

Ladies and Gentlemen:

Pension Advisors commends the Securities and Exchange Commission and the Department of Labor for organizing a hearing to research the construction and evaluation of target date funds. Pension Advisors is an independent investment advisory firm specializing in establishing retirement plan solutions for small and mid-sized employers. Pension Advisors assists plan sponsors with vendor searches, fund selection and monitoring, and participant education. We also notify our clients of legislative and industry changes. Established in 1999, Pension Advisors has approximately \$500 million in assets under management.

In addition to conducting group participant education and enrollment meetings, Pension Advisors meets individually with retirement plan participants to explain the differences between the investment options and investment strategies. Pension Advisors educates over 6000 participants annually.

In this correspondence, we offer the following observations with respect to participant investment behavior and knowledge level:

- Most participants have little to no investment experience. Moreover, participants do not spend the time reviewing the fund options which is necessary to make investment decisions suitable for their age, risk tolerance and time horizon.
- Once funds are initially selected, unfortunately, most participants do not monitor those funds or adjust their asset allocation during their working years. The stock market's dismal performance the past 18 months illustrates how important it is for participants to examine their retirement investments regularly.
- Even when financial consultants advise participants to make portfolio changes, participants fail to utilize the recordkeepers' telephone and web-based systems to implement those changes.

The participants we encounter repeatedly voice the desire to have someone invest and manage their retirement savings for them. Conceptually, target date funds would satisfy that need. However,

- Additional disclosures are needed to fully explain the methodology used to construct the portfolios so that plan sponsors can properly select and monitor fund performance. There appears to be two main methodologies for asset allocation – one determines asset allocation based on years to retirement, the other is based on mortality rate. Plan Sponsors are not aware of these differences, often selecting a target date fund family solely on past performance. In addition, they have not performed any due diligence to determine which methodology is appropriate for the plan participants. Actual participant behavior is one factor that should be taken into consideration when selecting a target date fund. When participants terminate employment, are they leaving their savings invested in the retirement plan until they actually retire, or are they rolling that money over to another investment account which may not follow the same investment strategy?
- For too many years, participants were told “don't put your eggs in one basket, diversify.” As a result, participants are not currently utilizing these funds appropriately. They select multiple target date funds without realizing the fund manager is diversifying for them. Other participants think that the fund “matures” on the date cited in the fund

name (e.g., XYZ 2020 Fund) and savings are then invested 100% in lower risk securities. Participants need to be better educated about the purpose of this type of investment option.

While we believe there is a definite need for this product, the current approach is failing. We cite for example the experience of one of our clients. The plan sponsor is a manufacturing company located in the Midwest. The 401(k) plan they sponsor allows participants to invest in target date funds. Their employees are primarily older workers, with no investment experience. In 2008, the 2010 target retirement fund offered (a seemingly conservative investment option), was down almost 33%! This fund certainly failed to meet participant expectations. Not only did participants see their retirement savings decline, their confidence in this product has deteriorated and may never recover. This type of performance, without the proper explanation, will limit the success of target date funds.

Given our first hand experiences with plan sponsors and participants, Pension Advisors would welcome the opportunity to speak about the disclosures needed to appropriately select and monitor target date funds, and the need for better participant education.

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