



July 16, 2009

Office of Regulations and Interpretations  
Employee Benefits Security Administration  
Room N-5655  
U.S. Department of Labor  
200 Constitution Avenue, NW.  
Washington, DC 20210  
Via e-mail to [e-ORI@dol.gov](mailto:e-ORI@dol.gov)

Elizabeth M. Murphy, Secretary  
Securities and Exchange Commission  
100 F Street, NW  
Washington, DC 20549-1090  
Via e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

RE: File Number 4-582 Target Date Joint Hearing

Dear Sir and Madam:

Thank you for the opportunity to testify at the June 19 hearing on target-date funds on behalf of AARP's nearly 40 million members. As I stated in my testimony, AARP suggests that one of the most immediate methods to provide protections to participants is to ensure that fiduciaries perform their due diligence when choosing these types of funds. We suggested that the Department of Labor issue compliance assistance to fiduciaries similar to the compliance assistance the Department issued on 401(k) plan fees. See 401(K) PLAN FEES DISCLOSURE TOOL, [http://www.dol.gov/ebsa/compliance\\_assistance.html#section3](http://www.dol.gov/ebsa/compliance_assistance.html#section3).

To assist the Department in this effort, we are submitting a list of potential questions and topics to include in the compliance assistance. Although this list of questions is by no means exhaustive, it highlights many of the issues about which fiduciaries should be concerned.

AARP commends you for your continued commitment to preserve and enhance the retirement security of millions of Americans by protecting investors. If you have any questions, please do not hesitate to contact Ryan Wilson at 202/434-3918 or Mary Ellen Signorille at 202/434-2072.

Sincerely,

A handwritten signature in black ink, appearing to read 'David Certner', with a long horizontal flourish extending to the right.

David Certner  
Legislative Counsel and  
Director of Legislative Policy  
Government Relations and Advocacy

## **POTENTIAL AREAS OF INQUIRY FOR FIDUCIARIES SELECTING AND MONITORING TARGET DATE FUNDS (TDF)**

What are the objectives of the plan and do the TDFs match those objectives (e.g., safety, risk, diversification)?

Does the plan have an underlying philosophy regarding asset class diversification?

What are the plan demographics (e.g., age, deferral rates, plan size) and do they have any effect on the management of the TDFs?

What objective lies behind the way the TDF is managed?

How well does the TDF manage the ongoing implementation of the target policy?

How does it handle rebalancing?

What is the time horizon (e.g., retirement, retirement +25 years, death) of the TDF?

How is the glide path determined?

How does the TDF assess the plan's desired level of equity exposure for participants at or near retirement?

Does the TDF integrate annuities or some other guaranteed lifetime withdrawal benefits?

What are the assumptions (e.g., retirement horizon, income needed, funding status, contribution and withdrawal rate, etc.) used for determining investment strategies, class of assets and asset allocation?

How broad is the range of investment strategies employed (passive or actively managed, strategic v. tactical asset allocation)?

What asset classes are employed?

Does the TDF include investments in hard to value assets such as hedge funds and real estate holdings?

How is risk style managed within each asset class?

How are allocations determined and managed?

Should the plan use customized TDFs or off-the-shelf versions? What are the pros and cons of each for the particular plan?

If the TDF includes other funds, what is the information on each of those constituent funds, including fees?

How often does the TDF change its asset allocation and mix of investments?

How well diversified is the TDF?

How are cash flows managed?

Is the TDF made up only of proprietary offerings or is there a rigorous, proven process for researching a broad universe of money managers?

What are the merits and drawbacks of multi-managed portfolios?

What benchmarks are being suggested/used to determine performance (e.g., peer benchmark, available index per constituent parts of funds, creation of own benchmark or index, use of new indexes, TDF's own track record and returns)?

What are the expenses of the TDF and the underlying funds? If the TDF is operated as a fund of funds, are the underlying funds also invested in other funds? If so, what is the impact for the total expenses of the TDF? How are those expenses communicated to the plan sponsor and plan participants?

What relationship exists between the manager research organization and the investment managers?

What is the process for replacing an investment manager or making the other structural changes necessary from time to time?

What is the manager tenure?