Getting "The Biggest Bang For The Buck" In Target Date Plans

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Can target date plans be better? That's the question many defined contribution plan sponsors are asking and a new paper from GMO's Peter Chiappinelli and Ram Thirukkonda argues yes, they can.

The authors tested a variety of variables -- passive vs. active, glidepath "riskiness," pre-determined vs. dynamic glidepaths, and deferral rates -- in an effort to discover which offered "the biggest bang for the buck."

Chiappinelli and Ram found that two levers in particular, which can be used in tandem, are most effective at improving outcomes.

From the paper:

> "Incorporating a valuation-sensitive dynamic allocation piece into the glidepath, combined with efforts to boost deferral rates, would have delivered meaningful improvements in retirement wealth outcomes, significantly more than activities related to open-architecture ("best-in-breed"), active management, or different risk levels of glidepath design."

Combining a dynamic approach with efforts to boost deferral rates could improve retirement wealth by 20-30% over the baseline, as illustrated in the chart below.

Exhibit 10: Incremental Impact on Retirement Wealth