Comments on Investor Testing Regarding Target Date Retirement Funds

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I am commenting from the perspective of an actuary with over 30 years experience dealing with various types of risk, and as a financial planner with a dozen year experience working mostly with middle-income clients dealing with retirement-planning issues.

I commend the efforts of the SEC to require improved disclosures for target date retirement funds. Unfortunately, the disclosures under consideration fall far short of what is needed to help individuals saving for retirement understand the risks inherent in typical target date funds.

Based on the investor testing, it appears that proposals to add a "tagline disclosure" and/or a "glide path illustration" may have some small impact on better understanding of these particular aspects of target date funds. However, a better understanding of these aspects has very little to do with understanding the risks inherent in these funds.

The key risk during the accumulation period is whether the fund will be large enough at retirement to produce the needed level of retirement income, and what variation in results the investor should expect. This variation needs to be stated in dollars available at retirement, which can, in turn, be translated into income at retirement.

Glide path illustrations that show asset allocations becoming more conservative as the investor approaches retirement will provide a false sense of safety and security. What is needed is a much more useful illustration of the potential variation in dollars available at retirement and how those variations would translate into retirement income variations.

My basic suggestion is to scrap attempting to develop "tagline disclosures" or the "glide path illustrations." I would suggest, instead, stepping back and taking the following steps.

- Conduct and publish a study to illustrate the potential variation in funds available at retirement for hypothetical investors at different ages and with different amounts saved to date, and with both "conservative" and "aggressive" target date fund allocations.

- Compare these results to investing Treasury Inflation Protected Securities (TIPS).

With these results understood and appreciated by those responsible for designing disclosure language, decide on the best course of action from these two choices:

- Provide general warnings about the how much variation investors might expect.

- Provide more customized illustrations of how much variation to expect.

The decision about whether to require customized illustrations will depend on balancing costs and feasibility against usefulness for the individual investor. Again the key point is that variation needs to be expressed in what matters to the investor—the amount of assets they will have at retirement, which can be translated into retirement income.

For additional background, I would strongly recommend reading "Unsafe at Any Speed? The Designed-In Risks of Target-Date Glide Paths," by Zvi Bodie, Richard Fullmer, and Jonathan Treussard, in the March 2010 *Journal of Financial Planning*.