Pensions&Investments East Coast
Defined Contribution Conference
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Target Date Funds

Moderator:
Roger S. Williams, Senior Vice President, Segal Rogerscasey

Speakers:
Dan Dismukes, Corporate Retirement Department Manager, UPS
Frank van Etten, Deputy Chief Investment Officer, Multi-Asset Strategies & Solutions, Voya Investment Management
Stephen Bozeman, Product Strategy, BlackRock Retirement Group
Srinivas D. Reddy, Senior VP, Head of Full Service Investments, Prudential Retirement

Target Date Funds

1. UPS: How have they structured their Target Date Fund programs?
2. Voya: Designing Target Date Funds with a holistic approach
3. BlackRock: Regulatory update on guaranteed income products
4. Prudential: Life Time Income Guarantees, the next step in building a successful plan

Audience Poll

Ten years from now, will defined contribution plans have a greater focus on retired participants?

1.) Yes

2.) No

Audience Poll

Ten years from now, what will be the primary retirement income solution? What will retired participants use most?

1.) Target Date Fund – without guarantees

2.) Managed account – without guarantees

3.) Target date fund with some kind of guaranteed income product

4.) Immediate annuity

UPS

- History of target-date funds at UPS

- Why we work with a number of different target-date fund providers

- How do we know the target-date fund is accomplishing its goals?

History of target-date funds at UPS

- UPS first established custom target-date funds in 1995
- Moved from custom funds to off-the-shelf funds in 2007
- Target-date funds serve as QDIA's on all UPS defined contribution plans
- Review all target-date funds (fees, investments and glide path) on an annual basis

UPS Defined Contribution Plans

UPS sponsors a number of defined contribution plans, both union and union-free, with assets of **$18.5** billion.

	Eligible Employees	Assets (in millions)	Target Date Fund Investment Manager	Target Date Fund Contribution %	Target Date Fund Asset %
UPS 401(k) Savings Plan	81,395	$7,001	SSgA	27%	13%
Teamster-UPS National 401(k) Tax Deferred Savings Plan	132,383	$8,847	BNY Mellon	20%	11%
UPS/IPA 401(k)	2,530	$2,033	T. Rowe Price	7%	5%
UPS/IBT Mechanics 401(k) Plan	1,244	$564	Fidelity	34%	26%

Glide Path Design Overview

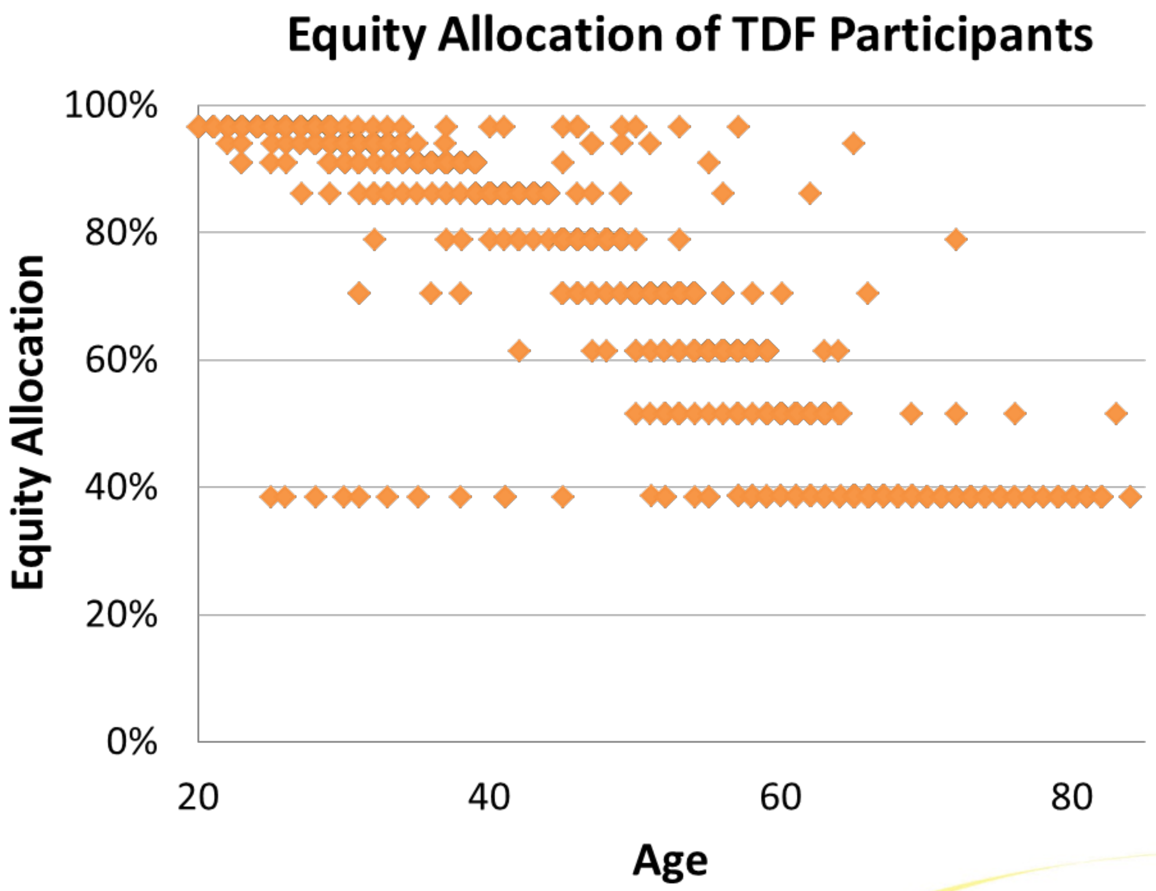
- Voya (recordkeeper for UPS 401(k) Savings Plan) analyzed UPS' plan and plan participant information
- Voya incorporated that information to model the optimal glide path range for UPS

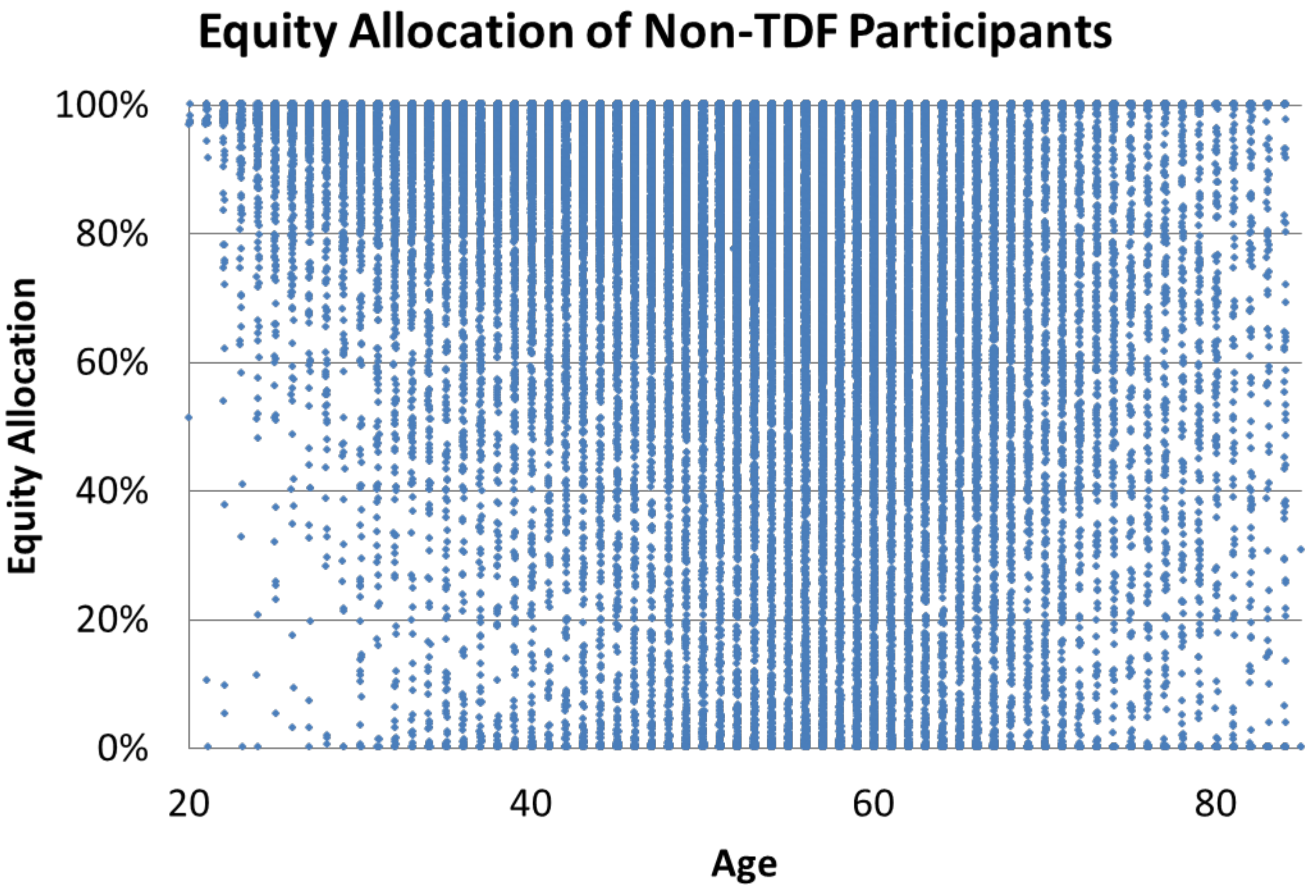
The Two Sides of a Successful Retirement Program

Retirement Program

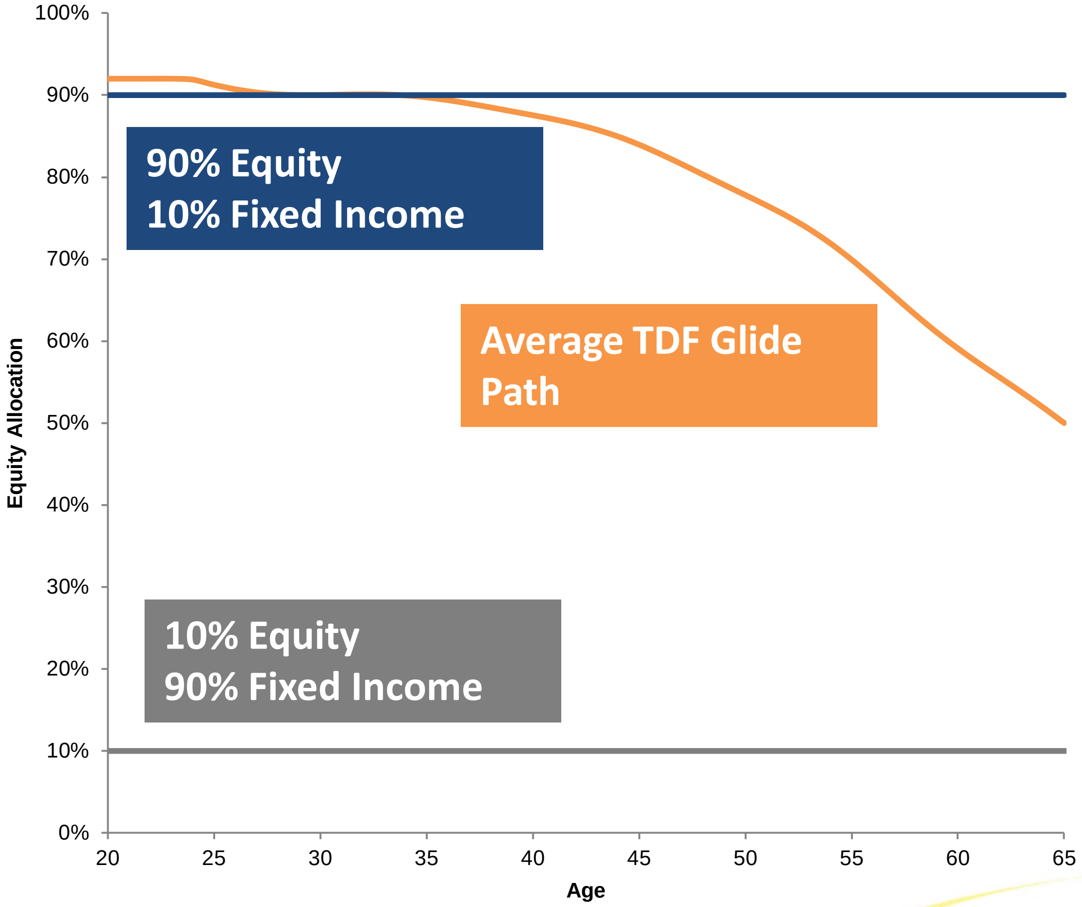
Investment Strategy	Participant Behavior
▪ Glide Path ▪ Asset Allocation ▪ Underlying Managers ▪ Product Vehicles / Fees	▪ Savings Level ▪ Years of Savings ▪ Withdrawal / Loans ▪ Retirement Withdrawal

TDF Users' Overall Portfolios Look Differently





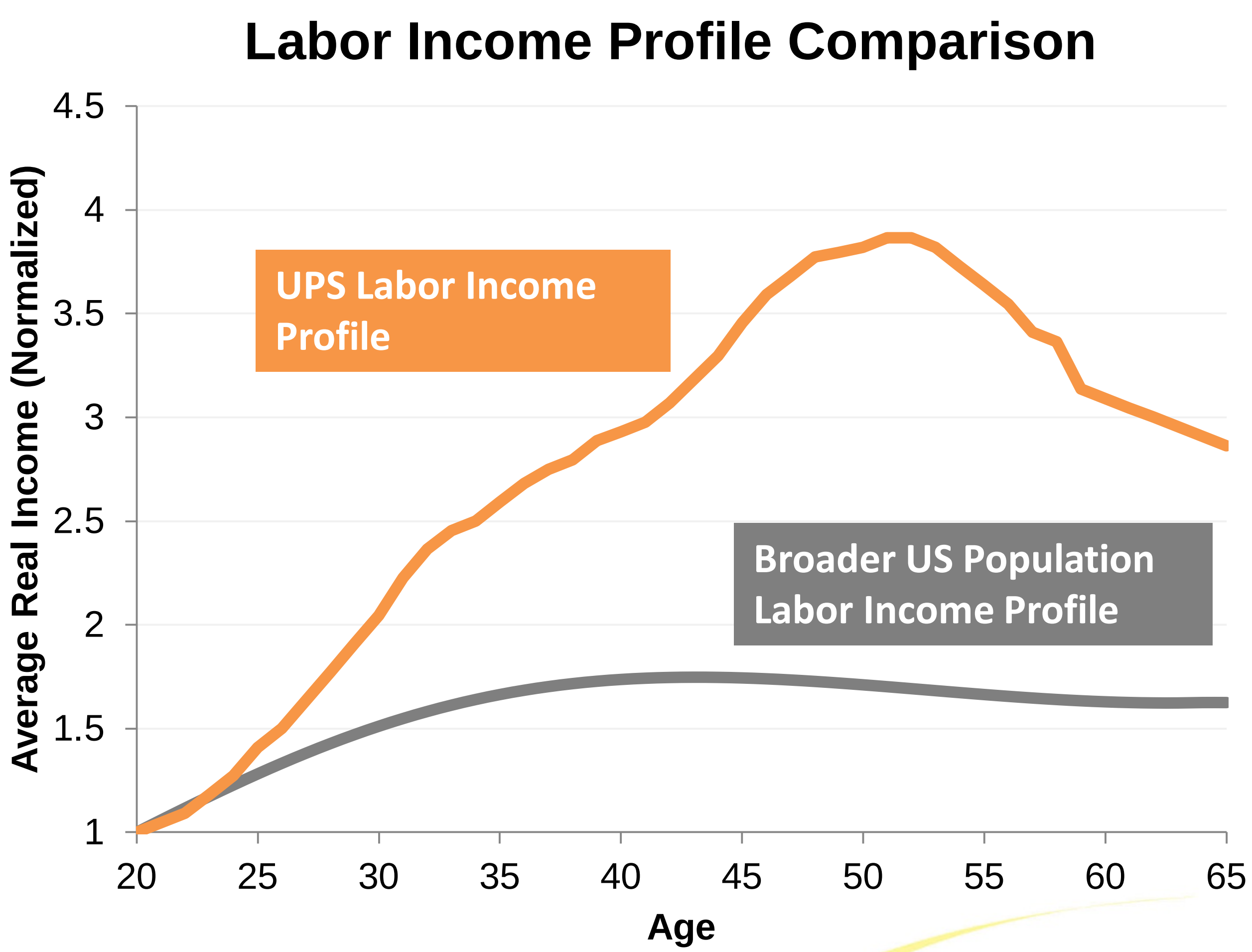
Choice of Investment Strategy Matters

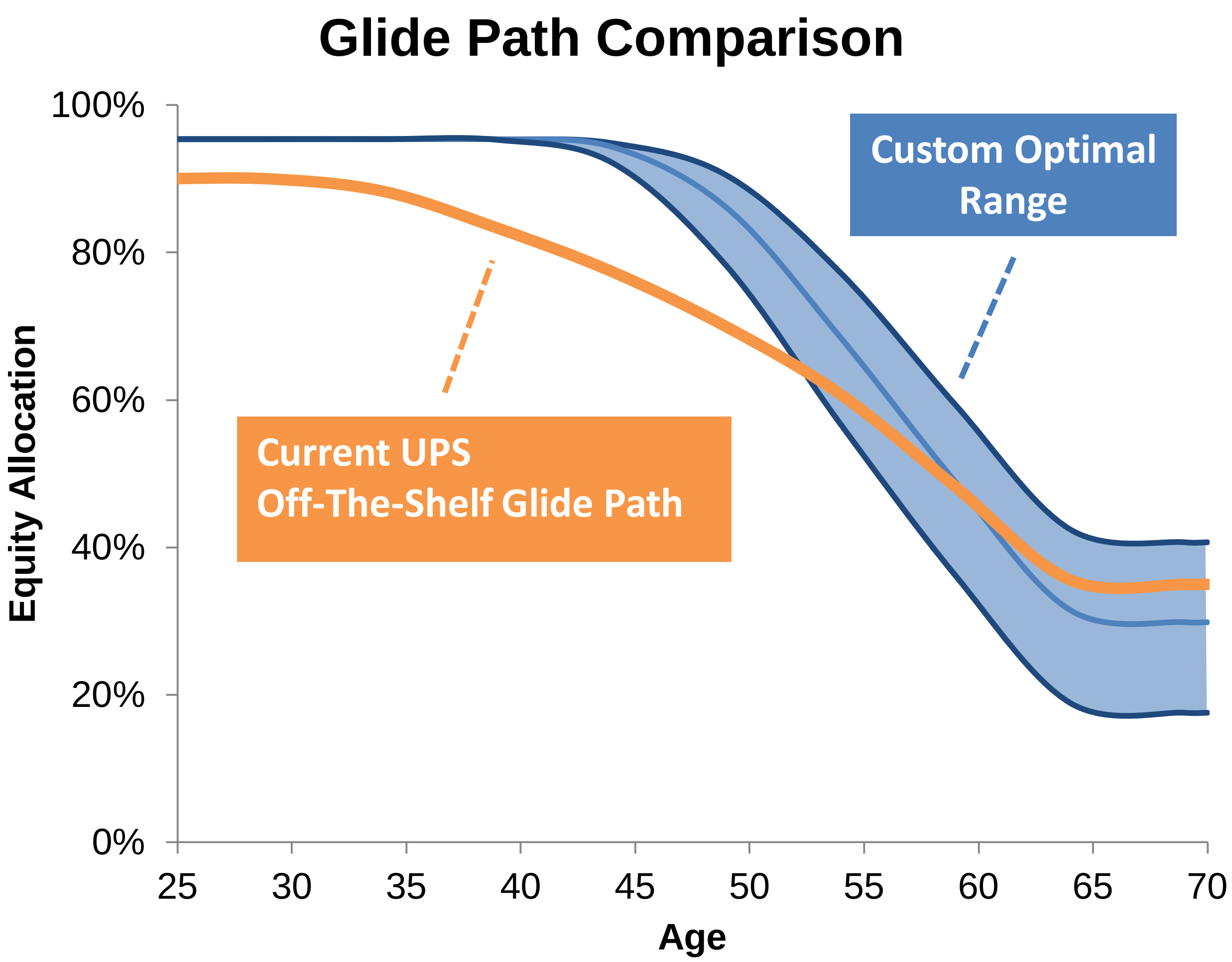


Allocation	Expected Income Replacement Ratio At Retirement (Median)	Bad Case Scenario *
90% Equity 10% Fixed Income	67%	-33%
TDF Glide Path	63%	-14%
10% Equity 90% Fixed Income	44%	-2%

*** As measured by the contribution to Income Replacement Ratio of the average of the worst 5% outcomes within the 5 years prior to retirement**

Labor Income Profile Drives Glide Path Design





Assessing Impact of Savings Rate

- Savings rates may be the most impactful driver of retirement success
- The most common 401(k) employee contribution rate is in the 6% range*
- The Plan Sponsor can influence the savings rate through education, auto-features, match-incentives, etc…

Total Contribution Rate	Expected Income Replacement Outcome at Retirement (Median)
12%	84%
9%	63%
6%	42%

* WorldatWork and American Benefits Institute "Trends in 401(k) Plans," 2013

Treasury Notice 2014-66 (Lifetime Income in TDFs)

Special rule providing relief from Internal Revenue Code discrimination concerns raised by embedding an annuity in a target-date fund.

- Issue raised by product structures and insurance company underwriting requirements that participants invest in their "age-appropriate" fund.
- Under the notice, this requirement will not be an obstacle to including an annuity in a target-date fund (if certain conditions are satisfied)

Eliminates one challenge to, and helps foster increased adoption of, annuities and income products in target-date funds.

DOL Guidance

Annuity Selection Safe Harbor

- Existing DOL safe harbor for purchasing annuities applies to annuities included in a target-date fund
- Third-party investment managers may satisfy the conditions of safe harbor on behalf of the plan

Qualified Default Investment Alternative (QDIA)

- Target-date funds that include an annuity can satisfy the DOL's requirements to be a qualified default investment alternative

DOL guidance provides positive reinforcement and support for providing an annuity or income benefit in retirement through a defined contribution plan.

Advances in Target-Date Product Development

Plan sponsors and recordkeepers face additional issues when evaluating target-date funds holding annuities, including:

- recordkeeping and reporting related to the annuity component
- portability of target-date funds across recordkeeping platforms
- liquidity (participants' ability to move in and out of the target-date funds)

Target-date fund providers have been focused on solving for these issues with advances in product development.

Income-Aware Target-Date Strategies

An "income-aware" target-date strategy could include a component that would seek to track the future cost of annuity income.

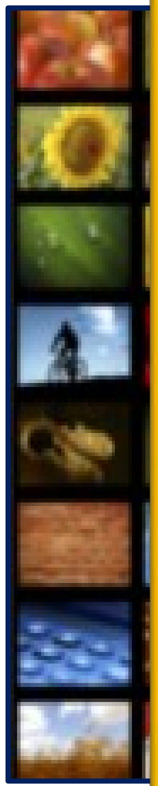
- The income-aware component would be **comprised of fixed income securities**.
- The target-date strategy would be **liquid** (*i.e., participants could redeem and purchase shares without restriction*).
- The target-date strategy would **not require special recordkeeping or reporting**.
- The target-date strategy would be **portable** across recordkeeping platforms.

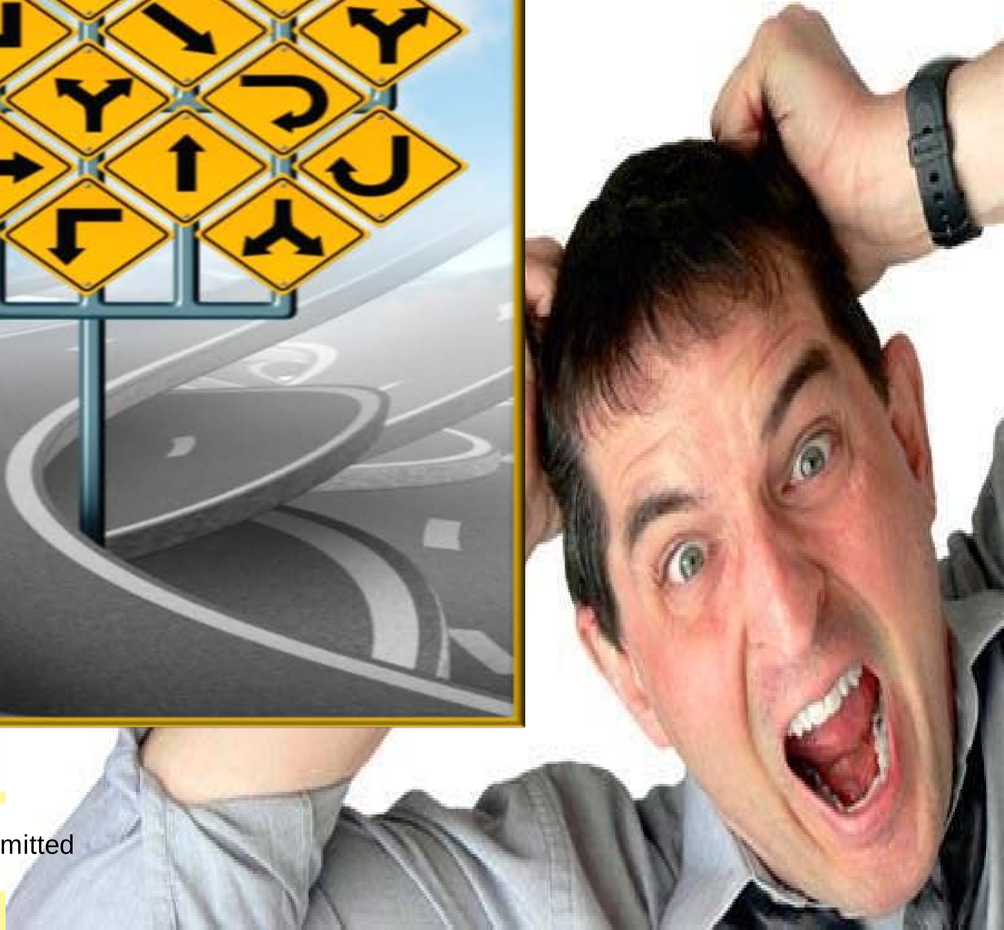
Income-aware target-date strategies discussed are hypothetical and conceptual at this time.

Diagnosis: Complexity

Is there a pill for that?

But I want it





Simplification is NOT taking away choice.

Good news: We can fix this!

Rx

Patient's Name: Iam Notsoconfident

Diagnosis: Complexity

Remedy as follows: Simplification

- ☑ Smarter Investment Choices
- ☑ Less Reliance on the Individual

ABSOLUTELY NO SUBSTITUTIONS

What is a Guaranteed Income Solution?

In-Plan guaranteed retirement income solutions can make participants feel more prepared for retirement and produce better retirement outcomes.[1]

- **Guaranteed lifetime income***
- **Sustained potential for growth**
- **Downside market protection for retirement income**
- **Complete access to their market value****

[1]Prudential Retirement, 2012, *Better Participant Outcomes Through In-Plan Guaranteed Retirement Income.*
*Guarantees are based on the claims-paying ability of the insurance company and are subject to certain limitations, terms, and conditions.
**Withdrawals or transfers (other than transfers between IncomeFlex Target Funds) proportionately reduce guaranteed values prior to locking in. After Lock-in withdrawals in excess of the Lifetime Annual Withdrawal Amount will reduce future guaranteed withdrawals proportionately.

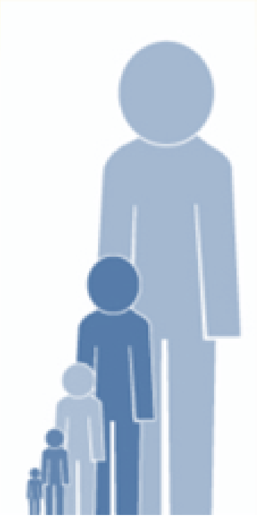
Diagnosis + Remedy = RESULTS.

Plan Design Matters

"Plans offering auto-escalation for five or more years had average deferral rates that were 21% higher than plans without auto-escalation."

- "Overcoming Participant Inertia," Prudential Retirement, 2013

Participation Rates Increase



Plan participation grows by 34% in plans with automatic enrollment and a default Investment with a guaranteed lifetime withdrawal benefit

- Total Retirement Solutions Book of Business Analysis, 2014

Contribution Rates Increase

Contribution rates rise by 7.7% in plans featuring a default investment with a guaranteed lifetime withdrawal benefit

- Total Retirement Solutions Book of Business Analysis, 2014

Reduction in Non-Diversified Investors

Results in a 67% reduction in non-diversified investors (invested 100% in either equity or fixed income)

- Total Retirement Solutions Book of Business Analysis, 2014