



What Difference Does a Year Make?

Target Date Maturity Funds Boom or Bust?



New Dimensions of Retirement Plans
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I. Introduction

1. What is NYC DCP?

- An umbrella Program for 7 tax-favored programs:
 - 457
 - 401(k)
 - Roth 401(k)
 - NYCE IRA
 - Roth NYCE IRA
 - Spousal IRA
 - Roth Spousal IRA

2. Statistics

- Size of population – 145,000
- Size of assets - \$8.4 Billion (as of 9/30/09)



II. What Role Does DCP Play in NYC Employees' Retirement

- It is the third leg of the retirement stool
 - Pension
 - Social Security
 - Deferred Compensation Plan
- A unique program where 50% are uniformed employees who mostly retire in their 40's



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III. What Role do Target Date Portfolios Play in DCP?

- A. They were an answer to the most asked participant question:
 - “Where should I Invest my money?”
- B. They were an answer to the failure of participants to rebalance their portfolios
 - Participants failed to manager their DCP accounts, letting their asset allocations be dictated by market movement (a form of passive market timing)
 - Participants actively timed the market, reacting to market movement after the fact

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III. What Role do Target Date Portfolios Play in DCP?, *continued*

- C. They were developed as a broad market diversification option in response to the lack of diversification in participant portfolios
 - 70% of all assets in the early 90's were in the Stable Income Fund (including those of employee's in their 20's)
 - At 12/31/99 - 75% of all assets were in equities
- D. They were introduced, together with the NYCE IRA, in response to participants' haphazard behavior in the distribution of their assets at termination of employment
 - \$10-\$15 million used to roll out to retail IRAs monthly; these were often more expensive than DCP funds
 - 55% of employees used to cash out the accounts completely when leaving employment
 - Many participants purchased annuities, although pension and social security already gave them two annuity payment streams
 - Almost all participant failed to integrate DCP into an overall retirement plan

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IV. Target Date Portfolios were A New Concept

- Plan-designed Funds allow participants to remain in the program throughout retirement while reducing equity risks automatically over-time
- All plan participants benefit from assets retained by DCP through investment management break points that result in lower fees
- The Funds focus on the end point (asset distribution) from the beginning of the working career

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IV. Target Date Portfolios were A New Concept, *continued*

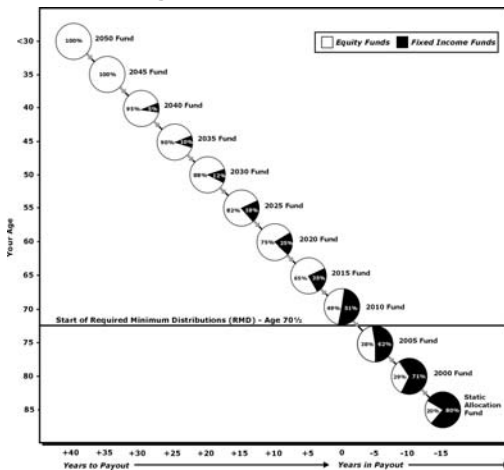
- Custom Target Date Funds vs. Off the Shelf Product
 - Able to retain preferred manager (due diligence)
 - Able to create glide path to suit audience demographics (DCP's Target Date Funds hold relatively more equity due to the availability of DB plans)
 - Asset allocation is separated from the management of underlying components (no conflict of interest)
 - Lowest cost negotiated

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V. Deferred Compensation Plan Target Date Funds

Target Date Funds Graphic



- There is no one “retirement” date – it can be in the 40’s, 50’s, 60’s or later. Rather, the RMD Date is indicated in the graphic as the beginning of the distribution process
- Equity levels reflect:
 - (a) demographics
 - (b) DB Plans and
 - (c) need to balance the risk of capital loss against the risk of longevity + inflation
- Glidepath Objective =
To fill in the 3rd leg of the retirement stool; allows participants to withdraw 4% of assets a year to supplement their pension and social security annuity payments, and not outlive their DCP accounts

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V. Deferred Compensation Plan Target Date Funds, *continued*

2045 Fund		2040 Fund		2035 Fund		2030 Fund	
Fixed Income Funds	0%	Fixed Income Funds	4%	Fixed Income Funds	9%	Fixed Income Funds	12%
0.0% Stable Income Fund		0.0% Stable Income Fund		0.0% Stable Income Fund		0.0% Stable Income Fund	
0.0% TIPS		0.0% TIPS		0.0% TIPS		0.0% TIPS	
0.0% Bonds		4.2% Bonds		9.2% Bonds		11.6% Bonds	
Equity Funds	100%	Equity Funds	96%	Equity Funds	91%	Equity Funds	88%
50.5% Equity Index		48.4% Equity Index		46.3% Equity Index		45.2% Equity Index	
8.0% Mid-Cap		7.6% Mid-Cap		7.1% Mid-Cap		7.0% Mid-Cap	
33.5% International		32.2% International		30.3% International		29.2% International	
8.0% Small-Cap		7.6% Small-Cap		7.1% Small-Cap		7.0% Small-Cap	
Current Fee: 0.20%		Current Fee: 0.20%		Current Fee: 0.21%		Current Fee: 0.21%	
2025 Fund		2020 Fund		2015 Fund		2010 Fund	
Fixed Income Funds	17%	Fixed Income Funds	24%	Fixed Income Funds	33%	Fixed Income Funds	49%
1.7% Stable Income Fund		3.7% Stable Income Fund		9.1% Stable Income Fund		21.9% Stable Income Fund	
1.7% TIPS		6.3% TIPS		11.3% TIPS		14.6% TIPS	
13.7% Bonds		13.6% Bonds		13.0% Bonds		12.0% Bonds	
Equity Funds	83%	Equity Funds	76%	Equity Funds	67%	Equity Funds	100%
42.0% Equity Index		38.5% Equity Index		32.9% Equity Index		24.4% Equity Index	
6.6% Mid-Cap		6.1% Mid-Cap		5.6% Mid-Cap		5.1% Mid-Cap	
27.7% International		25.4% International		22.5% International		16.9% International	
6.6% Small-Cap		6.1% Small-Cap		5.6% Small-Cap		5.1% Small-Cap	
Current Fee: 0.21%		Current Fee: 0.21%		Current Fee: 0.22%		Current Fee: 0.23%	
2005 Fund		2000 Fund		1995 Fund		Static Allocation Fund	
Fixed Income Funds	80%	Fixed Income Funds	70%	Fixed Income Funds	79%	Fixed Income Funds	80%
34.2% Stable Income Fund		44.5% Stable Income Fund		57.9% Stable Income Fund		60.0% Stable Income Fund	
15.0% TIPS		15.0% TIPS		15.0% TIPS		15.0% TIPS	
11.0% Bonds		10.0% Bonds		5.6% Bonds		5.0% Bonds	
Equity Funds	40%	Equity Funds	31%	Equity Funds	22%	Equity Funds	20%
18.6% Equity Index		13.8% Equity Index		10.5% Equity Index		10.0% Equity Index	
4.6% Mid-Cap		4.1% Mid-Cap		3.2% Mid-Cap		3.0% Mid-Cap	
11.8% International		8.5% International		4.6% International		4.0% International	
4.6% Small-Cap		4.1% Small-Cap		3.2% Small-Cap		3.0% Small-Cap	
Current Fee: 0.23%		Current Fee: 0.23%		Current Fee: 0.22%		Current Fee: 0.22%	

Composition of the Target Date Funds (9/30/09)

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VI. How have participants behaved over the past year?

	9/2008	vs.	9/2009
• Total assets in TDFs	\$1.2 Billion		\$1.3 Billion
• TDFs as Percentage of Total Plan Assets	14.8%		15.0%
• Have participants left equities? No:	\$4.5B		\$4.6B
• Have they moved to SIF? No:	\$3.0B		\$3.4B
• Are Participants satisfied enough with Target Date Funds to wait out market turmoil?			
– Yes, participants maintained the amount they had invested in TDFs. They did not jump to the Stable Income Fund.			
– Participants in the TDFs continued to prefer the TDFs to trying to time the market			

Footnote: Total Plan Assets: | 10/2007 - \$8.9 Billion | 02/2009 - \$6.5 Billion | 09/2009 - \$8.4 Billion

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VII. What has been the Performance of the Target Date Fund vis-à-vis the Plan's other options?

Individual funds vs. diversification

Last 3 years as of 9/30/2009			
Core Funds		Target Date Portfolios	
Stable Income Fund	4.62%	Static Allocation	-
Bond Fund	5.11%	1995	-
Equity Index Fund	-5.50%	2000	-
Socially Responsible Fund	-2.98%	2005	0.58%
Mid-Cap Equity Fund	-2.39%	2010	-0.66%
International Equity Fund	-5.15%	2015	-1.68%
Small-Cap Fund	-4.47%	2020	-2.76%
		2025	-3.35%
		2030	-3.81%
		2035	-4.14%
		2040	-4.81%
		2045	-5.12%

SIF not sustainable as sole option in retirement

Bond Fund not used by participants as sole investment option. Bond funds are viewed as confusing

TDFs: Loss less than any one equity option

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VII. What has been the Performance of the Target Date Fund vis-à-vis the Plan's other options?, continued

Individual funds vs. diversification

Total Return for 2008			
Core Funds		Target Date Portfolios	
Stable Income Fund	4.9%	Static Allocation	-7.0%
Bond Fund	-3.4%	1995	-8.1%
Equity Index Fund	-37.1%	2000	-13.0%
Socially Responsible Fund	-40.0%	2005	-17.7%
Mid-Cap Equity Fund	-42.6%	2010	-23.4%
International Equity Fund	-45.4%	2015	-29.3%
Small-Cap Fund	-36.0%	2020	-32.5%
		2025	-34.8%
		2030	-36.4%
		2035	-37.1%
		2040	-38.8%
		2045	-39.6%

TDFs: Loss less than any one equity option

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VII. What has been the Performance of the Target Date Fund vis-à-vis the Plan's other options?, *continued*

Individual funds vs. diversification

Year to Date 2009 (as of 9/30/2009)			
Core Funds		Target Date Portfolios	
Stable Income Fund	+3.13%	Static Allocation	+10.0%
Bond Fund	+12.75%	1995	+10.2%
Equity Index Fund	+20.28%	2000	+12.93%
Socially Responsible Fund	+30.84%	2005	+15.12%
Mid-Cap Equity Fund	+40.99%	2010	+17.72%
International Equity Fund	+28.9%	2015	+20.74%
Small-Cap Fund	+29.7%	2020	+22.32%
		2025	+23.29%
		2030	+24.08%
		2035	+24.32%
		2040	+24.94%
		2045	+25.46%

As on the last two slides, TDF returns follow the pattern of higher return for higher risk.

Note:
TDFs have a smoothing affect on market activity in the later year portfolios with respect to both losses and gains.

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VIII. So in the worst of all possible worlds how have Target Date Funds worked out?

- They have acted as they were designed to act
 - With respect to risk/reward
 - With respect to smoothing
 - With respect to being an alternative to market timing

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In Summary

- Would a “guaranteed” annuity feature work in the TDFs?
 - The final design is not yet clear
 - The recordkeeping platforms are not yet there for the products
 - The consulting community is not yet comfortable with the design
- Our attitude can only be one of “wait and see”
- ❖ My pet peeve – Having lived through the discrediting of the name “Guaranteed” Investment Contract, as an insurance product for the DC market, I wish for a different name.