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June 9, 2014

Secretary
Securities and Exchange Commission
100 F Street, NE
Washington DC 20549-1090

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

Ladies and Gentlemen:

We are writing on behalf of AARP, the largest nonprofit, nonpartisan membership organization representing over 37 million members age 50 and older, to support the Securities and Exchange Commission's (SEC) efforts to address the risk aspects of Target Date Funds (TDFs), to ensure that interested parties, including investors, employers, plan fiduciaries, benefit consultants and individuals, are provided clear, understandable and comprehensive information concerning TDFs, and to reduce the potential for investor confusion and the risks of being misled with respect to those funds.

AARP has long supported disclosure and transparency of investment information. However, any required disclosures must be clear, understandable, and comprehensive enough to provide necessary and useful information without being overwhelming to the investor.[1] Indeed, providing too much information can be as unhelpful as providing insufficient or inadequate information.[2]

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[1] We cannot stress strongly enough that any proposed disclosures – *e.g.*, written notices, graphs, and/ or charts – must be tested on focus groups. See generally C. Thayer, *Comparison of 401(k) Participants' Understanding of Model Fee Disclosure Forms Developed by Department of Labor and AARP* (September 2008), *available at* http://www.assets.aarp.org/rgcenter/econ/**401k**_fees.pdf.

[2] *Cf*. Christopher Carosa, *How Many Investment Options Should 401k Plan Sponsors Offer?,* FIDUCIARY NEWS (Oct. 18, 2011), http://fiduciarynews.com/2011/10/how-many-investment-options-should-401k-plan-sponsors-offer/ (compiling studies demonstrating that too many investment options leads to suboptimal results).

When formulating disclosures, it is important to first determine who will be using the disclosures and for what purposes. Benefit consultants, employers and plan fiduciaries, individual investors outside of 401(k) plans, and 401(k) plan participants all will use TDF disclosures. It is important to keep in mind that most TDF investors are average income earners, many of whom are investing somewhat passively through their employer-sponsored retirement plans. Since the Pension Protection Act of 2006 endorsed TDFs as “default” investments for passive retirement investors, they have become the fastest growing investment option in 401(k) and similar type retirement plans, and may include a majority of retirement investors within a decade. Accordingly, disclosures will apply to a diverse and distinct set of users, with different levels of sophistication.

Benefit consultants are likely to review the most TDF disclosures as they review options to present to employers and plan fiduciaries. As such, they generally will need and will utilize detailed and comprehensive disclosures to compare fund options and identify potential conflicts of interest.

Employers will be choosing TDFs from among the families of funds that the benefit consultants present to them. Consequently, they will need to compare a number of TDF families.

Individuals will be choosing from among the plan’s fund options, and will compare TDF funds with other plan offerings. Individual investors who are more thorough in their research may scrutinize all available disclosures. In contrast, however, the majority of individual investors will be less inclined to use all available disclosures. Many will ignore disclosures if they are too complicated. 401(k) plan participants generally will be presented with pre-screened investment options – one family of funds – so that their choice will be more limited. In this instance, 401(k) participants will simply need to determine which “retirement” date fund they will choose. Finally, some 401(k) participants will not make a decision at all, but will be placed into TDFs as the default investment option in their 401(k) plan. Disclosures to this group particularly need to be clear and concise.

All of these users and/or investors need “apples-to-apples” comparisons so they can make distinctions between the TDFs. However, individual investors, especially those in 401(k) retirement plans, need much more simplified information for their decision-making. Indeed, the amount of information that benefit consultants need would overwhelm all but the most sophisticated and seasoned individual investor. At bottom, the disclosure provided should be appropriate to the requestor or user of the information provided in the disclosures.

Consequently, AARP favors “tiered” disclosures that provide basic information to all consumers (including individual investors, employers/fiduciaries, and “gatekeeper” benefit consultants). Additional, more detailed disclosures and other information should be clearly identified and easily available to those who are interested. By using tiered disclosures, investors will receive the information they absolutely should have, but have the opportunity to obtain more substantial and detailed information if they desire.

AARP agrees with the Recommendation of the Investor Advisory Committee: Target Date Mutual Funds (adopted April 11, 2013) and the SEC that there should be a uniform or standardized definition of risk so that when investors compare the disclosures they are making an “apples to apples” comparison. Absent the use of a uniform definition, the disclosures will not be meaningful.

As the SEC’s 2012 *Study Regarding Financial Literacy Among Investors* noted, there are high levels of financial illiteracy among investors. Numerous studies have confirmed that many individual investors do not understand even basic investment concepts.[3] Even sophisticated investors often make basic investing mistakes and can be over-confident. However, in its proposed rule, the SEC is assuming that individuals who invest in TDFs actually understand investment concepts. Risk measures such as loss or volatility of returns, standard deviation, beta and duration will frequently be meaningless to individual investors, especially those who are defaulted into TDFs through the automatic enrollment process of their employers’ 401(k) plan. As a result, the SEC should focus on formulating a tiered set of disclosures that individual investors, employers, fiduciaries and benefit consultants can understand and use effectively.[4]

AARP also agrees with the Recommendation of the Investor Advisory Committee: Target Date Mutual Funds (adopted April 11, 2013) that it is inadequate merely to inform an individual investor that a TDF contains a certain percentage of stocks and bonds (or other investments) in their fund. The disclosures should also explain what these percentages mean in terms of asset allocation (diversification), historical net performance over long periods of time, volatility, and in particular, investment risk. The impact of asset allocation must be translated into terms (perhaps with examples) that individual investors understand. All effort should be made to avoid a repeat of the 2008-09 financial crisis where many investors learned – too late – that their risk tolerance and loss aversion was much different from the TDF fund in which they were invested.

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[3] Kathi Brown, and Rebecca Perron, *Determining How Current and Future Social Security Beneficiaries Make Retirement Decisions* at 2, 36-37, AARP (2011) (noting almost half of survey respondents did not understand the concept of inflation on purchasing power and one-third did not understand how compound interest worked).

[4] For example, AARP’s survey on DOL’s 401(k) fee disclosure form showed that people like graphic representations and many people find them easier to read than prose. See generally C. Thayer, *Comparison of 401(k) Participants’ Understanding of Model Fee Disclosure Forms Developed by Department of Labor and AARP* (September 2008), available at http://www.assets.aarp.org/rgcenter/econ/401k_fees.pdf.

While AARP supports clear disclosure of TDF glide paths, the issue is not the only key issue for investing in TDFs. The surprises and failures that occurred in some TDFs during the 2008-09 financial crisis were not simply because of the glide path. The glide path debate should not shift the focus away from net investment performance and underlying fund investments. As always, investors need to know fund asset allocation (including glide path), net performance and fees.

AARP urges a glide path illustration – provided to all investors – that demonstrates the inherent risk of various TDFs. We envision additional glide path illustrations that indicate the fund changes in asset allocation, investment return assumptions, and interest rate return assumptions, if any. The method by which a fund manager changes the asset allocation is important. Will asset class transitions be executed gradually throughout or more steeply at times? The methodology could be crucial to investors' plans. Of course, the glide path illustration should specifically show whether the glide path is "to" the retirement date or "through" retirement and what that means for when and how to draw down assets. The importance of this information is obvious. If participants who hold TDFs plan to sell these funds at their retirement date, then high exposure to equities at the target date may not be reasonable.

The risk and asset allocation should be marked out in five-year increments so investors will have a sense of the glide path. To limit the volume of disclosure, the level of information could be increased for those closer to retirement – such as those age 50 and over – when individuals are more likely to start focusing on retirement. In particular, the TDFs need to disclose the target date, the asset allocation on that date, the landing date or point and the asset allocation at that date – accurately and in a manner to be understood by the typical investor. It is also critical to disclose what factors could cause a reassessment of the fund's investment strategy.

In 2013, the Government Accountability Office reported that many service providers were encouraging 401(k) rollovers to IRAs without full – or any – disclosure of fees and other key variables. The importance of the proposed disclosures should be obvious. In fact, a reassessment of one's investment needs at retirement is wholly appropriate, including health, marriage status, other sources of income, and risk tolerance. If participants who hold TDFs sell these funds at or soon after their roll over into an IRA, then higher exposure to equities at the target date may be unreasonable. TDFs that invest in a high proportion of equities at retirement ages may make it more difficult to convert such amounts to annuities or other income producing assets because of liquidity concerns and the potential for significant losses in their accounts due to high equity exposure at participants' retirement date. Again, disclosures need to be conspicuous and clearly explain to investors the risk and costs of maintaining a fund to or through the target date.

Finally, over 60% of participants who withdraw money from their IRAs when they are age 70 or older do so to meet the minimum distribution rules.[5] If a TDF has a significant amount of equity exposure at or near the year in which the account holder turns age 70-1/2, then the participant may have to take a significant loss in their account in order to meet the minimum distribution requirements. This scenario became a reality for many investors, after the downturn in 2008, when the required distributions rules became problematic.[6]

Not surprisingly, at or around retirement, due to changed circumstances, many individuals reassess their financial situation including their risk tolerance and/or loss aversion. They realize that will be difficult to recover from a significant market drop. Thus, it is essential that disclosures provide sufficient context or explanation that would help investors determine if the final allocation on the target date or the landing point is appropriate for them and would help meet their goals. The disclosures should help mitigate potential conflicts of interest and avoid higher than appropriate risk at or after retirement.

Finally, AARP believes that, five years after the effective date of the disclosures, it would be prudent and helpful to investors for another review to be undertaken of these TDF products, the disclosures and the reactions of the marketplace, plans and participants.

We strongly support the SEC's efforts to provide investors with useable, understandable, clear and comprehensive information. The SEC's efforts are a key part of improving Americans' economic and retirement security. We urge the SEC to continue its efforts to improve our financial system.

Sincerely,

David Certner
Legislative Counsel and Legislative Policy Director
Government Affairs

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[5] *See* The Role of IRAs in U.S. Households Saving for Retirement, 2009 (Jan 21, 2010), available at www.ici.org/pdf/fm-v19n1.pdf.

[6] Jack Howell, Treasury Official: No required minimum distribution relief for 2008 (Dec. 23, 2008), available at http://taxlaw.sprouselaw.com/2008/12/articles/new-developments/treasury-official-no-required-minimum-distribution-relief-for-2008/.