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**Comments to the Department of Labor
In Response to the Request for Information on
Lifetime Income**

Submitted on April 15, 2010

**By
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Director

Geralyn M. Miller, Ph.D.

Thank you for the opportunity to submit this information pertaining to retirement savings in America in response to the Request For Information (RFI) that was issued on February 2, 2010. This testimony was prepared by Geralyn Miller and Carolyn Stumph, from the Doerner School of Business at Indiana University–Purdue University Fort Wayne. Geralyn Miller is an associate professor of Management and Marketing and the Founding Director of the Institute For Pension Plan Management at Indiana University–Purdue University Fort Wayne, and teaches courses in both the Department of Management and Marketing and the Department of Accounting and Finance. Carolyn Stumph is an assistant professor of Economics and is active in the Center for Economic Education.

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Although we need not point out that deteriorated economic conditions in the U.S. have forced us to concentrate, as a society, on how best to protect the financial well-being of all of our citizens, nowhere is that of greater importance than with regard to the elderly. We applaud your efforts in attempting to better understand the needs of all stakeholders by soliciting information related to this crucial topic.

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We respectfully submit to you two pieces of academic research. One is a work that was sole authored by Geralyn Miller and that has already been published in the peer-reviewed *Journal of Insurance Issues*. The other is one that we co-authored and which has been presented at the 2010 Midwest Business Administrators Association International Conference. This article will also be submitted to a peer-reviewed journal for potential publication. Both works are the result of scholarly objective research and contain information which we believe to be of crucial importance in consideration of future policy on retirement savings in the U.S. We provide a short overview of why we believe this to be the case.

The first published paper entitled, "Retirement Facilitators:" presents the results and discussion of a study into the impacts of social demographics across the states on the levels of two key existing retirement income sources, namely, social security benefits and annuities. The results demonstrate, quite clearly, that the variation in demographics across the states impacts the reliance on those two income sources. Analysis of a combination of data obtained from the U.S. Census Bureau, the Social Security Administration, and the American Council of Life Insurers (ACLI) indicate that the



larger the Hispanic population in a state, the lower the levels of reliance on those two income sources. Although data garnered from surveys have long indicated that Hispanics tend to have lower levels of retirement planning tendencies than other demographic groups, this is the first piece of research to validate those findings using existing hard data. These results underscore the importance of fully taking into consideration the variation that exists across the states with regard to the patterns of retirement savings and income sources, and to tailor efforts to enhance retirement savings accordingly. In our shared system of governance between the states and the national government, forging partnerships that make the most of the variation that exists make sense. A “one size fits all” approach to retirement savings may not enhance the current conditions, at all. In fact, it may be counterproductive.

The second work is an analysis of information on target-date funds which are hybrid mutual fund instruments that have a unique feature, called a glidepath, that is designed to enforce risk reduction as an individual approaches his/her retirement date. The study indicated the existence of market failure as a result of information asymmetry and monopoly power by five mutual fund families in the mutual fund industry. Questions #2 and #15 of the RFI relate directly to these points. Our research shows that individuals lack the financial market sophistication necessary to make optimal use of the options and instruments available to them. Furthermore, we believe these instruments are not being used as efficiently as they could be if they were to combine the glidepath feature with a sustainable annuity. In this way, retirement plan participants would not only be further protected from risk, but they would also have a built in income source upon reaching that retirement date.

The above comments should be taken in the context of the attached works. Again, we thank you for this opportunity to participate in this vital collection of information.

Retirement Facilitators: Policy Considerations for Increasing the Role of the States in Assisting with Retirement Savings

Geralyn M. Miller¹

Abstract: This paper investigates the impact of socioeconomics within states with regard to retirement income using the numbers of OASDI Social Security beneficiaries from the Social Security Administration, data on annuity premium levels from the American Council of Life Insurers, and state-level U.S. Census demographic data. In light of the beginning of the wave of baby-boomer retirements, changing economic conditions, and increased life expectancy, this is timely research. Findings from this study support previous research based on national survey data and indicate that specific demographics may have a significant impact on financial preparedness. Given the varied nature of the demographic compositions within the individual states, this may have implications for policy development involving an increased role for the states in the retirement savings arena.

INTRODUCTION

Retirement savings in the United States is becoming increasingly important to decision-makers across America, and with good reason. The ability of the Social Security Administration to sustain current retirement benefit levels in the United States for future generations of retirees has been the subject of social discourse and scholarly studies (Gonzalez-Eiras and Niepelt, 2008; Hakkio and Wiseman, 2006; Mitchell, Myers, and Young, 1999). While former generations of retirees in America enjoyed

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benefits under the national Social Security system, future generations may find themselves in a very different posture if the conventional wisdom is to be believed. The commissioner of the Social Security Administration warns of this in statements sent out to those future retirees:

For decades, America has kept the promise of security for its workers and their families. Now, however, the Social Security system is facing serious financial problems, and action is needed soon to make sure the system will be sound when today's younger workers are ready for retirement.

In 2017 we will begin paying more in benefits than we collect in taxes. Without changes, by 2041 the Social Security Trust Fund will be exhausted and there will be enough money to pay only about 78 cents for each dollar of scheduled benefits. We need to resolve these issues soon to make sure Social Security continues to provide a foundation of protection for future generations.²

Private pension provision, in light of the potential difficulties facing social security, appears to be a more important source of income for senior citizens than ever before. As economists and policy scholars debate ways in which to optimally provide for retirees, one particularly innovative proposal that has surfaced is to increase the role of the individual states in helping workers maximize retirement savings. Advocates of this policy envision the states as facilitators acting in partnership with private plan providers to assist small business employees and owners in pooling their efforts in the retirement savings and investment market (Iwry, 2007).

The purpose of this paper is not to judge the merits of such a system, but instead to assist in building a better foundation of knowledge on retirement savings behavior within the states in order to better inform the public debate. The more specific the knowledge we hold, the lower the likelihood that there will be unintended consequences created by policy changes. This is important because, as Cole, McCullough, and Paris, (2006) demonstrate, policies meant to create more efficient pension plan management can have adverse consequences for workers. At this point, most knowledge on retirement savings behavior centers on the national level because that is where regulation of private pension plans has taken place. A literature review yielded virtually no findings on any studies pertaining to retirement savings and/or planning activity that specifically focus on

² See: Astrue (2008: 1). The basic verbiage has varied across statement mailings to retirees over time due to [updated] data regarding when funds would be exhausted, deficit cents per dollar scheduled benefit and other pertinent information.

the states. Furthermore, a review of textbooks on American state and local politics indicates only a cursory overview of state public pension systems (see, e.g., Donovan, Mooney, and Smith (2009) and Gray and Hanson, 2007). So, while increasing the role of the states may turn out to be a very good idea, building a specific policy around that idea depends upon this type of foundational knowledge.

Many people supplement their Social Security income with additional savings when they retire. The Investment Company Institute estimates that Americans held over \$3.0 trillion in 401(k) plans last year, up from \$2.8 trillion in the previous year.³ Yet, since Congress has placed increasing responsibility for the accumulation of retirement wealth on individual citizens, people are faced with the difficulty of choosing from complex sets of investment options. Research indicates that Americans generally have very little knowledge about how those options can alter the amount of money they accumulate (Gustman and Steinmeier, 2005; Lusardi and Mitchell, 2007). Some plan more than others do. What we do not know is whether the financial planning behaviors identified in national studies vary across the states, in similar ways. This is an important consideration for policy planning scholars advocating state involvement since a "one-size fits all" policy might not work. This study tests for the impact of specific internal state demographic variables on two separate retirement income sources: annuities and Social Security benefits.

THEORETICAL CONSIDERATIONS

Providing for the elderly has largely concentrated in four domains: labor, assets, family, and charity. Passage of the Social Security Act in 1935 was the result of an inability to meet societal demands through the existing models of provision across those four domains and from attempts at informal provisions systems, which included a weak system of state-based elderly income.⁴ The inception and growth of the Social Security Administration's benefits significantly reduced poverty among the elderly (Engelhart and Gruber, 2006).

While present-day retirees are living more comfortably than their predecessors, some economists believe this may not continue. Not every-

³The U.S. Retirement Market, 2006, available online at www.ici.org/pdf/fim-v16n.3.pdf, provides detailed information on the methodology, data sources, and interpretation of the Institute's reports on retirement assets.

⁴The Social Security Administration provides a historical overview of retirement income provision on its website at www.ssa.gov/history/briefhistory3.html.

one relies solely on Social Security benefits. Many people in the United States have built up retirement income through separate retirement savings garnered in large measure through their years of employment. Public pension plans, for instance, have covered federal, state, and municipal employees, along with the contributions they have made to Social Security. Trade unions and many private employers have provided retirement benefits to their workers. Most commonly, many of these workers were provided a lifetime specific level of income through defined benefit (DB) plans. Retirement plans have recently moved away from DB plans in favor of defined contribution (DC) plans that are, essentially, managed investment savings plans. But DC plans do not necessarily guarantee a lifetime income, and the sharp rise in their usage in the 1980s and 1990s (Munnell, Cahill and Jivan, 2003) may be cause for concern. The large numbers of baby boomers about to retire coupled with increased longevity may result in insufficient lifetime incomes for large numbers of people (Orth, 2006). Furthermore, fewer private employers than in the past are providing pension plans, which may be a result of the growing administrative burdens placed on them by government regulators (Clark and McDermed, 1990; Purcell, 2002).

The United States is governed by complex, multilevel decision-making that varies from one state to another. Nebraska, for example, has a unicameral form of legislature, while the other 49 states have bicameral forms. Obviously, unique considerations led the people of Nebraska to choose a different form of government than all other states. Policy-making in the individual states, therefore, is subject to the composition of unique demographic factors within each state.

Scholars have demonstrated that state policy-making is strongly influenced by the culture that characterizes a state, which is generally influenced by its geographic location (Elazar, 1984).⁵ Political culture is inherently about shared beliefs and values within and across groups by virtue of the influence of public opinion (Eriksen, Wright, and McGiver, 1993). Boeckelman (1991) has demonstrated that culture interacts with other factors in influencing state policies, lending credence and sustainability to the earlier work of Kinkaid (1982), who argued that the two are intricately connected. Subsequent studies (e.g., Hanson, 1992 and Norrander, 2001) provide support for Elazar's argument as well as for its

⁵Elazar argued that the citizens of the United States share a culture that is built upon three sub-cultures, which he labeled moralistic, individualistic, and traditionalistic. These three subcultures were based, he argues, in migration patterns of the early settlers who deposited their political beliefs and values unevenly across the country. He believed that current differences across the country can be traced to the influences of those early settlers.

endurance as a classification scheme. Public policy-making does not take place in a void; it is subject to the environment in which it is crafted.

A host of demographic variables affecting state policy-making activities and outcomes has been identified over the years. Changes in population size and patterns present both opportunities and challenges for state policy-makers over time. More heavily populated states face different sets of challenges than their more sparsely populated counterparts. The challenges are usually welcomed in those states that experience growth, but not so for those states in which population declines and tax dollars become further constrained. Scarce resources, after all, breed conflict. The farther scarce resources must stretch, the greater the likelihood that conflict will occur.

Dye (1966) found that wealth and education level were important in explaining differences in spending across the states. The greater its internal resources and the higher its median income level, the more a state will spend on programs for its residents. Race has been shown to be an important factor in a number of policy areas, including the retirement arena, where it has been linked symbolically with Social Security in social discourse (Winter, 2006). Ethnic minority populations, such as Hispanics, Asians, and Native Americans, tend to be concentrated in specific states and, therefore, impact the policies of those states more than others. Furthermore, the concentrations vary by ethnicity. The burden of service provision to large populations of immigrants generally falls on the shoulders of the states and becomes a contentious issue in border states such as Texas, Arizona, and New Mexico, which seek solutions to the tide of illegal immigration. This is cause for concern in light of evidence that minorities may accumulate less retirement wealth with the shift toward defined contribution plans (Even and MacPherson, 2007). A 2005 report published by the National Council of La Raza indicates that although the vast majority of Hispanic workers pay into the Social Security system, they receive disproportionately fewer benefits from that system than their white and African American counterparts (Grillo-Chope and Rodriguez, 2005). Additionally, the report indicates that there is also a sizeable group of workers who, by virtue of the types of jobs in which they are employed, are ineligible for contributing into social security under current rules. Those workers are totally dependent upon their own savings for retirement.

Gender also has been linked to policy-making at a variety of levels, from the sub-national level to the international level of microeconomic policy-making, with regard to monetary concerns (Scheve, 2004). Both race and gender have grown in importance in the field of American state politics and policy over the years (Brace and Jewett, 1995). In the field of scholarly inquiry into American economics, race and gender have been accepted as

important public policy factors for quite some time, resulting in a voluminous body of research amassed over the years.

Age is another component of population that varies considerably across the states and can affect state policies. In general, the number of seniors is growing in the United States. Some seniors age in place, while others, mainly the more affluent retirees, are attracted to states with warm climates in the south and southwest. Florida, for instance, has long been a haven for affluent retirees; real estate developers have capitalized on the disposable income within this particular population with elder community-respndent with gated security, lavish golf courses, swimming pools, and tennis courts. In states where less affluent retirees tend to retire in place, concern is growing among decision-makers who fear economic decline from the growing numbers of less well-off seniors. The aging populations in some states, such as Minnesota, have contributed to a shortage of skilled workers, which ultimately negatively impacts the state's economic condition (Shaw, 2007). Most states have programs that provide supplemental security income to the elderly, but the levels of benefits provided under those programs, while varying across the states, has traditionally been quite low.

In addition to their importance as determinants in state policy-making, demographic variables have been demonstrated to significantly influence retirement planning and accumulation of wealth intended for retirement (e.g., Chen and DeVaney, 2002 and DeVaney and Zhang, 2001). Lusardi and Beeler (2007) found that accumulation of wealth was positively associated with planning preparedness and that non-planners were disproportionately concentrated among minority populations, specifically black and Hispanic. They argue that policies designed to stimulate savings should be targeted to groups least likely to plan for retirement. This work provides insight as to their impact on retirement income within individual states using two separate vehicles of retirement income.

DATA AND METHODS

Data used for this analysis came from several sources. Annuity premiums by state were obtained from the *Fact Book* published annually by the American Council of Life Insurance (ACLI) using information collected by the National Association of Insurance Commissioners (NAIC) from insurance carriers across the country. The numbers of OASDI/Social Security beneficiaries by state were obtained from the Social Security Administration. Remaining demographic data for the states came from the U.S. Census Bureau's *American Factfinder* website. All data were from 2002 through

$$\gamma = a + b_1 + b_2 + b_3 + b_4 + b_5 + b_6 + b_7 + b_8 + e$$

where: γ = Annuity premium levels or OASDI beneficiary numbers; b_1 = Household income; b_2 = Numbers of whites between the ages of 30 and 74, inclusive; b_3 = Numbers of blacks between the ages of 30 and 74, inclusive; b_4 = Numbers of Native Americans and/or Alaskan Natives between the ages of 30 and 74, inclusive; b_5 = Numbers of Asians between the ages of 30 and 74, inclusive; b_6 = Numbers of Hispanics between the ages of 30 and 74, inclusive; b_7 = Numbers of males between the ages of 30 and 74, inclusive; b_8 = Numbers of females between the ages of 30 and 74, inclusive; and e = A normally distributed error term based on the logarithm of γ .

Autocorrelation appeared to be a problem in attempting to analyze this dataset because the Durbin-Watson test result was 1.85. A value of 2.0 would indicate the absence of autocorrelation. Given that potentially high error term, dependent variables were transformed into their log values and interpretations were based on the results of that linear regression model. Independent variables included were median household income, total population, percent of population groupings by race and ethnicity (white, black, Native American, and Hispanic), percent of males and females between the ages of 30 and 74, percentage of high school graduates, and political culture of the states using Elazar's political culture classification.⁶ The relationships between the two dependent variables, annuity premium levels and OASDI beneficiary levels, and the socioeconomic variables are denoted by the following equation,

Annuity products have been a part of the retirement savings landscape for thousands of years, dating back to the Roman Empire. They have been an accepted retirement savings vehicle in the United States beginning with

⁶The likelihood of purchasing an annuity before 30 years of age or after 74 years of age is considerably less than in those years in between, and for purposes of specificity, the data included are constrained to this age frame.

⁷Regression results for the models using nominal independent variable data indicated significant results similar to as these models, but are not included in this write-up. They are, however, available upon request.

the U.S. Government's policy of selling annuities to Native Americans in exchange for their lands.⁸ These products are an integral part of the retirement savings portfolios of citizens across the states and can be used as a measure of the savings retirement pattern (Warshawsky, 2001). In spite of this, annuities are not a preferred means of retirement, accounting for a small percentage of retirement savings. Still, with the advent of newer annuity products in recent years, such as flexible annuities, they seem to be growing in popularity once again (Brown and Poterba, 2006).

Another measure of retirement income is the benefit received from the OASDI age-related portion of the Social Security Administration. Given the rather limited purchase of annuities in the U.S. retirement savings realm and, conversely, the heavy reliance on Social Security, the socioeconomic variables were tested against the numbers of beneficiaries across the states receiving the OASDI age-related payments. Jointly, annuity premiums and Social Security receipts give us a clear view of the patterns of reliance on retirement support vehicles. The impact of these socioeconomic variables on public policy-making decisions at the state levels can provide insight into what considerations in a state enhance or detract from its citizens' retirement savings behavior. In testing for the influence of socioeconomic variables on retirement savings patterns, guided by the existing theory, the expected impacts on the dependent variables are presented in Table 1.

EMPIRICAL RESULTS

There is a good deal of variation across the states with regard to socioeconomic variables and levels of premium collected from the sale of annuities and social security benefits. For example, the percentage white population in the 30-74 age bracket may range as much as 70 percent across individual states, while the Native American/American Eskimo percent population ranges by only 12 percent. The percentage of males and females in the states varies by only 4% with a mean of .49 and .51 for males and females, respectively. Table 2 demonstrates that while there is certainly variation in most of the variables, both dependent and independent, that variation is fairly constant across the years of study. An ANOVA test revealed that the only significant differences were in household income, which has gone up as expected. There were no significant differences for any of the other variables over the four years.

⁸For a collection of historical accounts of annuities, visit the Annuity Museum at www.immediateannuities.com/annuitymuseum/.

Table 1. Expected Outcomes

Significant contributors to increases in annuity premiums	Significant detractors from increases in annuity premiums	Significant contributors to increases in numbers of OASDI old-age benefits	Significant detractors from increases in numbers of OASDI old-age benefits
Median income	-	-	Median income
Percentage of high school graduates	-	Percentage of high school graduates	-
Percentage of whites and Asians	Percentage of Hispanics, African Americans, and Native Americans/Alaskan Natives	Percentage of whites and Asians	Percentage of Hispanics, African Americans, and Native Americans/Alaskan Natives
Percent of men	Percent of women	Percent of men	Percent of women

Table 2 demonstrates a more specific view of the variation across the states. Hawaii consistently ranked the lowest in population of 30- to 74-year-old whites, while Maine and Vermont had the highest levels. Vermont, Maine, and West Virginia had the lowest populations of 30- to 74-year-old Hispanics, while New Mexico consistently had the highest population. It is important to keep in mind that since this dataset represents only four years, it has some distinct limitations that a longer period of time would eliminate. The range of the two dependent variables, annuities (as percentage of this age group) and OASDI benefits, displays a frequency pattern in the states as well. Annuity premiums were lowest in Mississippi, Montana, New Mexico, and Texas; they were highest in the District of Columbia and Delaware. Social Security benefits were lowest in the District of Columbia which, interestingly, is where the percentage of annuity premiums was the highest. The highest levels of Social Security benefits are found among nine states—Idaho, New Hampshire, North Carolina, Oregon, South Carolina, South Dakota, Tennessee, Vermont, and Wisconsin.

Results of the two regression models are displayed in Table 3. These results were both expected and surprising. As indicated earlier, median income was expected to be a significant contributor to increasing the annuity premium levels and would, conversely, detract from the OASDI levels. This was the case, with a significant and positive t-value of 7.032 on the logged annuity premium levels and a significant negative t-value of -2.513 on OASDI benefits paid out in these four years. The variables for education (percentage of high school graduates) and region (using a

Table 2. Descriptive Percentages Across the States

VARIABLES	2003			2004			2005			2006			All four years		
	Range	Mean	SD	Range	Mean	SD									
Dependent															
Annuity premiums (millions)	29,251	5,362	6,215	28,468	5,487	6,099	27,993	5,208	5,848	33,830	5,990	6,865	33,948	5,512	6,229
SSI beneficiaries (% of +65 year old population)*	20.3	92.3	3.5	19.6	92.3	3.6	20.4	91.8	3.9	23.9	93.22	4.2	23.9	92.4	3.8
Independent															
Household income	24,012	43,172	6,205	23,072	42,666	5,994	28,604	45,755	7,272	32,409	48,038	7,425	34,355	44,908	7,043
Education	31.3	26.7	5.6	30.4	27.2	5.4	31.8	27.4	5.8	33.2	27.6	6.0	34.0	27.2	5.7
Whites	.70	.82	.14	.69	.81	.14	.69	.81	.14	.68	.80	.14	.70	.81	.14
African-Americans	.56	.10	.11	.55	.10	.11	.55	.10	.11	.54	.01	.11	.56	.01	.11
Asians	.47	.03	.07	.47	.03	.07	.47	.01	.07	.45	.04	.06	.47	.04	.06
Native Americans	.12	.01	.02	.11	.01	.02	.12	.01	.02	.12	.01	.02	.12	.01	.02
Hispanics	.38	.07	.08	.38	.07	.08	.38	.07	.08	.39	.08	.08	.39	.07	.08
Males age 25 through 69	.04	.49	.01	.04	.49	.01	.04	.49	.01	.04	.49	.01	.04	.49	.01
Females age 25 through 69	.04	.51	.01	.04	.51	.01	.04	.51	.01	.04	.51	.01	.04	.51	.01

*Not including disability beneficiaries.

Table 3. Lowest and Highest Percentages of Variables Across the States

Variables	Year	Lowest states (Value)	Highest states (Value)
Annuity premiums	2003	MS, MT, NM (<0.00)	DC, DE (0.01)
	2004	MS (<0.00)	DE (0.01)
	2005	MS, TX (<0.00)	DE (0.01)
	2006	MS (<0.00)	DC, DE (0.004, 0.005)
	2003	DC (77.3)	NH (97.6)
	2004	DC (77.3)	NH (96.9)
SSI beneficiaries	2005	DC (76.3)	WI (96.7)
	2006	DC (75.7)	ID (99.6)
	2003	HI (0.28)	ME (0.97)
	2004	HI (0.28)	ME (0.97)
Percent white	2005	HI (0.28)	ME (0.97)
	2006	HI (0.29)	VT (0.97)
	2003	ID (<0.00)	DC (0.56)
Percent black	2004	ID (<0.00)	DC (0.55)
	2005	ID (<0.00)	DC (0.55)
	2006	ID (<0.00)	DC (0.54)
	2003	WY (<0.00)	HI (0.47)
Percent Asian	2004	MT (<0.00)	HI (0.47)
	2005	WY (<0.00)	HI (0.47)
	2006	ND, SD, WY (<0.00)	HI (0.45)
	2003	CT (0.03)	AK (0.12)
Percent American Indian/Alaskan Native	2004	CT (0.03)	AK (0.11)
	2005	CT (0.033)	AK (0.12)
	2006	CT (0.03)	AK (0.12)
	2003	VT (0.01)	NM (0.38)
Percent Hispanic	2004	ME, WV (<0.00, 0.01)	NM (0.38)
	2005	WV (<0.00)	NM (0.39)
	2006	WV (0.01)	NM (0.39)

Table 4. Results of Regression Analysis for Two Models

Independent variable	Annuity premiums $r^2 = .83$		OASDI beneficiaries $r^2 = .33$	
	Coefficients (S.E.)	t-values	Coefficients (S.E.)	t-values
Household income	1.50E-005*** (.000)	7.032	-4.29E-007** (.000)	-2.513
White	-1.42E-007 (.000)	-.552	-2.76E-008 (.000)	-1.337
Black	-2.41E-007 (.000)	-.854	-4.60E-008* (.000)	-2.033
American Indian/Alaskan Native	3.61E-007	.508	-1.42E-007* (.000)	-2.490
Asian	-5.66E-007 (.000)	-1.428	-5.41E-008 (.000)	-1.702
Hispanic	-4.69E-007*** (.000)	-5.553	-2.41E-008*** (.000)	-3.570
Male	5.59E-007 (.000)	1.405	1.22E-007*** (.000)	3.836
Female	2.25E-007 (.000)	.457	-5.25E-008 (.000)	-1.331
(Constant)	2.308 (.099)		1.985 (.008)	

***statistically significant at .001 level (two-tailed)

**statistically significant at .01 level (two-tailed)

*statistically significant at .05 level (two-tailed)

dummy variable for southern states) were significant and positive, but because of issues of multicollinearity, they were dropped from the model.

The relative percentages of whites and Asians were expected to have a significant and positive impact on the sale of annuities but a negative impact on OASDI beneficiary levels. This was not the case; the variable for percentage of whites indicated a negative, but insignificant, impact on annuity premium and OASDI beneficiary levels. This was true for the variable representing percentage of Asians as well.

As hypothesized, with regard to the remaining variables, the results were mixed. For instance, effects of the percentages of members of the remaining three minority groups tested—African Americans, Hispanics, and Native Americans/Alaskan Natives—varied. Though it was hypothesized that each of these variables would have significant negative impact

on both of the dependent variables, it was true only for levels of Social Security beneficiaries. In terms of annuity premium levels, only the variable for percentages of Hispanics was significant and negative.⁹

Finally, gender is significant in terms of Social Security only for men with regard to OASDI. Higher percentages of women in the states neither contribute to nor detract from annuity premium levels or the numbers of OASDI beneficiaries. This stands to reason, since there have always been more men than women in the workforce, particularly in positions eligible for Social Security benefits. Remembering that these variables were constrained by age (30 to 74), it appears that men are the main purchasers of annuities.

National studies using survey data have indicated that socioeconomic considerations are important with regard to retirement planning and preparedness. This research lends further credence to those studies in that the data used in this study are hard data, not gleaned from surveys that may be inherently problematic. It is important to know that income is a significant determinant within the states with regard to financial behavior involving retirement because it further generalizes that national findings. Although the results were mixed for the other variables—specifically ethnicity and gender—the significance found in this dataset indicates that these are important considerations at the state level and that state policymakers need to pay close attention to them in anticipating future policy demands.

DISCUSSION

Ample evidence from financial behavior studies indicates problems in how well American citizens plan for their retirement years. Furthermore, state policy scholars provide convincing arguments that state socioeconomic conditions are important components in policy-making. These two bodies of literature, when taken together, provide a strong base of knowledge for a better understanding of retirement income and public policy direction. Indications from this research point toward potential problems in the not-too-distant future in accommodating the needs of the elderly.

Before enacting a blanket state facilitation of private pension provision, decision-makers are well advised to consider the unique demographic patterning within each state. Some states may face burdens in even

⁹It is interesting to note that the variable representing percentages of Hispanics was significant in both the auto-correlated model and the model with transformed dependent variables.

considering such a policy plan, where other states would not. This may help to explain why some states struggle to maintain healthy funding levels in their public pension plans while others appear to have no such difficulty. For example, Rhode Island and West Virginia have funding problems with their public pension systems that may require, at least in the case of Rhode Island, that taxpayers make up the deficit.¹⁰ Although Iwry (2007) argues that the states' expertise in the administration of pension planning is good reason for involving them, this may not be true for all states. The fact that states are responsible for the administration of their own public pension planning is not a guarantee that their efforts are efficient and productive.

Another consideration is the interstate impact of intrastate policy. Lessons learned from the "welfare magnet" scholars demonstrate the effects that policy-making in one state can have across other states in the process of economic competition (Peterson and Rom, 1990). While it is impossible to predict with complete accuracy how policy-making will take shape, decision-makers should anticipate problems that will create demands on the states and develop solutions based on predictive models. Given that Hispanics constitute one of the two fastest-growing populations in the U.S., and that as a group they are inclined to under-plan for retirement and lack opportunity to access Social Security benefits, state and national decision-makers need to be concerned.

These findings are not absolute; there is much work to be done in understanding how socioeconomic compositions in the states affect policy-making, particularly with regard to planning for their citizens' retirement needs. This is a first attempt to identify the conditions favoring a storm brewing on the horizon. Future research must drill deeper into the socioeconomic layers to better understand the behavioral processes that affect policy outcomes. At a minimum, decision-makers in and across the states should be aware of the potential problems and consider how various types of policies might alleviate the problems. Perhaps it is as simple as providing retirement products providers (both public and private) a platform for the inevitable discussion if the potential problems become a reality. One thing is clear: retirees will constitute a force to be reckoned with, given their numbers. States can be pro-active by taking steps to better understand socioeconomic impact on retirement savings and craft policies that will alleviate potential economic burdens and accommodate the changing needs of their citizens.

Since the passage of the McCarran-Ferguson Act of 1945, the regulation of insurance products has generally been left to the states. The desir-

¹⁰Peoples, S (2007) R.I. ranks second-to-last in public pension financing (*The Providence Journal*, December 23, B-01.)

ability of specific retirement savings products, such as annuities, is subject to the cultures and politics of each state. The National Association of Insurance Commissioners reports that "Washington lobbyists have pushed for a federal insurance charter and a new regulatory regime in Washington that would diminish or supplant successful and effective state-based consumer protections."¹¹ The stage is set for a heated debate as to where the most effective regulatory oversight of retirement savings mechanisms can and will exist. Future policies depend upon who will be seated at the table for that debate. Clearly, a uniform national policy may result in differing economic conditions within individual states. We could end up seeing a recurrence of the "magnet" effect that occurred when welfare policies emanated from the national government, but this time centered on retirement savings policies.

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¹¹See: National Association of Insurance Commissioners, *Proposed Federal Insurance Regulation*, available online (as of 7/10/08) at www.naic.org/topics/topic_federal_insurance_regulator.htm.

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Removing the Emperor's New Clothes: What Do We Really Know about Target-Date Funds?

Abstract

While the pension fund industry maintains that it is a competitive market and, as such, should remain free from regulatory oversight, the consensus of the academic literature is that this industry is anything but competitive. One of this industry's recent trends in retirement savings products is known as target-date funds (TDFs). These funds claim a self imposed discipline of risk reduction as the retiree approaches some pre-determined date. However, these funds are essentially mutual funds with a twist and are not perfect retirement instruments. In this paper, some standard definitions of market failure are applied to the pension fund industry. This issue is further examined through the use of the technique of content analysis. The goal of the research is to highlight the pitfalls of seemingly "safer" investment vehicles for retirees.

JEL classification: G01, G23, G28

Keywords: Pension Funds, Government Regulation, Agency Costs

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I. Introduction

America's greatest economic crisis since the Great Depression has hit at the worst possible time for retirees. The first baby boomer applied for Social Security benefits in 2008 in what is expected to be the largest wave of retirees in the history of the country. Furthermore, those retirees will probably live longer than any other cohort of retirees has in the past as our life expectancy increases. As consumer costs rapidly escalate, retirees must make their reduced income dollars stretch farther than they ever anticipated having to stretch them.

Just as the first of these baby boomers begin to retire, though, the Conference Board's Consumer Confidence Index has taken a serious downturn. In February of 2009, Consumer Confidence had fallen to 25%, down from 37.4% the previous month to its lowest point since the inception of the Index in 1967. While consumer confidence rebounded substantially in the spring, it was down again in June. It is safe to say that Americans truly believe the country is in economic trouble. Not since the early part of the 20th century have we depended so heavily on our governmental decision makers to find a means of righting things, to shepherd us through the storm in which we find ourselves. It is imperative, therefore, that those in key decision making roles have as much of a foundation of factual knowledge at their disposal as is humanly possible to help them arrive at as optimal a solution as is possible in a republican form of democracy.

Fifty years ago, the most prevalent form of pension plan was the defined benefit plan. An employer promised a worker a given level of income upon his or her retirement from the organization. That benefit would be sustained for the remaining lifetime of that worker and was often passed on to the surviving spouse in a decreased form for the duration of the spouse's lifetime upon the death of the worker. So prevalent was the defined benefit plan that it became synonymous with the concept of pension in the minds of most Americans. Over the course of

the past several decades, though, the defined benefit plan has given way to a newer form of pension plan, the defined contribution plan. This type of plan operates much like a savings plan in that the monies available to people when they retire vary by individual. These personal retirement accounts come in several different forms but essentially all rest on a foundation of specific asset accumulation strategies. They are also affected by a variety of factors within their operating environments such as market forces, management perspectives, and the financial sophistication of individual participants.

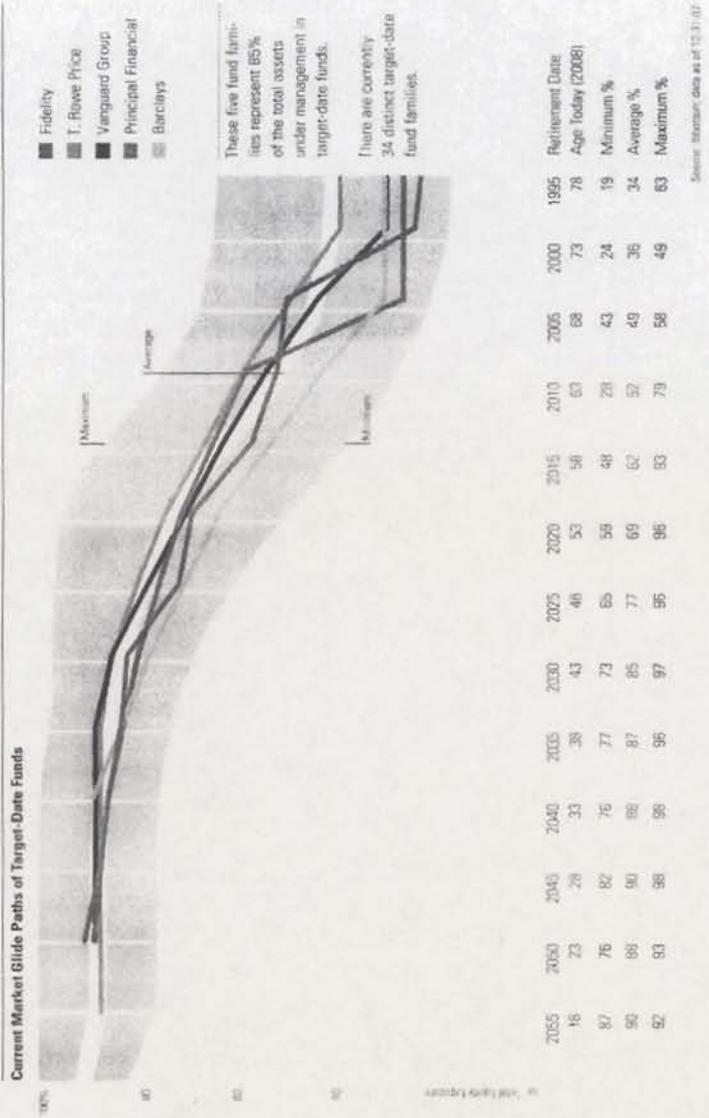
As the individual retirement account has become more prevalent among employer sponsored plans, it has also evolved from its humble beginnings into a myriad of complex instruments that are largely misunderstood by the average participant. While healthy economic conditions fostered the growth of the individual retirement savings account, along with growth in asset accumulation in the 1990's, the recent economic downturn has caused concern about the ability of these types of instruments to sustain the livelihoods of retirees who are increasingly dependent upon them. In an effort to alleviate those concerns, much attention is being given to a relatively newly emerging trend in retirement savings products. These products, which may be marketed as being safer than traditional retirement savings alternatives, are known as target-date funds (TDFs). Because of the illusion of fiduciary responsibility, these funds are gaining popularity among plan sponsors. According to the Employee Benefit Research Institute (EBRI), the use of these types of retirement savings funds is expected to continue to grow in the future.¹

Target-date funds (also known as life-cycle funds) all feature a range of asset classes with a declining equity exposure as a participant reaches a predetermined date, theoretically one chosen for its close proximity to the anticipated retirement date of a participant.² Target-date funds are designated as one of the Qualified Default Investment Alternatives (QDIAs) under the

Pension Protection Act of 2006. These funds make use of what is known as a glidepath, the line formed by changes in the mix of asset allocation between riskier assets and more conservative ones over time, which distinguishes them from other types of funds. The mechanics of this glidepath are demonstrated in Figure 1. Based on our existing knowledge of retirement savings behavior, as well as the impacts of recent down-turned market activity on retirement savings portfolios that appears to be the result of a tendency toward heavy concentration in equities, these types of funds make intuitive sense. Indeed, they may be a promising vehicle in the fight to foster adequate levels of retirement savings, but they also may contain a fundamental problem that needs to be addressed by policymakers sooner rather than later in order for these mechanisms to perform optimally.

Target-date funds are, essentially, mutual funds with a twist. As such, they are not perfect instruments since they involve elements of risk and have costs associated with their operation. Like most mutual funds, target-date funds require the managerial expertise of someone who will “research, select, and monitor the performance of the securities that the fund purchases.”³ Essentially, expertise aside, the overall functioning of these funds is dependent upon the specific set of choices made by the individuals who are charged with those tasks. Not surprisingly, given the nature of the funds, there appears to be quite a bit of variation across the existing target-date fund families. That variation includes such things as risk potential associated with equity allocation, administrative costs associated with the operation of the funds, and even the performance of the funds with respect to levels of retirement savings realized by participants across funds upon reaching the chosen target-date (Copeland, 2009; Nagengast, 2008).

Figure 1



Given the variation that exists across these funds, the choice of placement into one of these funds rather than any other of the funds, can have a dramatically different impact on the levels of retirement savings available to a plan's participants upon reaching retirement. For this reason, this paper argues that a public policy must be developed that allows for sufficient regulatory oversight of the choice of fund alternatives that participants are offered to ensure that they have access to the potential for optimal retirement savings accumulation. The only way that this can be achieved is to ensure that there is open market competition with regard to the fund choice made available to the plan sponsors. In the absence of adequate oversight, the potential for bias in the selection of fund alternatives made available to plan sponsors and, ultimately plan participants, could act as a barrier to access to an optimal investment product by virtue of a distributional inequity in the marketplace. Policy must include the creation of a mechanism allowing for oversight by an impartial third party in the selection and management of the specific target date funds offered to and by plan sponsors and, in turn, to participants.

II. Literature Review

As previously discussed, we know that the pension arena has shifted substantially over time, moving from the traditional employer sponsored defined benefit plan as the most prevalent type of plan to the newer defined contribution plan. These plans expose participants to market driven risks which, when poorly diversified, can have a significant impact on available retirement savings amounts particularly for those who do not have other assets available to them (Porterba; 2004). Given recent troubles with market activity, the retirement savings of many Americans have been substantially reduced. Furthermore, other assets such as real estate holdings have been impacted negatively as well. Many individuals rely on the equity in their

homes for income when they retire, but the market for housing has declined significantly in the past several years also. In short, American retirees are in a very precarious position.

Scholars also tell us that people know very little about finances including the workings of pension plans and how to manage their personal assets (Gustman et al; 2008.) They appear to lack knowledge of even basic financial concepts such as interest compounding and risk diversification (Smith and Stewart; 2008.) There are wide discrepancies with regard to financial planning in our society; those with few resources, the poor and minority populations in particular, appear to lag far behind in planning for retirement (Lusardi and Beeler; 2007.)

Inadequate financial knowledge may contribute to inadequate retirement savings for individuals. Studies based on data from firms that offer financial education to their workers indicate that the education appears to increase participation and contribution rates to 401(k) plans (Bernheim and Garrett, 2003; Madrian and Shea, 2001.) We have much to learn, however, about the degree to which financial education programs contribute to increasing retirement wealth. Furthermore, these studies were conducted using pre-2008 financial crisis data. We have no way of knowing whether or not the impact of financial education will have the same impact post-2008 because the data is not currently available to test this hypothesis.

Scholars and industry members alike are engaged in seeking new products to fit the post-2008 retirement planning needs of tomorrow's retirees. Target-date funds are gaining in popularity as an innovative approach to retirement planning. At the present time, there are hundreds of mutual funds in existence in the United States. Some range from a single fund to multiple funds packaged together. Some are independently run and others are part of a family of funds held by a single entity or hierarchy of entities such as brokerages and/or insurance companies. The lion's share of the activity in these funds, though, is held in a handful of fund

families at the present time. The information contained in Figure 1 on page 5 clearly illustrates this point.

The basic principles of economics demonstrate that target-date funds appear to share a number of characteristics with previously identified industries where regulation has been demonstrated to have improved market results. Examples of this might include the pharmaceutical, energy, real estate, and food safety industries (Frank and Bernanke; 2009.) This means the private market, on its own, will not provide a socially optimal price (administration fee) or quantity (number of retirees covered or amount of retirement savings) of this good. Specifically, a higher than optimal price will be set and a less than optimal amount of retirement savings will be achieved. In the case of a market failure, a role exists for the government to improve the market result. This improvement could take a number of forms which are considered in the conclusion. However, as will be demonstrated below, the issues surrounding the target-date fund industry are similar to those evident in the pharmaceutical industry. In the case of the pharmaceutical industry, a clear first step is regulation through the Food and Drug Administration. Other steps are currently being considered as part of the health care reform debate. While there are a number of ways to analyze this issue with respect to target-date funds, we focus on the areas of monopoly power and information asymmetry.

Although there are many providers of target-date funds in existence, as previously indicated, the lion's share of the market for target-date funds is concentrated in the hands of a few firms. Also, the alternatives available to a particular investor through an employer's plan are subject to even further limitations. Even when the mutual fund market as a whole is considered, there is sufficient evidence indicating that market power is concentrated in the hands of a few firms. Luo found that the majority of the mark-ups of mutual fund fees are due to the market

power possessed by the funds (2002). Another source indicates that the top two hundred fund managers control more than half of the total market capitalization (Bogle; 2002). Naturally, those firms managing target-date funds would have greater market power than the mutual fund industry as a whole because of the limited number of alternatives typically offered to any given employee in a retirement savings program.

On the topic of market power, the mutual fund industry, in its own defense, may point to the concentration ratios reported by the U.S. Census Bureau. These numbers, however, report only broad categories such as Portfolio Management and do not give an accurate picture of either the choices available to participants in a retirement savings plan or the structure of the industry. The critical concentration ratio literature is informative on this issue. The critical concentration ratio is defined as the level of concentration beyond which an industry becomes effectively collusive so that profits, margins and prices rise with concentration (Azzam, Rosenbaum and Weliwita; 1996). Bain first identified this concept and found a critical concentration ratio of 0.7 at the eight-firm level (1951). As identified in Figure 1, the target-date fund market is dominated by five firms who service 85% of the market. It is evident, even when we do not account for an investor's available choices, that these five firms enjoy substantial market control.

The literature concerning information asymmetry in retirement planning is also well established. The individual investing for retirement sometimes lacks the financial sophistication necessary to monitor the fund manager's behavior. The fund manager may also have a shorter term focus than the investor. One study found that private fund families outperform public fund families due to the problem of information asymmetry and the focus of fund managers on short term gains (Ferris and Yan; 2009). Their results indicate that, when fund managers have a

shorter term focus, the agency conflict between the fund management company and the investor is more acute.

The evidence of market failure in the market for target-date funds is sufficient to warrant further research by academics and consideration of appropriate regulatory measures by policy makers. When one additionally considers the more current findings of behavioral economics that suggest investors are not rational maximizers, but satisficers, the need for action is even more compelling (Byron; 2005). As satisficers, investors are not always choosing the best strategy for retirement saving, but merely choosing one that they perceive is good enough. They do not always go far enough in searching for the alternatives within the alternatives provided by the plan sponsors. It is clear that target-date funds may be initially appealing, but should be used judiciously.

In the next section, we directly consider and quantify the relevant information about these new instruments. This information is categorized so that we may evaluate both general information about target-date funds as well as information supporting our conjecture of market failure due to market power and information asymmetry.

III. Methodology

In order to better understand the knowledge that we currently hold with regard to target-date funds, we conducted a search using Lexis Nexis Academic News search to identify articles appearing in a six month time frame between February 1, 2009 and August 31, 2009 in which the term target-date fund appeared in U.S. publications. The search yielded a population of 198 original articles.

Additionally, transcripts of the oral testimony provided by twenty-eight (28) witnesses appearing before a panel of regulators at a hearing held jointly by the Department of Labor and the Securities and Exchange Commission into the nature of target-date funds on June 18, 2009 were used for this analysis.

A content analysis of the data was performed using Nvivo qualitative software that allowed for identification of word frequency and thematic concept identification and frequency.¹ Content analysis using Nvivo software has, generally, been well regarded by researchers in the business arena for its ease of utility and depth of functionality.² Data were coded jointly for articles and testimony, as well as coded separately. For the most part, coding concentrated on the range of data sources rather than the frequency within sources. For example, we were interested in knowing how many of the articles contained pertinent information rather than how much of the articles were devoted to it. The exception to this involved information pertaining to the definition of what target-date funds involve where we needed to get a measure of whether or not the definition provided was clear enough for ease of understanding.

In line with the two-part focus in the previous section, the data were examined for text related to monopoly control of the funds and asymmetry of the information between fund participants and providers of the funds. Beginning with the first of the two-part focus of analysis, we coded the data for text that supported the concept of monopoly power with regard to target date fund producers. We also conducted text searches on the following terms and/or phrases:

1. Competition, compete, competitive;
2. Monopoly, monopolies; and,
3. Market, markets.

The data were also coded for thematic text relating to the concept of monopoly power on a case by case basis in the articles and testimony.

In order to assess the asymmetry of the information that exists in the public domain with regard to knowledge of the particulars of target-date products, we gauged the general amount and depth of the information evidenced in the data. The data were coded for the existence of educational information and assessed as to the quality of the information available in the articles and pieces of testimony. Quality of the information, when present, was determined by the number of lines of text devoted to the definition and coded into three groups:

1. Exceptional - article or testimony contained a minimum of 10 lines of educational information with sufficient detail for the average plan participant to glean a comprehensive understanding of the function and mechanics of target-date funds;
2. Adequate- article or testimony contained a minimum of 10 lines of educational information of a descriptive nature sufficient for the average plan participant to glean some understanding of the of the concept but not the function and mechanics of target-date funds; and,
3. Mediocre – article or testimony contained less than 10 lines of text that provided an insufficient amount of detail for the average plan participant to understand either the concept or the function and mechanics of target-date funds.

Text searches were performed for specific educational or descriptive information provided using the following terms and/or phrases:

1. Glidepath, glide path, glide paths, glidepaths;
2. Flaw, flaws, and flawed; and,
3. Transparency, transparent, disclosure, disclose.

Additionally, text searches were performed to assess the levels of information related to issues surrounding target-date funds that were not necessarily of a educational nature. The types of information and the particular types of information available have been demonstrated to play a role in media bias which, in turn, impacts the impression of the information that is left (Yi and Sarvary; 2007.) That search included the following terms and/or phrases:

1. Fiduciary responsibility;
2. Conflict of interest;
3. Record keeper, keepers, keeping
4. Academic, scholarly; and,
5. Research and study/studies.

In addition to the word searches, thematic coding was performed as mentioned above.

Themes were divided into nine basic categories of information as follows:

1. Asset allocation;
2. Conflicts of interest;
3. Educational
4. Difference between individual target date funds;
5. Crisis of trust or public confidence;
6. Need for regulatory action;
7. Politics;
8. Qualified default investment alternative designation by the Pension Protection Act of 2006; and,
9. Serious flaws in target date funding.

IV. Analysis and Results

Much of the information involving target-date funds revolves around their market activity. As depicted in Table I, one hundred fifty-nine (159 or 80.3%) of the articles and twenty-three (23 or 82.1%) of the witnesses discussed TDF's in terms of market activity. Clearly, the idea of a functioning market is associated with these products. Although the term "monopoly" was used in only one article, it appears that the markets may not be as competitive in nature as one might expect given that only twenty-four (24 or 12.1%) of the articles and (10 or 35.7%) of the articles linked any discussion of markets to the concept of competitive activity (shown in Table II). Overall, while it is clear from these data that market activity is salient in the minds of the reporters and the witnesses, and the low percentage of discussion of competition might suggest the presence of monopolistic control of this industry, we cannot say so conclusively. In order to make this assertion, a broader array of data would need to be analyzed. We can suggest that this bears further study, though, since logically one might expect to find a higher level of linkage between the terms, competition and market activity in a freely operating market environment.

Table I. Sources Containing Information Related to Market Activity

Total Articles	Referring Articles		Total Witnesses	Referring Witnesses	
Number	Number	% of Total	Number	Number	% of Total
198	159	80.3	28	23	82.1

Table II. Sources Containing Information Related to Competitive Market Activity

Total	Referring Articles	Total Witnesses	Referring
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Articles			Witnesses		
Number	Number	% of Total	Number	Number	% of Total
198	24	12.1	28	10	35.7

Moving on to our analysis of information asymmetry and target date funds, we found that there was plenty of evidence to suggest that little is known or, at least, understood about the functioning of these products. Of the 198 articles and 28 cases of witness testimony described in the previous section of this paper, Table III shows that there were 67 (33.8%) articles and 10 (37.1) cases of testimony that contained information of an educational nature. On the surface, alone, it is apparent that slightly more educational information is provided in hearings than is available through news articles. A deeper level of analysis indicated, though, that more detailed information is available through the hearings than through the articles. The articles and testimony that contained educational information were divided into three groups: articles/testimony with marginal amounts of information, adequate amounts, and exceptional amounts. Overall, when the sources contained information, oral testimony contained more comprehensive information.

Table III. Sources Containing Educational Information

Total Articles			Total Witnesses		
Number	Number	% of Total	Number	Number	% of Total
198	67	33.8	28	10	37.1

Table IV lists the results of analysis of the levels of information presented in the sources. While 77 articles contained educational information the majority of those articles (55 or 71.4%) was marginal information, insufficient for the average person to get a clear idea of the meaning of target-date funds. Similarly, three (3 or 30.0%) of the 10 cases of testimony that contained educational information were considered marginal. On the other hand, 22 (28.6%) of the articles and 7 (70.0%) of the testimony cases contained amounts that were sufficient for the average individual to glean either a basic or extended knowledge of what target-date funds are all about. Of the total population of sources, then, only 29 (12.8% of the 226 sources) contained information of a sufficient level to provide for understanding of target-date funds. So, the information that is available to plan participants, as well as to policy decision makers, is not rich in nature. It must be filtered for the kernels of sound educational information that exist amidst among the other types of information that are present in the environment.

Table IV. Levels of Information Contained in the Sources

Total Articles	Referring Articles		Total Witnesses	Referring Witnesses	
Number	Number	% of Total	Number	Number	% of Total
Marginal Information Levels					
77	55	71.4	10	3	30.0
Sufficient Information Levels					
77	22	28.6	10	7	70.0

V. Conclusion

Of course, while there are other sources of information that may be accessible to information seekers, it is not information that is readily forthcoming. It must be mined for, akin to panning for gold. Plan participants are working people who do not spend the majority of their time searching for this type of information. In general, as studies cited above indicate, the amount of information regarding the basics of pension planning that they hold is woefully deficient for any rational decision making to occur. Given the small amount of salient information available to them, it is little wonder they hold limited knowledge about pensions in general and, certainly, know little about this specialized form of retirement savings product. They are being asked to use a product that is not completely understood by experts. This is evidenced by the fact that only one academic contributed to the information made available in the Department of Labor hearing into target date funding.

In addition to the limited amounts of educational information, there are conflicting definitions of what constitutes target-date funds and, subsequently, how they are used. It was clear from the available information that the nature of what, specifically, constitutes the correct glidepath, which is the central feature of a target-date fund, is or should be about. As one witness stated in referring to the conflicting definitions, "Perhaps the only common ground is that there is no consensus..."³ Furthermore, there was ample evidence that these fund instruments are flawed. Seventy-eight (34.5%) of the sources contained text that referred to their flawed nature. So, even if the average participant can search out enough information to understand what the concept of a target fund is, they are left with a choice of what may be a set of flawed instruments.

Perhaps, most telling of the evidence regarding information asymmetry was the number of sources that referred to making these funds, along with the process of implementing and regulating them, more transparent. The search on the words, transparency, transparent, disclosure, or disclosed revealed that 73 (36.9%) of the articles and an overwhelming 21 (75.0%) of the witnesses used these term in their testimony. One article explicitly referred to this indicating that,

*“...workers need better information about the mix of investments in their **target-date funds**. One of the issues expected to be discussed at today's hearing is whether regulators should require fund companies to improve disclosure so investors can decide whether a fund is appropriate for them.”¹*

The fund providers, obviously, have the information regarding the specific mixes of investments, fees charged, glidepath trajectories, and so on, but it is not reaching the average participant from what we, and the regulators, could tell based on this data.

Endnotes

¹ Thematic coding goes beyond a search for the specific words and/or terms that clearly identify a concept by searching for words that allow the researcher to make an interpretation of them as an indirect portrayal of the concept. For example, if one wanted to find textual discussion of a minor event, one could search for the terms “small occurrence,” “non-major incidence,” “non-castrophe,” and so on. Here, the researcher uses text to make an interpretation of the text’s approximation of a concept. Although there are many works on qualitative methods, Miles (1994) provides an indepth explanation of the benefits of this technique.

² For a discussion of the benefits and respectability of NVIVO see Bazeley, P. (1999) The bricoleur with a computer: piecing together qualitative and quantitative data. *Qualitative Health Research*, 9, 279 – 287.

³ Seth Masters. Quote from: U.S. Department of Labor/Securities & Exchange Commission joint hearing. "DOL/SEC Hearing On Target Date Funds And Similar Investment Options." (Date: 6/18/09). Available at: <http://www.dol.gov/ebsa/regs/cmt-targetdatefundshearing.html>; Accessed 02/09/10.

⁴ Block, Sandra. (June, 18 2009). Regulators take a hard look at target-date funds; meeting today asks if investors are informed. *USA Today*, 6A.

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