

MFS RESEARCH

2023 MFS® Global Retirement Survey

Targeting Retirement Success: Understanding Target Date Funds and Member Preferences



We surveyed over 1,000 Canadian defined contribution plan members to understand their retirement goals and concerns. Here's what we discovered.



1 Member understanding of Target Date Funds

Survey insights reveal that while most members understand that target date funds (TDFs) become more conservative over time as members reach retirement age and find them an easy way to diversify, there are significant misconceptions.

Source: MFS 2023 Global Retirement Survey, Canadian respondents only. Q: Please indicate the extent to which you agree with each of the statements below about TDFs. Percentages represent the sum of respondents that chose *strongly agree* or *agree* with each statement. This question was posed to respondents that answered they are invested in a TDF. A target date fund is a fund whose allocation to stocks and bonds and other asset classes designed to become more conservative as you near retirement or reach a certain age. TDFs = target date funds.

As part of the survey each year, we seek to better understand member perceptions of TDFs with the goal of trying to gauge where there are misperceptions or gaps that we can address.

Conservative evolution

The majority understand the concept that TDFs become more conservative according to your age, peaking at 75% for those 50+.

Diversification perception

The 2023 survey revealed that, 75% of members 50 or over find TDFs an easy way to diversify with one investment. This gets back to the original intent of target date funds being a one-stop strategy for members.

Decumulation misconceptions

A significant portion of respondents believe that their TDFs guaranteed a stream of income at retirement (80% for 50+), and a large percentage of respondents believe that target date funds offer a guaranteed rate of return (75% for 50+). These statistics are up meaningfully from last year.

1 Member understanding of TDFs

Many believe TDFs guarantee a stream of income or a fixed return, highlighting the need for better education and communication to align expectations with reality.

Source: MFS 2023 Global Retirement Survey, Canadian respondents only. Q: Please indicate the extent to which you agree with each of the statements below about TDFs. Percentages represent the sum of respondents that chose strongly agree or agree with each statement. This question was posed to respondents that answered they are invested in a TDF. A target date fund is a fund whose allocation to stocks, bonds and other asset classes is designed to become more conservative as you near retirement or reach a certain age.

CONFUSION EMERGES AROUND THE DECUMULATION PHASE

THE GOOD NEWS			
	AGE		
	18 - 29	30 - 49	50+
They get more conservative as I get closer to retirement	60%	77%	75%
They are an easy way for me to diversify with 1 investment	67%	71%	75%
THE NOT-SO-GOOD NEWS			
	AGE		
	18 - 29	30 - 49	50+
They provide a guaranteed stream of income in retirement	66%	66%	80%
They provide a guaranteed rate of return	64%	69%	75%
They invest entirely in cash or other low risk investments in retirement	65%	58%	61%

Expert insight

Education and clear communication are key to ensuring that plan members comprehend what a TDF is, what it isn't and what the features of the the funds are. This is crucial because a major risk arises when the fund's performance isn't in line with investors' expectations, potentially compromising their ability to maintain their desired standard of living in retirement.

The risk profile changes based on age: If left to their own devices, younger individuals may be too conservative and not invest enough in capital markets, especially if they have experienced recessions early in their working life. Conversely, older individuals might take on too much risk trying to play catch-up if they haven't built up sufficient retirement capital.

2 How members are using TDFs

The adoption of TDFs has been rising, especially among younger members, though many combine them with other investments.

Increasing adoption

The percentage of respondents investing in TDFs has risen to 51%, up from 43% last year. Not surprisingly, this percentage is higher for those under 45, at 58%, compared to 42% for those over 45.

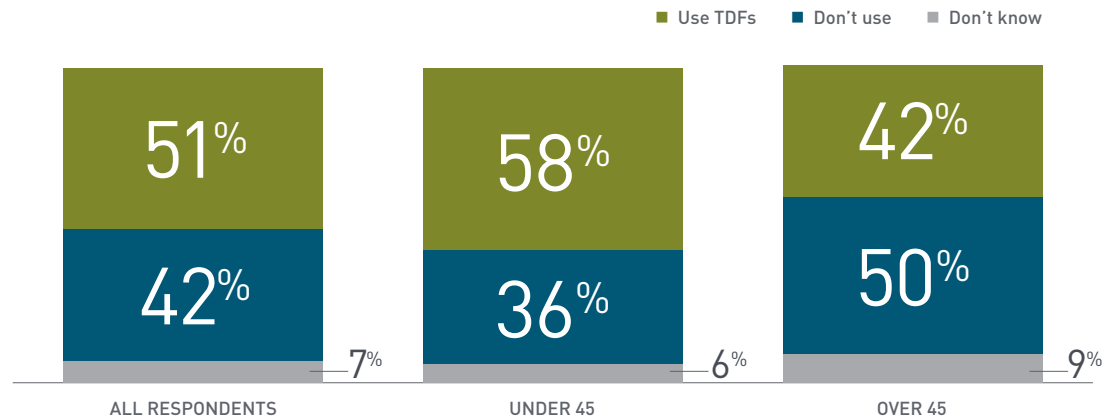
Diverse implementation

Only 14% of members under 45 use a single TDF, indicating varied usage patterns.

Currently, 45% say they are using more than one fund, while 41% are combining TDFs with other investment options.

MEMBERS AGES 45+ ARE LESS LIKELY TO BE TDF INVESTORS

Member Use of Target Date Funds



FOR THOSE UTILISING TDFs, HOW ARE THEY USING THEM?

	AGE	
	Under 45	45+
Single TDF (e.g., the 2030 fund)	14%	12%
More than one TDF (e.g., both the 2030 fund and 2040 fund)	45%	38%
TDFs and other investment choices	41%	50%

Source: MFS 2023 Global Retirement Survey, Canadian respondents. Q: Do you currently use target date fund(s) in any of your retirement accounts? A target date fund is a fund whose allocation to stocks, bonds and other asset classes is designed to become more conservative as you near retirement or reach a certain age.

2 How members are using TDFs

Many prefer selecting the funds they invest in, indicating a need for further education on TDF benefits and risks. There's also uncertainty about continuing to invest in TDFs in retirement, emphasizing the need for clearer guidance.

Preference for choice

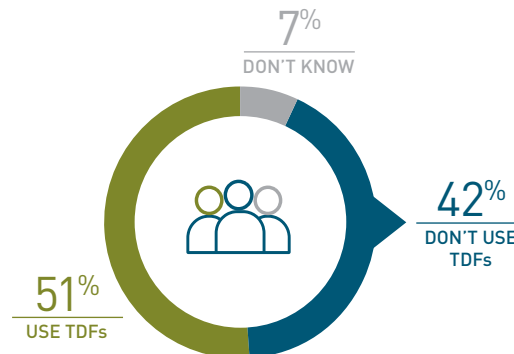
A preference for choosing their own funds is shown by 37% of respondents,, while 31% don't understand TDF benefits and risks, underscoring the need for education.

Uncertain future

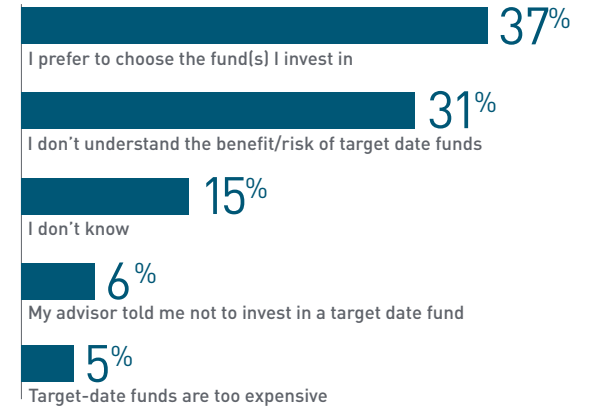
We asked members "When you retire, do you expect to continue to invest in a TDF?" There was no clear consensus here. Only 19% plan to continue using TDFs for all retirement assets, emphasising the need for clearer communication and guidance.

----- BARRIERS TO TDF USAGE DO NOT VARY BY AGE -----

Member Use of TDFs



Reasons for Not Investing in TDFs



Expert insight

From this data, we find that further education may be helpful if a plan is looking to increase TDF participation. By providing clear educational content, we can help members make informed decisions about target date funds, ensuring they are utilised correctly. We often see investors holding multiple target date funds, which is generally not recommended since these funds are already diversified and tailored to the investor's age.

Plan sponsors and advisors have the opportunity to educate plan members on the benefits/risk of TDFs.

Source: MFS 2023 Global Retirement Survey, Canadian respondents. Q: Do you currently use target date fund(s) in any of your retirement accounts? A target date fund is a fund whose allocation to stocks, bonds and other asset classes is designed to become more conservative as you near retirement or reach a certain age.

3 The retirement income puzzle

Retirement planning can be complex and unique to each individual. Our survey shows a reliance on Old Age Security and the Canadian Pension Plan with a focus on appropriate risk and diversification in TDFs.

No one-size-fits-all solution

The retirement journey is as unique as each individual. Our survey revealed that 76% consider Old Age Security and the Canadian Pension Plan crucial in their retirement income plan. However, the variety of income sources identified by respondents highlights the complexity of retirement planning:

----- EACH MEMBER WILL HAVE THEIR OWN PIECES -----



As the default investment option in many defined contribution plans, target date funds play a vital role in helping solve the retirement income puzzle. Recognising the unique circumstances of each member's journey, TDF managers continually adapt their portfolios to align with shifting capital market expectations, demographic trends and regulatory requirements.

Members primarily focus on the end result, i.e., how well their chosen investment has met their expectations. Our focus as we put all the pieces together is ensuring that members are exposed to appropriate levels of risk and are suitably diversified throughout their savings journey. We diligently address risk like [sequencing](#) and longevity to seek positive retirement outcomes for our investors.

Source: MFS 2023 Global Retirement Survey, Canadian respondents. Q: Select all potential sources of retirement income in retirement. This question was only posed to respondents age 45+. Respondents could choose more than one response so responses will not total to 100%.

3 The retirement income puzzle

Members value financial advice as they approach retirement, underlining the importance of positioning retirement plans as comprehensive resource hubs.

Power of advice

One of the most common actions members expect to take upon reaching retirement age is seeking advice from a financial advisor. For plan sponsors who wish to keep retirees in the plan, positioning the retirement plan as a resource hub is crucial, offering access to advice, education and tools. For further results and insight on the power of advice, please [click here](#).

Expert insight

Our goal is to deliver performance in line with design and member expectations, focusing on capital appreciation in the early stages and minimising the downside as retirement approaches. In our design process, we conduct extensive stress testing and longevity analyses as part of our glide path design.

We know that every investor is different, so we don't target just one outcome. Instead, we focus on managing the risks and returns of different types of investments, such as stocks, bonds and other assets. Our goal is to create a progressive glide path that seeks to maximise capital appreciation for younger investors, transitioning to a conservative allocation with a strong focus on downside mitigation and sufficient diversification as retirement nears.

Our investment strategy is tailored to fit the varied objectives investors have for target date funds. We believe our approach is suitable for the most investors, not just average ones.

In an ever-changing financial landscape, where economic factors, market dynamics and regulatory changes create uncertainties, our commitment to guiding Canadian institutional investors remains steadfast. Our target date strategies, rooted in the latest innovations and survey insights, empower members to navigate the complexities of retirement planning.

Actions to consider taking

While solving the retirement income puzzle will take our combined efforts, there are some actions that plan sponsors can take:



Member understanding of TDFs

Members generally understand that target date funds gradually become more conservative, but there are misconceptions about guaranteed income and returns.

Education and clear communication are crucial to addressing these misconceptions and ensuring members understand how TDFs work.



How members are using TDFs

TDF adoption is increasing, but there are diverse usage patterns, with many members combining TDFs with other options.

As a growing portion of capital accumulation plan (CAP) assets are invested in TDFs, it can be helpful to determine whether your members are using TDFs as intended. Education plays a key role in ensuring members understand TDFs and make informed decisions about their retirement savings.



The retirement income puzzle

With an increasing focus on driving member outcomes, how you evaluate retirement income solutions aimed at meeting your plan goals is more important than ever. Understanding what plan members prioritise can help plan sponsors better meet the retirement needs and expectations of their members.

Target date funds often serve as the default option in retirement plans. Deciding on a plan's target date suite may be one of the most important decisions plan sponsors and their advisors make.

Positioning the retirement plan as a resource hub is crucial as it offers access to advice, education and tools.

Survey methodology

Source: 2023 MFS Global Retirement Survey, Canadian Results.

Methodology: Dynata, an independent third-party research provider, conducted a study among 1,004 Defined Contribution (DC) plan members in Canada on behalf of MFS. MFS was not identified as the sponsor of the study.

To qualify, DC plan members had to be ages 18+, employed at least part-time, actively contributing to a DC Pension Plan, Group Registered Retirement Savings Plan, Deferred Profit Sharing Plan, Non-Registered Group Savings Plan or Simplified Employee Pension Plan. Data weighted to mirror the age gender distribution of the workforce. The survey was fielded between March 22 and April 6, 2023.

We define generational cohorts as follows: Millennial ages 26–41; Generation X ages 42–57; Baby Boomer ages 58–77. ▲

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