
A TDF reformer/designer calls today's TDFs "time bombs"

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In a new handbook (free to RIJ subscribers), West Coast pension consultant Ron Surz and two co-authors warn that retirement plan fiduciaries may be held responsible if another bear market inflicts as much damage on older TDF investors as the last one did.

Judging by the billions of dollars that retirement plan participants pour (by choice or default) into target date funds, you might think that all is well on Planet TDF and for the three big purveyors of TDFs: T. Rowe Price, Fidelity and Vanguard.

But Ron Surz, a West Coast pension consultant and persistent gadfly of the TDF status quo, continues to rail that many of these federally-blessed Qualified Default Investment Alternatives, with their relatively high equity allocations at retirement, are "time bombs" for investors and for plan fiduciaries.

In a new 47-page handbook (which RIJ subscribers can [download here](#)), Surz and co-authors remind plan fiduciaries of the huge losses in market value that most TDFs—including those designed for near-retirees—suffered in 2008-2009, and warn that fiduciaries may be held responsible if another bear market inflicts the same level of damage.

"Sometime in the future there will be a market correction of the magnitude of a 2008 or even a 1929," the *Fiduciary Handbook for Understanding and Selecting Target Date Funds* says. "Unless risk controls are tightened, especially near the target date, fiduciaries will be sued as a result of losses. It remains to be seen whether the litigation will impact fund companies or fiduciaries, or both. Mutual fund companies do not stand as fiduciaries relative to the pension plans that invest in them."

Surz has more than an academic interest in TDF design. His company, Target Date Solutions, markets its own TDF architecture. The "glide paths" of his funds are much steeper near retirement than the glide paths of most TDFs, meaning that the fund manager rapidly re-allocates to almost 100% risk-free assets by the investor's final year of employment.

The handbook's other two co-authors are John Lohr, corporate counsel to the Lebenthal Group and Mark Mensack, who writes the "401(k) Ethicist" column for the *Journal of Compensation and Benefits*.

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