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For your information

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DOL Extends Comment Period for Target Date Fund Proposed Regulations in Light of New SEC Findings

The DOL reopened the comment period that ended in January 2011 to allow interested parties to consider and comment on new SEC research about target date funds that might have an impact on the DOL's November 2010 regulatory proposal. The new window for comments closes on July 9, 2012.

Background

In November 2010, the Department of Labor (DOL) published proposed amendments to two regulations: its regulation on qualified default investment alternatives (QDIAs) and its regulation on participant-level disclosures. The proposed amendments would require enhanced disclosures for target date funds (TDFs) because of evidence that plan participants and beneficiaries would benefit from additional information about these investments. See our December 21, 2010 For Your Information for a summary of concerns addressed by the proposed amendments and the new disclosures that would be required to address those concerns.

Consultation with the SEC

The DOL consulted with the Securities and Exchange Commission (SEC) on the disclosure requirements for plans subject to the Employee Retirement Income Security Act (ERISA) to determine whether the DOL's regulation should fold in elements of a similar SEC-proposed rule that is intended to address possible investor misunderstandings about TDFs. As part of its rule-making process, the SEC engaged a consultant (Siegel+Gale) to determine how well investors understand TDFs. In light of the consultant's report, the SEC reopened the comment period for its proposal, and the DOL is following suit.

Consultant's Key Findings

Siegel+Gale surveyed 1,000 individual investors who currently hold investments in retirement accounts (employer-sponsored or IRA). These individuals were tested on TDFs before and after viewing four variations of disclosure documents (Baseline, Tagline with disclosure of a TDF's asset allocation immediately adjacent to the first use of the TDF's name, Glide Path, and Tagline/Glide Path

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Combination). Siegel+Gale found that many survey respondents believe that the target date is the point at which the fund is at its most conservative allocation and that the allocation stops changing thereafter. Respondents who viewed disclosure documents showing a glide path illustration had a better awareness that the allocation continues to change than those who viewed documents that did not show the glide path illustration.

The study found that document comprehension varied depending on the document reviewed and the question asked. For example, respondents who reviewed the baseline document, which did not include the tagline disclosure or the glide path illustration, had the best understanding of the fact that TDFs do not guarantee the original investment. Respondents who reviewed the tagline disclosure document were most likely to correctly identify the investment asset allocation at the target date.

Siegel+Gale found that respondents who own TDFs were more knowledgeable about TDFs in general than those who do not own TDFs. Among respondents who own TDFs, the most knowledgeable were individuals who chose their investments in their employer-sponsored retirement plan; they scored nominally higher than those who hold TDFs in IRAs or other accounts and those who invested in a TDF as a default selection in their employer-sponsored plan.

Conclusion

The DOL's reopening of the comment period gives plan sponsors a chance to reevaluate TDF comprehension and communication issues. It also gives plan sponsors a second chance to comment on the 2010 proposed regulations.

Buck Can Help

- Meet with and educate HR and the plan's administrative committee about improving target date fund plan disclosures
- Develop communications that integrate multiple required disclosures
- Draft comments on the proposed regulations