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T. Rowe Price Retirement Series

January 9, 2021

SUMMARY

- T. Rowe Price is making material changes to the glide path of its Retirement series of target date funds
- The changes will result in a more aggressive approach, with higher allocations to equities at most points along the glide path
- We suggest that investment committees:
    - Review the Retirement series, including the new glide path and the reasoning behind the changes
    - Compare the series' approach to that of peers
    - Either
        - Document the determination that the Retirement funds are prudent options for the plans' participants; or
        - Initiate a search for a replacement series

A MORE AGGRESSIVE GLIDEPATH

The "glide path" is the process by which a target date fund's allocation changes over time, from a more aggressive allocation early in a participant's employment cycle to a more moderate allocation near and in retirement.

Already one of the most aggressive target date series, T. Rowe Price is increasing the equity allocation at both the early and later ends of the Retirement series glide path.

New vs. Old Equity Allocations, Years from Retirement Date

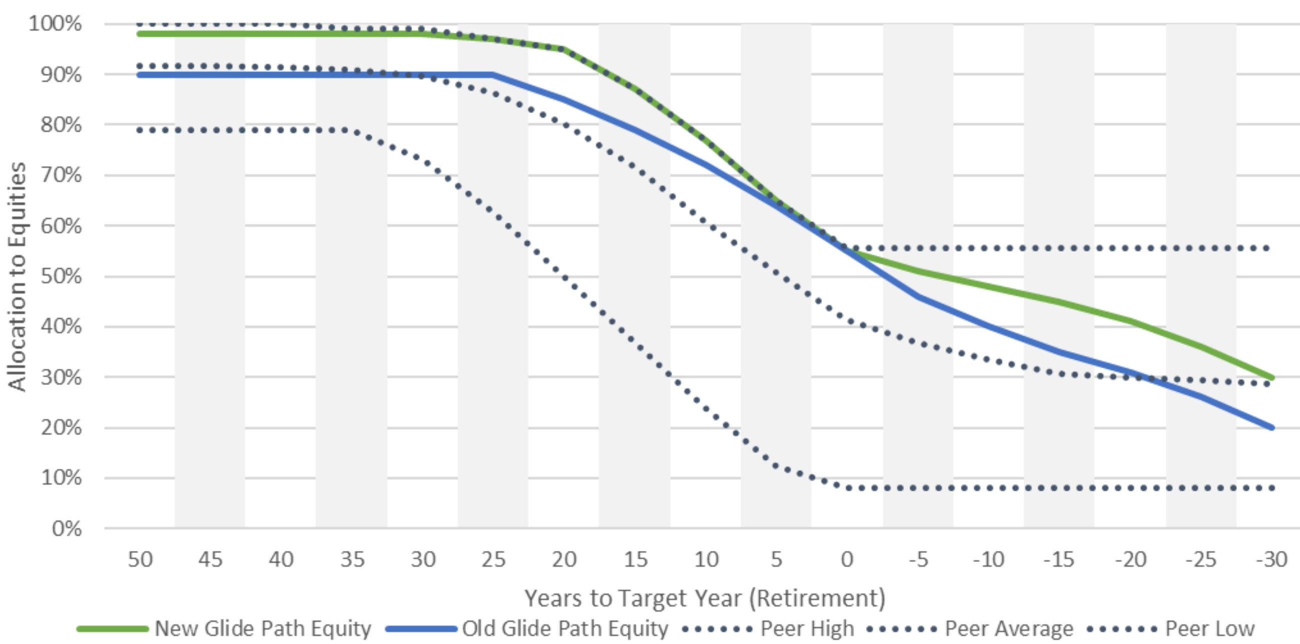
	50	45	40	35	30	25	20	15	10	5	0	-5	-10	-15	-20	-25	-30
New Glide Path Equity	98%	98%	98%	98%	98%	97%	95%	87%	77%	65%	55%	51%	48%	45%	41%	36%	30%
Old Glide Path Equity	90%	90%	90%	90%	90%	90%	85%	79%	72%	64%	55%	46%	40%	35%	31%	26%	20%
Change	8%	8%	8%	8%	8%	7%	10%	8%	5%	1%	0%	5%	8%	10%	10%	10%	10%

Early Career 8% increase (50–30)
Mid Career 5-10% increase (25–10)
Retirement Transition 0-5% increase (5 to -5)
In Retirement 8-10% increase (-10 to -30)

Compared to peer averages, the glide path of the "old" Retirement series most heavily overweighted equities in the years immediately leading to and following retirement. The new glide path weights equities more heavily throughout the series' life cycle.

The glide path modification will be gradually implemented over approximately two years, beginning in April 2020.

New vs. Old Glide Path



THE REASONING BEHIND THE CHANGE

The results of a two-year review have amplified T. Rowe Price's historical belief that the most significant risk retirement savers face is running out of money in retirement, and that a higher equity allocation is the best solution:

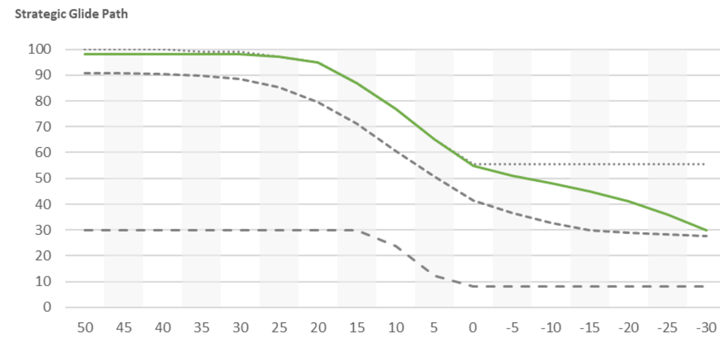
- "Increasing the level of equity pre-retirement allows those investors with the longest time horizon to benefit from the potential compounding effects of the additional growth-seeking assets" (meaning equity)
- "A modest increase in growth-seeking assets post-retirement may help generate income and replace consumption spending in retirement"
- "…raising equity levels led to higher balances in retirement, more sustainable withdrawals, and greater residual wealth"

In addition, management believes that participants who use target date funds are less likely to make investment changes during equity downturns than are other participants.

T. ROWE PRICE RETIREMENT SERIES OVERVIEW

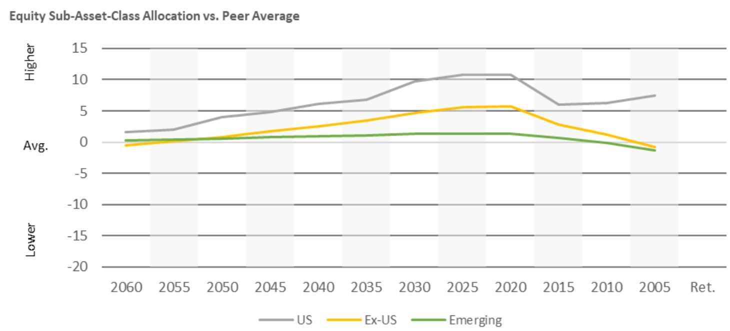
Strategic Glide Path

T. Rowe Price believes that retirees' most significant risk is outliving their savings. In 2020, the relatively aggressive equity glide path has been made even more so, allocating as much as 16 percentage points more in equities than the peer average. Beginning with a 98% equity stake, the funds reach a target allocation of 55% equity at retirement and then continue to shift for 30 more years until the equity stake plateaus at 30%.



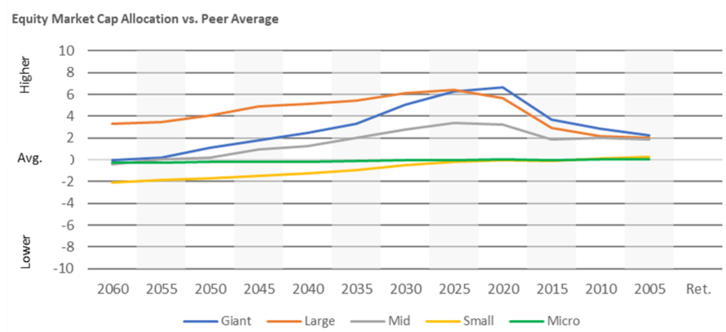
Tactical Asset Allocation

The managers have modest leeway to adjust the funds' stock/bond split (by up to 5 percentage points) and make sub-asset-class tilts, such favoring growth over value stocks. A committee of veteran T. Rowe Price managers relies primarily on qualitative insights to determine which asset classes to emphasize for the next six to 18 months.



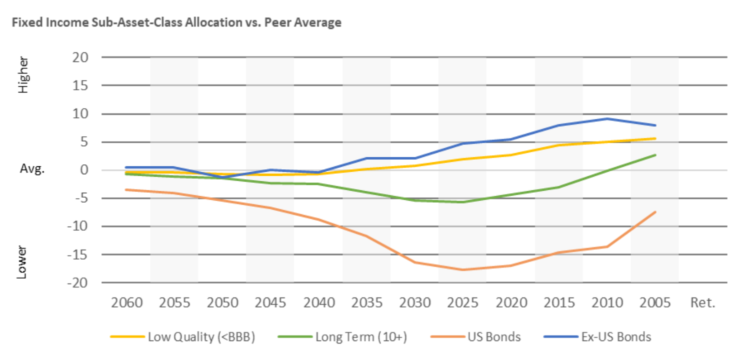
Sub-Asset Class Allocation

Within the major headings of stock and bond, strategic sub-asset class allocations remain static through the glide path; however, they are widely diversified.



Underlying Strategies

The funds underlying the series' allocation are all proprietary investments managed by T. Rowe Price. The series' managers generally remain hands-off in monitoring the underlying funds, allowing the firm's leaders to address any issues; the managers have rarely removed a fund since its 2002 inception. Nearly all the series underlying funds are actively managed, with over 80% of the series allocation invested in active strategies.



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