Letter to the Editor

March 6, 2012

The following is in response to James Colon's article, The Problem with Target-Date Fund Glide Paths, which appeared on February 28:

Dear Editor,

If we couple Mr. Colon's findings and conclusions with Ron Surz' criticism and analyses of target-date funds (TDFs), we see the crux of the problem – they really don't work because one size never fits all.

Since the Department of Labor in its benign wisdom declared TDFs to be a permissible default option for retirement accounts, advisors and plan sponsors alike have fallen all over themselves to adopt them – in spite of never conducting sufficient research to truly understand what it is they were adding to their plans. This totally played into the hands of the product manufacturers who knew they would have at least a three-year window to retain this "sticky money" in self-serving fund constructs, whether or not TDFs would ever meet investors' expectations. For sponsors, it is a self-serving way of taking advantage of a safe harbor – regardless of reality.

The reason these funds can never meet expectations is that there is no objective way to identify and quantify return expectations. Plan participants have different needs to be met in the future. "Glide paths" is a great sound bite, conjuring up an attractive mental image but the corresponding management of the portfolio does not "glide" safely or with prudence.

Our industry should be thankful to Colon and Surz for their objective analyses and clear warnings of the inadequacy of another questionable mutual fund product.

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Expert Witness
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