August 23, 2010

Elizabeth M. Murphy, Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: File Number S7-12-10 – Investment Company Advertising – Target Date Retirement Fund Names and Marketing

Dear Ms. Murphy:

I am writing on behalf of AARP to comment on the Commission's proposed regulations governing the naming and marketing of target date retirement funds (TDFs). AARP will focus its comments as outlined below.

AARP is a nonprofit, nonpartisan organization that helps people 50+ have independence, choice, and control in ways that are beneficial and affordable to them and society as a whole. We produce AARP The Magazine, AARP Bulletin, AARP Viva, NRTA Live and Learn, and provide information via our website, www.aarp.org. AARP publications reach more households than any other publication in the United States. AARP advocates for policies that enhance and protect the economic security of individuals.

The Commission proposal reaches the appropriate class of investments.

In an attempt to make defined contribution plans more like defined benefit plans, TDFs were heralded and marketed as "set it and forget it" investments because the funds would be automatically rebalanced as the participant moved toward retirement age. The new product has clearly been successful, as the amount of money pouring into TDFs has significantly increased, including permission for these funds to be qualified default investment options for those plans which automatically enrolled participants.[1]

AARP agrees with the Commission's proposed action to apply its disclosure requirements to all investment vehicles that are promoted as geared to retirement accumulation with reference to a targeted retirement date. The risk of over-inclusion has little downside, especially given the nature of other disclosures included in the proposed regulation. This broad reach will add consistency to the marketplace by regulating similar products alike.

AARP believes that the definition of "target date fund" as proposed by the Commission is a useful one.[2] Depending upon the evolution of this product in the marketplace, it may be necessary to re-visit the definition to determine whether modifications are needed to maintain a more comprehensive scope.

AARP believes the Commission should provide further guidance with respect to what constitutes "more than an insubstantial focus" on TDFs, which triggers the proposed disclosure requirements. The best way to accomplish this may be to set a fixed threshold percentage of TDF holdings that demarcates the line between an exempt "insubstantial focus" and holdings that are required to comply with the disclosure rules. This approach would also provide clarity to regulated entities.

Investors' lack of understanding about TDFs shows the limits of disclosure's effectiveness.

Disclosure is the retail investor's first line of defense. In order to be of any use, the disclosure must provide the right information when it is useful to the recipient, and it must be in a form the recipient can understand. There are, however, limits to the utility of any disclosure, especially with confusing financial products like TDFs.

Survey data show the current system of disclosure to be woefully inadequate. According to these data, investors' understanding of TDFs is frequently limited and sometimes just plain wrong. In a 2008 AARP survey on financial literacy, only 20 percent of respondents felt confident in their ability to explain a target date fund.[3] A 2009 survey showed that approximately 60 percent of TDF holders who rely on their employer the most for advice incorrectly believe that TDFs provide a guaranteed amount.[4]

Moreover, EBRI and Janus found that many participants believe that target date funds should be viewed as one of many investment options and "mixing" them with other investments is necessary for a diversified portfolio.[5] In fact, Janus found 40 percent of TDF holders select the year of the fund based not on their retirement date, but the year they expect to leave their current employer.

Although the proposed regulations correctly require TDFs to emphasize the asset allocation of the fund, there is an assumption that people who invest in TDFs, including through their employer-sponsored plans, better understand investment concepts. AARP believes this assumption is misplaced. It is not enough to tell someone that their fund includes a certain percentage of stocks and bonds. The disclosures should also explain – in plain language -- what these percentages mean in terms of investment risk, volatility, and inflation. The impact of asset allocation must be translated into terms (perhaps with examples) that participants understand. As we learned after the 2008 market downturn, many investors learned too late that their exposure to risk was much greater (and their risk tolerance lower) than they thought.

Standard formats will make charts and graphs more useful to investors.

AARP believes that the Commission would best serve investor needs by prescribing a standard for explanatory charts, graphs, and tables that target fund providers attach to their marketing materials and prospectuses. This practice is the most effective way to provide comparability for investors. All of those methods of graphic description would expand the likelihood of effective communication to as wide an audience as is practical, given different manners of comprehension of such materials and information by diverse readers. Moreover, we believe that the proposed introductory statement should be required before each graph, table, chart, etc., in a conspicuous font and style. Both disclosures and accompanying explanatory materials should be tested on focus groups prior to their introduction in the market.

Participants and fiduciaries need to understand glide paths and the impact on individual accounts.

AARP agrees that TDFs need to disclose the target date, the asset allocation on that date, the landing date or point, and the asset allocation at that date. However, the proposed regulatory disclosures do not provide sufficient context or explanation that would help participants determine whether the allocation on the target date, or the landing point if it is different, is appropriate for them and whether the allocation will help meet their goals.

The regulations should require a clear statement of the objectives of the fund. Clearly, fund managers have different views on when equity investments should be significantly reduced and the amount of equity investments at the retirement date, and the landing point if they are different. Disclosing the asset allocation without an explanation of the importance of the information will not be helpful to participants. If participants understand the impact of the asset allocation, they may make better choices to meet their expectations. As we implied above, this disclosure should be effective for all TDFs regardless of whether there is a date in the fund name.

The method by which a fund manager reduces the equity allocation is also important. Will the glide path be a smooth steady decline toward the landing point or will there be cliffs and plateaus? The methodology could be crucial to participants' plans.

Recommendations for allocation ranges should be studied.

At this time, AARP does not recommend mandating a range of asset allocation. Given the increased proposed disclosure as well as increased scrutiny by plan fiduciaries, we suggest that it may be appropriate to determine first whether these changes work in the marketplace. However, after a period of no more than five years, a review of the regulations and the market -- including the impact on plans and participants – would be prudent.

The Department of Labor should suggest that fiduciaries request certain information from TDFs in order to meet their fiduciary responsibilities.

Because fiduciaries must assess whether TDFs, in general and in particular, are prudent for their plans, AARP suggests that the DOL develop a Selection and Monitoring Target Date Tool ("Tool"), similar to other compliance assistance the Department has issued, in order to assist fiduciaries to better meet their fiduciary duties in selecting target date funds. The tool should provide suggested areas of inquiry for evaluation, including but not limited to asset classes, allocation, number and quality of underlying funds, whether the funds use "open" or "closed" architecture, and if the TDF uses "closed" architecture what is done to minimize conflicts of interest; "glide paths," and fees and expense ratios for both the fund itself and any other mutual funds in which the target date fund invests.

With the recent 408(b)(2) fee disclosure regulations, the Tool should also focus on layering of fees, given that many TDFs are comprised of funds of funds. The Tool should suggest that fiduciaries should be aware of their own plan demographics – age, education level, and distribution history prior to retirement and at retirement. If a fiduciary knows that most participants cash out their accounts *before* the retirement target date, it would be more prudent not to choose a TDF that is managed *through* that retirement date.

Clearly, there is a need for this type of Tool given that almost one-third of survey respondents representing plans did not even know what date was the landing point of the target date funds which they had chosen for their plans.[6] Not surprisingly, smaller plans in the survey were much less likely to know this information.

Appropriate benchmarks are necessary for investors and fiduciaries.

AARP also recommends additional research on the issue of appropriate benchmarks of TDFs. Benchmarks have only recently been established and are inconsistent. Some use other peer TDFs; others use similar asset classes; others, the S&P 500 and others, traditional indexes. Consistency on the underlying purpose of the TDF may yield the appropriate benchmark. In any event, AARP believes that fiduciaries would welcome guidance on the appropriate benchmarks for these funds.

Conclusion.

AARP again thanks the Commission for the opportunity to comment on these proposed regulations. We hope the information we provided is helpful. If you have any additional questions, please feel free to contact Cristina Martin-Firvida at 202-434-6194.

Sincerely,

David Certner

David Certner
Legislative Counsel and Legislative Policy Director

[1] *See* Employee Benefit Research Institute (EBRI) Press release discussing March 2009 Issue Brief available at http://www.ebri.org/pdf/PR.831_09Mar09_EBRI-TDFnds.pdf. For authority for qualified default investment options, see 29 CFR § 2550.404c–5(e)(4)(i).

[2] Under the proposed rule, "target date fund" means an investment company that has an investment objective or strategy of providing varying degrees of long-term appreciation and capital preservation through a mix of equity and fixed income exposures that changes over time based on an investor's age, target retirement date, or life expectancy.

[3] *Retirement for the Rest of Us*, AARP Financial, Inc. August 2008.

[4] New Target-Date Fund Research from Janus (June 16, 2009), available at www.advisorperspectives.com/.../New_Target-Date_Fund_Research_from_Janus.pdf. This equaled about 19 percent of the total respondents to the survey.

[5] Young Kyun Park, Investment Behavior of Target-Date Fund Users Having Other Funds in 401(k) Plan Accounts (EBRI Notes Dec. 2009), available at http://www.ebri.org/publications/notes/index.cfm?fa=notesDisp&content_id=4419; Janus Target Date Research, *supra*.

[6] Plan Sponsor, Target Traction (Nov. 2009)