

## New DOL Guidance on Target Date Funds

The broad variety of different target date fund (TDF) designs can result in dramatically different individual participant investment experiences, depending on which type of strategy a plan decides to offer. Given this complexity, in February 2013, the U.S. Department of Labor issued tips on TDF selection that provide welcome insight into TDF evaluation.

The eight starting points shown below will help plan fiduciaries and their advisors begin translating these recommendations into action.

1. Establish a TDF evaluation process.
  - Outline what the plan hopes to achieve with its TDF and the specifics about how it expects to accomplish these goals
  - Understand how these objectives link to the critical components of TDF design and resulting retirement outcomes
2. Establish a process for periodic TDF review.
  - Evaluate overall TDF consistency, as well as any participant population shifts that may warrant a new approach
  - Consider how cyclical and secular market shifts may affect a TDF's returns and if the strategy is built to weather market and participant life changes
3. Understand the TDF's investments: the allocation in different asset classes, individual investments and how these will change over time.
  - Understand the factors that shape TDF investment characteristics and potential outcomes
  - Review asset class diversification and glide path end date, particularly in terms of equity exposure and expected returns and volatility
4. Review the TDF's fees and investment expenses.
  - Understand all costs and fee transparency
  - Analyze cost/benefits to identify if an added expense offers significant value
5. Consider if a custom or non-proprietary TDF makes sense for your plan.
  - Evaluate the potential benefits and challenges of a custom TDF
  - Consider important factors that may make the due diligence process of a custom series of TDFs more difficult (e.g., individual compliance and operational reviews for each third-party provider, in addition to investment reviews)
6. Develop effective employee communications.
  - Focus on how participants learn and invest when developing communications and work with a TDF provider that understands real-world behaviors and retirement plan usage
  - Consider how communications may work with other strategies to help drive constructive behavior
7. Take advantage of available TDF information sources.
  - Select from a number of third-party services that research and evaluate the TDF marketplace
  - Include value-added programs and services offered by many TDF providers that may also be useful
8. Document the process.
  - Detail the plan's evaluation criteria
  - Incorporate ongoing educational programs to keep the investment committee informed about evolving TDF considerations