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Retail Financial Innovation and Stock Market Dynamics: The Case of Target Date Funds

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ABSTRACT

Target date funds (TDFs) are designed to provide unsophisticated or in
investors with age-appropriate exposures to different asset classes like
bonds. The rise of TDFs has moved a significant share of retirement i
macrocontrarian strategies that sell stocks after relatively good stock
mance. This rebalancing drives contrarian flows across equity mut
TDFs, stabilizing their funding, and reduces stock returns for st
ately held by these funds when stock market returns are relati
growth in TDFs and similar investment products may dampen
and increase the transmission of shocks across asset classes

2024 TIAA Paul A. Samuelson Award

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2024 winning submission

“Retail Financial Innovation and Stock Market Dynamics: The Case of Target Date Funds”

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To maintain the target share of their portfolio in stocks, Target Date Funds (TDFs) employ a macro-contrarian strategy—selling stocks when the market does well, and buying when it does poorly. This paper shows that TDF trading activity helps stabilizes stock prices and may dampen overall market volatility.

“The past two decades have seen a dramatic rise in TDF holdings within retirement plans. While earlier research has focused on benefits to individual investors, the authors advance the literature by analyzing TDFs’ effects on asset markets. The results are relevant for academics, practitioners and policymakers alike,” said Jonathan Reuter, one of the judges.

“The Samuelson Award is a particular honor for us, given our MIT ties. This recognition highlights both the real-world impact of academic work on optimal portfolios, like Samuelson (1969), and the importance of the design of retirement plans and financial innovations like TDFs for investors and asset markets,” said the authors.

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Felix Reichling, Congressional Budget Office; Kent Smetters, The Wharton School of the University of Pennsylvania, “Optimal Annuitization with Stochastic Mortality and Correlated Medical Costs” (*The American Economic Review*, 2015)

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C. Eugene Steuerle, Richard B. Fisher Chair, Urban Institute, *Dead Men Ruling: How to Restore Fiscal Freedom and Rescue Our Future* (The Century Foundation Press, 2014)

2013

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2012

Sylvester J. Schieber, Former Chair, Social Security Advisory Board, T*he Predictable Surprise: The Unraveling of the U.S. Retirement System* (Oxford University Press, 2012)

2011

James J. Choi, Yale School of Management; David I. Laibson, Harvard University, Department of Economics; Brigitte C. Madrian, Harvard University, John F. Kennedy School of Government, "Why Does the Law of One Price Fail? An Experiment on Index Mutual Funds" (*Review of Financial Studie*s, 2010)

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Carmen M. Reinhart, Peterson Institute for International Economics, Washington, D.C.; Kenneth S. Rogoff, Harvard University, *This Time is Different—Eight Centuries of Financial Foll*y (Princeton University Press, 2009)

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George A. Akerlof, University of California, Berkeley; Robert J. Shiller, Yale University, *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism* (Princeton University Press, 2009)

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Peter A. Diamond, Massachusetts Institute of Technology, *Taxation, Incomplete Markets, and Social Security* (Brookings Institution Press, 2002)

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Brigitte C. Madrian, University of Pennsylvania; Dennis F. Shea, Aetna, Inc., “The Power of Suggestion: Inertia in 401(k) Participation and Savings Behavior”(*The Quarterly Journal of Economics*, 2001)

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John Cochrane, University of Chicago, *Asset Pricing* (Princeton University Press, 2001)

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1. As of July 21, 2022. Based on data in PLANSPONSOR's 403(b) 2022 DC Recordkeeping Survey, combined 457 and 403(b) data.
2. As of June 30, 2024 assets under management across Nuveen Investments affiliates and TIAA investment management teams are $1,349 billion.

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