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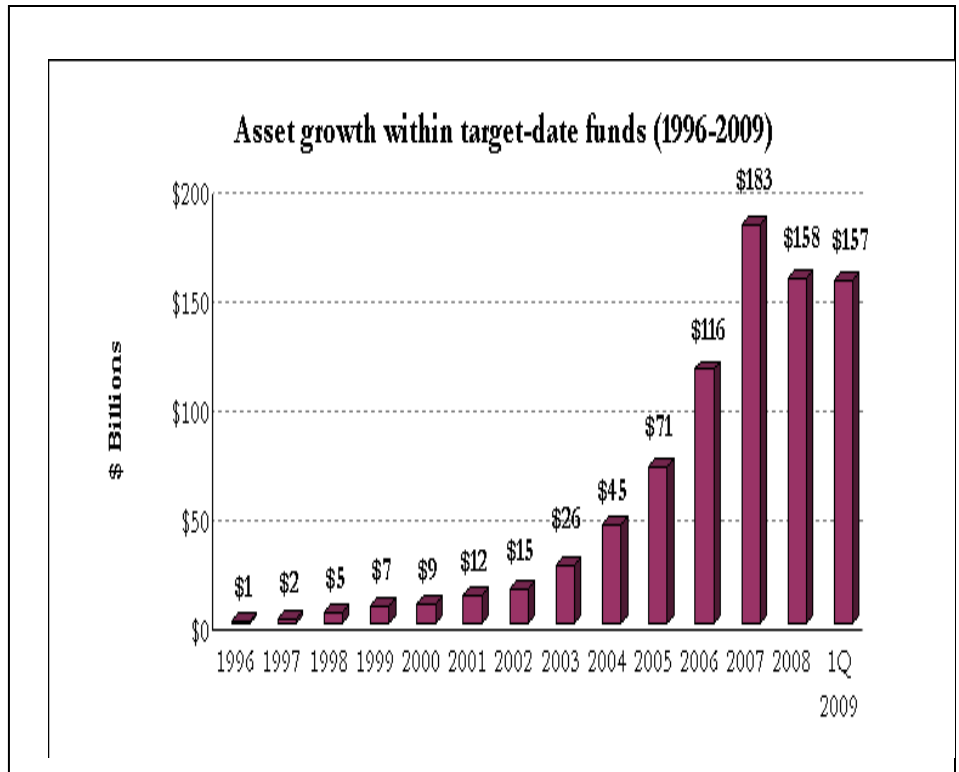
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Target Date Funds – What You Need to Know

By: *Brian Carlson, Consultant*

Target date funds came to the marketplace in the mid-1990's and until 2005 had not received much attention or asset growth. During this time, the retirement landscape has shifted from predominantly defined benefit plans to defined contribution plans. As the shift has occurred, participants who do not have the time or desire to actively manage their 401(k) assets have shown a demand for a professionally managed product taking them from hire date all the way to retirement. Target date funds have evolved to fit the participant demand for a one stop shop, resulting in massive growth in popularity and assets.

The Department of Labor's Pension Protection Act in 2006 cleared the way for target date funds to be a qualified default investment alternative or QDIA. The guidance allowed plan sponsors more comfort in automatically enrolling participants and choosing the age appropriate target date fund as the default. The growth in assets has also coincided with an increase in the number of target date investment products available, growing from four in the mid-90's to over forty in 2008. As fiduciaries, plan sponsors have the responsibility of determining which target date funds are appropriate for their participant base.



Here are a few questions to help you start the process of reviewing your target retirement date fund provider.

1. Glide Path and Asset Allocation Considerations

- *What is the asset allocation (equities, bonds and other) of the most aggressive and most conservative fund?*
- *Does the asset allocation have a smooth roll down each year until retirement or are there large changes in asset allocation at certain points in time?*
- *What asset classes are used? Traditional equities, bonds and cash or are there alternatives such as real estate, hedge funds, commodities and other?*
- *Is the glide path model participant end date at retirement or until death?*
- *How often are the funds rebalanced?*

2. Underlying Fund Selection

- *Do your target date funds use only proprietary funds or are there outside managed investments?*
- *How many underlying funds/investments are in your target date funds?*
- *What is the provider's approach to active versus passive index funds?*

3. Recent Performance and Costs

- *What is the expense ratio on your target date funds?*
- *Are there any 12b-1 fees, revenue sharing, sub-TA fees or other fees beyond the investment management portion of the expense ratio?*
- *How are the underlying funds evaluated for potential inclusion or termination from the target date fund line-up?*
- *What are the costs or drawbacks of establishing custom target retirement date funds with the help of an outside consultant or adviser?*

4. Participant Communication/Education

- *Is your record keeper issuing the required annual notice if you are using the target date funds as your qualified default investment alternative (QDIA)?*
- *Are participants receiving materials on how to properly use the target date funds? Should they use the funds as a stand alone option or in combination with other options?*
- *Are participants receiving on-going information on how the funds are managed, including asset allocation mix, fees, underlying investments, performance and regulatory requirements?*

(QDIA Sample notice available at http://www.irs.gov/pub/irs-tege/sample_notice.pdf)

- Regulatory update: The Department of Labor and the SEC stated in a letter to the Senate Special Committee on Aging plans to conduct an immediate review of target date funds to determine if they are potentially exposing participants to too much unknown equity risk. ([link to news release http://aging.senate.gov/record.cfm?id=308665](http://aging.senate.gov/record.cfm?id=308665))

The goal of target date funds should be to provide the best level of expertise to help participants reach their retirement goals. The complexity of monitoring and selecting the appropriate target date funds is changing rapidly. Plan sponsors need to be aware of these changes to ensure they are helping their participants reach their retirement goals and acting as good fiduciaries.

For more information on target retirement date funds please contact your respective investment consultant or Brian Carlson at bcarlson@dimeoschneider.com or 312-853-1000.