Congress of the United States
Washington, DC 20510

May 6, 2021

The Honorable Gene Dodaro
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Dodaro:

As chairs of the House Committee on Education and Labor and the Senate Committee on Health, Education, Labor, and Pensions (HELP), we write to request the Government Accountability Office (GAO) conduct a review of target-date funds (TDFs). The employer-provided retirement system must effectively serve its participants and retirees, and we are concerned certain aspects of TDFs may be placing them at risk. TDFs are often billed as "set it and forget it" investments, yet expenses and risk allocations vary considerably among funds. The millions of families who trust their financial futures to target-date funds, need to know these programs are working as advertised and providing the retirement security promised.

TDFs, which are default investment options offered in employer-provided retirement plans, are intended to balance risk and provide an age-appropriate asset allocation for plan participants over time. TDFs do so by gradually shifting participants' asset allocations from higher risk investments (equities) to more conservative ones (fixed income) as participants approach retirement. TDFs are incredibly popular among plan participants. In fact, since the GAO last reported on TDFs in 2011[1], these funds have steadily grown with over $1.5 trillion invested in these funds.[2] However, retirement experts have raised concerns that the performance of TDFs and level of risk exposure can vary widely—even for those close to retirement. According to *The New York Times*, "[m]any of the major target-date funds tailored for people retiring in 2020, for example, have roughly 50 to 55 percent of their investments in stock funds."[3] One 2020 TDF, which has over $16 billion in assets, is reportedly 60 percent invested in stocks.[4] Meanwhile, the Thrift Savings Plan's (TSP's) 2020 Lifecycle Fund, which was retired in July 2020, had more than 60 percent allocated to its G Fund (short-term U.S. Treasury securities) for the two years prior to its retirement.[5]

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[1] U.S. Gov't Accountability Off. , "Defined Contribution Plans: Key Information on Target Date Funds as Default Investments Should Be Provided to Plan Sponsors and Participants," GAO-11-118 (Jan. 31, 2011) (recommending that DOL assist plan sponsors in selecting TDFs best suited for their plan participants).

[2] Mike Palmer, "Why Target Date Funds Miss the Mark," Kiplinger, Mar. 25, 2021, *available at* https://www.kiplinger.com/investing/602499/why-target-date-funds-miss-the-mark.

[3] Tara Siegel Bernard, "Retiring Into a Shaky Market? Think Long Term Anyway," N.Y. Times, Mar. 7, 2020, *available at* https://www.nytimes.com/2020/03/07/your-money/retiring-stock-markets-investments.html.

[4] Debbie Carlson, "Target Date 2020 Funds Did Well in 2020. Here's Why," Barron's, Jan. 2, 2021, *available at* https://www.barrons.com/articles/target-date-2020-funds-did-well-in-2020-heres-why-51610138811

[5] *See* Thrift Savings Plan, L 2020 Composition, *available at* https://tsp.gov/funds-retired/l-2020/.

Further, while TDFs have traditionally included a mix of equities and fixed-income investments, the Department of Labor under the Trump Administration paved the way for the use of potentially higher risk and more lightly-regulated "alternative" assets, such as private equity.[6] Little is known about the extent to which TDFs offered in employer-provided retirement plans include alternative assets and how those TDFs with alternative assets impact participants' fees and returns.

Given these concerns regarding TDFs, we respectfully ask GAO to address the following questions:

1. What percentage of total defined contribution (DC) plan assets are invested in TDFs? What percentage of plan participants are offered, and participate in, TDFs? What percentage of plan participants defaulted into TDFs?

2. To what extent have participants approaching retirement age who are invested in TDFs been affected by market fluctuations as a result of the COVID-19 pandemic? How much variation is there in the performance of TDFs of the same vintage (*i.e.*, target retirement year), particularly for TDFs at or near the target retirement date? To what extent have TDF providers taken steps to mitigate the volatility of TDF assets?

3. How often do investors with default investment TDFs in their DC plans reassess their investments, and what, if any, is the cost of a passive investment stance in a tumultuous market? Are TDFs properly structured to withstand major stock turbulence?

4. How does the asset allocation and fee structure vary across those TDFs used as default options in 401(k) plans? How do TDF fee structures compare with other investment products? In the years approaching retirement (*i.e.,* age 55 and older), to what extent do TDFs shift the allocation of equities to more conservative investments like fixed income in order to protect these participants from losses near retirement?

5. How are TDFs marketed and advertised? Are participants sufficiently aware of the cost and asset allocation variation among TDFs?

6. What percentage of plan sponsors select off-the-shelf TDFs? What percentage of plan sponsors select custom TDFs? Is there a material difference in the performance of off-the-shelf versus custom TDFs?

7. To what extent do TDFs include alternative assets, such as hedge funds or private equity? What information is typically available to participants and plan sponsors about the risks and benefits of asset allocations in TDFs? How do plan sponsors select and oversee TDFs to ensure these funds have a suitable risk level for participants?

[6] Information Letter from Louis J. Campagna to Jon W. Breyfogle (June 3, 2020) (explaining private equity investments are permissible in certain instances).

8. What steps has the U.S. Department of Labor taken to ensure that plan sponsors appropriately select and use TDFs and that sponsors provide appropriate information and education about these funds to plan participants?

9. When provided the option to invest in TDFs alongside an array of other investment fund options, how often and to what extent do plan participants rely primarily—or exclusively—on TDFs? In these scenarios, how many investment alternatives are provided? How many TDFs do plan sponsors generally offer in their investment options?

10. What are possible legislative or regulatory options that would not only bolster the protection of plan participants, who are nearing retirement or are retired, but also achieve the intended goals of TDFs?

If you have any questions concerning this request, please contact Kevin McDermott, Senior Labor Policy Advisor for the House Committee on Education and Labor, at (202) 225-3725 or Kendra Isaacson, Senior Pensions Counsel for the Senate Committee on Health, Education, Labor and Pensions (HELP), at (202) 224-6572.

Thank you for your attention to this matter.

Sincerely,

Patty Murray

PATTY MURRAY
Chair, Senate Committee on Health, Education, Labor & Pensions

Bobby Scott

ROBERT C. "BOBBY" SCOTT
Chairman, House Committee on Education & Labor