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Client Alert

EBSA, SEC Issue Guidance Regarding Target Date Funds

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On Friday, May 6, the U.S. Department of Labor's Employee Benefits Security Administration ("EBSA") and the Securities and Exchange Commission issued an investor bulletin to aid investors and retirement plan participants in understanding the operations and risks of target date fund investments. The bulletin can be found at: http://www.dol.gov/ebsa/pdf/TDFInvestorBulletin.pdf

The bulletin explains the basic structure of target date funds, which are designed as long-term investments for individuals with particular retirement dates in mind. Target date funds automatically change the mix of investments to become more conservative as the fund's target date approaches. The bulletin underscores the fact that different target date funds may have distinct investment strategies. In particular, some target date funds may not reach their most conservative investment mix until 20 or 30 years after the target date (a "through retirement" target), while others may reach their most conservative investment mix near the target date (a "to retirement" target). The various benefits and risks associated with target date funds require investors to use discretion when considering including them as part of their retirement portfolio.

In light of the unique characteristics that distinguish target date funds from other investments, the bulletin encourages investors to take the following action prior to investing in target date funds: (1) consider your investment style; (2) look at the fund's prospectus to see where the fund will invest your money; (3) understand how the investments will change over time; (4) take into account when you will access the money in the funds; and (5) examine the fund's fees.

Further guidance from EBSA on target date funds is forthcoming. EBSA plans to publish a compliance checklist this spring to assist sponsors of 401(k) plans in evaluating and selecting target date funds as investment options. In a related initiative planned for August 2010, EBSA will propose amendments to its 2007 regulations on qualified default investment alternatives to require "more specificity" around participant disclosures when target date funds are selected as the plan's default investment.

Employers that have added target date funds to their plans' investment mix will want to consider adding the investor bulletin as a supplement to the plans' communication materials.
