Transition Risk Zone

Where Perception and Reality Diverge

American Century Investments®

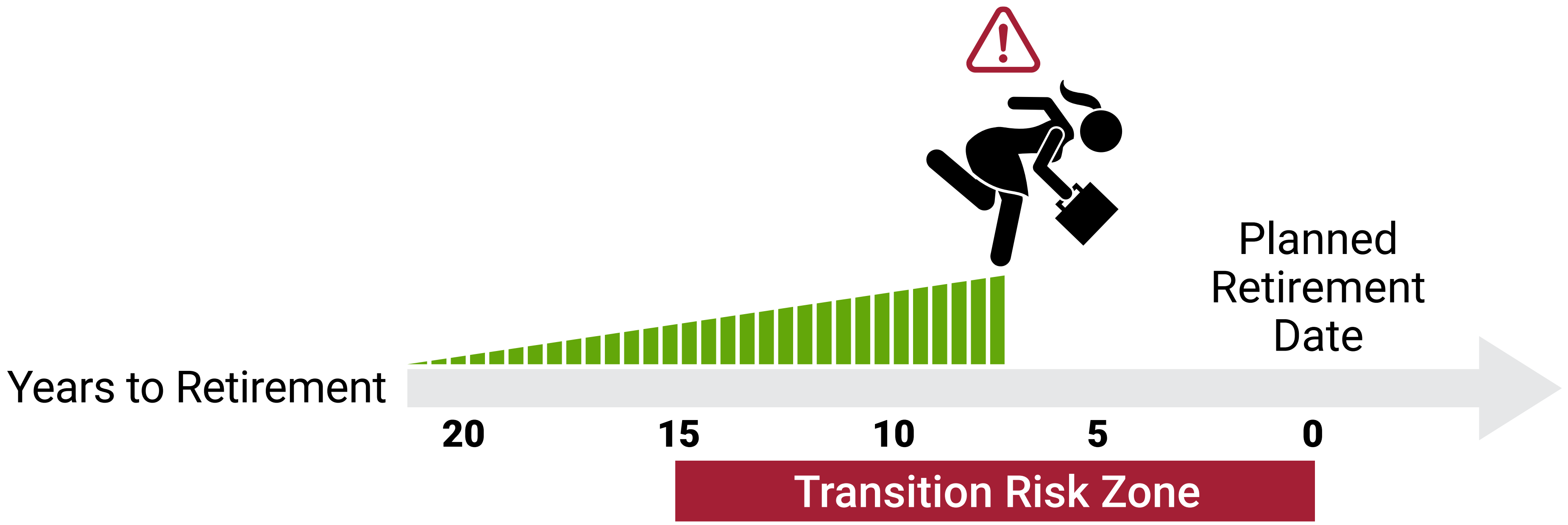
Mike Tyson Said It Best

"Everybody has a **plan** until they get **punched** in the mouth."

-Mike Tyson

Transition Risk

The risk of a sudden or extreme change in a participant's income or allocation of retirement assets in the 15 years leading to retirement.



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Agenda

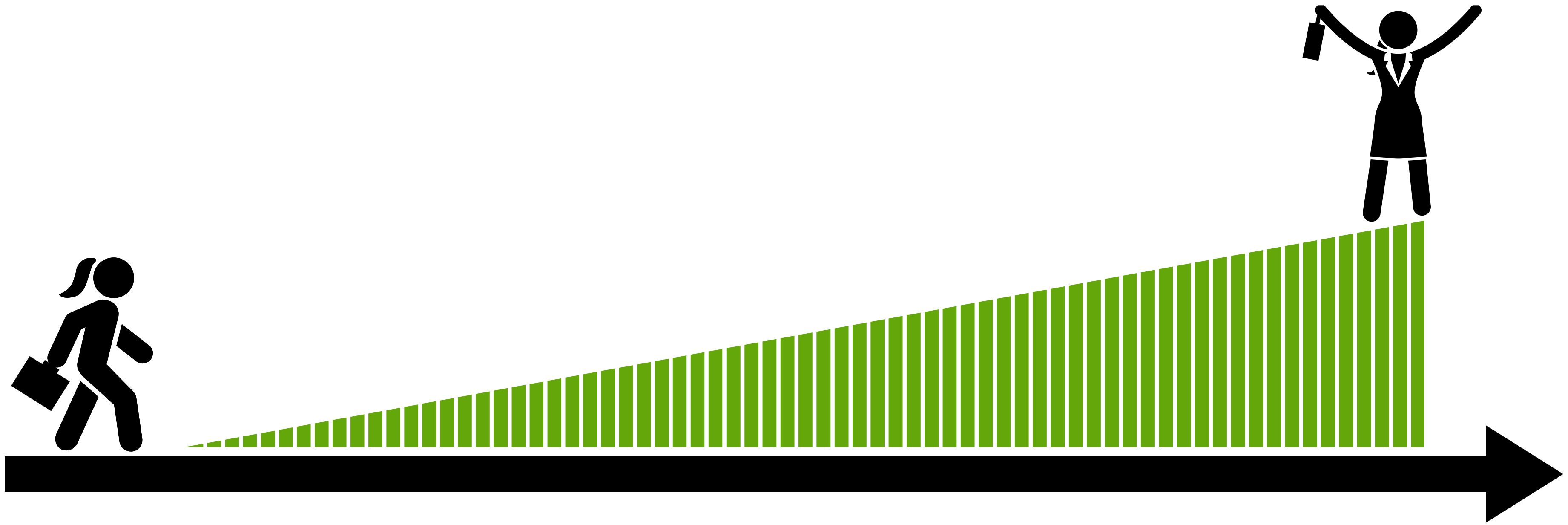
- Retirement: The Perception
- The Reality Is More Complex
- Beware of the Transition Risk Zone
- Retirement Survey
- Manage the Reality of Transition Risk

The Perception

Perception
Target-Date Investments Simplify Retirement Savings

Assumes Investors Follow a Steady Path To a Planned Retirement Date

- Workers save throughout their working life
- Target-date investments help shield participants from significant market downturns
- Participants retire as planned, building wealth toward a specific date



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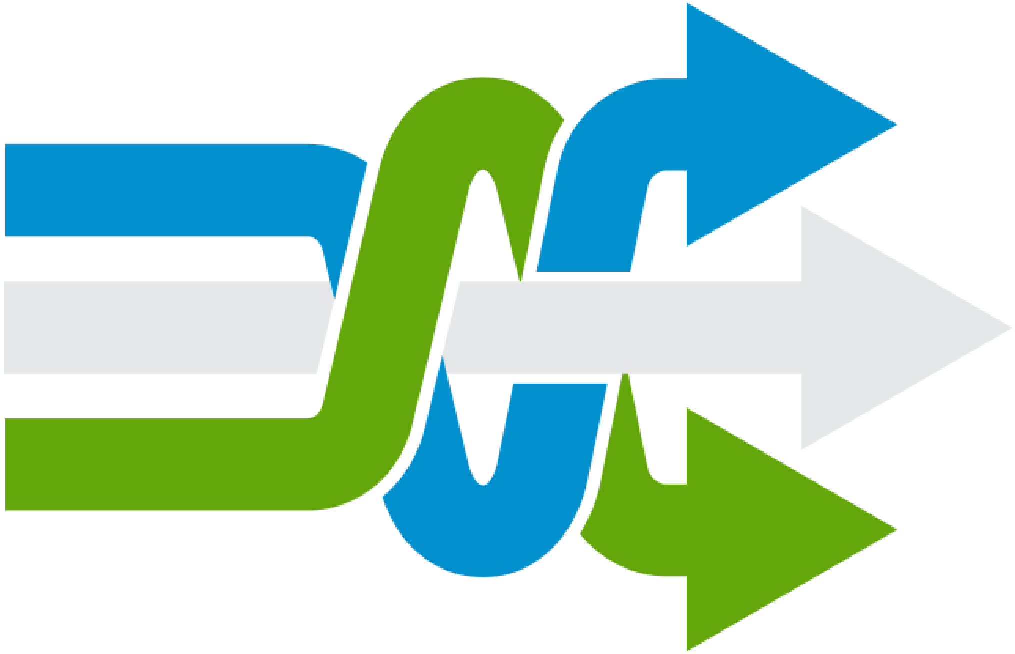
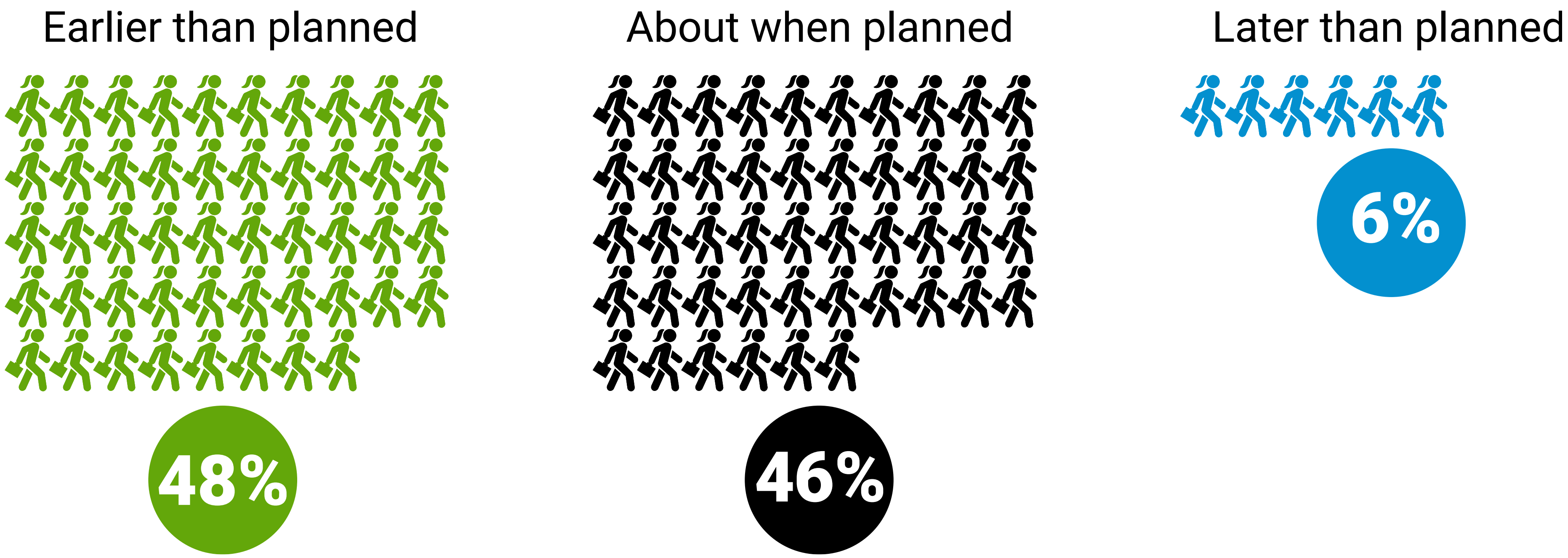


The Reality Is More Complex

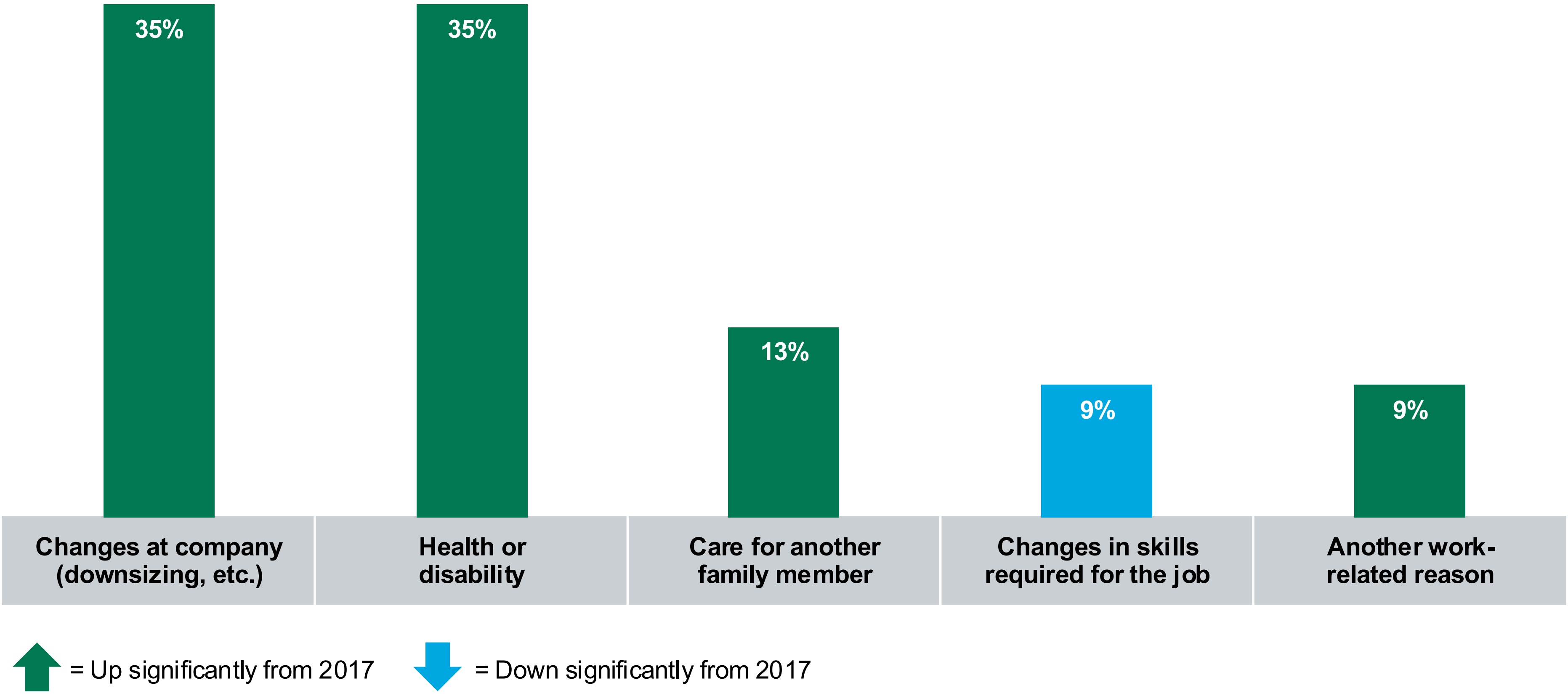
Nearly Half of Retirees Retire Earlier Than Planned[1]



[1]Source: 2020 Retirement Confidence Survey, Employee Benefit Research Institute and Greenwald & Associates.

Early Retirement Is Often Involuntary

Reasons for Unplanned Early Retirement

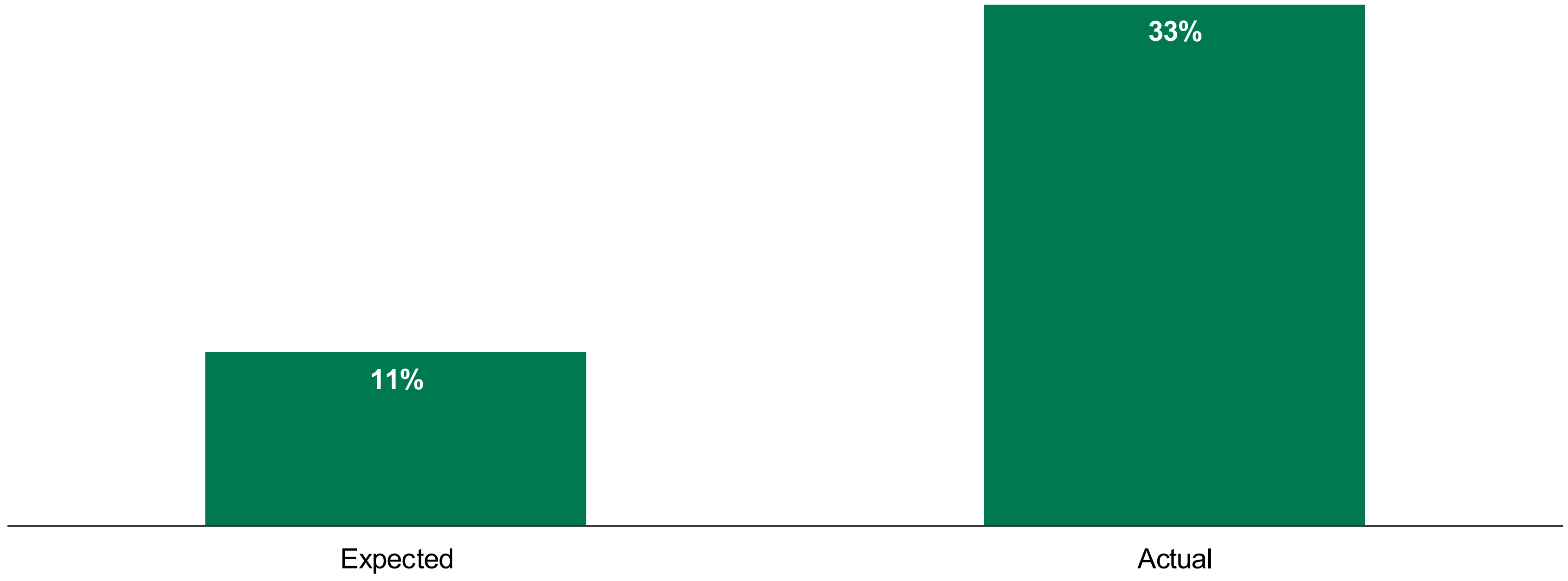


Source: 2019 EBRI/Greenwald Retirement Confidence Survey

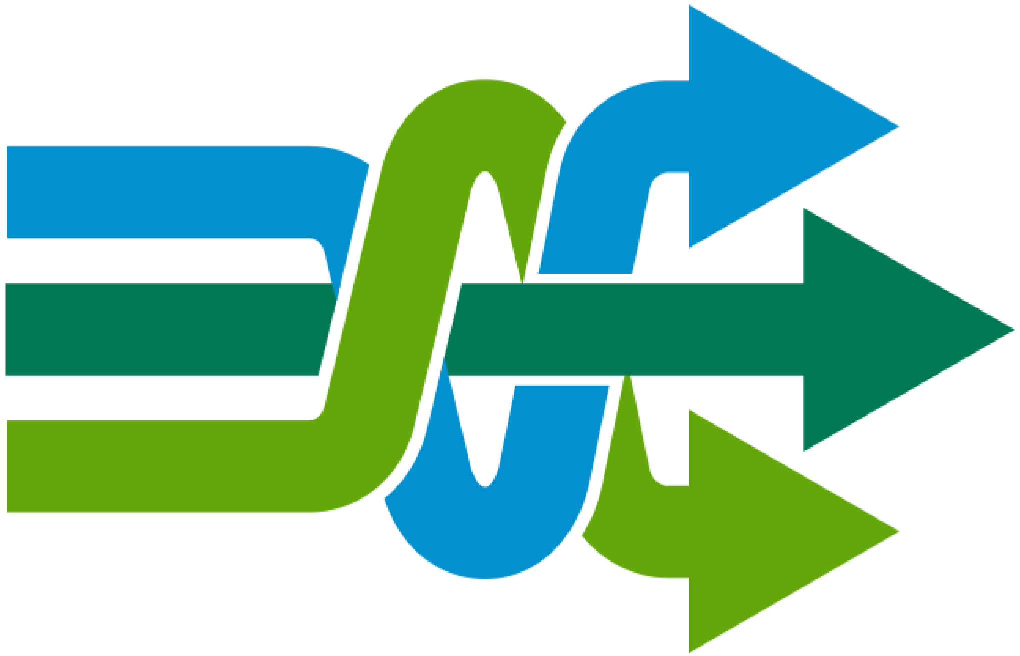
Perception and Reality Often Diverge[1]

Retirement Prior to Age 60

3x More Frequent
than Expected



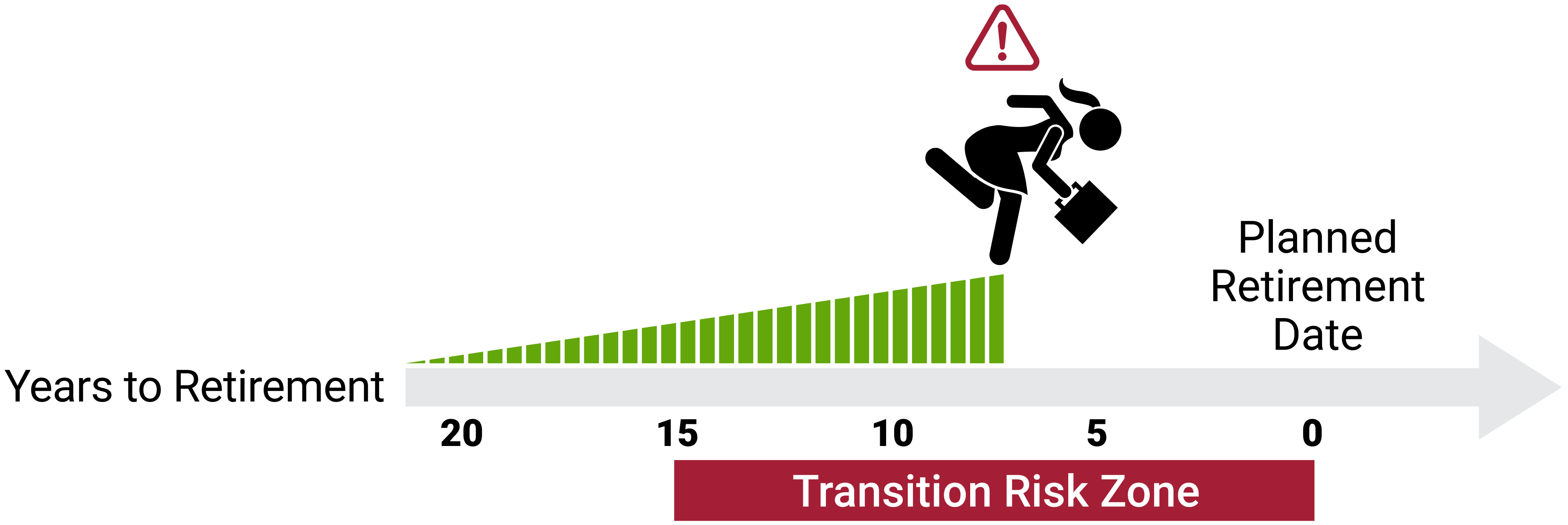
[1]Source: 2020 Retirement Confidence Survey, Employee Benefit Research Institute and Greenwald & Associates.
Figures and n-sizes exclude those who answered "Don't know," said they never worked, or refused to answer.
Source: Employee Benefit Research Institute and Greenwald & Associates, 2020 Retirement Confidence Survey.



Beware of the
Transition Risk Zone
(TRZ)

Hazards May Lurk in the TRZ

Obstacles May Be Closer Than They Appear



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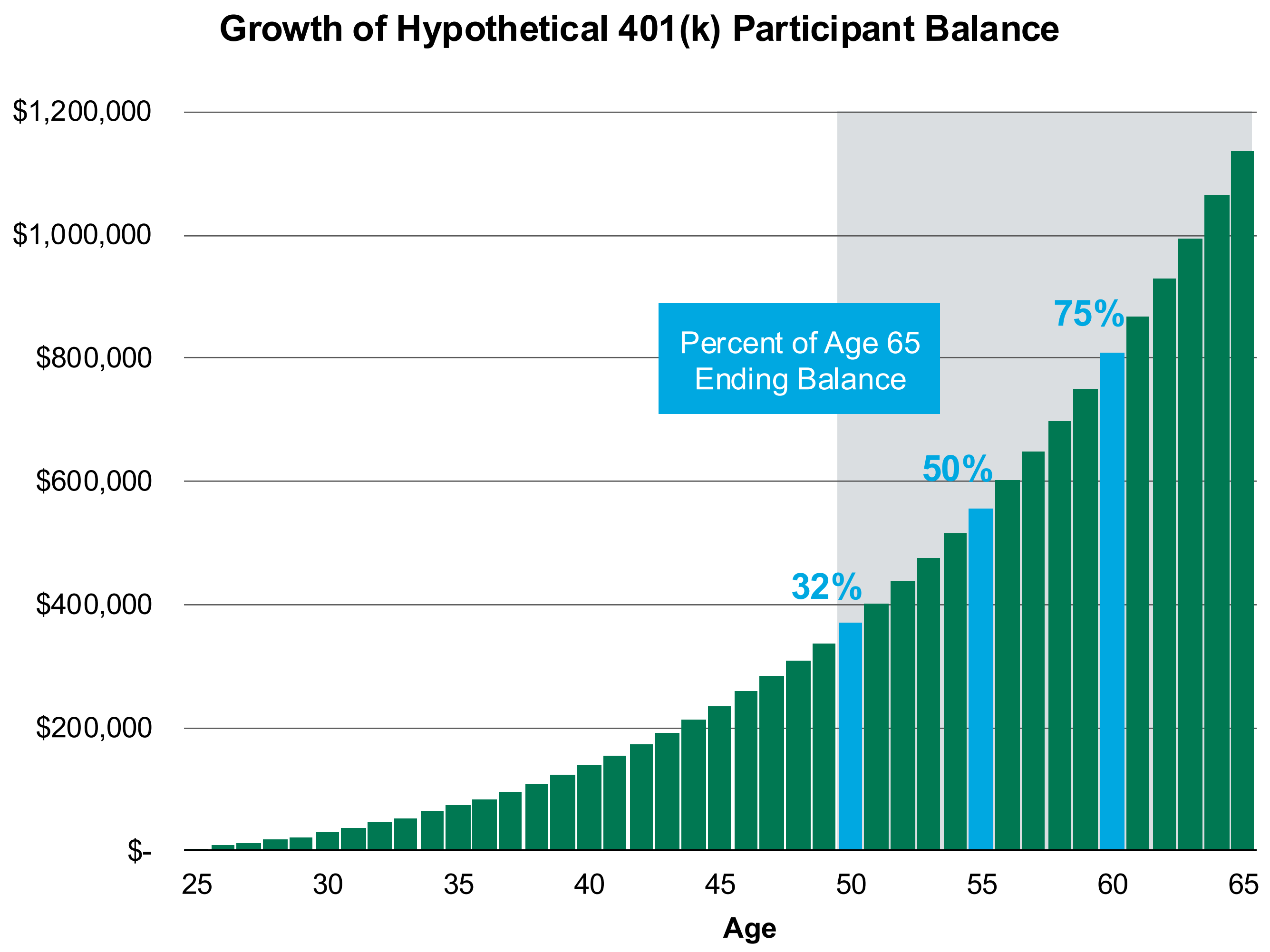
Participants in the TRZ Have More To Lose



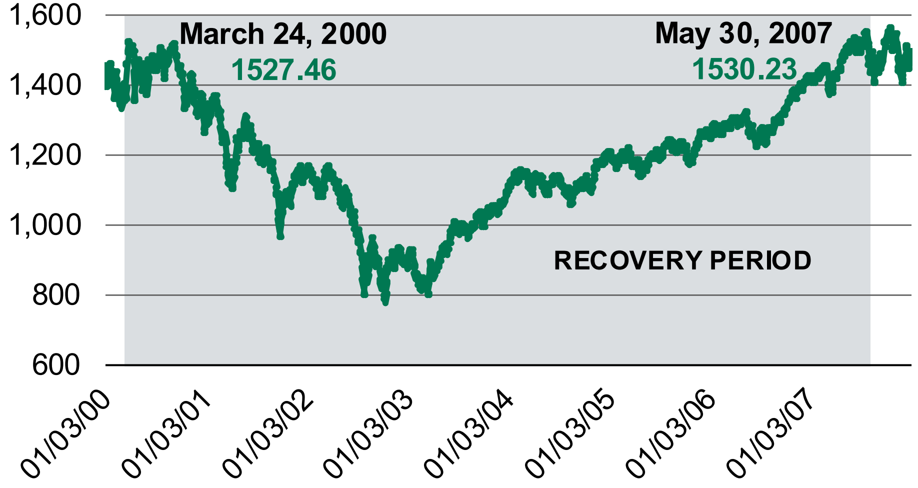
Source: American Century Investments, How America Saves 2020 (Vanguard)

Realized returns simulated (size 10^5) using the glidepaths of 6 major firms, then averaged across all results. Salary at age 25 assumed $45,000 growing to $146,000 at age 65 (in nominal dollars). Assumes annual contributions consistent with 2020 survey demographics, starting at 8.3% total deferral rate and ending at 13.5% at age 65. **Hypothetical results shown for illustrative purposes only and are not a guarantee of future results.**

- The "Transition Risk Zone" highlights where participants may need increased protection from the potential to lock in losses – either from unexpected/early retirement, panic selling, or an ill-timed change in the default investment alternative.
- The impact of a market downturn is elevated in the Transition Risk Zone.

Time May Not Be on Their Side

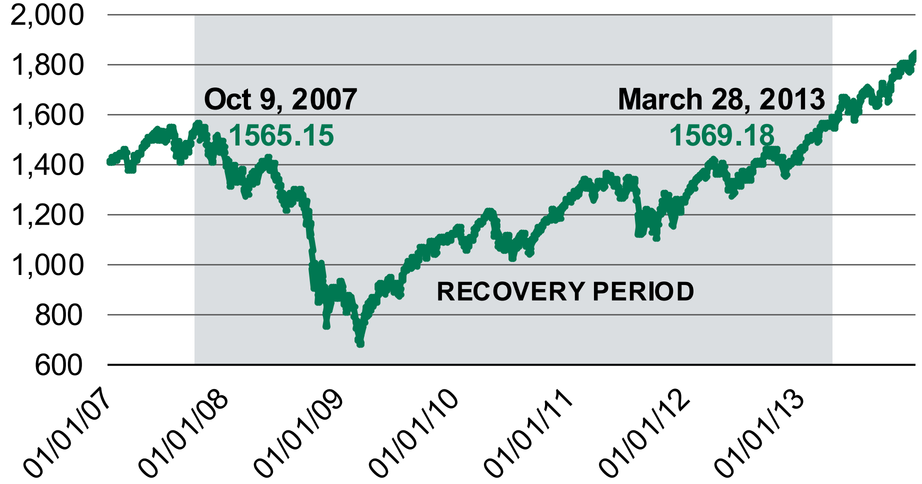
Tech Bubble[1]



~7 Years
to Reach
Previous Highs

Source: FactSet.

Global Financial Crisis[1]



~5½ Years
to Reach
Previous Highs

Source: FactSet.

- On average, downturns of >20% have occurred every 8 years[1]
- The market can take many years to attain previous highs

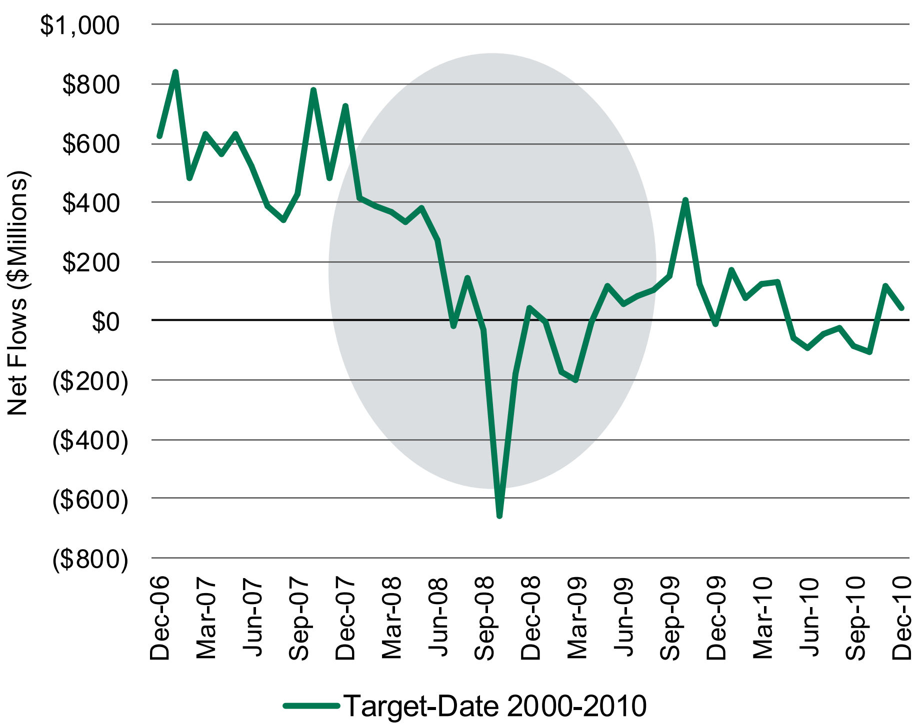
[1] Source: FactSet, S&P 500 Index Returns, 1/1/1929 - 9/30/2020.

Many Repeat Past Mistakes

- TDF outflows during the Global Financial Crisis indicate that investors sold at the wrong time – when markets were down.
- In the recent COVID Crisis, selling occurred among those nearest to retirement – a precarious time to lock-in losses.

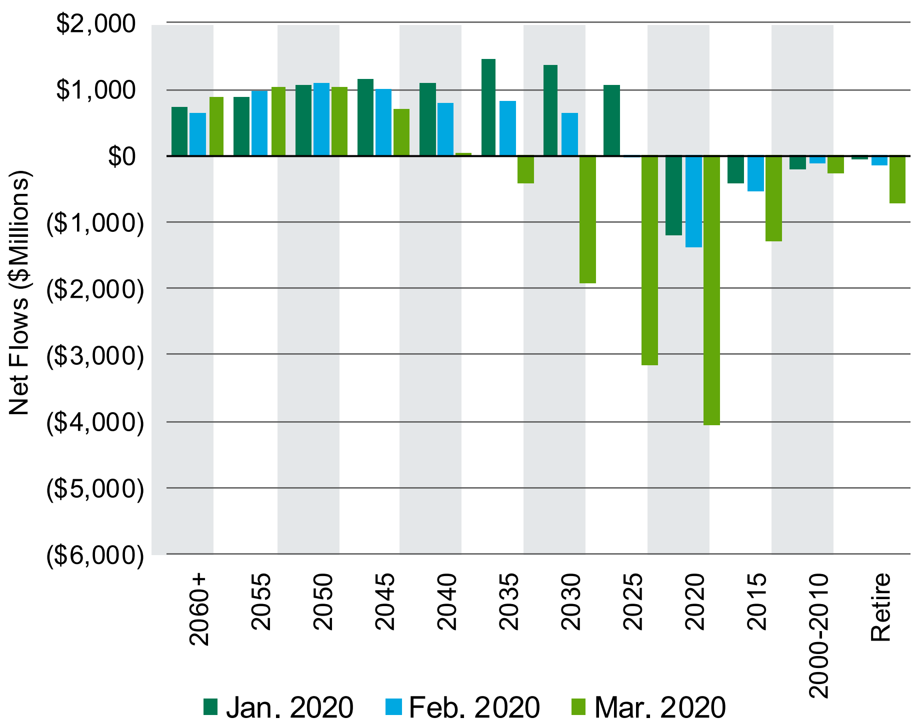
Global Financial Crisis[1]

Investor Flows in the 2000-2010 Target-Date Fund (TDF) Category



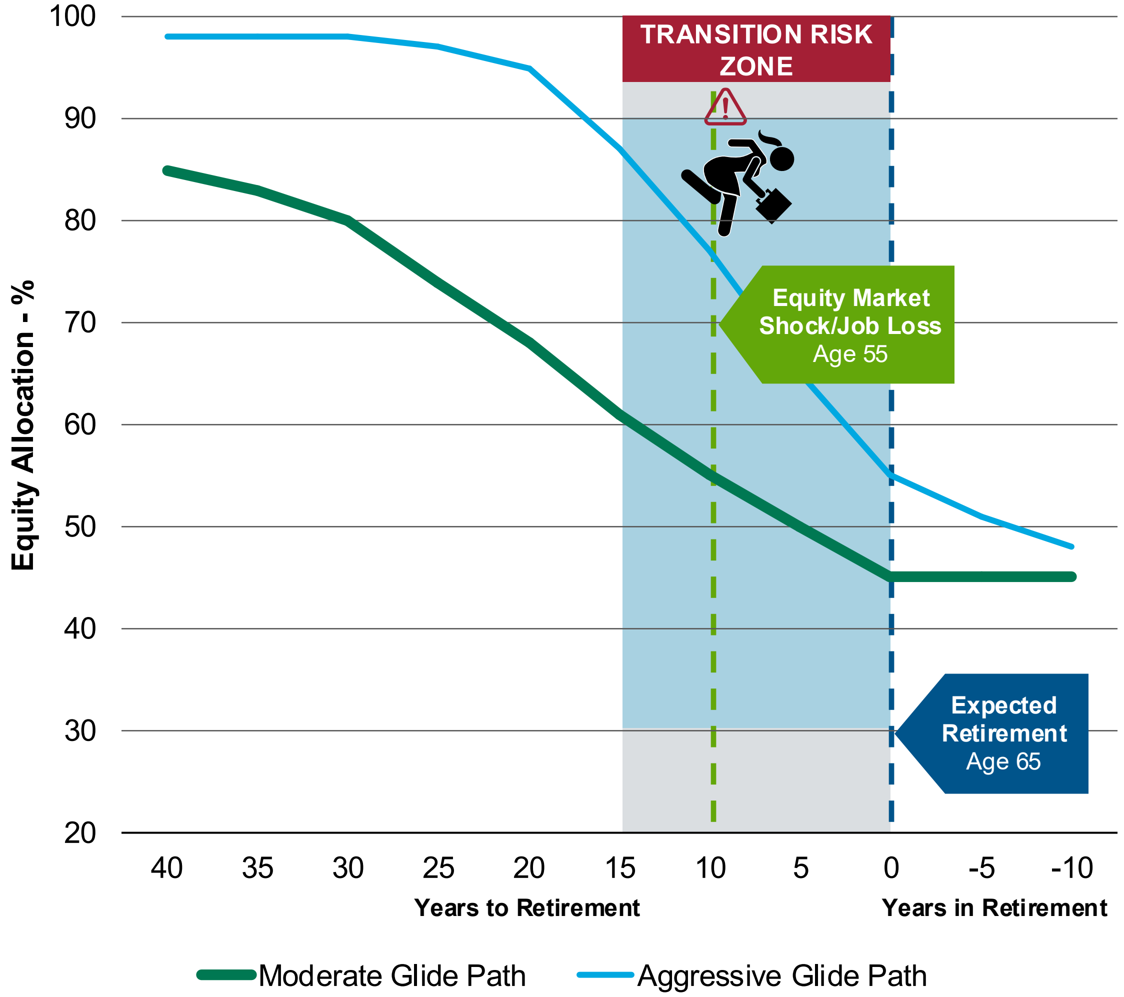
COVID-19 Crisis[2]

Target-Date Flows by Month (1Q 2020)



[1] Source: Morningstar, 1/1/2006 – 12/31/2010.
[2] Source: Morningstar, as of 3/31/2020.

How Much Risk in the Transition Risk Zone?



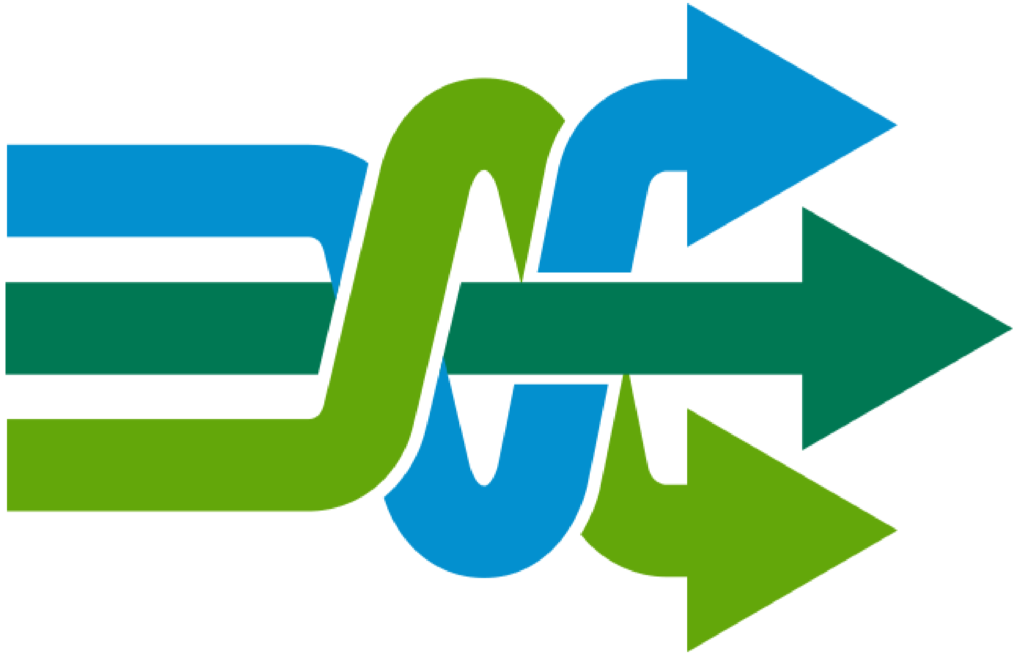
Comparative Equity Allocations (Age 55)	
Moderate Glide Path - Example	**55%**
Aggressive Glide Path Example	**75%**

We believe a higher equity allocation in the Transition Risk Zone exposes investors to greater risk of loss.

Data as of 9/30/2020.

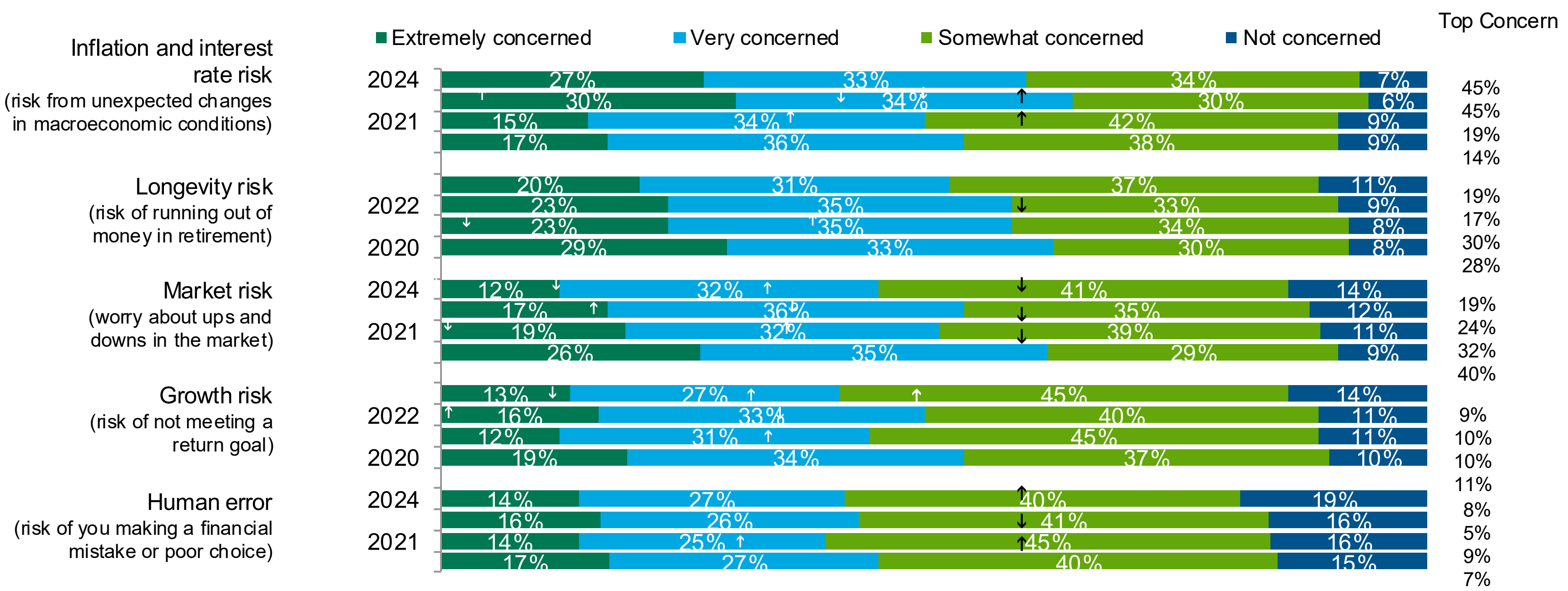
Source: Company materials and websites.

Retirement Survey Results



Inflation and interest risk is still the top concern

6 in 10 highly concerned.



Q11. When selecting investment options with your workplace retirement plan, how concerned are you about the following types of risk at this time? 2024 (n=1,505); 2022 (n=1,509); 2021 (n=1,500); 2020 (n=1,508)
Q11b. Which type of risk concerns you the most? Base – Concerned about more than one type of risk: 2024 (n=1,455); 2022 (n=1,437); 2021 (n=1,431); 2020 (n=1,442)
↑=Significantly higher than previous year, ↓=significantly lower than previous year; ABC=Significantly higher than other age categories

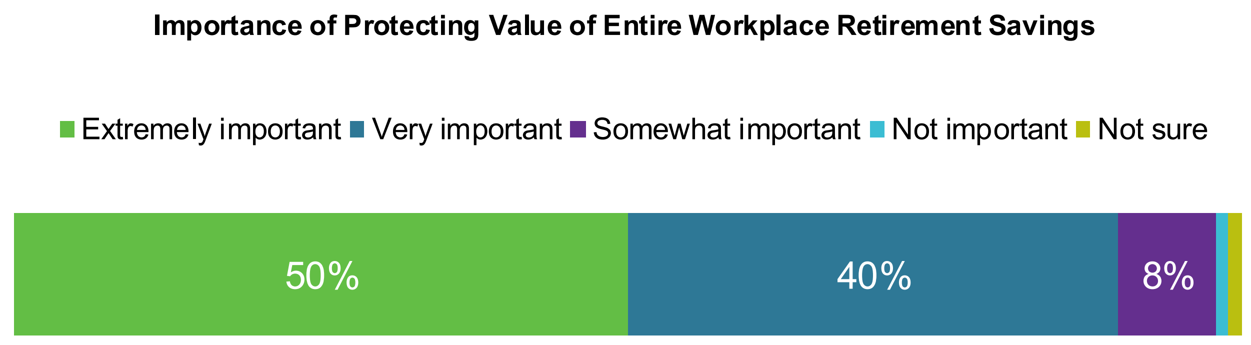
Older participants are less accepting of market risk now than from ten years ago.

Change in Views Toward Market Risk Over Past 10 Years

	25-39 (A)	40-54 (B)	55-70 (C)
I am more accepting of market risk now	42%^{BC}	27%^{C}	16%
I haven't significantly changed my views about accepting market risk	42	49^{A}	45
I am less accepting of market risk now	12	19^{A}	34^{AB}
Not sure	4	5	5

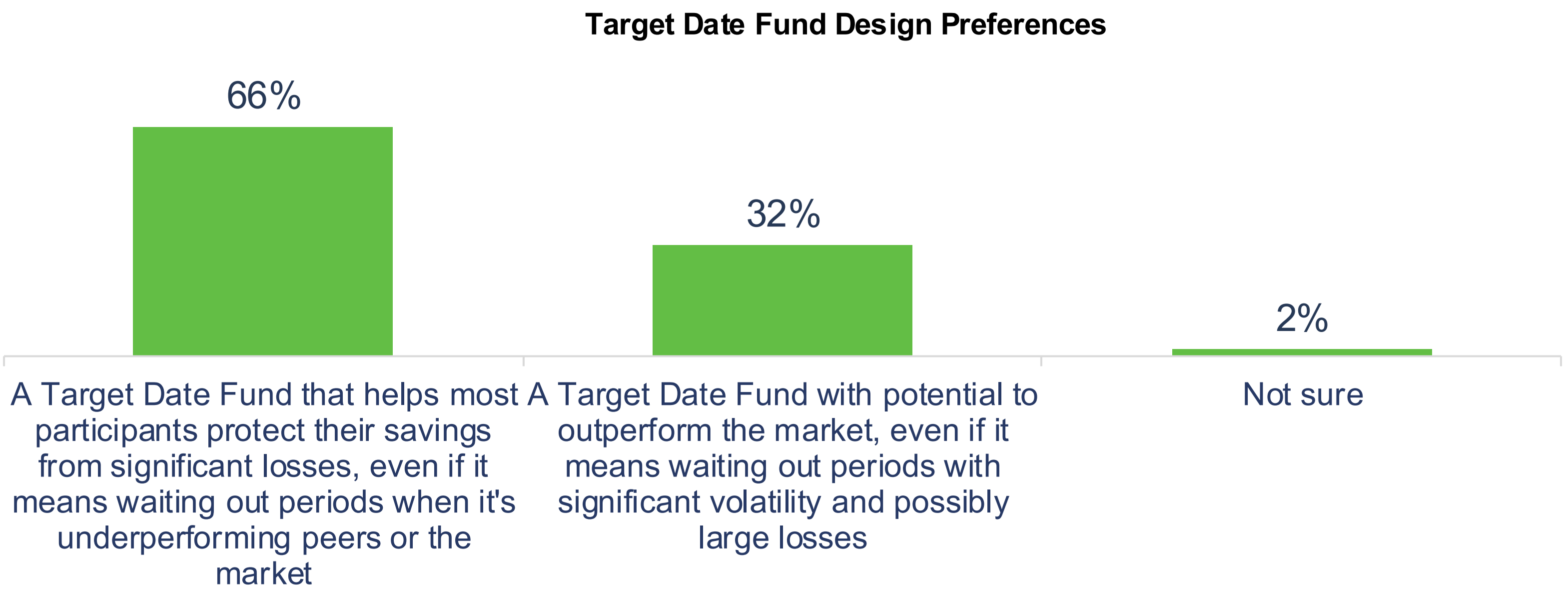
Q7. Thinking back 10 years (or to when you first began saving for retirement, whichever is more recent), which of these statements describes how, if at all, your views toward market risk have changed? 2024 (n=1,505), 2022 (n=1,509)

98% plan sponsors feel it's important to protect the value of their employees' entire workplace retirement savings account balance to generate income in the event of a stock market crash even if they have to pay "a little more."



Q26. In the event of a stock market crash, how important is it for your employees to protect the value of their entire workplace retirement savings account balance to generate income when they retire, even if they have to pay a little more to protect it? (n=500)

All else being equal, two in three say they would prefer a TDF which protects participants from significant losses over the potential to outperform

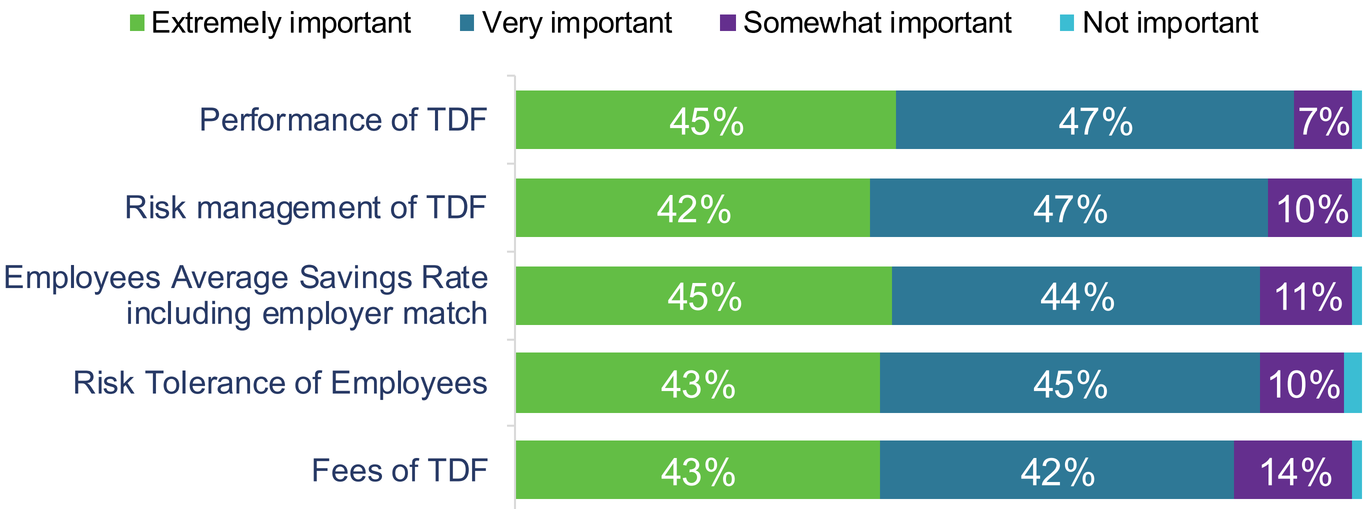


Q35. All other things being equal, which would you rather have? Filter: If familiar with TDFs (n=485)

Performance is cited as the most important attribute when selecting a TDF. Risk management, savings rate,

- Those with 250-999 employees are more likely to cite risk management as an important attribute compared to those with 50-249 employees.

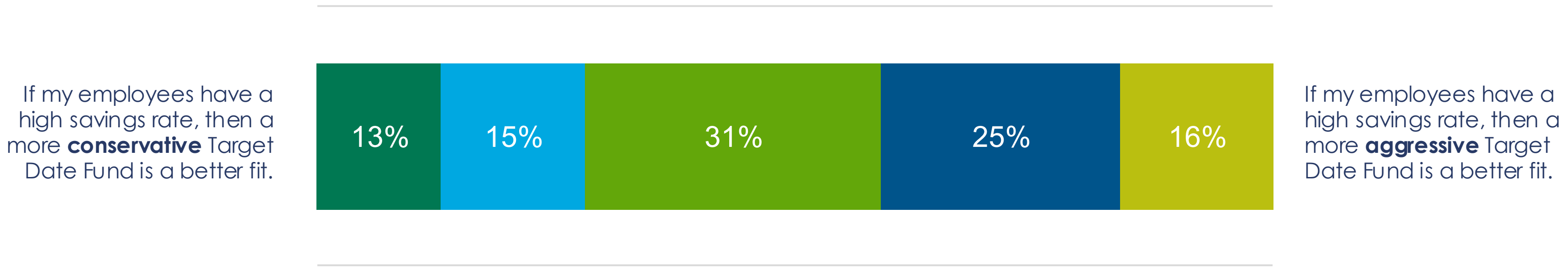
Important Factors in Selecting a Target Date Funds



Q24. How important are each of the following attributes to your organization in selecting a Target Date Fund (TDF)? Filter: Familiar with TDFs (n=485)

Sponsors tend to think a more aggressive TDF is a better fit than a conservative one for employees with a ***high savings rate***. Three in ten land in the middle.

Importance of Employees' Savings Rate in Selecting a Target Date Funds



Q37. Which statement do you agree with more? (n=500)

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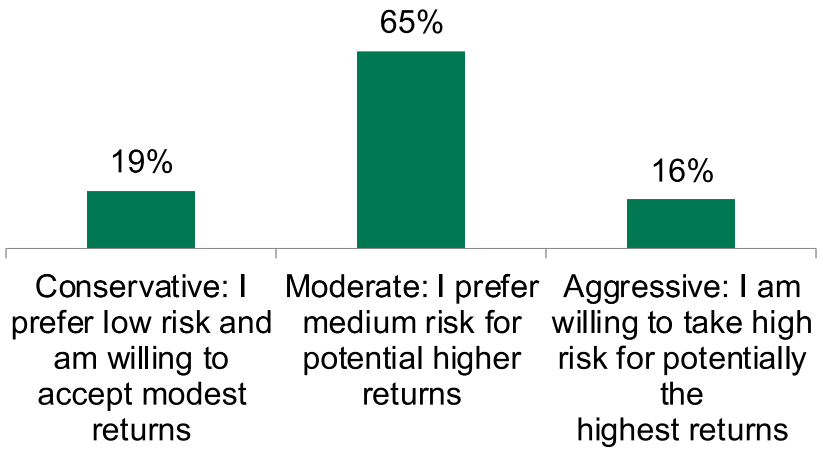
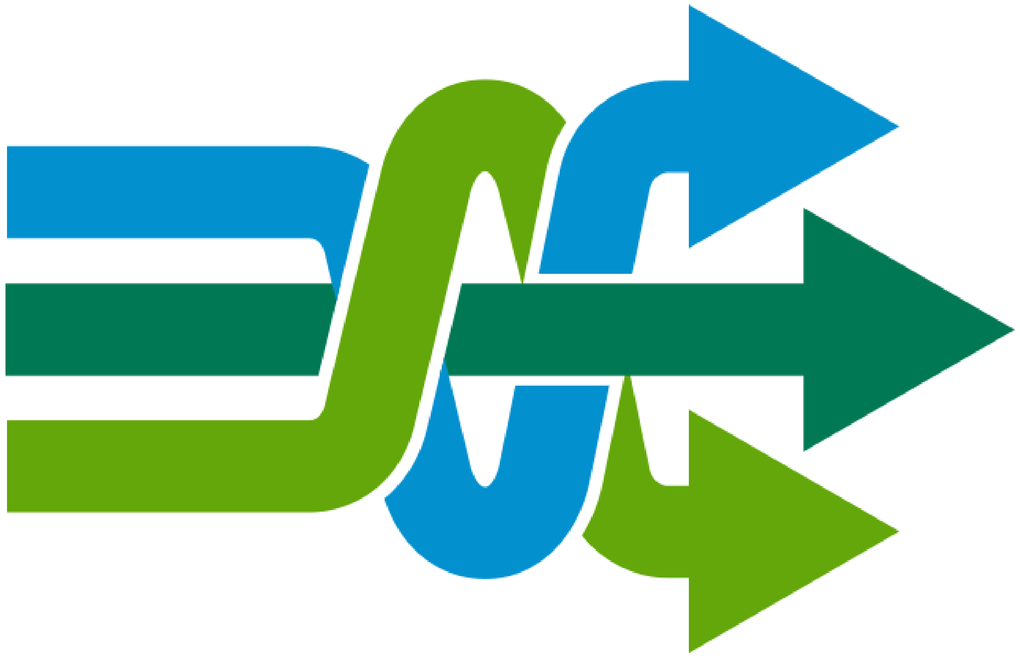
Two in three Participants prefer a TDF with moderate risk, while 19% prefer conservative and 16% a more aggressive approach.

Preference for Target Date Fund Risk Tolerance



	25-39 (A)	40-54 (B)	55-70 (C)
Conservative	20%	16%	23%
Moderate	63	68	65
Aggressive	18	16	11

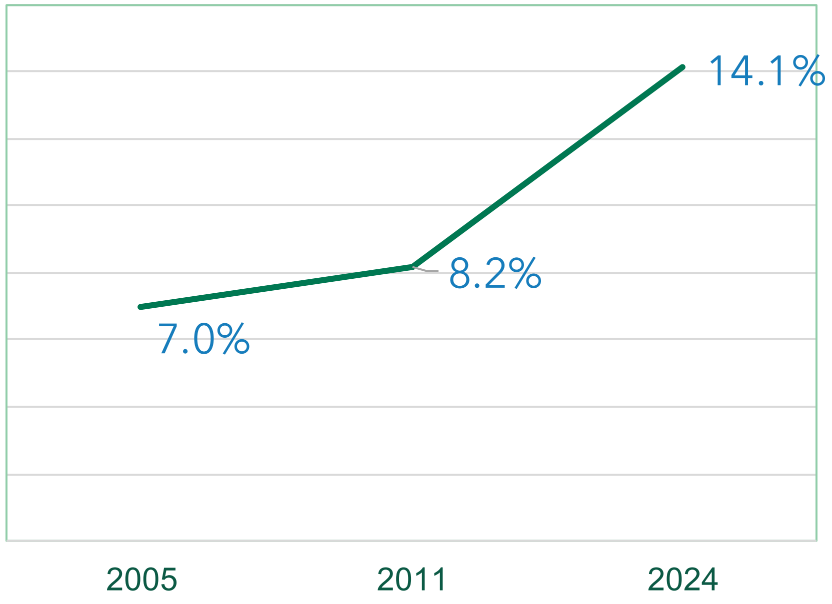
Q22. If given a choice, what type of Target Date Fund would you prefer your employer offered? 2024 (n=1,505)



Manage the Reality of Transition Risk

Savings rates have doubled since 2005, but have TDF providers adjusted?

401(k) Contribution Rates (including Employer Match)



Source: Fidelity Q2 2024

DOL Tip for ERISA Plan Fiduciaries: Plan Fiduciaries are **required** to periodically review the plan's investment options 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.

According to Vanguard, in 2024, 45% of participants increased their deferral rate for Vanguard Plans*

*PLANSPONSOR How America Saves Report, March 6, 2025

There is an alarming disconnect between savings rates and TDF equity allocations

Savings Rates, along with Risk Tolerance, are the **biggest determinants** of Equity Allocation in Target Date Funds [1]

"**Optimal TDF allocation must be explicitly linked to a savings rate**; for example, a higher savings rate generating higher financial wealth accumulation should necessarily come with a more conservative TDF" [2]

The doubling of 401k savings since 2005 should have led to mass replacement of Aggressive TDFs with more moderate TDFs with 15%–20% less equity [2]

[1] Tips for ERISA Plan Fiduciaries, US Department of Labor Employees Benefits Security Administration February 2013
[2] The Journal of Retirement, Fall 2021 On Optimal Allocations of Target Date Funds

According to academics in the space, "optimal TDF allocation must be explicitly linked to a savings rate"

The Journal of Retirement – Fall 2021

From: *On Optimal Allocations of Target Date Funds:*

Higher savings rate generating higher financial wealth accumulation should necessarily come with a more conservative TDF.

Savings rates strongly alter the optimal allocation—doubling the savings rate reduces the optimal equity allocation by 15%–20%.

Proposed savings rate needs to be explicitly linked to the asset allocation recommendation in TDF design.

Lower equity allocation increases the certainty around retirement consumption

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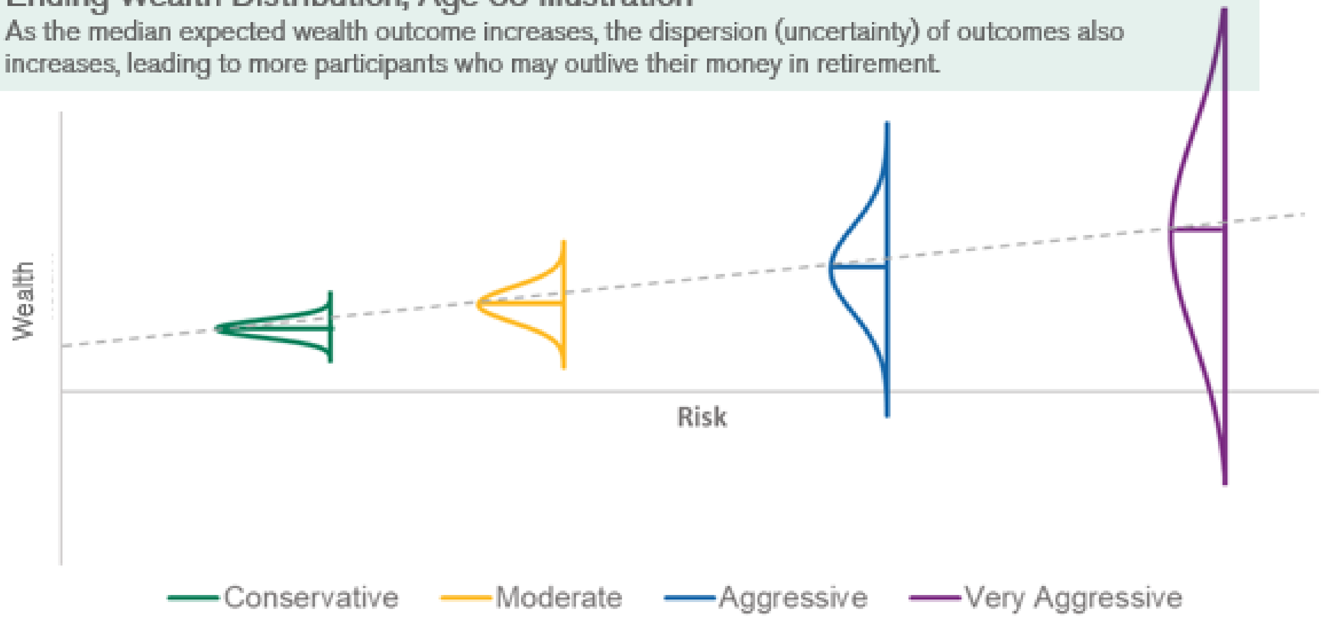
Why take more risk if it is not necessary?

- Constructing a glide path is not as simple as aiming for the highest growth. That's because doing so potentially ignores the other risks in life cycle investing. And it creates a wider range of potential outcomes that could result in a larger probability of failure in retirement.

Ending Wealth Distribution, Age 65 Illustration

As the median expected wealth outcome increases, the dispersion (uncertainty) of outcomes also increases, leading to more participants who may outlive their money in retirement.



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Market Shock Likely in the TRZ

Nearly half of retirees retire earlier than planned[1]

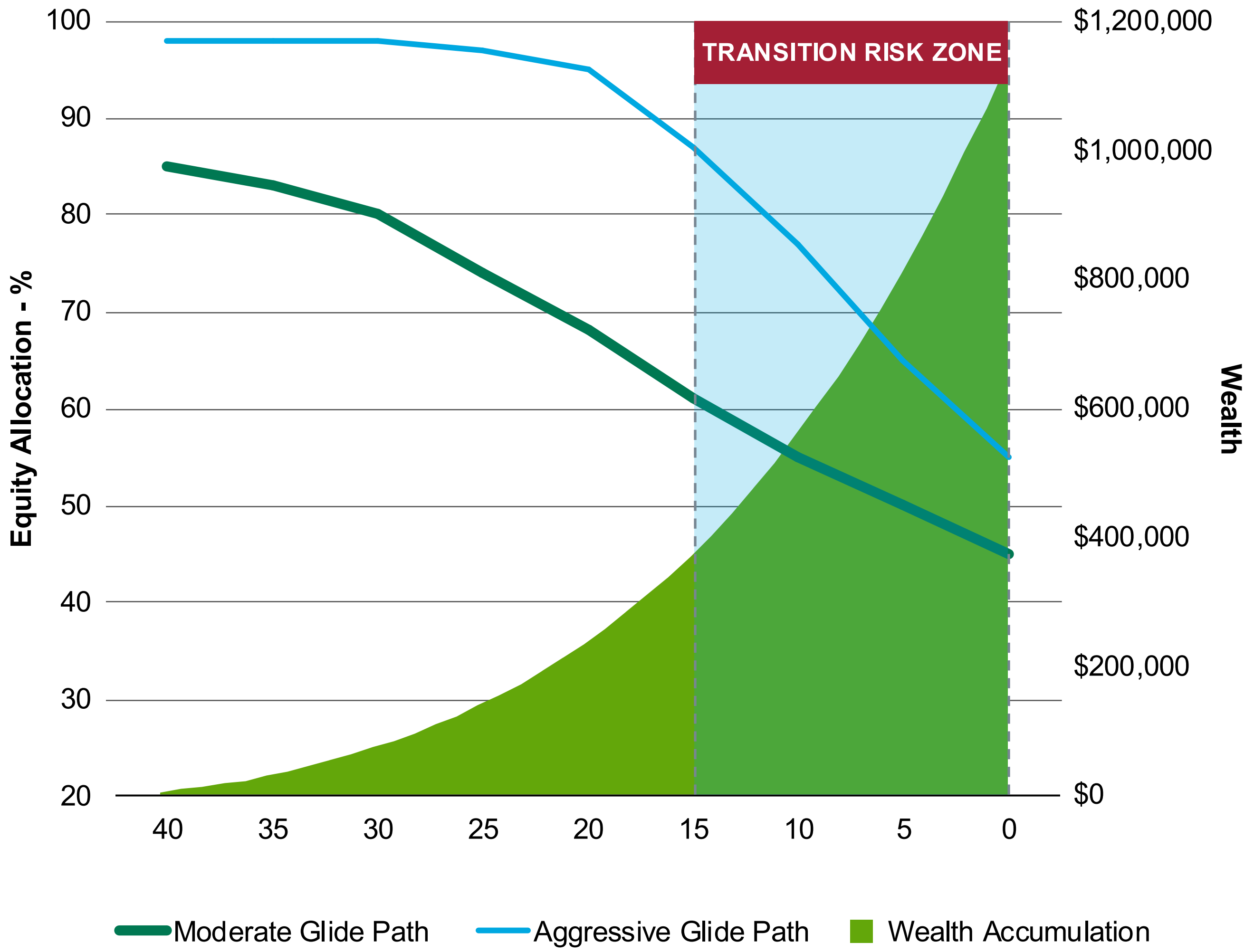
Some older participants panic and sell when market volatility occurs

"Everybody has a **plan** until they get **punched** in the mouth."

-Mike Tyson

[1]Source: 2020 Retirement Confidence Survey, Employee Benefit Research Institute and Greenwald & Associates.
[2] Bear market declines of 20% or more have occurred every 8 years or so in the past 90 years. Source: FactSet, S&P 500 Index Returns, 1/1/1929 – 6/30/2020.

We Believe a Flatter Glide Path Helps Manage Transition Risk



Our hypothetical simulation indicates a flatter glide path may potentially offer:

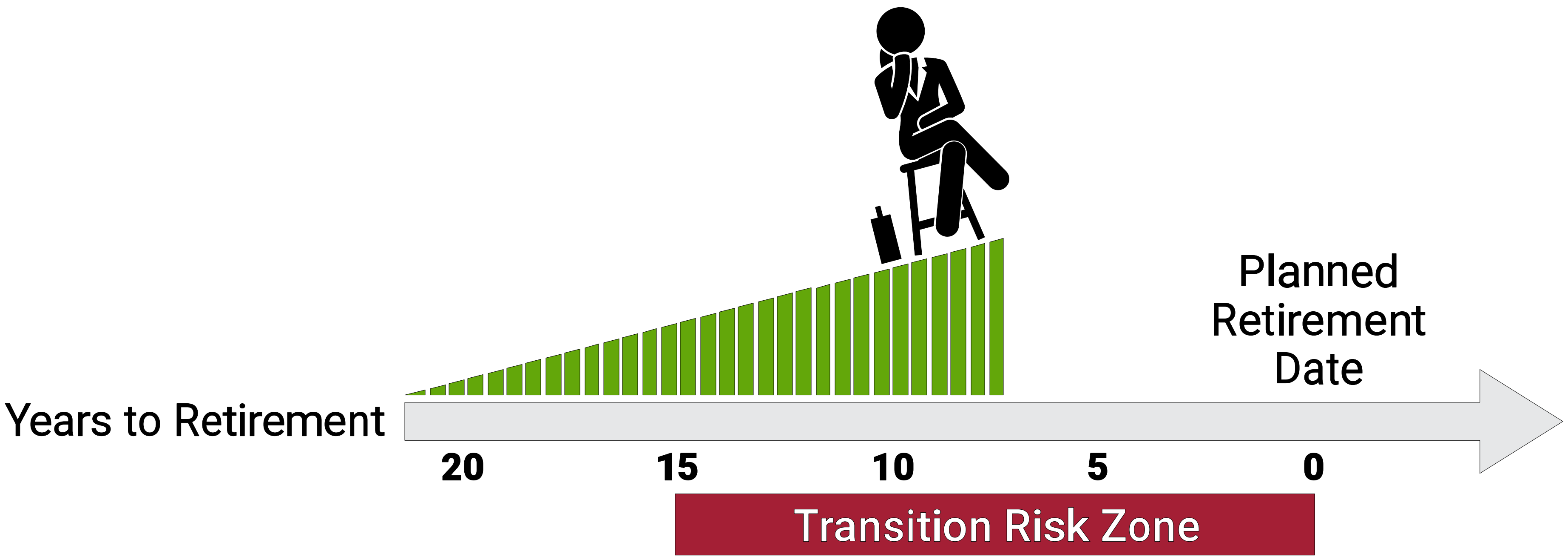
- Slightly lower initial wealth accumulation
- Significantly less draw-down from a market shock
- Stronger recovery due to less dramatic drawdown

Source: American Century Investments, How America Saves 2020 (Vanguard)

Realized returns simulated (size 10^5) using the glidepaths of 6 major firms, then averaged across all results. Salary at age 25 assumed $45,000 growing to $146,000 at age 65 (in nominal dollars). Assumes annual contributions consistent with 2020 survey demographics, starting at 8.3% total deferral rate and ending at 13.5% at age 65. **Hypothetical results shown for illustrative purposes only and are not a guarantee of future results.**

Consider the Transition Risk Zone

- Understand the potential impact of a sharp equity market downturn on participant outcomes
- Focus on a TDF's downside protection potential in an effort to increase wealth accumulation across a full market cycle



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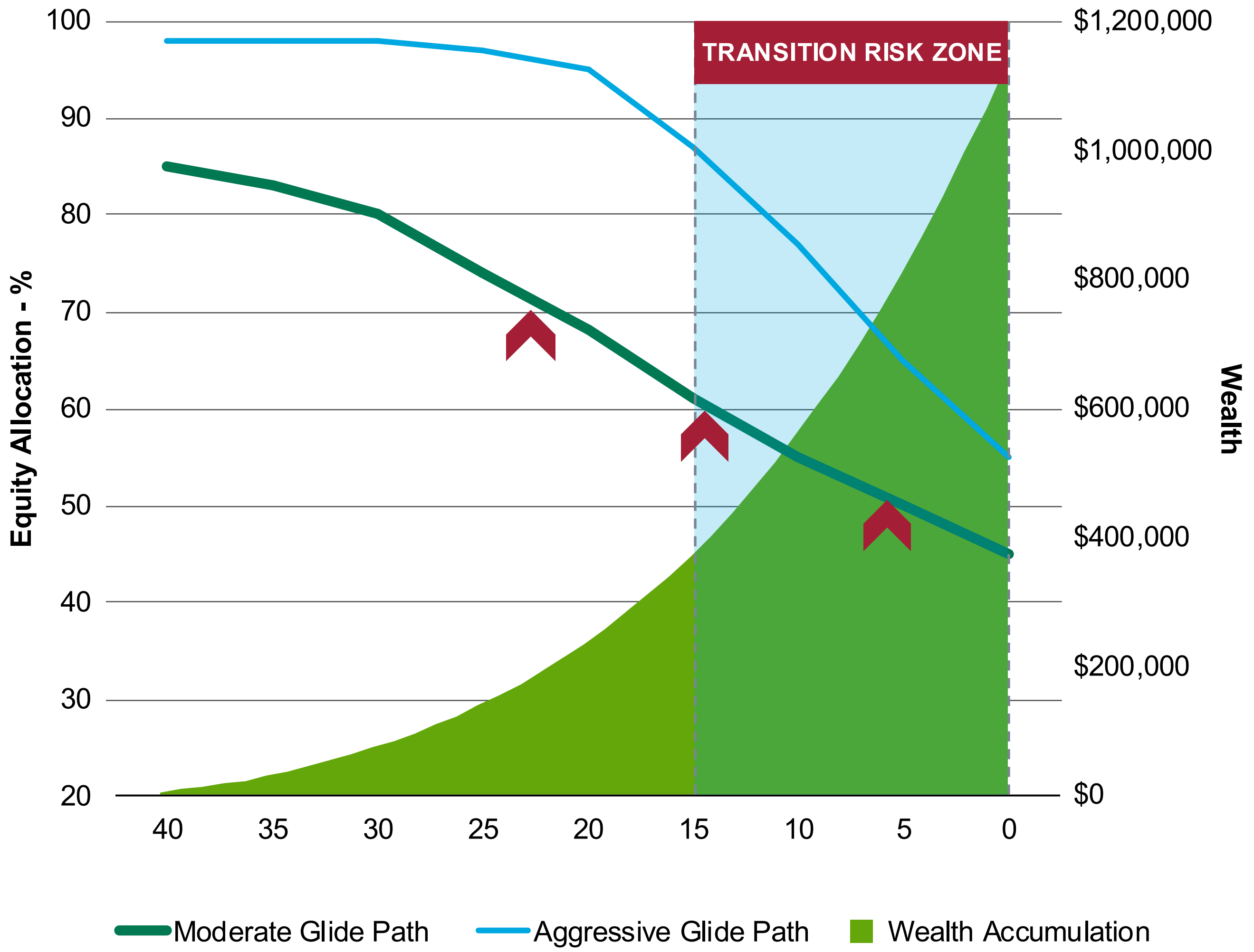
Set Your Sights on the TRZ



- Assess risk at multiple points along the glide path – especially as the target date approaches
- Match TDF selection to each plan's demographic and risk appetite

Source: American Century Investments, How America Saves 2020 (Vanguard)

Realized returns simulated (size 10^5) using the glidepaths of 6 major firms, then averaged across all results. Salary at age 25 assumed $45,000 growing to $146,000 at age 65 (in nominal dollars). Assumes annual contributions consistent with 2020 survey demographics, starting at 8.3% total deferral rate and ending at 13.5% at age 65. **Hypothetical results shown for illustrative purposes only and are not a guarantee of future results.**

Assumptions for Hypothetical Scenario

Simulation assumptions: Returns simulated (size 10^5) using the American Century Target Date and competitor glide paths (competitor is a top-ten target-date series as measured by AUM). Assumes annual contributions starting at 8.3% total deferral rate at age 25 and ending at 12.5% at age 55. Age 25-55: Participant invested in the glide path allocations for the target-dates shown. Returns are simulated based on capital market assumptions from ACI Multi-Asset Strategies' long-term forecasts. Age 55: Shock scenario losses based on average stock and bond returns over the last two equity bear markets (2007-2009 and Q1 2020) using Russell 1000 Index and BloombergBarclays U.S. Aggregate Bond Index returns. Loss is simulated based on level of strategic equity and fixed income allocation in each glide path at age 55. Scenario 1 simulation assumptions (age 56-65): Participant ceases contributions after age 55 while remaining invested along strategic glide path until age 65. Scenario 2 simulation assumptions (age 56-65):) Participant continues contributions to age 65, ending at 13.5% total deferral rate while remaining invested along strategic glide path until age 65. Salary at age 25 assumed $45,000 in year 1 growing to $146,000 at age 65. All results expressed in nominal dollars. Glide path data from Morningstar, company websites, and ACI as of 9/30/2020. IMPORTANT: The projections or other information generated by American Century regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.

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The opinions expressed are those of American Century Investments and are no guarantee of future performance of any American Century portfolio.

Retirement Survey

- **Methodology**: The participant survey was conducted between June 11, 2024, and June 27, 2024. Survey included 1,505 full-time workers between the ages of 25 and 65 saving through their employer's retirement plan. The data were weighted to reflect key demographics (gender, income, and education) among all American private sector participants between 25 and 65.
- The sponsor survey was conducted between June 10, 2024, and June 26, 2024. Survey included 500 plan sponsor representatives holding a job title of Director or higher, and having considerable influence when it comes to making decisions about their company's retirement plan (either 401(k), 403(b), or 457 plans). The data were weighted to reflect the makeup of the total defined contribution population by plan asset size.
- Percentages in the tables and charts may not total 100 due to rounding and/or missing categories.
- Greenwald Research of Washington, D.C., completed data collection and analysis.
- This material has been prepared for educational purposes only. It is not intended to provide, and should not be relied upon for, investment, accounting, legal or tax advice.
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- Investment return and principal value of security investments will fluctuate. The value at the time of redemption may be more or less than the original cost. **Past performance is no guarantee of future results.**
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