



## Target-Date Funds' Slide Prompts Debate on Rules

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Target-date funds continue to face heat from regulators and investors as the debate continues on the level of equity exposure retirees should maintain.

These products are intended to help unsophisticated investors manage asset allocation. Most investors assume the funds will grow more conservative and protect their savings as they approach the targeted retirement date.

The steady performance of stocks and bonds over many years led many to believe these funds were not so volatile, but 2008 shook every investment strategy, bringing down stocks, bonds and just about everything else. "A lot of people were disappointed to learn that their retirement accounts can actually go down," said Brian Graff, the CEO and executive director of the American Society of Pension Professionals and Actuaries, at the group's Northeast benefits conference.

Like all balanced funds, target-date funds invested in a variety of asset classes and experienced a range of returns last year. The top five 2010 target-date funds had an average equity exposure of 57% in 2008, Graff said, far bigger than many investors would expect in a conservative fund. Some 2010 funds even had equity exposures of 80%, which is more typical of a 2040 target-date fund.

Securities and Exchange Commission Chairman Mary Schapiro has said the performance disparity among like-named target-date funds is troubling.

The SEC will consider requiring additional disclosure, she said, that could better align target-date funds' asset allocations with investor expectations and understandings. Possible changes include setting an equity exposure bandwidth for similar funds and requiring the name of the fund to better reflect its aggressive or conservative strategy.

"There is an invigorating sense of urgency at the commission to make sure we are rapidly implementing changes designed to protect investors and promote investor confidence," Schapiro said. "Trillions of dollars in wealth have been destroyed during the economic downturn, and millions of Americans have seen their retirement nest eggs and college tuition funds shrink dramatically as a result."

The Investment Company Institute says no "right" glide path exists for target-date funds, nor does a "one-size-fits-all" fund for all plans. In line with industry sentiment, the institute is adamant that decisions be left to investment professionals and plan fiduciaries on how these funds should be constructed and used.

The institute does not think the SEC should change how target-date funds are named and argues that changing or regulating fund names would not enhance investor understanding and could lead to confusion.

All target-date funds use a target date in their name, the institute said. The date specifies the year in which an investor will stop making contributions and begin receiving distributions.

If the SEC decides to develop rules for target-date funds, they should apply to all target-date products, including mutual funds, collective investment trusts and separate accounts of insurance companies, the institute said. "No single type of fund is right for all retirement savers at all times and in all market conditions," said institute president and CEO Paul Schott Stevens. "No single

type of fund should have the government's stamp of approval."

Stevens said it is employers' responsibility to understand the services and investment options in their 401(k) plans, as well as the costs these plans will incur. Furthermore, he said, employees must get clear, concise information about their investment choices and the fees they pay, as well as access to investment advice.

Investors need fee disclosure that lets them compare apples to apples, Graff said, and enhanced disclosure appears to be a foregone conclusion. "It's not a question of if, but when," he said. "Everyone is charging fees, so now you will have to show what you've been charging and what you've been charging for."

"Getting 401(k) disclosure rules right isn't easy," Stevens said. "Legislation must be carefully crafted to provide clear, focused information that helps plan sponsors and workers make smarter, better decisions."

Investment experts say they fear that a restless Obama administration and Democratic Party will push for new rules governing 401(k) plans, target-date funds and fee disclosure before yearend.

Investment industry leaders said that these are matters of high concern and stress that any new legislation should emphasize simplicity and not overburden investors with information they do not understand. "The 401(k) is not perfect, but it's the only effective way we've been able to get people to save," Graff said. "The 401(k) is the only code section people know. It's a brand."

He said 401(k) plans could use a makeover. Reports that the 401(k) has failed or that target-date funds have failed are hugely overblown but accurately reflect the public's perceptions. "There have been hundreds of news articles on this, and rightly so," Graff said. "We have to get out of the technical box and understand people's perception of our products. We can have an academic discussion about it, but when it's your money and you don't have a financial background, losing 30% of your savings can be devastating."