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Correspondence Memorandum

Date: May 13, 2022
To: Deferred Compensation Board
From: Shelly Schueller
 Deferred Compensation Director
Subject: Vanguard Target Retirement Date Additions

The Department of Employee Trust Funds (ETF) recommends the Deferred Compensation Board (Board) consider:

- 1) Adding the Vanguard Target Retirement Trust Plus 2065 to the investment lineup; and
- 2) Adding the Vanguard Target Retirement Trust Plus “ten” series to the lineup: 2020, 2030, 2040, 2050, and 2060.

Target Date Funds (TDFs) are investment vehicles that were designed as an easy way for people planning to retire in -- or within a few years of -- a specified date, to reach their financial retirement goals based on a normal retirement age of 65. TDF managers use the target date, which is included in the name of the individual TDF, to determine the degree of risk the fund will take on. TDFs offer professional management, portfolio diversification and automatic rebalancing. They typically employ an asset allocation strategy that gradually becomes more conservative as they reach the date specified in the fund’s name. TDFs are very popular and appeal to participants who do not have the time, knowledge or interest to regularly monitor and adjust their investment portfolio allocations.

The Board began exploring TDFs in 2004, and in early 2005 voted to add low-cost index-based Vanguard Target Retirement Funds to the Wisconsin Deferred Compensation Program (WDC) investment lineup. Vanguard began offering TDFs “on the 5s” (2015, 2025, etc.) along with the TDF Retirement Income Fund with the intent that these TDFs could be used by both working and retired investors. The Vanguard TDFs invest exclusively in underlying Vanguard index funds and incorporate a glide path designed to take investors through their retirement years.

Birth Year	Target Retirement Date Fund
Born 1955 or earlier	2015/Ret. Income Fund
Born between 1956-1960	2020 Fund

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services
 Electronically Signed 05/24/2022

Board	Mtg Date	Item #
DC	06.09.22	9B

Birth Year	Target Retirement Date Fund
Born between 1961-1965	2025 Fund
Born between 1966-1970	2030 Fund
Born between 1971-1975	2035 Fund
Born between 1976-1980	2040 Fund
Born between 1981-1985	2045 Fund
Born between 1986-1990	2050 Fund
Born between 1991-1995	2055 Fund
Born between 1996-2000	2060 Fund
Born 2001 or after	2065 Fund

Mutual fund versions of the Vanguard TDF “five” series (2015, 2025, 2035 and 2045) opened to WDC participants in July 2005 and the Board subsequently added the 2055 TDF in 2010. In 2018, the Board voted to move from institutional mutual fund TDFs to lower cost collective trust TDFs. As a result of reaching an investment threshold at Vanguard, a new, lower-cost trust option became available to the WDC in late 2021. The WDC’s TDF options moved from Trust I to Trust Plus in January 2022. This reduced the expense ratio participants are paying for TDFs from 7.0 basis points (bps) to 5.5 bps.

As shown in the table below, as of March 31, 2022, WDC participants held approximately \$1,115,427,677 in WDC TDFs.

Table 1: WDC Target Retirement Date Funds as of March 31, 2022

Investment Name	Balance (\$)	Participants
Vanguard Target Retirement Trust Plus Income	70,469,493	1,846
Vanguard Target Retirement Trust Plus 2015	122,634,104	2,533
Vanguard Target Retirement Trust Plus 2025	345,286,967	6,151
Vanguard Target Retirement Trust Plus 2035	279,241,154	7,017
Vanguard Target Retirement Trust Plus 2045	182,557,847	6,758
Vanguard Target Retirement Trust Plus 2055	70,675,955	4,754
Total	\$1,115,427,677	---

Adding Vanguard Target Retirement Trust Plus 2065

The Vanguard Target Retirement Trust Plus 2065 is designed primarily for investors currently age 25 or younger, who are planning to retire between 2063 and 2067. The 2065 option is invested in approximately 90% stocks and 10% bonds and offers the same low expense ratio of 5.5 bps as the other TDFs in the WDC investment lineup. As with all Vanguard TDFs, as time goes by, the 2065 allocation will shift from more aggressive to more conservative. By 2072, the 2065 option is expected to be substantially the same as the Vanguard Retirement Income option’s allocation and would be merged into the Retirement Income option.

There are approximately 1,325 WDC participants currently age 25 or less who might invest in the 2065 option if it were available. Currently, 470 of these younger participants are using TDFs and would be candidates for the 2065 TDF.

ETF recommends the Board add the Vanguard Target Retirement Trust Plus 2065 to the investment lineup to provide a TDF for WDC participants born in or after 2001, as this population can be expected to grow over time. The existing agreement with Vanguard allows for the Board to include the 2065 TDF in the WDC lineup, meaning the 2065 option could be opened to participants relatively quickly.

Adding the Vanguard Target Retirement Trust Plus “ten” series: 2020, 2030, 2040, 2050 and 2060.

Like most TDF series, Vanguard’s TDFs were designed to be single investment vehicles. After beginning their TDF series with only “fives,” in 2003, Vanguard added the “ten” series in 2006. When the Board added the “fives” series to the WDC in 2005, the expectation was that participants planning to retire in an odd year (ex. 2041) would do one of several things: follow Vanguard’s initial suggestions to round up their retirement date to the next TDF option (ex. 2045), use the nearest lower term TDF (ex. 2035) if their risk tolerance was lower, or split their deferral between TDFs (ex., put 60% in 2035 and 40% in 2045).

The large time gap between TDFs has proven challenging and somewhat problematic for participants. As of May 3, 2022, there are 2,162 WDC participants invested in more than one TDF. Various campaigns have been conducted over the years to encourage multiple TDF-users to consolidate. However, these campaigns have not typically had much success causing participants to move to one TDF. This population could move to a single, potentially more age-appropriate TDF if the WDC offered a TDF closer to their retirement date by adding the “tens.” This would allow participants to choose the TDF that most closely approximates the year in which they expect to retire. The table below illustrates how current WDC TDF users by age might select a TDF closer to their expected normal retirement date, if the WDC offered the full TDF series.

Table 2: All TDFs and Eligible WDC Participants

Date born	TDF to select	Eligible WDC Participants Currently in a TDF
1947 or earlier	Income	1,118
1948 to 1952	Income	1,419
1953 to 1957	Income	2,235
1958 to 1962	2020	3,364
1963 to 1967	2025	3,680
1968 to 1972	2030	3,607
1973 to 1977	2035	3,423
1978 to 1982	2040	3,416

Date born	TDF to select	Eligible WDC Participants Currently in a TDF
1983 to 1987	2045	3,126
1988 to 1992	2050	2,412
1993 to 1997	2055	1,089
1998 or later	2060	197

ETF recommends the Board add the Vanguard Target Retirement Trust Plus “ten” series to the WDC investment lineup: TDFs 2020, 2030, 2040, 2050, and 2060. The current agreement with Vanguard, which was completed earlier this year to enable the WDC to move the Trust Plus TDFs, permits the addition of the 2020, 2030, 2040, 2050, and 2060 TDFs without requiring any agreement revisions or amendments.

Vanguard expects to launch a 2070 TDF in mid-2022 with an asset allocation of 90% stocks and 10% bonds. ETF does not believe there are currently enough WDC participants of the appropriate ages to consider adding the 2070 TDF at this time. This decision should be revisited in the future as the WDC population changes. Note also that ETF and Vanguard have determined that if the Board wanted to add the 2070 TDF as a WDC option, a new agreement that includes this option would be needed.

Summary and Next Steps

ETF recommends the following:

- 1) Adding the Vanguard Target Retirement Trust Plus 2065 to the investment lineup; and
- 2) Adding the Vanguard Target Retirement Trust Plus “ten” series to the lineup: 2020, 2030, 2040, 2050, and 2060.

If the Board decides to add additional TDF options, ETF will work with Vanguard and Empower on a timeline to add the options to the investment lineup. ETF and Empower will also create a communications plan to inform WDC participants of any additions and steps to take should a participant desire to change to a different TDF option.

Staff will be at the Board meeting to answer any questions.