

Voya: The QDIA Manager of Choice

Using Voya target date funds as qualified default investment alternatives may benefit both retirement plan participants and sponsors.



By 2024, TDFs are estimated to capture over 75% of DC participant contributions³

DOL aims for better retirement outcomes for employees

With passage of the Pension Protection Act (PPA) in 2006 and subsequent adoption of the Regulation Relating to Qualified Default Investment Alternatives (QDIA) in 2007, the Department of Labor (DOL) acknowledged the structural shift towards defined contribution (DC) plans as the primary savings vehicles of employee retirement security. The PPA addressed critical issues that were seen as impediments to improving retirement readiness: getting employees to save more, and encouraging appropriate investments for long-term savings.

The PPA seeks to increase retirement savings by:

- Providing “safe harbor” fiduciary relief from fiduciary liability for investment outcomes to plan sponsors who directed savings into a qualified default investment alternative (QDIA) that best serve the retirement needs of workers, if plan sponsors satisfy certain conditions (see below).
- Approving three primary types of QDIAs: target date funds, managed accounts and balanced funds.¹
- Encouraging employers to adopt automatic enrollment and automatic escalation of contributions

Though using a QDIA gives safe harbor from financial outcomes, the PPA does not absolve plan sponsors of the duty to prudently select and review QDIAs.

Target date funds: the QDIA of choice

Since the DOL guidance, target date funds (TDFs) have become the investment of choice for more than 70% of plans that feature a QDIA.² By 2024, TDFs are estimated to capture over 75% of DC participant contributions,³ making them one of the most important investment options for participants to understand and for plan sponsors to research, select and monitor.

One reason why TDFs have become so popular is that they simplify decision-making for participants, which helps them stay invested for the long term. The target date is the approximate date when investors plan to retire.⁴ Second, they offer broadly diversified portfolios that systematically adjust to age-appropriate risk-return levels throughout employees’ working lives into retirement. In contrast to the static asset allocations of balanced accounts, TDFs’ dynamic portfolio construction, delivered at a similar cost, can relieve plan sponsors of the need to periodically adjust allocation policies. Compared to managed account QDIAs, TDFs are often more cost-effective and more successful in overcoming participant inertia, which can have a perpetual negative impact on participant account values.

Safe harbor relief

The PPA grants safe harbor relief from fiduciary liability for investment outcomes, if plan sponsors satisfy these conditions:

- Assets are placed in a QDIA as defined in the Act.
- A QDIA must either be managed by an investment manager, plan trustee, plan sponsor or a committee comprised primarily of employees of the plan sponsor that is a named fiduciary, or be an investment company registered under the Investment Company Act of 1940. What’s more, a QDIA generally may not invest participant contributions in the employer’s securities.
- Participants must have been given the opportunity to direct their investments, but did not give directions.
- Participants must be given 30 days’ advance notice of how their investments will be handled if they don’t give directions, and annually thereafter at least 30 days in advance of each subsequent plan year.
- Fiduciaries must provide participants with all materials related to investment in the QDIA, such as account statements, prospectuses and proxy materials.
- Participants must be allowed to direct investments out of a QDIA, without penalty, to any available investment alternative — at least quarterly.
- The rule limits the fees that can be imposed on participants who opt out of participation in the plan or who decide to direct their investments.
- The plan must offer a “broad range of investment alternatives” as defined in section 404(c) of ERISA.

¹ A short-term capital preservation product may be used for the initial 120 days of investment in the plan.

² Source: Defined Contributions Trends Survey, Callan Investments Institute; April 2015

³ The Cerulli Report, “U.S. Defined Contribution Distribution 2019”

⁴ The principal value of the fund(s) is not guaranteed at any time, including at the target date.

Not all target date funds are alike

Beneath their apparent simplicity lie divergent investment methodologies which can deliver dramatically different results over time. Plan sponsors need to understand the major differences among TDFs in order to select the TDF that best matches the needs and characteristics of their plan and participants. The key factors to consider are:

- Glide path construction, i.e., the equity and bond mix throughout the life of the TDF
 - Sufficient wealth generation during the accumulation phase
 - How are assets managed near and in retirement (“to” retirement or “through” retirement)
- Asset allocation
 - Degree of diversification
 - Dynamic or static process
- Underlying investment managers and portfolio construction approach
 - Open to multiple firms or only proprietary managers
 - Use of active managers, passive managers or a blend of both

A helping hand: DOL guidance on selecting and monitoring TDFs

Under the Employee Retirement Income Security Act of 1974 (ERISA), a plan sponsor must act in the best interest of plan participants. When selecting a TDF, it does so as a fiduciary and must employ a prudent process in the TDF selection and monitoring. Given the plethora of TDFs methodologies and the significance of the selection, the DOL issued a bulletin⁵ in 2013 intended to help plan sponsors with their decision-making process. Recommendations include:

- **Consider whether an open-architecture or custom target date fund would be a better fit.** Some TDF investment managers only offer pre-packaged products that use only their own funds as the TDF underlying investments. An open-architecture or custom TDF can help minimize single-investment manager risk by including funds that are managed by fund managers other than the TDF provider itself.
- **Establish a process for comparison and selection including reviewing participant population.** Consider how well the TDF's characteristics align with eligible employees' ages, benefits, likely retirement dates, withdrawal rates, etc.
- **Periodically review the plan's selected TDFs** to ensure that they should continue to be offered. At a minimum, the review process should include examining whether there have been any significant changes in the information fiduciaries considered when the option was selected or last reviewed.
- **Understand the fund's investments** — asset class allocation, underlying investments and asset classes, principal strategies and risks — and how these will change over time. Pay particular attention to the fund's glide path — when the fund will reach its most conservative asset allocation and whether that will occur at or after the target date.
- **Understand the fees and expenses for the TDF.** Added expenses may be worth it, e.g., for asset allocation, rebalancing or access to special investments that can smooth returns in uncertain markets, but it is important to ask.
- **Develop effective employee communications** that help participants understand TDFs as a retirement investment option, particularly the TDFs available in the plan.
- **Document the selection process.** Retain records of how your plan's fiduciaries reached decisions about individual investment options.

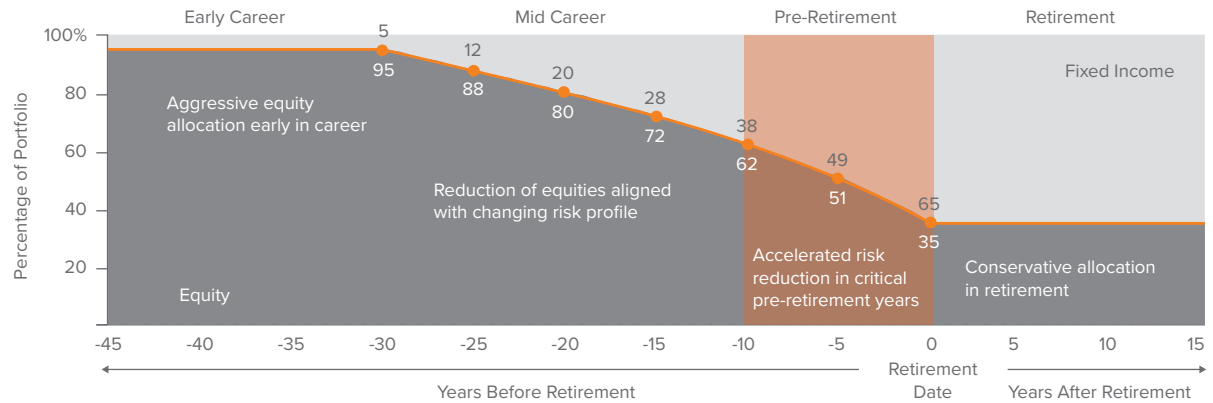
⁵ Source: “Target Date Retirement Funds — Tips for ERISA Plan Fiduciaries,” U.S. Department of Labor, Employee Benefits Security Administration, February 2013.

Voya target date: the QDIA choice to help keep retirement goals on track

Voya's suites of target date funds are designed to specifically balance the evolving risk-return profiles of participants as they age to help maximize the probability of a successful retirement. The target date in the funds' name is the approximate date when investors plan to start withdrawing their money. These funds satisfy the criteria for qualified default investment alternatives (QDIAs).

Voya's target date funds were designed with participants' needs in mind

A Portfolio that Adjusts as Your Career Progresses

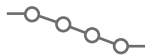


Source: Voya Investment Management

This chart is for illustrative purposes only and may not reflect the current allocations of the Voya Target Retirement Funds Series. This illustration is intended to show how the Voya Target Retirement Funds Series transition over time.

The Portfolio may periodically deviate from the Target Allocation, generally within the range of +/- 10% relative to the current Target Allocation. The sub-adviser may determine to deviate by a wider margin in order to protect the Portfolio, achieve its investment objective, or to take advantage of particular opportunities.

Voya's Key Differentiators



Participant Focused Glide Path

- Seeks to maximize wealth in early years and reduce risk in later years
- More equity relative to peers in early years, less equity relative to peers in later years⁶



Multi-Manager⁷

- Voya is a pioneer of the multi-manager Target Date approach, with 10 years+ of experience
- Access to Voya's investment capabilities and other well-recognized asset managers



Active/Passive Blend

- Active managers may offer the potential for excess returns in less efficient asset classes
- Passive managers may offer cost effective exposure to highly efficient asset classes within a competitive fee structure

⁶ Between 50-40 years out from the fund's 'target date' the Voya Target Date Funds allocate 95% to equities compared to the industry average of 89%. At the 'target date' the Voya Target Retirement Funds allocate 35% to equities compared to the industry average of 42%. Source: Morningstar. Average includes all mutual fund and VP target date suites in Morningstar. Equity allocations based on Years to Target (YTT) Stock glide path data in Morningstar® Direct.

⁷ Multi-Manager refers to the use of investment managers including Voya Investment Management and outside managers, which may be offered through affiliated sub-advised funds.

Participant focused glide path design

Maximizing accumulation potential in the early years, protecting wealth in the later years

At Voya, our glide path relative to peers has a higher equity allocation for younger participants to build wealth and a lower equity allocation for participants near and in retirement to reduce risk in those critical years. Younger participants can afford to take on more investment risk in exchange for greater potential returns. However, in the later years, participants are more vulnerable to a market downturn, particularly the day they retire given:

- Account balances are generally at their highest
- Contributions end and withdrawals begin
- Retirees have the longest period of time to fund expenses without a salary

As a result, avoiding large drawdowns in the early stages of retirement is critical to the longevity of assets. To illustrate this, the table below shows a hypothetical example of the impact of a 20% loss at different ages in retirement, all else being equal. As the table shows, a retiree who experiences a 20% loss at age 66 depletes their assets almost 10 years earlier than a retiree who experiences a 20% loss at age 85. This supports having a conservative equity allocation near and at retirement.

Case for Conservative Approach at Retirement			
Retirees are the Most Vulnerable on the Day they Retire	Retiree 1 -20% Shock at Age 66	Retiree 2 -20% Shock at Age 75	Retiree 3 -20% Shock at Age 85
Retirement Age 65	\$500,000	\$500,000	\$500,000
Age When Experienced -20% Shock	66	75	85
Impact to Balance after -20% Shock	-\$120,000	-\$102,404	-\$75,334
Age When Savings Run Out	87	91	95

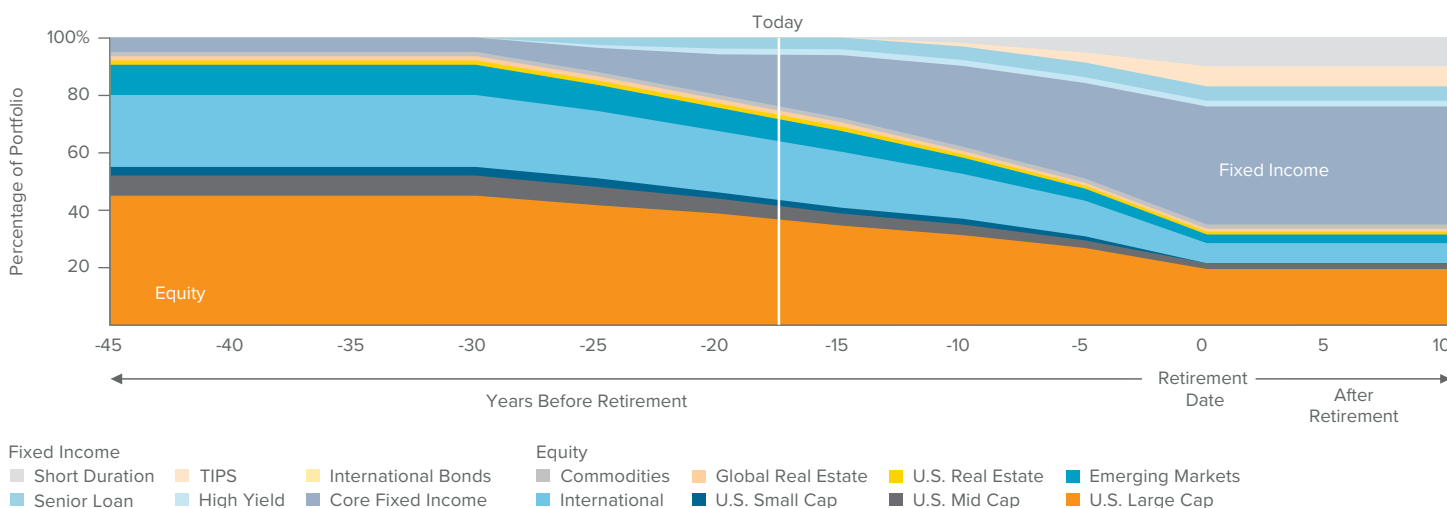
This is a hypothetical example. Assumptions used in this analysis include: Account balance at retirement of \$500,000, annual return of 3.5% based on an equity/bond mix of 35%/65%, annual withdrawal rate of \$25,000 (5% on the initial account balance) and a shock amount of -20%.

Source: Voya Investment Management

Managing volatility with a broad set of asset classes

Effective target date portfolio management goes beyond determining the optimal equity and bond mix over a participant's lifecycle. Determining which sub-asset classes to use in order to implement an equity and bond mix is equally important. Accordingly, sub-asset class breadth and how the sub-asset classes are adjusted to manage the various risks that a participant faces are also critical for a plan sponsor to understand and evaluate.

At Voya, we deliver broader exposure to a diverse set of asset classes seeking to generate more consistent investment outcomes for participants.



Voya's multi-manager approach

Voya target date suites combine the strength of Voya's investment capabilities with other well-recognized investment managers from across the industry. To select and monitor managers, Voya has a dedicated team of career analysts with close to 20 years of experience. This multi-manager approach offers access to over 15 investment firms, highlighted below, to enhance diversification and reduce single manager risk.

Sample of Investment Managers found in Voya's Target Date Funds:

Access to
well-recognized
investment
managers



BLACKROCK



Delaware
Investments®
A member of Macquarie Group



J.P.Morgan
Asset Management

LSV
Asset Management



VanEck™



VOYA®



*As of 6/30/20. Investment Managers are subject to change.

Voya's intelligent blend of active and passive

At Voya, we believe there is an advantage to utilizing a mix of both active and passive managers within our target date suites. The decision to use active or passive managers depends on many factors including the excess return potential for each asset class and the market environment.

Active vs. Passive Considerations	Voya's Approach
Highly Efficient Asset Classes (U.S. large equities)	Higher allocation to passive or low tracking error strategies
Less Efficient Asset Classes (International, EM)	Higher allocation to active
Asset classes that are difficult/costly to replicate passively (Fixed Income, Commodities)	Higher allocation to active
Different Market Environments (Passive equity tends to outperform active when markets rally but underperform when markets sell off)	Best of both worlds approach – more flexibility to achieve better investment outcomes

Comprehensive multi-asset solutions. Consistent results.

Voya Investment Management has been selecting and monitoring managers in asset allocation portfolios for more than 26 years. Our Multi-Asset Strategies and Solutions (MASS) team applies a process that incorporates numerous checks and balances to help maximize market opportunities while minimizing unnecessary risk. The MASS team consists of over 25 dedicated investment professionals employing a rigorous investment process for the Voya TDFs that combines quantitative and fundamental analysis, including macroeconomic forecasting, proprietary optimization techniques and multiple layers of risk management. The team has over 10 years of experience in designing and managing world-class target date funds with the following unique features:

A multi-disciplined team designed to help clients achieve their long-term goals by delivering **innovative**, **thoughtful** and **reliable** investment solutions.

Multi-Disciplined Team



- Specialized groups each providing subject-matter expertise
- Incentive structure tied to both individual contributions and collective outcomes
- Culture of collaboration strengthens our decision-making process

Diversified Sources of Value Creation

Evidence Based and Research Backed



- Research and data-driven approach leveraging a global opportunity set
- Multi-manager, multi-strategy philosophy allows for diverse sources of returns
- Sophisticated quantitative techniques designed to incorporate multiple inputs and scenarios

Information Advantage

Client-Centric Perspective



- Help meet client objectives through a flexible portfolio construction and risk budgeting process
- Approach that adapts to evolving market conditions and client needs
- Distill portfolio complexities to help clients understand drivers of risks and returns

Focus on Client Outcomes

Past performance does not guarantee future results.



For more information contact your financial professional or visit www.voyainvestments.com.

Principal Risks

There is no guarantee that any investment option will achieve its stated objective. Principal value fluctuates and there is no guarantee of value at any time, including the target date. The “target date” is the approximate date when an investor plans to start withdrawing their money. When the target date is reached, the investor may have more or less than the original amount invested. For each target-date portfolio, until the day prior to its target date, the portfolio will seek to provide total returns consistent with an asset allocation targeted for an investor who is retiring in approximately each portfolio’s designated target year. On the target date, the portfolio will seek to provide a combination of total return and stability of principal.

The funds discussed may be available to you as part of your employer sponsored retirement plan. Fees and performance will vary from those detailed here. Please call your benefits office for more information.

As with any portfolio, you could lose money on your investment in a target date fund. Although asset allocation seeks to optimize returns given various levels of risk tolerance, you still may lose money and experience volatility. Market and asset class performance and the assumptions used form the asset allocations for the target date funds. There is risk that you could achieve better returns in an underlying portfolio or other portfolios representing a single asset class than in a target date fund. Important factors to consider when planning for retirement include your expected expenses, sources of income, and available assets. Before investing a target date fund, weigh your objectives, time horizon and risk tolerance. Target date funds invest in many underlying portfolios which are exposed to the risks of different areas of the market. The higher a portfolio’s allocation to stocks, the greater the risk. Diversification cannot assure a profit or protect against loss in a declining market.

An investor should consider the investment objectives, risks, charges and expenses of the Fund(s) carefully before investing. For a free copy of the Fund’s prospectus, or summary prospectus, which contains this and other information, visit us at www.voyainvestments.com or call (800) 992-0180. Please read all materials carefully before investing.

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