June 9, 2014

Via E-mail

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street N.E.
Washington, DC 20549-1090

Re: File No. S7-12-10, Investment Company Advertising; Target Date Retirement Fund Names and Marketing

Dear Ms. Murphy:

The National Association of Plan Advisors ("NAPA") would like to thank the U.S. Securities and Exchange Commission (the "SEC" or "Commission") and its staff ("Staff") for the time and effort it has expended studying the issues surrounding Target Date Funds ("TDFs"). NAPA sincerely appreciates the opportunity to comment on the proposed rule on TDF Names and Marketing.

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.

Based on the answers to the Commissions questions provided in greater detail herein, the following are NAPA's recommendations for disclosures to retirement plan participants investing in TDFs:

I. **TDFs are not guaranteed investment options.** These investment options 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, 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[1].

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 your own circumstances.** Investors should evaluate their own goals and risk tolerances as compared to available information on the TDF being considered.

Discussion

After the Pension Protection Act of 2006 and the ensuing release of the codification of the Qualified Default Investment Alternative Safe Harbor regulations from the Department of Labor, 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 our view, not significantly change the behavior of the overwhelming majority of investors. The make-up of our audience is important to keep in mind as we weigh the type and level of disclosure mandated.

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

[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

The Commission posed a number of questions that lead us to our recommendations for participant disclosures, including the following:

1. ***Management of TDFs according to risk****: The degree to which managers of TDFs use measures of risk as part of their investment strategy.*

The Commission asked whether TDF strategies are primarily based on a changing target risk level or a changing target allocation over time and the answer is some combination of both, and it varies by manager. Managers' decisions to change target asset allocations over time are derived from risk. The risks managers monitor and consider include portfolio risks (equity risk, interest rate risk, credit risk, volatility risk, etc.), longevity risks and shortfall risks faced by intended investors. All of these risks are weighed in portfolio construction decisions. Additionally, when determining asset allocation mixes and asset classes to be used many factors come into play including manager capital market assumptions (secular, strategic and in some cases, tactical/business cycle), participant behavior (savings rates, retirement age, distribution patterns, etc.), and other externalities (increasingly longevity trends, healthcare inflation, etc.).

2. ***Usefulness and Understandability of Risk Measures:*** *Whether there are quantitative measures of risk that would be useful to and understandable by investors as the basis for a TDF risk-based glide path illustration.*

Generally, it is NAPA's position that TDF investors would benefit greatly from transparency into the construction of TDF portfolios across the glide path 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.

As to whether or not the Commission should require TDFs to disclose measures of risk, NAPA proposes that extraordinary risk disclosures should not be required because they will be more of a source of confusion than aid and may be subjected to interpretation (think back to when fixed income managers used to regularly disclose bond portfolio average ratings - a measure that varies greatly by the rating agencies selected). The same theory applies to many measures of risk. If, however, the Commission does choose to require risk statistics be shown, the Commission should use mainstream measures of risk such as volatility of returns as shown by standard deviation of returns, and the Commission should be explicit and specific in defining the calculations for such risks so there is uniformity that facilitates comparability.

3. ***Illustration of Risk Measures:*** *Whether the Commission should develop a glide path illustration for TDFs that is based on a standardized measure of fund risk as either a replacement for, or supplement to, its proposed asset allocation glide path illustration and adopt a standard methodology or methodologies to be used in the risk-based glide path illustration.*

This question is addressed in our response to No. 2 above.

4. ***Placement of Risk-Based Glide Path Illustration:*** *The materials, if any, in which a risk-based glide path illustration for TDFs should be included?*

If the Commission opts to mandate risk-based glide path illustrations, they should be a part of the prospectuses for all the series' funds which would be available and/or referenced on fund web sites, QDIA notices issued by plan sponsors, web site links maintained to satisfy annual 404(a)(5) disclosure requirements, enrollment materials and any marketing materials.

5. ***Calculation of Risk Measures:*** *Whether required risk measures, if adopted in final rules, should be based on a standardized methodology or methodologies developed by the Commission.*

It is NAPA's position that risk measures should be developed by the Commission, but those measures should be standard industry convention.

6. ***Impact on Investors****: The Impact that disclosure of risk measures and risk-based glide paths would have on investors.*

As mentioned at the beginning of the comments, NAPA believes the vast majority of TDF investors are not intently monitoring their TDF investments. As such, no enhancements to disclosures will likely impact those investors' behavior. As for the marginal TDF investor that *is* paying attention, well-constructed disclosures may enable more informed decision-making, which NAPA greatly favors.

Conclusion

Based on our responses to the above questions posed by the Commission, **NAPA recommends** the Commission require the following disclosures to be made to retirement plan participants investing in TDFs:

I. Target Date Funds are not guaranteed investment options.

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

III. Target Date Funds are intended to be utilized as the sole investment option for its investors.

IV. Target Date Fund manufacturers and managers make a number of informed assumptions when constructing their Target Date Fund portfolio and their assumptions for the "average" Target Date Fund investor may or may not reflect your own circumstances.

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, Associate General Counsel and Director of Government Affairs of NAPA, at (703) 516-9300. Thank you for your time and consideration.

Sincerely,

/s/
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ASPPA, CEO/ Executive Director, NAPA

/s/
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/s/
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cc: Joe Canary, Director, Office of Regulations and Interpretations, EBSA