



## NEWS RELEASE

### **THE CALLAN DC INDEX SHOWS THIRD QUARTER EQUITY LOSSES WIDESPREAD; TARGET DATE FUNDS ARE EXCEPTION TO DC PARTICIPANTS' FLIGHT TO FIXED INCOME**

SAN FRANCISCO, Dec. 11, 2008 – The Callan DC Index third quarter report, ended Sept., 30, 2008, found defined contribution plan activity rose as participants reacted to mounting economic turmoil and the global market collapse by reallocating their portfolios away from risky equity assets to fixed income funds. Total Index turnover<sup>1</sup> reached 1.13% – well above the quarterly historical average of 0.78% – a departure from the second quarter where participant activity held steady.

All equity categories experienced sweeping outflows as participants flocked to the “safe haven” asset classes of stable value, money market and domestic bond funds, which collectively captured nearly 80% of inflows. The notable exception – Target Date Funds (TDFs) – gained most of the remaining assets at 18.6%.

The Index data confirms that the powerful force of inertia among younger investors – who comprise a large share of TDF participants – was in effect in the third quarter and that a strong correlation exists between portfolio size and investor activity.

“Many participants in target date funds were defaulted into them; they tend to have a shorter track record of saving for retirement and have smaller portfolio balances,” said Lori Lucas, DC practice leader at Callan Associates. “So far, at least, they are less sensitive to the market decline and less inclined to move their assets during market turmoil.” Lucas also noted that combining a default option with participant inertia may explain inflows to TDFs. “There may be a point of surrender, but so far this is encouraging.”

#### ***Other Callan DC Index findings:***

- The diversification of TDFs provided no defense against extensive market turbulence. The Index, down 8.04%, outperformed the average 2030 TDF which lost 11.6% this quarter. High equity allocation in 2030 TDFs – 85% compared to 66.7% in the typical DC plan – proved a significant liability this quarter.

- The Callan DC Index also outpaced the average corporate defined benefit plan which returned -8.35% for the quarter. Since its inception in 2006, the Index's 0.28% annual return has lagged the average corporate DB plan's 1.86% by a wide margin. This difference is partly due to corporate DB returns being gross of fees while DC returns are reported on a net of fee basis.
- Since its inception in 2006, total assets represented in the Callan DC Index have grown at an annualized rate of 3.3%. Participant contributions explain the bulk of this growth, accounting for 3.02%, with the remaining 0.28% explained by investment returns. With inflation coming in at 4.09% over this period, average balances for participants have actually declined on an inflation-adjusted basis over the last 21 months. This is in spite of the fact that participants have made steady on-going contributions.

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**About Callan Associates Inc.**

Founded in 1973, Callan Associates is one of the largest independently-owned investment consulting firms in the country. Headquartered in San Francisco, Calif., the firm provides research, education, decision support and advice to a broad array of institutional investors through five distinct lines of business: Fund Sponsor Consulting, Independent Adviser Group, Institutional Consulting Group, Callan Investments Institute and the Trust Advisory Group. Callan employs more than 170 people and maintains four regional offices located in Denver, Chicago, Atlanta and Florham Park, N.J. For more information, visit [www.callan.com](http://www.callan.com).

**About The Callan DC Index**

The Callan DC Index is designed to meet the needs of plan sponsors and investment managers by measuring performance and net flow activity of defined contribution plans. The Index tracks the asset flows and performance of approximately 70 participant-directed plans comprised of more than 800,000 participants and \$50 billion in retirement assets dating back to January 2006. By mapping individual plan options to distinct asset classes or styles, the Callan DC Index is the only index to measure and evaluate performance in aggregate and at the asset class level, while tracking the evolving asset allocation of DC plans.

<sup>1</sup> Total Index “turnover” measures the percentage of total invested assets (transfers only, excluding contributions and withdrawals) that moved between asset classes.