

NEWS RELEASE



National Association of Independent
Retirement Plan Advisors

National Association of Independent Retirement Plan Advisors / 4245 North Fairfax Drive, Suite 750 / Arlington, VA 22203

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News Media Contact: Chris Robichaux

crobichaux@asppa.org

P 703-516-9300, ext. 130

NAIRPA Wants Target Date Fund Providers to Improve Disclosures and Act as Plan Fiduciaries

Washington – Mark Wayne, representing the National Association of Independent Retirement Plan Advisors (NAIRPA), told officials at the U.S. Department of Labor (DOL) and the Securities and Exchange Commission (SEC) there needs to be better information about Target Date Funds (TDFs) and their usage in the 401(k) market. “Plan sponsors and participants need a clear understanding of the different asset allocation strategies employed by different Target Date Funds in their plans,” Wayne said.

TDFs are an increasingly popular investment in 401(k) plans. NAIRPA strongly agrees with the theory behind offering TDFs as 401(k) plan investments. For many participants, TDFs are effective mechanisms to ensure participants have an appropriate investment selection and their investment portfolios are rebalanced on an ongoing basis.

However, Wayne, who is president of Freedom One Investment Advisers, based in Michigan, said the current disclosure requirements under securities law are inadequate, do not meet a ‘truth-in-labeling’ approach, and produce confusion among plan sponsors and participants about the true meaning of “target date.” He said that fund managers should disclose, in plain terminology, when the fund no longer needs a rebalance because it has reached the appropriate mix of stock, bonds, and cash. Typical language in a TDF prospectus describes the fund’s investment objective simply to “provide capital appreciation and current income consistent with its current asset allocation,” which is clearly not enough information.

Mr. Wayne also said there should be improvements in the use of TDFs in the context of the default investments in 401(k) plans. Under current regulations, the manager of a TDF qualified default investment alternative (QDIA) has to assume responsibility as a plan fiduciary, but mutual fund TDFs that are QDIAs are exempt from this requirement. Wayne told DOL and the SEC that the manager of a mutual fund TDF should have to agree to assume fiduciary responsibility of the plan’s investment in the TDF, if it is to qualify as a QDIA. “This would place the fiduciary responsibility for the quality of the fund selection, as well as asset allocation decisions regarding the TDF, with the entity making those decisions,” Wayne said. “There is no policy justification for treating a mutual fund TDF and a non-mutual fund TDF differently in this context.”

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NAIRPA is a national organization of firms not affiliated with financial services companies that provide independent investment advice to retirement plans and participants. NAIRPA members are registered investment advisors whose fees for investment advisory services do not vary with the investment options selected by the plan or participants. Additionally, NAIRPA members commit to disclosing expected fees in advance of an engagement, reporting fees annually thereafter, and agreeing to serve as a plan fiduciary to all plans for which it serves as a retirement plan advisor.