June 3, 2009

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549-1090

Re: File Number 4-582

Dear Ms. Murphy:

My name is Ric Edelman, and I am writing to request that you permit me to testify during the joint hearing on June 18 examining target date funds. I applaud the Securities and Exchange Commission and the Department of Labor for undertaking this important issue.

As the founder of a 23-year-old firm that has provided financial advice to thousands of consumers and won over 70 awards, I have dedicated my career to helping families achieve their financial goals. I am also the host of a nationally syndicated call-in radio show on personal finance that reaches millions of consumers each week. With years of hands-on experience advising clients and the general public, I can offer an in-the-trenches perspective to the Securities and Exchange Commission and the Department of Labor on how target date funds are actually being used by retirement plan participants, the dangers these products pose and two simple solutions to protect America's investors from these problems.

My concern regarding the use of these products is well documented. A #1 *New York Times* bestselling author of seven books, I address the faults of target date funds in my book *The Lies About Money*. In that book, as well as on my radio show and in numerous television appearances, I have counseled consumers not to invest in target date funds (also known as lifecycle funds). Although these funds appear attractive to workers confused about investing, they fall short of a panacea.

The demand for target date funds stems from a lack of consumer investment knowledge. The typical consumer is increasingly responsible for funding his or her own retirement and is in dire need of guidance. Just 6% of workers were covered only by a defined benefit retirement plan in 2007, according to the Center for Retirement Research at Boston College, compared to 21% in 1992. The remaining workers with defined contribution plans are responsible for making their own investment decisions — a daunting task. Yet 69% of workers lack investment knowledge, according to a 2006 survey by John Hancock, and 67% say their fear of market volatility prevents them from managing their 401(k) properly.

Overwhelmed by the number of retirement plan choices, target date funds seem on the surface like a simple solution. The average worker doesn't know how to build a diversified portfolio or make smart asset allocation decisions and doesn't have the time to develop the in-depth investment knowledge necessary for success. Target date funds offer workers an easy way to obtain asset allocation based on the year they plan on retiring. But in this case, easy doesn't always mean right.

This approach to investing is amazingly short sighted. When a client comes into my office for investment recommendations, I don't just ask about their age and retirement date. I ask about income and expenses, assets and debts, marital status and family situation, health, goals, objectives, attitude about risk and other important information. This information helps ensure that we build a portfolio that is truly suitable and appropriate for the client. It also takes into consideration the fact that the date of retirement doesn't necessarily coincide with the date a consumer first makes a withdrawal from his retirement plan. In fact, many consumers don't immediately begin living off their investments and instead need to continue growing that money during retirement to ensure they don't outlive it.

Another troubling problem: Many target date funds are poorly and inconsistently constructed. For example, professional advisors would tell a 30-year-old worker to invest 100% of his or her retirement assets in U.S. and international stocks. But many 2040 funds — such as the one offered by the L funds of the federal Thrift Savings Plan (its version of target date funds) — place 15% of their assets in bonds. This is a poor allocation strategy.

Consumers also need to be wary as not all target date funds are built alike. In theory, a Target Date fund allocates a person's assets based on a projected retirement date. Someone planning to retire in 20 years would choose a 2030 fund, while a person retiring sooner might choose a 2020, 2015 or 2010 fund.

Many people believe that the more time you have until retirement, the more risk you can take with your money. On that basis, there is an assumption by many consumers that a typical 2030 fund would have much of its money in stocks, while a 2010 fund might not. But is that theory correct? Not necessarily. Morningstar lists 153 mutual funds that offer a target date of 2010, with total assets as of January 31, 2009, of $22 billion. Yet, there is little consistency in the funds' holdings, according to a review I conducted. According to Morningstar, 14 of the 2010 funds hold more than 60% of their assets in stocks, while 15 hold less than 30% — and one had less than 19% in stocks!

Coincidentally, a 2008 survey by Janus Capital Group with PLANSPONSOR featured in a 2009 Janus white paper found that target date funds do not always receive the same due diligence as other fund offerings. Only 38.3% of plans have an investment policy statement that covers target date funds, and 40% of funds didn't evaluate individual target date funds and their underlying funds when selecting a new target series.

That's not all. The range of returns for 2008 was just as broad, according to Morningstar. Six of the 2010 funds lost more than 40% of their value last year, while four lost less than 10%. How can such divergent results be explained? Simple: The investment results were not based solely on the amount of money their managers placed into stocks. Equally important was *which* stocks they bought. Some managers bought only a few stocks but chose ones that underperformed the S&P 500 or another benchmark; others bought lots of stocks that fared better.
Thus, people who invested in 2010 funds thinking that they're all the same could have made an expensive mistake. Depending on the fund they bought, they might have been taking a far higher risk than they realized — either because they had far more money invested in stocks than they might have wanted, or because their fund's manager might have concentrated much of the fund's money into stocks that underperformed benchmarks. This comes as a surprise to many consumers: A recent survey by Envestnet Asset Management Inc., a Chicago-based wealth management firm, and Behavioral Research Associates LLC, an Evanston, Ill., consumer research firm, found that 38% of consumers expected the risk levels of funds with the same target date to be very similar.

A final problem: Most workers don't know that target date funds are comprised of other funds. As a result, most of those who use target date funds use them incorrectly. Consumers are supposed to place all their retirement savings into a single target date fund because one target date fund owns many other funds mixed together to form a specific asset allocation. They are not designed to be used in conjunction with other outside funds. But that's exactly what consumers are doing. A 2009 white paper from Janus Capital Group featuring a survey by Brightwork Partners LLC found most of the people who own target date funds in their 401(k) plans own six funds, typically a blend of target date funds and individual mutual funds. Nearly two-thirds believed that target date funds need to be combined with other funds to create a diversified portfolio, and 44% reported that "Buying target-date funds for different years gives me more upside potential in the market."

According to the Thrift Savings Board, which oversees the retirement plan used by employees of the federal government, 55% of plan participants who use the plan's L funds also have money in other funds offered by the plan — and 16% have money in *every* fund offered. It's even worse in private-sector plans. According to Vanguard, which offers its own version of L funds to 401(k) plans nationwide, 63% of plan participants use L funds in addition to other funds.

Meanwhile, consumers are paying higher fees because they are investing in target date funds that own other funds. Not only do they incur the fees of the underlying funds, they also pay the cost of the wrapper too. The total cost of a typical L fund is twice as much as the typical mutual fund, according to *Money Management Executive.*

Other misperceptions are common. A recent survey by Envestnet Asset Management Incand Behavioral Research Associates LLC found that 63% of consumers who said they had heard of target date funds were unable to properly describe them. Nearly 62% believed they would be able to retire on the target date; almost 38% thought they would earn a guaranteed return; almost 30% believed they could save less money and still meet their retirement goals; 50% believed they were just as likely to lose money in a target date fund as they were to lose it in a money market fund; one-fifth believed they were less likely to lose money in a target date fund than in a money market fund; 41.4% believed there was no or a low chance of losing money in any one-year period; and a whopping 57% believed there was no or a low chance of losing money in any 10-year period. The survey also found consumers believed their most important task when investing in target date funds is picking a retirement date (27.9%) compared to more critical tasks, such as picking a mix of stocks and bonds commensurate with risk (26.7%), selecting a savings rate (8%) or picking the fund with the lowest expenses (15.1%). More than 40% of consumers believed if they invested in target date funds they would have to monitor their progress towards retirement less frequently than if they had invested elsewhere.

In my testimony, I will offer you two simple, easily-implemented solutions to solve the problems described above.

Thank you for taking the time to consider my request to testify before the SEC and DOL. I support your efforts to explore target date funds in a public hearing and raise the awareness of the potential pitfalls surrounding this product. I believe my testimony, based on years of first-hand experience, would help reveal the impact of target date funds on consumers and provide a contrasting viewpoint from the sponsors of these products.

My best regards,

Ric Edelman
Chairman & CEO

Enclosure: Outline of topics

Ric Edelman Testimony Outline (10 minutes)

1. Introduction — 20 seconds
2. The need for target date funds — 1:10 minutes
3. The fatal flaw of today's offerings — 3:00 minutes
4. How target-date funds are being misused and abused by investors — 2:00 minutes
5. How to fix the problem quickly and easily — 3:00 minutes
6. Conclusion — 30 seconds