Defined Contribution Institutional Investment Association

Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F. Street, N.E.
Washington, DC 20549-1090

RE: Investment Company Advertising: Target Date Retirement Fund Names and Marketing
[File Number 57-12-10]

Ladies and Gentlemen:

On behalf of the Defined Contribution Institutional Investment Association (DCIIA), [1] thank you for this opportunity to comment on proposed rule amendments intended to enhance the information provided to investors in target date funds published by the Securities Exchange Commission ("SEC") on June 26, 2010[2].

We applaud the SEC's initiative to ensure that target date funds are marketed in a way that promotes clarity and understanding. In particular DCIIA supports and appreciates the SEC's effort to clarify the meaning of the date in a target date fund and improve the information provided when these funds are advertised and marketed to investors. DCIIA also welcomes initiatives designed to help defined contribution plan ("DC plan") participants be successful and secure in their retirement. For this reason, we also are very eager to ensure that we all interested parties, as partners in the process of helping Americans save for retirement, recognized and support target date funds' unique capability to promote increased retirement savings for working Americans.

Accordingly, we respectfully submit this response to recognize positive features in the proposal and suggest areas for possible review or additional consideration. In particular, we are concerned that there might be unintended consequences of certain aspects of the proposed rule changes when it comes to target date fund communications in general, and communication to DC plan participants in particular.

[1] The Defined Contribution Institutional Investment Association (DCIIA) is a recently formed non-profit trade association dedicated to enhancing the retirement security of American workers. DCIIA members include investment managers, consultants, record keepers, insurance companies, plan sponsors and others committed to improving retirement outcomes for American workers by advocating for better defined contribution plan design and institutional investment management approaches.

[2] 75 Fed Reg. 35920 (June 23, 2010)

In summary, it is our belief that.

1. The naming convention of target date funds must be straightforward and intuitive.

2. Care should be taken in defining risk—higher equity allocations are not the only determinative of risk.

3. Inconsistent regulation can result in poor outcomes. The proposed rules should, when applied to target date funds offered by DC plans, take into account existing Department of Labor regulations and initiatives to increase retirement savings, and support the offering of target date funds in DC plans as default investment options.

4. Target date fund marketing materials should not only be clear and understandable , but should not overcomplicate the investment process or overwhelm investors and inappropriately thwart the effort to increase American worker's retirement savings.

5. Target date fund marketing materials should be tailored to the target audience (retail investor vs. DC plan fiduciary vs. DC plan participant) and in light of the audience to whom communication is directed.

We have provided specific comments below which we hope will be helpful to the SEC in clarifying certain of the proposals.

The Prevalence of Target Date Funds in DC Plans

Although target date funds are available to retail (taxable) investors, the bulk of the assets currently flowing into target date funds are from participants in employer sponsored tax qualified DC plans (i.e., 401(k) plans, 457 plans and 403(b) plans. [3] In fact, sixty-five percent of the assets of lifecycle (or target date) mutual funds were held in employer-sponsored DC plans at year-end 2009.[4]

Accordingly, DCIIA believes it is essential that any target date regulation by the SEC take into account the ways that target date funds are utilized and communicated within DC plans.

The Role of Target Funds in Accumulation and Decumulation of Retirement Savings

As acknowledged in the preamble to the proposed rule amendments, target date funds are designed to make retirement investing easier and more manageable for investors during the "accumulation" stage, when they are saving for retirement. Target-date funds are also typically designed to serve participants during the post-retirement "decumulation" stage, when participants need help converting their nest eggs into income to pay for retirement expenses.

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[3] Retirement Snapshot, 1Q 2010, Investment Company Institute.
[4] As reported by the Investment Company Institute in Research Fundamentals (Vol. 19, No. 3), The U.S. Retirement Market, 2009 (May 2010).

As also noted in the preamble, target date funds manage market volatility risk by systematically reducing exposure to more volatile assets such as equities in the portfolio over time using a methodology commonly referred to as a "glide path" or "roll-down." While the glide path methodology is intended to dampen the retirement portfolio's potential volatility as the participant approaches the target retirement date, the vast majority of target date funds are not designed to sequester assets away in short-term capital preservation investments for lump sum redemption at the target retirement date.[5] Rather, they are nearly all designed to serve as post-retirement investment vehicles, either through allocations that support income generation via regular withdrawals or through deliberate allocations into retirement-specific income solutions. Indeed, most target-date solutions are built to continue working across a retirement horizon that will average twenty or more years.[6]

For this reason, in recognition of certain accepted investment practices,[7] target date funds typically continue to maintain a weighting in equities for the life of the fund. Some target date funds support retirement income objectives by maintaining a constant equity weighting throughout the retirement horizon, similar to an endowment model. Others continue to gradually decline after the target date to a constant equity weighting within a specified number of years after the target date (for example, for 5, 10, 20 or 30 years after the designated retirement date) to capture additional expected equity returns earlier in retirement.

Use of Target Date Funds as Default Investment Options or Qualified Default Investment Alternatives ("QDIAs")

Because of target date funds' unique and important role in DC plans, and the fact that most assets currently being contributed into target date funds are from DC plans, we think it is very important to understand how target date funds have come to be held by millions of DC plan participants, because the process by which they have become popular savings vehicles is, for the most part, quite different as compared to when retail investors typically invest in registered investment companies.

Target date funds came to the market over 15 years ago, but received little attention until the passage of the Pension Protection Act of 2006 and the ensuing QDIA regulations[8] issued by the Department of Labor ("DOL") under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Together, these changes in the law provided definitive support for:

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[5] 10% of target-date fund families (3 out of 29) studied by Morningstar list equity allocations below 30% in their 2010 funds as of end of 2009. 2010 Industry Survey, Morningstar, March 2010.

[6] For more than 60 percent of couples retiring at age 65, one spouse will live to age 90. (Source: Annuity 2000 Table, Society of Actuaries).

[7] It is widely understood that maintaining an adequate retirement portfolio during a retirement that can last 20 years or more requires some exposure to the relatively higher return of stocks. *See, for example,* Evensky, Katz (Editors), "*Retirement Income Redesigned; Master Plans for Distribution: An Advisor's Guide for Funding Boomers' Best Years*", (Bloomberg Press 2006). *See also* "*Retirees and the Shrinking Nest Egg*," Kiplinger's Retirement Report (January 5, 2009), which states "[a]s a general rule, 30% to 60% of a retiree's portfolio should be invested in stocks."

[8] 29 C.F.R. Part 2550.404c-5, 72 F.R. 60452 (October 25, 2007)(the "QDIA regulations").

- automatic ("auto") enrollment and payroll deductions into DC plans,
- investment of participant contributions by "default" into default investment options which qualify as QDIAs (i.e., investments not made by active participant investment elections but made automatically by default), and
- target date funds being expressly designated as one of essentially three types of QDIAs.

As a result, the majority of DC plans now use target date funds as their default investment option or QDIA.[9] In fact, the average DC plan with a target date fund has about one-fifth of its assets invested in such funds[10]—an amount which is believed will grow substantially over time, given the fact default investment options in DC plans often receive a proportionately large percentage of future contributions.[11]

Role of Plan Fiduciaries in Selecting Target Date Funds Offered in DC Plans

Although plan participant communications associated with target date funds within a DC plan are typically designed to convey information in a simple manner, this is not to say that target date fund offerings are not carefully selected by plan fiduciaries acting on behalf of the DC plan's participants. To the contrary, one of the great protections for participants in the DC plan structure is the plan sponsor or a plan's "named fiduciaries" to whom investment responsibility under the plan has been delegated. Plan sponsors typically act as ERISA fiduciaries in selecting the plan's investment options, including the plan's default investment option or QDIA. In fact, the DOL has consistently maintained that the plan's named fiduciary remains responsible for prudently selecting the plan's investment options, including any default investment options intended to qualify as a QDIA.[12] Thus in the case of DC plan offerings of target date funds, plan fiduciaries are tasked with undertaking a prudent review of a chosen target fund family as compared to other

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[9] According to Callan Associates, Inc.'s *2010 DC Trends* survey:
- 90% of plans have a QDIA.
- 69% use a target date fund for default investments not made by active participant investment elections.

[10] Callan Associates, Inc., *DC Index* (March 31, 2010).

[11] Evaluating Auto Solutions, Fidelity, 2009.

[12] For example, the preamble to the QDIA regulations (72 F.R. at 60453) includes the following commentary from the DOL:

> …the final regulation does not provide relief from the general fiduciary rules applicable to the selection and monitoring of a particular qualified default investment alternative or from any liability that results from a failure to satisfy these duties, including liability for any resulting losses. See paragraph (b)(2) of Sec. 2550.404c-5.
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> Several commenters asked the Department to provide additional guidance concerning the general fiduciary obligations of these plan fiduciaries in selecting a qualified default investment alternative. The selection of a particular qualified default investment alternative (i.e. a specific product, portfolio or service) is a fiduciary act and, therefore, ERISA obligates fiduciaries to act prudently and solely in the interest of the plan's participants and beneficiaries. A fiduciary must engage in an objective, thorough, and analytical process that involves consideration of the quality of competing providers and investment products, as appropriate.

options available in the market, including the underlying investment process and results. They also take into account risk, cost, performance, and other key factors.

This is obviously different from how target funds are generally offered to retail investors. We think it is important to recognize this 'two pronged' approach to investments within the defined contribution arena, where plan fiduciaries are charged with regular, prudent reviews of DC plan investment options, relieving participants of the need to conduct their own independent review of the plan's investment options as compared to other funds that are not offered under the plan.

> ***Plan fiduciaries*** are charged with selecting investment products to make available to participant investors in accordance with ERISA's fiduciary standards which, among other things, require fiduciaries to engage in a prudent due diligence process and to act solely in the interests of participants when making plan investment decisions.[13] For example, plan fiduciaries are charged with evaluating whether "Target Date 2020 Fund of Fund Family A" is a better option than "Target Date 2020 Fund of Fund Family B" for participant investors, taking into account risk, cost, performance, and other factors. When making these decisions plan fiduciaries often work with consultants and other investment experts who understand technical investment terminology and can assist with analyzing detailed investment data. It would generally be appropriate and helpful, therefore, for plan fiduciaries to be provided with detailed disclosures, including current and target date fund asset allocations.
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> ***Plan participants***, on the other hand, are typically offered only one target date fund option for each date range. In other words, they are not choosing between "Target Date 2020 Fund of Fund Family A" *vs.* "Target Date 2020 Fund of Fund Family B," but rather are only choosing which date to select for their individual circumstances (i.e., a 2020 fund, a 2030 fund, etc.) or whether to invest in other plan investment options. Therefore, information that may arguably be suggestive of different levels of risk among various providers' target date funds may not be of great significance to the typical DC plan investors in such a fund. <u>Since participants typically may only select among DC plan investment options made available under the plan and only one set of target date funds are provided, presenting information on other target date funds in the market may be confusing and potentially frustrating to the participant.</u>

Types of Communications Provided to Plan Participants

DC plan participants are given a wide assortment of retirement plan information delivered via direct mail, phone or email, as well as often in person via investment meetings and presentations. The information is communicated by varying media, including hardcopy, web-based, and visual or dynamic presentation materials. While some materials may reference the specific funds options available through the retirement plan, not all are intended to provide specific investment information or facilitate investment elections. <u>As such, DCIIA would ask the SEC to consider the intent of the materials when regulating disclosure requirements so as to be consistent with other fund types' disclosure obligations without unduly emphasizing target date funds and to avoid over-complicating communication and education initiatives.</u>

[13] ERISA § 404(a)(1)

Plan participant communication materials include but are not limited to the document types set forth below:

Document	Purpose
Summary Plan Description (SPD)	Highlights participant's rights and responsibilities
Summary of Material Modification (SMM)	Communicates changes to plan
Individual Benefits Statements	Provides account balances, vested amounts
Automatic Enrollment Notice	Details auto-enrollment process, participant's rights
Summary Annual Report (SAR)	Summarizes Form 5500 information
Enrollment Kit	Delivers essentials for participant to enroll in the plan in an informed manner
Education Articles	Augments participant investment decision resources
Fund Fact Sheets	Provides key information on investment options found in the plan. Additional QDIA disclosure communications requirements may be forthcoming from regulators
Blackout Period Notice	Lets participants know when various types of plan transactions are allowed or prohibited
Fund Replacement Letter	Announces new fund additions or replacements within the plan
ERISA 404(c) Information	Notifies participant of plan sponsor's intention to manage the plan to ERISA 404(c) compliance
Plan Expense Information	Pending DOL regulations – communicates additional details about plan fees and expenses to participants
Income Projections	Pending DOL guidance – possible new communication that projects a retirement income stream scenario based on current asset levels, possible future contributions, and other assumptions

Using Behavioral Studies and Target Date Funds to Improve Retirement Savings Outcomes

Behavioral studies have found that 401(k) participants are commonly overwhelmed by the presence of too many investment options in a 401(k) plan, and that a large number of funds can depress the probability of plan participation by employees.[14]

Overwhelming investment choice also causes plan participants to use investment shortcuts, such as investing an equal percent of the account into each fund offered in their 401(k) plan.[15] Even the choice between risk-based balanced funds (e.g., conservative, moderate, aggressive) has proven challenging for DC plan participants. In a Hewitt Associates study, it was

[14] Sheena S. Iyengar, Wei Jiang and Gur Huberman, Pension Research Council Working Paper, *How Much Choice is Too Much? Contributions to 401(k) Retirement Plans* (PRC WP 2003-10).
[15] Shlomo Benartzi, Ehud Pelega and Richard H. Thaler: *Choice Architecture and Retirement Saving Plans* (2009)("..we show that the design of retirement savings vehicles has a large effect on saving rates and investment elections, and that some of the minor details involved in the architecture of retirement plans could have dramatic effects on savings behavior.")

found that 401(k) plan participants commonly augmented their selection of a risk-based balanced fund with other funds within the plan. The result was that investors in conservative or aggressive balanced funds often ended up with an overall portfolio asset allocation that resembled the moderate balanced fund. [16] At least part of the problem experienced by DC plan participants when it comes to investment selection is that they demonstrate inconsistent and poorly-defined risk preferences. Studies show that they are prone to extremeness aversion (selecting the middle risk portfolio no matter what their age or time horizon), and risk preferences that change based on framing of the selection process.[17]

One of the reasons target date funds have become so widely accepted in DC plans is because the majority of participants are not willing to invest the time to become educated investors and prefer a solution that is simple and easy to implement. Although plan sponsors and plan service providers devote substantial resources to encouraging plan participants to better understand investment fundamentals, the reality is that many participants have little time and desire to devote to this complicated subject. DCIIA believes the professional institutional investment management which is achievable through target date funds not only benefits the participant from a communication perspective, but also should improve the asset allocation and ultimate investment outcomes for the participants.

Due to cost concerns and lack of availability, plan participants typically do not have access to investment experts to help them with individualized advice and rely very heavily on information provided to them at plan enrollment meetings when making their investment decisions. These materials usually include general information and educational materials about the benefits of saving for retirement, the plan's summary plan description, information about plan features and enrolling in the plan, summary fund fact sheets for each available investment option (that are often prepared by the plan's record keeper or consultant, not by the fund provider), in addition to fund prospectuses or summary prospectuses. Participants may also receive additional information if the plan is subject to an effective registration statement under SEC Form S-8 or if the plan is intended to satisfy Section 404(c) of ERISA, and may be required to receive additional disclosures for any fund that is designated as a QDIA.[18] (The DOL has indicated its intent to amend the QDIA regulations to expand target date fund disclosure requirements.[19]) It is also expected that in the near future participants will receive fund performance and fee data in accordance with DOL participant fee disclosure regulations scheduled for release in 2010.[20] Participants may also already be receiving the Investor Bulletin on target date funds published jointly by the SEC and DOL on May 6th of 2010.

<u>The bottom line is that participants are already receiving an overwhelming amount of information on plan investments, including target date funds, and adding detailed technical data is not likely to help most participants with their investment decision making</u>**.** As noted by the DOL in the preamble to its 2008 proposed rules on participant fee disclosure, "…most participants and

[16] Hewitt Associates, *A Profile of Alpha Company Participant Behavior in Lifestyle Funds* (2000).
[17] How Much Is Investor Autonomy Worth? Shlomo Benartzi, the Andersen School of UCLA and Richard Thaler, University of Chicago.
[18] ERISA § 404c-2
[19] EBSA Unified Agenda, Spring 2010, RIN 1210-AB38
[20] EBSA Unified Agenda, Spring 2010, RIN 1210-AB07

beneficiaries will probably not review large amounts of detailed investment information. Information that is too detailed may overwhelm participants."[21]

Because of the challenges plan participants typically have in understanding strategies for saving for retirement—and the limited success that has been achieved through DC plan communications, education, and advice—DC plan sponsors have embraced target date funds because they offer a sophisticated investment process within a single investment fund that is designed to be easier to use by less sophisticated investors who are often overwhelmed by the time consuming and often intimidating process of sifting through materials filled with investment jargon.

It is also important to note that target date funds can offer two important advantages over other types of DC plan default investment options such as target risk funds. First, it has proven easier for participants to choose a fund based on an anticipated date of retirement versus trying to determine an appropriate risk level. Second, these funds transfer the burden of adjusting the portfolio's risk level onto the shoulders of a professional investment manager. In short, these funds offered a turnkey, simple solution for participants that lack the knowledge, interest and time to assemble and monitor their own mix of funds.

It is against this backdrop that many DC plans have shifted away from complex investment menus and risk-based balanced funds, in favor of target date funds. Research confirms that DC participants have demonstrated greater success in identifying their time horizon than their risk tolerance. [22]

The recent financial weakness of 2008 underscores the advantage of target date funds for typical plan participants. Although the market downturn led many investors to withdraw money from equity funds, target date funds had positive cash flow for each quarter of 2008 and positive net investor contributions into these funds has continued into 2009 and 2010.[23] This is important,

[21] DOL Prop. Reg. § 2550.404a-5

[22] Hewitt Associates, *The Role of Lifestyle Funds in 401(k) Plans* (October, 2003).

[23] The "*Callan's DC Index*" finds that throughout the financial crisis and market collapse of 2008-early 2009, defined contribution plan assets (contributions and transfers) flowed into target date funds on a net basis each quarter. Significantly, since the inception of the *Index* in early 2006, there has never been a net quarterly outflow from target date funds. The table below shows quarterly flows as a percentage of target date assets each quarter.

Table: TDF Cash Flows	
Qtr Ended	Percentage
31-Mar-08	8.16%
30-Jun-08	3.78%
30-Sep-08	3.22%
31-Dec-08	4.29%
31-Mar-09	8.96%
30-Jun-09	5.94%

because studies show that investors who are able to stick to their investment allocation strategies typically benefit in the long-term while those whose portfolios encounter extreme volatility tend to buy and sell at the wrong time. As a result, they often fall short of meeting their financial objectives. The Employee Benefit Research Institute ("EBRI") has similarly noted the advantages of target date funds in ensuring appropriate investment strategies for plan participants. In a March 2009 Issue Brief, EBRI noted that –

> the use of target-date funds-regardless of the fund's characteristics-tends to move participants' overall asset allocations in 40(k) plans away from all-or-nothing allocations in equities and provides for greater rebalancing of assets toward more conservative investments as the participant ages, when compared with 401(k) participants' voluntary investment decision-making. This results in participants having a theoretically superior long-term asset allocation of taking larger risks when they are young, and lower risks as the participant gets closer to retirement.[24]

Specific Comments to the SEC's Proposed Rules:

DCIIA applauds the SEC's efforts at increasing transparency in the marketing of target date funds. DCIIA agrees that it is important that employers selecting target date funds for plan menus and plan participants and other investors selecting target date funds for their retirement investments understand the key features of the funds, including how a particular target date fund intends to reach its investment objective and what risks the fund's strategies might entail. As such, we are in agreement that additional disclosure may be necessary. At the same time, we urge the SEC to consider the inherent differences in the audiences at which communication materials on target date funds are directed. In this respect, based on our understanding of DC participant behavior described in detail above, DCIIA believes that additional participant disclosures about target date funds' asset allocation, strategy, portfolio construction, and risk factors run the risk of being either ignored or misconstrued to the extent they appear based on the belief that DC participants 1) have investment savvy or 2) are willing to invest the time necessary to actively manage their portfolios. DCIIA strongly encourages the SEC to support a clear, direct approach to disclosure for DC plan participants**.**

At the same time, efforts are being made by the industry to improve the level of information available to investors who wish to learn more about what the funds invest in, and how that mix changes before and after the target date. DCIIA also supports voluntarily increasing the level of disclosure available to ensure that investors do not assume any level of guaranteed performance before, at or after a fund's target date. In this respect, the type of materials used to convey the features of target date funds are designed for distinct audiences. For example, plan sponsors review marketing and informational materials on target date funds when choosing particular funds as investment options for their plan. Such plan sponsors, in addition to reviewing the style and investment objectives of the funds consistent with ERISA's prudence standard, consider the appropriateness of the fund for its participant universe, including the unique investment sophistication of its participant base. In this respect, plan sponsors focus on selecting a QDIA that will provide the best outcome for the majority of participants in the plan, not necessarily the best outcome for any particular individual participant in the plan.

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[24] Use of Target-Date Funds in 401(k) Plans, 2007. EBRI March 2009 Issue Brief by Craig Copeland.

Investors who have the desire to obtain more information have many tools to assist them in learning more about the target date fund. Target date funds that are mutual funds disclose the design of the target date fund, including its asset allocation and glidepaths, in the prospectus. An investor receives the prospectus upon, or soon after, purchasing the fund; in addition, an investor can request a prospectus from the mutual fund, and typically can view it on the fund company's website. More updated information is disclosed in a fund's annual and semiannual reports, which are also typically available on the fund's website.

Fund providers often make available additional materials about their target date funds, from basic fact sheets to in-depth papers that describe the design process. These can be found on the websites of the fund or the employer or recordkeeper, or can be obtained from fund providers upon request.

Participant Reference Point – Behavioral finance data suggests that disclosing the target date total equity allocation in conjunction with the name of the target date fund is subject to two issues: 1) The average participant does not have well-defined risk preferences, and therefore is unlikely to use the information provided to make informed investment choices, and 2) The average participant does not grasp complex financial concepts such as the fact that the disclosed target allocation may not be their current allocation or even an allocation they will achieve in the near future. Providing asset allocation information may lead to confusion about what the allocation really means – for example, if an equity allocation of "50%" is displayed, is that a "good" or "bad" number?

Thus, the idea that simply presenting the target date allocations at first use of the fund's name as a helpful gauge of risk may be an overly simplistic assumption that ultimately leads to more investor confusion. In our view it does not matter if the allocation discloses all types of investments (stocks, bonds, and cash) or only some, such as stocks. Unless analysis of the underlying asset class components and their behavior when combined together is undertaken by the investor, incorrect and simplistic conclusions are likely to be drawn.

Definition of Risk - One target-date fund family can have a mix of equity investment that is quite different than another fund family's equity basket, even if both equity allocations comprise the same percentage (for example, 50% in both) of each fund's portfolio. This can arise from different (intra-equity) allocations to large or small cap, growth or value styles, passive or active security selection methodologies and various geographic tilts. These differences will create a broad range of expected returns and portfolio standard deviations within the "50% equity" label.

As a result, there could be many incorrect conclusions drawn by investors. For example, many investors may assume that a target date fund with a higher equity allocation at the target date will necessarily be more volatile than a target date fund with a lower equity allocation. However, there are many reasons why a particular target date fund with a higher equity allocation may experience less volatility than another target date fund with a lower equity allocation. This includes the following:

- Better use of diversification of different equity strategies by the fund with the higher equity allocation over the other,
- Greater use of underlying equity strategies that experience better downside protection by the higher equity manager,
- Use of derivatives, such as put options, to protect downside volatility by the higher equity manager
- Differences in the capitalization profile of the equity strategies employed. For example, a manager with higher equity exposure may have a large cap portfolio while the manager with lower equity exposure may have greater small cap exposure.
- Effective use of cash management within the underlying equity portfolios by the manager with higher equity exposure
- A more conservative fixed income allocation by the manager with higher equity exposure. For example, the manager may have less exposure to more volatile fixed income assets such as high yield bonds, an asset class that behaves much like equity.

DCIIA recognizes the continual evolution of investment theory, research and analysis, thus, making it critical to ensure no final disclosure mandate precludes a firm's ability to adjust either the illustration of a target date's risk exposure and glide path or the asset class composition employed to mitigate longevity risk and market volatility. DCIIA respectfully advises that ratifying narrow guidelines may be to the detriment of DC plan participants by having the unintended consequence of stifling investment innovation, risk analysis or display methodologies not yet developed or considered herein,

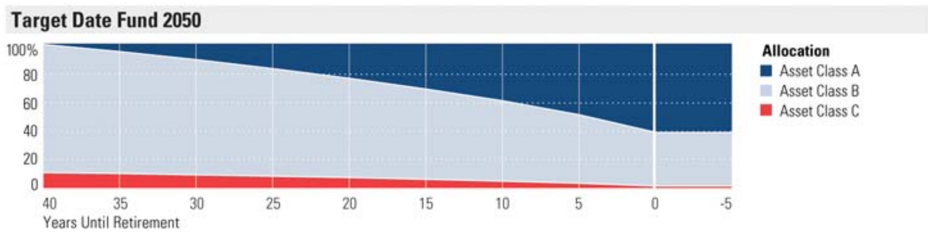
Impact of Behavioral Studies - Because it is difficult to determine in the abstract exactly which type of target-date disclosure will be most useful (or prove unhelpful or misleading) to DC plan participants, we suggest the SEC consider additional studies, and specifically studies on the impact on participant behaviors of providing different target fund disclosures to DC plan participants.[25]

Proposed Alternative Disclosures - In the absence of specific additional studies, and in order to timely respond to the SEC's request, we considered different alternatives to including the asset allocation each time the target fund's name is used, including as follows:

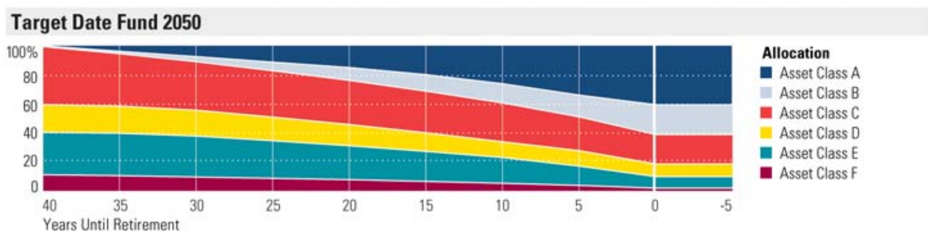
> **Disclosure of Glide Path:** DCIIA believes that the most simple and straightforward disclosure of a target date fund is disclosure of its full target date fund glide path, along with an indication of the points along the glide path that represent the current versus target asset allocation of a given target date fund. For example, the glide path could depict the allocation to different assets classes over time. (Alternatively, a disclosure of the current glide path for all target funds in the fund family, showing where all target funds fall along the current glide path, could also be used.)

[25] *See, for example,* James J. Choi, David Laibson, Brigitte Madrian and Andrew Metrick *For Better or For Worse: Default Effects and 401(k) Savings Behavior* (November 9, 2001) and the work cited in footnotes 14 and 15 above.

Similar to ERISA's diversification guidance, DCIIA recommends any glide path depict no fewer than three risk or asset class exposures, as illustrated in the example set forth below:



We encourage firms to illustrate the fund's exposure to sub-asset classes to improve transparency and better communicate the structural composition and dynamic asset allocation characteristics of the fund as it matures. An example reflecting six sub-asset classes is set forth below:



DCIIA is a stalwart proponent of broad diversification approaches and supports including real assets or inflation-protection securities within a target date fund to reduce volatility and to preserve a DC plan participants' purchasing power. It may be informative to group smaller sub-asset-class allocations designed to mitigate the effects of inflation into a clearly defined allocation named "inflation-sensitive" or "real return" asset class.

The following represents some of the sub-asset classes or risk options for illustration within the glide path:

- Cash
- Core Fixed Income
- High Yield
- Non-US Fixed Income
- Inflation-sensitive/Real Assets
- US Large Cap Equity
- US Mid/Small Cap Equity
- Non-US Equity
- Emerging Markets
- Other

A straightforward glide path disclosure would allow investors to readily conceptualize the target date fund's investment strategy and how the fund's asset allocations change over time, and to judge whether a given target date fund allocation is in keeping with their time horizon and risk tolerance. At the same time, such disclosure, we believe, is less likely to confuse the average DC plan participant than a disclosure that introduces foreign concepts such as "landing point" and confusing semantics, such as target date asset allocation versus current asset allocation. <u>The glide path disclosure could also show the primary asset categories (e.g., Fixed Income, Equity, High Yield, Cash, Real Estate, etc.) with an equal or greater than 15% allocation.</u> Asset categories with a lower than 15% allocation could be captured in an "Other" bucket of which the detailed component would be reflected in a footnote.

Disclosure Table: While not DCIIA's preferred solution due to its greater complexity, another approach could be to use a table that includes a range (or "dashboard") of information to help improve communication aesthetics and effectiveness and potentially dampen confusion created by highlighting only the asset allocation. A table could, as an example, include the following information:

- A disclaimer that the product does not guarantee principal protection, returns or specific levels of retirement income,
- A disclaimer that the fund includes an allocation to different types of asset classes including equities and fixed income, and continues to have equity exposure at the retirement and/or landing point dates, as applicable,
- A statement that savings adequacy, including contribution amounts and duration, is the largest determinant of reaching retirement savings goals and that an investment in a particular target fund does not guarantee that an investor will have sufficient retirement savings to meet their retirement goals,
- The target fund's glide path for all target funds in the fund family, showing where all target funds fall along the current glide path,
- Information about the fund manager's ability to dynamically adjust the glide path and specific allocations,
- A statement indicating target date funds differ substantially from one another in terms of portfolio holdings, strategy and risk despite sharing the same target year. The glide path represents the fund's changing allocation over time. DC plan participants should consider their individual circumstances to evaluate whether or not the fund is appropriate.

Limiting the Types of DC Plan Communication Covered by the Rule - Including disclosures with prominent placement on fund fact sheets, prospectus materials, and enrollment kits (i.e., communications targeted at providing details on specific funds and/or explaining their purpose or role in the DC plan's fund line-up) would help ensure participants receive the data support they need to increase their understanding of what to expect with their target-date fund investments.

However, to reduce unnecessary repetition which may overwhelm plan participants, these disclosures should not be required in general DC plan communications, such as in:

- DC plan investment election forms, summary plan descriptions or other summary disclosures which merely list the names of the target date funds in a list of plan investment options,

- proposed side-by-side DC plan investment fund fee disclosures, such as were proposed by the DOL in its proposed participant fee disclosure regulations,

- participant communications, such as transmittal letters, which address procedural changes in plan administration or other administrative matters and may make reference to the target date funds as the default investment option or otherwise, to the extent participants are directed to review prospectus and other available materials that include the required disclosures; and

- in website disclosures or other communications that include only fund investment performance information or general plan information.

Permitting Different Levels of Disclosures for Plan Fiduciaries and Plan Participants - The type and manner of investment decision making with respect to target date funds is very different for plan fiduciaries then it is for individual participant investors. <u>Failure to tailor the rules to permit different disclosures to communications directed to plan fiduciaries rather than individual participants may be counterproductive to the goal of educating investors on issues relevant to their investment decisions.</u>

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Again, DCIIA strongly encourages the SEC to recognize the need for a more simplistic approach to disclosure for plan participants.

DCIIA supports the SEC's efforts to require investor communications that reduce confusion for participants, and in particular for novice investors who may have been defaulted into target date funds to help fund post-retirement essential living expenses. It is most important to build a level of trust and motivation within these investors that drives strong and persistent savings behavior. Reducing the unexpected for participants is a key ingredient in building this trust and nurturing this savings motivation.

DCIIA also believes that the fundamental advantages of target date funds have proven and will continue to prove themselves by helping DC participants to retain an appropriate asset allocation strategy over time. Target date funds have been instrumental in helping plan participants select and maintain well-diversified and age appropriate investment strategies and in reducing the risk of investors' emotions driving their investment decisions.