

The Meaning of Risk: Lessons from Target Date Fund Performance in 2008

It's no secret that target date fund performance in 2008 was a disappointment. In particular 2010 funds lost more than 20% on average. But averages don't tell the whole story. The reality is that target date fund allocations to equities are all over the map, so there was a wide range of 2010 fund performance in 2008.

The following table shows the details and places performance into perspective by showing how our indexes place in the list. Target Date Analytics (TDA) has developed a family of indexes to benchmark the target date fund industry. Our signature series is the PLANSPONOR On-Target Defensive Series. The Defensive series is the standard that we hold forth as the way target date funds should be managed. But we recognize that target date funds are far from this standard, at least so far. So we've introduced contaminated indexes that are in line with current industry practices.

The key differentiator among our four index series is risk. The Defensive series tracks the risk we believe is appropriate through time to achieve the objectives we have set forth. We believe the objectives for all target date funds should be to preserve the purchasing power of contributions with a high probability and to grow asset value to the extent that it does not compromise the preservation objective.

Our other three series have no objectives. They're just place holders in the risk spectrum of target date funds. In order of increasing risk, these "contaminated" indexes are labeled Conservative, Moderate, and Aggressive. The following table provides a sense of the degree of contamination in risk controls that is revealed by individual 2010 target date performance in 2008. Find your favorite fund provider and you'll have a quick and important risk score. Very revealing.

2010 Target Date Funds & PLANSPONSOR On Target Indexes

Performance in 2008

On Target 2010 Defensive		-4.68
TDX Independence 2010	TDD	-8.52
NestEgg DJ 2010 I	NECSX	-9.11
WF Adv DJ Tgt 2010 I	WFOAX	-10.75
On Target 2010 Conservative		-13.05
MFS Lifetime 2010 I	MFSIX	-14.05
Barclays Gbl Inv LP2010 I	STLBX	-17.00
State Farm LifePath2010 I	SATIX	-17.22
VantagepointMilestone2010	VPROX	-17.34
AIM Independence 2010 Ins	INJIX	-18.82
Vanguard Target Rtmt 2010	VTENX	-20.67
On Target 2010 Moderate		-20.89
JPMorgan SmtRet 2010 I	JSWIX	-21.16
Russell LfPt 2010 StratS	RJLSX	-21.46
MainStay Ret 2010 I	MYRIX	-21.79
Nationwide Dstntn 2010 I	NWDIX	-23.32
TIAA-CREF Lfcle 2010	TCLEX	-23.57
Schwab Target 2010	SWBRX	-23.69
MassMutual SelDesRet2010S	MRXSX	-24.76
BlackRock LC Prep 2010 In	BIPAX	-24.94
Fidelity Freedom 2010	FFFCX	-25.32
Putnam Retire Rdy 2010 Y	PRRGX	-25.99
Payden/Wlshr Lngvty 2010+	PWLFX	-26.52
T. Rowe Price Rtmt 2010	TRRAX	-26.72
Banc of America 2010 Z	BFBZX	-27.18
RiverSource Rtr Pls 2010Y	RSSPX	-27.18
Amer Funds TrDtRt 2010 R5	REATX	-27.29
Hartford Targt Rt 2010 Y	HTTYX	-27.57
On Target 2010 Aggressive		-29.06
JHancock2 Lfcycle 2010 R5	JLAHX	-29.58
Principal L/T 2010 I	PTTIX	-30.27
Gldmn Schs Ret Str 2010Intl	GRCIX	-30.38
AllianceBer 2010 Ret St I	LTDIX	-32.70
Oppenheimer Tran 2010 Y	OTTYX	-41.22

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