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HD **Hong Kong fund is taking target-date approach to default option**

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Hong Kong's Mandatory Provident Fund Schemes Authority is looking to push the envelope — gently — in devising the HK$519 billion (US$67 billion) defined contribution system's first standardized default investment option.

In a recent interview, Darren McShane, MPF executive director and chief of regulation and policy, said proposals will initially focus on a straightforward target-date or lifestyle fund option that trims risk as members age. It would replace the myriad default options delivering wildly different outcomes now for the 25% of the more than 2.5 million MPF participants who fail to make their own investment choices, he said.

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But more ambitious changes could be introduced subsequently.

A consultation paper issued June 24 by the MPF noted there "may be capacity built in to take other factors, such as account balances, other sources of income or savings, into account later."

Following a three-month comment and consultation period through Sept. 30, MPF executives said concrete proposals should be presented to Hong Kong's government by late 2014 or early 2015, with new target-date/lifecycle default funds in place by 2016.

That work-in-progress approach by the MPF reflects broader discussions around the globe about how to better customize target-date funds to meet the retirement needs of participants.

The revolution coming to defined contribution plans worldwide will pivot around individual liability management, effectively a recognition that target-date funds that assume a CEO and a receptionist share the same liability stream are "too blunt an instrument," said Paul Price, the London-based global head of distribution for Morgan Stanley Investment Management.

The MPF's opening salvo comes roughly three months after QSuper, the A$50 billion (US$46.9 billion) Brisbane, Australia, superannuation fund for more than 530,000 Queensland state public employees, announced Australia's first "two-dimensional" default scheme, using age and account balances to decide which of eight asset allocation "cohorts" to assign members to.

For example, under QSuper's new "lifetime" scheme, a participant who reaches 50 with a retirement account balance of less than A$100,000 gets a combined allocation to Australian and international equities of 29.6%, and a combined 30% allocation to infrastructure, property and alternative assets. The remainder is allocated largely to cash and bonds.

By contrast, a QSuper member of the same age with a retirement account of more than A$250,000 gets an equity allocation of 22.2%, an alternatives allocation of 22.4% and correspondingly bigger holdings of cash and bonds.

In an e-mail, Rosemary Vilgan, QSuper's CEO, depicted her team's two-dimensional approach as a first step toward "mass-customization" that could ultimately take "expected retirement age, marital status, desired income in retirement, bequest motives and additional sources of savings" among other factors into account, .

"The more individual information we can feed into the decision-making process, the better we can get at making the right investment decisions on behalf of our default members," she said.

Asked what the next step could be, Ms. Vilgan said with women comprising more than 60% of QSuper members, gender could be high on the list, touching as it does on factors such as life expectancy (women, on average, live longer) and employment profiles (taking time out of the workforce for family reasons affects salary profiles).

For the moment, QSuper's program doesn't directly address the "income in retirement" target that some experts in the U.S. have advocated should be the lone goal of defined contribution systems. But that's a work in progress, with QSuper "currently developing post-retirement solutions to facilitate a smooth transition to income streams," said Ms. Vilgan.

Market veterans say such efforts will be followed with interest by industry players around the world.

"Eventually, best practices in these things will move across the globe," but for now, plans in Asia may be leading the way globally when it comes to two-dimensional or multidimensional target-date default plans, said David Druley, a managing director with Cambridge Associates, Boston, and global head of the consulting firm's pension practice.

There's discussion in the U.S. and Europe about multidimensional target-date default options, but no clear momentum yet when it comes to putting such options in place, said Mr. Druley.

That may be changing. Erik Daley, managing principal of Portland, Ore.-based retirement plan consulting firm Multnomah Group, said client Lewis and Clark College, Portland, is looking to introduce a three-dimensional target-date default option by March 2015 that will take the age, account balances and income-in-retirement goals of the college's 1,600 DC plan participants into account in pursuit of an income-in-retirement target.

The default option is being designed by Austin, Texas-based Dimensional Fund Advisors, and will be administered by New York-based TIAA-CREF, whose range of annuity products could smooth the transition to retirement, said Mr. Daley.

Peng Chen, Singapore-based CEO of Dimensional Asia (ex-Japan) and global chairman of the firm's retirement practice, said his firm is in a number of advanced discussions now with U.S.-based DC plans, but Lewis and Clark could be the first to adopt the revised, cohort-structured "managed DC" offering Dimensional will bring out in August. The coming iteration follows Dimensional's initial program, launched in April 2012, which sought to tailor asset allocation to the individual member's circumstances.

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