

Heed DOL Guidance on Target Date Funds

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During the economic downturn of the past two years, retirement plan sponsors and participants became painfully aware that "target date funds," sometimes referred to as "lifecycle funds," can be adversely impacted by stock market declines to a much higher degree than they expected. Some of these funds, even with target retirement dates of 2009 and 2010, experienced major losses in value.

Now the Department of Labor and the Securities Exchange Commission have published cautionary guidance for investors. Fiduciaries who choose these funds and plan participants who invest in them should heed the guidance and understand that some funds are riskier than others.

Target Date Funds

Target date mutual funds contain stocks, bonds and cash equivalents. However, these funds are generally designed to help invest for retirement by automatically shifting the asset allocation toward reduced volatility as the time of retirement approaches. The names of these funds often refer to their retirement target year.

The new DOL and SEC guidance points out that funds with the same target date may have very different investment strategies and risks. These funds do not guarantee sufficient retirement income at the target date and they do not offer protection against investment losses. For example, some funds are designed to be more conservative at the target date but to continue moving toward a larger concentration of fixed income investments for many years after the target date. Others may aim for a very high or even total investment in fixed income and cash equivalents by the target date. Whatever the investment strategy, there is no guarantee against losses because even fixed income investments can lose value under the right circumstances. In addition, the fees related to these investments can have a big impact.

Differences in the investment philosophy and costs of different target date funds must be carefully considered by investment fiduciaries and by participants. The DOL and SEC guidance provides sound advice on target date and lifecycle funds for plan sponsors, administrators, investment advisors and participants with investment direction opportunities. To download and read the guidance, click [here](#).

Contact Us

We are here to help plan sponsors and administrators understand their fiduciary status and responsibilities with respect to plan investments. Contact us for details of the target date funds guidance or for a more general review of your fiduciary responsibilities with respect to investments and the selection of an investment menu for your plan.