

# The evolution of Target Date Funds and the Qualified Default Investment Alternative

- The concept of TDFs was introduced in the early 1990s, with Wells Fargo and BlackRock developing the first series. However, through the early 2000s, Stable Value and Money Market Funds were more commonly used as defaults by participants in retirement plans.
- In the mid-2000s, as Money Market Fund yields and asset levels declined, Balanced Funds became more widely used for higher return potential and helped lay the foundation that participants use one-stop, multi-asset class products in retirement plans.
- The 2006 Pension Protection Act provided guidance surrounding TDFs and deemed them Qualified Default Investment Alternatives — offering protection against litigation, especially as automatic enrollment becomes more popular.
- Assets under management within TDF structures surpassed \$1 trillion by 2017, when the retirement industry faced higher regulation/oversight and barriers to entry for asset managers, following the Great Financial Crisis.
- A challenging period for bond markets driven by the COVID-19 pandemic, the expedited re-opening of the economy, high inflation and higher interest rates led to more focus on longevity risk (outliving your retirement assets) and/or not keeping up with inflation. As a result, TDF providers have begun incorporating higher equity allocations in their glide path along with guaranteed income options and, in some instances, utilizing certain alternative investments to act as risk mitigators alongside bonds.
- Artificial Intelligence provides insight to TDF providers and retirement plan recordkeepers. This can potentially help increase participant engagement and interest in customized glide paths.

## Early 1990s

Donald Luskin and Larry Tint of Wells Fargo design the concept of TDFs<sup>1</sup>

## 1993

Blackrock debuts “LifePath” (1st target date fund)<sup>2</sup>

## 2004

Balanced Funds (funds investing in multiple asset classes) become more widely used as yields of Money Market Funds decline<sup>3</sup>

## 2006

Pension Protection Act leads to the use of auto-enrolled QDIAs, with TDFs, Balanced Funds and Stable Value becoming common options<sup>4</sup>

## 2010

Dodd-Frank Act enacted post-financial crisis, bringing stricter regulation of abusive financial services practices, consumer protection and liquidity concerns<sup>5</sup>

## 2017

TDFs surpass \$1 trillion in AUM<sup>6</sup>

## 2020-2022

COVID-19, inflation and the prospect of higher interest rates lead to fear over inadequate retirement savings for retirees and TDF providers offering glide path and diversification enhancements

## 2023

Artificial Intelligence potentially enhancing participant engagement and customized glide paths

<sup>1</sup>Lawrence G. Tint Inventions, Patents and Patent Applications – Justia Patents Search

<sup>2</sup><https://www.planadviser.com/blackrocks-fink-marks-30-year-anniversary-blackrocks-first-tdf/>

<sup>3</sup><https://www.ici.org/doc-server/pdf/3Afm-v14n4.pdf>

<sup>4</sup><https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/default-investment-alternatives-under-participant-directed-individual-account-plans>

<sup>5</sup>[https://katten.com/Summary-and-Analysis-of-Dodd-Frank-Rules-for-Investment-Advisers#:~:text=Dodd%2DFrank%20raised%20the%20threshold,rule%20\(Qualified%20Client%20Standards\).&text=A%20central%20concept%20affecting%20both,assets%20of%20non%20U.S.%20clients](https://katten.com/Summary-and-Analysis-of-Dodd-Frank-Rules-for-Investment-Advisers#:~:text=Dodd%2DFrank%20raised%20the%20threshold,rule%20(Qualified%20Client%20Standards).&text=A%20central%20concept%20affecting%20both,assets%20of%20non%20U.S.%20clients)

<sup>6</sup><https://www.morningstar.com/funds/1-trillion-target-date-fund-landscape>

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