

## Department of Labor Responds to Target Date Funds Need for Due Diligence

Are you one of the 44% of Retirement Plans that use Target Date Funds in your plan? If so, what were the criteria you utilized to assess various Target Date Fund Families for your lineup? If you didn't perform this level of due diligence, you aren't alone. According to an **April 2009 Janus Group Study**, less than 50% of plans that utilize Target Date Funds performed due diligence on the fund family they selected and have the requisite language in their Investment Policy Statement (IPS) to reflect this due diligence. Most Retirement Plans contain Proprietary Target Date Mutual Funds in their fund lineup or as their Qualified Default Investment Alternative (QDIA).

Last month, the U.S. Department of Labor, in response to a request by a Mutual Fund Service Provider, has issued **DOL Advisory Bulletin 2009-04A** stating that Plan Sponsors have a duty to investigate actual/or potential conflicts of interest, self-dealing, lower rates of return, overexposure to equities, and high administrative and investment fees in their Target Date Funds. This is directly the responsibility of Plan Sponsors, even though it wasn't fully understood prior to the issuance of the Advisory Opinion. While this Opinion may be viewed as protective of mutual fund companies, it is important to note that it increases the fiduciary burden on Plan Sponsors. Plan Sponsors must now undertake appropriate procedural and substantive due diligence regarding Target Date Funds. Having a Proprietary Mutual Fund puts you squarely on notice about this required due diligence. Therefore, most retirement plans have at least one glaring due diligence non-conformity regarding the 22 prudent fiduciary practices that they should be following.

There are many fund families offering Target Date funds, but each of them differ in their fee, glidepath (or equity landing point) and underlying funds. The retirement plan demographics of the organization should be carefully considered in any Target Date Fund selection. Do you view a 401(k) vehicle as a going TO retirement or THROUGH retirement tool? Is your industry one where people are retiring early or working later in life? Target Date Funds are complex investments with different characteristics for different funds. Selecting a family that correlates to your demographics is a better option for your participants.

Here at Michael M. Kane & Associates, a member firm of National Retirement Partners, we have access to tools that can assist you in assessing which fund families may be best suited for your company based on demographic data and important selection criteria. If you're interested in a FREE analysis of your Target Date Funds, or learning more about the 22 Prudent Fiduciary Practices, please reply to this email or contact us at [mkane@n-r-p.com](mailto:mkane@n-r-p.com) or (678) 916-3969.