

## AMERICAN BENEFITS COUNCIL & INVESTMENT COMPANY INSTITUTE

### Items for Defined Contribution Plan Fiduciaries to Consider When Selecting and Monitoring Target Date Funds

DEFINITION OF TERMS: The terms used below have the following meanings:

- “Asset Class” means a group of securities with similar characteristics (stocks, bonds, cash or cash equivalents, etc.).
- “Asset Allocation” means the combination of types of securities, or asset classes, which make up a TDF's underlying portfolio.
- “Glide Path” means the change over time in a TDF’s asset allocation mix to shift from a focus on growth to a focus on income. Each family of target date funds has a glide path that determines how the asset mix changes over time.
- “Target Retirement Date” means the year in which participants in a TDF are expected to retire and cease making contributions.

### ITEMS FOR CONSIDERATION

#### ASSET ALLOCATION AND GLIDE PATH

- What asset classes are used in the TDF to achieve diversification?
- What is the glide path used by the TDF?
  - What is the TDF’s asset allocation when it is most focused on growth?
  - Over what time period and at what pace does the asset allocation become more focused on income?
  - What is the asset allocation at the target retirement date?
  - At what point in time does the glide path reach its final asset allocation? Is this at the target retirement date (sometimes referred to as a “to retirement” fund) or after the target retirement date (sometimes referred to as a “through retirement” fund)?
- What is the TDF’s objective and what are the asset class, asset allocation and glide path assumptions and methodologies reflected in the TDF? Are these consistent with the plan fiduciary’s objectives?
- Under what circumstances, if any, does the TDF have discretion to vary from the stated asset classes, asset allocations and glide path? Does the TDF have discretion to replace underlying investments? Does the TDF provide disclosure to the sponsor and/or participant when these variations occur?

#### FEES

- What are the total fees associated with the TDF? Are there fees charged to the sponsor or participant in addition to the investment fees of the underlying investments?

### DISCLOSURES AND EDUCATIONAL MATERIALS

- Does the TDF provider offer clear and sufficient disclosures to the sponsor and the participant about the fees associated with the TDF?
- Are the disclosures the TDF provider makes available about the fund clear and sufficient to convey the basic approach and features of the TDF, including its glide path?
- Does the TDF provider offer materials that will assist the plan sponsor in communicating to participants about TDFs and how they should (and should not) be used?

### ASSET MANAGEMENT/STRUCTURE

- What will be the retirement date increments between the offered TDFs (e.g., 10 years, 5 years)?
- Does the TDF make use of active investment management techniques, passive investment management techniques that track indices, or a blend of both?
- Does the TDF use its own asset managers, third-party asset managers, or a combination of both? How and by whom is the performance of these asset managers reviewed?

### PERFORMANCE/BENCHMARKING

- What has been the investment performance not only of the TDF but also of its component investments?
- What benchmarks are available to evaluate and monitor the TDF's investment performance? Do these benchmarks address the performance of the underlying investments as well as the performance attributable to asset allocation?

### PLAN AND PARTICIPANT CHARACTERISTICS

- Does the sponsor have benefit plan offerings (e.g., a defined benefit plan) or defined contribution plan features (e.g., an employer stock component, the plan's distribution options) that will be considered in evaluating a TDF's asset classes, asset allocation and/or glide path?
- Will plan participant demographics or preferences be considered in evaluating a TDF's asset classes, asset allocation and/or glide path?
- If the plan offers access to an investment advice service or managed account program, will recommendations about investments in TDFs be made within that service or program?

### COMPLIANCE

- If the TDF is intended to be a QDIA, does it comply with the criteria in the Department of Labor's QDIA regulations? Does the TDF provider offer services to assist with QDIA compliance?