PENSION RIGHTS CENTER
PROTECTING AND PROMOTING RETIREMENT SECURITY
1350 Connecticut Ave., NW, Suite 206 | Washington, DC 20036-1739
P: 202-296-3776 | F: 202-833-2472 | www.pensionrights.org

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e-ORI@dol.gov

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Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5655
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, DC 20210

Attention: Target Date Amendments

The Pension Rights Center submits the following comments on the Department's proposed amendments to the qualified default investment alternative regulation and the participant-level disclosure regulation concerning disclosure of information by target date or similar funds. The Pension Rights Center is a nonprofit consumer organization that has been working since 1976 to promote and protect the retirement security of American workers and their families.

Target date or lifecycle funds are increasingly included as an investment option in participant-directed individual account plans and are specifically mentioned as a permissible qualified default investment alternative. These types of funds provide for changing asset allocations over the life of the fund as participants age. The recent collapse of the stock market revealed that, while the target date for funds might be the same, the asset allocations were materially different. This was because the "glide paths" (rate of change of asset allocation) depended on how conservative the fund assumed a participant needed to be at retirement (the target date). Unfortunately, many participants were not aware of the assumptions on which the funds' strategies were based. The Department has addressed this by designing rules that will ensure disclosure of target date fund assumptions.

The Department's proposed disclosure amendments for target date funds will enable sophisticated participants to better determine whether a particular fund will meet their needs. The rules focus on the changing asset allocations as participants approach retirement and beyond retirement. A chart or other graphic illustration of the changes in assets over time will be particularly useful to participants trying to plan for a secure retirement.

Sophisticated participants will also benefit from the expansion of disclosure requirements for qualified default investment alternatives. We are concerned, however, about the change in the notice requirement to participants who are defaulted into a qualified default investment alternative. Instead of a description of any fees, restrictions, or expenses that apply to a transfer from the fund, the proposal would merely require a statement that certain fees or restrictions may apply. We recommend that the notice specify the pages or section of the investment materials where transfer fees or restrictions can be found.

Target date funds are most appealing to unsophisticated investors who desire a single-stop investment appropriate for saving for retirement, including participants in automatic-enrollment 401(k) plans who are defaulted into a target date fund. Such participants, as a group, are probably the least likely to use or understand the types of disclosure that the regulations contemplate. Thus, ultimately, the value of target date funds to such investors will depend on the plan fiduciary's prudent selection of appropriate target date funds with low management and investment fees, appropriate glide paths, and prudently selected and managed underlying assets. We thus commend the Department's plan to publish "a series of tips to assist plan fiduciaries in obtaining and evaluating relevant information when selecting and monitoring TDFs as investment options for participant-directed retirement plans." We recommend that the Department include in such a publication characteristics that would make a target date fund an inappropriate default investment, such as excessive fee levels or inappropriate underlying investments.

Further, to adequately protect the unsophisticated investors who are most likely to use target date funds it will be important for the Department to monitor fiduciary behavior in selecting target date funds and to have an effective audit and enforcement program

The Department also requested comments on incorporating participant-level disclosure requirements into the qualified default investment alternative regulation. We recommend that this be done. Defaulted participants have the same needs for detailed information about their investments as other participants, since they must make the same decisions as other participants, including whether to remain with the defaulted investment alternative, switch to another investment vehicle, or to remain in the plan at all. In addition, fees for target date funds may be harder to discern since they may change over time as the mix of funds changes, and may include fees both for each underlying fund and additional fees for managing the underlying funds. Detailed disclosure can help participants make more informed decisions about target date funds.

The Pension Rights Center appreciates this opportunity to present comments on the proposed enhanced disclosures to participants in individual account plans.

Respectfully submitted,

Jane T. Smith
Policy Associate

Norman P. Stein
Senior Policy Advisor