

July 17, 2009

Office of Regulations and Interpretations
Employee Benefits Security Administration
ATTN: Target Date Fund Joint Hearing
Room N-5655
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, D.C. 20210

Re: File Number 4-582 Target Date Fund Joint Hearing

Dear Sir or Madam:

This letter is submitted on behalf of the group of financial service companies for which FMR LLC is the parent corporation (collectively, "Fidelity"). Fidelity companies provide investment management, recordkeeping, benefit disbursement, communications and directed trustee and custodial services to thousands of retirement and welfare plans covering millions of participants. Fidelity is one of the leading providers of target date mutual funds (designated as the "Fidelity Freedom Funds") and includes institutional target date funds and managed account services among its product offerings.

The following comments are intended to supplement the testimony provided by Derek Young, Chief Investment Officer, Fidelity Global Asset Allocation Group, at the public hearing held jointly by the Department of Labor (the "Department") and the Securities and Exchange Commission ("SEC") to address various issues relating to the use of target date funds and similar investment options by 401(k) plan participants and other investors. The discussion will focus on three (3) issues:

- (1) the methodology for the construction of the so-called "glide path" for such investment options;
- (2) naming conventions for such investment options; and
- (3) participant/investor disclosure for such investment options.

(1) Methodology

As we believe was amply demonstrated by the wide range of views presented at the joint public hearing, there is no single right answer with respect to the construction of a target date fund. We respectfully recommend that the Department and the SEC not attempt to establish a less flexible regulatory framework for the methodology that may be used to construct a fund glide path, either in deciding how much of the fund should be allocated to a general asset class, nor in

deciding what investments (underlying funds) should be used as the investment components of the target date fund.

Mr. Young's testimony described several risks that must be analyzed in constructing a fund's glide path: longevity risk, market risk, withdrawal rate risk, and inflation risk. Each of these requires the use of various assumptions in determining the appropriate course of action. It seems inconceivable that regulatory guidance could establish a useful standardized framework to deal with these considerations.

This comment is consistent with the flexibility demonstrated in the final regulations issued by the Department to establish a formal framework for qualified default investment alternatives ("QDIAs") in accordance with the Pension Protection Act of 2006. See Section 2550.404c-5(e)(4)(i) for a definition of a life-cycle or target date investment option that may qualify as a QDIA. The regulatory preamble provides the following summary:

"The first investment alternative set forth in the regulation, at paragraph (e)(4)(i), is an investment fund, product or model portfolio that applies generally accepted investment theories, is diversified so as to minimize the risk of large losses, and is designed to provide varying degrees of long-term appreciation and capital preservation through a mix of equity and fixed income exposures based on the participant's age, target retirement date (such as normal retirement age under the plan) or life expectancy. Consistent with the proposal, the description provides that such products and portfolios change their asset allocation and associated risk levels over time with the objective of becoming more conservative (i.e., decreasing risk of losses) with increasing age."

The Department subsequently issued Field Assistance Bulletin 2008-03 (April 29, 2008) to provide additional guidance regarding QDIAs. The Answer to Question 14 included the following: "The regulation does not establish minimum fixed income or equity exposures necessary to satisfy the requirement for a mix within a QDIA. The Department continues to believe that such a determination is best left to the discretion of the entities described in paragraph (e)(3) of the QDIA regulation in assessing the appropriateness of a particular QDIA and, therefore, the Department does not plan to provide further guidance on the issue."

We appreciate that the QDIA guidance did not attempt to restrict the analysis of the fund or product provider in deciding how to implement the general concept. We think that this flexibility should also apply to the types of funds or products that may be used to implement the target date fund concept. The QDIA regulatory preamble states that a QDIA investment option might be a "stand alone" product or a "fund of funds" comprised of various investment options otherwise available under the plan for participant investments. Even outside the application of the QDIA definition, different types of funds or products may be attractive in different situations.

(2) Naming Convention

At least one individual who testified at the hearing expressed the position that the name of some target date funds may be misleading to participants or other investors who consider the fund for their account. Such comments suggest that a more specific naming convention be established for such funds by regulation. We disagree.

We note that the final regulations issued by the Department for QDIAs use two different types of terminology – target date funds or lifecycle funds – to designate the type of investment option that is allocated among the general asset classes and its asset allocation becomes more conservative over time. That is, even the general designation may differ for a fund that invests among the basic asset classes and is invested more conservatively over time based on the participant’s age or estimated retirement date.

The Random House Dictionary defines a target date in terms of “the date set or aimed at for the commencement, fulfillment, or completion of some effort”. As noted in Mr. Young’s testimony, the target date for the Fidelity Freedom Funds may be defined as the point as which both the accumulation phase ends and the distribution phase begins. The target date is not intended, for example, to define the date upon which the entire fund investment is liquidated, or the date at which an allocation to equities must reach the most conservative allocation or end altogether.

It is our belief that any attempt to establish a specific naming convention for such funds will only prompt more debate over the appropriateness of any specific naming approach. This is particularly true for existing life-cycle or target date funds – a name change will result in more confusion than knowledge for current investors. The main point is that additional information will always be needed in order for a participant or other investor to determine whether a specific fund is suitable for his or her needs.

(3) Disclosure

We applaud the efforts of the Investment Company Institute (“ICI”) to develop some basic principles to frame any regulatory efforts to establish a more consistent disclosure regime for target date funds. The testimony presented at the public hearing seemed to suggest a fair amount of disagreement regarding the effectiveness of available disclosure materials and the degree of usage by participants and other investors. Some witnesses argued for more detail, others argued in favor of more simplification. Notwithstanding the substantial amount of information provided today, we understand that the agencies may consider whether additional education of potential investors would be beneficial.

We respectfully ask that the Department and the SEC coordinate any resulting regulatory activity. We do not believe that the creation of new separate and different disclosure rules under the Investment Company Act of 1940 and under the Employee Retirement Income Security Act of 1974 (“ERISA”) would be beneficial. Otherwise, participants in 401(k) plans may receive two additional (and different) disclosure pieces for the same potential investment. One of the major challenges in the area of disclosure is to make it meaningful rather than overwhelming.

Of course, the two agencies would each exercise exclusive jurisdiction in certain scenarios. For example, a life cycle or target date fund structured as a group trust portfolio would not be governed by SEC guidance, while an IRA investment in a target date mutual fund may not be subject to the Department’s jurisdiction under ERISA. Even in such situations, however, the agencies should consider the need for consistency in any new guidance. This is particularly true,

for example, for an investor who may be considering such investment options both in the workplace and in his or her personal retail account.

In conclusion, we appreciated the opportunity to testify at the joint public hearing. Please let the undersigned know if you need any additional information. We would be pleased to meet with you discuss these and any related matters at your convenience.

Respectfully,



Douglas O. Kant
Senior Vice President and
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DOK/caz

cc: Elizabeth M. Murphy
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