QDIA POLICIES: A Guide for Plan Sponsors

INTRODUCTION

Widespread adoption of automatic enrollment has significantly increased the number of Americans who are participating in company-sponsored retirement plans.[1] Yet many plan participants lack the expertise or inclination to direct their own investments and often leave it to their employer to determine how best to invest their retirement savings. This reliance places considerable responsibilities and potential liabilities on plan sponsors to select an appropriate Qualified Default Investment Alternative (QDIA).

This QDIA policy guide provides plan sponsors with resources to help to establish and/or reevaluate a process for selecting a QDIA that is appropriate for your plan. You should consult with an experienced retirement plan consultant to assist with creating a QDIA Policy that aligns with the needs of your plan and regulatory requirements, including any applicable DOL guidance.

Congress and the Department of Labor (DOL) have issued specific guidelines for retirement plan sponsors relating to the selection and monitoring of the plan's QDIA.[2] So long as certain conditions are satisfied, plan sponsors will not be liable for losses that are a result of investing participants' contributions in a QDIA.[3] Despite sweeping adoption of automatic enrollment over the past few years, many plan sponsors report difficulties in selecting an appropriate QDIA. This uncertainty combined with challenging market conditions prompted the DOL to issue additional guidance and increase its scrutiny of plan sponsors relating to the selection and monitoring of QDIAs.[4]

A QDIA Policy will not replace the plan's existing Investment Policy Statement (IPS) that describes the roles and responsibilities and criteria for selecting and replacing investment options for the plan; rather, the QDIA Policy should be viewed as a supplement to the IPS to specifically address the type of QDIA that will be used for your plan. Having a defined policy for selecting the right QDIA will not only help you minimize your potential liability, it will help ensure that those participants who do not have the experience or inclination to direct their own investments have an appropriate vehicle through which they can seek to effectively save for retirement.

FIDUCIARY DUTIES AND QDIA SELECTION

Those who make decisions on behalf of the plan (e.g., selecting and monitoring the plan's investments, including a QDIA) are considered to be "fiduciaries" under the Employee Retirement Income Security Act of 1974 (ERISA).[5] Among other duties, fiduciaries are required to act prudently. They must follow an objective process to analyze relevant information and document the basis for their decisions.[6] Where they fail to do so, fiduciaries can be held personally liable to restore any losses suffered by the plan as a result of the breach of their duties.[7]

> "Fiduciaries are … required to engage outside experts where they lack the knowledge to make well-informed decisions."

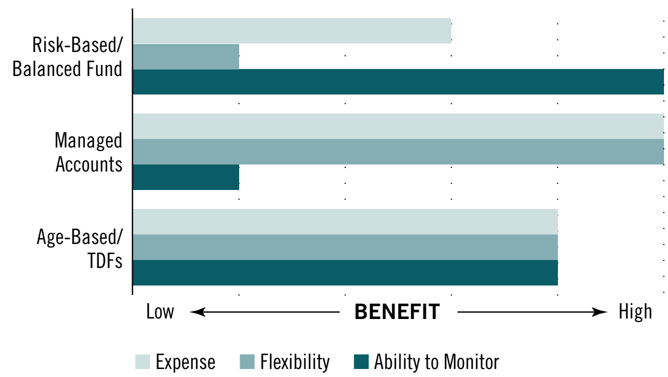
Fortunately, you do not have to go it alone. ERISA allows the plan to contract with professional consultants and subject matter experts to help implement the necessary processes and assist with the identification, collection and evaluation of relevant information.[8] Fiduciaries are, in fact, required to engage outside experts when they lack the knowledge to make well-informed decisions.[9]

Most plan fiduciaries look to investment professionals for help creating an IPS to outline the process for selecting, monitoring and replacing investment options. Given that QDIAs often hold a significant percentage of the plan's assets, it is imperative that you seek out the necessary expertise and document the basis for your decisions in order to minimize your risk of being held personally liable for investment-related losses incurred by plan participants.

FUNDAMENTALS OF QDIA SELECTION[10]

The final regulation describes three long-term mechanisms for investing participant contributions: one Group-Based and two Individually-Based QDIAs. The group-based alternative is described as a *product* with a mix of investments that *takes into account the characteristics of the group of employees as a whole*, rather than each individual (i.e., a risk-based, balanced fund). The two individually-based QDIA options include: 1) an investment *service* that allocates contributions among existing plan options to provide an asset mix that takes into account the individual's age or retirement date (i.e., a professionally managed account); or 2) a *product* with a mix of investments that take into account the individual's age or retirement date (i.e., a lifecycle or target date fund).

There are pros and cons associated with each of the three QDIA types. You should work with your plan consultant to develop a process for evaluating which of the three options best suits the needs of your plan participants. Specifically, you should examine the demographics and behaviors of your employees who are most likely to be invested in a QDIA, the availability and costs associated with each option and your ability to monitor the QDIA to ensure it continues to meet the needs of your plan and its participants. The graph to the right shows how each option compares in terms of these primary considerations.



Group-Based QDIA—Balanced Funds: While a Group-Based or balanced fund may be easier to evaluate, it must include a mix of investments that takes into account the characteristics of the group of employees as a whole, rather than each individual. This option is more appropriate for plans with participants that have similar investment time horizons, risk tolerances and investment objectives. A Group-Based QDIA, however, may not be appropriate for participants of the plan as a whole if their ages and incomes are widely dispersed or high employee turnover makes the suitability of a QDIA more difficult to monitor. Because a balanced fund does not become more conservative over time, participants may need additional education to understand when to begin allocating more of their account to less volatile investments as they approach retirement.

Individually-Based QDIA—Managed Accounts: Managed accounts, on the other hand, must allocate participant contributions among existing plan options to provide an asset mix that takes into account the individual's age or retirement date. As a result, they may be more appropriate for participants that, on average, may not understand when to start "de-risking" their account as they approach retirement. Notwithstanding this important benefit, less than two percent of 401(k) plan assets are invested in professionally managed accounts.[11] The lack of utilization is primarily due to the fact that a QDIA manager must be either the plan sponsor, a trustee or an investment manager (or a fund).[12] If the plan fiduciaries do not have the expertise to prudently manage participants' individual accounts, they must engage a third-party trustee or investment manager. In some cases, professional investment managers may not be available through the plan's current investment platform or architecture. Where investment managers are available, the fiduciaries must ensure they exercise prudence in selecting an investment manager that will manage the plan's QDIA. Given the lack of readily available data to monitor the performance of investment managers (vs. funds), the fiduciaries may need to hire additional expertise to ensure they are meeting their ongoing duty to monitor the managed account provider.

Individually-Based QDIA—Target Date Funds: Age-based products like target date funds (TDFs) must contain a mix of investments that takes into account the individual's age or retirement date and is similar to a managed account in that they are designed to become more conservative over time. TDFs differ from managed accounts in that TDFs are not tailored to a particular individual but are typically available in five- and ten-year age-bands and are mutual funds regulated under the Investment Company Act of 1940; meaning they are subject to federal regulatory and disclosure requirements (e.g., they are required to disclose their allocation strategies and explain their "glide paths" in prospectuses filed with the SEC). The broad applicability to multiple and changing plan demographics and transparency have made TDFs the most widely utilized QDIAs by plan sponsors.[13]

QDIA Policy Guide: Target Date Funds

SPECIAL CONSIDERATIONS

TDFs may have different investment strategies, glide paths and investment-related fees. Because these variances can significantly affect the way a TDF performs, it is important that fiduciaries understand some basic considerations when selecting a TDF for their plan. Indeed, due in part to their popularity and wide disparity in construction, in February of 2013, the DOL singled out TDFs in a Fact Sheet, entitled *"Target Date Funds—Tips for ERISA Plan Fiduciaries."*[14]

This *"QDIA Policy Guide: Target Date Funds"* reviews the DOL's most recent guidance to plan sponsors and outlines some best practices for selecting and monitoring TDFs for your plan.[15] To ensure you are meeting your fiduciary duties, you should consult with an experienced retirement plan consultant to help establish a policy that is appropriate for your plan and document the basis for selecting and monitoring your plan's TDFs.

As with any fiduciary decision, you should begin by developing an objective process to obtain information that will enable you to evaluate the pros and cons of the options available through your plan. The DOL guidance reminds plan sponsors to "[t]ake advantage of available sources of information to evaluate the TDF and recommendations you received regarding the TDF selection."[16] In other words, you must consider the source of any recommendations you rely on in making investment decisions for the plan and any conflicts of interest that may affect the objectivity of the advice.[17]

> "[Y]ou must consider the source of any recommendations you rely on…and any conflicts of interest that may affect the objectivity of the advice."

With respect to the selection process, the DOL guidance can generally be classified in the following areas: 1) Performance and Risks; 2) Fees and Expenses; and 3) Participant Considerations. Most of the information you will need to evaluate the first two categories can be found in the TDF's prospectus.[18] If the TDFs are invested in underlying funds, your process should include an evaluation of the TDF's performance and fees at each of the target date intervals as well as the underlying funds that make up the TDFs.

Performance and Risks

The shift in the asset allocation over time is called the TDF's "glide path." You should evaluate performance of the TDF along its glide path in terms of the risk taken to achieve the investment returns. Because, according to the DOL, "investments made on behalf of defaulted participants ought to and often will be long-term investments," it is critical to look beyond short-term performance when selecting a QDIA.[19] Your analysis should focus on the intended use of the TDF as a retirement savings vehicle designed to accommodate your participants' needs over each participant's entire investment time horizon. Given this background, and because most TDFs are designed using five-year age-bands, you should avoid placing much weight on performance over a period of less than five years.

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Changes in ownership or manager turnover can cause a fund to make changes in its investment style, so your process should look beyond the numbers and document your review of qualitative information. You should consider the tenure of the TDF portfolio and underlying funds' managers and investigate recent or proposed changes to the fund's operations.

Your selection process should consider the following questions:

- Do you understand the principal strategies and risks of the TDF, or of any underlying asset classes or investments that may be held by the TDF?
- Do you understand the fund's glide path, including when the TDF will reach its most conservative asset allocation and whether that will occur at or after the target date?

Fees and Expenses

Your process also needs to consider the fees and expenses of the TDF and its underlying funds against peer groups or appropriate benchmarks. The prospectuses will provide you with information about the TDF's expense ratio or operating expense, which can be generally classified as: 1) sales charges and/or commissions; and 2) management fees. Sales charges typically cover transaction costs for buying and selling funds, and management fees are ongoing charges for managing the assets.[20]

Where appropriate, you should evaluate the TDF's underlying fund fees and compare them against the average expense ratio of their respective peer groups. Any differences between the TDF expenses and the combined expense ratios of the underlying funds may require you to evaluate additional criteria to determine the reasonableness of the fees as a whole. It is important to remember that costs cannot be evaluated in a vacuum and that your process should focus on the value the TDF manager delivers to the plan and its participants.

> "…[Y]our process should focus on the value the TDF manager delivers to the plan and its participants."

For example, it may be that above average management fees are justified. Indeed, the DOL suggests that "[a]dded expenses may be for asset allocation, rebalancing and access to special investments that can smooth returns in uncertain markets..."[21] It is your responsibility as a plan fiduciary to understand the value associated with the TDF you select for your plan.

It is equally critical to avoid considering extraneous information when selecting a TDF. Many providers manufacture TDFs that are made available through their recordkeeping platforms. The fees associated with these proprietary TDFs may be used to offset other plan expenses provided by affiliates of the TDF manufacturer (e.g., recordkeeping, administration, etc.). It is important to evaluate each TDF using the same objective criteria in order to make an "apples-to-apples" comparison. Once you have determined a TDF is appropriate, then you can look at how it may or may not impact other services provided to the plan and the overall fees charged to participants. In other words, your process should compare TDFs to TDFs and recordkeeping to recordkeeping.

> "It is…critical to avoid considering extraneous information…[Y]our process should compare TDFs to TDFs and recordkeeping to recordkeeping."

Your process should address the following questions relating to fees and expenses:

- Are there any sales loads and are they reasonable in light of the value provided?[22]
- If the TDF invests in other funds, did you consider the fees and expenses for both the TDF and the underlying funds?
- If the expense ratios of the individual component funds are substantially less than the overall TDF, what services and expenses make up the difference?
- To the extent you received any third-party recommendations, will they (or their affiliates) be compensated more if you select a particular TDF?

Participant Considerations

While TDFs may come in five- or ten-year age-bands covering all ages of plan participants, there will be some that fit better with the specific demographics and behaviors of your participant population. For example, the most recent DOL Guidance makes specific reference to the fiduciaries' responsibility to evaluate the participants' withdrawal patterns when selecting a TDF.[21]

In your evaluation you should consider the following:

- Do participants typically cash out their investments at retirement? or
- Do participants stay invested in the plan and make periodic withdrawals during retirement?

Once you have answered this question, it is critical to know whether a target date fund's glide path uses a "to retirement" or a "through retirement" approach. A "to" approach reduces the TDF's equity exposure over time to its most conservative point at the target date. A "to" TDF may be more appropriate for participants who are expected to cash out of the plan at retirement.

A "through" approach, on the other hand, does not reach its most conservative point until some point after the target date, often many years later. These TDFs are generally for participants who do not withdraw all of their 401(k) account savings immediately upon retirement, but would rather make periodic withdrawals over the span of their retirement years.

Once you determine the most appropriate glide path option for your plan, you should look at additional participant-specific considerations that will affect the level of risk-taking, as TDFs can vary widely in terms of their allocations within a to or through glide path. Contribution rates and income ranges can serve as a proxy for risk tolerance, and access to supplemental retirement income (i.e., through a defined benefit pension plan) may dictate a less conservative TDF allocation for your participants.

You should consult with a knowledgeable plan consultant to help document the process used to evaluate risk tolerance along the TDF's glide path.

In examining the demographics and behaviors of your participants, you should consider the following questions:

- Are there any factors that would necessitate a less conservative TDF allocation at all or any of the target retirement dates?

While past performance does not guarantee future results, "backtesting" a TDF series against your actual participant population can help document the basis for your ultimate decision. In other words, you may want to answer the question:

- If our plan used this TDF series, how would our participants have fared over the past five years or longer, and are the results consistent with our estimate of their risk tolerances and investment objectives?

While the vast majority of TDFs are mutual funds regulated by the Investment Company Act of 1940, there may be more "custom" alternatives available to your plan (e.g., TDFs that incorporate the plan's existing funds). Alternatively, some plans may have access to "non-proprietary" TDFs that use unaffiliated underlying funds. While these funds might offer some degree of additional diversification, their success or failure will ultimately depend upon the TDF portfolio manager that selects the underlying funds.

When evaluating custom or non-proprietary alternatives to TDFs, you should consider the following questions:

- Does the plan have access to "custom" TDFs, which incorporate the plan's existing funds, and do the benefits of a custom TDF outweigh the costs?[23]
- Does the plan have access to non-proprietary TDFs where underlying investments are comprised of funds managed by fund managers other than the TDF provider and do the benefits of a non-proprietary TDF outweigh the costs?

If you decide that the benefits of a custom TDF strategy do not justify the additional cost, complexity or risks, you should document your consideration and decision to exclude custom or non-proprietary TDF alternatives.

Ability to Monitor

Because fiduciaries' duties do not end with the selection of investment options, you should determine your ability to monitor the funds on an ongoing basis before committing to a particular TDF. To effectively monitor your TDFs, you will need to periodically reevaluate each of the above-referenced considerations (i.e., performance and risks, fees and expenses, and participant characteristics).

Before selecting a custom TDF, you should consult with your plan consultant to determine how you will obtain information necessary to monitor the QDIA.

When evaluating the ability to monitor, you should consider the following questions:

- What information will you use to determine whether a TDF's investment strategy or management team changes significantly and warrants replacement?
- How will you monitor the TDF's effectiveness in carrying out its stated investment strategy?
- Is the information publically available or will it require you to hire additional expertise to collect and evaluate?
- Have you had fundamental changes in your participant characteristics that warrant a reexamination of your objectives for the TDF?

Keep in mind that ERISA does not require you to select the best performing or lowest cost TDF; it merely requires you to consider relevant information to make a well-informed decision. Your ability to monitor the TDF is critical to making informed decisions about when it may need to be replaced. You should document any limitations or concerns you may have in terms of obtaining information necessary to monitor the TDF.

Documenting Your Process

Once you have determined an appropriate TDF for your plan, you should document the selection process, including all of the information you considered and evaluated, and facts supporting the ultimate decision you make. The *Sample QDIA Policies* are designed to guide you through the process, but you will need to supplement your files with the information you considered.

You may want to begin by ruling out alternatives that are not a good fit or otherwise unavailable, too expensive or difficult to monitor. For example, you may describe the steps you took to determine that a managed to retirement glide path was appropriate for your plan (e.g., if you determined that most of your participants are expected to liquidate their savings at retirement) and describe why you did not further investigate the characteristics of available "through" retirement TDFs. At the end of the day, your process should document the options you considered and the basis for your decision to select a particular TDF.

Conclusion and Next Steps

TDFs can play a valuable role in helping fiduciaries manage risk while providing defaulted participants a well-diversified and age-appropriate vehicle from which to save for retirement. If you can demonstrate that you engaged in a prudent process to select an appropriate TDF for your plan, and you monitor the TDF on an ongoing basis, then the plan's fiduciaries will not be responsible for any investment-related losses suffered by participants that are defaulted into a TDF—provided the other conditions of QDIA relief are satisfied. You should consult with an experienced retirement plan consultant to review the *Sample QDIA Policies* and to create the necessary documentation to demonstrate that your choice of TDF was prudent based upon the needs of your participants and that it conforms with applicable rules and regulations.

1. In an effort to increase retirement savings, Congress passed the Pension Protection Act in 2006, which, among other things, provides incentives to employers to automatically enroll employees into the plan and direct a percentage of their paychecks into a Qualified Default Investment Alternative (QDIA). See also, DOL "Automatic Enrollment 401(k) Plans for Small Businesses" available at: http://www.dol.gov/ebsa/publications/automaticenrollment401kplans.html.

2. See 29 CFR Part 2550 "Default Investment Alternatives Under Participant Directed Individual Account Plans; Final Rule" (October 24, 2007), ("29 CFR Part 2550 Final Rule"), available at: http://www.dol.gov/ebsa/regs/fedreg/final/07-5147.pdf.

3. Other conditions include:

- Before the contribution is deposited, the participant must receive a notice describing the automatic enrollment process, and a similar notice is required to be sent annually thereafter;
- The participant does not provide investment direction;
- The plan passes along to the participant material related to the investment, such as prospectuses; and
- The participant is given the opportunity periodically to direct his or her investments from the default investment to a broad range of other options.

See 29 CFR Part 2550 "Default Investment Alternatives Under Participant Directed Individual Account Plans; Final Rule" (October 24, 2007), available at: http://www.dol.gov/ebsa/regs/fedreg/final/07-5147.pdf.

4. See, e.g., DOL Field Assistance Bulletin No. 2008-03, "Guidance Regarding Qualified Default Investment Alternatives" (April 29, 2008), available at: http://www.dol.gov/ebsa/regs/fab2008-3.html; and DOL Fact Sheet, "Target Date Retirement Funds—Tips for ERISA Plan Fiduciaries" (February 2013) ("DOL Fact Sheet"), available at: http://www.dol.gov/ebsa/newsroom/fsTDF.html.

5. See 29 CFR Part 2550 Final Rule and ERISA Section 3(21).

6. Franklin Templeton based on U.S. Department of Labor, *Meeting Your Fiduciary Responsibilities*; http://www.dol.gov/ebsa/publications/fiduciaryresponsibility.html. See also, ERISA Section 404, Donovan v. Mazzola, 716 F.2d 1226 (9th Cir. 1983), and Leigh v. Engle, 727 F.2d 113 (7th Cir. 1984).

7. See ERISA Section 409.

8. Plan assets can be used to pay for services that are necessary for the operation of the plan so long as the costs are reasonable. See ERISA Section 408(b)(2).

9. According to the DOL, "The duty to act prudently is one of a fiduciary's central responsibilities under ERISA. It requires expertise in a variety of areas, such as investments. Lacking that expertise, a fiduciary will want to hire someone with that professional knowledge to carry out the investment and other functions." DOL, "Meeting Your Fiduciary Responsibilities" available at: http://www.dol.gov/ebsa/publications/fiduciaryresponsibility.html.

10. More information on QDIAs is available in the DOL publication "Automatic Enrollment 401(k) Plans for Small Businesses" available at: http://www.dol.gov/ebsa/pdf/automaticenrollment401kplans.pdf.

11. "Only 3.6% of plans offer managed accounts ["MAs"], and plans using MAs as a QDIA have dropped from 7.2% in 2010 to 1.2% in 2012. Overall, less than 2% of all DC assets are in managed accounts. Consultants cite several reasons for their reluctance to recommend MAs compared to other managed investment products (such as TDFs): cost (averaging 35-60 BPs on top of underlying investments); value compared to other options; need for participant interaction; and lack of success measurement." Fred Barstein, "Managed Accounts Losing Traction" (July 25, 2013) available at: http://www.napa-net.org/news/plan-optimization/managed-accounts-losing-traction/?id=5686&tkn=703353142506af4eca3103&mqsc=E3580631&utm_source=WhatCountsEmail&utm_medium=NAPA_List+Napa-Net%20Daily&utm_campaign=NAPA%20Net%20Daily.

12. See, e.g., Fred Barstein, "Managed Accounts Losing Traction" (July 25, 2013) available at: http://www.napa-net.org/news/plan-optimization/managed-accounts-losing-traction/?id=5686&tkn=703353142506af4eca3103&mqsc=E3580631&utm_source=WhatCountsEmail&utm_medium=NAPA_List+Napa-Net%20Daily&utm_campaign=NAPA%20Net%20Daily.

13. "At the end of March 2012, target date mutual funds had $425 billion in assets, including $305 billion held in defined contribution plans, and another $82 billion held in IRAs." Further, "[i]n 401(k) plans that offer target date funds, 53 percent of participants had at least some portion of their account in these funds." "ICI Comment Letter to DOL on the Results of SEC-Sponsored Investor Testing of Target Date Retirement Fund Comprehension and Communications" (July 9, 2012), available at: http://www.ici.org/pdf/26287.pdf.

14. See DOL Fact Sheet.

15. The DOL Guidance also discusses the importance of employee communications concerning the risks and benefits of investing in a TDF. In addition to the new participant-level disclosure regulation (codified at 29 CFR § 2550.404a-5), the DOL stated that it is "working on regulations to improve the disclosures that must be made to participants specifically about TDFs" and instructs plan fiduciaries to check EBSA's website for updates on regulatory disclosure requirements. See DOL Fact Sheet. See also, DOL, "Investor Bulletin: Target Date Retirement Funds" (May 6, 2010) available at: http://www.dol.gov/ebsa/pdf/TDFinvestorbulletin.pdf.

16. See DOL Fact Sheet.

17. Service providers are now required to provide written disclosures to plan sponsors that, among other things, specify the amounts, nature and sources of compensation (including non-monetary incentives) received in connection with the services it provides (directly and through its representatives) to retirement plans. In certain circumstances, they must also disclose any compensation shared among related parties. Final Rule at p. 5655 (29 CFR 2550.408b-2, "Reasonable Contract or Arrangement" Under Section 408(b)(2)—Fee Disclosure (February 3, 2012), available at http://www.gpo.gov/fdsys/pkg/FR-2012-02-03/pdf/2012-2262.pdf#page=25). If you receive recommendations from one of the plan's service providers in the process of evaluating TDFs, you should refer to the most current disclosures to determine whether an actual or potential conflict of interest exists. If so, you do not necessarily have to disregard the recommendation, but you should assign appropriate "weight" to it and document your independent, objective rational for selecting a particular TDF.

18. There are two kinds of prospectuses: (1) the statutory prospectus; and (2) the summary prospectus. The statutory prospectus is the traditional, long-form prospectus with which most mutual fund investors are familiar. The summary prospectus, which is used by many funds, is just a few pages long and contains key information about a fund.

Both kinds of prospectuses contain important information, including the fund's:

- investment objectives or goals,
- strategies for achieving those goals,
- principal risks of investing in the fund,
- fees and expenses, and
- past performance.

Investors can find more detailed information in the statutory prospectus, including information relating to the fund's investment advisers and portfolio managers and details on how to purchase and redeem shares.

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19. See Overview of Final Rule at p. 60463 (29 CFR 2550.404c-5).

20. See DOL, "Understanding Retirement Plan Fees and Expenses" available at: http://www.dol.gov/ebsa/publications/undrstndgrtrmnt.html.

21. See DOL Fact Sheet, "Target Date Retirement Funds—Tips for ERISA Plan Fiduciaries" (February 2013), available at: http://www.dol.gov/ebsa/newsroom/fsTDF.html.

22. Sales loads may be charged when a participant invests in a fund (known as a front-end load) or when the fund is sold (known as a back-end load, deferred sales charge, or redemption fee). Oftentimes, these fees will be waived if a load mutual fund is included as an investment option in an employer-sponsored retirement plan or used to compensate the investment professional for selling and/or servicing the plan.

23. A custom TDF must be managed by the plan sponsor, a trustee or an investment manager. If you are not comfortable making asset allocation decisions and rebalancing, then you would need to hire an investment manager to create and maintain a custom TDF. It is important to factor in the additional fees paid to the investment manager as well as your ability to prudently select and monitor the manager (as opposed to a fund). See, e.g., above at p. 2 "Fundamentals of QDIA Selection."

Mutual fund investing involves risk including loss of principal. There can be no assurance that a fund will achieve its stated objectives. An investor in **target date funds** may experience losses, at any time, including near, at or after the fund's target year; there is no guarantee that an investor's investment in the fund will provide any income at or through the years following the fund's target year in amounts adequate to meet the investor's goals or retirement needs. **Asset allocation** may not protect against market risk, and investment in these funds are subject to the risks of the underlying funds.

Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call the Franklin Templeton Retirement Sales Department at (800) 530-2432 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.

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