

Target-Date Standards Worry Fund Industry

Exec Says it's Time for a 401(k) 'Media Makeover'

By John Morgan

NEW YORK—Most retirement planners agree that retirees should maintain some equity exposure during retirement in order to keep up with inflation and a retirement that could last three decades or longer, but what this level of exposure should be—and whether or not the government should set some parameters—is being widely debated.

Regulation & Compliance

Target-date funds are intended to help unsophisticated investors manage their changing asset allocation needs over time. Most investors assume the funds will grow more conservative and protect their savings as they approach the target retirement date.

The steady performance of stocks and bonds over many years led many to believe these funds were not so risky, but 2008 shook every

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Brian Graff

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**, CEO and executive director of the **American Society of Pension Professionals and Actuaries**, at the group's Northeast area benefits conference here.

Like all balanced funds, target-date funds invest in a wide variety of asset classes and experienced a wide range of returns in 2008. The top five 2010 target-date funds had an average equity exposure of 57% in 2008, Graff said, far higher than many investors would expect from 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** said the performance disparity among like-named target-date funds is troubling.

"The average loss in 2008 among 31 funds with a 2010 retirement date was almost 25%," Schapiro told the **House Committee on Financial Services** recently. "Varying strategies among these funds produced widely varying results. Returns of 2010 target-date funds ranged from minus 3.6% to minus 41%."

Schapiro said the SEC will consider additional disclosure measures that could better align target-date funds' asset allocations with investor expectations and understanding. 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 glidepath.

"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."

According to the **Investment Compa-**

ny Institute, there is no "right" glidepath for target-date funds, nor is there a "one-size-fits-all" target-date fund for all plans. In line with industry sentiment, the ICI is adamant that the decision on how these funds should be constructed and used should be left to investment professionals and plan fiduciaries.

"Target retirement date funds are based on a long-term investment strategy that should not be judged by one year of performance," the ICI said in a release last week. "Most asset classes, other than nominal Treasury securities, performed poorly in 2008."

"Research shows that, left to their own direction, some young workers invest very conservatively, by allocating all, or almost all, of their accounts to fixed-income investments, while some participants nearing retirement invest very aggressively, allocating all, or almost all, of their accounts to equity investments," the ICI said.

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

All target-date funds currently use a target date in their name, the ICI said. The date in question refers to the time that an investor will stop making new contributions to the fund and move from the accumulation phase to the distribution phase.

If the SEC decides to develop new rules for target-date funds, the rules should apply to all target-date fund products, including mutual funds, collective investment trusts and separate accounts of insurance companies, the ICI said.

"No single type of fund is right for all retirement savers at all times and in all market conditions," said ICI President and CEO **Paul Schott Stevens**. "No single type of fund should have the government's stamp of approval."

Stevens said it is the responsibility of employers to understand the services and investment options in their 401(k) plans, as well as the costs that these plans will incur. Furthermore, he said employees need to receive clear, concise information about

their investment choices and the fees they pay, as well as have access to investment advice.

Investors need fee disclosure that lets them compare apples to apples, Graff said, adding that enhanced fee disclosure now 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."

While most of the attention in Washington is currently focused on the health-care debate, investment experts fear that a restless **Obama** Administration and Democratic Party will be pushing for these new laws governing 401(k) plans, target-date funds and fee disclosure before the year is over.

Investment industry leaders acknowledge that these are areas of high concern, but stress that any new legislation should emphasize simplicity and not overburden investors with things 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 the 401(k) brand could use a media makeover after the disastrous markets of 2008. Reports that the 401(k) has failed or that target-date funds have failed are hugely overblown, but accurately reflect the public's perception of these investment products.

"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." MME