

QUALIFIED PLAN ADVOCATE NEWSLETTER

May: Pandemic Further Highlights the Need for Investment Education

Last month, Morningstar released an [article](#) that drew a lot of attention. Titled "Near-Retirement Target-Date Investors Show Signs of Stress", it would be tempting to assume the article was an indictment of target date funds. As we dig deeper, though, we see that the data proves a broader point: retirement plan investors need more education.

Summary of the Article. Morningstar looked closely at target date fund investor behavior during the wild month of March. It found that investors within 15 years of retirement pulled more than \$9 billion from their target date fund investments. It also found that the outflows from the 2020 target date funds in the first quarter of 2020 greatly outpaced the rate at which money flowed out of the 2015 target date funds five years ago. Yet on the positive end of the spectrum, the article reflects that participants in the 2040 through 2060 vintages provided for positive net inflows to those funds.

Knocking Down the Strawman. As referenced above, one could argue that this behavior reflects poorly on the broader notion of a target date fund. However, Morningstar representatives have also [pointed out](#) that target date funds held up better in 2020 than in the financial crisis of 2008 and 2009. They also observed that more target date funds performed in line with expectations. With target date funds serving as the Qualified Default Investment Alternative for so many plans, they likely deserve more - not less - attention and scrutiny than other plan investment options. But the recent participant behavior reminds us that plan fiduciaries are well-served to focus on investor performance, not merely the raw performance of a chosen investment option

Where Do We Go From Here? How valuable are an object's features if we aren't aware of them? Should we pay for a watch's waterproof feature if we take it off before jumping in the pool out of fear? In buying a new vehicle you may have the option of smart cruise control. Is that worth paying for if you don't understand it and won't use it? Should your organization pay for a cafeteria plan or EAP administration if your employees aren't able to understand or appreciate the value of those programs?

When it comes to a retirement plan's investment options, participants simply need more education in order to take advantage of the options' respective features. Many industry providers work from the wrong perspective of assuming that participants cannot make good decisions. Chairman Scott Colangelo has always disagreed with that cynicism; our experience with employees tells us that they make sound, informed decisions when armed with information.



As we continue to work through the COVID-19 pandemic, we will all be well-served to keep that in mind. If, for example, we desire participants to experience the glide path implemented by the target date fund manager, we need to ensure they are armed with information. The Morningstar study shows us that the failure to do so likely harmed many American workers at the worst time in their careers - close to the time they intended to retire, likely with heavy reliance on their retirement plan savings and without time to overcome the negative impact of their recent decisions.



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