

# Lifecycle investing makes asset allocation decisions easy for your participants

DO YOU WORRY THAT YOUR RETIREMENT PLAN PARTICIPANTS AREN'T MAKING GOOD ASSET ALLOCATION DECISIONS? OR MAYBE THAT THEY'RE NOT FOLLOWING UP ON THEIR CHOICES? YOU MAY EVEN BE CONCERNED THAT SOME OF YOUR EMPLOYEES AREN'T ENROLLING IN YOUR PLAN BECAUSE THEY'RE CONFUSED BY THEIR INVESTMENT OPTIONS. IF SO, YOU MAY WANT TO TAKE A SERIOUS LOOK AT **LIFECYCLE FUNDS**.

THESE INVESTMENTS ARE DESIGNED TO SIMPLIFY THE ASSET ALLOCATION DECISION. RATHER THAN HAVING TO SELECT JUST THE RIGHT PERCENTAGE OF SEVERAL INVESTMENT OPTIONS TO MEET THEIR FINANCIAL OBJECTIVES, INVESTORS CAN CHOOSE A SINGLE LIFE-CYCLE OR LIFESTYLE FUND THAT PROVIDES THE DESIRED MIX OF ASSET CLASSES GEARED TO THEIR NEEDS.

## **Different models**

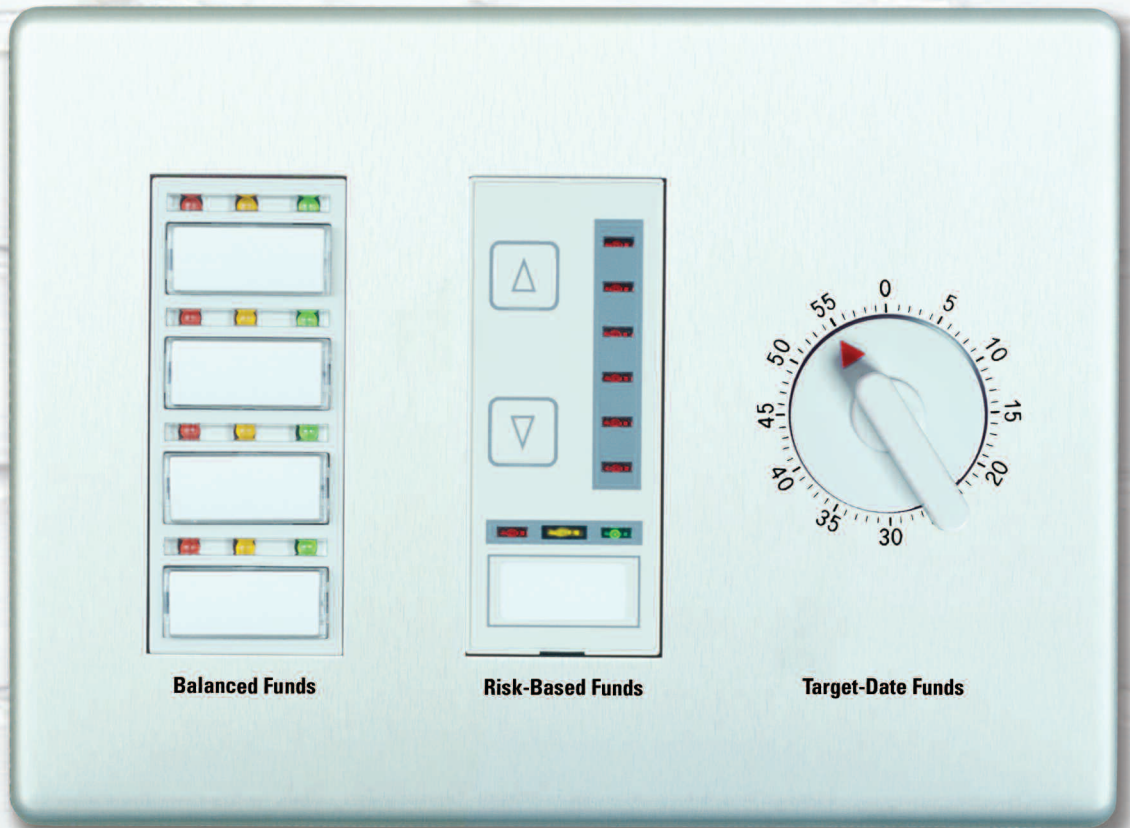
Asset allocation funds come in different varieties and have improved over time. The first type to come on the market were balanced funds, which feature a blend of stocks and bonds, generally a 60-40 mix, and offer a simple tool for diversification. Next came risk-based funds, introduced about a decade ago, offering investors the opportunity to choose a portfolio of asset classes based on their risk tolerance and return expectations. As their life situations change, participants can select a different portfolio.

The newest generation of asset allocation funds is called target-date, or target-maturity funds, also commonly referred to as lifecycle funds. Constructed to be the easiest asset allocation tool yet, they rebalance over time, automatically becoming more conservative by reducing the exposure to stocks as the selected "target" date approaches. An investor in a lifecycle fund simply decides on the date when they need to begin receiving their money.

## **Benefits of lifecycle funds**

All lifecycle funds provide diversification, professional asset allocation, and automatic rebalancing. "These investments help participants avoid some of the common pitfalls that can lower returns, like chasing performance, overallocating to conservative options, and never rebalancing," points out Laurie Tillinghast, senior vice president of ING investment products. "Lifecycle funds are tailor-made for people who prefer to delegate investment decisions, or those who are confused or intimidated by their investment choices, or the ones who simply don't have the time or knowledge to devote to investing."

"Plan Sponsors benefit because they're giving their employees the chance to make better and more intuitive asset allocation decisions, which should better prepare them for retirement," she says. "The advantages to both Sponsors and participants are why we are seeing these funds become increasingly popular."



**Balanced Funds**

**Risk-Based Funds**

**Target-Date Funds**

You should consider the investment objectives, risks, and charges and expenses of the investment options carefully before investing. The fund prospectuses and information booklets contain this and other information, and can be obtained by contacting your ING representative or calling 1-888-238-6243. Please read this information carefully before investing.

**ING ASSET ALLOCATION VEHICLES:**

**STANDARD, SEMI-AUTOMATIC AND AUTOMATIC**

ING offers a full array of asset allocation options designed to meet the needs of its DC clients:

- ING Balanced Fund – a single, stand-alone fund.
- ING Strategic Allocation Funds: Income, Balanced and Growth – a suite of three risk-based funds where investors determine their risk/return profiles.
- ING Solution Portfolios: 2045, 2035, 2025, 2015 and Income – five target-based funds where the participants choose the year they'll need their money.



## What's New? ING Solution Portfolios

With ING Solution Portfolios, participants who need extra help deciding how to allocate their assets can make one easy decision, then sit back as the fund's portfolio managers rebalance and adjust based on their very own target retirement date.

ING's funds differ from target-term funds offered elsewhere because they're comprised of actively selected and managed underlying options from a diversity of top investment managers, says Laurie Tillinghast, senior vice president of ING investment products.

"These funds also benefit from active asset allocation consulting by the ING Investment Management team, which, for example, determines allocations based on in-depth analysis of future market conditions, not just recent historical returns. They also use a step-down, rather than a gradual transition, in the equity component of the portfolio that is expected to increase returns over time. And they leave a small equity allocation in the final Income Portfolio, which addresses the fact that participants are living longer, and need inflation protection," she says.

### ING: Meeting a range of plan needs

Recognizing that each plan is different, ING offers a full array of asset allocation funds, from its ING Balanced Fund to its risk-based ING Strategic Allocation Funds to its newest offering: the target-date ING Solution Portfolios.

Deciding which type of asset allocation fund may be better suited to your plan depends on your employee population. "It's a matter of assessing how actively involved participants are in plan investing. An important consideration is whether a financial advisor works with employees," says Tillinghast. "If participants are going to be more engaged with individual fund selections, risk-based funds may be the right answer.

"The Strategic Allocation Funds, with their fairly static mix of stocks, bonds, cash and international equities, are appropriate for participants who are willing to complete a risk questionnaire, select the appropriate portfolio, and then actively monitor their investment and be willing to change funds if their circumstances change. Besides appealing to investors who want help with asset allocation, these funds are also used by more sophisticated investors as a core vehicle to which they add other specialized funds in their plan menu."

Risk-based funds have drawbacks for some investors, however. "People still must be engaged and take responsibility – answering a questionnaire, determining which portfolio is best for them, monitoring that portfolio, and changing portfolios as they move toward retirement," Tillinghast points out.

"While some people are willing to do this, either on their own or working with a financial advisor, others aren't. They forget. Or they have a hard time determining their risk tolerance and what portfolio they should be invested in. These participants will probably do better with the target-date ING Solution Portfolios," she says.

“These target-date funds are very easy to understand. It’s really one-stop shopping. All the participants have to do is think about when they’re going to need their money for retirement or some other goal and pick a portfolio based on that date. That’s it. There’s no risk questionnaire to fill out, no rebalancing required to stay on strategy, no switching investments as their financial goal nears. The professionals take over and the asset mix gradually becomes more conservative as the target date approaches.”

She adds that to take full advantage of the target-date strategy, participants should direct all of their account balances to the specific target-date fund they’ve chosen.

### Other considerations

Tillinghast says that offering both risk-based and target-date funds within the same plan is not recommended. “We think offering both types confuses participants, which is the opposite of what these funds are meant to do. Plus, it would be difficult logistically and would limit a Plan Sponsor’s flexibility to be able to provide other funds. Asset allocation funds are meant to be part of a continuum of tools available to all plan participants.”

To find out more about ING’s asset allocation options, including our comprehensive enrollment and education materials, contact your local ING representative or field office today.

1 Lipper FundIndustry Insight Reports, Lifecycle Funds: Fit for Life, March 14, 2005, page 4 (below) / 2 PlanSponsor.com, May 10, 2005 (below) / 3 As quoted in PlanSponsor.com, May 10, 2005 – While overall participation rates moved up slightly, less than half of workers under the age of 30 are participating in their 401(k) plan, according to a new study (below).

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<p><b>Growing appeal of asset allocation funds</b></p> <hr/> <p>Assets invested in risk-based and target-date funds have been rising dramatically: at the end of 2004, these funds held \$139.7 billion in assets, a 38 percent increase over the previous year. During this period, assets in target-date funds climbed a whopping 65 percent to \$43.9 billion, while assets in risk-based funds rose 28 percent to \$95.8 billion.<sup>1</sup></p> <p>A Hewitt study showed that lifecycle funds are particularly popular with younger workers, with 44 percent opting to invest in these pre-mixed asset allocation funds in 2004, up almost four percent from 2002. In addition, 57 percent of new employees (less than a year on the job) also chose these funds.<sup>2</sup></p>	<p><b>The roots of target-date funds</b></p> <hr/> <p>According to Tillinghast, the idea for target-term funds originally grew out of Section 529 college saving plans which revolved around when a child was turning 18. The fund was invested more aggressively at first, then gradually became more conservative as the target date neared. From the investor’s point of view, investment decisions happened automatically. 529 plans were so successful that the idea caught on in the DC world.</p>	<p><b>ING’s new lifecycle funds: popular with participants</b></p> <hr/> <p>Close to half of all participants (48 percent) enrolling in a retirement plan provided by ING between January and April of this year selected an ING Solution Portfolio when they had the choice. What’s more, <i>three out of four opted to invest solely in the target-date fund they picked</i> – which is a much better result – than a Hewitt industry study indicating only 15 percent of participants put all of their non-company stock account balances in just one lifecycle fund.<sup>3</sup></p>

