January 14, 2011

Submitted Electronically

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5665
U.S. Department of Labor
200 Constitution Avenue, NW.
Washington, DC 20210

Attention: Target Date Fund Amendments

RE: **Proposed Amendments to Target Date Fund Disclosure Rules under the Qualified Default Investment Alternative Regulation (QDIA) and the Participant Level Disclosure Regulation (Published on November 30, 2010)**

Target date funds are important to members of the Defined Contribution Institutional Investment Association (DCIIA) and Securities Industry and Financial Markets Association (SIFMA) for the role target date funds play in defined contribution plan (DC plan) investment policies and as QDIAs. The majority of DC plans now use target date funds as their QDIA.[1] What's more, the average DC plan with a target date fund has about one-fifth of its assets invested in target date funds.[2]

DCIIA and SIFMA support efforts to enhance target date fund disclosures and appreciate the opportunity to comment on the Employee Benefits Security Administration's (EBSA's) proposed amendments to target date fund disclosure rules.

Importantly, a number of disclosures required by the proposed amendments could be unworkable for certain established investment strategies for target date funds. Without revision, the required disclosures could also discourage innovation for target date funds, to the detriment of participant retirement outcomes. We believe this result is unintended, especially since it is contrary to EBSA's

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[1] According to Callan Associates, Inc.'s *2010 DC Trends* survey:

- 90% of DC plans have a QDIA,
- 69% use a target date fund for default investments not made by active participant investment elections.

[2] Callan Associates, Inc., *DC Index* (March 31, 2010).

stated intent (in the preamble for the QDIA regulations) to be "sufficiently flexible to accommodate future innovations and developments in retirement products."[3]

Accordingly we respectfully submit the following comments to the proposed amendments. In summary, DCIIA and SIFMA are requesting that EBSA revise the amendments so as not to inappropriately imply that all target date fund asset allocations will be stationary or static over time and to support innovation in target fund design and in related retirement income strategies that may be facilitated by target date fund structures. DCIIA and SIFMA also request that EBSA coordinate its efforts with Securities and Exchange Commission (SEC) initiatives on target date fund disclosures to avoid inconsistent rulemaking for SEC registered funds. As well, DCIIA and SIFMA ask that EBSA provide transition relief to allow for implementation of necessary processes and services to support compliance with the amendments.

The Proposed Amendments May Inappropriately Imply Static Target Date Asset Allocations.

For target date funds, the proposed amendments would require disclosure of the fund's:

> asset allocation, how the asset allocation will change over time, and the point in time when the alternative will reach its most conservative asset allocation; including a chart, table, or other graphical representation that illustrates such change in asset allocation over time…[4]

The requirements to identify how the asset allocation "*will*" change over time and "*the point in time"* when the fund "*will"* reach its "*most*" conservative asset allocation appear to inappropriately imply that target date funds have stationary or static asset allocation properties that remain constant over a period of time.

“Static” can be a difficult assumption to maintain. In fact, over the past few years, several fund families have adjusted the strategic asset allocations in their target date fund series for a variety of reasons – performance enhancement, risk mitigation, expense reduction or new asset-class introductions, as examples.

The word “will” also suggests an asset allocation change could (or should) be disclosed in advance. Disclosing such a change in the markets in advance could undermine the fund manager’s ability to make portfolio adjustments at normal prices.

Another concern around the “static” assumption relates to asset allocation methodologies that adjust to market conditions. Where the fund has a dynamic asset allocation, it could be misleading to provide a chart, table or other graphical representation reflecting a precise or static asset allocation as of any specific time that does not reflect how the allocation could change over time. Few would suggest that investment risk and return behave in a consistent, straight-line manner. Tactical asset allocation is a powerful tool which can help protect plan participants retirement assets and make them less vulnerable to market declines.

[3] Default Investment Alternatives Under Participant Directed Individual Account Plans; Final Rule, 72 Fed. Reg. 60452, 60460 (October 24, 2007).
[4] EBSA proposed rule §§2550.404a-5(i)(4)(i) and 2550.404c-5(d)(3)(vi)(A).

For example, a target date fund that utilizes tactical asset allocation could have an asset allocation that becomes more conservative over time. However, the asset class allocations may vary as the risk/return characteristics of individual asset classes and market or other conditions change. Target date fund disclosures should accommodate dynamic asset allocation that uses "relative" asset allocation and other strategies and methodologies, including the ability to manage portfolio risk or to capitalize on short-term asset class disruptions.

Nothing in the QDIA regulation's definition of a target date fund presupposed that the asset allocation strategy be stationary or static. Rather, the QDIA regulation simply required that the investment product "apply generally accepted investment theories," "be diversified so as to minimize the risk of large losses," and "be designed to provide varying degrees of long-term appreciation and capital preservation through a mix of equity and fixed income exposures based on the participant's age, target retirement date (such as normal retirement age under the plan) or life expectancy," and that the "portfolios change their asset allocation and associated risk levels over time with the objective of becoming more conservative (i.e., decreasing risk of losses) with increasing age."[5]

DCIIA and SIFMA urge that EBSA allow the flexibility to make changes to target date fund asset allocations dynamically, and permit participant disclosures to acknowledge that asset allocation is not expected to be static, in recognition that many target date fund asset allocations are neither pre-determined or nor unchanging over time. For example, we would suggest that the proposed disclosures should allow for asset allocation ranges and should include a risk disclosure to the effect that what is initially disclosed to participants is projected or hypothetical and may be revised over time.

Target Date Fund Asset Allocations Methodologies Can Vary and Target Date Fund Innovation Should Be Supported.

Target date funds also could use other methodologies to allocate assets, such as volatility targets (e.g., a 4% volatility target for a 2010 fund, 10% volatility target for a 2040 fund, etc.), that are not based on an equity/fixed income ratio. These volatility targets could also change based on factors such as market returns. As another example, target date funds could have separate glide paths when used in retirement income strategies – one for those who choose to begin receiving payouts or annuitize their income portfolios and one for those who do not. The two glide paths could have different expected "most conservative" asset allocations as a result. The actual asset allocation of some of these retirement income strategy target date funds over time may also vary from an asset allocation initially disclosed to participants to the extent the asset allocation cannot be rebalanced from the income to the growth portfolio. As target date fund and retirement income strategies continue to develop, DCIIA and SIFMA expect further innovation in asset allocation strategies for these products and asks that EBSA support continued product development seeking to create better retirement outcomes.

DCIIA and SIFMA also propose that EBSA study the impact on DC plan participant behaviors of providing different target date fund disclosures to DC plan participants, or at least urge EBSA to draft disclosure requirements that are sufficiently flexible to accommodate best practices developed by behavioral research and other studies so as not to stifle investment innovation, risk analysis or display methodologies not yet developed.

[5] §2550.404c-5(e)(4)(i).

DCIIA and SIFMA Recommendations.

In support of the comments raised above, we suggest that the amendments to the disclosure requirements in proposed §§2550.404a-5(i)(4)(i) and 2550.404c-5(d)(3)(vi)(A) be modified to read as follows:

> …"asset allocation, how the asset allocation will change over time, and ***the time(s) or range of times*** when the alternative will reach its most conservative asset allocation; including a chart, table, or other graphical representation ***or illustrations or examples*** ***that communicate (i) a hypothetical or targeted change in asset allocation(s) or associated risk levels (such as different market conditions or other relevant factors) over time, or (ii) the current glide path for all funds within a family of funds, depicting where all funds fall along the current glide path,***"…

We also believe the required disclosures should include information about the fund manager's ability to adjust the glide path over time, as applicable, and that the actual asset allocation of the fund may differ from the charts, tables or other graphical representations or illustrations or examples presented. Further, we believe the risk disclosure proposed in §§ 2550.404a-5(i)(4)(iii) and 2550.404c-5(d)(3)(vi)(C) should be modified as follows, to reflect the fact that all retirement investments have a risk of loss.

> A statement that, ***as with all retirement investments,*** the participant or beneficiary may lose money by investing in the alternative, including losses near and following retirement, and that there is no guarantee that ***investing*** in the alternative will provide adequate retirement income.

"Additional Related Comments on Asset Allocation/Glide Path Disclosures" are included at Appendix A.

Coordination with SEC Guidance.

DCIIA and SIFMA ask that EBSA coordinate with the SEC's efforts to enhance target date fund disclosures so that SEC and EBSA rules do not provide for inconsistent disclosure requirements. In particular, DCIIA and SIFMA would ask EBSA to consider that if a target date fund meets SEC disclosure requirements for SEC registered funds, it would be deemed to satisfy EBSA's target date fund disclosure requirements. Overlapping or slightly different requirements create confusion. As we noted in our comment letter to the SEC's recent proposed target date fund rule (Investment Company Advertising: Target Date Retirement Fund Names and Marketing),[6] inconsistent regulation can lead to poor outcomes.

Transition Relief Requested to Facilitate Compliance.

DCIIA and SIFMA request a one-year transition period after issuance of the final amendments before they become effective (or at least no earlier than the applicability date of the final participant disclosure regulation). DCIIA and SIFMA also request that the amendments include such additional transition relief as was provided in the final participant disclosure regulation, which we believe would also be appropriate for target date funds.

[6] http://www.sec.gov/comments/s7-12-10/s71210-42.pdf

Increasingly, plans are adopting custom target date funds. These custom solutions allow firms to specifically meet the needs of their employee population, often at lower cost to participants, with greater control over expenses, underlying managers and transparency. Many of the structures are created from non-registered vehicles such as collective trusts and separately managed accounts, while others use model portfolios where the model dictates the asset allocation across the plan's investment alternatives.

Traditionally, the issuers of investment alternatives and plan service providers have not been required to provide disclosure on the level prescribed by the proposed amendments. While we agree that the amendments can enhance important participant disclosures, many of the firms providing these solutions will need to make significant investments in people, and potentially systems, to generate the data and draft the required disclosures. Therefore, we feel it is prudent to provide additional time to ensure these organizations can properly and thoroughly implement these changes and achieve compliance.

In addition, the amendments should include transition relief similar to the transition relief that was included in the final participant level disclosure regulation. For example, the final QDIA regulation should state expressly that historical performance data is not required for periods before inception of the QDIA. In addition, for investment alternatives that are not registered under the Investment Company Act of 1940, similar to the final QDIA regulation, the final amendment should include transition relief for the first 10 years after the regulation becomes effective to allow for reasonable estimates of expenses and other relevant factors used in creating the required disclosures. See 29 C.F.R. § 2550.404a-5(j)(3)(ii).

Who We Are.

DCIIA. The Defined Contribution Institutional Investment Association (DCIIA) is a non-profit trade association dedicated to enhancing the retirement security of American workers. DCIIA members include investment managers, consultants, record keepers, insurance companies, plan sponsors and others committed to improving retirement outcomes for American workers by advocating for better defined contribution plan design and institutional investment management approaches.

DCIIA's Core Beliefs. DCIIA members believe the current defined contribution retirement system, with the adoption of institutional design approaches available today, can and will provide for the retirement security of working Americans. The important advances contained in the Pension Protection Act, particularly the safe harbor protections for plan automation features and appropriate default investment selection, provide plans with important guidance and fiduciary safeguards which can result in higher participation and savings rates, more appropriate investment allocations and improved long-term investment performance.

By incorporating techniques of professional pension management found in traditional defined benefit pension plans, defined contribution sponsors can improve retirement savings outcomes, affording their employees a better quality of life in retirement while managing their own fiduciary liabilities in plan governance. Some of the most prominent best practices include:

1. Flexibility in Assembling Best-in-Class Plan Design

Plan sponsors and their consultants should have the ability to select the best combination of partners to meet plan needs, including investment and retirement solutions, record keeper, custodian, managed account, advice and other service providers.

2. Full Support for All Investment Vehicles and Product Solution Formats

The continued development of standard industry trading systems and information sharing protocols provides plan sponsors with a very wide range of DC-appropriate investment and pricing options which, depending on plan preferences, may be best delivered through mutual fund, insurance contract, collective trust or individual and institutional separate account formats.

3. Improved Default Programs as Most Effective Path to Realizing Successful Outcomes

Auto-enrollment and sufficient auto-escalation of contribution rates – coupled with a well-constructed qualified default investment and an effective employee communications and education program – can generate sufficient balances for workers to fund an adequate income replacement rate at retirement. Spending needs and longevity risk can be addressed by existing as well as new post-retirement investment and income management solutions being introduced to the market.

4. Full Lifetime Approach to Providing Retirement Income Adequacy

The likelihood of a successful retirement income outcome may be improved by careful attention during both the working (accumulation) and retirement (distribution) phases, and by including a combination of employer-sponsored and individual retirement accounts, to initially grow and ultimately preserve savings necessary to meet spending needs over an individual's total life expectancy.

5. Full Expense Transparency from All Service Providers

Plan participants benefit from plan sponsors providing fiduciary oversight of plan economics, and being knowledgeable about the breakdown of all plan costs and sources of revenue, including but not limited to investment management, record keeping and other administrative expenses.

SIFMA. SIFMA brings together the shared interests of securities firms, banks, and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services, and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.

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Thank you again for the opportunity to provide comments to your proposed amendments to target date fund disclosure requirements as we work toward establishing best practices to improve the retirement security of American workers through their use of target date funds and similar strategies in defined contribution plans. DCIIA and SIFMA believe that the fundamental advantages of target date funds have proven and will continue to prove themselves by helping DC plan participants to retain an appropriate asset allocation strategy over time. Target date funds have been instrumental in helping plan participants select and maintain well-diversified and age-appropriate investment strategies and in reducing the risk of investors' emotions driving their investment decisions.

Sincerely,

Lew Minsky
Executive Director
Defined Contribution Institutional Investment Association

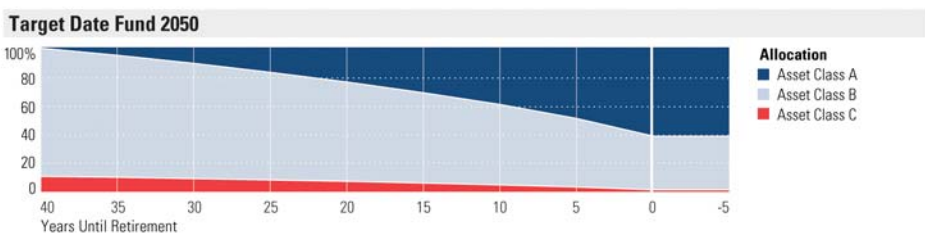
Lisa Bleier
Managing Director, Government Affairs
Securities Industry and Financial Markets Association

Appendix A

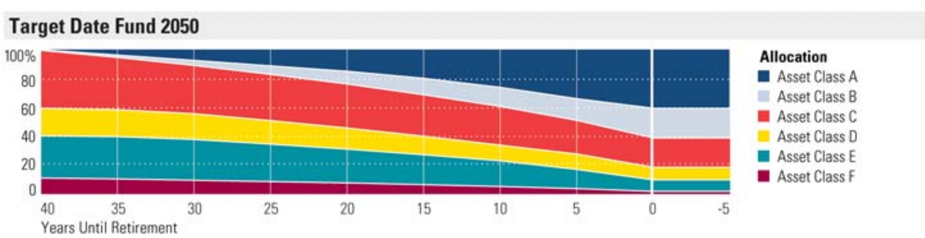
Additional Related Comments on Glide Path/Asset Allocation Disclosures

DCIIA and SIFMA believe that a simple and straightforward disclosure of a target date fund is disclosure of its full target date fund glide path(s), along with an indication of the points along the glide path(s) that represent the target asset allocation of a given target date fund. For example, the allocation to different asset classes of a glide path could be shown over time. As another example, a disclosure of each current glide path for all target funds in the fund family, showing where all target funds fall along the current glide path(s), could also be used. (Of course, alternative structures and products not yet developed might best be communicated in other ways.)

Similar to ERISA's diversification guidance, DCIIA and SIFMA recommend any glide path depict no fewer than three risk or asset class exposures, as applicable, and as illustrated in the example set forth below:



We encourage firms to illustrate the fund's exposure to sub-asset classes, as applicable, to improve transparency and better communicate the structural composition and dynamic asset allocation characteristics of the fund as it matures. An example reflecting six sub-asset classes is set forth below:



DCIIA and SIFMA support broad diversification approaches and the inclusion of real assets or inflation-protection securities within a target date fund to reduce volatility and to preserve DC plan participants' purchasing power. It may be informative to group smaller sub-asset-class allocations designed to mitigate the effects of inflation into a clearly defined allocation named "inflation-sensitive" or "real return" asset class. The glide path disclosure could also show the primary asset categories (e.g., Fixed Income, Equity, High Yield, Cash, Real Estate, etc.) with an equal or greater than 15% allocation. Asset categories with a lower than 15% allocation could be captured in an "Other" bucket of which the detailed component would be reflected in a footnote.

The following represents some of the sub-asset classes or risk options for illustration within the glide path:

- Cash
- Core Fixed Income
- High Yield
- Non-US Fixed Income
- Inflation-sensitive/Real Assets
- US Large Cap Equity
- US Mid/Small Cap Equity
- Non-US Equity
- Emerging Markets
- Other

A straightforward glide path disclosure would allow investors to readily conceptualize the target date fund's investment strategy and how the fund's asset allocations change over time, and to judge whether a given target date fund allocation is in keeping with their time horizon and risk tolerance.