CFO

Understanding 401(k)s

Regarding the article "Are Target Funds on Target?" (May), I have yet to find a plan participant who completely understands that any target-date, lifestyle, or other fund of this type is a choice in and of itself. It's not just another choice on the menu of other fund choices, but an alternative to all the other non-target-date fund choices.

And it's about much more than just the "glide path." A point worth considering is just how many proprietary funds go into making up a target-date fund. Just scanning through Morningstar's database of 2030 target-date funds, a sampling of 20 well-known providers included as few as 6 funds and as many as 54 in their 2030 target-date fund. The average of the 20 providers was 19 funds and the mean was 16 funds. In my opinion, any more than 8 to 10 is redundant.

And speaking of redundant, if you ran any stock-overlap program to see how many of the same underlying securities are owned by the various funds, you would be amazed how much overlap there is. Most funds own the same thing. That's because they're in the same family of funds, and fund managers tend to have a herd mentality.

This kind of information is virtually never explained to employees, nor to plan trustees. I guess I'm just wary of letting the fox guard the henhouse when it comes to mutual funds being the creators of the target-date funds in the first place, and then applying the pressure to include theirs whenever their platform is being utilized.

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