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NEWS RELEASE

T. ROWE PRICE STUDY REVEALS DEFINED CONTRIBUTION PLAN SPONSORS' EVOLVING VIEWS OF RETIREMENT RELATED RISKS AND OBJECTIVES

Over two thirds of plan sponsors report a desire to keep participants in the retirement plan after retirement and have a greater focus on longer term retirement objectives over short-term downside risks

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NEWS

T. Rowe Price recently surveyed U.S. defined contribution (DC) plan sponsors and consultants to gain a deeper understanding of their perception of risk by posing three primary questions:

- INTERPRET**:** How do DC plan sponsors perceive and prioritize the risks that participants face when working towards achieving their retirement objectives?
- TRANSLATE**:** To what extent is the *qualified default investment alternative (*QDIA) selection and evaluation process influenced by their perceptions and prioritizations of these risks?
- ALIGN**:** Are their perceptions of risks logically aligned with the stated long-term objectives for their participants?

The T. Rowe Price survey, titled "Advancing the Way We Think About Retirement Risk and Outcomes," found that plan sponsors were most concerned about participants' longevity risk and their ability to achieve higher retirement account balances over the long term when selecting a target date strategy or other QDIA for their participants.

Further, when it comes to the selection process for QDIAs, DC plan sponsors largely prioritize risks in a manner consistent with long-term objectives. Even so, there is greater reported sensitivity to short-term considerations among a minority of DC plan sponsors— a position that may be at odds with helping participants improve their long-term retirement outcomes.

STRENGTHENING SUPPORT FOR KEEPING RETIRED PARTICIPANTS IN PLAN
69% of DC plan sponsors indicate that retention of participant assets is preferable to retirees transitioning account balances out of the plan, which influences the decision to focus on longer-term objectives over volatility. In fact, a subset (29%) report that keeping retired participants in plan has become more of a priority. While emphasis on providing for retired participants might suggest greater interest in limiting near-term volatility through investment selection, further survey findings tell a different story.

LONGEVITY FOCUS TAKES PRECEDENCE
DC plan sponsors report that participants running out of money in retirement is top of mind, with 42% identifying longevity risk as the topic of most concern— three times the number that prioritized more immediate and limited concerns of addressing downside risk (14%) or volatility risk (12%).

ACHIEVING HIGHEST POSSIBLE RETIREMENT INCOME
Consistent with the findings above, only 35% of plan sponsors indicated that reducing point-in-time downside return as being the most influential consideration when selecting a QDIA. In contrast, nearly two-thirds (65%) of plan sponsors agreed that achieving the highest retirement income opportunity is a more influential priority in their QDIA evaluation process.

MORE TO THE STORY THAN SEQUENCE OF RETURNS

Concerns about adverse sequence of returns (SoR) risk – the risk of low or negative returns late in a participant's accumulation period or early in a participant's retirement withdrawal period – is sometimes cited as a factor favoring lower equity target date allocations as a means of mitigating point-in-time downside risk and volatility. However, these findings suggest that plan sponsors are considering risk in a broader context, including the potential that a lower equity target date glide path may fail to provide sufficient growth needed for participants to accumulate adequate savings for retirement.

ACKNOWLEDGING "RISK" TRADEOFFS

The majority of plan sponsors acknowledge that reducing near-term risk comes at a tradeoff, with 64% of respondents disagreeing with the statement that "there are no unintended consequences in attempting to mitigate sequence of return risk for participants." This suggests that most sponsors recognize that efforts to mitigate SoR risk through asset allocation (e.g. by selecting a target date strategy with a lower equity glide path) could have unintended consequences, including a lower account balance entering retirement and a potential reduction of retirement income.

- These results show broad awareness that attempts to prioritize managing volatility and downside risk on behalf of participants — due, in part, to heightened concerns about adverse sequence of returns — may come with tradeoffs that can ultimately erode retirement outcomes.
- The results also underscore the need to better understand the balance between managing volatility and achieving growth, and how to implement asset allocation strategies that take a more comprehensive set of objectives and risks into account.
- In the end (and possibly contrary to expectation), the increasingly long-term view required to accommodate participants through their careers and potentially into retirement is consistent with a focus on preserving growth potential over time, rather than preoccupation with short-term volatility or potential downside risk.

QUOTES

Lorie Latham, senior defined contribution strategist:

"Being an effective plan sponsor today requires an expansive view of the risks and influences on the growth of a participant's portfolio. This survey reveals that plan sponsors clearly understand that longevity risk – the risk that participants will outlive their retirement income – is a critical factor in determining retirement readiness, and that their investment choices must be designed accordingly."

Wyatt Lee, CFA, co-portfolio Manager, Retirement Date Strategies:

"We often see plan decisions that overemphasize point-in-time metrics, focus on a specific subset of participants, or anchor to a worst-case scenario. The intent may be to identify the right solution for a heterogeneous DC plan population, but it's really important to keep the full population top of mind and to maintain a long-term view to help participants achieve the retirement outcomes they are hoping for."

ABOUT THE SURVEY

T. Rowe Price's survey "Advancing How We Think About Retirement Outcomes" was conducted from January 29 through February 20, 2018, by Signet Research, a marketing research firm. The universe consisted of members of *Pensions & Investments* (P&I)'s Research Advisory Panel, a list of plan sponsors and consultants selected from the P&I database, and a list of financial advisors provided by T. Rowe Price. A total of 337 responses were received from 266 plan sponsor officials, 45 plan consultants, 3 financial advisors, and 23 other individuals active in the DC plan market. Respondents participated via online surveys, and were offered a chance to win prize awards as incentives for their participation. T. Rowe Price designed the survey questions and is solely responsible for the interpretation of the results.

ABOUT T. ROWE PRICE

Founded in 1937, Baltimore-based T. Rowe Price Group, Inc. is a global investment management organization with $1.02 trillion in assets under management as of April 30, 2018. The organization provides a broad array of mutual funds, subadvisory services, and separate account management for individual and institutional investors, retirement plans, and financial intermediaries. The company also offers sophisticated investment planning and guidance tools. T. Rowe Price's disciplined, risk-aware investment approach focuses on diversification, style consistency, and fundamental research. For more information, visit **troweprice.com** or our **Twitter**, **YouTube**, **LinkedIn**, and **Facebook** sites.

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