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IS IT ‘‘TO” OR “THROUGH?”

BLACKROCK RESEARCH CONCLUDES TDF ASSET GLIDEPATH SHOULD “LAND” WHEN INVESTOR RETIRES

Analysis Yields New Lessons for Retirement Saving, Investing, Spending

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New York, May 15, 2014 – The asset allocation, or glidepath, of a target date fund (TDF) should reach its final “landing point” at the investor's actual retirement date -- and not continue to change as the investor moves through the retirement years.

That is a key conclusion of new research released today by BlackRock (NYSE: BLK), examining the widely discussed question of “to” vs. “through” – with “to” referring to TDFs with glidepaths that reach a final allocation point when the investor retires, and “through” referring to funds that continue to “de-risk,” especially by reducing the equity allocation, following retirement. Investments in a TDF are automatically rebalanced and reallocated over time to become more conservative as the investor ages.

“Our research yielded both ‘common sense’ as well as rigorous, analytical justification for the idea that whatever point the fund’s glidepath – in particular, the equity allocation - has hit when an individual retires, it should remain at that point from then on,” said Chip Castille, head of BlackRock’s US Retirement Group.

“Putting the ‘to vs. through’ debate to rest is just one step in helping workers better understand how to save for retirement,” he said. “To that end, our research examined far more than 'to vs. through;' rather, we probed a wide range of lifecycle investing questions, with the goal of replacing numerous ‘rules of thumb’ with tested, actionable suggestions around saving and investing for retirement."

“The Riskiest Day of Your Life”

BlackRock’s “common sense” finding that a fund’s asset glidepath should remain steady from retirement onward is based on the idea that an individual’s retirement date could literally be “the riskiest day of your life,” financially-speaking.

Investors build a nest egg by saving part of their lifelong income. However, since earnings generated by employment paychecks cease at retirement, investment losses would potentially need to be offset by reduced spending in the event of a market downturn. At retirement, wealth is generally at a lifetime peak and individuals face their longest time horizon for future withdrawals. Without employment income, investment losses from this point on are harder to make up and can have the greatest impact on retirement spending.

"Because the day you actually retire is so risky, it's imperative to have your portfolio risk correctly set at that point," Castille said.

The BlackRock research notes that although TDF providers and plan sponsors may have differing views of how much risk -- that is, how large an equity allocation -- is appropriate at retirement, the allocation should not dip below that level going forward. "At retirement, one's funding liability is at its very highest – so there is little reason to take more risk at retirement than at a later date," Castille said. "In fact, reducing the equity allocation following a market loss would leave a 'through' fund participant poorly positioned to capture a potential market rebound," he said.

Quantitative Analysis Reinforces Glidepath Finding

The BlackRock research project was designed to create a single unified framework for exploring lifelong saving, investing and spending, incorporating existing academic studies as well as additional, real world data on investor preferences, income and spending. "Our analysis found that under any set of assumptions about investor risk preferences, capital markets or labor income, it is always optimal to have a flat post-retirement glide path," said Matt O'Hara, Head of Research and Product Development for BlackRock's US Retirement Group.

Some New Lessons for Retirement

The research model also enabled BlackRock to generate a set of additional, practical lessons for retirement financial planning. "The more we can know about how people earn throughout their careers, how they spend and how they prefer to balance risk and reward, the more detailed, specific guidance we can offer to plan sponsors and participants for more effective planning," O'Hara added.

Lesson 1: The optimal investment strategy is to be fully invested in equities early in your career, gradually decrease equity exposure in the middle of your career, and maintain a constant equity allocation throughout retirement.

Young investors have large "human capital" holdings – that is, the ability to earn income -- early in their career and virtually no financial capital such as savings and investments. As a result they can take considerable risk with their financial capital to earn the higher premium offered by equities during this phase of life, allowing them to capture as much growth as possible early on. As human capital is depleted and financial capital grows, the optimal allocation to equities decreases, eventually reaching its lowest level at the retirement date.

Lesson 2: Individuals should save annually between 10% and 20% of their income.

While optimal saving rates depend on age and realized returns, and generally increase as salaries increase during a typical career's early years, on average the optimal savings rate is between 10% and 20% of annual income. Unfortunately many defined contribution (DC) plans currently auto-enroll employees at 3%[1] of pay, far below what is needed. Plan sponsors would greatly benefit participants by encouraging higher savings rates via auto features.

Lesson 3: The optimal retirement withdrawal strategy is dynamic.

[1] Notes, September 2012, Vol. 33, No. 9, Employee Benefit Research Institute, page 12.

The model shows that by withdrawing an amount proportional to the current market value of assets – as opposed to a fixed dollar amount -- the individual will not prematurely run out of money. As time passes, this proportion can increase to reflect the shrinking retirement horizon.

About BlackRock

BlackRock is a leader in investment management, risk management and advisory services for institutional and retail clients worldwide. At March 31, 2014, BlackRock's AUM was $4.401 trillion. BlackRock helps clients meet their goals and overcome challenges with a range of products that include separate accounts, mutual funds, *iShares*® (exchange-traded funds), and other pooled investment vehicles. BlackRock also offers risk management, advisory and enterprise investment system services to a broad base of institutional investors through *BlackRock Solutions*®. Headquartered in New York City, as of March 31, 2014, the firm had approximately 11,500 employees in more than 30 countries and a major presence in key global markets, including North and South America, Europe, Asia, Australia and the Middle East and Africa. For additional information, please visit the Company's website at **www.blackrock.com**.