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

Re: File Number S7-12-10 (Target Date Retirement Fund Names and Marketing)

Dear Ms. Murphy,

In the April 6th edition of the Federal Register, 77 Fed Reg. 20749, your agency invited comments regarding the results of target date fund investor testing and how those test results could best be applied to the Commission's draft regulations on target date fund disclosures. Our Office is happy to assist the Commission by providing comments on the study.

The Massachusetts Attorney General's Office has a sophisticated securities enforcement practice. Through the Attorney General's Insurance and Financial Services Division, we regularly review issues of fraud, deception, and unfair practices regarding investments. Our Office, taking action on behalf of towns and cities in the Commonwealth, was the first enforcement entity to bring cases relating to auction rate securities. We have also successfully pursued a variety of securitization investigations, resulting in recoveries from Goldman Sachs, Morgan Stanley, and RBS. In addition, we have worked closely with SEC staff on a variety of issues, including the investigation of State Street's Limited Duration Bond Fund, which resulted in over $300 million in restitution for investors. Furthermore, we handle a litany of smaller matters and investor complaints from Massachusetts residents. Based on our experience, we are familiar with target date funds, and with the confusion that such funds often create for consumers. We believe more disclosure in this arena can be of significant value and we support the SEC's efforts to help investors.

Regarding the testing study in the SEC's comment file, we believe that various findings in the study support the need for enhanced disclosures to potential target date fund investors. Specifically, we want to bring to your attention the following points for the Commission's consideration as it prepares the final form for target date fund disclosure regulations.

First, we believe the study demonstrates that many consumers are invested in target date funds as a way to safeguard their retirement monies. As noted on page 20 of the study, 41% of the survey respondents say that they chose target date funds in order to safeguard their investments. Forty percent listed diversification as a reason for investing in target date funds (respondents could choose more than one response to the question). Both of these rationales are tied to a desire to ensure a steady, solid investment that will provide monies upon retirement. This is an important point, which counsels towards a high level of disclosure regarding target date fund risks.

Second, the study shows that many investors misunderstand target date funds. As noted on page 15 of the study, many respondents erroneously believed that fund allocation necessarily stops changing after reaching the target date. Similarly, more than half of the respondents thought that target date funds provide guaranteed income in retirement. *Investor Testing of Target Date Retirement Fund Comprehension and Communications*, dated February 15, 2012, [SEC File #S7-12-10] ("Study"), at 15. Indeed, over 40% of the respondents did not know that it was possible to lose money after the target date. *Id.* at 55. Consumer understanding of these products clearly needs improvement. Over 70% of the respondents did not even know what the date in a target date fund's name means. *Id.* at 25. 54% of the respondents did not know that target date funds in the marketplace with the same target date may use different allocations of stocks, bonds, and other investments. *Id.* at 29. Equally concerning, almost half of the respondents indicated that they expected the funds would actually adhere to their initial listed target date allocations. *Id.* at 35. Given these results, strong consumer disclosures are needed to protect investors.

Third, the survey underscored how consumers have a strong desire to understand the planned allocation of fund investments throughout the fund's life. As noted on page 47 of the survey, almost half of the respondents believe it is important to know the allocation at all times. Given that another 25% may not have understood the question (7% said allocation was not important at all, and 18% only cared about the allocation on the date of investment; both of these positions seem to misapprehend the nature of a retirement fund), we believe the Commission should place great emphasis on the need of investors to understand the full life cycle allocation of these potential investments.

Fourth, the study demonstrates how glide path charts can help avoid investor confusion. Respondents who had access to a glide path better understood that allocations can keep changing after the target date. *Id.* at 15. These respondents also generally answered allocation questions more accurately than respondents who were only provided with baseline disclosure information. For example, respondents who were shown a glide path (as well as tagline data) answered questions regarding the decrease in stock allocation over time in a target date fund correctly 63% of the time, as opposed to only 48% for respondents shown only baseline disclosures. *Id.* at 49. Perhaps more importantly, the study also verified the obvious—consumers with an allocation/time grid such as a glide path have the opportunity to review changes in allocation over time in a way that consumers who did not have such a grid practically cannot. See, e.g., *id.* at 56-57.

Fifth, while including tagline information alone seems to yield the most accurate consumer responses regarding allocation at the target date, *id.* at 17, the glide chart combined with tagline information offers the overall best levels of consumer understanding on many key questions. See, e.g., *id.* at 49, 53, 56. Moreover, based on our experience with investors, we believe it is important to provide both a full allocation/time chart (such as a glide path) and specific information regarding the allocation on the target year noted in the fund name. For a core group of consumers, the allocation on the target date has a high level of importance. We believe that in order to ensure that these consumers can access that information readily, it is important to provide the tagline data.

That being said, we recognize how tagline information as used in the survey may end up confusing consumers who also have access to the glide path chart. For instance, when respondents were asked about the stock allocation in 2025 for the TD2020 Fund in the survey, 68% of them were unable to identify the correct allocation. More respondents provided the correct answer when they were given only a glide path chart. *Id.* at 62. This is likely because the tagline data focuses consumer attention on the 2020 allocation. Consumers, in answering the question, grasped at the stock percentage that was most accessible—the 2020 allocation rather than the 2025 allocation that was the focus of the question. However, this problem is readily solved. The Commission should require such additional explanatory language to preface the tagline data. Such language could decrease the likelihood that consumers will confuse the projected allocation for the target date with projected allocations for the landing point or other key investment dates.

Finally, the study also shows that neither the glide path nor the tagline data will fully eliminate consumer confusion regarding target date funds.[1] For example, over 80% of respondents did not comprehend materials on the OliveBranch TD fund, and failed to understand that the fund did not emphasize potential capital appreciation during retirement. *Id.* at 52. Also, more than 50% of the respondents who were currently target date fund *owners* believed that target

[1] In addition to the shortcomings exposed by the study, there are other consumer informational needs that are not effectively dealt with by the draft regulation. For instance, the regulations do not provide effective disclosures to explain to potential investors that different target date funds with the same allocation between stocks and bonds may in fact have significantly different levels of risks, depending on the types of stocks and bonds in which each fund invests. If such issues cannot be handled in the draft regulations now, without re-starting the regulatory process, they should be the focus of SEC efforts to further improve target date fund disclosures after the draft regulations are approved.

date fund returns were guaranteed.[2] Similarly, while many respondents were apparently helped by the glide path and tagline data when answering questions about future allocation levels, more than half of these respondents were still unable to identify the stock allocation in 2025 for the TD2020 Fund. We recognize that some in the industry will seize on these shortcomings as a reason to abandon the current disclosure proposal and start anew. Unfortunately, this would result in a lengthy delay before any help for consumers would be forthcoming. While recognizing that the proposed disclosures are not a panacea, we suggest that the Commission require them now together with the additional explanatory language suggested in this letter. The Commission should view the proposed set of target date fund disclosure requirements as a necessary interim step, one that improves the situation for consumers, and then also revisit the issue in the future in order to refine and enhance the disclosures for the investing public.

We thank you for the opportunity to provide our views on this important consumer protection issue. If any additional information or commentary on the draft regulations or target date funds generally would be helpful, we would be happy to provide the Commission with additional assistance.

Respectfully Submitted,

COMMONWEALTH OF MASSACHUSETTS
MARTHA COAKLEY
ATTORNEY GENERAL

By: ______________________
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[2] *Id.* at 28. While neither the glide path nor the tagline data versions of disclosures seemed to help consumers with this issue, the problem may be readily solved by a straightforward and prominent disclaimer that target date funds may lose money for investors even in retirement.