June 4, 2009

Office of Regulations and Interpretations, Room N–5655
Employee Benefits Security Administration
U.S. Department of Labor
Washington, DC 20210

Re: Target-Date Fund Joint Hearing [Release No. IC-28725; File No. 4-582]

To Whom It May Concern:

Please consider this written request to be heard at the June 18th Target Date Fund Joint Hearing.

Behavioral Research Associates, LLC is an applied research and consulting firm focused on improving the retirement saving and investing outcomes of American workers. As a firm, we have over eight years of practical experience researching the ways that employees make retirement planning decisions.

Recently, our work has focused on understanding how investors are using target-date funds within the context of both automatic enrollment plans and opt-in plans (plans that require employees to take action to enroll in the plan). Our understanding is that we are the only firm to have conducted research that separately analyzes usage of automatically enrolled and opt-in target-date fund investors. We have supplemented this empirical work of investors' actual behavior with a survey of individuals' perceptions of target-date funds.

We believe the results of our work related to investors' behavior and individuals' perceptions of target-date funds to be of particular interest to your Agencies. Although the behavior of target-date fund managers appears to be the focus of the hearing, it is investors' irrational behavior (poor investment choice and inertia) that motivated the development of target-date funds. As such, it is imperative that investor behavior also inform the way in which fund managers, plan sponsors, and regulators make investment and disclosure decisions.

Below we outline our proposed discussion topics:

Topic 1: Overview of Target-Date Fund Usage in Automatic Enrollment and Opt-In Plans [2 minutes]

- Target-date funds are offered by a majority of retirement plans with between 1,000 and 5,000 participants, and nearly 49 percent of automatic enrollment plans use them as the default investment option (PSCA, 2008).
- Participant usage of target-date funds (when they are offered) ranges from 37 percent (EBRI, 2009) to as high as 61 percent (DiCenzo, 2009, based on T. Rowe Price data). For automatically enrolled participants, usage is reported to be as high as nearly 95 percent (DiCenzo, 2009).
- Target-date fund investors tend to be lower-income, shorter-tenured and younger (as compared to other retirement plan participants).
- Over time, automatically enrolled participants tend to migrate away from target-date funds when they are used as the default investment (DiCenzo, 2009).

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Topic 2: Results of Research Evaluating Individuals' Perceptions of Target-Date Funds [2 minutes]

- More than half of respondents think that investing in target-date funds results in retirement readiness by the target date.
- Over one-third of respondents believe that target-date funds produce guaranteed returns.
- Over 40 percent of respondents think that the funds offer little or no risk of losing money over one year (increasing to nearly 60 percent when spanning over a 10-year period).
- Respondents who express the greatest desire to invest in target-date funds are also the most likely to think that target-date funds offer little to no investment risk.

Topic 3: Possible Psychological Causes of Risk Misperceptions [3 minutes]

- Psychological biases can be responsible for misperceptions.
- Potential biases include: false hope; overconfidence; excessive optimism; framing; schemas; focusing illusions; misperceptions of risk-benefit correlations; emotions. Below are two examples of biases:
  - ***Framing:*** Research has shown that framing can bias perceptions. For instance, people prefer medical treatments that are framed in terms of "survival" rather than "mortality" rates, presumably because survival frames focus people on the upside, rather than the downside, of treatments. Similarly, framing target-date funds as simple, worry free, "set-it-and-forget-it" retirement investments may bias people to consider the funds' benefits rather than their risks.
  - ***False hope:*** Recent studies suggest that people are biased to be excessively optimistic about products that promise easy solutions to difficult problems (e.g., "easy" diets that lead to extreme weight loss). Likewise, promising an easy solution to retirement planning via target-date funds may lead people to be overly optimistic that the funds will solve all their retirement planning needs, including risk-less investing.

Topic 4: Finding Prescriptive Solutions to Correct Risk Misperceptions [3 minutes]

- Research by Professors Brigitte Madrian and David Laibson of Harvard University suggests that disclosures may not improve investor decision making.
- Systematic behavioral research is needed to understand whether disclosures can reduce risk misperceptions, or if other methods are needed to overcome psychological biases.
- With testing, it may be found that psychological biases need to be addressed more directly than disclosures allow. Some potential psychological solutions to be discussed are as follows:
  - ***Re-Framing:*** Providing more transparent product information has been shown to reduce biases caused by framing. So, to make potential risks more transparent, the target-date fund moniker could be changed to include an indicator for its average relative risk level.
  - ***Eliminating False Hope:*** The promise of an easy solution to adequate retirement planning could be replaced by a clear and consistent message that target-date funds only address asset allocation issues.

Thank you for your consideration. We look forward to hearing from your Agencies.

Sincerely,

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Biographies

Jodi DiCenzo

Jodi DiCenzo, CFA, CPA, founded Behavioral Research Associates, LLC in 2006 after a four-year partnership with Shlomo Benartzi, Ph.D. (Benartzi & DiCenzo, LLC). She has over 20 years of experience in consulting financial service firms and brings a practical approach to applying academic behavioral research in real world contexts to help optimize individuals' decision making.

Previously, Jodi was employed by Strong Financial Corporation, where she helped develop the Retirement Plan Services division from its inception in 1995. Before joining Strong in 1994, Ms. DiCenzo was a Senior Manager at PricewaterhouseCoopers, LLC, where she specialized in providing audit and consulting services to financial service firms and publicly traded companies.

Ms. DiCenzo chairs the Recruitment Advisory Group of CFA Chicago, and is a member of The EBRI Defined Contribution Research Task Force, Profit Sharing/401(k) Council of America, The International Foundation of Employee Benefit Plans, The Illinois CPA Society, and The Society for Judgment and Decision Making.

Selected Research Papers on Retirement Issues

Participant Behavioral Insight: How Participants are Using Target-Date Funds. DiCenzo (2009).

A Closer Look at Automatic Plan Services: Plan Sponsor and Participant Behavior. DiCenzo (2009).

Behavioral Finance and Retirement Plan Contributions: How Participants Behave, and Prescriptive Solutions. DiCenzo (2007).

Michael J. Liersch

Michael Liersch is a Visiting Assistant Professor of Management and Organizations at the Stern School of Business (NYU). He received his A.B. in Economics from Harvard University and his Ph.D. in Cognitive Psychology from the University of California, San Diego. Professor Liersch's research interests include decision making, risk perception, and behavioral finance. He has published work in *Psychological Science* and *Organizational Behavior & Human Decision Processes*, and has presented papers at both national and international business and decision-making conferences.

Prior to joining NYU Stern, Professor Liersch taught "Organizational Leadership" at the Rady School of Management at the University of California, San Diego, and assisted teaching courses in negotiation, organizations strategy and human resources management, and cognitive psychology at both the Rady School and in the psychology department at the University of California, San Diego. He has also worked as a management consultant, a strategy and development analyst, and a senior corporate and business development manager.

Selected Research Papers on Retirement Issues

Recommendations Implicit in Policy Defaults. McKenzie, Liersch & Finkelstein (2006).

Choice in Retirement Plans: How Participant Behavior Differs in Plans Offering Advice, Managed Accounts, and Target-Date Investments. Liersch (2009).

Misunderstanding Savings Growth: Implications for Retirement Savings. McKenzie & Liersch (2009).