

## DOL's Tips Regarding Target-Date Retirement Funds

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**October 24, 2013 (PLANSPONSOR.com) - With the increasing popularity and growth in participant-directed retirement plans, the onus for managing retirement savings has been placed directly on the participants.**

Facing this challenging task, many participants have selected target-date retirement funds to passively manage their retirement portfolios. Target-date funds act as a “set it and forget it” investment for participants, providing them with well diversified portfolios that automatically rebalance the allocation between equities and fixed income securities to become more conservative as retirement approaches.

Due to target-date funds' unique characteristics, many plan sponsors have made the decision to designate these products as their plan's qualified default investment alternative (QDIA). Under the Employee Retirement Income Security Act (ERISA) §404(c)(5), plans that permit participants to direct the investment of their accounts may gain fiduciary protection by including a QDIA, thus providing a safe harbor for the investment of contributions in the absence of an affirmative investment election by the participant. Fiduciaries designating target-date funds as their plan's QDIA, coupled with the ease of investing in a single solution, has led to an exponential growth in the demand for target-date fund solutions. Target-date series assets crossed the \$500 billion mark in 2013, and more than 30 different target-date series are currently available in the marketplace.

In early 2013, the U.S. Department of Labor (DOL) released plan recommendations titled, “Target Date Retirement Funds -Tips for ERISA Plan Fiduciaries.” Given the popularity and tremendous flows into target-date funds, as well as the considerable differences among target-date funds currently available, the DOL's Employee Benefits Security Administration felt it necessary to provide recommendations to plan fiduciaries for the selection and ongoing monitoring of target-date funds. According to the DOL, the purpose of the release is, “to assist plan fiduciaries in selecting and monitoring target date funds in participant directed retirement plans.”

Whether subject to ERISA or not, best practices dictate that plan fiduciaries establish a process for the comparison and selection of target-date funds. The process should involve the traditional qualitative and quantitative analysis commonly utilized for mutual funds, including the target-date funds' composition, glide path, manager tenure and

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experience, performance over various time periods as well as investment management expenses. It is paramount that plan fiduciaries understand the types of underlying funds that comprise the target-date series (proprietary or non-proprietary), the fund's glide path (including when the fund reaches its most conservative asset allocation and whether that occurs at retirement or years after retirement), tenure of the funds management team, as well as the management tenure of the underlying funds and historical performance. It is also important that plan fiduciaries have a thorough understanding of the investment management expenses associated with the target-date funds.

The recommendations also encourage plan fiduciaries to inquire about their recordkeepers' ability to support and offer custom target-date funds. These specialty target-date funds incorporate a plan's existing investment options in the target-date funds. Plan fiduciaries should be aware that these custom target-date funds may carry additional costs and administrative tasks, which might not be appropriate for every plan. By undertaking an objective process, plan fiduciaries are better equipped to evaluate the prudence of the target-date funds being considered.

The DOL guidance also suggests plan fiduciaries establish a process for the periodic review of the target-date funds available to participants in their plans. At a minimum, plan fiduciaries should determine whether there have been any significant changes to the target-date funds since they were selected or last reviewed.

Lastly, the DOL strongly encourages plan fiduciaries to thoroughly document their selection and review process, making sure to include the process and the rationale they used to reach their decisions. The guide is part of the DOL's effort, in conjunction with the Securities Exchange Commission, to enhance the understanding and use of target-date funds in participant-directed retirement plans. Participants should be aided in reaching their investment goals when fiduciaries carefully follow the DOL's recommended guidelines.

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