



BENEFIT NEWS BRIEFS

EBSA Publishes Guidance In Selecting And Monitoring Target Date Retirement Funds (TDFs)

The Employee Benefits Security Administration (EBSA) recently released general *Guidance* to assist plan fiduciaries in selecting and monitoring target date retirement funds (target date funds or TDFs) and other investment options in 401(k) and similar *participant-directed individual account plans*. According to the *Guidance*, TDFs have become an increasingly popular investment option in 401(k) and similar employee-directed retirement plans. The *Guidance* is available by "[clicking here](#)" or at: <http://www.dol.gov/ebsa/pdf/fsTDF.pdf>.

The *Guidance* begins with an overview of TDFs and how they are used in retirement planning. According to the *Guidance*, many plan sponsors decide to use TDFs as their plan's qualified default investment alternative (QDIA). A QDIA is a default investment option chosen by a plan fiduciary for participants who fail to make an election regarding investment of their account balances.

The *Guidance* notes that within the general framework of TDFs 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, the *Guidance* **emphasizes it is important that fiduciaries understand these differences when selecting a TDF as an investment option for their plan.**

As an aid to help plan sponsors understand and choose TDFs for a QDIA or investment option, the *Guidance* discusses eight factors to consider when choosing a TDF. These topics are discussed in more detail in the *Guidance* and include:

- *Establish a process for comparing and selecting TDFs.*
- *Establish a process for the periodic review of selected TDFs.*

- *Understand the fund's investments – the allocation in different asset classes (stocks, bonds, cash), individual investments and how these will change over time.*
- *Review the fund's fees and investment expenses.*
- *Inquire about whether a custom or non-proprietary TDF would be a better fit for your plan.*
- *Develop effective employee communications.*
- *Take advantage of available sources of information to evaluate the TDF and recommendations you received regarding the TDF selection.*
- *Document the process.*

The *Guidance* notes that plan fiduciaries can learn more about their fiduciary responsibilities under ERISA at: www.dol.gov/ebsa/compliance_assistance.html.

Plans that use TDFs should review the *Guidance* in detail and take steps to implement these guidelines.

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