Personalized Investments

A New Approach to Customizing the Retirement Journey

Joe Ready (left) and Fredrik Axsater

For years, the retirement industry has sought to provide participants in defined contribution retirement plans with investments aligned with their individual goals and tolerance for risk. Target-date funds advanced this cause in a meaningful way but are limited in scope to slotting vast numbers of participants into the same fund based only on their age or retirement date. Managed accounts are significantly more personalized but historically have cost more. To find out what employers can do to offer participants the personalized investments they increasingly want and expect, PLANSPONSOR spoke recently with executives at Wells Fargo, which developed one of the first target-date funds two decades ago. Industry veterans Joe Ready, head of Wells Fargo Institutional Retirement and Trust, and Fredrik Axsater, head of strategic business segments at Wells Fargo Asset Management, shared their insights.

PLANSPONSOR: **Personalizing investment options for large groups of retirement plan participants has always been considered important, albeit challenging. Why is it even more important today?**

JOE READY: Needs of plan participants can vary tremendously from one person to another depending on where they are in their retirement journey. Imagine two participants with dramatically different savings rates, different account balances, different risk tolerance, and varying outside assets. They may be the same age, but their asset allocation should be different. Additionally, participant expectations are always increasing, especially now as consumers have become accustomed to highly personalized experiences in the retail marketplace. They expect their retirement plan provider to not only know them on a more personal level but to grow with them and to continually offer them the next best steps they can take to help improve their retirement outcomes.

PS: **How can the retirement industry deliver that kind of personalization—knowing it has to be delivered across a wide range of investor needs and scale at a price plan sponsors and participants find compelling?**

FREDRIK AXSATER: Thanks to advances in technology, we now have the ability to provide more customized solutions to participants and give them a better chance of having the type of retirement they want. The key is to build on what we've learned from target date funds—that it is possible to make responsible, diversified investing broadly accessible, affordable, and easy to understand—while going beyond a one-size-fits-all approach. Today, we can use the participant data we already have to create a greater range of investment portfolios and glide paths tailored to individual participants. Importantly, technology allows us to do this with less engagement today than before and at a potentially lower cost.

PS: **Isn't that the idea behind managed accounts?**

READY: The concept is similar, to be sure. But what most managed account programs haven't been able to do is match the simplicity and low cost of target date funds, which helps to explain why they haven't become as popular.

PS: **How is Wells Fargo Institutional Retirement and Trust approaching this opportunity?**

READY: We've developed a more personalized managed account investment solution called Target My Retirement® that takes into account virtually everything we know about each individual plan participant, such as age, gender, current compensation, current savings rate, account balance, years to retirement, how they're investing within their plan, and what they can expect to earn from Social Security. We also give them a chance to tell us more about themselves, including how they're investing outside their plan. With all that data, we then match each participant to a customized asset allocation from a wide range of portfolios designed to help meet their unique needs. The portfolios use an asset allocation model and glide path aimed at helping the participant replace 80 percent of their current pay upon retirement. As the participant nears retirement or as changes are indicated through the recordkeeping system or directly by the participant, the glide path will rebalance. Importantly, this approach gives us the flexibility to create glide paths aimed at the year the individual wants to retire, not on a five-year increment. We've blended the easy convenience of target-date funds with the customization capabilities of managed accounts.

PS: **Does this qualify as a Qualified Default Investment Alternative (QDIA)? And what does it cost?**

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READY: Yes, it does qualify as a QDIA. We offer several different investment options at various price points. Our new factor-based version is available at a price of 24 basis points (managed account service and investment cost), which is competitive with the pricing of target date funds and very compelling relative to traditional managed accounts.

PS: Tell me more about the investment methodology in the factor-based version of your *Target My Retirement* solution.

AXSATER: We're always looking for ways to innovate and we're excited to leverage Wells Fargo Asset Management's factor-based investing expertise now within a *Target My Retirement* portfolio offered by Wells Fargo Institutional Retirement and Trust. Investment "factors" are a bit like the DNA of investment performance. Each "factor" is a primary characteristic of a stock or bond that helps to explain its performance over long periods of time, like the size of the company that issued the security, its price momentum, or, in the case of a bond, its term to maturity. Factor-based investing seeks to capitalize on decades of investment research into those characteristics, and then use that knowledge to better control risk.

PS: So this is an active investment strategy?

AXSATER: Think of it as a blend. We employ indexing, but rather than tracking traditional, market-capitalization weighted indexes, we use proprietary indexes for those asset classes that lend themselves to factor investing, especially in the equity markets. Simply put, we seek to deliver better returns and lower risk by targeting stocks with characteristics that tend to outperform market cap weighted benchmarks, and avoiding stocks with characteristics that tend to underperform the benchmarks. This incorporates the known benefits of passive management, such as high transparency, low turnover, and low fees, but also provides the potential for improved risk-adjusted returns.

PS: How does this impact participants?

AXSATER: Factors won't work every week, month, or quarter, but the longer the investment horizon, the higher the probability of better results. Additionally, when you couple the long time horizon with participants' consistent contributions, and their behavioral tendency to buy and hold, which is particularly true with a QDIA, one could argue that there isn't an investor base better suited for factor-based investing than defined contribution plan participants.

PS: We've heard you talk elsewhere about how the retirement journey doesn't start and stop with a participant's working years, when they're accumulating retirement assets, but also includes the years when they're converting assets into income. Are you doing anything to try to help plan participants after they retire?

READY: We help retired participants every day; and currently we're working on holistic solutions for participants all the way through retirement—helping them figure out how much they can draw down, how long their money will last, what age to retire, when to take Social Security, and how to plan for taxes efficiently. We're exploring ways that we can help employees achieve the life they want to live in retirement. ■

INVESTMENTS IN RETIREMENT PLANS: **NOT FDIC-Insured/NO Bank Guarantee/MAY Lose Value**

Target date funds are mutual funds that periodically rebalance or modify the asset mix (stocks, bonds, and cash alternatives) of the fund's portfolio and change the underlying fund investments with an increased emphasis on income and conservation of capital as they approach the target date. Different funds will have varying degrees of exposure to equities as they approach and pass the target date. As such, the fund's objectives and investment strategies may change over time. The target date is the approximate date when investors plan to start withdrawing their money, such as retirement. The principal value of the funds is not guaranteed at any time, including at the target date. More complete information can be found in the prospectus for the fund.

Mutual Funds are subject to risks. Investment returns may fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost.

Target My Retirement is a managed account product and is subject to the same risks as the underlying asset class. The principal value of the account is not guaranteed. Investment return and principal value will fluctuate with market conditions, and participants may lose money. Please carefully review the disclosure document for a full description of services, including fees and expenses.

Target My Retirement has been designed to be able to meet the requirements for a managed account "qualified default investment alternative" under DOL regulations. Note that plan specific requirements also apply. Wells Fargo Institutional Retirement and Trust is not a legal advisor. Plan sponsors should consult their legal advisors for more information.

Wells Fargo Institutional Retirement and Trust charges each participant who enrolls in the *Target My Retirement* investment solution an asset based management fee based on the participant's assets under management through the *Target My Retirement* solution. The asset based fee varies depending on the version of the *Target My Retirement* solution selected by the Institutional Retirement and Trust client. In addition to the asset based management fee, assets invested through the *Target My Retirement* solution are subject to fees and expenses charged by the underlying investment alternatives. Depending on the version of the *Target My Retirement* solution selected by the Institutional Retirement and Trust client, the underlying investment alternatives may include mutual funds or collective investment funds for which Wells Fargo Institutional Retirement and Trust or its affiliates may receive additional compensation. Please refer to the product disclosure document for fee information specific to your plan.

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