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Via e-mail to e-ORI@dol.gov

July 9, 2012

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5655
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington DC 20210

Re: RIN 1210-AB38; Target Date Disclosure (ICI Comment Letter to DOL on the *Results of SEC-Sponsored Investor Testing of Target Date Retirement Fund Comprehension and Communications*)

The Investment Company Institute[1] appreciates the opportunity to provide comments to the Department of Labor ("Department" or "DOL") on the results of the investor testing ("Survey") sponsored by the Securities and Exchange Commission ("Commission" or "SEC").[2] The Survey was commissioned by the SEC in connection with its proposal ("SEC Proposal")[3] to require certain disclosures in target date fund ("TDF" or "target date fund") marketing materials.[4] We applaud the

[1] The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of $12.9 trillion and serve over 90 million shareholders.

[2] The Survey is available at www.sec.gov/comments/s7-12-10/s71210-58.pdf.

[3] *See* SEC Release Nos. 33-9126; 34-62300; IC-29301 (June 16, 2010), 75 FR 35920 (June 23, 2010).

[4] We are using the term "marketing materials" to refer both to advertisements under Rule 482 under the Securities Act of 1933 and sales literature under Rule 34b-1 under the Investment Company Act of 1940, whether delivered in print or electronic format.

Department for allowing public comment on the Survey in connection with the Department's own proposal ("DOL Proposal") to enhance disclosures about TDFs by amending its qualified default investment alternative ("QDIA") regulation (29 CFR § 2550.404c-5) and participant-level disclosure regulation (29 CFR § 2550.404a-5).[5] The DOL requirements regarding TDF disclosures would apply to *all* target date funds and arrangements, regardless if they are offered as mutual funds or other types of investment products.

The Institute generally supports the approach of the DOL Proposal that would require a narrative disclosure explaining a TDF's changing asset allocation and the final asset allocation point and also conveying this information in graphical representation ("glide path illustration") in a manner that does not "obscure or impede" a participant's or beneficiary's understanding of the narrative information.[6] We also support the proposed requirements that a TDF (if it is named, or otherwise described with reference to a particular date) explain the age group for whom the TDF is designed, the relevance of the date, and any assumptions about a participant's or beneficiary's contribution and withdrawal intentions on or after such date.

Our review of the Survey did not alter our views on the DOL Proposal.[7] In particular, the Survey results indicate that investors who viewed a glide path illustration demonstrated a statistically significantly greater incidence of comprehension of a TDF's changing asset allocation. The Survey also tested the effect of the so-called tagline disclosure (*i.e.*, disclosure of the fund's asset allocation at the target date that is displayed immediately adjacent to the first use of the fund's name).[8] We believe the Survey results suggest that adding a tagline to a glide path illustration did not increase investor comprehension of *all* key features of a TDF and arguably confused some respondents.

The discussion that follows explains our views in more detail and provides background on the DOL Proposal and TDFs.

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[5] *See* 75 FR 73987 (Nov. 30, 2010). For the DOL announcement regarding reopening of comment period, *see* 77 FR 30928 (May 24, 2012). Similar to DOL, SEC reopened its comment period on its TDF proposal. *See* SEC Release Nos. 33-9309; 34-66720; IC-30026 (April 3, 2012), 77 FR 20749 (April 6, 2012). Our related comment letter to the SEC is available at www.sec.gov/comments/s7-12-10/s71210-75.pdf.

[6] *See infra* note 21 for a discussion of the Institute's recommendation on the proposed "obscure or impede" standard.

[7] The Survey first tested respondents' baseline comprehension of TDFs and then tested respondents' comprehension of specific TDFs based on review of TDF documents (*See* n. 16 for a description of the documents tested). We focus our comments only on the part of the Survey that measures the impact of specific disclosure documents on improving respondent comprehension, which is titled "*TDF Document Comprehension*."

[8] The SEC (unlike the DOL) proposes a tagline requirement.

I. Background of Target Date Funds and the DOL Proposal

Target date funds are an important innovation used in defined contribution plans and other individual retirement account savings vehicles. At the end of March 2012, target date mutual funds had $425 billion in assets, including $305 billion held in defined contribution plans, and another $82 billion held in IRAs.[9] In 401(k) plans that offer target date funds, 53 percent of participants had at least some portion of their account in these funds.[10] To put these statistics in perspective, about 11 percent of total assets in 401(k) plans in the EBRI/ICI 401(k) database was in target date funds at the end of 2010. Target date funds provide an efficient way for an investor to invest in a mix of asset classes through a single fund that rebalances its portfolio to become less focused on growth and more focused on income over time. Research confirms that asset allocation is one of the most important factors in long-term portfolio performance.

Target date funds invest in multiple asset classes, ranging from domestic and international stocks to corporate and government bonds and cash. To achieve the same benefits with a self-managed portfolio, an investor would have to select and monitor a number of individual funds and regularly transfer money between them. Target date funds also are designed to avoid the extreme asset allocations observed in some retirement accounts. Research shows that, left to their own direction, some young workers invest very conservatively by allocating all, or almost all, of their accounts to fixed-income investments, while some participants nearing retirement invest very aggressively, allocating all, or almost all, of their accounts to equity investments.[11] Target date funds follow professionally designed asset allocation models to eliminate such extremes.

The DOL's interest in TDFs and the resulting Proposal were inspired, in large part, by the market events of 2008, during which the account balances of investors (including TDF investors) were significantly impacted. We believed then and we believe now that TDFs' long-term asset allocation

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[9] *See* Investment Company Institute, "The U.S. Retirement Market, First Quarter 2012" (June 2012), available at www.ici.org/info/ret_12_q1_data.xls.

[10] In an ongoing collaborative effort, the Employee Benefit Research Institute and the Investment Company Institute collect annual data on millions of 401(k) plan participants as a means to accurately portray how these participants manage their accounts. The EBRI/ICI database includes data on target date funds offered as mutual funds, collective investment trusts, and other investment vehicles. The EBRI/ICI 401(k) database is the largest, most representative repository of information about individual 401(k) plan participant accounts. As of December 31, 2010, the EBRI/ICI 401(k) database included statistical information on about 23.4 million 401(k) participants, in 64,455 employer-sponsored 401(k) plans, holding $1.414 trillion in assets. *See* Holden, VanDerhei, Alonso, and Bass, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2010," *ICI Research Perspective* 17, no. 10, and *EBRI Issue Brief*, no. 366 (December 2011), available at www.ici.org/pdf/per17-10.pdf.

[11] *See* "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2010," *ICI Research Perspective* 17, no. 10, and *EBRI Issue Brief*, no. 366, *supra*.

strategy should not be judged by one year of performance.[12] In fact, many argue that TDFs did exactly what they were designed to do during the market-wide downturn, *i.e.,* they followed a consistent asset allocation strategy, thereby allowing their shareholders to benefit from the subsequent market recovery.[13]

Despite the recovery experienced by TDFs generally, the Institute continues to be committed to working with the DOL, the SEC and others to assure that the interests of TDF investors are protected and that their understanding of these useful investment products is enhanced. In June 2009, the Institute published *Principles to Enhance Understanding of Target Date Funds,* which reflected the results of the ICI Target Date Fund Disclosure Working Group project that began earlier that year.[14] The ICI Target Date Fund Disclosure Working Group included representatives from a broad range of member firms, representing more than 90 percent of target date mutual fund assets. The Working Group reviewed the then existing disclosures applicable to target date funds, determined that the public's understanding of target date funds could be enhanced by identifying key pieces of information that should be prominently conveyed by target date funds, and developed the *Principles* that spell out this key information, which includes a glide path illustration accompanied by a narrative.

When in November 2010 the DOL published its Proposal to enhance TDF disclosure to retirement plan participants, the Institute strongly supported the initiative because of our shared goal of enhancing investors' understanding of TDFs. We continue to share the DOL's commitment to understanding the best way to accomplish this goal.

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[12] *See Statement of the Investment Company Institute* for the U.S. Senate Special Committee on Aging Hearing on *"Default Nation: Are 401(k) Target Date Funds Missing the Mark?"* (Oct. 28, 2009), available at www.ici.org/trdf/testimony/09_senate_aging_tdrf_tmny.

[13] *See* Morningstar, Target-Date Series Research Paper: 2011 Industry Survey, at 22 (April 2011) ("Despite suffering a sharp loss, investors who held on to their target-date 2010 funds through 2008's crisis and the ensuing rally have generally emerged with gains—albeit modest ones."), available at http://corporate.morningstar.com/us/documents/MethodologyDocuments/MethodologyPapers/Target_Date_Industry_Survey_2011.pdf; *see also* Morningstar, Target-Date Series Research Paper: 2010 Industry Survey, at 17 (2010) ("While governmental agencies and Senate subcommittees were convening hearings on the target-date industry in 2009, many 2010 funds were making back a good chunk of their investors' money. In 2009, the average target-date 2010 fund returned a healthy 22.4%, with the top performer rising nearly 31%."), available at http://corporate.morningstar.com/us/documents/MethodologyDocuments/MethodologyPapers/TargetDateFundSurvey_2010.pdf.

[14] *See Principles to Enhance Understanding of Target Date Funds* (June 2009) ("*Principles*"), available at www.ici.org/pdf/ppr_09_principles.pdf. We have attached a copy of the *Principles* to this comment letter.

II. The Survey Findings Are Not Inconsistent with the View that Clear and Concise Disclosures that Present Information in an Effective Format Help Enhance Understanding of TDFs

A. *Importance of a Glide Path Illustration to Enhancing Understanding of a Target Date Fund*

The DOL Proposal would require that participants receive a narrative explanation of a TDF's asset allocation, how the asset allocation will change over time, including the point in time where a TDF will reach its final asset allocation, and a glide path illustration that does not obscure or impede a participant's or beneficiary's understanding of the narrative information. We strongly believe that a glide path illustration is the most effective way to communicate the features of a target date fund to investors. Our view is based, in part, on Institute research showing a clear shareholder preference for graphics and charts over narrative descriptions, and that the preference for graphics and charts to explain the information is especially strong among shareholders who generally do not read, or read very little, of the prospectuses they receive.[15]

The Survey results are not inconsistent with our view. The Survey tested four documents on 1,000 individuals (250 respondents per document), the content of each differing in important respects.[16] According to the Survey, the intended purpose of presenting different disclosure documents was "to gauge whether these disclosures assisted respondents in identifying certain information, such as, among other things, whether they could identify the TDF's investment asset allocation at the target date and whether they could identify whether the investment asset allocation changed after the target date."[17] The Survey found that those respondents who viewed a document that included a glide path illustration (the Glide Path Document and the Combined Document) demonstrated a statistically significantly greater incidence of comprehension of the changing asset allocation in a TDF (by 11-19 percentage points) than those who reviewed the Baseline Document, which did not have a glide path illustration.[18] These results are not surprising. Indeed, these results are consistent with the DOL

[15] *See Understanding Investor Preferences for Mutual Fund Information*, Investment Company Institute (2006), available at www.ici.org/pdf/rpt_06_inv_prefs_full.pdf; *see also Shareholder Assessment of Risk Disclosure Methods*, Investment Company Institute (Spring 1996), available at www.ici.org/pdf/rpt_riskdiscl.pdf.

[16] The Survey describes the four documents as follows: "Baseline Document: did not contain [tagline disclosure and glide path illustration]" (emphasis in the original); "Tagline Document: contained the tagline disclosure and no glide path illustration;" "Glide Path Document: contained the glide path illustration and no tagline disclosure;" and "Combined Document: contained both the tagline disclosure and the glide path illustration." *See* Survey at 9.

[17] *See* Survey at 10.

[18] The Survey found that —

- "The percentage of respondents who chose correct responses about the change in stock allocation over time after reviewing the [Combined Document] exceeded by 15 percentage points the percentage of correct responses among [the Baseline Document] reviewers." (Question 21, Survey at 49)

Proposal, the Institute's research on mutual fund disclosure generally[19] and our *Principles*.

B. Importance Of a Narrative Accompanying a Glide Path Illustration

The Survey tested a glide path illustration accompanied by a narrative similar to the narrative proposed by the SEC and therefore the Survey findings discussed above suggest that it was a combination of the illustration *and* the narrative that contributed to increased comprehension, and not just the illustration.[20] The SEC narrative would precede a glide path illustration and explain, as relevant here, that the fund's asset allocation changes over time; the final asset allocation point; that the asset allocation becomes fixed at that point; and the intended asset allocations at that point.

In our comment letter to the SEC on the Survey, we suggested that the narrative should have included both the information proposed by the SEC *and* information about the target date and the asset allocation at that date. We believe that information about the target date and the final asset allocation point should be viewed as an integrated whole. Such an approach most effectively distinguishes the target date point from the final asset allocation point (if the two points are different). Unfortunately, the Survey did not test whether adding a simple narrative about the target date asset allocation to the glide path narrative would help increase comprehension about the target date asset allocation. While we recognize that the Survey could not have tested every possible disclosure scenario, we recommended that the SEC continue to consider this combination of disclosure as it moves forward on its rulemaking.

Because, as discussed below, we view the Department's proposal to be more effective in educating participants about the "target date," we encourage the Department to retain its data elements

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- "When asked about a TDF's bond allocation over time, comprehension was highest among respondents who reviewed the [Glide Path Document and Combined Document]." (Question 22, Survey at 50)
- "A second question related to bond allocation also showed higher comprehension scores from respondents who viewed the [Glide Path Document and the Combined Document]." (Question 23, Survey at 51)

[19] *See* n. 15.

[20] In this respect, the Glide Path Document and the Combined Document included the following statement immediately before the illustration: "When you invest in an OliveBranch Target Retirement Fund, OliveBranch adjusts the investment mix for you. *Each OliveBranch Target Retirement Fund reaches its most conservative allocation about ten years after its target date, at which time the investment mix is intended to become fixed at 20% stocks, 75% bonds and 5% cash*. OliveBranch may modify at any time the intended stock and bond percentages shown below." Neither the italicized language nor the glide path illustration was included in the Baseline Document or the Tagline Document.

(with modifications suggested in our January 2011 letter[21]) and continue working with the SEC to ensure comparable disclosures.

In our view, the DOL Proposal would require more effective TDF disclosure than the SEC Proposal because it presents the "target date" concept in context with other related information rather than presenting one piece of information about the target date – the asset allocation – in isolation. More specifically, if a TDF references a particular date in its name, the DOL would require an explanation of the age group for whom the investment is designed, the relevance of the date, and any assumptions about a participant's or beneficiary's contribution and withdrawal intentions on or after the target date. The premise is that all of these elements of information would help a retirement investor understand the meaning of the date in the TDF name.

While the SEC Proposal is similar in some aspects (including the requirement for a glide path illustration), the SEC would split off one piece of information – the target date asset allocation – and put it immediately adjacent to the first use of the TDF's name. We discuss below our concern that including information in isolation next to the name of the fund does not help increase investor comprehension and may serve to confuse investors.

C. <u>Tagline Asset Allocation Disclosure Does Not Increase Investor Comprehension</u>

Presumably because the SEC Proposal includes a tagline requirement, the Survey tested the effect of the tagline disclosure. The Survey results indicate that adding a tagline to a document with the glide path illustration did not serve to increase the comprehension of respondents of *all* TDF key features. For example, the percentages of correct responses were the same or different to a statistically insignificant degree for the Glide Path Document and the Combined Document (*i.e.,* the document with both the glide path *and* tagline) when asked about a TDF's bond allocation over time (74% and 74%, respectively, Question 22, Survey at 50) and another question related to bond allocation over time (70% and 70%, respectively, Question 23, Survey at 51); when asked about the stock allocation over

[21] *See* Letter from Mary S. Podesta, Senior Counsel—Pension Regulation, the Investment Company Institute, to Office of Regulations and Interpretations, Employee Benefits Security Administration, U.S. Department of Labor (Jan. 14, 2011) (commenting on the DOL proposal; available at www.dol.gov/ebsa/pdf/1210-AB38-014.pdf). In this respect, we suggested two modifications. Our first modification related to the proposed requirement that the glide path illustration not "obscure or impede" the asset allocation narrative explanation required by the rule. Because the DOL has not previously used the "obscure or impede" standard, we recommended that the DOL explain differences, if any, between this standard and the previously-used standard that requires disclosures to be written in a manner calculated to be understood by the average plan participant. Our second suggestion related to the DOL's requirement to disclose "any assumptions about a participant's or beneficiary's contribution and withdrawal intentions on or after [the target] date." We suggested that the DOL clarify that the reference to "any assumptions" should not be read to require quantitative disclosures *(e.g.,* 4 percent withdrawal rate), and noted that more generalized statements (*e.g.,* an investor expects to make gradual withdrawals) should be sufficient to meet this condition.

time (59% and 63%, respectively, Question 21, Survey at 49) and whether the asset allocation will stop changing at the target date (49% and 52%, respectively, Question 25, Survey at 53).[22]

We note that, with respect to enhancing understanding of the asset allocation at the target date, the Survey stated that "[r]espondents who reviewed the [Tagline Document] demonstrated the highest comprehension of the investment allocation at the target date." (Question 33, Survey at 61) However, the Survey also noted that "the tagline disclosure may have resulted in some respondents believing that the correct answer was [the target date asset allocation]" when asked about the post-target date stock allocation. (Question 34, Survey at 62)

In our comment letter to the SEC, we strongly opposed the tagline requirement, and we urge the DOL not to adopt this requirement. In this respect, our concern is not with the inclusion of the additional information, *i.e.*, the asset allocation at the target date, required of the tagline. In fact, as noted in our discussion above, we support including such additional information in the disclosure document in an integrated manner. Rather, our concern is that placing the information next to the TDF's name in isolation from other information is not helpful to improving investors' overall understanding of the fund. In order to avoid investor confusion and to help investors understand that there is more to a target date fund than its asset allocation at the target date, this information should be introduced in its full context, not initially in a tagline. In this respect, we are concerned that investors will place undue emphasis on a fund's target date asset allocation and be less likely to take into consideration other important information about the fund, including how the asset allocation evolves from the time the investor purchases the fund until the target date or the final asset allocation point.[23] As noted above, we believe that a better approach is similar to what DOL already proposed. Unfortunately, the Survey did not test such an approach.

D. <u>Importance of an Integrated Document</u>

The Survey findings appear to support the effectiveness of using clear and concise materials to convey key information to investors as a means of enhancing the understanding of investment products.[24] Further, each test disclosure was not more than two pages in length and was focused solely

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[22] In addition: "Over half of respondents who were shown the glide path (54%-58%) were able to identify the length of time between the target date and the year the asset allocation becomes fixed." (Question 29, Survey at 57)

[23] We expressed similar concerns to the SEC about changing the fund name rule and reiterated the SEC's previously stated belief that a fund's name should not be "the sole source of information about a company's investments and risks." *See Statement of Karrie McMillan, General Counsel, Investment Company Institute, at the Target Date Fund Joint Hearing Before the Department of Labor and Securities and Exchange Commission*, (June 18, 2009) ("Institute Testimony"), available at www.ici.org/trdf/testimony/091_target_fund_tmny.

[24] Another example of where a simple disclosure in an integrated document likely contributed to correct answers are the Survey's questions about whether TDFs are guaranteed investments. The Survey concluded that the majority of those who

on TDFs. In our view, an investor's comprehension is enhanced when key pieces of information are presented in an integrated way. By contrast, information presented in an isolated manner, without context, such as the "tagline" disclosure, can lead to inconsistent understanding.

The SEC Proposal generally would apply the TDF rule to any marketing material that places "a more than insubstantial focus" on a TDF. We believe that populating each communication that mentions a TDF with all key pieces of information would be unnecessary to accomplish the goal of enhancing investors' understanding of TDFs. Therefore, we recommended to the SEC that any final rule provide that the fund would be considered to be in compliance if, at a minimum, one of the documents delivered in an enrollment kit or other set of materials delivered to retirement plan participants, IRA holders and other investors complies with the SEC Proposal (provided that this document is presented in a way reasonably calculated to draw investor attention).

We believe the DOL Proposal is more effective in this respect than the SEC Proposal because it would present the new TDF disclosure as an integrated document to two discrete disclosures: (1) as an appendix to a comparative chart under 29 CFR § 2550.404a-5; and (2) incorporated into a qualified default investment alternative ("QDIA") notice required by 29 CFR § 2550.404c-5.[25]

III. Effective Date

The proposed effective date of the amendments to the QDIA and participant disclosure rules is 90 days after publication of final rules in the Federal Register. Because the proposed changes will

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were shown a disclosure that included a statement that the investment in a TDF is not guaranteed (which our *Principles* also recommend) understood that "you could lose money after the TDF's target date year" (Question 27, Survey at 55) and that "the TDF would not guarantee that an investor would get back the amount invested in the fund." (Question 30, Survey at 58) While the Institute supports inclusion of such a disclaimer, we believe that it is important that the Department does not prescribe the specific language of such disclaimer. In this respect, plan fiduciaries need the flexibility to calibrate disclosures to their specific plans and, in particular, to the full spectrum of investments offered in such plans.

[25] We do believe, however, that the DOL should take further steps to create more integrated and concise disclosures. The original DOL Proposal requested comments on whether the DOL should conform the QDIA notice requirements with the participant disclosure requirements. As we suggested in our original comment letter, the DOL should allow plan fiduciaries and their service providers the flexibility to develop the most effective disclosure documents applicable to their plans and plan participants, including, to the extent that plan fiduciaries believe that participants' understanding will be enhanced through the avoidance of duplication, combining the content of the QDIA notice with the information required to be disclosed under the participant disclosure regulation (*e.g.,* investment-related information). Further, as we expressed in several letters to the DOL, we continue to believe that allowing plans to make electronic delivery the default method for communicating with participants will enhance the effectiveness of disclosures under Title I of ERISA. We continue to believe that Technical Release 2011-03R does not provide meaningful incentives or make it more feasible for plan administrators and their service providers to use electronic media instead of paper for furnishing the participant disclosures. We urge the DOL to revise its position and extend now well-established and workable standards of Field Assistance Bulletin 2006-03 to the participant disclosures and other disclosures under Title I of ERISA, including the QDIA notice.

require modifying the recordkeeping systems that were only recently developed for use in complying with the new participant disclosure requirements associated with 29 CFR § 2550.404a-5 as well as the systems developed for the QDIA notices required by 29 CFR § 2550.404c-5, we recommend the effective date to be at least one year after publication of final rules in the Federal Register.

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We strongly applaud the DOL's efforts to supplement its rulemaking initiatives by taking into account the results of the SEC Survey, and we would be happy to discuss in detail any of our comments on the DOL Proposal or the Survey with the DOL staff. Please do not hesitate to contact me at (202) 326-5920 or Anna Driggs (Associate Counsel - Pension Regulation) at (202) 218-3573.

Sincerely,

/s/ David M. Abbey

David M. Abbey
Senior Counsel – Pension Regulation

Attachment—*Principles to Enhance Understanding of Target Date Funds*

Principles to Enhance Understanding of Target Date Funds

Recommended by the ICI Target Date Fund Disclosure Working Group

June 18, 2009

The *Principles to Enhance Understanding of Target Date Funds* is intended to highlight how target date funds used for retirement savings can convey effective disclosure.[1] The Principles were developed by a working group of Investment Company Institute members, comprising a broad range of member firms, whose target date mutual funds assets represent over 90 percent of target date mutual fund assets.

Target date funds provide an efficient way for an investor to invest in a mix of asset classes through a single fund that both rebalances its asset allocation periodically and becomes more conservative over time.

The ICI Target Date Fund Disclosure Working Group reviewed existing disclosures applicable to target date funds and determined that five key pieces of information displayed prominently can help enhance understanding of these innovative and valuable retirement savings products. The Principles set forth below reflect the consensus of the Working Group.

The Principles can be used by target date funds offered as mutual funds, collective funds, insurance company separate accounts, or customized products. Disclosures incorporating these Principles are not meant to substitute for disclosures otherwise required by securities laws or other applicable law. It is up to each company that offers target date funds to decide whether and how to implement the Principles. Target date fund providers, acting in good faith and exercising their own reasonable business judgment, should consider their own facts and circumstances in developing their particular target date fund disclosure. The "sample language" provided is meant to illustrate the Principles, not to dictate the use of particular language or its placement in offering or marketing materials.

As with all disclosures to investors, disclosures provided consistent with these Principles should be written using concise, straightforward, and easy-to-understand language in a manner calculated to be understood by the average plan participant or investor.

[1] The Principles focus on target date funds used for retirement savings. Although the target date concept also is used in connection with educational savings, the Principles do not address the use of target date funds for this purpose.

INVESTMENT COMPANY INSTITUTE®

The Investment Company Institute (ICI) is the national association of the U.S. mutual fund industry, which manages half of 401(k) assets and advocates policies to make retirement savings more effective and secure.

The working group recommends that target date funds prominently disclose:

1. **The relevance of the "target date" used in a fund name, including what happens on the target date.**

   Sample language:

   [2010] in the fund name refers to the approximate year an investor in the fund would plan to retire and likely would stop making new investments in the fund.

2. **The fund's assumptions about the investor's withdrawal intentions at and after the target date.**

   Sample language:

   The fund is designed for an investor who plans to withdraw the value of the investor's account in the fund *gradually* after retirement.

   or

   The fund is designed for an investor who expects to spend all or most of his or her money in the fund at the target date.

3. **The age group for whom the fund is designed.**

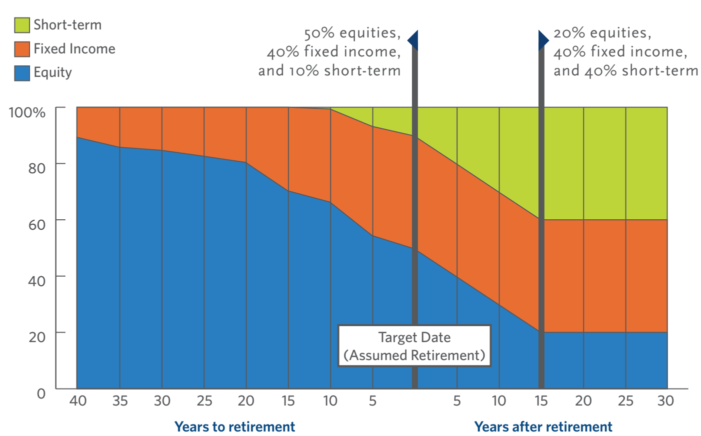
   Sample language:

   An investor who anticipates retiring at or about [2010].

4. **Illustration of the asset allocation path (or glide path) that the target date fund follows to reduce its equity exposure and become more conservative over time, supplemented by a simple narrative explanation. At a minimum, the illustration should highlight the asset allocation (in appropriate broad asset classes) at both the target date and at the point at which the glide path is expected to reach its most conservative asset allocation. If a fund manager has the flexibility to deviate from the glide path, the disclosure should state this and include the applicable parameters.**

   Sample illustration:

   The sample illustrates a fund with a glide path that is expected to reach its most conservative asset allocation 15 years after the target date, and that uses equity, fixed income, and short-term as its broad asset classes.



   Sample Narrative:

   At the target date of [2010], the asset mix in this fund is anticipated to be approximately 50 percent equities, 40 percent fixed income, and 10 percent short-term. The asset mix will progressively reduce equity exposure and become more conservative until [2025], when it will become fixed at 20 percent equities, 40 percent fixed income, and 40 percent short-term. [A fund manager may adjust the asset allocation over the established glide path within [specified] limits].

5. **A statement, added to the risk disclosure the fund provides, that the risks associated with a target date fund include the risk of loss, including losses near, at, or after the target date, and that there is no guarantee that the fund will provide adequate income at and through the investor's retirement.**

   Sample language:

   An investment in this fund is not guaranteed, and you may experience losses, including losses near, at, or after the target date. There is no guarantee that the fund will provide adequate income at and through your retirement.

Target date fund fact sheets and marketing materials also should state where an investor can obtain more information about the investment objectives, risks, charges, and expenses for the fund and how to obtain more in-depth information about the fund, including its glide path design.

Sample language for mutual funds based on offering legend requirement:

You should consider the investment objectives, risks, charges, and expenses of the fund carefully before investing. For a free copy of the fund's prospectus, which contains this and other information, visit the fund's website at ________, or call your financial adviser or the fund at ______________. Read the prospectus carefully before investing. You can obtain additional information about the fund, including its glide path design, on websites of a [fund, adviser, other affiliate or recordkeeper] at ________ or by calling ________. This information also may be available through your plan sponsor.

(Investors in non–mutual fund products similarly would be directed to sources for additional information.)

The "sample language" is meant to illustrate the Principles, not to dictate the use of particular language or its placement in offering or marketing materials.

This mock-up illustrates a fund with a target date of 2010 and a glide path that is expected to reach its most conservative asset allocation 15 years after the target date and uses equity, fixed income, and short-term as its broad asset classes.

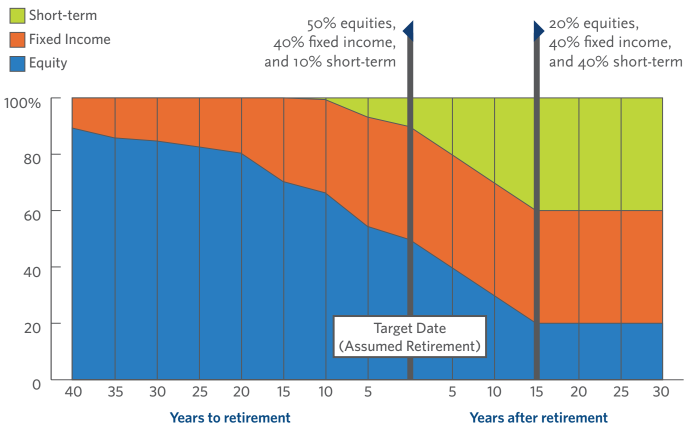
2010 Retirement Fund

The fund invests in a diversified portfolio of stocks and bonds that is rebalanced to maintain its asset allocation and progressively becomes more conservative over time. **Principle 1.** "2010" in the fund name refers to the approximate year an investor in the fund would plan to retire and likely would stop making new investments in the fund. **Principle 2.** The fund is designed for an investor who plans to withdraw the value of the investor's account in the fund *gradually* after retirement.

Who may want to invest:

Principle 2 and 3. An investor who anticipates retiring at or about 2010 and withdrawing the value of the investor's account in the fund *gradually* after retirement.

Principle 4 illustration.



Principle 4 narrative. At the target date of 2010, the asset mix in this fund is anticipated to be 50 percent equities, 40 percent fixed income, and 10 percent short-term. The asset mix will progressively reduce equity exposure and become more conservative until 2025, when it will become fixed at 20 percent equities, 40 percent fixed income, and 40 percent short-term. [A fund manager may adjust the asset allocation over the established glide path within [specified] limits.]

Fund information:

Inception date

Total net assets

Expense ratio

Fund manager

Performance:

Performance graphs are not included.

The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling ____.

Risks:

The fund is subject to several stock and bond market risks, any of which could cause an investor to lose money. However, based on the fund's current allocation between stocks and the less volatile asset class of bonds, the fund's overall level of risk should be higher than those funds that invest the majority of the assets in bonds, but lower than those investing entirely in stocks. As the fund's allocation between underlying funds gradually changes, the fund's overall level of risk also will decline. In addition to the risk inherent in the asset classes of the underlying funds, the fund also is subject to asset allocation risk, which is the chance that the selection of underlying funds and the allocation of fund assets will cause the fund to underperform other funds with a similar investment objective. For further details on all risks, please refer to the fund's prospectus. **Principle 5.** An investment in this fund is not guaranteed, and you may experience losses, including losses near, at, or after the target date. There is no guarantee that the fund will provide adequate income at and through your retirement.

You should consider the investment objectives, risks, charges, and expenses of the fund carefully before investing. For a free copy of the fund's prospectus, which contains this and other information, visit the fund's website at ________, or call your financial adviser or the fund at ________. Read the prospectus carefuly before investing. You can obtain additional information about the fund, including its glide path design, on websites of a [fund, adviser, other affiliate or recordkeeper] at ________ or by calling ________. This information also may be available through your plan sponsor.