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Industry execs laud latest target-date proposal

By [Robert Steyer](#)

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Newly proposed Labor Department regulations requiring sponsors to disclose more information about target-date funds are winning praise from a cross-section of defined contribution industry members as offering important guidance without overwhelming participants or overburdening sponsors.

“My initial impression is that with the level of assets being funneled into target-date funds this disclosure will be very welcome,” said Marina Edwards, a Chicago-based senior consultant for Towers Watson & Co.

The proposed regulation “is a reaction to 2008,” said Ms. Edwards referring to the stock market decline and the anger among target-date investors whose equity-heavy 2010 funds suffered stiff losses. “The DOL is using that experience to better prepare the next wave of retirees.”

Noting that many investors in 2010 target-date funds were “caught off guard” in 2008, the DOL proposal should be readily accepted by plan executives and easily understood by participants, said Marcia Wagner, managing director of The Wagner Law Group, Boston.

“I’m not sure what the arguments could be against it,” she said. “My question is, ‘What’s taken so long?’”

The DOL issued its proposal Nov. 29, seeking public comment through Jan. 14 on additional disclosures about target-date funds. It amends the October 2007 DOL rule on qualified default investment alternatives and the recently published final DOL rule on sponsor communications to DC plan participants.

Highlights of the DOL's latest proposal for target-date disclosure requirements:

- an explanation of how the asset allocation of target-date funds change over time, including a discussion of the glidepath and when the fund will reach its most conservative allocation point;
- a graphic illustration of how the asset allocation will change over time;
- an explanation of the relevance of a date in the title of a target-date fund, such as a 2040 fund or a 2030 fund; and
- a statement by the sponsor that a participant investing in a target-date fund may lose money in this investment even if the participant is close to retirement.

That last point “is a key message,” said Ms. Edwards. Many participants among her clients reacted to the stock market trauma of 2008 by saying, “I had no idea I was 60% in stocks,” she said.

Cynthia Egan, president of T. Rowe Price Retirement Plan Services, Baltimore, said the warning about losing money “is turning up the volume” on an important aspect of target-date fund investing. “Some individuals don't understand how target-date funds work,” she said. “My reaction is the DOL got a pretty clear view of what needs to be done.”

Attorney James M. Delaplane Jr. said several components of the DOL proposal are directly related to a target-date investor's bulletin jointly issued in May by the DOL and the Securities & Exchange Commission.

The bulletin said target-date investors can lose money, investors should compare the stock-bond ratios of funds with identical target dates and participants should pay attention to the types of risk for components within the fund allocations. The DOL “offers a fairly straightforward set of changes,” said Mr. Delaplane, a partner at Davis & Harman LLP, Washington.

Several defined contribution experts said the DOL's proposal appears to reflect a greater cooperation between the DOL and SEC on rules governing defined contribution plans and target-date funds.

The DOL proposal incorporated many recommendations that the American Society of Pension Professionals and Actuaries, Arlington, Va., had proposed to the SEC, said Debra Davis, director of government affairs.

They include a discussion of the glide-path range, an illustration of when the glidepath becomes most conservative and a description of the age group for which a specific target-date fund is designed. “Overall, we were very pleased with the DOL approach,” she said.

The SEC issued proposed regulations on the marketing and advertising of target-date funds in June, and it accepted public comment until late August. The SEC hasn't issued final regulations ([Pensions & Investments, Sept. 20](#)).

With public comments on the latest DOL proposal due Jan. 14, there still might be some call for adjustments. Mr. Delaplane noted that the “you-could-lose-money” warning and some other terms in the DOL's proposal require a more extensive disclosure for target-date funds than is required for other QDIAs.

“Now that we'll have more detailed disclosure for target-date funds in QDIA, a question could arise to the DOL to expand it to managed accounts,” he said.

The question of more detailed requirements for target-date funds vs. other QDIAs also was identified by Edward Ferrigno, the vice president for Washington affairs at the Profit Sharing/401k Council of America, Chicago. “I don't think it will cause heartburn,” said Mr. Ferrigno, adding that comments about the risk of losing money is “probably pretty prevalent” in communications about target-date funds now sent from sponsors to participants.

“The general tenor (of the DOL proposal) is fine,” said Mr. Ferrigno. If his organization decides to submit a formal comment letter, it will represent “nibbling around the edges” because, there are slight differences in reporting requirements between the 2007 QDIA regulation and the 2010 sponsor-participant fee regulation. “We'll do what we can to harmonize the two disclosures,” he said.

Contact Robert Steyer at rsteyer@pionline.com