

January 13, 2011

Submitted electronically to e-ORI@dol.gov

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5655
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, DC 20210
Attention: Target Date Amendments

Subject: RIN 1210-AB38 Target Date Fund Disclosure

Dear Sir/Madam:

This letter is the response of Towers Watson to the request by the Department of Labor (DOL) for commentary on the proposed amendments to current regulations on qualified default investment alternatives (“QDIAs”) and to participant-level disclosures required for participant-directed investments, as they concern target date funds.

Towers Watson is a global human capital and financial management consulting firm established on January 1, 2010 as a combination of the former Watson Wyatt and Towers Perrin. With 14,000 associates around the world, we offer solutions in the areas of employee benefit plans, talent management, rewards and risk and capital management. In the retirement plan area, Towers Watson is one of the leading providers of defined contribution plan consulting, providing consulting services on investments, plan design, governance and employee engagement. We consult directly with fiduciaries and plan sponsors to support their consideration of issues raised in target date fund selection, monitoring and communication, and offer investment advice through an SEC registered investment advisor, Towers Watson Investment Services.

Towers Watson appreciates the opportunity to provide our views on the newly proposed target date fund disclosures for participants. Target date funds are the predominant choice of fiduciaries for QDIAs¹, and are often a very popular affirmative choice by participants. These trends reinforce the importance of prudent selection and monitoring by fiduciaries of target date fund series, and of full and accessible communication to participants of specific target date fund features.

In general, we believe that more disclosures will be helpful if they encourage plan participants to carefully consider and evaluate the role of target date fund choices relative to their other investment alternatives. The requirements for more specificity concerning asset allocation changes and to set forth post target date contribution and withdrawal assumptions should support better understanding of how a specific series of target date funds is designed and intended to operate. We encourage you to add a requirement that disclosures also identify any assumption as to whether any additional asset classes are being invested in by the participant. Such disclosure should make it easier for participants to assess whether a specific proposed program of asset reallocation is consistent with their individual risk profile and any other retirement assets they have, and, whether they wish to take a more active role in rebalancing and changing asset allocations by not using target date funds as an outsourcing device.

¹ See, e.g. [Towers Watson 2010 Defined Contribution Survey](#), which found that 72% of those surveyed who reported having a default investment option identified a target date or lifecycle fund as the default (with another 13% reporting a balanced or lifestyle fund as the default.)

To simplify (and thereby also encourage) compliance, we suggest that the final effective date be for plan years beginning on or after November 1, 2011 (assuming final publication in the Federal Register at least 90 days prior). This is consistent with the general date for new disclosures for participant-directed investments, and would also be consistent with past effective dates for QDIA rules. Thus, for calendar year plans, the intent would be that QDIA notices for the 2012 plan year would need to be compliant.

We also request your reconsideration of the requirement in the ERISA Section 404(a) participant disclosure regulations that target date funds be treated the same as all other funds in having to offer a benchmark that is a 'broad-based securities market index.' In the preamble to those regulations, the DOL recognizes the value that a proportionately weighted benchmark could provide as an addition to a single broad based index. We believe that a proportionally weighted benchmark comprised of broad based indices that is tailored to the actual or intended equity, fixed-income and any other holdings of a particular target date fund should be considered sufficient to help a participant evaluate performance of any given target date fund. Having a single benchmark instead of two could reduce potential confusion and better support participant comparisons and analysis. Changing this requirement would recognize the absence of any single "broad-based" glide path and the resultant absence of any single broad-based market index for target path funds. Our experience is that some fiduciaries may not have a broad-based index for target date funds that they themselves recognize as a useful benchmarking tool, and we think it could be confusing for a fiduciary to be forced to illustrate a benchmark for comparison by participants that the fiduciary does not itself use.

The preamble refers to actual asset allocations as the source of a customized, proportionally weighted benchmark. We think the allocations intended under the fund's asset allocation policy should also be allowed, and may in fact be preferable. Target date funds operate through frequent but often less than constant rebalancing. Some rebalancing is intended to restore actual asset allocations to the allocations intended based on the fund's policy, not as a matter of changing the glide path but of spreading investment gains and losses to restore the current glide path position. Some might refer to this as "tactical" rebalancing. Rebalancing that is part of moving a fund along a glide path might be referred to as "strategic." Our experience is that target date funds vary in the frequency of both tactical and strategic rebalancing, with possible frequencies including daily, quarterly, semi-annual and annual (and possibly others). To the extent a fund does not have daily rebalancing, it should be permissible to report performance history based on performance of each underlying fund using the intended policy allocations. Similarly, the appropriate benchmark should be based on the intended policy allocations using broad-based market indices. Managers that have policy discretion to allocate along their glide path or that depart from their policy raise special considerations where the underlying principle of like to like comparisons is especially important. Using actual benchmark weights rather than policy benchmark weights would not adequately reflect the manager's active asset allocation decisions in its performance.

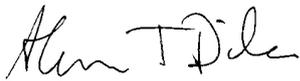
We acknowledge that not all fiduciaries may have access to the resources needed to obtain a proportionally weighted benchmark specific to their glide path, and that some fiduciaries may disagree with our expectation that having two benchmarks for a single fund will likely be confusing. We suggest that fiduciaries have discretion to choose among three alternatives for each target date fund: (a) a broad-based market index; (b) a benchmark comprised of passively managed indices that are themselves broad based, and which are used in proportional weights to actual or intended asset allocations; or (c) both (a) and (b), as two separate benchmarks. Adding (b) as a choice would allow fiduciaries to offer a single benchmark for each fund and not treat a given series of target date funds differently from all other funds. At the same time, (b) requires that any glide path specific benchmark be comprised, at an asset class level, of broad-based indices and so should meet concerns about objectivity.

While the focus of these regulations and our comments is on participant disclosures, we believe these disclosures can also be helpful by encouraging plan fiduciaries to carefully consider and evaluate alternative target date fund series. These regulations focus on asset allocation ("glide path") and fees, and we agree that these are critical components for consideration; however, we also see other criteria as important and look forward to continued market innovation. We understand that the DOL is considering additional guidance to plan fiduciaries on the processes and criteria intended to support prudent selection and monitoring of target date funds. We encourage this effort and urge that the DOL not seek to provide an all inclusive list of criteria or processes and instead bring attention to other aspects that can be important in assessing the risk position of a given target date fund series for a particular set of plan demographics, while also noting that as markets evolve, new criteria are likely. A non-exclusive list would include such considerations as active versus passive strategies, the degree of alignment of underlying

managers with managers of other investment menu choices, the potential for using glide paths and managers that are not affiliated with other providers, the use of alternative asset classes, and implementation strategies and tactics.

Thank you for the opportunity to share our views and information with you on this important matter. If you have any questions about our response, please contact either of the undersigned.

Sincerely,



Alexander T. Dike
Senior Retirement Consultant
Towers Watson Delaware
312-525-2297
Alec.Dike@TowersWatson.com



Sue Walton
Senior Investment Consultant
Towers Watson Investment Services
312-525-3264
Sue.Walton@TowersWatson.com