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May 22, 2012

***Submitted electronically***

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

**Re: Investment Company Advertising:  
Target Date Retirement Fund Names and Marketing,  
Release Nos. 33-9126; IC-29301; File No. S7-12-10**

Dear Ms. Murphy:

Vanguard<sup>1</sup> appreciates the opportunity to comment on the results of a survey conducted on the Commission's behalf by the research firm Siegal + Gale relating to investors' understanding of target date retirement funds ("TDFs"). As discussed in our previous comment letters, Vanguard strongly supports the Commission's goals of improving investor understanding of TDFs<sup>2</sup> and financial literacy among investors generally.<sup>3</sup> Vanguard actively engages in investor outreach and studies through its investment research departments and its Center for Retirement Research, and we have conducted multiple studies in recent years relating to investors' understanding of TDFs. We are pleased to share the results of our 2010 survey on investor comprehension and use of TDFs in connection with the Commission's TDF advertising and fund names initiative.<sup>4</sup>

Vanguard's research and survey results demonstrate that investors have a basic understanding of the nature of TDFs, recognize that the funds involve risk, and understand that the funds' asset allocation

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<sup>1</sup> Vanguard offers more than 170 index and actively managed funds with aggregate assets of approximately \$1.7 trillion. We serve more than 3 million participants and 1,700 plan sponsors in over 2,200 defined contribution plans.

<sup>2</sup> "Investment Company Advertising: Target Date Retirement Fund Names and Marketing," Vanguard Comment Letter dated August 13, 2010, <http://sec.gov/comments/s7-12-10/s71210-20.pdf>. Vanguard also supports the Department of Labor's TDF initiatives, "Target Date Disclosure," Vanguard Comment Letter dated January 14, 2011, <http://www.dol.gov/ebsa/pdf/1210-AB38-024.pdf>.

<sup>3</sup> "Comment Request for Study Regarding Financial Literacy Among Investors," Vanguard Comment Letter dated June 21, 2011, <http://www.sec.gov/comments/4-626/4626-51.pdf>.

<sup>4</sup> Ameriks, Hamilton, and Ren, *Investor comprehension and usage of target-date funds: 2010 survey* (Jan. 2011), attached hereto and available online at

<https://institutional.vanguard.com/VGApp/iip/site/institutional/researchcommentary/article/InvResTDFinvestorsurvey>.

becomes more conservative as the target year approaches. However, our data shows that there are two areas where TDF investors need more clarity and education:

- What changes, if any, the fund makes at the target date, and
- How the glide path changes after the target date.

We have recommended to the Commission—and continue to believe—that TDF marketing materials can be enhanced through the use of glide path illustrations or narratives to help investors better understand what happens in terms of the fund’s asset allocation at the target date and beyond the target date. However, we do not endorse the mandatory use of a “tag line” directly beside the fund name that denotes the mix of investments at the target date. Our research does not support the value of this specific type of investor disclosure and, moreover, most investors want to know where the fund is invested at all times. A tag line connected to the fund name could frustrate investors’ understanding of the glide path of a TDF by over-emphasizing the asset mix at a single point in time. We discuss each of these points in the context of the Commission’s Siegal + Gale survey (“S+G survey”), and Vanguard’s TDF investor studies, below.

#### Glide path

S+G survey results generally corroborate Vanguard’s findings that investors’ understanding of the mechanics of a TDF’s glide path could be improved. The S+G survey finds that half of TDF owners participating in the survey believe that the target date is the point at which a TDF reaches its most conservative allocation.<sup>5</sup> While this technically may be accurate, most providers of TDFs continue to change their asset allocation through the target date. Vanguard’s survey results found that only 29% of retail investors were aware that the asset allocation of a TDF may continue to change after the target date. Further, only 23% of defined contribution plan participants indicated they believed that TDFs have asset allocations that change after the target date. Both surveys support the notion that investors generally do not fully understand the movement of a TDF’s glide path at and after the target date.

If the Commission continues to believe that TDF marketing materials are potentially inadequate, then we strongly encourage the Commission to focus on a glide path illustration or narrative as an effective means of investor communication that would address the areas where TDF investors would benefit from better disclosures and investor education (i.e., significance of target date and glide path after target year). In the context of such an illustration or narrative, we believe that emphasis should be focused on both the current allocation of the TDF as well as its projected allocation at and after the target date.

#### Tag line next to fund name

While data from both the S+G survey and our studies supports enhancements in disclosure of the significance of the target date, we believe that use of a tag line adjacent to the fund name is unnecessary and potentially confusing for investors. For example, we believe that the findings of the S+G survey are inconclusive as to whether a tag line improves investor understanding of the investments of a TDF. When investors were shown a marketing piece with both a depiction of a fund’s glide path and a tag line next to the fund’s name, the inclusion of the tag line did not significantly increase (and, in some instances, decreased)

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<sup>5</sup> S+G survey, slide 30.

comprehension of the TDF investments.<sup>6</sup> In addition, nearly half of the respondents to the S+G survey stated that they would want to know the asset allocation of a TDF at every point along the glide path.<sup>7</sup>

#### Other observations relating to S+G survey

We take this opportunity to make a few additional observations about the S+G survey.

First, does the S+G survey distinguish between “misinformation” and “lack of information?” In Vanguard’s TDF survey work, we found a high incidence of investors who are unfamiliar with the specific term “target date fund,” in particular retirement plan participants. This lack of information occurs even among investors who own and hold TDFs in their portfolios. The S+G survey seems consistent in light of the data showing that over 25% of respondents did not know much about TDFs.<sup>8</sup> In the context of TDFs, we surmise that more investors are uninformed, rather than misinformed through faulty advertising. Continued efforts should be undertaken by the plan sponsors and mutual fund companies to provide plan participants and other TDF investors with plain English disclosures that are both meaningful and actionable with respect to an investment decision.

Second, how does the S+G survey methodology substantiate its finding that most investors believe that TDF are “guaranteed”? Vanguard’s survey results differ dramatically from the S+G survey on the issue of whether shareholders believe that TDFs provide guarantees. Our data shows that among those investors who own TDFs, only 8% incorrectly believe that TDFs offer a guarantee (among IRA shareholders, only 3% had this misconception of a guarantee). We wish to point out that the S+G survey uses the terminology “guaranteed income,” which can be misinterpreted or over-generalized to mean “a source of income” in retirement with no guarantee as to amount.<sup>9</sup>

Finally, we note that the S+G survey does not compare investor literacy metrics for TDFs with other investment products available in IRAs or 401(k) plans. For example, with respect to the guarantee question, the S+G survey addresses the question of whether respondents think TDFs are guaranteed—but it does not ask, as a benchmark, whether investors believe other types of IRA or 401(k) investments are guaranteed. Without a benchmark, it is not clear whether the gaps in investor understanding identified by the S+G survey apply solely to TDFs or reflect more general problems of investor literacy.

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<sup>6</sup> For instance, when asked about a TDF’s bond allocation over time, 66% of study participants provided with marketing material showing a tag line could correctly answer questions posed. Comprehension rose to 74% of participants when shown material with a glide path and remained at 74% when shown material with a tag line and a glide path. S+G Survey, slide 50. Similarly, 38% of study participants shown a tag line could correctly identify that a TDF’s asset allocation could be modified at any time. 46% of study participants answered the question correctly when shown a glide path. Comprehension dropped to 43% when participants were shown both a tag line and a glide path. S+G survey, slide 54.

<sup>7</sup> S+G survey, slide 47.

<sup>8</sup> S+G survey, slide 25.

<sup>9</sup> We note that Question 4 of the S+G survey listed “It is the year in which an investor in a target date retirement fund receives a guaranteed income” on the list of possible meanings of the target date, before any questions were asked about guarantees in TDFs. It is possible that an investor responding to the S+G survey would have a preconceived notion that TDFs provide a guaranteed income, simply due to how the survey question was phrased. *Id.*

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We appreciate the opportunity to comment on the proposal. If you have any questions or require additional information, please contact Tara Buckley, Senior Counsel, Legal Department, at (610) 669-6860.

Sincerely,

/s/ Chris D. McIsaac

cc: Honorable Mary L. Schapiro, Chairman  
Honorable Luis A. Aguilar, Commissioner  
Honorable Troy A. Paredes, Commissioner  
Honorable Elisse B. Walter, Commissioner  
Honorable Daniel M. Gallagher, Commissioner

Eileen Rominger, Director, Division of Investment Management  
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