularity has increased significantly in recent years.

These funds are aimed at people planning for retirement and have appeal because they provide a guaranteed value at a specific time. For instance, a 2020 target dated fund provides exposure to some form of growth security (US equities, international equities) while guaranteeing the original investment provided the fund is held to maturity. In some cases, these funds also have a guarantee that rises with the market value of the fund, locking in gains monthly, or in some cases daily.

For investors who will be highly dependent on their retirement savings (rather than a company pension plan, for example), the security of the principal guarantee is appealing.

Because the issuing organization is contractually obliged to meet the guarantee commitment, they alter the funds' allocation to emphasize cash and fixed income elements as the funds approach their maturity dates. By reducing exposure to the growth elements, the risk of market value being lower than the guaranteed value at maturity diminishes.

The funds are not without their critics, who point to the tendency for additional costs to be associated with target date funds, the reduced opportunities for growth over time, and the fact that the probability of negative returns from equity markets in general over a period of several years is relatively low.

 *This economics or finance-related article is a stub. You can help Wikipedia by expanding it.*

Categories: Economics and finance stubs | Investment | Funds

Survey Purpose: TDF Misperceptions

Do people misperceive the role of target-date funds in retirement planning?

Guaranteed
Security

Money in
Retirement

Worry-free
investing



High returns

Low risk

Lower necessity
to save

No need to
shop around

Survey Design

The survey asked 21 questions to explore potential misperceptions related to:

- What TDFs do and do not promise investors
- The levels of risk that investors think TDFs offer
- The importance of savings rates when investing in TDFs
- How disengaged from retirement planning decisions investors can be when investing in TDFs

The survey was conducted online:

- Participants were randomly recruited by email invitations from MarketTools' panel, ZoomPanel, which resembles the demographic mix of U.S. census (see Appendix I)

Survey Respondents

251 individuals who were...

- Employed now or in the past year
- 25-70 years of age
- 42% Female
- Generally earning income from \$25,000 to \$75,000 (65%)
- Saving for retirement (75%)
- Feeling fair, good, or very good about their retirement planning progress (57%)
- Please see Appendix I for additional details

Results: TDF Knowledge

Only 16% of participants said they had heard of target-date funds prior to reading the description.

- 63% of this group incorrectly described them
 - “Investments that are suppose to have maximum pay out at a certain date”
 - “A fund set up with a predetermined amount you think you can live on when you retire and a date to reach that goal.”
 - “Funds that will be made available for release for use on a specified date.”
 - “A [financial] instrument which is due for maturity at a set date in the future, by which date the amounts invested in the instrument are planned to have accumulated a certain amount gain.”

Results: TDF Promises

Next, participants saw a composite description of target-date funds

- Description was combined directly from the collateral of three leading providers of target-date funds
- Ended with brief taglines from the same three firms

See Appendix II for the exact description provided to participants.

Results: TDF Promises

Do you think that target-date funds promise anything?

- Yes: 61%
- Statistical majority, 95% Confidence Interval: 55% to 67%

What do you think that target-date funds promise?

- Incorrect: 69%
 - “Funds at the time of retirement.”
 - “Secure investment with minimal risk.”
 - “It’s like a guaranteed return on investment even when the market bottoms out.”
 - “A comfortable retirement.”

Results: TDF Promises

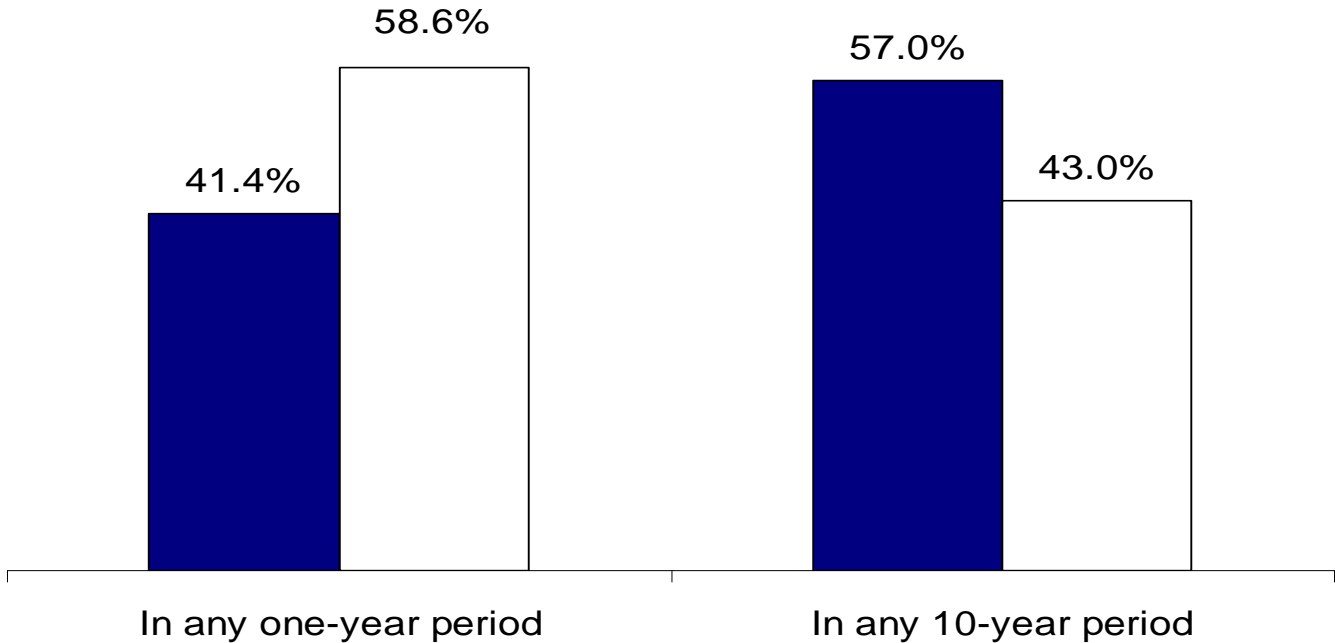
To what extent do you agree with these statements: Investing in target-date funds means that...

	Agree (Strongly or Somewhat)	Do Not Agree (Strongly or Somewhat)
You will be able to retire on the target date	61.8%	38.3%
You will earn a guaranteed return	37.9%	62.2%
You can spend less time tracking your progress toward your retirement goals	62.2%	37.9%
You can stop worrying about investment and savings decisions and leave everything up to an investment professional	48.6%	51.4%
Your money will grow faster than other similar investments	35.5%	64.5%
You can save less money and still meet your retirement goals	29.9%	70.1%
There is little to no chance that you will lose money after the target-date	23.9%	76.1%
There is little to no chance that you will lose money before the target-date	23.1%	76.9%

Results: TDF Risk

What is the chance that you could lose money in the time periods below if you invest in a target-date fund?

■ No/Low chance money could be lost. □ High Chance/Certain that money would definitely be lost.

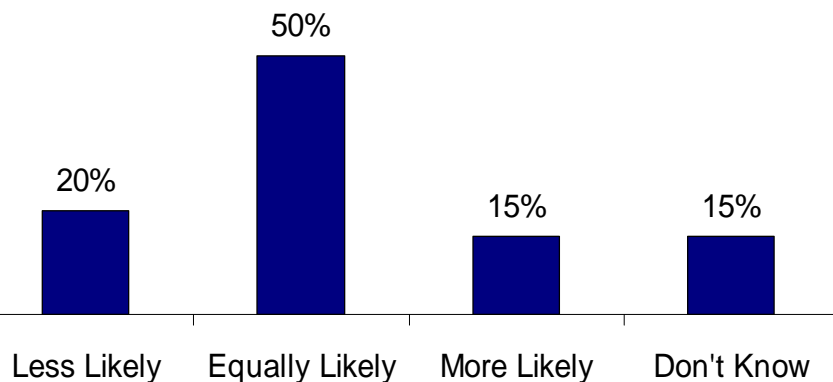


Results: TDF Risk

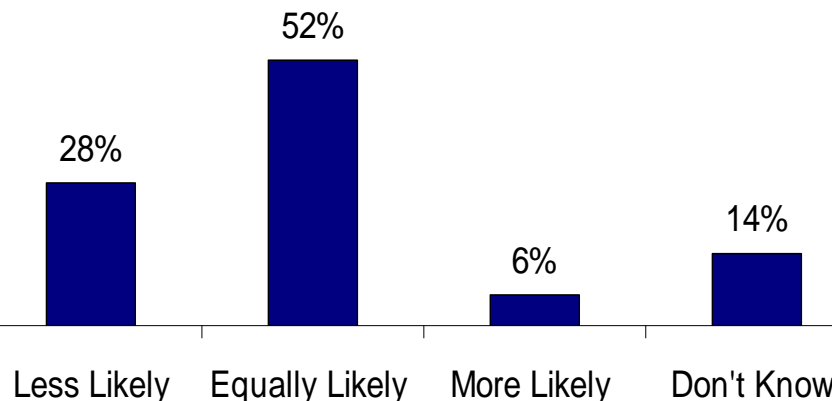
Compared to money market funds over a one-year period, how likely are you to lose money in target-date funds?

Compared to stock mutual funds over a one-year period, how likely are you to lose money in target-date funds?

Money Market Funds

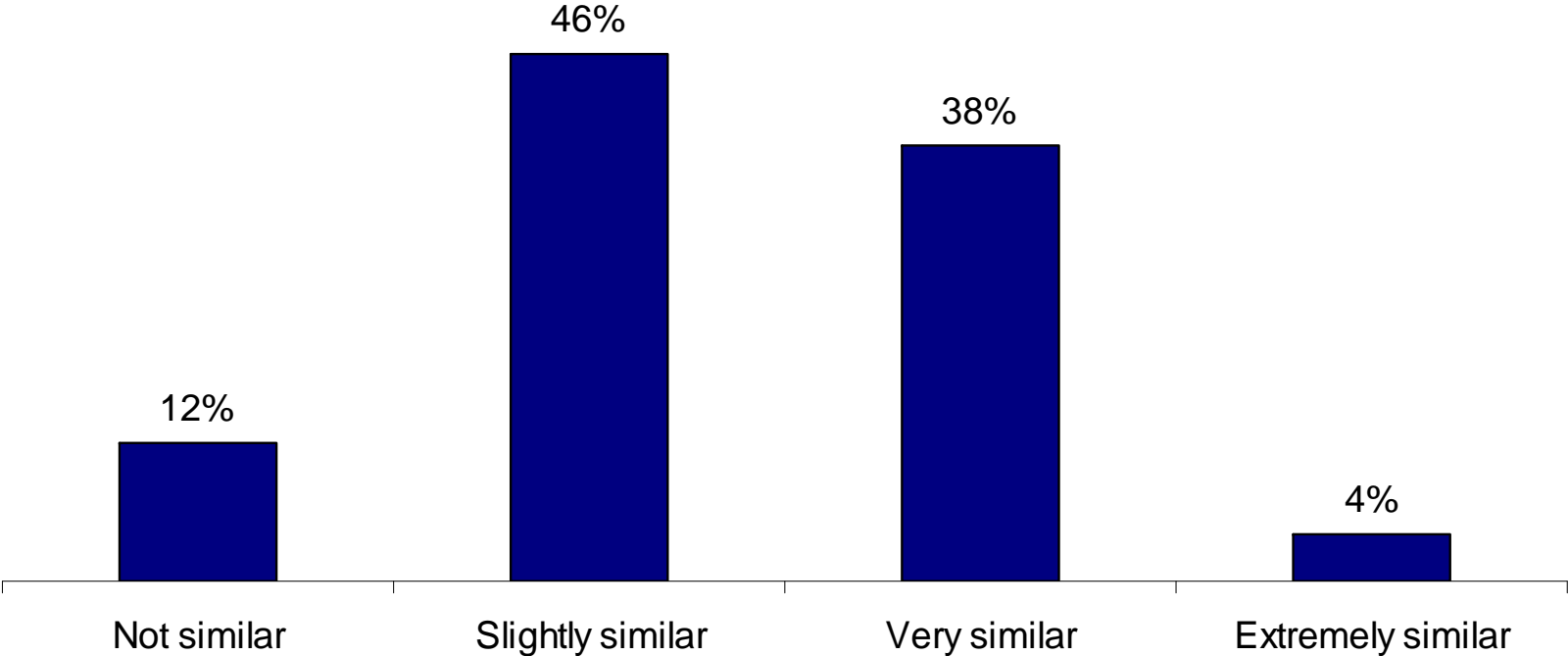


Stock Mutual Funds



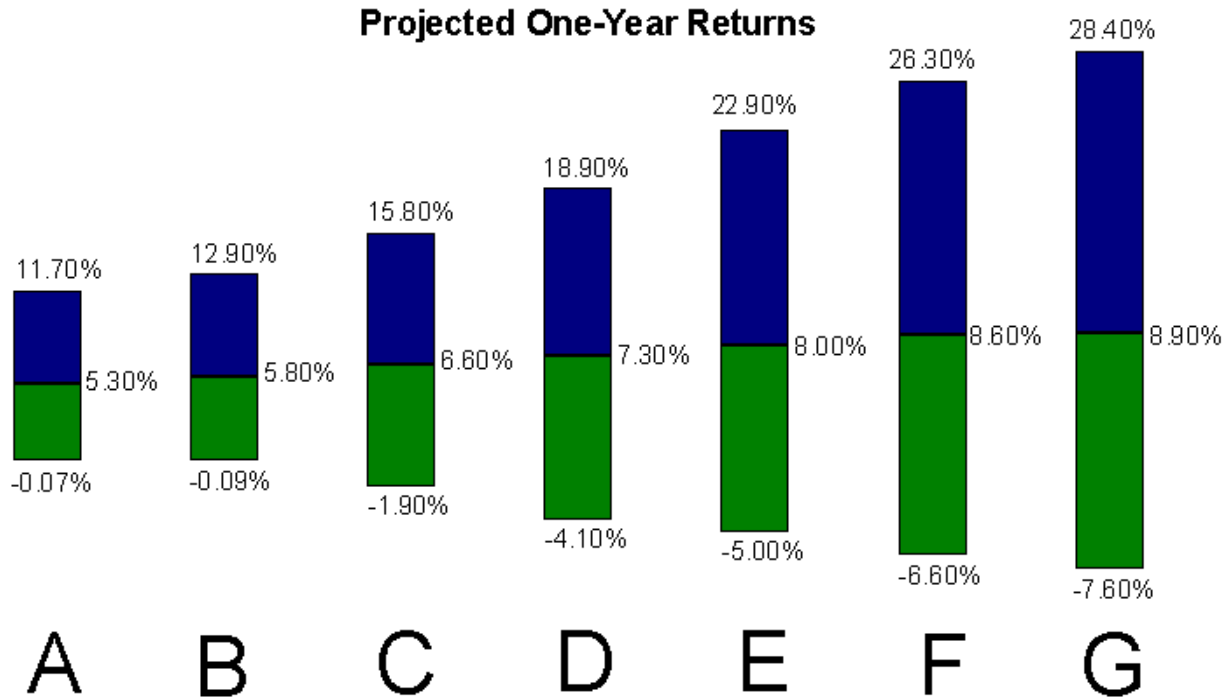
Results: TDF Risk

A number of companies offer target-date funds. How similar would you expect the risk levels of funds with the same target date to be?



Results: TDF Risk

Participants next viewed the following graph showing projected ranges of possible returns over a one-year period for seven portfolios with various asset allocations, from conservative to more aggressive



Percentage of respondents selecting:

10%

8%

18%

12%

15%

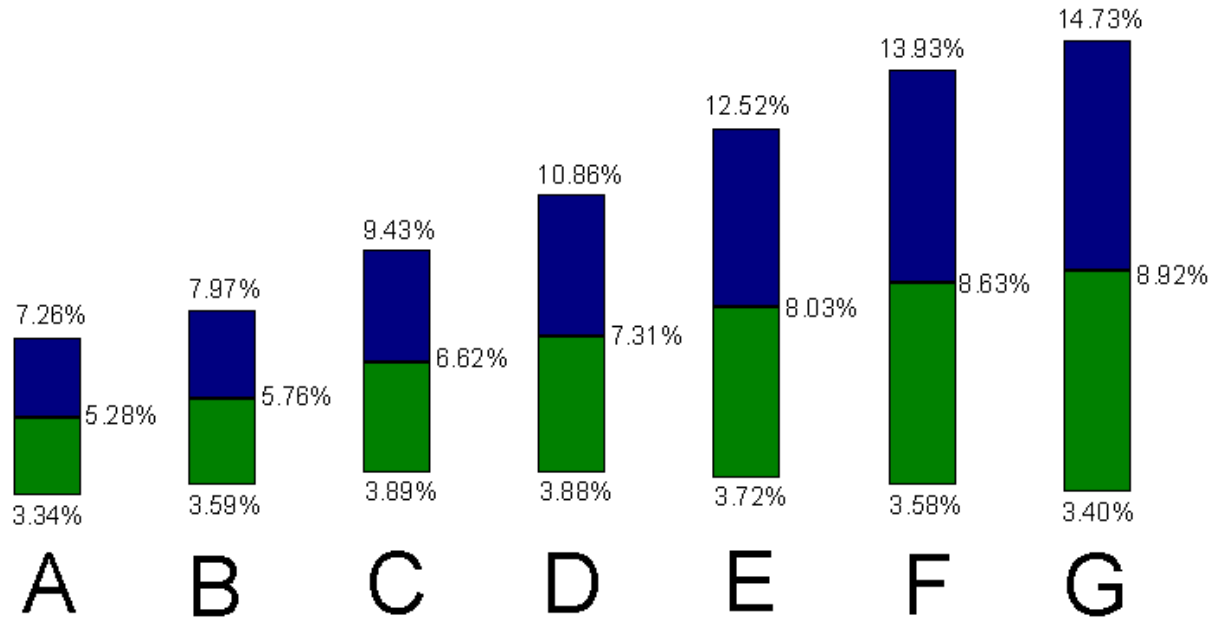
4%

33%

Results: TDF Risk

Participants next viewed the following graph showing projected ranges of possible returns over a 10-year period for seven portfolios with various asset allocations, from conservative to more aggressive

Projected Average Annual Returns Over 10-Year Period



Percentage of respondents selecting:

6%

4%

8%

12%

10%

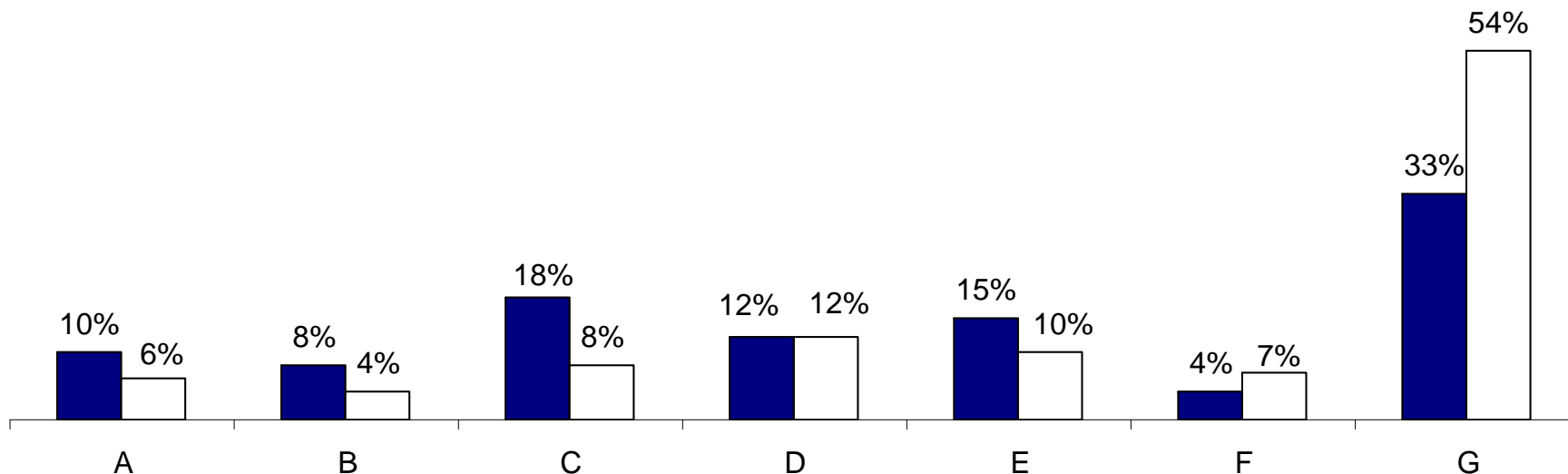
7%

54%

Results: TDF Risk

Which of the above investment programs do you prefer for your retirement money?

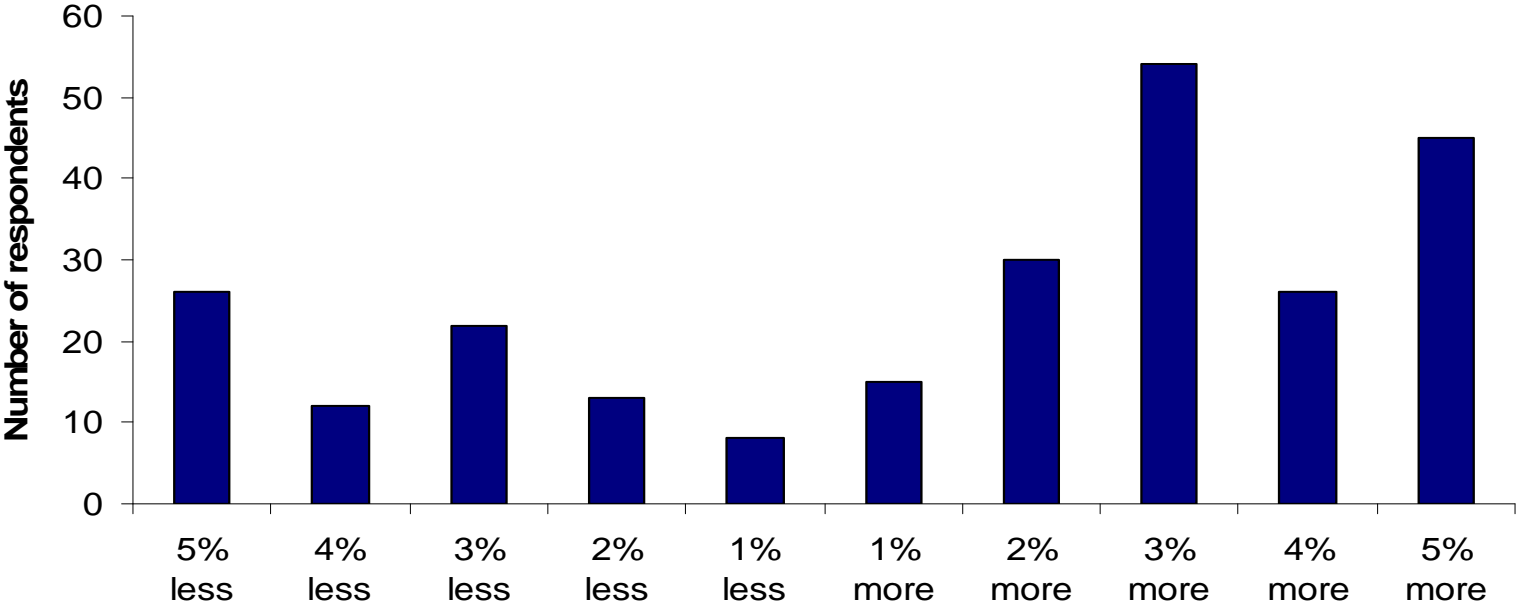
■ 1 Year Projection □ 10 Year Projection



Results: TDF Saving

How much would you save in a target-date fund compared to another retirement investment?

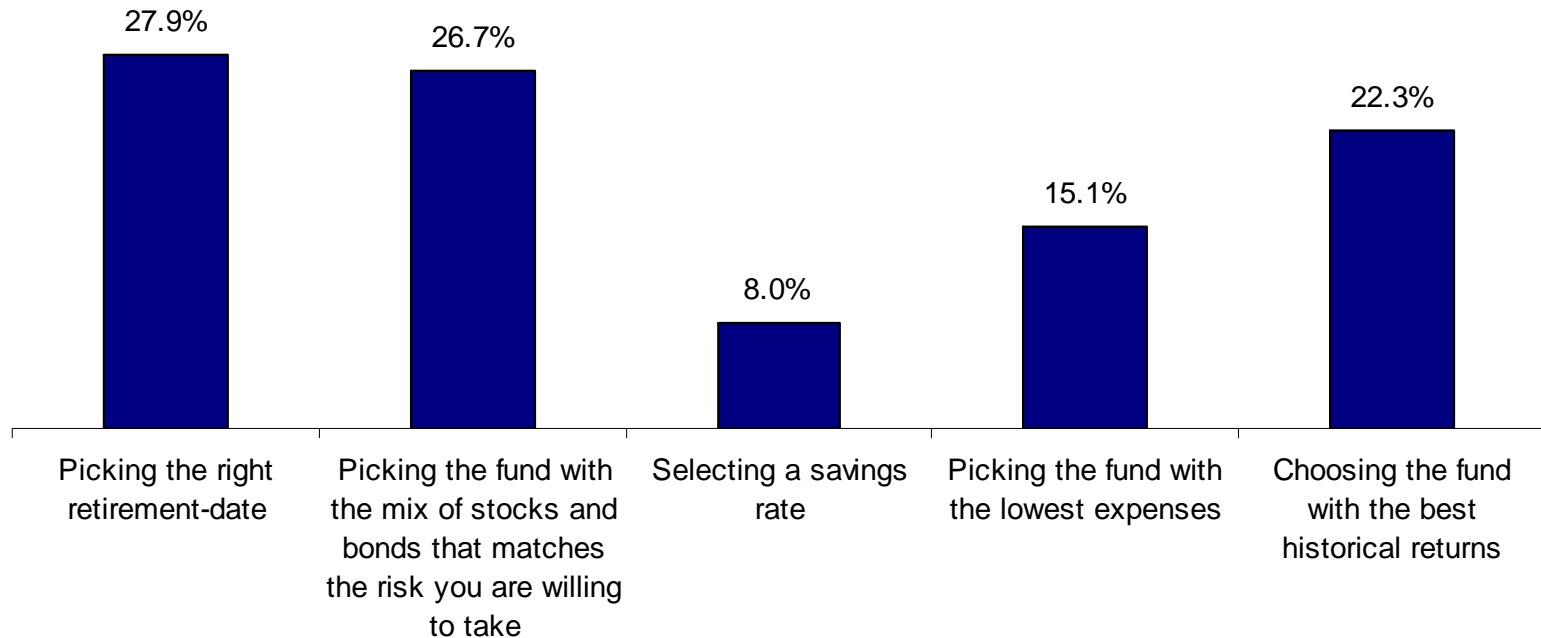
- Save 1%, 2%, 3%, 4%, 5% More
- Save 1%, 2%, 3%, 4%, 5% Less
- The average is to save 1.15% more
- Those that want to save less save **-3.43%**
- Those that want to save more save **+3.33%**



Results: Retirement Planning Task Prioritization

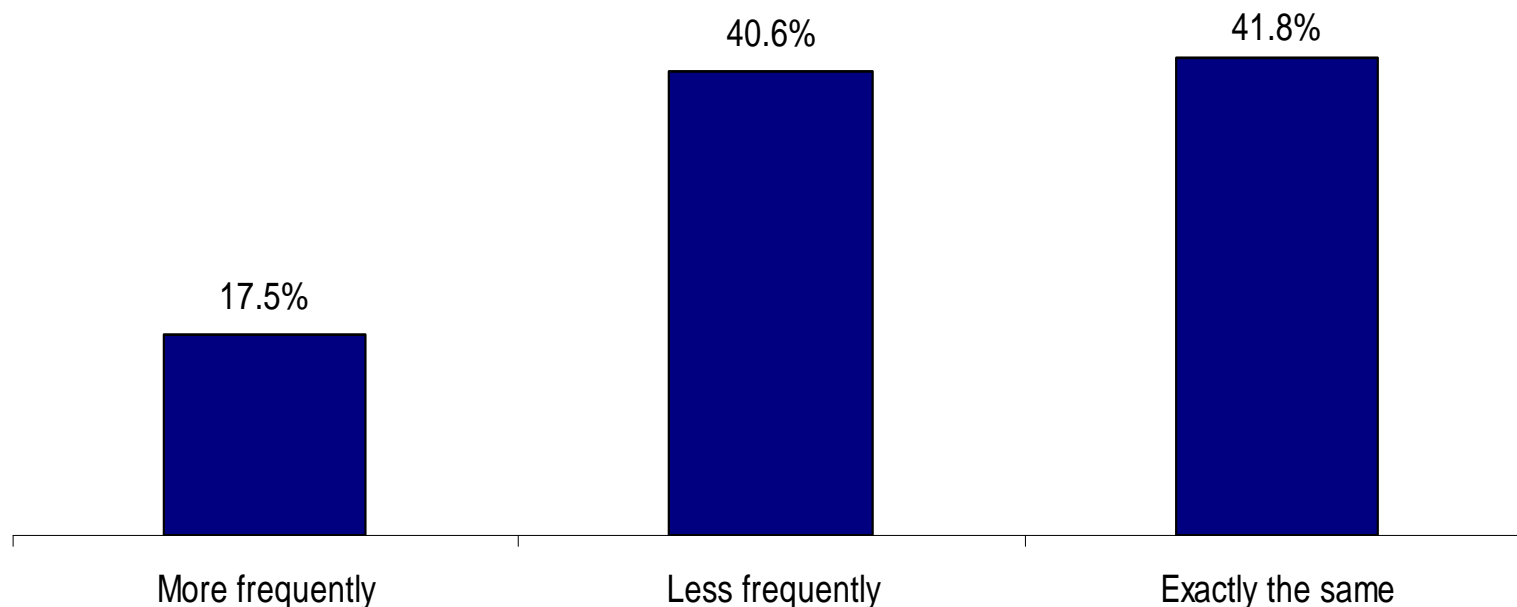
If you were to invest in target-date funds, how would you rank the following in terms of their importance to your overall retirement planning? "1" is most important, and "5" is least important.

Percentage of Respondents Choosing Task as First Priority



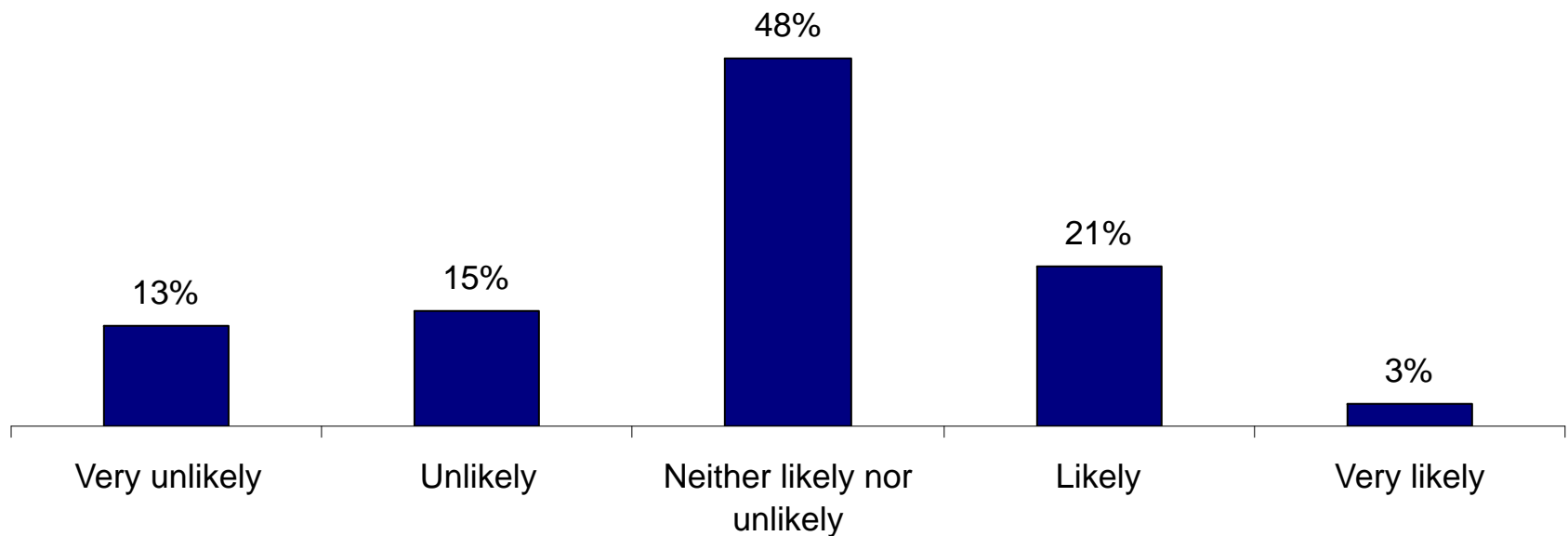
Results: TDF Disengagement

If you invest in target-date funds, how frequently would you need to actively observe your progress toward retirement (as compared to if you invested in other retirement funds)?



Results: Likelihood of Investing in Target-Date Funds

How likely are you to invest in target-date funds in the future?



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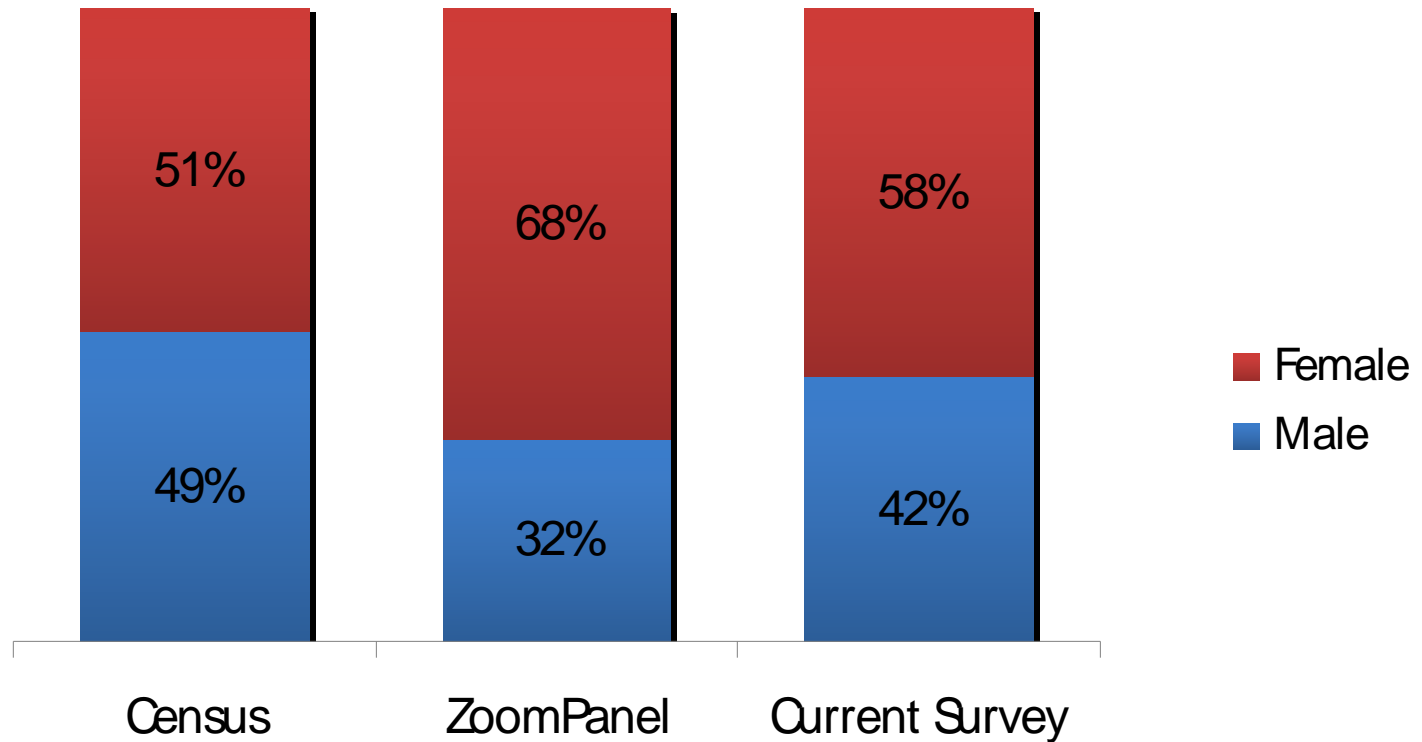
About Behavioral Research Associates: Behavioral Research Associates (BRA) is a behavioral research and consulting firm located in Evanston, Illinois. BRA specializes in consumer decision making and studies behavioral patterns to better understand the financial and economic decision making process. For more information, please contact info@behavioralresearchassociates.com.

Appendix I: ZoomPanel

- Survey participants were recruited online via ZoomPanel.
- ZoomPanel is a panel of potential survey participants prescreened for legitimacy and demographic characteristics by MarketTools, a leading technology and solutions provider for survey research.
- For the current survey:
 - Participants were paid 40 points (approximate value less than \$1) to complete the survey
 - The drop-out rate was 22%
- The following slides of Appendix I represent the current survey's demographic mix relative to ZoomPanel, the US Census, and online populations.

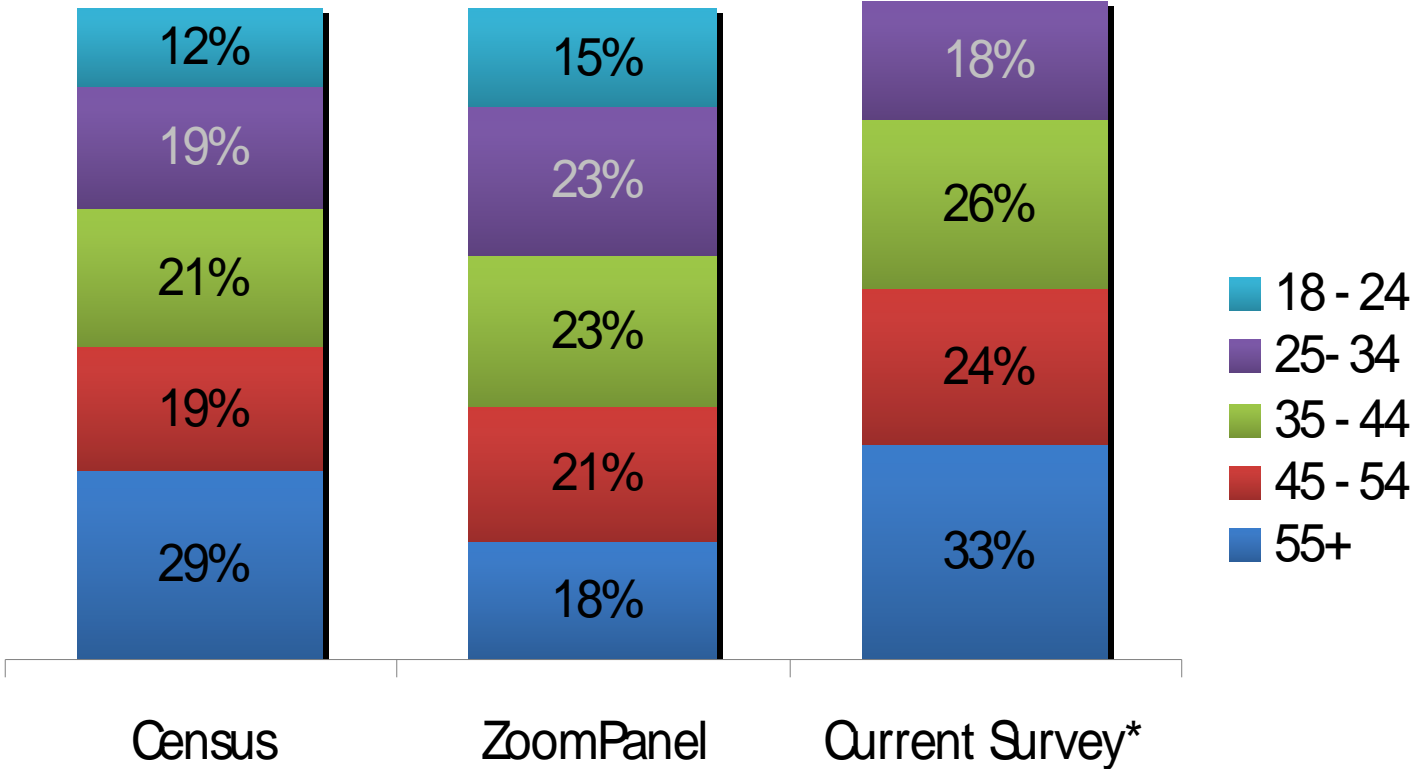
Appendix I: Gender

Q3 2008



Appendix I: Age

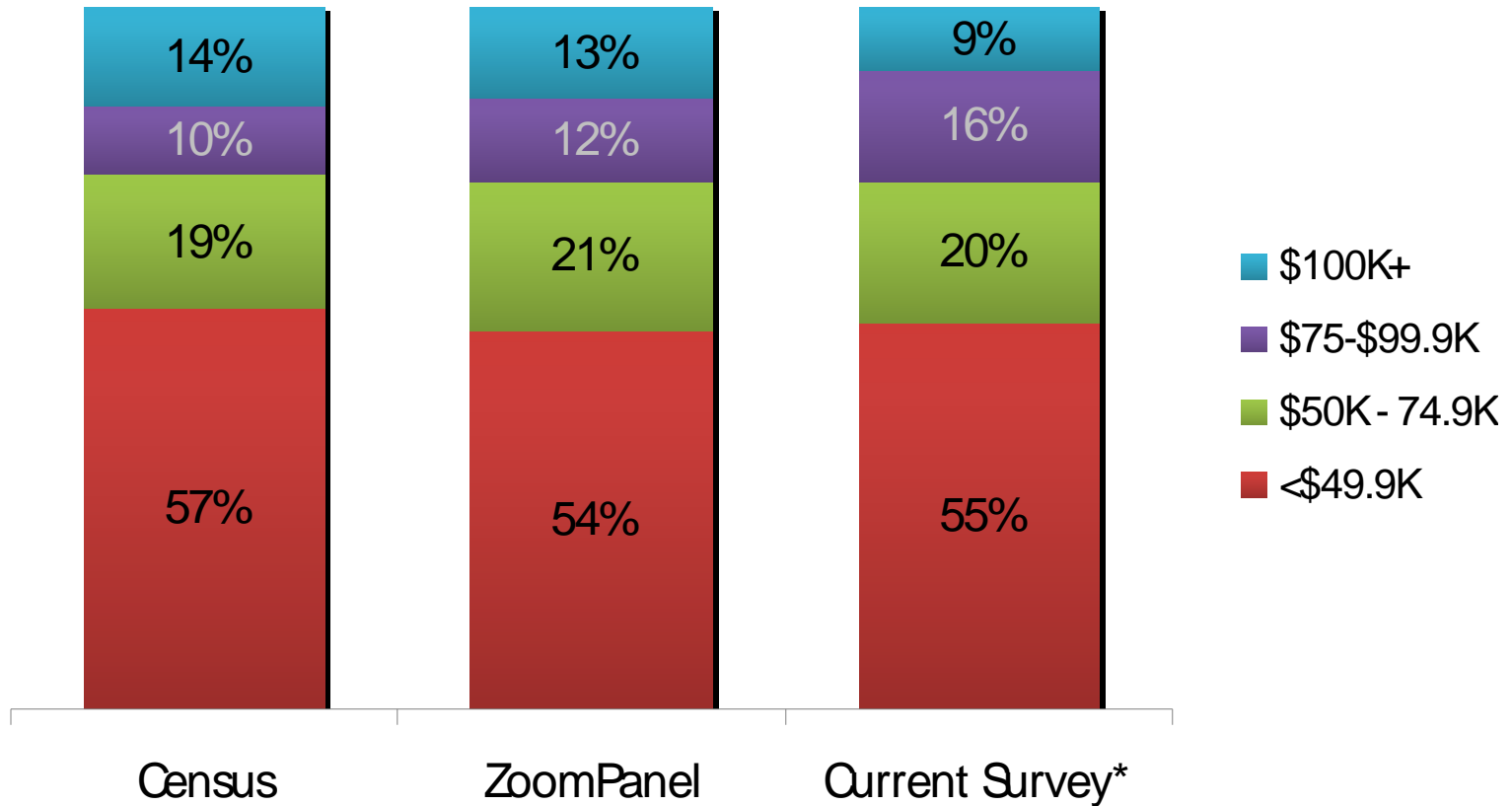
Q3 2008



*Brackets used were off by 1 year

Appendix I: Household Income

Q3 2008



*Individual income used vs. household income

Appendix II: Composite TDF Description

For investors looking to simplify retirement investing, target-date funds offer a convenient one-step approach. Each fund is structured as a “fund of funds,” investing in other mutual funds to offer a broadly diversified portfolio of stocks and bonds. Each fund provides an asset allocation strategy that the fund managers consider appropriate for investors at various stages of the retirement planning process — both before and after retirement.

Asset allocation is your mix of stock, bond, and cash investments. It has the biggest impact on how your portfolio will perform over the long run, so it's the most important investing decision you'll have to make. Target-date funds make your initial asset allocation decision simple. Each fund has an asset mix that's appropriate for someone planning to retire in the target year. Simply pick the fund with the date closest to your expected retirement and you get an allocation that's appropriate for the number of years you have left to save.

What's more, a target-date fund helps you maintain a sensible allocation all the way through retirement. That's because as time goes on, it gradually invests more conservatively. For example, target-date fund "2045" starts out with a lot of stocks. As retirement approaches and then begins, the fund automatically shifts to more bonds. You never have to wonder when or how to adjust your asset allocation—your target-date fund does it automatically.

Appendix II: TDF Description Tagline

Other, shorter descriptions of these funds include the following:

“Take the guess work out of investing for retirement. Just decide when you want to retire, and we’ll pick the fund that’s the closest fit. A professional fund manager will keep that fund’s investments on target.”

“A target-date fund is a diversified portfolio of funds that offers all the benefits of asset allocation and active management. Just select your age, and we’ll do the rest.”

“You can get closer to achieving your retirement goals, with a little help from target-date funds.”

“We do the work. You do the retiring.”