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July 9, 2012

FILED ELECTRONICALLY

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5655
U.S. Department of Labor
200 Constitution Ave., N.W.
Washington, DC 20210

Re: Target Date Fund Disclosure (RIN 1210-AB38)

Dear Sir or Madam:

Vanguard[1] appreciates the opportunity to supplement our comments on the Department of Labor's proposed target date fund (TDF) disclosure amendments to the qualified default investment alternative (QDIA) and participant fee disclosure regulations. As discussed in our previous comment letters, Vanguard strongly supports a coordinated regulatory framework requiring TDF disclosures to highlight important information without overwhelming participants.[2] We submit this letter both to share our comments on a survey conducted on the Securities and Exchange Commission's behalf by the research firm Siegal + Gale regarding investors' understanding of TDFs, and to update information provided in our prior comment letter. In that regard, attached to this letter please find Vanguard's comments to the SEC on the Siegal + Gale survey.[3]

1. TDFs continue to increase in importance as a simple and effective retirement investing tool.

TDFs are a critically important investing tool for retirement plan participants and beneficiaries, and use of TDFs by sponsors and participants continues to grow. Analysis of Vanguard defined contribution plan data shows that 82 percent of plan sponsors offered TDFs, and 47 percent of participants invested in TDFs, as of the end of 2011.[4] This is a steep increase from 13 percent of plans offering TDFs and 2

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[1] Vanguard offers more than 170 index and actively managed funds with aggregate assets of approximately $1.7 trillion. We are also a leading asset manager and recordkeeper for defined contribution plans, serving more than 3 million participants and 1,700 plan sponsors in over 2,200 defined contribution plans.

[2] "Target Date Disclosure," Vanguard Comment Letter dated January 14, 2011, http://www.dol.gov/ebsa/pdf/1210-AB38-024.pdf. Vanguard also generally supports the SEC's goals, "Investment Company Advertising: Target Date Retirement Fund Names and Marketing," Vanguard Comment Letter dated August 13, 2010, http://www.sec.gov/comments/s7-12-10/s71210-20.pdf (though, for reasons expressed in those letters, we suggest that the Agencies both embrace the Department's approach).

[3] "Investment Company Advertising: Target Date Retirement Fund Names and Marketing," Vanguard Comment Letter dated May 22, 2012, http://www.sec.gov/comments/s7-12-10/s71210-78.pdf.

[4] *How America Saves 2012: A report on Vanguard 2011 defined contribution plan data* (Vanguard, 2012) at page 55.

percent of participants investing in TDFs in 2004.[5] Where plan sponsors choose to offer a QDIA, TDFs remain the overwhelmingly dominant choice, with 90 percent of plan sponsors designating a TDF as the plan's QDIA.[6] In plans offering TDFs, 31 percent of all contributions are directed to TDFs.[7]

TDFs continue to help participants maintain more diversified investment allocations. At the end of 2011, 18 percent of participants held an extreme asset allocation (either no exposure to equities or 100 percent exposure to equities).[8] This number continues to decline, down from 40 percent in 2002.[9] Similarly, concentrations in company stock have declined while TDF usage has increased, with 9 percent of participants holding concentrations above 20 percent of their account balance in company stock at year end 2011, down from 20 percent in that category in 2002.[10]

2. **Vanguard supports pictorial disclosure of a TDF's asset allocation and glide path; Vanguard questions the utility of a "tag line" directly next to the fund name.**

In light of the importance of TDFs to the retirement system, any additional regulation of TDFs should balance the benefit of additional regulation against the risk that new rules will hamper TDF effectiveness. Vanguard asks the Department to review the results of the Siegal + Gale survey commissioned by SEC with caution. As more fully explained in our letter to SEC, Vanguard's findings are generally consistent with the Siegal + Gale survey's suggestion that understanding about a TDF's glide path can be improved. Vanguard notes, however, that the Siegal + Gale survey's findings seem inconclusive on the question of whether a "tag line" improves understanding of a TDF's operation. In fact, a "tag line" directly next to the fund name describing the mix of investments at the target date does not appear to significantly improve investor understanding (and, in some cases, seemed to hamper understanding). For those reasons, Vanguard continues to support the Department's approach, and urges both Agencies to adopt this approach and refrain from requiring such a tag line disclosure.

3. **Vanguard supports disclosures about TDF risk-of-loss that are consistent among the rulemaking agencies.**

In the retirement system, TDFs have emerged as the most common default investment. In some cases, this can explain an apparent lack of participant awareness of TDFs and their operation, which must be distinguished from a misunderstanding of how TDFs work. In this regard, in contrast to the findings of the Siegal + Gale survey, our research shows that only 4 percent of participants who are both aware of and invested in TDFs believe TDFs provide a guaranteed return or become risk free when they reach the

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[5] *Id.*
[6] *Id.*
[7] *Id.* at page 56.
[8] *Id.* at page 47.
[9] *Id.*
[10] *Id.*

target year.[11] While we support educational efforts to improve understanding of TDFs, we continue to believe that it is critical to do so in a way that does not suggest that TDFs' risk profile or failure to guarantee adequate retirement income is different than the vast majority of other retirement plan investment offerings. Accordingly, we again encourage the Department to eliminate from the regulation the required statement warning participants that they may lose money by investing in the TDF, including losses near and following retirement, and that there is no guarantee that investment in the TDF will provide adequate retirement income. If the Department finds that additional disclosure is required, we recommend that the Department revise the regulation to require the traditional disclaimer required by SEC that past performance does not predict future results, along with a note that investments in a TDF are not guaranteed at any time, including on or after the retirement date.

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Vanguard appreciates the Department's careful attention to this issue. We encourage the Agencies to continue working together to develop a regulatory structure that will allow a single disclosure to satisfy both ERISA and securities law requirements, and to maintain the Department's streamlined and flexible approach in the final regulation. If you have any questions or require any additional information, please contact Stephanie Napier, Associate Counsel, Legal Department at (610) 503-1377.

Sincerely,

Chris D. McIsaac
Managing Director
Institutional Investor Group

[11] For further discussion, see Ameriks, Hamilton and Ren, *Investor comprehension and usage of target-date funds: 2010 survey* (January 2011), attached to our Comment Letter dated January 14, 2011 and available online at https://institutional.vanguard.com/VGApp/iip/site/institutional/researchcommentary/article/InvResTDFinvestorsurvey.