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Enhancing Personalized Asset Allocation in the QDIA

How DC plan sponsors can evaluate the levels of personalized asset allocation across target dates and managed accounts

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Introduction

Today's plan sponsors are increasingly looking for ways to make their plans more personalized for participants. With 73% of defined contribution (DC) plans using qualified default investment alternatives (QDIAs) and auto-features to help increase and potentially grow participants' retirement savings, enhancing personalization in the QDIA has become top of mind. For a time, most sponsors had just two options to provide personalized asset allocation: off-the-shelf target date offerings tied to a participant's expected retirement age or managed accounts. Sponsors now have an evolved approach to consider: Personalized target date solutions that incorporate up to five demographic factors readily available on recordkeeper platforms to automatically customize a participant's glidepath based on their unique data.

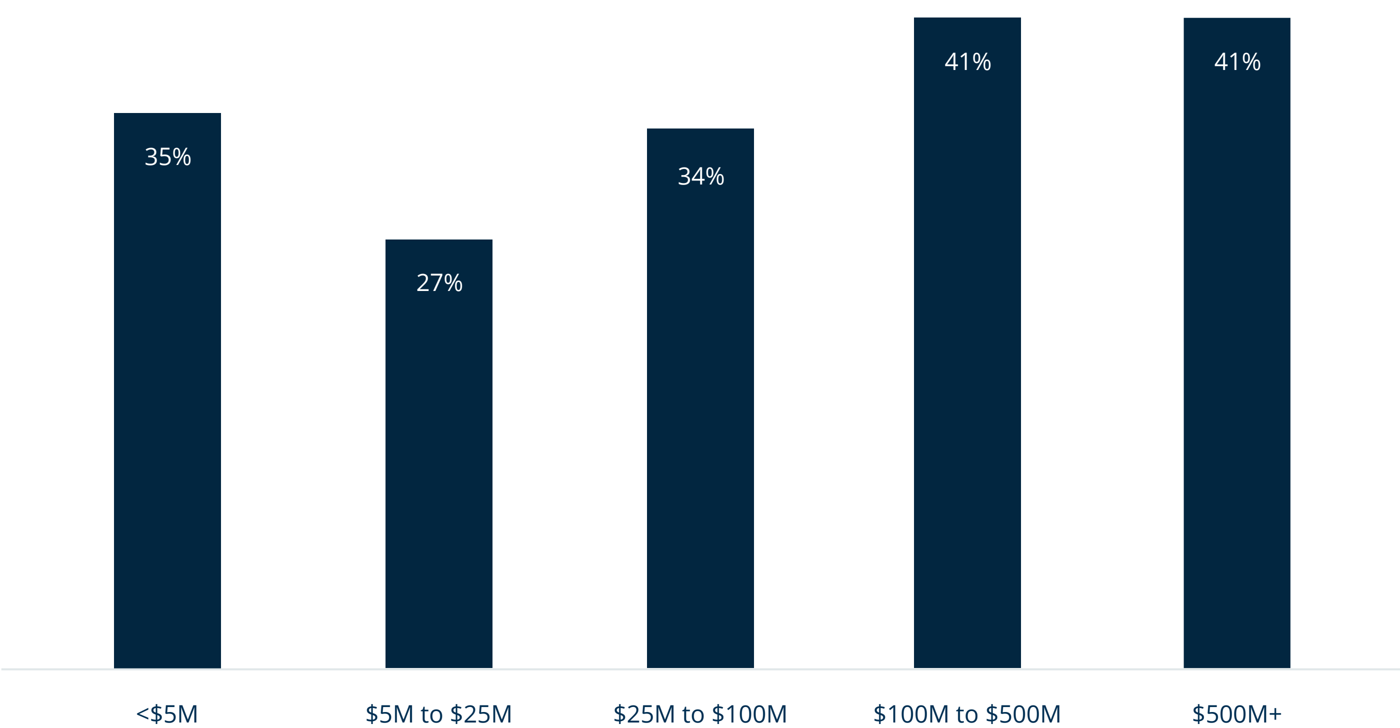
This paper covers the varying levels of personalized asset allocation for participants across target date funds (off-the-shelf, custom, personalized) and managed accounts, taking into consideration the degree of personalization desired by the sponsor, the range of data available, and the likelihood of participants to engage, as applicable.

Why Are Sponsors Focused on Personalization?

Plan sponsors recognize the important role that personalization plays in their retirement plan to help increase participant engagement and overall retirement readiness. This is especially true for older workers and pre-retirees as their financial picture becomes more complex and the need for retirement income looms on the horizon. In fact, 79% of plan sponsors in Cerulli's 2025 401(k) Plan Sponsor Survey state that creating more opportunities for personalization and customization within the plan is a moderate to high priority. While this includes how recordkeepers provide personalization to participants, from messages and educational content tailored to participants' unique circumstances to a full-fledged retirement plan, it extends to the level of personalized asset allocation options available on plan investment menus. Specifically, plan sponsors are interested in aligning investment options with participant demographics, needs, and preferences.

As part of personalizing plan investment menus, some sponsors recognize that their QDIA may need to evolve to meet the different needs of their plan participants. Sponsors of larger plans, in particular, express interest in personalizing the QDIA at the participant level, as compared to the broader plan level, when evaluating target date options. Two out of five plan sponsors (41%) with $500 million or more in assets state this is "very important" when considering a target date offering, according to Cerulli's 401(k) Plan Sponsor Survey. Meanwhile, 41% of plans in the $100 million to $500 million survey segment express a similar perspective on personalizing their QDIA for their plan participants.

Exhibit 1 | 401(k) Plan Sponsors: Importance of Personalization at the Participant Level When Selecting a Target Date Fund, 2025



Source: Cerulli Associates 401(k) Plan Sponsor Survey

This interest is driven, in part, by the diverse workforces these large plan sponsors have, where no two participants have a similar financial situation. An appropriate asset allocation mix for a participant varies greatly based a deeper set of variables, including salary or earnings, savings rate, employer match, assets in the plan, outside assets, risk tolerance, and time horizon to retirement. Whether the sponsor offers a defined benefit (DB) plan can have an impact as well, given participants in those DC plans can count on some amount of guaranteed income through a pension. As a result, an off-the-shelf target date option focused only on one data point (age) may not be sufficient for all plan participants, especially as the default.

Helping Participants Benefit from Personalized Asset Allocation

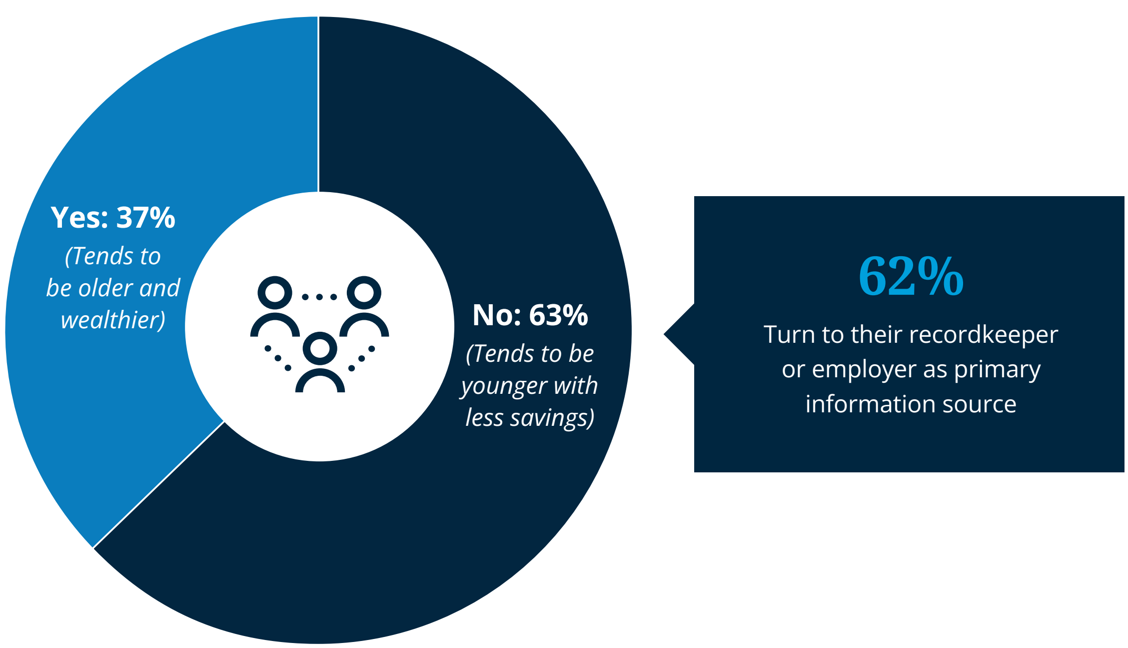
Additionally, many participants want assistance managing their retirement portfolios, especially when it comes to understanding what an appropriate asset allocation is and how to implement an allocation strategy in their retirement plan. Investment decision-making is particularly challenging for pre-retirees who, in addition to investment choices, need to navigate decisions about how to best use their savings, when to claim Social Security, and many more complex decisions. Compared to younger generations, Generation X feels the least qualified to choose their own retirement investments in Cerulli's 2025 401(k) Participant Survey, with 45% of Generation X 401(k) participants saying they do not feel qualified to do so. This is a fair bit higher than Millennials (32%) and Generation Z (30%).

While some participants work with financial advisors, telling Cerulli that planning and portfolio management are two of the most highly valued services they receive, they tend to be older and wealthier. Those who do not work with an advisor, usually younger and less wealthy, frequently turn to their recordkeeper or employer for help making decisions. Retirement income planning and assessing progress toward retirement savings goals are the two topics that receive the most interest from participants, according to recordkeepers.

Encouraging participants to act and engage with the advice and guidance resources offered by their retirement plan is a persistent challenge for plan sponsors. Instead, sponsors recognize that the plan's QDIAs can provide participants with personalized asset allocation that requires no action on the part of the participant.

What's Right for Me? Fewer Active Participants Engage with Personalized Retirement Planning and Advice

Exhibit 2 | Active Participants Engaging with an Advisor, 2025



Source: Cerulli Associates 2025 401(k) Participant Survey

Personalization Across Target Date Funds and Managed Accounts

Plan sponsors have access to a range of QDIA options providing various levels of personalization ranging from basic, which selects an allocation based on the person's age and expected retirement date, to more comprehensive approaches that consider multiple participant data points. As a result, target date funds are used by the vast majority of 401(k) plans, with 81% of employers using off-the-shelf target dates as their default option, according to Cerulli. Approximately half (48%) of plan sponsors make managed accounts available to participants, though most plans (approximately 95%) offer these accounts on an "opt-in" basis.

Exhibit 3 | Levels of Personalization: Target Date Funds and Managed Accounts, 2026

Low — **Personalization Levels** — High

<table>
<tr><th colspan="2" rowspan="2"></th><th colspan="3">Target Date Funds</th><th rowspan="2">Managed Account Program</th></tr>
<tr><th>Off-the-Shelf TDF</th><th>Custom TDF</th><th>Personalized TDF</th></tr>
<tr><td rowspan="5">Demographic factors</td><td>Age</td><td>5-year cohort</td><td>5-year cohort</td><td>Actual age</td><td>Actual age</td></tr>
<tr><td>Current salary</td><td rowspan="4">National averages</td><td rowspan="4">Plan averages</td><td rowspan="4">Participant's data</td><td rowspan="4">Participant's data</td></tr>
<tr><td>Current balance</td></tr>
<tr><td>Participant savings rate</td></tr>
<tr><td>Employer match</td></tr>
<tr><td colspan="2">Asset allocation updates automatically as participants' factors change</td><td>No</td><td>No</td><td>Yes: Quarterly</td><td>Yes: Quarterly</td></tr>
<tr><td colspan="2">Access to recordkeeper data</td><td>No</td><td>No</td><td>Yes: 5 factors</td><td>Yes: 10 to 15 factors</td></tr>
<tr><td colspan="2">Relative cost of personalization</td><td>Low</td><td>Medium-low</td><td>Medium-high</td><td>High</td></tr>
</table>

Source: Cerulli Associates

Off-the-Shelf Target Date Funds

Most plan sponsors (81%) use an off-the-shelf target date fund as the default investment to offer personalization, according to Cerulli's 2025 DC Recordkeeper Survey. This category of investment option offers a relatively straightforward way for plan sponsors to provide participants with a reasonable asset allocation that suits most situations; however, personalization provided is based only on a single factor—age. Using the participant's age, a "vintage" or target date year within five years of participants' expected year of retirement is selected for the participant. Asset allocation is based on national averages.

Working with DC Consultants, plan sponsors attempt to align their off-the-shelf target date funds with the needs of their participants, but this can be challenging, especially for larger employers with diverse participant populations. Off-the-shelf target dates can be considered a "one-size-fits-most" approach due to using just age to determine asset allocation. In addition, the asset allocation models used by these target date suites are based on national averages. As a result, the allocation may not be aligned with participants' risk tolerances, time horizons, and other factors.

Custom Target Date Funds

Some plans have the option of creating a custom target date fund that tailors the QDIA option to fit the needs of their participants. Custom target date options still provide participants with asset allocation based on their age, but the asset allocation and glidepath are customized at the plan level based on an analysis of plan participant demographics, not national averages. Sponsors that offer a DB plan may also take steps to design the target date in a way that complements the DB plan, accounting for the source of guaranteed income in retirement their participants will have.

In addition to adjusting the glidepath and asset allocation, plan sponsors can specify assets or strategies to include in a custom target date option. Some incorporate private market assets, which are not available in many off-the-shelf target date options. They may also blend active and passive strategies within the portfolio.

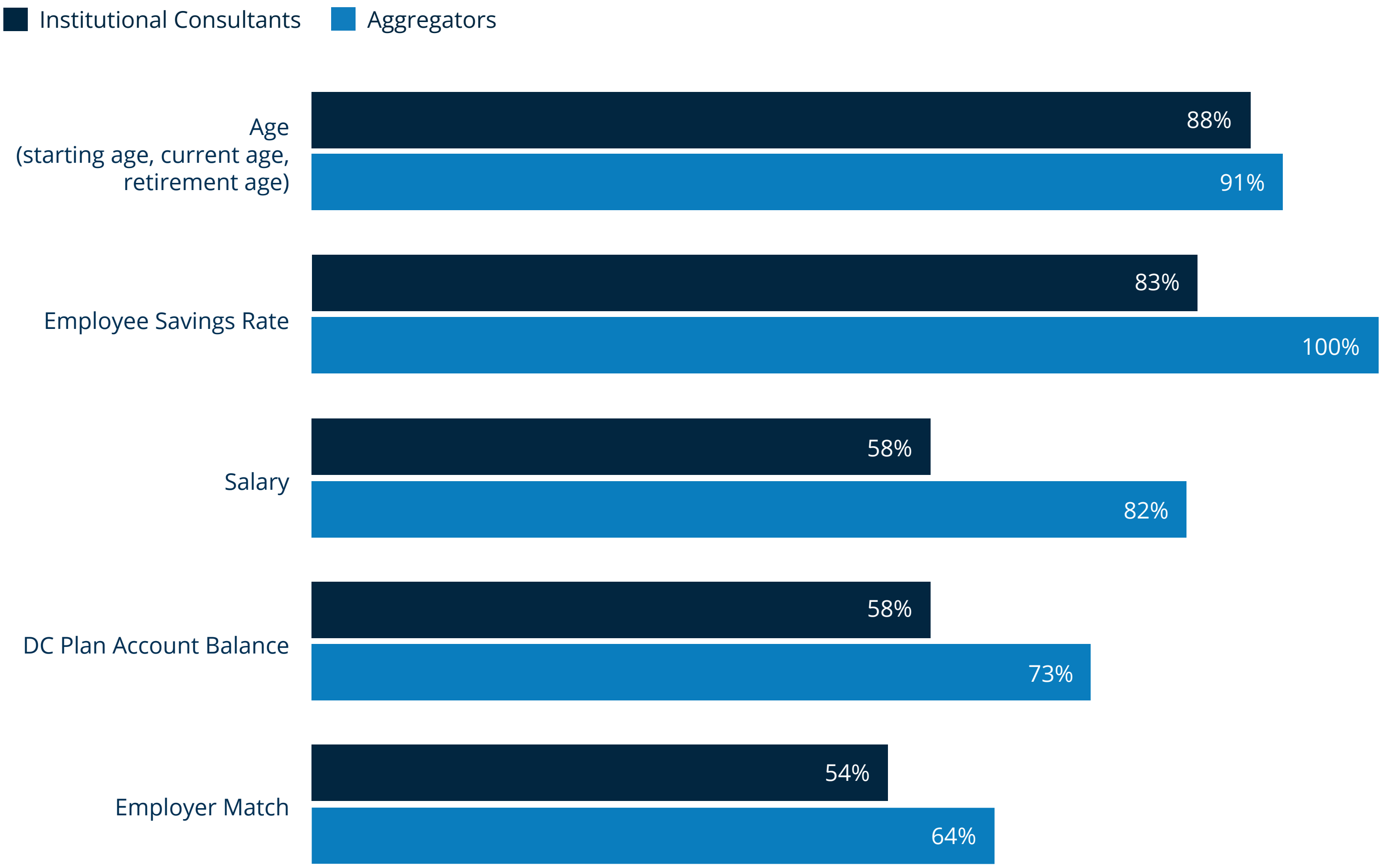
Custom target date offerings are not an option for the majority of plans, though. Asset managers typically offer customization to larger plans with at least several hundred million dollars in DC assets. Plan sponsors may also want to work with an institutional consultant and retirement plan advisor to assist with their due diligence and design process when considering a custom target date option.

Personalized Target Date Solutions

Personalized target date solutions are a relatively new investment offering customization at the participant, versus plan, level, bridging the gap between off-the-shelf target dates tied to just one data point (age) and costlier managed accounts. Leveraging readily available data from recordkeeping platforms across five personal factors—age, savings rates, current salary, DC plan balance, and company match—personalized target dates automatically tailor a participant's asset allocation to their unique demographics, investing across several target date vintages. On a frequent basis (usually quarterly), personalized target date solutions review all five factors concurrently; if any data points change, the participant's asset allocation is automatically updated accordingly, adjusting their individual glidepath.

The five factors used to develop asset allocations in personalized target date solutions are the same as the top five most important participant demographic inputs DC Consultants analyze to evaluate the glidepath fit of target date options for a plan, according to PIMCO's DC Consulting Study 2025. Because these data points are available on the recordkeeping platform, there is no additional work for the participant or plan sponsor to add the data or ensure it is kept up to date. That is handled through the day-to-day administration processes of the plan.

Exhibit 4 | DC Consultants: Top-Five Participant Demographic Factors Used to Evaluate TDF Glidepath Fit, 2025



Source: PIMCO's DC Consulting Study 2025. Respondents were asked: "When evaluating a plan's participant demographics to align with a TDF glidepath fit, which of the following inputs are the most important to review? Please select up to 5 inputs." Institutional Consultants (n=24); Aggregators (n=11).

Personalized target date solutions can be used in auto-enrollment and easy enrollment processes, just like off-the-shelf target date funds. Plan sponsors can choose from active and passive options, as well as personalized target dates that blend active and passive strategies within the portfolio, helping to keep costs low while potentially taking advantage of active management where it can have an impact on the portfolio. They provide participants with a single investment option that manages and adjusts their personal asset allocation and glidepath throughout their career.

Interest in personalized target date solutions is growing. More than two-thirds (67%) of Aggregators and about 30% of Institutional Consultants expect plan sponsor implementation of personalized target date solutions as a QDIA will increase over the next three years, according to PIMCO's DC Consulting Study 2025.

Over the next three years, DC Consultants expect increased sponsor implementation of personalized TDF as QDIA:

30% Yes	67% Yes
Institutional Consultants	Aggregators

Source: PIMCO DC Consulting Study 2025. Respondents were asked: Over the next three years, do you/your firm expect sponsor implementation of the following QDIA options will increase, decrease or stay the same? From the list below, please select all of the QDIA options that apply (one choice per row). Institutional Consultants (n=21); Aggregators (n=9).

Managed Account Programs

Managed accounts are discretionary advice service programs available to participants that manage the asset allocation in their in-plan retirement account. They can use a wide range of data points to determine a participant's asset allocation and adjust it over time as a participant's situation evolves. When a participant updates their data in the program or the recordkeeping system receives updates from the plan sponsor, the managed account adjusts the participant's asset allocation to reflect the changes. Most programs also provide participants with access to planning and advisory services while they are enrolled.

Like personalized target dates, managed accounts use recordkeeping data, with access to as many as 15 data points, depending on the recordkeeper. Participants can also provide additional data to further personalize the experience. In total, the most common managed account programs can utilize more than 30 variables to develop and update an asset allocation.

Few plan sponsors choose a managed account as their QDIA, choosing target date funds instead. This leaves participants to seek out, research, and "opt-in" to a managed account service program on their own. The additional effort, although not difficult, may discourage some participants from taking advantage of the benefits managed accounts offer. As a result, Cerulli estimated that less than 5% of participants are enrolled in this form of personalization.

Cost is another consideration for plan sponsors that currently offer or may consider adding a managed offering. Relative to target date options, managed accounts tend to be more expensive for participants. And while fees are coming down, some consultants and plan sponsors are revisiting the value for cost of managed account options available in their plans. In fact, PIMCO's DC Consulting Study 2025 found that more than half (58%) of Institutional Consultants and 9% of Aggregators say reviewing plans' existing managed account is a top investment menu priority for plan sponsor clients.

Dual QDIA: Transitioning the Target Date for Pre-Retirees

Plan sponsors have the option of offering both a target date option and managed account as default investment options through dual QDIA programs offered by recordkeepers. In a dual QDIA program, participants are initially defaulted into a target date option. At a point determined by the plan sponsor, usually based on age or assets, a participant meeting those thresholds may be automatically transitioned into the plan's managed account program. In a similar approach, participants in an off-the-shelf target date could even be transitioned to a personalized target date to create a more individualized asset allocation.

Dual QDIA programs deploy personalization where it can have the greatest impact in a manner that is cost-effective for participants. A participant is allowed to take advantage of a relatively lower-cost target date offering that provides reasonable asset allocation based on their age. The switch tends to occur at a point where they may benefit from an asset allocation that is more personalized and retirement planning services that help prepare them for retirement.

Personalization and Fiduciary Considerations

Understanding the demographics of a given plan is an important step in determining which QDIA approach works well for the plan and its participants. According to Cerulli's analysis, more than one-third (37%) of 401(k) plan assets are invested in target date funds, and they garner a large percentage of participant contributions. For most plans, it is the single-largest investment option in their investment menu. As such, it is important that it is a good fit for the needs of plan participants.

While fees are an important factor when evaluating target date funds, managed account programs, or any plan investment option for that matter, choosing the lowest-cost investment option may not protect plan sponsors from litigation. In its Target Date Retirement Fund – Tips for ERISA Fiduciaries fact sheet issued in 2013, the Department of Labor (DOL) provided fiduciary considerations related to target date personalization, encouraging plan sponsors to consider how well the target date fund aligns with the demographics of their eligible employees and how other factors may affect their decision. The DOL specifically mentions that plan sponsors:

- Should consider how well the target date offering aligns with eligible employees ages and their likely retirement dates
- May benefit from discussing with target date managers how salary, availability of a DB plan, and other participant demographic factors may influence their consideration of different target dates

Next Steps for Plan Sponsors Considering Enhanced Personalization in the QDIA

It is more than likely that your plan's QDIA already incorporates some level of personalization, most likely through an off-the-shelf target date fund. However, leveraging advances in recordkeeping technology allows sponsors to contemplate evolving the plan's existing QDIA to offer a deeper level of personalized asset allocation beyond "one-size-fits-most" through the default.

If you would like to consider how to provide your plan participants with greater personalization, there are a few steps you can consider:

- **Conduct a participant demographics review:** DC Consultants can help your plan perform a review of its participant demographics to help determine the level of personalization that fits best with the various needs of employees, as a part of aligning the QDIA with DOL's tips for better outcomes.
- **Gain insight into plan- and participant-level analytics:** Your recordkeeper may be able to provide plan-level analytics and support, providing insight into participant behavior across the plan and within specific groups.
- **Leverage the expertise of retirement plan partners:** Consultants, advisors, asset managers, and recordkeepers are resources that can help when evaluating the various QDIA options and levels of personalization, determining which option aligns best with plan objectives and participant demographics, and finally, implementation.

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PIMCO is a global leader in active fixed income with deep expertise across public and private markets. Our extensive resources, global presence and time-tested investment process managing $2.33 trillion in assets[1] are designed to help give our clients an edge as they pursue their long-term goals.

As a trusted Defined Contribution (DC) partner to corporate, public and non-profit plans, our wide range of retirement solutions–across target date funds, retirement income, fixed income, equities and real assets/alternatives–are designed to meet the challenges of changing markets and help active participants reach their retirement goals. That's why ~70,000 plans currently include a PIMCO strategy.[2]

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1. PIMCO manages $2.33 trillion in assets, including $1.92 trillion in third-party client assets as of 30 June 2026.
2. PIMCO BrightScope as of 30 June 2026.

Methodology

About PIMCO's DC Consulting Study 2025:

In its 19th year, PIMCO's Defined Contribution (DC) Consulting Study seeks to help consultants, advisors and plan sponsors understand the breadth of views and consulting services available within the DC marketplace. The 2025 study captures data, trends, and opinions from 35 Consulting and Advisory firms, serving over 27,000 DC plan clients, with DC assets (aggregate) exceeding $8.85 trillion. Responses were collected from January 14, 2025, through March 10, 2025.

For more information, or access to the full study results, reach out to your PIMCO representative or email **pimcodcpractice@pimco.com**.

Cerulli 401(k) Plan Participant Survey:

This report is informed by a 1Q 2025 proprietary survey of 1,590 401(k) investors, including both active workers and retirees. This year's survey population is comprised of 989 active working current 401(k) account owners and 601 retired current or former 401(k) account owners. Using data from the Bureau of Labor Statistics (BLS) and the Survey of Consumer Finances (SCF), survey results have been weighted to align with U.S. population demographics. The survey, which is in its fourteenth iteration, provides an in-depth perspective on 401(k) plan participant decision making, which is further explored based on age, generation, gender, employment status, household investable assets, and other characteristics. Survey topics include methods for accessing retirement plan information, sources of financial stress, advisor services, retirement planning, investment style, retirement fears, and rollover decisions.

Cerulli 401(k) Plan Sponsor Survey:

This report includes the results of Cerulli's 4Q 2025 proprietary survey of 966 401(k) plan sponsors. This survey, now in its twelfth iteration, addresses topics such as financial wellness, pooled employer plans (PEPs), service provider relationships, and investment selection.

Cerulli's 2025 DC Recordkeeper Survey:

The annual Defined Contribution (DC) Recordkeeper Survey, conducted by Cerulli in partnership with the SPARK Institute, explores recordkeeping services and fee arrangements, trends in plan design, financial wellness, and distribution options for retired and separated participants. In total, 25 firms participated in this year's survey, including nine of the 10 largest DC recordkeepers by assets under administration.

For more information, email **info@cerulli.com**.

IMPORTANT NOTICE

PIMCO's DC Consulting Study 2025 compiled data and trends from 35 consulting and advisory firms, who serve over 27,000 DC Plan Clients with DC assets of almost $8.85 trillion. All responses were collected from January 14, 2025 through March 10, 2025. This communication contains opinions of survey respondents as of the date noted and not necessarily those of PIMCO. Such opinions are subject to change without notice and may not have been updated to reflect real time market developments. The survey results are for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. The analysis of key findingsis for illustrative purposes only, highlighting major themes identified within the survey responses.

Please note that this report reflects the opinion of the manager and respondents as of the date noted and may not be updated to reflect subsequent market developments. The analysis of key findings is for illustrative purposes only, highlighting major themes identified within the survey responses. Statements about financial market trends or portfolio strategies are based on conditions at the time of publication, which are subject to change. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. All opinions, outlook, and strategies are subject to change without notice.

Past performance is not a guarantee or a reliable indicator of future results

All investments contain risk and may lose value. Investing in the bond market is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. **Equities** may decline in value due to both real and perceived general market, economic and industry conditions. **Management risk** is the risk that the investment techniques and risk analyses applied by an investment manager will not produce the desired results, and that certain policies or developments may affect the investment techniques available to the manager in connection with managing a strategy. Annuity guarantees are backed by the claims-paying ability of the issuing insurance company. **PIMCO does not offer insurance guaranteed products or products that offer investments containing both securities and insurance features. Diversification** does not ensure against loss.

Glidepath is the asset allocation within a Target Date Strategy (also known as a Lifecycle or Target Maturity strategy) that adjusts over time as the participant's age increases and their time horizon to retirement shortens. The basis of the Glidepath is to reduce the portfolio risk as the participant's time horizon decreases. Typically, younger participants with a longer time horizon to retirement have sufficient time to recover from market losses, their investment risk level is higher, and they are able to make larger contributions (depending on various factors such as salary, savings, account balance, etc.). Generally, older participants and eligible retirees have shorter time horizons to retirement and their investment risk level declines as preserving income wealth becomes more important. De-risking strategy is based on a function of plan funded status. As plan funded status improves, clients may be interested in reducing their plan funded status volatility by shifting out of risk assets and into liability-hedging fixed income.

Target Date Funds are designed to provide investors with a retirement solution tailored to the time when they expect to retire or plan to start withdrawing money (the "target date"). Target Date Funds will gradually shift their emphasis from more aggressive investments to more conservative ones based on their target dates. Target Date Funds invest in other funds and instruments based on a long-term asset allocation glidepath, and performance is subject to underlying investment weightings, which will change over time. An investment in a Target Date Fund does not eliminate the need for an investor to determine whether a Fund is appropriate for his or her financial situation. An investment in a Fund is not guaranteed. Investors may experience losses, including losses near, at, or after the target date, and there is no guarantee that a Fund will provide adequate income at and through retirement.

PIMCO does not provide legal or tax advice. Please consult your tax and/or legal counsel for specific tax or legal questions and concerns. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness. Any tax statements contained herein are not intended or written to be used, and cannot be relied upon or used for the purpose of avoiding penalties imposed by the Internal Revenue Service or state and local tax authorities. Individuals should consult their own legal and tax counsel as to matters discussed herein and before entering into any estate planning, trust, investment, retirement, or insurance arrangement.

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