

Target Date Funds

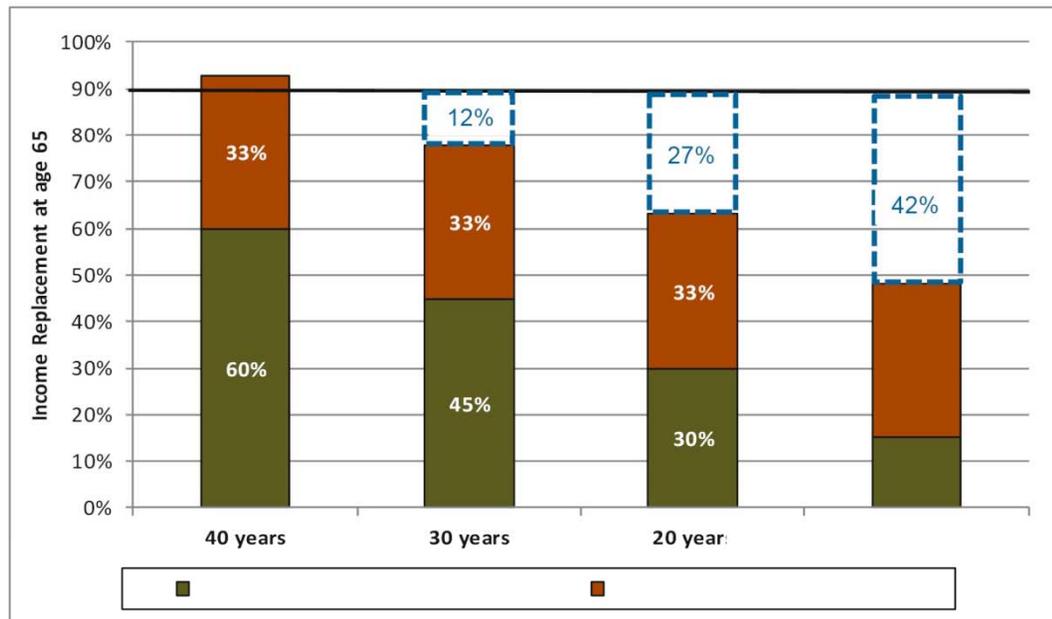
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Defined Contribution Savings Plans



Target Income Replacement Rate



- ▶ The Tier II defined benefit can still be a significant source of retirement income for a long service employee (20+ years)
 - A 40-year career employee may not need to supplement retirement with a defined contribution plan
- ▶ Defined contribution savings may be required to meet a 90% income replacement target
 - A 20–30 year employee may need 12–27% defined contribution replacement
 - Note: Prior employment savings are not factored into the calculation and can (should) be significant for a mid-career hire
 - A 20% income replacement target for the defined contribution plan is reasonable for long-term employees (25+ years of service)
- ▶ Social Security is estimated to be 33% but is very sensitive to future earnings.
 - Low income earners receive more, high income earners receive less.
 - Social Security replacement was based on 40 years of eligible service and the assumed actuarial salary growth for Public Employees (8.75% to 3.5%).

How to Address the Four Key Risks

Shortfall Risk

- The risk of not accumulating enough assets at retirement to meet spending goals.
- Managing this risk favors higher returning “growth” assets in the years leading to retirement.

Growth Assets
Higher Alpha Potential

Longevity Risk

- The risk of outliving assets.
- Managing this risk favors higher returning “growth” assets during retirement.

Growth Assets
Less active risk



Downside Risk

- The risk of large market losses, particularly near retirement.
- Managing this risk favors lower risk assets, and particularly those that hold up in “flight-to-quality” environments.

Downside Protection
Diversification
Flight to Quality

Inflation Risk

- The risk that the purchasing power of assets is eroded by persistently high inflation.
- Managing this risk favors asset classes that protect against inflationary periods.

Real Assets

Role of Asset Classes

Growth Assets

- **Return Seeking**
- Large/Mid cap US equity
- Small cap US equity
- Global ex-US equity
- Emerging markets
- High yield
- Private Real Estate
- REITs

- **Active Management**
- Small cap US equity
- Non-US equity
- Emerging markets
- Private Real Estate
- REITs

Downside Protection

- **Low Volatility**
- Stable value
- Short duration
- US fixed income
- Non-US Fixed Income (Hedged)

- **Further Diversification**
- Emerging Markets
- Bank Loans
- Private Real Estate

Inflation Protection

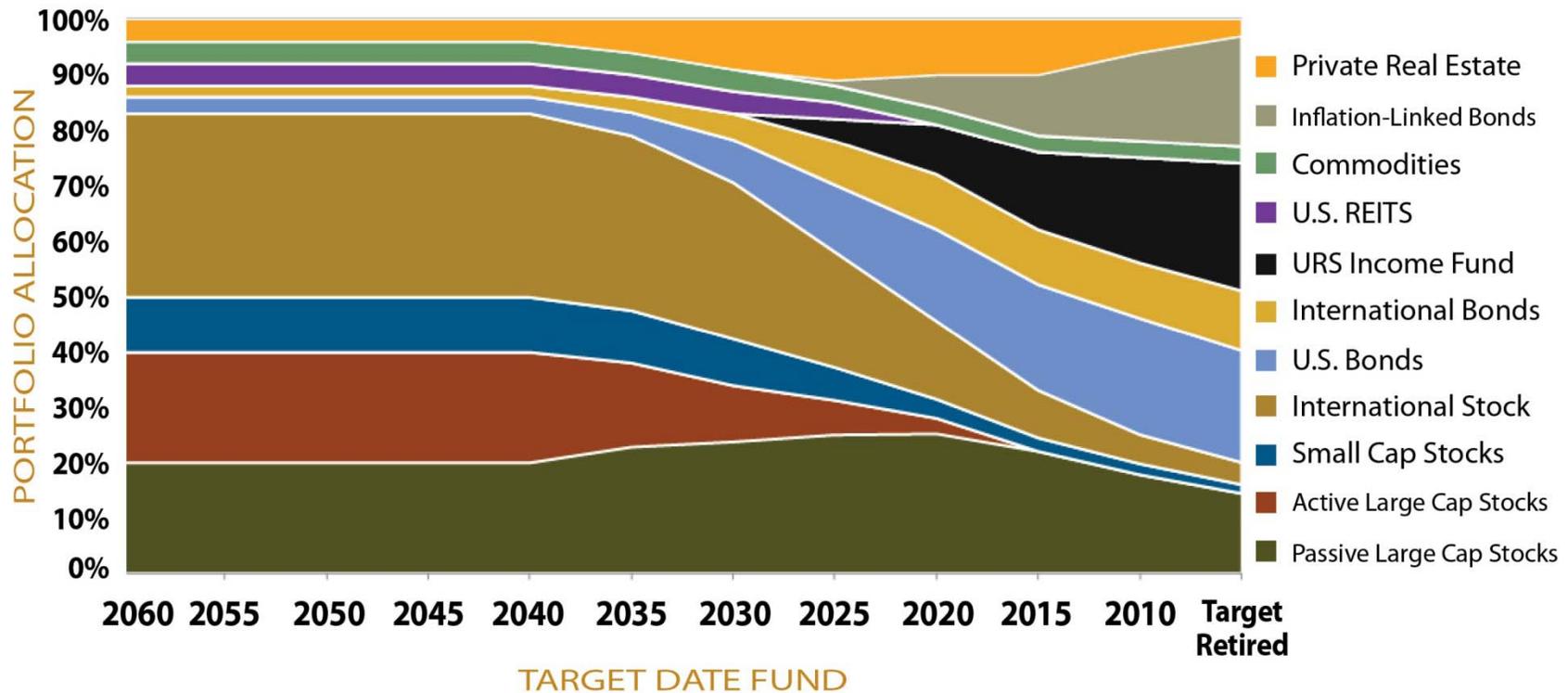
- **Short-Intermediate Inflation Hedge**
- Global Inflation-Linked Bonds
- Commodities

- **Long-Term Inflation Hedge**
- Private Real Estate
- Natural Resources Equity
- MLPs
- REITs

Demographic Assumptions

	Assumption
Target Income Replacement	20% at age 65
Participation Age	25
Initial Salary	\$30,000
Salary Growth Rate	Age-based. 8.75% decreasing to 3.5%
Employer Contribution Rate	2.0%
Employee Contribution Rate	2.0%
Type of Annuity	Life only
Annuity Interest Rate	Simulated based on yields Range: 3 – 8%
COLA indexation	2.5%
Percent Male	35%
Mortality	RP-2000 Generational with Projection Scale BB

The URS Glide Path



- ▶ The above chart depicts a preliminary version of the glide path tailored to the Utah State Retirement Defined Contribution Plan
- ▶ The optimal glide path for any participant population will vary depending on: retirement goal(s); participant demographics; risk tolerance; and other sources of retirement income.
- ▶ The URS Glide Path is well-diversified across 10 asset classes.

Target Date Funds

What It Means

Diversity. Simplicity. Precision. With Target Date Funds, simply choose the fund appropriate to your age. No need to adjust your investments as your time horizon changes. Your Target Date Fund does the work for you, moving your investments to the appropriate allocations through the course of your career.

Diverse Asset Classes » This chart shows the investment breakdown of each of the Target Date Funds.



Fund	2060	2055	2050	2045
Passive Large Cap Stock	20%	20%	20%	20%
Active Large Cap Stock	20%	20%	20%	20%
Small Cap Stock	10%	10%	10%	10%
International Stock	33%	33%	33%	33%
U.S. Bonds	3%	3%	3%	3%
International Bonds	2%	2%	2%	2%
Stable Value — URS Income Fund	0	0	0	0
U.S. Real Estate Investment Trusts	4%	4%	4%	4%
Commodities	4%	4%	4%	4%
Inflation-Linked Bonds	0	0	0	0
Private Real Estate	4%	4%	4%	4%

2040	2035	2030	2025	2020	2015	2010	Ret. *
20%	22%	23%	25%	23%	21%	18%	14%
20%	15%	10%	6%	3%	0	0	0
10%	9%	8%	5%	3%	2%	1%	1%
33%	32%	27%	19%	13%	8%	5%	4%
3%	4%	9%	13%	18%	19%	21%	20%
2%	3%	5%	8%	10%	10%	10%	10%
0	0	0	5%	10%	15%	20%	25%
4%	4%	4%	3%	0	0	0	0
4%	4%	4%	4%	3%	3%	3%	3%
0	0	0	2%	7%	12%	17%	20%
4%	7%	10%	10%	10%	10%	5%	3%

* Retired Fund

See Pages 9-10 for a description of each asset class.

Target Date Funds

Introduction

URS Target Date Funds: What they are, what it means to you, when and how to get them
Pages 3-8

What's in Them?

Examining the asset classes
Pages 9-10

Low Fees Add Value

Keep more of your money
Pages 11-12

Plan Comparison

401(k), 457, IRA, Roth IRA
Page 13

Online Access

Manage your URS accounts
Page 14

Risks

Risks associated with investing
Pages 15-16

Other Funds

URS Core Funds, PCRA
Pages 17

Disclaimers

Trading policies and more
Pages 18

One Fund for Your Lifetime



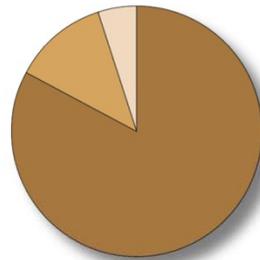
Target Date Funds give you a diversified portfolio through a single investment option. Select the fund appropriate to your age. The fund's investment allocations change automatically through your career.

EXAMPLE: TARGET DATE FUND 2060

Fund allocations adjust annually into retirement

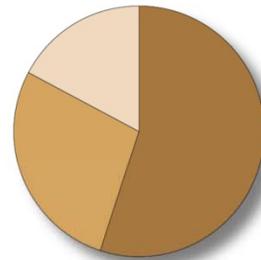
Start of Your Career Age 25

Your stock exposure is greatest early in your career.



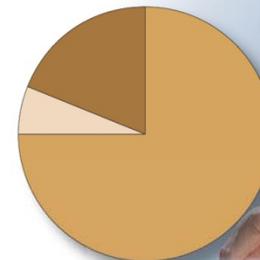
Mid-Career Age 55

Your funds' allocations automatically adjust.



Retired Age 75

Your allocations become more conservative.



■ Equities/Stocks ■ Bonds/Fixed Income ■ Alternatives



Target
Date Funds

When and How?

URS Target Date Funds debut Jan. 1, 2015. Any account balance you have in a Horizon Fund will be transferred to the Target Date Fund that corresponds to your birthdate (see chart at right). Horizon Funds will no longer exist as an option. The transition from Horizon to Target Date Funds will take place automatically. No action is required on your part.

If you prefer not to use the Target Date Funds, change your allocations from any Horizon Fund to any URS core fund before December 29, 2014. This transition will only affect Horizon Fund balances; any and all assets in URS core funds (e.g., Large Cap Growth, Income, Bond, etc.) will not be transferred. Balances in a PCRA brokerage account will also be unaffected.

Example 1 » Betty, 63, has \$27,500 in her 401(k), invested in the Short Horizon Fund. On Jan. 1, 2015, her funds will be transferred to the Target Date 2015 Fund. She also has a Roth IRA with \$19,000 divided among the Short, Medium and Long Horizon Funds. All of these funds would also move to the Target Date 2015 Fund.



	Date of Birth From	Date of Birth To
Target Date 2060	July 1, 1993	
Target Date 2055	July 1, 1988	June 30, 1993
Target Date 2050	July 1, 1983	June 30, 1988
Target Date 2045	July 1, 1978	June 30, 1983
Target Date 2040	July 1, 1973	June 30, 1978
Target Date 2035	July 1, 1968	June 30, 1973
Target Date 2030	July 1, 1963	June 30, 1968
Target Date 2025	July 1, 1958	June 30, 1963
Target Date 2020	July 1, 1953	June 30, 1958
Target Date 2015	July 1, 1948	June 30, 1953
Target Date 2010	July 1, 1943	June 30, 1948
Target Retired		June 30, 1943

The Target Date Fund appropriate for your age is your default investment if you don't specify any other allocation.

Example 2 » Sandra is 25 years old and recently joined the Tier 2 Retirement System. She has \$1,500 of her own contributions split between the Long Horizon Fund and the Bond Fund (core funds). On Jan. 1, 2015, her account will show \$750 in the Target Date 2060 Fund and \$750 in the Bond Fund. Remember, if you're Tier 2, any non-vested employer contributions will remain in the Tier 2 Nonvested Fund until you have four years of service.



NEW FOR 2015



401(k) • 457 • Roth IRA • Traditional IRA

Target DateFunds

Diversify and simplify your retirement savings! These 12 new funds will replace the URS Horizon Funds on January 1, 2015.

LOOK INSIDE FOR COMPLETE DETAILS!



Target
DateFunds