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ICI Proposes Disclosure Principles for Target Date Funds

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Information Is Designed to Enhance Investor Understanding of Key Retirement Tool

Washington, DC, June 18, 2009 - Retirement savers would get a clearer picture of how target date funds operate and the risks and benefits of these increasingly popular investment options under a set of principles announced today by the Investment Company Institute's Target Date Fund Disclosure Working Group.

For funds that follow the Working Group's *Principles to Enhance Understanding of Target Date Funds*, investors would get simple information on the meaning of a fund's target date; the "glide path" that the fund follows to allocate assets among stocks, bonds, and short-term assets; and the appropriate uses of that fund for investors in specific age groups. While the principles were developed by the mutual fund industry, they could apply broadly to target date funds issued as bank collective trusts, insurance separate accounts, or customized target date products for employer-sponsored retirement plans.

"Our Working Group consulted with a broad range of industry participants to develop a set of principles that will benefit investors and that are universally workable for all target date funds," said ICI General Counsel Karrie McMillan. "Target date funds are innovative and very successful retirement savings products, and target date mutual funds currently do a good job of disclosing the key information that fund investors want and need. However, we think sponsors of target date funds, whether mutual funds or other products, can and should do more to ensure better investor understanding. These additional principles are designed to help investors fully understand these funds and use them to best advantage."

McMillan released the Principles in testimony today at a joint hearing convened by the Department of Labor and the Securities and Exchange Commission to examine target date funds.

The principles recommend prominent display of:

1. **The relevance of the target date, including what happens on the target date.** A fund will explain that the date in a target date fund name represents the approximate year when an investor is assumed to retire and stop making new investments to the fund.
2. **The fund's assumptions about the investor's withdrawal intentions at and after the target date.** A fund will explain that it is designed either for an investor who will begin to spend all or most of the money in the fund at the retirement date or for an investor who plans to withdraw money gradually after retirement.
3. **The age group for which the fund is designed.** A fund will explain that it is designed for an investor in a specific age group or planning to retire at or about a specific year.
4. **An illustration of the asset allocation path (glide path) that the fund follows to reduce its equity exposure and become more conservative over time.** The illustration will highlight the asset allocation at the target date and at the point where the glide path reaches its most conservative asset allocation, supplemented by a simple narrative to explain the chart. A fund will also state whether a fund manager has the flexibility to deviate from the glide path and include the applicable information.
5. **A statement that there are investment risks associated with target date funds and that the fund is not "guaranteed."** A fund will explain that target date funds can suffer 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.

The Working Group, made up of a broad range of ICI members representing more than 90 percent of target date mutual fund assets, also produced a sample fund fact sheet to illustrate how a fund could use the principles.

A target date fund invests in a mix of asset classes, rebalancing its asset allocation and becoming more conservative as it approaches its target date. These funds provide a convenient way for retirement savers to invest in diversified, professionally managed accounts that adjust their risk profiles as investors age. Target date funds continue to grow in popularity. According to ICI data, these funds received $13 billion in net new cash flow in 2009 through the end of April. As of the end of April, approximately $176 billion was invested in target date mutual funds. At the end of 2007, about 7 percent of total assets in 401(k) plans were in target date funds.

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