June 5, 2009

Via E-mail: e-ORI@dol.gov
Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5655
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, DC 20210

Attention: Target Date Fund Joint Hearing

Dear Ladies and Gentlemen:

NEPC respectfully requests the opportunity to participate in the Target Date Fund Joint Hearing conducted by the U.S. Department of Labor and the Securities and Exchange Commission. The one day hearing was advertised in notice form in the Federal Register on May 22, 2009. See Fed. Reg. Doc. E9-12024. The Notice states that requests must be received by June 5, 2009.

NEPC has been providing investment consulting services for traditional and alternative assets for over twenty-three years and is one of the largest investment consulting firms in the country. NEPC currently services over 274 retainer clients with total assets in excess of $276 billion, including defined benefit and defined contribution plans subject to ERISA, as well as foundations, endowments and other institutional investors. NEPC does not offer investment products, and our investment advice and recommendations are unbiased and without conflict. We accept our role as a fiduciary and serve the singular interest of plan sponsors and the participants they represent.

We consult to over 100 defined contribution programs, with total assets in excess of $70 billion accumulated by nearly 1 million participants. NEPC has over a decade of experience working with target date funds (TDFs) and the majority of NEPC’s clients offer TDFs. NEPC is widely
viewed as an expert in the area of asset allocation, glide path construction, modeling techniques and the selection and monitoring of TDF products. NEPC is frequently requested to speak at industry conferences on TDFs and income solution products.

Ross Bremen, CFA, Partner in the Defined Contribution Practice, and Steve Charlton, CFA, Director of Consulting Services will testify on behalf of NEPC.

The Agencies have asked for testimony in four broad areas relating to: the construction of TDFs, the selection and monitoring of investments, the disclosure of information to individuals and the benchmarking of TDF vehicles. Much has been communicated in the press that despite industry efforts to develop, communicate, and implement a turn-key investment solution, retirement plan participants do not fully grasp the risks associated with Target Date Funds (TDFs). Moreover, when plan sponsors compare investments with virtually identical names, the products vary on important criteria such as overall equity content, degree of diversification, active versus passive management and fees. While some concerns are well founded, NEPC believes that TDFs are the most appropriate of the Qualified Default Investment Alternatives and an excellent turn-key investment for retirement savings. NEPC is concerned that efforts to oversimplify or regulate the way in which TDFs are constructed will impair the natural evolution and progression these products will undergo as new investment strategies, opportunities, and income solutions come to market from forward thinking investment firms and consultants. We are proponents of making TDFs more defined benefit-like from an investment perspective.

NEPC would like to testify on the following subjects:

- **The construction of TDF investment mixes (4 minutes)**

  Target date funds have evolved significantly from their early constructs as greater attention has been paid to income replacement levels, diversification levels, and longevity risk. Over time, managers have adjusted their glide paths to include higher levels of equity and added additional building blocks to improve diversification. Today’s products are not designed to be identical to one another or with the same specific goals and objectives in mind. We believe that placing asset allocation limits or restricting investments within TDFs could prevent products from meeting the needs of differing participant demographics.
Such TDF offerings could hinder participants from meeting retirement goals and could actually increase risk levels in some instances.

**Selection and monitoring of investments (4 minutes)**

In the early years of TDFs, products were selected based on record keeping platform issues and simple performance comparisons. We believe the products have evolved significantly over the years, and the reasons for selection have changed. Today’s products range from simplistic (i.e. passive management and few asset classes) to defined benefit-like (i.e. a combination of active and passive management and many asset classes). The drastic market losses of the last two years have also turned attention to guaranteed income solution products. Populations have different demographic compositions and income replacement needs. Many of the largest plan sponsors have built custom TDF options to meet those needs. Plan sponsors (fiduciaries) have always had the ability to select those investments that best meet the needs of their specific populations and this ability is as important today as ever.

**Benchmarking of target date offerings (4 minutes)**

NEPC compares target date funds on a net-of-fees basis versus their custom benchmarks and versus their appropriate peer group universes. The biggest challenge we see in analyzing TDFs is comparing them based on performance. An analogy would be comparing a pension fund simply by its performance without recognition of a pension plan’s liabilities. Pension funds have different liabilities and funded levels, and, as a result, materially different goals, objectives and asset allocations. Pension funds have also been around a long time. TDFs are largely within their first decade of existence, and while glide paths may fall within a +/- 10% tolerance band from each other, the implementation can be so different that results are not meaningfully comparable over the short-term sampling period available.

In our view, the most appropriate benchmarks for measurement of success are custom benchmarks using an index for each of the underlying asset classes in the mix. A custom benchmark can help the plan sponsor understand whether their managers have added or detracted value, and whether the portfolios contain unintended biases or risks. We also
would like to see benchmarking go further towards measuring the projected wealth outcomes the portfolios are expected to generate compared to the limited actual experience of most products. In our view, plan sponsors and participants should be aware of the potential for gain and loss with the portfolios, and the likelihood that the portfolios will generate certain wealth outcomes over time. A challenge with benchmarking is that, ultimately, the determination of whether participants are able to generate certain wealth outcomes or meet retirement goals will take 30 years or longer to identify.

- Disclosure of information to individuals (2 minutes)

Most Plans attempt to comply with 404(c) and most provide descriptions of TDFs in plan brochures and fund fact sheets. Attempts to mandate additional disclosure may meet limited success due to the fundamental problem faced by participants; specifically, sufficient investment knowledge cannot be gained through a few hours of education per year. While we do believe that naming conventions and additional disclosures can help individuals understand the nature and purpose of TDFs, it is unlikely that such efforts will overcome the fundamental challenge that most individuals are not professional investors.

Thank you for your consideration of our request.

Sincerely,

Richard M. Charlton