NAPA
NATIONAL ASSOCIATION OF PLAN ADVISORS

July 2, 2014

Via E-mail

Mr. John J. Canary, Director
Office of Regulations and Interpretations
U.S. Department of Labor
Employee Benefits Security Administration
Frances Perkins Bldg., Rm. N-5655
200 Constitution Avenue NW
Washington, DC 20210

Re: RIN 1210-AB38; Target Date Disclosure

Dear Mr. Canary:

The National Association of Plan Advisors ("NAPA") would like to thank the U.S. Department of Labor (the "DOL" or "Department") and its staff ("Staff") for the time and effort it has expended studying the issues surrounding Target Date Funds ("TDFs"). We sincerely appreciate the opportunity to comment on the proposed rule on TDF Disclosure. On June 9, 2014, NAPA submitted a comment letter to the Securities and Exchange Commission ("SEC") in reference to its reopening of File No. S7-12-10: Investment Company Advertising; Target Date Retirement Fund Names and Marketing. Our response to the Department's request for comment, as presented below, is harmonized with our responses to the SEC.

NAPA is a national organization of retirement plan advisors. It is a sister organization to the American Society of Pension Professionals & Actuaries ("ASPPA") and together we have nearly 17,000 members, approximately 8,000 of whom are retirement plan financial advisors. NAPA's mission is to be a leader in the evolution of the national retirement system to improve transparency, effectiveness and governance in an effort to improve retirement outcomes for participants. NAPA's core purpose is to enhance retirement security in America by focusing on high quality, professional advice to retirement plans and their participants. NAPA members pledge to comply with all requirements relating to retirement plans and to maintain ethical standards in their representation of plan sponsor and participant clients.

Summary

NAPA is a strong proponent of educating plan sponsors in their roles as fiduciaries and is equally in favor of developing well-educated and engaged participants, which depends largely upon the availability of data and information. As such, NAPA believes in transparency and clear, understandable, and, if appropriate, actionable disclosure.

The following are NAPA's recommendations for disclosures to retirement plan participants investing in TDFs:

I. **TDFs are not guaranteed investment options.** NAPA's view here is consistent with the Department's proposed **third requirement** for qualified default investment alternative ("QDIA") notices when TDFs are used (as described in paragraph (e)(4)(i) of the QDIA regulation and pursuant to the preceding requirements of paragraph (d)(3) of the rule). TDFs are a blend of various investments in stocks, bonds, cash and other investments, which may fluctuate in value and may risk principal loss. According to a survey of 1,000 participants conducted by Alliance Bernstein[1], 34% of respondents thought that balances in TDFs could never go down and other 23% did not know if this statement was true or false.

II. **A stated target retirement year is not a guarantee that a TDF investor will achieve a successful retirement by that date.** There are multiple factors that affect an investor's ability to accumulate enough to retire which cannot be controlled by the manufacturer or manager of any particular TDF. The same survey from Alliance Bernstein referenced above displayed that 37% of TDF investors thought that TDFs "guarantee that you will meet your income needs in retirement" and another 22% did not know if this statement was true or false.

III. **TDFs are intended to be utilized as the sole investment option for its investors.** TDFs invest in a diversified portfolio of stocks, bonds, cash and other investments and the assumption of the portfolio managers is that investors are solely invested in the TDF.

IV. **TDF manufacturers and managers make a number of informed assumptions when constructing their TDF portfolio and their assumptions for the "average" TDF investor may or may not reflect an investor's own circumstances.** Investors should evaluate their own goals and risk tolerances as compared to available information on the TDF being considered. It is NAPA's position that this is related to the Department's proposed **second requirement** for qualified default investment alternative notices when TDFs are used (as described in paragraph (e)(4)(i) of the QDIA regulation and pursuant to the preceding requirements of paragraph (d)(3) of the rule). The difficulty in requiring that the QDIA notice explain "any assumptions about a participant's or beneficiary's contribution and withdrawal intentions" is the inconsistency in the manner TDF managers construct and manage TDF portfolios and glidepaths. In the experience of NAPA members, some managers are extremely actuarial in making their assumptions and derive them from demographic studies of broad populations while others make no such assumptions when constructing their portfolios. Further, while NAPA is a proponent of transparency and educating participants, the lack of an industry standard may cause more confusion than help. Instead of embedding this directly into the QDIA notice, NAPA proposes the notice to direct those participants who wish to engage in further research directly to the web site of the TDF manager.

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[1] http://www.alliancebernstein.com/Research-Publications/Research-Articles/2012/DC_InsideTheMindsOfPlanParticipantsSponsors/InsidetheMindsOfPlanParticipantsSponsors.pdf

V. **TDF allocations/glidepaths should be disclosed to investors in a matrix format to best standardize the delivery in the most informative manner.** Generally, it is NAPA's position that TDF investors would benefit greatly from transparency into the construction of TDF portfolios across the glidepath of a particular fund company. The most robust way to accomplish this would be through a matrix or grid-based approach because there are ways to show major asset classes (*e.g.*, US Equities, Fixed Income, etc.) as well as sub-asset classes (*e.g.*, Large Cap US Equities, High Yield Fixed Income, etc.) in a matrix or grid rather than a simple line illustrating the glide path. NAPA believes if the this should satisfy the Department's proposed **first requirement** for qualified default investment alternative notices when TDFs are used (as described in paragraph (e)(4)(i) of the QDIA regulation and pursuant to the preceding requirements of paragraph (d)(3) of the rule).

If the Department opts to mandate risk-based glide path illustrations, NAPA recommends that the Department should coordinate with the SEC and urge these illustrations be a part of the prospectuses for all the series' funds, which would be available and/or referenced on fund websites, and could be referred to in QDIA notices issued by plan sponsors, websites maintained to satisfy annual 404(a)(5) disclosure requirements, enrollment materials and any marketing materials.

Discussion

After the Pension Protection Act of 2006 and the ensuing release of the codification of the QDIA Safe Harbor regulations from the Department, the growth of TDFs has been significant. Per Morningstar, in 2005 TDFs held less than $100 billion in assets, whereas TDFs eclipsed $500 billion in assets by the end of 2013[2]. Additionally, plan sponsors have increasingly employed "opt out" plan design features such as automatic enrollment (per PLANSPONSOR's 2013 Plan Benchmarking Report, 41.7% of plans used automatic enrollment in the 2012 plan year versus 33.4% in 2011 and 29.4% in 2010[3]).

As a result of the popularity of these plan design changes and participant inertia, TDFs have helped enhance participation in employer-sponsored plans. Median participation grew in plan year 2012 from 75 percent to 80 percent.[3] The result of harnessing inert participants means that the primary investors in TDFs are often the least engaged. As such, efforts to enhance disclosures will, in NAPA's view, not significantly change the behavior of the overwhelming majority of investors. The make-up of the audience is important to keep in mind as the DOL weighs the type and level of disclosure mandated.

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[2] https://corporate.morningstar.com/us/documents/ResearchPapers/2013TargetDate.pdf

[3] *2013 Plan Benchmarking Report*: Overall Results from the 2012 PLANSPONSOR Defined Contribution Survey of 6,184 defined contribution plan sponsors

Conclusion

NAPA recommends the Department require the following disclosures to be made to retirement plan participants investing in TDFs:

I. TDFs are not guaranteed investment options

II. A stated target retirement year is not a guarantee that a TDF investor will achieve a successful retirement by that date.

III. TDFs are intended to be utilized as the sole investment option for its investors.

IV. TDF manufacturers and managers make a number of informed assumptions when constructing their TDF portfolio and their assumptions for the "average" TDF investor may or may not reflect an investor's own circumstances.

V. TDF allocations/glidepaths should be disclosed to investors in a matrix format to best standardize the delivery and should be a part of the fund series' prospectus.

These comments were prepared by the NAPA Government Affairs Committee, with Scott Matheson taking primary drafting responsibility. We welcome the opportunity to discuss these issues with you. If you have any questions or require additional information, please contact Ronald J. Triche, Esq., Associate General Counsel and Director of Government Affairs of NAPA, at (703) 516-9300. Thank you for your time and consideration.

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Sincerely,

/s/
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ASPPA, CEO/ Executive Director, NAPA

/s/
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/s/
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