

Are Your Target Date Funds Missing The Mark?

“The selection...is a fiduciary act and, therefore, ERISA obligates fiduciaries to act prudently and solely in the interest of the plan’s participants and beneficiaries. A fiduciary must engage in an objective, thorough, and analytical process that involves consideration of the quality of competing providers and investment products...”¹

Department of Labor QDIA Regulation

Overview

With the passage of the Pension Protection Act of 2006 (PPA), target date funds (TDFs) have exploded in popularity and become the de facto qualified default investment alternative (QDIA) for most plan sponsors. Roughly three-quarters of defined contribution plans use a TDF and at the end of 2013, target-funds accounted for 38% of new contributions to 401(k) plans and 13.5% of total 401(k) assets. Total target-date fund assets were \$574.6 billion last year, and Cerulli Associates forecasts target-fund assets to reach \$2 trillion by the end of 2019 and represent 88% of new contributions.²

Fiduciary Protection

So while the QDIA regulation provides a “safe harbor” that protects fiduciaries from liability for their decisions it only applies if they comply with all the requirements of the regulation which requires prudently selecting and monitoring the investment used as the QDIA.

Of note given the explosive growth of TDFs, the Department of Labor (DOL) issued a bulletin³ in February of 2013 entitled “Target Date Funds – Tips for ERISA Plan Fiduciaries” to provide guidance to plan fiduciaries and clarify what types of things they should consider when selecting a suite of TDFs. This bulletin outlined the seven specific steps that plan fiduciaries should take when evaluating TDFs. When the DOL speaks it is important to take note.

¹ Preamble to final QDIA regulation, 72 Fed. Reg. No 205 (October 24, 2007), page 60453.

² Cerulli Associates, “Retirement Markets 2014: Sizing Opportunities in Private and Public Retirement Plans”

³ U.S. Department of Labor, Employee Benefits Security Administration, “Target Date Funds – Tips for ERISA Plan Fiduciaries,” February 2013, available at <http://www.dol.gov/ebsa/newsroom/fsTDF.html>



Are Your TDFs Missing the Mark?

Historically, most TDFs have not been selected based on an “objective, thorough, and analytical process” as specified by the DOL for two primary reasons. First, the selection by plan sponsors has typically been tied to the choice of plan provider with little thought given to whether the TDF was right for the plan. Second, few consultants or advisors have developed a methodology or the technical expertise to guide the process for plan fiduciaries. With enhanced scrutiny by regulators, the evolving needs of participants, and the proliferation and complexity of TDF options in the marketplace, the DOL has also stated:

“Within this general framework, however, there are considerable differences among TDFs offered by different providers, even among TDFs with the same target date. For example, TDFs may have different investment strategies, glide paths, and investment-related fees. Because these differences can significantly affect the way a TDF performs, it is important that fiduciaries understand these differences when selecting a TDF as an investment option for their plan.”

Here are four indications it’s time to thoroughly review your plan’s TDF:

- 1) Your TDF and your plan provider are the same (e.g. Vanguard, Fidelity, T. Rowe Price)
- 2) You have never gone through an “objective, thorough and analytical” process regarding your TDF
- 3) You don’t have any written documentation that includes how you reached decisions about the choice of TDF
- 4) You cannot easily and accurately explain the “glidepath” of your plan’s TDF

Introducing Target Date (k)larity[®]

To assist defined contribution plan fiduciaries in choosing the most appropriate TDF strategy for their participants and help fulfill their fiduciary duties, Greenspring has created Target Date (k)larity[®], a comprehensive three-phase, seven-step evaluation process that aligns with DOL guidance:



PHASE 1: READY



Define Plan Goals

The first step is to survey the plan fiduciaries and score their responses to get an accurate understanding of the prevailing attitudes, expectations and goals relative to selecting a target date solution.



Assess Participant Demographics

Next, we gather and analyze data such as age, salary, tenure, participation and deferral rates, and amount of employer contributions to help assess the long-term income replacement needs of your participants.

PHASE 2: AIM



Identify Provider Alternatives

There are currently more than 30 different TDF series in the marketplace. We use our expertise to select the 3-4 options that are most likely to align with what we learned in Phase 1.



Evaluate Potential Products

Next we conduct extensive due diligence and compare each series in areas the DOL recommends like asset class exposure, glide path construction, performance, risk vs. return, and fees.

PHASE 3: FIRE



Choose a Strategy

We combine the goals and needs of participants from the first phase, combined with the data analysis from the second to make a recommendation on which TDF makes the most sense for your plan and why.



Effectively Communicate to Participants

Helping your participants understand and properly use TDFs is just as important as selecting the funds themselves. We provide several steps you should take to effectively educate and equip your participants.



Document the Process

We provide both a written Executive Summary and a 25+ page recommendation report to document the selection and review process, as suggested by the DOL.



Cost & Timeframe

The Target Date (k)larity® process typically takes 4-6 weeks to complete and the cost is based on the total number of plan participants according to the following fee schedule:

Number of Plan Participants	Cost
Under 100	\$2,500
101-500	\$5,000
501-1,000	\$10,000
1,001-5,000	\$15,000
5,001-10,000	\$25,000
Over 10,000	Custom

Benefits

- ✓ Satisfy your fiduciary obligations
- ✓ Align your process with Department of Labor guidance
- ✓ Better understand the needs of your participants
- ✓ Ensure you are using the optimal target date solution for your plan

Start the Process

To learn more please contact Greenspring at tdf@greenspringwealth.com or 443-564-4600.



About Greenspring

Greenspring is an SEC-registered investment advisor and a 2014 PLANADVISER Top 100 Retirement Plan Adviser. The firm currently consults to more than 50 corporate retirement plans across the United States and advises on plan assets of greater than \$1.5 billion.

Learn more at www.greenspringwealth.com

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