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A Set-It-and-Forget-It Retirement? Not Exactly…

Financial Engines Study Shows Wide Misuse of Target-Date Funds Driven by Investor Overconfidence and Desire for Greater Diversification

SUNNYVALE, CALIF. (March 1, 2016) – Target-date funds are designed as a diversified, age-appropriate investment product for all of an investor's retirement assets, but most participants don't remain fully invested in them as their balances grow.[1] A new report by Financial Engines (NASDAQ: FNGN), America's largest independent registered investment advisor[2], looks at why the majority of participants move away from target-date funds over time. It found that investor overconfidence and a desire for greater diversification —not lack of understanding—are behind target-date fund misuse.

According to the report ("*Not So Simple: Why Target-Date Funds Are Widely Misused by Retirement Investors*"), which surveyed more than 1,000 full-time employees with access to target-date funds in their employer-sponsored retirement plans, only one quarter (26 percent) are using the funds as intended. Two-out-of-three (64 percent) target-date fund investors hold only a portion of their investments (less than 90 percent) in the funds, potentially harming their investment returns compared to those fully invested in target-date funds. Despite moving away from being fully invested in their target-date fund, 81 percent of participants said that they understood that target-date funds are diversified by design and that they knew how they worked. By investing outside of their target-date fund, participants were seeking something beyond what their target-date fund could offer.

"While the 'set it and forget it' promise of target-date funds is appealing to some investors, most participants don't forget it -- they are actively investing away from the target-date fund in their portfolios," explained Christopher Jones, chief investment officer of Financial Engines. "Based on behavior patterns of participants analyzed in this research, expecting most participants to stay put in a target-date fund over their working careers is simply unrealistic. These findings have clear implications for the long-term ability of target-date funds to impact retirement outcomes in defined contribution plans."

Overconfidence in Investing Ability Can Harm Performance

Partial target-date fund users analyzed in the report tended to be older and overconfident in their investing ability. Sixty percent of partial target-date fund users believed that they could "beat the market" to achieve better investment returns than their target-date fund. Past studies have shown that

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[1] Help in Defined Contribution Plans, 2006-1012, Financial Engines (https://corp.financialengines.com/employers/FinancialEngines-2014-Help-Report.pdf)
[2] For independence methodology and ranking, see InvestmentNews Center (http://data.investmentnews.com/ria/).

a "partial target-date fund" approach can result in 2.11 percent lower median annual returns, net of fees, than holding all or almost all of an investor's retirement assets in target-date funds.[3]

According to the report, participants who have added other funds to their target-date fund had greater confidence in how their accounts were invested compared to those fully invested in target-date funds. By mixing target-date funds with other investments, many participants fail to reap the full benefits of diversified, age-appropriate portfolios.

Ironically, only 23 percent of those fully invested in target-date funds were "very confident" that their assets were appropriately invested compared to 29 percent of those holding only part of their investments in target-date funds and 34 percent of those not invested in target-date funds at all.

"Prior to this research, it was easy to assume that participants didn't fully understand how target-date funds worked," explained Jones. "This research suggests that the drivers behind participant investing behavior are more complex than a simple lack of investing education. Older participants with higher balances require other forms of retirement help that more fully address what they are trying to achieve."

A Fear of Putting All Eggs in One Basket and a Desire for More Personalized Help

While target-date funds are designed for participants to invest all of their retirement assets in a single, age-appropriate fund, 62 percent of partial target-date fund users cited a desire for greater diversification and a fear of "putting all of their eggs in one basket," as the primary reasons for moving money away from target-date funds. More than basic investment diversification, these partial target-date fund users were seeking additional diversification across both investment funds and asset managers. Fifty-four percent cited a desire for greater personalization, especially with regard to risk, while 58 percent of those decreasing their target-date fund allocation wanted greater personal management and advice on how best to manage their retirement assets.

"Target-date funds tend to work well for younger investors with low asset balances and less-complicated financial lives, while older participants with more assets often seek the greater personalization and access to investing professionals that managed accounts provide," explained Jones. "Target-date funds only address the needs of a minority of participants. With a better understanding of how participants actually use target-date funds, plan sponsors have an opportunity to offer other forms of help that meet the needs of investors who are uncomfortable investing their entire retirement nest egg in a target-date fund."

To download a copy of the report, visit https://corp.financialengines.com/employers/resources.html.

About Financial Engines

Financial Engines is America's largest independent investment advisor. We help people make the most of their money by providing full-service financial planning, including professional investment management and advice. Headquartered in Sunnyvale, CA, Financial Engines was co-founded in 1996 by

[3] Financial Engines analysis based on data set and methodology of Help in Defined Contribution Plans, 2006-1012, Financial Engines (https://corp.financialengines.com/employers/FinancialEngines-2014-Help-Report.pdf)

Nobel Prize-winning economist William F. Sharpe. We serve as a comprehensive financial advisor for our workplace customers, and offer help to more than nine million people across over 650 companies (including 142 of the Fortune 500). Our unique approach, combined with powerful online services, dedicated advisors and personal attention, promotes greater financial wellness and helps more Americans to meet their financial goals.

For more information, please visit www.financialengines.com.

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Forward-Looking Statements
This press release contains forward-looking statements, including statements regarding the use of professional investment and financial planning help, which involve risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties are outlined in our SEC filings. You are cautioned not to unduly rely on these forward-looking statements, which speak only as of the date of this press release. Unless required by law, Financial Engines undertakes no obligation to publicly revise any forward-looking statement to reflect circumstances or events after the date of this press release or to report the occurrence of unanticipated events.

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Press Contacts:

Financial Engines
Mike Jurs, 408-498-6590
mjurs@financialengines.com

Allison+Partners
Alexandra Gardell Kreuter, 646-428-0618
financialengines@allisonpr.com