

**Submission of the Investment Company Institute**

**On**

**Target Retirement Date Funds**

**July 20, 2009**

**Supplementing the testimony of Karrie McMillan, General Counsel of the Investment Company Institute, presented at the June 18, 2009, hearing held by the Department of Labor and the Securities and Exchange Commission**

# Submission of the Investment Company Institute On Target Retirement Date Funds

## I. Introduction

The Investment Company Institute is pleased to provide comments to the Department of Labor and the Securities and Exchange Commission to supplement the testimony of the Institute<sup>1</sup> presented by Karrie McMillan, Institute General Counsel, at the joint hearing the agencies held on target retirement date funds on June 18, 2009. The June 18th hearing was inspired by the market events of 2008, during which many target retirement date fund investors saw significant losses in their accounts. The Institute supports the agencies' efforts to consider whether any improvements should be made to the regulations and guidance issued by the Department under the Employee Retirement Income Security Act of 1974 and the Commission under the federal securities laws with respect to target date funds used for retirement savings.

In our view, the impact of market events on target date fund investors underscores the need to redouble efforts to educate retirement savers about investing, retirement savings products and what they are designed to do, and the benefits of consistent retirement saving. The market downturn, however, should not prompt regulatory actions that would insert the agencies into the investment process—the design and management of target retirement date funds by investment professionals or their selection by fiduciaries for inclusion in retirement plans. Further, if the agencies decide to develop new rules for target retirement date funds, it is imperative that the rules apply to *all* target retirement date fund products, regardless of whether they are offered as mutual funds, collective investment trusts, or separate accounts of insurance companies.

Target retirement date funds are one of the most important innovations in retirement savings. They provide an efficient way for an investor to invest in a mix of asset classes through a single fund that both rebalances its asset allocation periodically and becomes more conservative over time. Target retirement date funds are designed to avoid the extreme asset allocations observed in some retirement accounts. Research shows that, left to their own direction, some young workers invest very conservatively, by allocating all, or almost all, of their accounts to fixed-income investments, while some participants nearing retirement invest very aggressively, allocating all, or almost all, of their accounts to equity investments.<sup>2</sup>

---

<sup>1</sup> A copy of Institute's written testimony, presented by Karrie McMillan, Institute General Counsel, on June 18, 2009, is attached and is available at [www.ici.org/pressroom/speeches/09\\_target\\_fund\\_tmny#Written](http://www.ici.org/pressroom/speeches/09_target_fund_tmny#Written).

<sup>2</sup> For example, in the year-end 2007 EBRI/ICI 401(k) database, 19 percent of active 401(k) participants in their twenties held no equities, while 30 percent of participants in their sixties had more than 80 percent of their accounts invested in equities. (Equities include equity funds, the equity portion of balanced funds, and company stock.) See Holden, VanDerhei, Alonso, and Copeland, *401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2007*, ICI Perspective, vol. 14,

Target retirement date funds are based on a long-term investment strategy that should not be judged by one year of performance. Most asset classes, other than nominal Treasury securities, performed poorly in 2008. As a result, investment portfolios of all kinds—from defined benefit plans to college endowments to individually advised portfolios—suffered. The S&P 500 total return index lost 37.0 percent in 2008, and average losses of target retirement date funds with target dates between 2000 and 2010 were 22.5 percent in 2008.<sup>3</sup>

We do not know how long this current downturn will last or whether we have seen the worst. We do know from examining the most recent previous downturn, which came after the bursting of the technology stock bubble, that consistent long-term investment strategies benefited retirement savers.<sup>4</sup> The EBRI/ICI Participant-Directed Retirement Plan Database, the largest, most representative repository of information about individual 401(k) accounts, shows that participants who stayed in the system and continued saving saw their accounts rebound significantly after the 2000 to 2002 market downturn.<sup>5</sup> An analysis of consistent savers in the EBRI/ICI 401(k) database shows that between year-end 1999 and year-end 2002, the average account balance of this group fell 8 percent.<sup>6</sup> But, in the course of the next year, by year-end 2003, this group's average account balance rose 31 percent. Further, the average account balance for these savers more than doubled from the market bottom (2002) through the end of 2007. Overall, this group's average account balance from year-end 1999 to year-end

---

no. 3, and EBRI Issue Brief, no. 324, Investment Company Institute and Employee Benefit Research Institute (Dec. 2008), available at [www.ici.org/pdf/per14-03.pdf](http://www.ici.org/pdf/per14-03.pdf).

<sup>3</sup> Return reported is the simple average of all share classes of the "Target Date 2000-2010" category as reported by Morningstar. Most funds in this category are 2010 funds.

<sup>4</sup> In 1999, total U.S. retirement market assets temporarily peaked at \$11.8 trillion. Because of the bursting of the tech bubble and the terrorist attacks on September 11, 2001, the U.S. stock market entered a multi-year downturn. By year-end 2002, U.S. retirement market assets fell to \$10.6 trillion, an 11 percent drop from the 1999 peak. (Although this was a significant decline, it was not as extreme as the overall market downturn—the S&P 500 total return index fell 37.6 percent over the same period. We attribute this difference to diversification and ongoing contributions, which tempered the decline in retirement savings.) Retirement assets rebounded to \$12.5 trillion by year-end 2003. See Brady, Holden, and Short, *The U.S. Retirement Market, 2008*, ICI Fundamentals, vol. 18, no. 5 (June 2009), available at [www.ici.org/pdf/fm-v18n5.pdf](http://www.ici.org/pdf/fm-v18n5.pdf).

<sup>5</sup> For more information on the EBRI/ICI Database, see Holden, VanDerhei, Alonso, and Copeland, *401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2007*, *supra*. For information on the account balance experience of a consistent group of participants who held accounts at the end of each year from 1999 through 2007, see Holden, VanDerhei, and Alonso, *What Does Consistent Participation in 401(k) Plans Generate?* ICI Perspective, vol. 15, no. 1, and EBRI Issue Brief, no. 332-SR, Investment Company Institute and Employee Benefit Research Institute (July 2009), available at [www.ici.org/pdf/per15-01.pdf](http://www.ici.org/pdf/per15-01.pdf).

<sup>6</sup> Consistent savers are participants who had account balances at the end of each year from 1999 through 2007. For more details of this analysis, see Holden, VanDerhei, and Alonso, *What Does Consistent Participation in 401(k) Plans Generate?* *supra*.

2007 was up 106 percent, despite the multi-year bear market. This highlights the value of diversification and ongoing contributions, which allow participants to take advantage of dollar-cost averaging—buying more when market prices are depressed.

In this submission, the Institute expresses the following views, which are discussed below:

- Decisions on how target retirement date funds are constructed and used in plans should remain with investment professionals and plan fiduciaries.
- The use of proprietary funds in target retirement date funds is appropriate and in the interest of plans and their participants.
- The retirement industry and regulators can and should do more to enhance understanding of target retirement date funds.

## **II. Decisions on how target retirement date funds are constructed and used in plans should remain with investment professionals and plan fiduciaries**

The hearing clearly demonstrated consensus by experts that there is no single way to construct a target retirement date fund and that plan sponsors are best positioned to decide which target retirement date funds are appropriate for their workforce. Some witnesses, nevertheless, recommended that the agencies should set a maximum equity allocation a fund can hold at the target date, arguing that government regulation could minimize the likelihood that participants would experience losses at or near retirement. The Institute does not believe that the agencies should seek to regulate fund asset allocation.

### ***Regulation of volatility***

In calling for glide path standardization, some critics cited the dispersion of last year's performance results in 2010 target retirement date funds as evidence of a problem and called on agencies to regulate equity allocations to reduce volatility in fund returns. The agencies should not seek to regulate fund asset composition in reliance on this rationale.

Target retirement date funds are a type of a balanced fund, and like all balanced funds, they invest in more than one asset class. All types of balanced funds—not just target retirement date funds—experienced wide dispersion in returns:

- Morningstar data show that returns in Target Date 2000-2010 funds in 2008 averaged negative 22.5 percent and ranged from negative 3.6 percent to negative 41.8 percent.
- Balanced funds categorized by Morningstar as Conservative Allocation had average returns of negative 18.6 percent, with returns ranging from positive 6.3 percent to negative 39.3 percent.

- Balanced funds categorized by Morningstar as Moderate Allocation had average returns of negative 28.0 percent, with returns ranging from negative 1.7 percent to negative 54.2 percent.

These differences in returns arise not only from differences in asset allocation between equities and bonds, but also differences in asset allocation *within* equities and *within* bonds.

Target retirement date funds vary in how much equity they have, but all target retirement date funds have equity at and after retirement. This is because most financial analysts believe stocks offer attractive returns even after accounting for the volatility of their returns. Some hearing witnesses recommended that the agencies prescribe certain limits on the amount of equity that target retirement date funds can hold in order to reduce volatility of returns near retirement. However, this oversimplifies the analysis. Returns last year in target retirement date funds were not completely attributable to equity allocations – funds with similar equity allocations experienced different rates of returns. Indeed, many funds with low equity allocations experienced losses similar to, or even worse than, those of other funds with higher equity allocations. The 2008 returns reflected not only the *amount* of equity in a target retirement date fund's portfolio but also the *nature* of the fund's equity and bond investments, including the type of, and weights assigned to, equity and bond subclasses used by a fund.

Thus, simply regulating the total allocation to equities in target retirement date funds would not be sufficient to minimize differences in investment outcomes between funds with the same target retirement date. Instead, the agencies would need to regulate comprehensively the entire composition of target retirement date funds, not just the percentage of equities. This level of involvement in a product design would be unprecedented, unjustified, and likely unsuccessful.

***Investment managers and plan fiduciaries are in the best position to make decisions about the asset composition of target retirement date funds***

Throughout their regulatory histories, the Commission and the Department consistently have avoided regulating the portfolio composition of long-term mutual funds under the Investment Company Act of 1940 or prescribing requirements on what would be a prudent plan investment under ERISA. They should not do so now. Investment managers and plan fiduciaries are in the best position to make these decisions.

The testimony at the hearing from more than 10 witnesses representing firms that offer off-the-shelf or customized target retirement date portfolios convincingly demonstrated that providers design, test, and maintain target retirement date funds carefully based on economic principles and historic data to seek to achieve stated objectives for these funds. Information about how the design and underlying assumptions of one target retirement date mutual fund might differ from another are readily available in fund disclosure documents and throughout the process by which target retirement date funds are explained and presented to plan fiduciaries.

Under ERISA, plan fiduciaries must evaluate and approve a particular investment before including it in a plan menu. Some employers work with consultants when evaluating target retirement date funds, and some do the analysis in-house.

Witnesses representing plan sponsors and their consultants testified convincingly that plan fiduciaries select target retirement date funds carefully with a view to the needs of their plans. In selecting target retirement date funds, employers may consider a number of factors, including whether or not the employer offers a defined benefit plan and whether or not the plan includes employer stock. Depending on the size of the plan and other factors, an employer may decide to use a pre-packaged target retirement date fund offered by the plan recordkeeper or a third party provider or decide on a custom-designed product. It is, and it should be, up to employers to select appropriate target retirement date funds for their plans. The differences in the glide paths used by different mutual funds families, and the differences in glide paths used in custom products (which can vary significantly from plan to plan, according to witnesses) allow target retirement date funds to meet different plan needs.

There is no “right” glide path for target retirement date funds or one “right” type of target retirement date fund for all plans. Decisions on how target retirement date funds are constructed by providers and how they are used in plans should remain with the persons best able to make those decisions—investment professionals and the fiduciaries of individual plans.

At the June 18<sup>th</sup> hearing, some suggested that the Department might want to issue general guidance to plan fiduciaries on how to evaluate and monitor target retirement date funds. To the extent that plan fiduciaries might find this guidance helpful, the Institute recommends that the Department consider providing such guidance.

### **III. The use of proprietary funds in target retirement date funds is appropriate and in the interest of plans and their participants**

At the hearing, some witnesses voiced concerns about target retirement date funds that use proprietary funds as underlying funds. These concerns, in our view, are misplaced. In designing target retirement date funds, investment providers generally determine: how a fund’s asset allocation will evolve over time; what asset classes and subclasses will be used in these asset allocations; and the underlying funds for the asset subclasses. The selection of individual funds is designed to achieve the fund’s objective by delivering the asset allocation contemplated by the glide path. There are many reasons why a fund provider would determine that using proprietary funds is the best way to achieve a fund’s objective. In addition, there are regulatory hurdles that make it more difficult for mutual funds to use non-proprietary funds.

Target retirement date funds invest in multiple asset classes, ranging from domestic large and small cap stocks and international stocks to corporate and government bonds to cash. To avoid overlap between asset classes, some fund managers use proprietary funds consisting of pure asset classes as their underlying funds. Others select from among their existing families of funds, which in many cases provide a variety of potential funds for each asset class. In both cases, managers using their proprietary

funds have the benefit of knowing the investment policies of these funds and have easy access to their portfolio managers. Thus, they may reduce the costs of monitoring underlying funds to assure they continue to meet the fund's objectives.

During the hearing, some witnesses suggested that using underlying funds that were non-proprietary would produce better results, because this approach would allow the sponsor of the target date fund to gain the benefits of specialization by picking "best of class" fund providers for each asset class. However, any benefits of specialization need to be weighed against the costs of transacting with unaffiliated firms and monitoring the portfolios of the unaffiliated funds.<sup>7</sup>

Legal factors also favor creation of target retirement date mutual funds comprised primarily of proprietary funds. Most target retirement date mutual funds are so-called "funds of funds," because they invest in a selection of underlying funds. The 1940 Act generally prohibits fund of funds arrangements unless they qualify for a statutory exception. Target retirement date funds rely primarily on the exception in Section 12(d)(1)(G) of the Act, which does not apply to funds of funds comprised of non-proprietary funds.

Section 12(d)(1)(G) was added to the 1940 Act by the National Securities Markets Improvement Act of 1996 (NSMIA) to codify exemptive orders previously issued by the Commission for proprietary fund of funds arrangements designed for retirement investors.<sup>8</sup> By codifying the exemptions, Congress eliminated the need for a fund group to seek an individual exemptive order to create a fund of funds arrangement consisting of proprietary funds. At the Commission's suggestion, the self-operating exemption in Section 12(d)(1)(G) was limited to the types of arrangements the Commission had previously reviewed and provided exemptions for—those involving proprietary funds.

---

<sup>7</sup> This is not a tradeoff that is unique to target retirement date funds. As laid out in his seminal 1937 article ("The Nature of the Firm," *Economica*, 4(16) 386-405), Ronald Coase posited that firms exist because transaction costs make it more efficient to produce some products completely within a firm rather than to purchase intermediate products, or inputs, through market transactions. The tradeoff between the benefits of specialization and the costs of market transactions defines the limit of the firm; that is, it defines which inputs are produced internally and which inputs are purchased in the marketplace.

<sup>8</sup> See Vanguard Special Tax-Advanced Retirement Fund, Investment Company Act Release No. 14153 (Sept. 12, 1984) [49 Fed. Reg. 36582 (Sept. 18, 1984)] (notice), Investment Company Act Release No. 14361 (Feb. 7, 1985) (order) ("1985 Vanguard Order"); T. Rowe Price Spectrum Fund, Investment Company Act Release No. 17198 (Oct. 31, 1989) [54 Fed. Reg. 47010 (Nov. 8, 1989)] (notice), Investment Company Act Release No. 17242 (Nov. 29, 1989) (order) ("1989 T. Rowe Price Order"); Vanguard STAR Fund, Investment Company Act Release No. 21372 (Sept. 22, 1995) [60 Fed. Reg. 50656 (Sept. 29, 1995)] (notice), Investment Company Act Release No. 21426 (Oct. 18, 1995) (order) (revising conditions on the 1985 Vanguard Order); T. Rowe Price Spectrum Fund, Investment Company Act Release No. 21371 (Sept. 22, 1995) [60 Fed. Reg. 50654 (Sept. 29, 1995)] (notice), Investment Company Act Release No. 21425 (Oct. 18, 1995) (order) (revising conditions on the 1989 T. Rowe price Order). The funds that obtained these exemptions were designed as asset allocation funds for retirement investors but were not target retirement date funds. When target retirement date mutual funds were introduced, Section 12(d)(1)(G) existed to streamline the regulatory process for fund families in organizing these funds.

NSMIA also added new section 12(d)(1)(J) to the Act to authorize the Commission to issue additional exemptive relief for fund of funds arrangements not otherwise permitted by the Act. The House Report accompanying NSMIA stated that the Commission was expected to “use this [additional authority] to adopt rules and process exemptive applications in the fund of funds area in a progressive way as the fund of funds concept continues to evolve over time.”<sup>9</sup> The Commission has used this authority in the past, among other things, to provide case-by-case exemptions for fund of funds arrangements involving non-proprietary funds.<sup>10</sup> The Commission may want to consider whether it has a sufficient record to pursue rulemaking to facilitate creation of fund of funds arrangements involving non-proprietary funds.

***Fund managers have no incentive to use poorly performing proprietary funds***

At the June 18<sup>th</sup> hearing, some witnesses implied that the use of proprietary funds in target retirement date funds creates an incentive to use poorly performing and expensive funds. They also contended that the arrangements lack transparency and are unregulated.

That contention runs contrary to the forces governing the market for these funds. Mutual fund managers have no incentive to use underperforming funds in their target retirement date funds because doing so would harm the performance of the target retirement date fund itself.

There is also no basis to the charge that target retirement date funds are overly expensive. Investors in target retirement date mutual funds typically pay proportionate expenses of the underlying funds in which the target retirement date fund invests. Sponsors of the target retirement date mutual funds typically do not charge any additional fee for asset allocation. Regardless of whether or not a fee is charged for asset allocation, all fees are reflected in the expense ratio. The asset-weighted average expense ratio for target retirement date mutual funds was 0.66 percent of assets; the Institute’s previous research has shown that the comparable average for equity funds was 0.84 percent at year-end 2008; for bond funds, 0.63 percent.<sup>11</sup>

***The use and expenses of proprietary funds is fully disclosed and transparent***

The use of proprietary funds in mutual fund target retirement date funds, including their expenses, is fully disclosed. In 2006, the Commission adopted a specific requirement that all fund of funds disclose an aggregated expense ratio for underlying funds in their prospectuses as a required line item in the fee

---

<sup>9</sup> See H.R. Rep. No. 622, 104<sup>th</sup> Cong., 2d Sess., at 43-44 (1996) (H.R. Rep. No. 622).

<sup>10</sup> See Schwab Capital Trust, Investment Company Act Release No. 24067 (Oct. 1, 1999) [64 Fed. Reg. 54939] (Oct. 8, 1999) (notice), Investment Company Act Release No. 24113 (Oct. 27, 1999) (order).

<sup>11</sup> See Collins, *Trends in the Fees and Expenses of Mutual Funds, 2008*, ICI Fundamentals, vol. 18, no. 3 (April 2009), available at [www.ici.org/pdf/fm-v18n3.pdf](http://www.ici.org/pdf/fm-v18n3.pdf).



table.<sup>12</sup> Fund prospectuses are required to place the fee table near the front of the prospectus. The names of the underlying funds are identified in a target retirement date fund prospectus, and plan sponsors, consultants, and others seeking additional information about underlying proprietary mutual funds easily can obtain it in the prospectuses and statements of additional information of those funds.

Target retirement date mutual funds are subject to the same comprehensive regulation under the 1940 Act that applies to all mutual funds and, as explained above, must comply with the 1940 Act's strict rules relating to fund of funds structures. For example, mutual fund boards of directors (most of which have a majority or more of independent directors) have a fiduciary duty to assure that funds operate in the interests of their investors, including duties to assure that funds are not overcharged for services to the fund provided by its investment manager. The 1940 Act's fund of funds rules limit the sales charges and service fees that can be charged and generally have the effect of assuring that fund investors are not charged twice for the same service. When target retirement date funds are used in 401(k) plans, plan participants have the additional protection provided by plan fiduciaries, who are subject to duties of prudence and care in selecting target retirement date funds as plan investments.

***Plan sponsors can choose whether or not to use target retirement date funds offered by the plan's recordkeeper***

Finally, some critics allege that target retirement date fund providers that provide recordkeeping services to retirement plans limit plan sponsors' target retirement date fund options to their proprietary funds. That is simply not true. A 2008 survey by Financial Research Corporation, *Future Outlook for Lifecycle Funds*, found that nearly three-quarters of all surveyed recordkeepers indicated they offer non-proprietary target retirement date fund series on their platforms, and two-thirds of such firms with proprietary target retirement date funds make non-proprietary families available to plans.<sup>13</sup> The survey covered 11 defined contribution plan recordkeepers representing more than \$600 billion in assets and nearly 62,000 plans in early 2008.<sup>14</sup>

**IV. The retirement industry and regulators can and should do more to enhance understanding of target retirement date funds**

Plan sponsors and participants have a number of good sources of information about target retirement date funds. In addition to the SEC-required disclosure documents provided and available to all fund investors, plans typically provide user-friendly "fact sheets" about plan investment options, including

---

<sup>12</sup> See 71 Fed. Reg. 36640 (June 27, 2006) (Fund of Funds Investments; Final Rule).

<sup>13</sup> See Financial Research Corporation, *Future Outlook for Lifecycle Funds: Insights into Emerging Trends and Growth Opportunities*, Boston, MA: Financial Research Corporation, May 23, 2008.

<sup>14</sup> See *id.*

any target retirement date funds used in the plan. Working with plan recordkeepers, plans routinely organize meetings with employees to present and explain information about a plan's target retirement date funds, and develop and make available effective written educational communications about these investment options. Providers of target retirement date funds offer a wide range of materials about target retirement date funds on their websites, including tools that allow participants to see graphically and to follow the fund's glide path, and more extensive materials developed for plan sponsors explaining the design and assumptions of the providers' target retirement date funds.

Because target retirement date funds represented a significant innovation in 401(k) and IRA investing, they also received a great deal of attention over the past five years in the trade press available to plan sponsors and the popular press directed to the public. Due to the availability of a variety of information, the Institute believes that the target retirement date fund concept, generally, was understood by most target retirement date fund investors and that employers and participants appreciated that an investor in a target retirement date fund could lose money, depending on market events, including at or near retirement.<sup>15</sup>

Nevertheless, there are gaps in public understanding of target retirement date funds. The severity of market events in 2008 and the strong interest of policymakers in looking at target retirement date funds provide an opportunity for the industry to see if it can do better to enhance investors' understanding of these products. The Institute believes that more can be done to focus attention on key pieces of information about target retirement date funds. We do not believe the Commission should take any steps to change how target retirement date funds are named.

### ***Key information about target retirement date funds—the Institute's Principles to Enhance Understanding of Target Date Funds***

As we testified at the June 18<sup>th</sup> hearing, the Institute formed a working group of its members in early 2009 to assess how understanding of target retirement date funds could be enhanced. The Institute's working group consists of members from a broad range of members firms, representing more than 90 percent of target retirement date mutual fund assets. The group identified five key principles – *Principles to Enhance Understanding of Target Date Funds* – all target retirement date funds should prominently communicate to investors. This information should be provided whether a target

---

<sup>15</sup> One witness at the hearing presented the results of research on investors' beliefs about target retirement date funds. We have studied information available about the survey and the reporting of the results by the hearing witness and would caution the agencies from drawing conclusions from this study. The survey was conducted online and covered a very small sample of respondents. This is not representative of typical investors in target retirement date funds. Respondents were not exposed to the usual participant education that retirement savers receive and were not given the actual disclosure material of any specific target retirement date fund. Instead, they received a composite of pieces of the written materials of three leading providers of target retirement date funds, omitting some material information that funds provide. We therefore strongly believe that this research cannot be used to evaluate understanding of this product by *actual* target retirement date fund investors.

retirement date portfolio is offered as a mutual fund, collective fund, insurance company separate account, or customized product. Although this information may already be included in prospectuses (if a target retirement date fund is a mutual fund) and other investor communications, the goal of the Principles was to distill down *key* pieces of information an investor should see in a *prominent* display.

Under the Principles, funds will communicate prominently:

- i. the relevance of the “target date” used in a fund name, including what happens on the target date,
- ii. the fund’s assumptions about the investor’s withdrawal intentions at and after the target date,
- iii. the specific group for whom the fund is designed,
- iv. an illustration and explanation of the glide path the target retirement date fund follows highlighting the asset allocation at the target date and at the point at which the glide path is expected to reach its most conservative asset allocation, and
- v. a statement, added to the existing risk disclosure, that the risks associated with a target retirement date fund include the risk of loss, including losses near, at, or after the target date, and that there is no guarantee that the fund will provide adequate income at and through the investor’s retirement.

The working group attached a mock-up fund sheet to the Principles illustrating how Principles may be used. (The Principles and mock-up fund sheet are attached and available at [www.ici.org/pdf/ppr\\_09\\_principles.pdf](http://www.ici.org/pdf/ppr_09_principles.pdf)).

The working group designed the Principles to be used by target retirement date funds organized as mutual funds, collective trusts, and insurance company separate accounts on a voluntary basis. Should the Commission or the Department decide to develop new disclosure rules for target retirement date funds, we recommend that they use an approach similar to the one we applied to the Principles. The disclosure should focus on key information that should be prominently conveyed. Any disclosure rules should apply to *all* target retirement date fund products. For example, if the Commission determines to propose and adopt additional disclosure requirements for target retirement date mutual funds, the Department should likewise propose and apply similar rules that would apply to target retirement date funds that are not mutual funds.

### ***Changing or regulating fund names would not enhance understanding of the funds***

Some critics suggested changing funds’ naming conventions to address concerns that investors did not understand target retirement date funds. We disagree. All target retirement date funds currently use a target date—an anticipated retirement date—in a fund’s name. This is a date investors can easily understand. This is a key event that is taken into account in the design of all target retirement date funds: On the retirement date, the fund anticipates that an investor will stop making new contributions to the fund and move from an accumulation stage to the distribution stage. We oppose any proposals that suggest eliminating this important point of reference from a target retirement date fund name.

This date imparts important information that an investor can easily apply to his or her own situation, and it would be a disservice to investors to eliminate this information from funds' names.

Most other ideas for "re-naming" funds attempt to elevate another single piece of information about a target retirement date fund, such as the date at which the fund fixes its asset allocation. This change would not assure better understanding of target retirement date funds, because an investor should understand a number of things about a fund. *All* of this information is important and *all* of it simply cannot be conveyed through a name.<sup>16</sup>

At the hearing, some suggested instead that funds should be labeled "to retirement" or "through retirement." This distinction is artificial and of no value to an investor, because *all* funds can be used to take investors through retirement. While it is important for investors to know whether a fund continues to reduce equity exposure after retirement and when the asset allocation becomes fixed, it is not feasible to place this information in a fund name. And this is not the only information an investor needs. Accordingly, we believe the Institute's Principles are the best way to enhance the delivery of critical information to investors.

## **V. Conclusion**

We applaud the Department of Labor and the Securities and Exchange Commission for examining target retirement date funds. We share the commitment of the Department and the Commission to assure that the interests of plans and their participants are protected in connection with the use of target date funds in retirement plans and that understanding of these useful investments is enhanced. The Institute and our members pledge to work with regulators and others in the retirement industry to enhance investors' understanding of these important products.

---

<sup>16</sup> Some suggested that the Commission mandate that a particular "target date" be used only if that fund's asset allocation falls within prescribed limits. This would be an indirect way to regulate funds' composition, which would be a mistake for the reasons discussed above.