MANAGED ACCOUNTS IN RETIREMENT PLANS

Measuring the impact of a personalized, goals-based retirement strategy

The burden of planning for and funding retirement falls largely on employees. Recordkeepers, advisors, consultants, and employers want to assist by offering planning tools, educational materials, and investment funds designed to help employees prepare for retirement.

Still, a gap remains when it comes to how employees will plan for and fund their retirement.

- How much income will I need in retirement?
- How much should I save each pay period to reach my goal?
- How should I invest my retirement assets?

Many employees who contribute to their workplace retirement plan don't have a financial advisor and lack the experience or knowledge to create a diversified portfolio on their own. As a result, many take no action and allow themselves to be invested into the plan's qualified default investment alternative (QDIA), often a target date fund. While this may suit the needs of certain individuals, it doesn't fully answer the questions posed above.

It's clear that these plan participants may need more help beyond fund-based options and education to prepare for retirement and reach their goals. In this paper, we share how managed accounts can help answer some of the most important questions and assist participants trying to prepare for a secure retirement. We will also share the results from a recent study of participants already using Transamerica's managed account service, *Managed Advice®*.

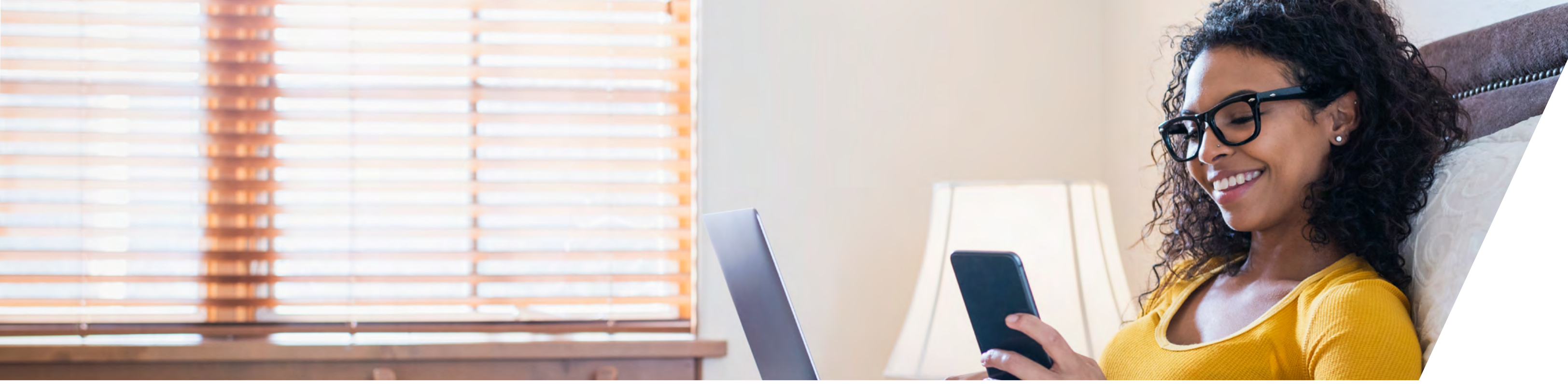
BELIEF VERSUS REALITY

HOW MUCH WILL EMPLOYEES NEED TO RETIRE COMFORTABLY?

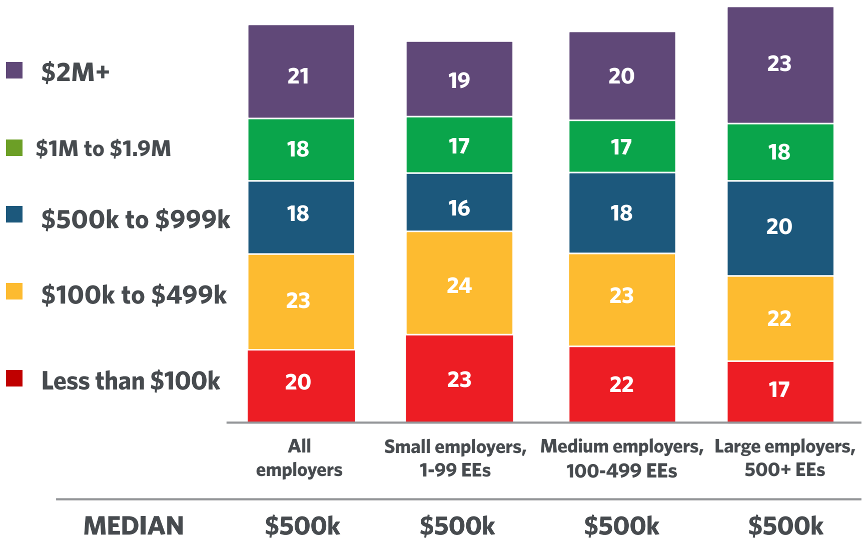
How much do employees *believe* they need to save for a successful retirement, and how much have they *actually* saved in their employer's plan? A recent report from the nonprofit Transamerica Institute[1] provides insight:

BELIEF

Employees across company sizes estimate they'll need to save $500,000 (median) by the time they retire to feel financially secure.



ESTIMATED RETIREMENT SAVINGS NEEDS (%)



Source: Nonprofit Transamerica Institute

When asked how they arrived at their estimate, participants were able to choose any or all the following reasons[1]:

- 45% guessed
- 36% estimated based on current living expenses
- 20% estimated based on expected investment earnings
- 14% used a calculator
- 13% read/heard how much they'll need

And only 13% received their estimated retirement savings need from a financial advisor.

REALITY

Employees' estimated median total household retirement savings is approximately $65,000.[1]

- Employees at small companies had total retirement savings of $36,000
- Mid-sized company employees had saved $69,000
- Employees at large companies had $115,000 in retirement savings

How much should participants save?

- Financial professionals generally recommend having at least $1 million to retire comfortably, depending on pre-retirement income, desired lifestyle, and where they live
- Out-of-pocket medical costs will amount to more than $67,000 during retirement for the typical age 65 household — in addition to premiums[2]

The disconnect is apparent. No matter the size of the company and whether they realize it or not, employees are not saving enough.

WHY TARGET DATE FUNDS MAY FALL SHORT

Target date funds (TDFs) are a common option for retirement plan QDIAs or for participants who don't want (or are unable) to select their own investments. While TDFs may allow a participant to use a set-it-and-forget-it path to retirement, they are not a one-size-fits-all retirement solution.

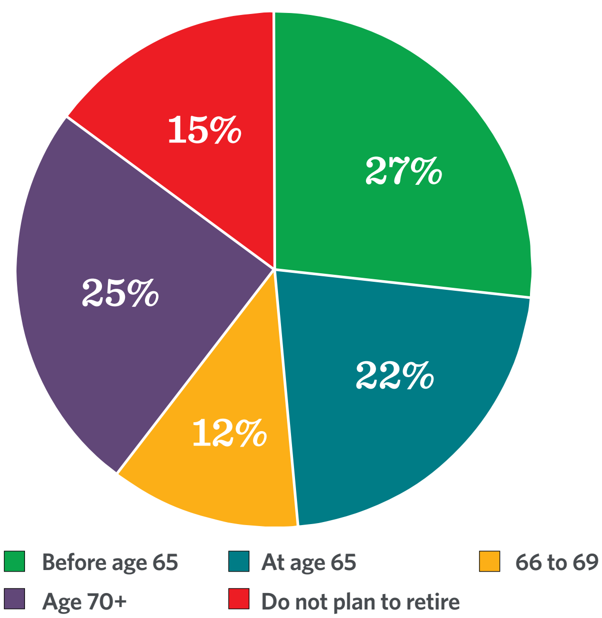
Typically, a TDF's investment strategy and objective aims *only* for the participant's target retirement year. Other factors, in addition to the target retirement year, can help investors develop a more effective investment strategy. For example, TDFs typically set retirement at or near age 65; however, research shows that 52% of people expect to retire later or not at all.[1] A glide path reaching its most conservative point at 65 may miss the mark. Additionally, a TDF does not take into consideration how someone is invested in their other retirement accounts or that they may be eligible to receive future cashflows from a defined benefit plan.

PARTICIPANTS NEED MORE HELP

Participants are largely aware of their need to better understand retirement investing, yet many fail to act on it.

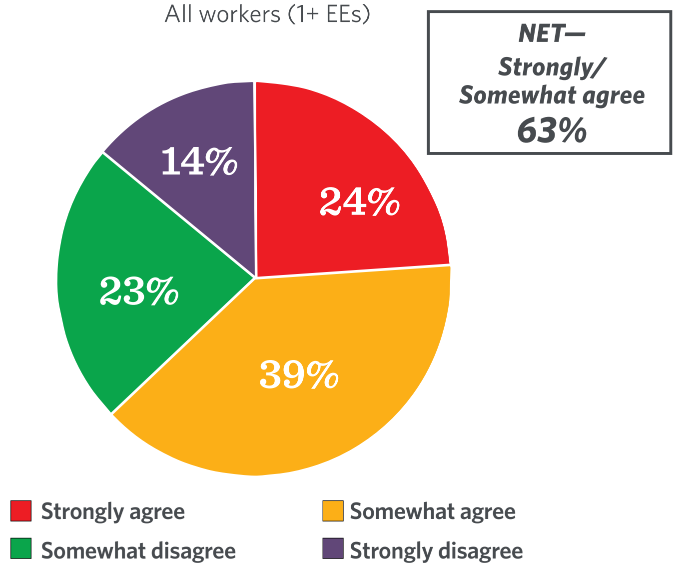
- More than 6 in 10 workers (63%) agree with the statement, "I do not know as much as I should about retirement investing," including 24% who strongly agree and 39% who somewhat agree.[1]
- Twenty-five percent of workers have no knowledge about asset allocation principles related to retirement investing.[1]

WHEN PEOPLE EXPECT TO RETIRE



Source: Nonprofit Transamerica Institute

"I do not know as much as I should about retirement investing."
(% level of agreement)
All workers (1+ EEs)



Source: Nonprofit Transamerica Institute

Employers also understand the deficit and share employees' opinion that more guidance around investing is needed — and wanted. Almost 75% of employers agree that most employees would like to receive more information and advice from their employer about how to reach their retirement goals. Employees feel similarly, with 67% agreeing they would like to receive more information and advice from their employers on how to reach their retirement goals.[1]

WHAT ARE MANAGED ACCOUNTS AND HOW CAN THEY HELP?

Managed accounts are sophisticated and personalized, goals-based investment management solutions that leverage an individual participant's unique profile to build a retirement strategy. Transamerica Retirement Advisors (TRA) offers a managed account service, *Managed Advice*, to plans and their participants who use Transamerica Retirement Solutions, a TRA affiliate, to provide recordkeeping and administrative services. *Managed Advice* incorporates participant data gathered from our recordkeeping platform and any outside data the participant chooses to provide. Along with their retirement plan account balance, data points can include plan-specific information such as employer match and contribution rate; outside retirement and investment accounts; spousal/partner information; Social Security estimates and expected retirement income from other sources; and retirement goals and time horizon until retirement.

Managed Advice builds a customized allocation for each participant using their unique profile and capacity to take on risk, then proactively changes the investment mix by placing trades as needed while continuing to rebalance and reallocate over time. Success isn't measured by performance against established benchmarks. It's determined by how much estimated income the portfolio should provide at retirement compared to the participant's personalized retirement income goal.

Using Morningstar's Wealth Forecasting Engine, Transamerica's *Managed Advice* service calculates an estimated retirement income by forecasting potential balances of all accounts (Transamerica and outside) to and through retirement. Estimates are based on Morningstar's capital markets assumptions and a series of Monte Carlo simulations, using a projected range of returns for each asset class held within each account that has been added to the participant's retirement profile.

The account balance and anticipated income from all sources in the individual's retirement profile are then turned into a sustainable cashflow, or retirement income, intended to last the participant from their expected retirement date until their projected mortality date. The estimated retirement income is determined using the simulation associated with a 70% probability of success.

While the calculations are complex, the output is simple for the participant: a projected estimated retirement income versus a retirement income goal, resulting in what we call the participant's funded ratio.

ENCOURAGING THE "RIGHT" BEHAVIORS

A managed account service encourages positive savings behaviors — like increasing contribution rates — that improve a participant's opportunity to save enough to retire securely while providing comprehensive and continuous portfolio oversight based on each participant's unique goal to replace income they received as an active employee.

Participants are generally not contributing enough to fully fund their retirement. Even with a well-monitored and appropriate investment strategy, an insufficient contribution rate is unlikely to lead to a well-funded retirement. *Managed Advice* suggests a contribution rate aimed at helping the participant target their specific goal. If the suggestion is accepted, the service quickly and easily implements this contribution rate change for the participant.

MEASURING RESULTS[3]

Measuring increases in contribution rates after participants sign up for *Managed Advice* is an important way to evaluate the service's effectiveness. Our study focused on the nearly 16,000 participants who had a retirement profile before (and after) subscribing to *Managed Advice*.[4] Here's what we found:

RESULTS: OVERALL POPULATION

15,864 participants with **826** days, on average, in *Managed Advice*

	Before enrolling in *Managed Advice*	After enrolling in *Managed Advice*	Additional potential annual income assuming $50,000 income goal
Funded ratio	98.89%	**103.11%**	$2,070
Contribution rate	4.47%	5.64%	**An increase of 26%**

RESULTS: UNDERFUNDED POPULATION

1,973 participants with **745** days, on average, in *Managed Advice*

Improvement in the participant average funded ratio becomes more apparent among the population with large gaps between estimated retirement income and retirement income goal. Participants considered "underfunded" for retirement, for this analysis, are those with a funded ratio of 65% or less.

	Before enrolling in *Managed Advice*	After enrolling in *Managed Advice*	Additional potential annual income assuming $50,000 income goal
Funded ratio	50.27%	**75.07%**	$12,400
Contribution rate	3.38%	5.53%	**An increase of 64%**

The overall population showed improvement in funded ratio after enrolling in *Managed Advice*, but the improvement for participants who were considered "underfunded" for retirement was especially dramatic.

EVALUATING MANAGED ACCOUNTS AND COMPARING TO OTHER INVESTMENTS

Two metrics commonly used to evaluate investments are the expense ratio relative to the industry average and/or other available options and performance versus established benchmarks.

Managed accounts don't fit neatly within either category, given their range of costs, unique investment portfolio construction based on an individual's retirement goals, their capacity to take on risk, and the ongoing allocation adjustments made by the service.

The service's value, when offered in a retirement plan and used by plan participants, must instead be measured by how prepared long-term users are to replace their current income in retirement.

Our study shows that managed account participants improve their funded status (estimated retirement income relative to their retirement income goal) and contribution rate once subscribing to the service.

As managed account services continue to gain traction, plan sponsors, advisors, and consultants grapple with the right way to monitor these options. Historically, investment performance has been used to monitor standalone investments options and TDFs; however, investment performance cannot be used to monitor a managed account that creates personalized allocations for subscribers by using multiple investment options available on a platform.

This is why it's difficult, if not impossible, to evaluate a managed account service by comparing it to other investments based on price and performance. For example, two 40-year-old managed account subscribers would likely be invested differently, depending on their circumstances and goals, which would create different rates of return. Yet each would benefit from professional management and strategies customized to their personal goals and circumstances.

CONCLUSION

Ideally, all participants would have access to and use a financial advisor to build and manage a personalized retirement investment portfolio. A managed account service could be the next best thing. Participants can benefit from professional management and a customized investment strategy structured around their needs, circumstances, and goals, as well as motivation to make changes as needed.

Our study shows that participants have better funded ratios and higher contribution rates after subscribing to managed accounts. Additionally, we see significant improvements in funded ratios and contribution rates in the population that needs help the most.

To learn more about the benefits of adding Transamerica's *Managed Advice* to a retirement plan, contact your Transamerica relationship manager.

About Probability Illustrations, Limitations, and Key Assumptions of the Morningstar Wealth Forecasting Engine

The probability illustrations used to create the Estimated Retirement Income vs Retirement Income Goal illustrations are generated from the engine and based on "Monte Carlo" simulations of 500 possible investment scenarios for a given time period and assume a range of possible returns. The "About Probability Illustrations, Limitations, and Key Assumptions" apply to the *OnTrack* tool® and the Advice Services, which includes *Managed Advice*® (offered in plans and IRAs) and *Advisor Managed Advice*℠. The illustrations are generated according to models developed by Morningstar Investment Management LLC, a leading independent provider of asset allocation, manager selection, and portfolio construction. The Estimated Retirement Income vs Retirement Income Goal reflects the difference between the model's estimated annual income (which corresponds to a 70% probability level of income in the investment scenarios simulated) and the annual income goal.

When forecasting the probability of achieving the income goal, the model employs different returns for different asset classes, based on Morningstar Investment Management's capital market assumptions developed using historical and forward-looking data. Forecasts of expected return, expected standard deviation and correlation among asset classes are based on Morningstar Investment Management LLC's proprietary equity, fixed income, currency and risk models. Current investment options are assigned to asset classes based on Morningstar Categories, and fees and charges inherent in investing are incorporated with an average fee assumption for each asset class. The benchmarks used for modeling the various asset classes are below. Return assumptions are updated annually; these updates may have a material impact on the projections. Return assumptions are estimates not guarantees. The returns experienced may be materially different than projections. Investors cannot invest directly in an index.

	Asset Class	Benchmark
Lower Risk/ Volatility	Cash Alternatives	BofA ML US Treasury Bill 3 Month USD
	Short Term Bonds	BarCap US Govt/Credit 1-3 Yr TR USD
	Aggregate Bonds	Barclays Capital US Agg Bond TR
	Foreign Bonds	Barclays Global Aggregate Ex USD TR
	Direct Real Estate	NCREIF Transaction Based Index
	High Yield Bonds	Barclays Capital US Corporate High Yield TR
	TIPS	Barclays Capital Global Inflation Linked US TIPS TR
	Long Term Bonds	Barclays Capital US Govt/Credit Long TR
	Large Cap Value Equity	Russell 1000 Value TR
	Large Cap Equity	Russell 1000 TR
	Mid Cap Value Equity	Russell Mid Cap Value TR
	Mid Cap Equity	Russell Mid Cap TR
	International Equity	MSCI EAFE GR
	Commodities	Bloomberg Commodity TR
	Mid / Small Cap Value Equity	Russell 2500 Value TR
	Large Cap Growth Equity	Russell 1000 Growth TR
	Mid / Small Cap Equity	Russell 2500 TR
	Small Cap Value Equity	Russell 2000 Value TR
	Small Cap Equity	Russell 2000 TR
	Mid Cap Growth Equity	Russell Mid Cap Growth TR
	Mid / Small Cap Growth Equity	Russell 2500 Growth TR
	REITs	FTSE NAREIT Equity REITs TR
	Small Cap Growth Equity	Russell 2000 Growth TR
Higher Risk/ Volatility	Emerging Markets Equity	MSCI EM GR

The probability illustrations assume both retirement at the age at which the investor qualifies for full Social Security benefits and an annual retirement income goal of 80% of the projected final working salary. These assumptions are adjustable by the investor. Social Security estimates are based on the Social Security Administration methodology and the current salary. The probability illustrations also assume a consistent contribution percentage, if applicable, and asset allocation (no future changes or rebalancing unless the investor is subscribed to one of the Advice Services or a target date asset allocation service), annual inflation of approximately 2%, and annual salary increases, based on a calculation that incorporates multiple factors including a salary growth curve and inflation. Mortality assumptions are based on the Society of Actuaries tables. In addition to all personal information inputted into the Retirement Profile, and, if applicable, any retirement plan information that Transamerica's recordkeeping system maintains, such as account balance, contribution rates, asset allocation, and retirement plan information, the probability illustrations contemplate tax rates, retirement needs, Social Security, and future cash flows. The simulations model tax rules for most taxable and tax-deferred investment accounts. Tax rules are applied throughout the process, including required minimum distribution rules that apply to some tax-deferred accounts. Any withdrawals from tax-deferred sources may be assessed an early withdrawal penalty, which is taken into consideration in these illustrations. The spend-down order of the accounts is determined by an algorithm and aims to optimize tax exposure (by generally exhausting taxable accounts first then tax-deferred accounts) and Social Security benefits. The selected retirement year (and the spouse/partner's retirement year as applicable) can vary the withdrawal sequence determined by the engine. The engine will avoid withdrawing from tax-deferred accounts, should the investor (and spouse/partner as applicable) select a retirement age younger than 60 years old. If income is needed and no other sources of income exist, the engine will be forced to withdraw from tax-deferred accounts holding after-tax money and tax-deferred accounts in the simulations, as needed. Estimated retirement income used in the probability illustrations are after-tax.

The models are subject to a number of limitations. Returns associated with market extremes may occur more frequently than assumed in the models. Some asset classes have relatively limited histories; for these classes, the models use historical data for shorter time periods. The model does not consider other asset classes, such as hedge funds or private equity, which may have characteristics similar or superior to those used in the model. Capital market assumptions are forecasts, which involve known and unknown risks, uncertainties, and other factors that may cause the actual results to differ materially and/or substantially from any future results, performance, or achievements expressed or implied by those projections for any reason.

There is no guarantee that an investor's income goal will be achieved or that the aggregate accumulated amount will ensure a specified annual retirement income. Results may vary with each use and over time.

IMPORTANT: The projections or other information generated by the engine regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Results derived from the tool may vary with each use and over time. Moreover, even though the tool's estimates are statistically sound based upon the simulations it runs, the tool cannot foresee or account for every possible scenario that may negatively impact the investor's financial situation.

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[1] Stepping Into the Future: Employers, Workers, and the Multigenerational Workforce," nonprofit Transamerica Institute, May 2023. Transamerica Institute® is a nonprofit, private foundation that is funded by contributions from Transamerica Life Insurance Company and its affiliates. Visit **transamericainstitute.org**.

[2] "How Much Do Retirees Spend on Uncertain Health Costs?" Center for Retirement Research at Boston College Issue Brief, August 2022.

[3] Our study compared contribution rates and retirement funded ratios before and after subscribing to *Managed Advice*® by reviewing data from *OnTrack*®, Transamerica's guidance and education tool, for those who subscribed after completing a retirement profile while using *OnTrack*®.

[4] Of the 90,000+ participants enrolled in *Managed Advice*® as of March 31, 2023, approximately 85% did not have a retirement profile before enrolling but built their retirement profile as they completed the enrollment process. These participants were not included in this comparison. Participants whose pre- and post- *Managed Advice*® funded ratios fell below 1% and above 300% were also screened out due to the likelihood they had reduced their retirement goal to $1, set a highly unrealistic retirement goal, or taken a plan withdrawal.

Securities offered through Transamerica Investors Securities Corporation (TISC), member FINRA, 440 Mamaroneck Avenue, Harrison, NY 10528.

RS2 2964069 S 10/23

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