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While plan sponsors and participants have been quick to adopt target-date funds, the inherent risks of this approach have become apparent during the recent financial turmoil. Plan providers can mitigate these risks by combining target-date funds with income guarantees.

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Introduction

The most difficult financial environment in decades is threatening the retirement plans of millions of Americans, especially those who must rely primarily on assets in defined contribution (DC) accounts to fund their retirement. The economic crisis has led to sharp declines in DC account balances. As a result, many near-retirees are postponing retirement, or facing the prospect of a lowered standard of living during retirement.

The Pension Protection Act of 2006 (PPA) took important steps toward strengthening DC plans. The PPA helps plan participants invest earlier and more appropriately by encouraging automatic enrollment into DC plans and

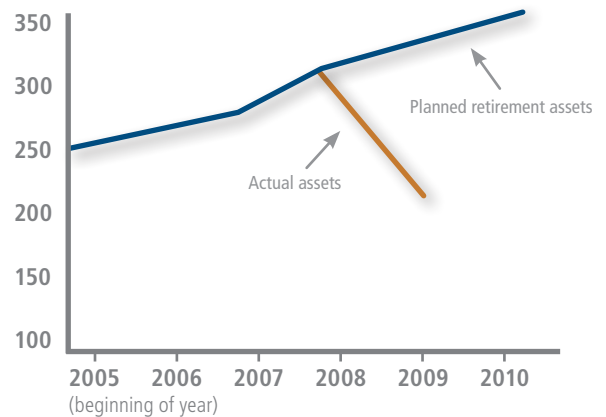
supporting sponsor-chosen default investment options such as target-date funds. However, plan participants remain vulnerable to critical risks that threaten their ability to retire when planned, and with the desired level of retirement income. That vulnerability was demonstrated in dramatic fashion during 2008, when even target-date funds designed for participants retiring as soon as 2010 lost as much as 41% of their value.¹ It is clear that a critical component needed for a secure retirement is still missing from today's DC plans. The challenges faced by today's pre-retirees are illustrated in the case of a hypothetical pre-retiree, David Smith, in **Exhibit 1**:

Exhibit 1: Case Study of a Hypothetical Retiree

David Smith's retirement plan

- Single DC plan participant who is 64 as of January 1, 2009
- Accumulated \$300,000 in savings in DC account as of January 1, 2008; savings are invested in a target-date fund
- Planning to retire January 1, 2010, with close to \$340,000 in retirement assets
- \$340,000 in assets would provide an annual income of \$17,000, assuming a 5% withdrawal rate
- David's Social Security benefits will be \$23,000 a year, providing David a total pre-tax retirement income of \$40,000

David Smith's actual and planned DC assets (\$ thousands)



What actually happened and what are the implications?

- David's retirement assets lost a third of their value in 2008, falling to \$200,000.
- If markets do not recover, David's retirement income from his assets will be \$10,000, assuming he withdraws 5% a year from his \$200,000 in retirement assets.
- Including Social Security, David's projected retirement income has been reduced to \$33,000, nearly 20% less than what he had planned.

¹ "Ibbotson Target Maturity Report: Fourth Quarter 2008," Ibbotson Associates, 2009, page 5.



David had been doing all the right things to prepare for retirement. He saved diligently in his employer-provided DC plan, and invested his assets in a target-date fund designed for individuals retiring in 2010. However, the market downturn in 2008 threw his retirement plans into disarray by reducing his DC assets by one-third. Now, just one year from retirement, David faces an agonizing set of decisions. Should he postpone his planned retirement to accumulate more assets? Should he retire in 2010 as he had hoped, but plan on living within a tight budget? Should he leave his assets in the target-date fund to benefit from any market rebound, or shift his assets into a safer vehicle to avoid any further losses?

These are the types of difficult decisions that pre-retirees like David are grappling with every day. Retirees invested in target-date funds are facing similar difficulties as they wrestle with whether or not to reduce spending, change their investment strategy, or try to return to work. The growing adoption of target-date funds across DC plans means that future pre-retirees and retirees may face similar challenges unless these products are strengthened.

Target-date funds have grown rapidly since their introduction in the early 1990s. Total assets exceeded \$200 billion in 2008, and projections made before the market downturn forecast that assets would surpass \$1 trillion by 2013.² There are good reasons for this growth. Target-date funds offer investors diversification with the convenience of “one-stop shopping,” automatic rebalancing, and access to some degree of customized risk management. They represent a “point-and-click” solution incorporating many of the best practices in long-term investing.

The benefits of target-date funds have led to their widespread adoption as the default investment option in DC plans. However, target-date funds do not go far enough. A secure retirement requires more than just a well-diversified investment portfolio. DC plan participants need to generate lifetime retirement income and protect that future income stream, regardless of what is taking place in the financial markets.

Ensuring retirement security for DC participants will require the implementation of target-date funds that:

- Protect future retirement income from sharp market downturns in the years immediately preceding retirement, even if the assets invested in the target-date fund decline sharply in value.
- Guarantee a base level of retirement income, regardless of broader market performance, for as long as the participant lives.
- Provide participants with the opportunity to increase their retirement income to protect against the potential erosion of purchasing power due to inflation.

Target-date funds that are enhanced with income guarantees could deliver the required solution. Such a solution would complement the risk protection solutions, such as stable value products, that many DC plan sponsors have already adopted. Stable value products protect participants from any loss of principal and provide a guaranteed rate of return. These products have been effective, and protected participants during the market downturn in 2008. Adopting target-date funds that are combined with income guarantees will enable sponsors to expand the range of risk protection alternatives available to plan participants.

This paper describes how the evolution of the DC plan led to the rapid adoption of target-date funds, the key risks plan participants still face when preparing for retirement using a target-date fund, and how income guarantees can be combined with target-date funds to enhance retirement security.

The Pension Protection Act of 2006 improved defined contribution plans by encouraging automatic enrollment and the use of default investments such as target-date funds. However, target-date funds must be strengthened with an income guarantee to provide true retirement security for participants.

² “Cerulli Quantitative Update: Retirement Markets 2008,” Cerulli Associates, 2008, page 17.

The Emergence of Defined Contribution Plans and Target-Date Funds

The roots of the modern DC plan trace back to 1981 when Congress redefined regulations covering these plans under section 401(k) of the tax code. For the first time, companies were allowed to contribute a portion of an employee's regular wages and income to a DC account in the form of salary deferrals. DC plan participants could decide how to invest these retirement assets, access their assets before retirement by paying taxes and penalties, and draw on their assets during retirement as they chose. In contrast, employers that sponsor traditional defined benefit (DB) plans invest these plans' assets on behalf of participants, and only provide access to these assets at the time of retirement, usually in the form of a guaranteed paycheck for life. Private DC plans grew rapidly, and by 1992, skyrocketed to \$900 billion in assets and more than 42 million participants, surpassing for the first time the number of participants covered by DB plans.³

However, two major problems with DC plans became apparent by the late 1990s: insufficient savings, and poor investment decisions by participants. By 2000, the average 401(k) account balance for participants in their 60s was just over \$115,000,⁴ insufficient to generate

significant retirement income. By 2006, participation in DC plans in private industry was only 43%, reflecting the fact that 54% of private industry workers had access to DC plans, and 79% of those workers participated in their plans.⁵ In addition, the investment performance of DC plans lagged that of DB plans by at least 100 basis points a year after considering fees.⁶ Participants rarely diversified their investments across multiple asset classes, and generally did not rebalance their assets on a periodic basis.

These issues helped lead to the passage of the PPA in 2006. The PPA provided safe harbors for DC plan sponsors to automatically enroll participants, to invest participants' assets into qualified default investment alternatives (QDIAs), and to escalate participants' contributions over time. The PPA designated three types of QDIAs: lifecycle or target-date funds, balanced funds, and managed accounts.

Many sponsors were eager to embrace auto enrollment to increase low participation rates that had persisted despite major investments in participant education and advice. The next question that arose for sponsors was which investment vehicle to use as the QDIA.

Target-date funds have become the dominant default investment option, but still leave participants facing major risks.

Debuting in the early 1990s, target-date funds are characterized by four key features:

- Each fund is "targeted" to meet the needs of individuals planning to retire in a specific year.
- Investments are diversified across a mix of asset classes, usually equities and fixed income.
- The fund automatically rebalances periodically to maintain its target asset allocation.
- The asset allocation of the fund evolves along a "glide path" as the target retirement date approaches, generally becoming more conservative through an increased weighting of fixed income securities. The glide path varies significantly across target-date funds.

³ Department of Labor, "Private Pension Plan Bulletin, Historical Tables," Tables E5 and E11, 2008.

⁴ For those who had accounts in 1999 and 2000. "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2000," Employee Benefit Research Institute, November 2001.

⁵ "Access, Participation, and Take-up Rates in Defined Contribution Retirement Plans among Workers in Private Industry, 2006," Bureau of Labor Statistics, December 27, 2006.

⁶ "Defined Benefit vs. 401(k) Plans: Investment Returns for 2003-2006," Watson-Wyatt Insider, June 2008.



Target-date funds have had great appeal, driving growth that led to \$114 billion in assets by 2006.⁷ Growth accelerated rapidly following the passage of the PPA, with assets briefly approaching \$250 billion during 2008;⁸ forecasts made before the recent market downturn predicted that assets would exceed \$1 trillion by 2013.⁹ DC plans are a key factor behind that growth; of the plans that have elected to use QDIAs, more than 80% are using target-date funds as the QDIA.¹⁰ The appeal of target-date funds to plan sponsors is their ease of use; participants are easily defaulted into an appropriate target-date fund based on age and assumed year of retirement.

However, target-date funds have not been immune to recent market turmoil. Target-date funds designed for individuals retiring as soon as 2010 lost an average of 23% of their value in 2008.¹¹ As a result, target-date fund managers, sponsors, and consultants are evaluating refinements to today's target-date funds.

One of the areas being examined is the glide path, which has a significant impact on returns. For example, our research has shown that 2010 funds with more aggressive equity exposure have lost up to 41% of their value in 2008.¹¹ Proponents of a less conservative glide path maintain that a significant equity allocation is required to provide income growth in retirement; their more conservative counterparts maintain that preservation of principal in the years immediately before

and during retirement is critical. While it is unclear how this debate will be resolved in the near future, the choice of glide path is likely to rest with the plan sponsor, who will have to pick a target-date fund with a glide path that represents the sponsor's investment philosophy and risk orientation.

The evolution of target-date funds is well underway. However, despite potential enhancements, target-date funds will still leave participants facing three major risks to enjoying a secure retirement:

- **Bear Market Risk:** the risk of significant loss of future retirement income because of sharp declines in asset values in the years immediately preceding retirement.
- **Zero Balance Risk:** the risk of running out of money after retiring because of a string of poor market returns or outliving one's assets.
- **Purchasing Power Risk:** the risk of retirement income not growing rapidly enough to keep pace with inflation during retirement.

These challenges are not addressed by today's target-date funds. Furthermore, refining the glide path of today's target-date funds will not fully eliminate these risks. Each of these challenges bears a closer look, along with an exploration of how target-date funds can be enhanced to meet them.

⁷ "Cerulli Quantitative Update: Retirement Markets 2008," Cerulli Associates, 2008, page 82.

⁸ Bare, Rod, "Benchmarking Target-Date Funds," Morningstar, November 2008.

⁹ "Cerulli Quantitative Update: Retirement Markets 2008," Cerulli Associates, 2008, page 17.

¹⁰ "Improving Plan Diversification Through Reenrollment in a QDIA," Vanguard Strategic Retirement Consulting, September 2008.

¹¹ "Ibbotson Target Maturity Report: Fourth Quarter 2008," Ibbotson Associates, 2009, page 5.

Exhibit 2 maps key risks facing retirees, and the requirements for a stronger solution to address these risks.

Exhibit 2: Proposed Enhancements to Target-Date Funds to Address Key Risks

Risk	Proposed Solution
Bear Market Risk	<ol style="list-style-type: none"> 1. Enable participants to lock in a guaranteed future level of lifetime retirement income based on assets accumulated several years before retirement 2. Provide growth in the guaranteed level of income based on market appreciation before retirement
Zero Balance Risk	<ol style="list-style-type: none"> 3. Provide a stream of guaranteed income during retirement regardless of how the markets perform or how long the participant or his or her spouse lives
Purchasing Power Risk	<ol style="list-style-type: none"> 4. Provide potential growth in the guaranteed level of income based on market performance after retirement

Bear Market Risk

There have been multiple periods over the last 80 years when a typical target-date fund allocation of 60% stocks and 40% bonds¹² has declined over a five-year period; a period of time that could be considered the final stage of an individual's investing horizon before retirement. In fact, since 1928, there was an 8% chance that this situation would have occurred.¹³ Markets have appreciated over the long term, but the gains can be interspersed with lengthy periods of poor returns. Unfortunately, an individual bears the risk of retiring during one of these periods of poor returns.

This risk has been highlighted by the recent performance of target-date funds. Individuals invested in target-date funds designed for retirement in 2010 lost as much 41% of their assets in 2008.¹⁴ This happened despite the fact

that these funds were designed for those who were planning to begin drawing on their assets in the near future. As a result, many near-retirees may have to postpone their retirement or lower their standard of living in retirement.

A stronger solution to enhance retirement security must address the risk of poor market conditions in the vulnerable years leading up to retirement. Retirement savers simply cannot afford substantial asset losses during this period, because such losses mean retiring with lower assets, and therefore lower income, than they had planned. Therefore, the first requirement that a stronger solution must meet is to:

1. Enable participants to lock in a guaranteed future level of lifetime retirement income based on assets accumulated several years before retirement.

¹² Utilizes the average of the glide paths of target-date funds of AllianceBernstein, Fidelity, Vanguard, and T. Rowe Price in 2007 as created by Ernst & Young for "Retirement Income: The Value of Guarantees," Prudential, 2008.

¹³ Prudential calculations.

¹⁴ "Ibbotson Target Maturity Report: Fourth Quarter 2008," Ibbotson Associates, 2009, page 5.



Although pre-retirees cannot afford substantial investment losses, they may also forgo potential increases in their retirement income if they adopt a very conservative asset allocation strategy. Plan participants will see substantial improvement in their future retirement income if they are able to benefit from potential increases in the equity markets in the years leading up to retirement. Therefore, the second requirement for a stronger solution is to:

2. Provide growth in the guaranteed level of income based on market appreciation before retirement.

Zero Balance Risk

Retirees have the difficult task of making their retirement assets last as long as they live. If markets fall sharply during retirement, retirees do not have the benefit of a long time horizon to benefit from eventual market recoveries. Moreover, their need to make withdrawals to generate income effectively locks in any market losses on withdrawn funds. Longevity also affects the risk that an individual will run out of money during retirement. For example, there is a 58% chance that one member of a married couple who are both healthy at age 65 will live to age 90, and a 30% chance that one will live to age 95.¹⁵

Imagine a retiree living through today's market conditions. Such a retiree would have experienced a dramatic drop in his or her retirement assets, and be left fearful of running out of money if markets deteriorate further. The retiree faces a difficult set of decisions. Should the retiree reduce withdrawals to protect his or her assets, but suffer a lower standard of living? Should the retiree shift his or her assets to safer investments, but miss the chance of benefiting from an eventual rebound in the markets?

These are unattractive choices that no retiree would want to make. Therefore, a stronger solution must:

3. Provide a stream of guaranteed income during retirement regardless of how the markets perform or how long the participant or his or her spouse lives.

Purchasing Power Risk

As retirees live longer, inflation is a serious risk that must be addressed in retirement planning. The Bureau of Labor and Statistics tracks a consumer price index for the elderly (CPI-E). Since 1982, the CPI-E increased by an average of 3.3% annually,¹⁶ higher than the 3% annual increase over the same period as measured by the CPI-W, which is used to calculate annual increases in Social Security benefits.¹⁷

Due to the compounding effects of inflation, retirees who live longer are especially vulnerable to inflation risk. Equities may help provide income growth during retirement. However, a high allocation to equities can expose retirement income to market risk, which is why many target-date funds rely on a glide path that increases the allocation to fixed-income securities in the later years. The resulting Catch-22 pits the risk of decline in retirement income (caused by market losses) against the risk of diminishing purchasing power (caused by inflation outpacing individual investment returns).

Retirees must have the opportunity to grow their retirement income over time, without facing the risk of exhausting their source of retirement income. A stronger solution should:

4. Provide potential growth in the guaranteed level of income based on market performance after retirement.

¹⁵ Annuity 2000 Basic Mortality Table, The Society of Actuaries.

¹⁶ "The Experimental Consumer Price Index for Elderly Americans (CPI-E): 1982 - 2007," Monthly Labor Review, April 2008, page 19.

¹⁷ Social Security Administration, "Social Security Cost-of-Living Adjustments and the Consumer Price Index," Social Security Bulletin, Vol. 67, No. 3, 2007.

A Stronger Solution: A Target-Date Fund Combined with an Income Guarantee

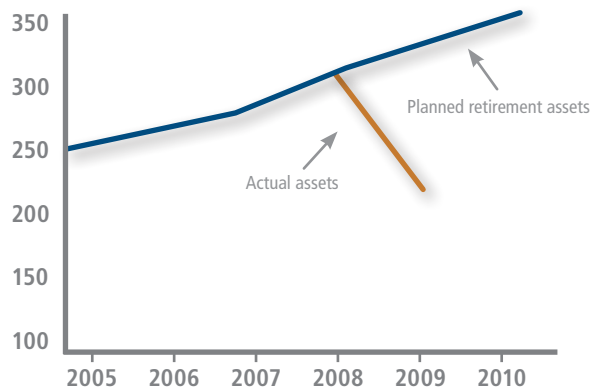
A stronger solution can be achieved by integrating a target-date fund with an income guarantee. Such a solution would allow plan participants to continue investing in a target-date fund as they currently do. However, as participants approach retirement, an income guarantee would be activated, providing the participant with a guaranteed paycheck in retirement. This solution has five key features:

- The income guarantee generates an “income base” at the time of activation, likely five to ten years before retirement. The income base is used to determine a plan participant’s guaranteed level of retirement income. The income base is initially set at the market value of the participant’s assets at the time of activation, and can never be less than this amount plus additional contributions.
- The income base may increase before retirement depending on market performance, but cannot decline in the years before retirement.
- After retiring, the participant will receive a guaranteed level of annual income for life set at a percentage, such as 5%, of the income base at retirement.
- During retirement, the income base will never decline as long as withdrawals do not exceed the guaranteed minimum annual amounts. It may increase depending on market performance.
- Before and after retirement, the participant retains full control of his or her assets and is able to withdraw varying amounts of those assets. Withdrawals prior to retirement will lower the income base proportionally, as will withdrawals after retirement that exceed the guaranteed level of income. Upon death, the participant’s assets are available as a bequest to heirs.

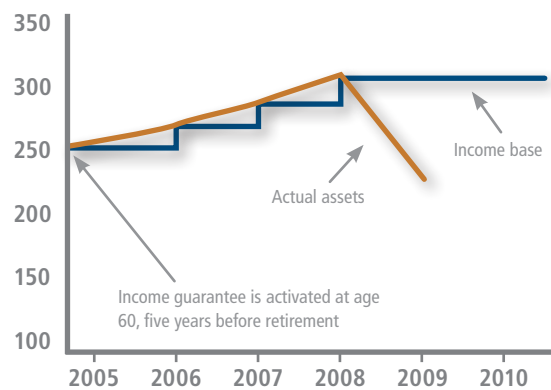
The benefits of this solution are demonstrated in **Exhibit 3** by returning to David Smith, the pre-retiree, and examining how an income guarantee could help him:

Exhibit 3: Impact of an Income Guarantee on a Pre-Retiree’s Retirement Plan

David Smith’s planned and actual retirement assets without an income guarantee (\$ thousands)



David Smith’s retirement assets and income base with an income guarantee (\$ thousands)



How does the income guarantee help David?

- David’s income base grew to \$300,000 by 2008, due to contributions and market appreciation.
- David’s income base does not decline even though markets fall sharply in 2008.
- David will be able to draw a certain percentage, such as 5%, of his income base at retirement.
- Even if markets do not appreciate, David will have access to \$15,000 in retirement income from his income base, which when combined with Social Security benefits, provides David a total retirement income of \$38,000.



The income guarantee helps David realize the promise of a secure retirement. In 2008, David would have seen the market value of his assets fall sharply. However, if he had activated an income guarantee in 2005, his income base would not have declined, and would provide him with a guaranteed amount of annual lifetime income, \$15,000, when he retires. This assumes that the guarantee provides an income of 5% of the income base, and that the income base had increased to \$300,000 by early 2008 due to market appreciation and contributions.

David would still be able to realize \$38,000 in retirement income after combining the income from his retirement assets with \$23,000 in annual Social Security benefits.

This is slightly less than the \$40,000 in retirement income on which David was originally planning. However, it represents a smaller shortfall than the \$7,000 retirement income gap he would have faced had he not had an income guarantee.

The income guarantee mitigates the need for David to make unpleasant decisions just a few years before retirement. He is less likely to need to change his planned retirement date or drastically reduce his standard of living after retiring. Furthermore, he does not need to change his investment strategy, and miss out on a potential market rebound, because his income base will stay the same even if markets drop further.

This solution meets each of the four requirements of a stronger solution for retirement security:

Enable participants to lock in a guaranteed future level of lifetime retirement income based on assets accumulated several years before retirement.

1 This solution enables participants to lock in a level of retirement income several years before retirement. Once the guarantee is activated, the income base is created and set at the value of the participant's retirement assets at the time of activation. Once set, the income base cannot decline due to market performance. This protects participants from sudden market drops in the years immediately preceding retirement.

Provide growth in the guaranteed level of income based on market appreciation before retirement.

2 The income base can be stepped-up after a sustained appreciation in the markets. For example, a "step-up" could occur if markets increased when measured on a year-over-year basis. Once increased, the income base will never decline, even if markets fall subsequently. The income base is also stepped-up by additional contributions to the account.

A Monte Carlo simulation demonstrates the benefits of meeting the first two requirements. **Exhibit 4** compares the forecasted range of two potential sources of retirement income for David, assuming his retirement assets are invested in a typical target-date fund:¹⁸

- The market value of David’s assets in the target-date fund at the time of retirement, assuming an income guarantee was never activated. David would be expected to withdraw

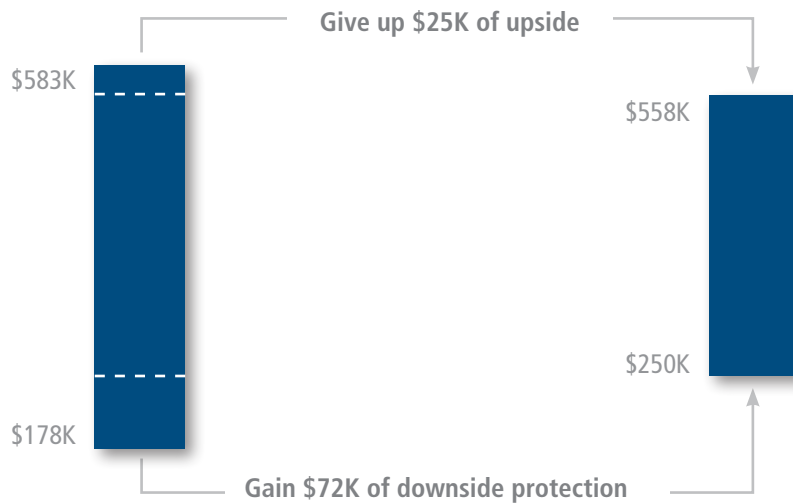
a certain percentage, such as 5%, of these assets to generate retirement income.

- An income base at the time of retirement, assuming David activated an income guarantee five years before retirement in 2005 when his retirement assets were \$250,000. David’s guaranteed level of income in retirement would be a certain percentage, such as 5%, of the value of the income base at retirement.

Exhibit 4: Impact of an Income Guarantee*

Market value of assets at retirement for a target-date fund without an income guarantee**

Income base at retirement for a target-date fund with an income guarantee**



* Assumes a 1% guarantee fee and 1% management fee.

** Forecast based on looking at 99th and 1st percentile forecasted values; assumes no additional contributions.

Source: Prudential calculations.

As shown in **Exhibit 4**, David’s income base at retirement cannot be less than \$250,000; the market value of his assets when he activated the guarantee. In contrast, the market value of the assets could fall to as low as \$178,000 at the time of retirement. This situation would occur if markets fell sharply right before David retires. If markets rise, the income base would rise as well, reflected by the \$558,000 maximum that the income base could reach. The market value of assets in a target-date fund without a guarantee would be slightly higher than the income base because of the fees associated with the guarantee. However, the key is that the income base has a floor, benefits from market appreciation, and has a very modest “give up” in the fortunate scenario in which markets appreciate before retirement.

¹⁸ Utilizes the average of the glide paths of target-date funds of AllianceBernstein, Fidelity, Vanguard, and T. Rowe Price in 2007 as created by Ernst & Young for “Retirement Income: The Value of Guarantees,” Prudential, 2008.



Provide a stream of guaranteed income during retirement regardless of how the markets perform or how long the participant or his or her spouse lives.

The income guarantee enables a retiree to annually withdraw a certain guaranteed amount, such as 5%, of the value of the income base at retirement, for life. This completely eliminates the possibility that a participant will deplete his or her assets in retirement. This is true regardless of how the markets perform or for how long the participant or his or her spouse lives. If the markets decline sharply after retirement, the income base would not decline. Therefore, a retiree who withdraws his or her guaranteed level of income each year will never exhaust his or her source of future retirement income, regardless of the actual market value of his or her assets.

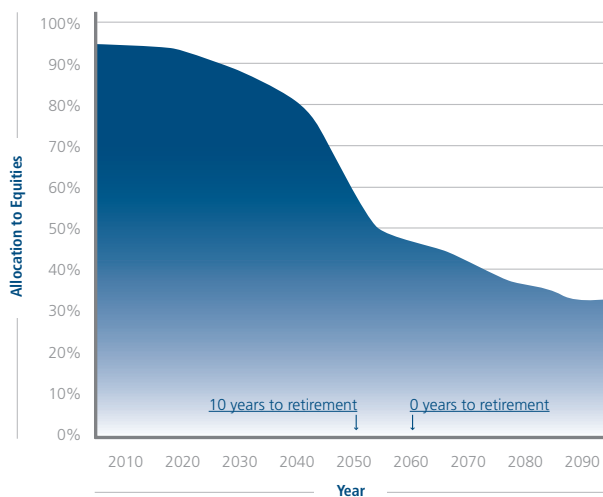
Provide potential growth in the guaranteed level of income based on market performance after retirement.

The presence of an income guarantee provides a safe means to increase retirement income. If the markets appreciate during retirement, the income base can be stepped-up to a higher level. Once reset, the income base never decreases, no matter how the markets perform.

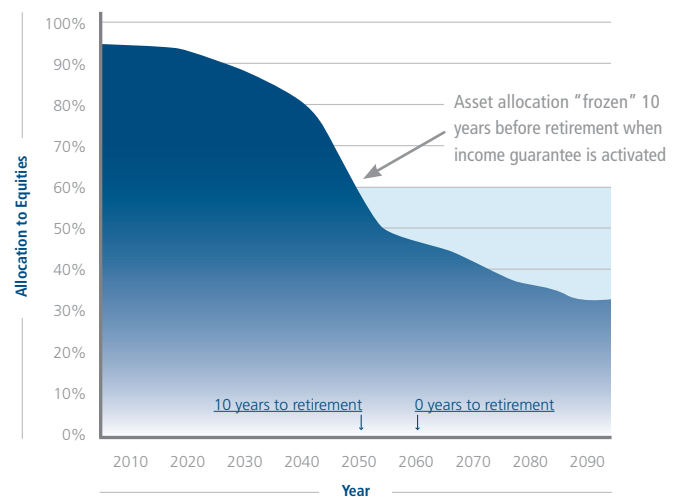
The presence of a guarantee also enables investment in a more aggressive portfolio, thereby providing for greater possibilities of retirement income growth. A comparison of a typical target-date fund¹⁹ and a target-date fund that is combined with an income guarantee is shown in **Exhibit 5**:

Exhibit 5: Comparison of Allocation to Equities

Typical target-date fund without an income guarantee



Target-date fund with an income guarantee



¹⁹ Source: Prudential Retirement.

As shown, the asset allocation of a target-date fund that is combined with an income guarantee can be “frozen” at the time the guarantee is activated, five to ten years before retirement. This provides greater exposure to equities than a typical target-date fund, and hence potentially greater opportunity for growth, before and after retirement. Although this asset allocation will moderately increase risk of asset loss, the participant’s retirement income remains protected by the presence of the guarantee.

This solution does not provide a perfect hedge against inflation, as markets may not appreciate at the same pace or time as inflation. However, the solution does provide the important benefit of enabling participants to invest their assets in a portfolio with higher expected returns. In addition, this solution permanently increases the guaranteed level of income during retirement if markets appreciate. Over a potentially decades long retirement, this solution provides an opportunity for income growth that could mitigate, but may not fully offset, the negative effects of inflation.

An income guarantee provides significant flexibility for larger plan sponsors that customize their own

target-date funds based on a mix of best-of-breed underlying investments. Wrapping a customized target-date fund with an income guarantee will enable the plan sponsor to refine the asset allocation of the custom target-date fund to increase expected returns. A target-date fund combined with an income guarantee also provides important flexibility for the participant. A participant can turn off the income guarantee at any time. The participant can access his or her retirement assets at any time before or after retirement. For example, a retiree could withdraw funds in excess of the guaranteed level of retirement income if unexpected healthcare expenses arise. This flexibility is particularly important because many retirees are likely to face major medical expenses at some point. Of course, excess withdrawals would lower the future income base and guaranteed level of retirement income proportionally. However, this trade-off is acceptable because a participant’s life expectancy will probably decline at the time a major medical issue arises.

Finally, any assets remaining at the time of death would be available as a bequest to heirs. This could be significant, particularly if the markets appreciated during retirement, or if the participant had a short lifespan in retirement.

Conclusion



Three years after the passage of the PPA, DC plan participants still face the risks of suffering a market drop just before retirement, outliving their savings, and experiencing erosion of their purchasing power during retirement. Refining the construction of target-date funds will not eliminate these risks. An income guarantee must be integrated with target-date funds to address these problems.

Combining target-date funds with income guarantees is the logical next step to enhance retirement security, while preserving the opportunities for market appreciation, control, and flexibility that today's pre-retirees and retirees value. Taking this step will help bring us closer to the important goal of providing Americans with a more secure retirement.

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