Vanguard®

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FILED ELECTRONICALLY

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5655
U.S. Department of Labor
200 Constitution Ave., N.W.
Washington, DC 20210

Re: Target Date Disclosure (RIN 1210-AB38)

Dear Sir or Madam:

Vanguard[1] appreciates the opportunity to supplement its comments on the Department of Labor's (the Department) proposed amendments to target date fund (TDF) disclosure requirements in light of the Investor Advisory Committee's (Committee) recent recommendations.[2] As discussed in our previous comment letters, Vanguard strongly supports a coordinated regulatory framework requiring TDF disclosures to highlight important information without overwhelming or misleading participants.[3] We submit this letter to address the defined contribution retirement plan implications of the Committee's recommendation that TDF disclosures include a glide path illustration based on a standardized measure of risk as a replacement for, or supplement to, an asset allocation glide path.[4]

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[1] Vanguard is a leading provider of low-cost TDFs to investors and a leading provider of recordkeeping services to defined contribution retirement plans. Vanguard's TDF line-up includes a retirement income fund and a range of 11 funds with target dates in five-year increments from 2010 to 2060. These funds, with more than $260 billion in assets under management, hold more than one-quarter of the total assets invested in the TDF market and are an important tool to help investors save for retirement in a diversified, cost-efficient manner. As a recordkeeper, we serve more than 3.5 million participants and 3,400 plan sponsors in over 3,800 defined contribution plans.

[2] Proposed amendments to the qualified default investment alternative (QDIA) and participant fee disclosure regulations, 29 CFR sections 2550.404c-5, 2550.404a-5; Recommendation of the Investor Advisory Committee, Target Date Mutual Funds (Adopted April 11, 2013), http://www.sec.gov/spotlight/investor-advisory-committee-2012/iac-recommendation-target-date-fund.pdf.

[3] "Target Date Disclosure," Vanguard Comment Letter dated January 14, 2011, http://www.dol.gov/ebsa/pdf/1210-AB38-024.pdf; Vanguard Supplemental Comment Letter dated July 9, 2012, http://www.dol.gov/ebsa/pdf/1210-AB38-RCP0010.pdf. Vanguard also generally supports the SEC's goals, "Investment Company Advertising: Target Date Retirement Fund Names and Marketing," Vanguard Comment Letter dated August 13, 2010, http://www.sec.gov/comments/s7-12-10/s71210-20.pdf; Vanguard Supplemental Comment Letter dated May 22, 2012, http://www.sec.gov/comments/s7-12-10/s71210-78.pdf (though, for reasons expressed in those letters, we suggest that the Agencies both embrace the Department's approach).

[4] In that regard, Vanguard requests that the Department include Vanguard's comments to the Securities and Exchange Commission (SEC) on the Committee's proposal in the record of the Department's rulemaking. "Investment Company

1. TDFs continue to increase in importance as a simple and effective retirement investing tool

As we have noted in our prior comments, TDFs are a critically important investing tool for retirement plan participants and beneficiaries, and use of TDFs by sponsors and participants continues to grow. Our most recent *How America Saves* report provides updated information as of 2013 confirming the continued importance of TDFs for retirement savings. Vanguard defined contribution plan data shows that 86 percent of Vanguard's plan sponsor clients offered TDFs and 55 percent of participants invested in TDFs as of the end of 2013.[5] This is a steep increase from 13 percent of plans offering TDFs and 2 percent of participants investing in TDFs in 2004.[6] As a result of this growing use of TDFs by plans and participants, Vanguard projects that 58% of all participants and 80% of newly eligible plan participants will be invested in a professionally managed option like a TDF by 2018.[7]

TDFs continue to help participants maintain more diversified investment allocations. At the end of 2013, 14 percent of participants held an extreme asset allocation (either no exposure to equities or 100 percent exposure to equities).[8] This number continues to decline, down from 35 percent in 2004.[9] Similarly, concentrations in company stock have declined while use of TDFs has increased – 9 percent of participants holding concentrations above 20 percent of their account balance in company stock at year end 2013, down from 19 percent in that category in 2004.[10]

2. Vanguard supports pictorial disclosure of a TDF's asset allocation and glide path, but does not support mandatory disclosure communicating a standardized measure of risk

In light of the importance of TDFs to the retirement system, any additional regulation of TDFs should balance the benefit of additional regulation against the risk that new rules will hamper TDF effectiveness. As stated in our prior comments, based on this standard Vanguard strongly supports enhanced pictorial disclosures to help investors better understand a TDF's glide path, particularly the fund's (i) current target asset allocation, (ii) projected asset allocation at the target date, and (iii) projected final asset allocation. In Vanguard's view, however, the Committee's recommendation that TDFs provide a mandatory disclosure of a standardized risk measure may mislead or confuse participants and cause them to avoid TDFs, which could jeopardize the greater diversification and regular rebalancing TDFs have helped participants achieve.

As explained in more detail in our comment letter to the SEC, mandatory disclosure of a standardized measure of risk may mislead investors about the concept of risk, the importance of any one particular measure or dimension of risk, or the true risks associated with any investment. Additionally, such disclosure may confuse or mislead investors by inappropriately suggesting that TDFs are managed using one or more particular measures of risk. To the contrary, Vanguard's TDFs, like many TDFs are managed according to an asset allocation model rather than a risk model. Accordingly, disclosure of an asset allocation glide path (and various key points along that glide path), as originally proposed by the Department and SEC, would better reflect most TDFs' management approach. An asset allocation disclosure could also be less confusing than a risk disclosure or rating may be – the term "risk" can

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Advertising: Target Date Retirement Fund Names and Marketing," Vanguard Supplemental Comment Letter dated June 9, 2014, http://www.sec.gov/comments/s7-12-10/s71210-105.pdf.

[5] *How America Saves 2014: A report on Vanguard 2013 defined contribution plan data* (Vanguard, 2014) at page 55.

[6] *Id.* at page 57.

[7] *Id.* at page 56.

[8] *Id.* at page 63.

[9] *Id.*

[10] *Id.* at page 65.

mean many different things, including volatility or probability of loss of capital or spending power, while asset allocation and asset classes are generally less subjective. For these reasons, Vanguard urges the Department to refrain from amending the QDIA or participant fee disclosure regulations to require disclosure of a standardized measure of risk.

3. TDFs should not be subject to separate disclosure requirements that do not apply to other mutual funds

While we support educational efforts to improve understanding of TDFs, we continue to believe that it is critical to do so in a way that does not suggest that TDFs' risk profile is materially different than the vast majority of other retirement plan investment offerings. Requiring TDFs to disclose a standardized measure of risk, whether alone or side-by-side with the fund's asset allocation glide path, would not be consistent with the disclosure requirements applicable to other investments available in retirement plans. Mandatory disclosure of a standardized measure of risk for a suite of TDFs on a participant fee disclosure investment chart could suggest that TDFs are riskier than all other plan investment options, because none of the other investments would be required to provide any risk disclosure. That disparity could mislead or confuse participants, and could hamper the demonstrated utility of TDFs for participants.

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Vanguard appreciates the Department's thoughtful attention to this issue and the opportunity to supplement our comments on the proposed regulations. We encourage the Agencies to continue working together to develop a regulatory structure that will allow a single disclosure to satisfy both ERISA and securities law requirements, and to maintain the Department's streamlined and flexible disclosures of asset allocation in the final regulations. If you have any questions or require any additional information, please contact Stephanie Napier, Senior Counsel, Legal Department at (610) 503-1377.

Sincerely,

Chris D. McIsaac