Opening Statement of Senator Herb Kohl
Joint Special Committee on Aging Hearing
Default Nation: Are 401(k) Target Date Funds Missing the Mark?
October 28, 2009

Good afternoon, and thank you all for being here. Today we will be talking about the promise and reality of target date funds, which are an increasingly popular choice for people saving for retirement. Target date funds were developed for the average American worker who understands the importance of saving, but may not understand the complexity of investing. Target date funds, which automatically adjust their investment portfolios to become more conservative as the participant gets close to retirement, come with the promise from financial firms that investors can simply indicate when they'd like to retire, and the firm will handle the rest.

Many Americans think target date funds sound like a great idea, and the U.S. government agrees. In 2007, the Department of Labor qualified target date funds to be a default investment fund for millions of Americans who are automatically enrolled in 401(k) funds by their employer. As of March 2009, Fidelity reported that 96 percent of their plans with automatic enrollment used target date funds as their default option. Therefore, a conversation about target date funds is really a conversation about the future of America's retirement security.

In February, our Committee raised concerns about the recent performance of target date funds. We found that the composition of these funds varied widely across the industry, and many contained an inappropriately high level of risk. Some workers in funds with a 2010 retirement date lost as much as 41 percent of their 401(k) savings in 2008.

We discovered that there is no standard for what financial firms label and advertise as target date funds, and no regulation of their composition. In response to our request, the Securities and Exchange Commission and the Department of Labor held a joint hearing in June on target date funds, and I am hopeful that we will soon see greater oversight of this product that is on track to become the number one savings vehicle in America.

The Aging Committee has also continued with our own investigation of target date funds and it seems the more we learn, the more concerns we have. This afternoon we will discuss three key problems. First, there is a lack of transparency and consistency in the design of target date funds. Second, many funds charge excessive fees, eroding the value of a worker's assets over time. And third, fund managers have a conflict of interest in constructing target date funds and must resist the temptation to put their bottom line above the interests of the participants. Today the Committee is releasing a report detailing each of these issues and their impact on retirement savings.

This afternoon's hearing is the third in a series we have held on strengthening the 401(k) system, which is steadily replacing defined contribution plans throughout the country. Previously we addressed the issue of hidden fees in 401(k) plans, which can have a significant impact on retirement savings over several decades, and we have also examined the long-term effects of 401(k) loans and withdrawals on workers' retirement savings. We have introduced legislation with Senator Harkin to require the disclosure of 401(k) fees, and will soon introduce a bill to implement GAO's recommendations to reduce the effects of loans and withdrawals. After all, in our efforts to encourage Americans to save for retirement, we must make sure they are also able to save smartly.

In closing, I'd like to thank you all once again for your participation today. I am pleased to turn now to Senator Corker for his opening statement.