June 5, 2009

Department of Labor
Employee Benefits Security Administration
Securities and Exchange Commission

Re: File No.4-582
Hearing on Target Date Funds and Similar Investment Options

Dear Commissioners, Assistant Secretaries and Professional Regulatory Staff:

This is a written comment submitted for the record in reference to the Public Hearing to be held on June 18, 2009 on the topic of incorporating Target Date funds and Similar Investment Options in 401k plans as investment options for Participants. I am not requesting to participate in the hearing as a presenter.

My comments are based on the experience and observations I've acquired from working directly with 401k vendors, Plan sponsors and Participants since 1988. My conclusion below is a result from analyzing a) vital statistics that measure 401k plan participation, b) TDF's as long-term investment options, c) metrics isolating different behaviors in different demographic cohorts and d) the simple reality that the short length employment spans in each Employer-sponsored 401k plan is NOT going to mirror the concept of "long-term" investing.

The argument I will be making for Regulatory officials to critique is this:

only a fraction of American workers will in fact be continually contributing to a company sponsored 401k plan with Target Date Funds, year after year, without termination -- and without Rolling-over the 401k assets to an IRA -- for the same theoretical duration that a TDF is designed for (i.e. 40 years, their employment lifespan, mid-20's to late-60's).

The Labor Statistics I cite are from the DOL Bureau of Labor Statistics News Release of June 5, 2009, Employment Situation Summary,
http://stats.bls.gov/news.release/empsit.nr0.htm
AND from May 12, 2009 – Job Openings and Labor Turnover Summary:
http://www.ebri.org/pdf/publications/books/databook/DB.Chapter%2010.pdf

The demographic statistics I cite referencing Retirement Plan participation based on Age are from the US Retirement Plan Data posted on the Employee Benefit Research Institute's website:

http://www.ebri.org/pdf/publications/books/databook/DB.Chapter%2010.pdf

I will attempt to summarize as much as possible:

1) According to the DOL, in the 12 months ending March, 2009, there were 58.9 million employees separated out of a Labor Force of 141 million workers. This means that starting in April, 2009, 41.77% of the US workforce would no longer be contributing to the same salary

deferral investment options they had selected in January 2007 and before. As you know, there is no mandated standardization of Investment Options for every 401k plan, meaning a terminated employee may never have the option of investing in a TDF again;

2) According to the EBRI data, there are noteworthy trends based on age. The first trend is that the participation rate is less than 6% for workers under 20 years old, 36.6% for workers under 30 and 56.1% for workers under 40. The rates of participation increase to 62-64% for workers ages 41-60, which is more than a majority but certainly not overwhelming.

Policy-makers who serve the entire US population must be mindful that all decisions relating to self-managed Participant accounts IMPACT the middle-aged cohort the most because this is the age group that has the most ACTUAL 401k shareholder interest;

3) There is a second Age-weighted Demographic issue for Regulators to gauge – the substantial drop-off in the GROSS number of participants in 401k plans after age 50. According to the EBRI table, in the US in 2003 there were 27 million workers ages 21-30, 30 million workers ages 31-40 and 32 million workers ages 41-50.

However, there is a profound drop in the total REAL population of Wage and Salary workers aged 51-60 – only 20.9 million. The number age 61 and older was 7.4 million in 2003. My argument for Policy-makers to consider is that there are 50% fewer workers in the 51-60 year old cohort and 77% fewer workers in the 61 and older cohort. Thus, all arguments proffered that TDF investors will benefit when they are older than 60 must be evaluated with the knowledge that there is a diminished actuarial probability that a 25-50 year old American worker will STILL BE participating in a 401k plan with a TDF when he/she is 65 years old;

4) The number of companies eliminating or reducing the Employer Match to the 401k is getting larger every single year. It is possible this money-saving policy may become the new norm, not an exception. This “Game-changing event” significantly alters the Pro Forma calculators that 401k plan sponsors and financial advisors use to illustrate what the balances will be upon retirement 30-40 years into the future;

5) On the same topic of Retirement Plan calculator input assumptions – the math logic does NOT take into account the 40% chance that a job may be eliminated in 1-3 years and the 70-90% (your guess?) chance that the average American employee entering the workforce will not be employed by that same 401k plan sponsor in 10 or 20 years;

6) My final point relates to the science of Behavioral Theory as it relates to Investment Literacy for Adults. After enjoying close working relationships with 401k Plan Sponsors, Plan Participants and Financial Education Vendors since 1988, I am submitting to the Regulatory community that it is not a credible premise to believe that a significant percentage of the US adult population can realize positive self-directed investment results through a lifelong journey of “Investment Education”.

Admittedly, this last point is the one I can’t prove with science in a short commentary, but researchers have provided sufficient evidence (published by the Private and Public sectors) that demonstrates that 141 million people cannot become proficient at Investment Management through reading. The moving target is too difficult to define and moves too fast.

There is too much content to learn and too much to retain. A 401k participant has the same chance of success at Asset Allocation at growing a vegetable garden, building a deck, learning Japanese, playing jazz guitar at a night club, improving relationships, i.e. any of the thousands of activities, pastimes and avocations that Americans wish to master OUTSIDE of TIME needed for their primary work, family and personal priorities.

To conclude, this letter attempted to bring to light the demographic metrics pertaining to the history, behaviors and lifetime experiences of 401k participants. Since personal savings are at stake, Regulators need to think about how dollars can be protected when making projections and suppositions about the future.

Because of employee separations in the 30-40% range per annum, international competition and the structural changes in the US Economy, I cannot foresee a scenario where employment becomes more stable and 401k plan sponsors spend more money to improve the terms of their 401k plans.

Finally, any Regulatory decision incorporating the theory that improving Investor Education about TDFs will improve participant outcomes is uncertain. It is more prudent – if not downright wise – for Retirement Security experts to assume that tens of millions of Americans – maybe as high as 100 million workers - are not going to successfully “graduate” the rigorous Financial Education curriculum in order to authentically be labeled as “Educated Investors”.

Thank you for allowing me as an individual US citizen to contribute to this Public forum.

Most sincerely,

Douglas J. Klein
Executive Director

www.InvestmentLiteracy.com