



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
77 K Street, NE Washington, DC 20002

February 18, 2014

MEMORANDUM FOR THE EXECUTIVE DIRECTOR

FROM: Jim Courtney, Director
Natale Mogensen, Financial Analyst
Office of Communications and Education

SUBJECT: Appropriate Name for Lifecycle “Funds”

During the October 28 Board Member Meeting, Board Member Jasien asked whether the TSP’s Lifecycle Funds were appropriately named and whether they instead should be called Lifecycle *Strategies* or *Portfolios*.

A BRIEF HISTORY OF TARGET-DATE FUNDS

A target-date fund (TDF), also known as a lifecycle, dynamic-risk or age-based fund, is a collective investment scheme designed to provide a simple investment solution through a portfolio whose asset allocation mix becomes more conservative as the target date (retirement) approaches.ⁱ Target-date funds were first introduced in the early 1990s by Barclays Global Investors.ⁱⁱ Their popularity in the United States increased significantly in recent years due in part to the auto-enrollment provision of The Pension Protection Act of 2006, which created the need for safe-harbor type Qualifying Default Investment Alternatives, such as target-date funds, for 401(k) savings plans. In the United States, as the convenience of a single ‘fund for life’ made them the most popular type of default strategy, the use of TDFs accelerated from the date of this legislation onward.ⁱⁱⁱ Since that time TDF assets under management have grown approximately ten times reaching \$621 billion by the end of the year 2013.^{iv}

TARGET-DATE FUNDS OVERVIEW

There are two distinct operational approaches for TDFs: model portfolios and unitized funds. Model portfolios comprise predetermined allocations of a plan’s existing funds. They are managed at the participant level, and, as the target allocations change over time, the record keeper rebalances individual accounts to the new targets. In unitized funds, each TDF is set up as a separate investment option in the record keeping system. Each of the TSP Lifecycle Funds is a separate unitized fund.

REVIEW OF PRIVATE SECTOR NAMES

We have reviewed the largest TDFs in the industry and found no consensus on name. By and large, the terms *fund*, *strategy* and *portfolio* are used interchangeably within literature aimed at investors.

Our research indicates that the TSP is not out of the mainstream by calling our TDFs Lifecycle *Funds*. Vanguard, T. Rowe Price, Fidelity, TIAA-CREF, State Farm, Blackrock and Wells Fargo are among the major firms using the term *funds* for their TDFs. However, if we were to change the name to *strategies* or *portfolios*, we would be in line with firms like J.P. Morgan, ING, John Hancock, Legg Mason and The Hartford.^v

BENEFIT OF CHANGING NAMES

The financial services industry has spent decades informing the public about the benefits of creating a diversified portfolio. Investors generally create diversification through the use of multiple funds. The TDF is meaningfully different, as it is a single investment option that is a diversified portfolio. One benefit of changing the name of the Lifecycle Funds to Lifecycle Strategies is that we help participants better understand what they are selecting through greater specificity in labeling. Renaming our L Funds, and launching an informational campaign to support the name change, also offers us the opportunity to begin a new conversation with participants about prudent, diverse and worry-free asset allocation, and could generate more interest in these TSP target-date funds.

COST AND RISK OF CHANGING NAMES

If the Agency changed the name of the L Funds, 88 current locations on the TSP website would require updates. In addition, numerous printed forms, information sheets, booklets and training materials would need to be replaced with updated material. Additionally, numerous participant-directed notices, existing products such as certain YouTube videos, and Agency reports that mention the Lifecycle Funds would need to be changed. We estimate the cost of these updates in the range of \$100,000 to \$250,000, depending on the inventory on-hand at the time.

Changing the name also includes the risk of confusion among our participants. To minimize this risk, as well as create awareness and excitement around the newly named investment options, we would need to spend additional money on a rebranding campaign. The cost of a rebranding campaign is scalable, especially if it can be done in conjunction with the mailing of annual participant statements. We estimate a dollar cost of at least \$100,000 for this effort in addition to the cost mentioned above.

However, the staff time spent updating, creating and testing content would be much more significant than the dollar costs, and would include personnel from nearly every office at the Agency as well as vendor time reprogramming and testing secure web, notice and report content.

The opportunity cost of staff time spent on implementing a name change would likely come at the expense of launching other targeted-outreach initiatives.

RECOMMENDATION

I recommend that we first test the “Lifecycle Strategies” naming convention in our focus group work later this year and, if not found to be significantly disruptive, I recommend that we execute the change.

However, given the resources required to support this name change, I recommend we look for an appropriate cost-effective opportunity in the future when we can leverage the staff time attached to another significant change to the program. An ideal time to test the name change is during the focus-group and beta testing associated with the Enhanced Decision Intelligence portfolio of projects. Consequently, the optimal time to roll-out the new Lifecycle Strategies name would be in conjunction with the launch of other communications initiatives after our time of research and study.

DECISION:

_____ Concur

_____ Non-concur

ⁱ Lemke and Lins, *ERISA for Money Managers* §2:125 (Thomson West, 2013)

ⁱⁱ Market Wire 7-Nov-08: Industry's First Target-Date Fund Celebrates 15 Years Since Groundbreaking Launch

ⁱⁱⁱ Ibbotson Target Maturity Report 4Q 2012

^{iv} Ibbotson Target-Date Report 4Q 2013

^v For a complete listing of the TDFs we reviewed, please see the attached spreadsheet. On this spreadsheet we have included in column “C” the firms’ own choice of nomenclature. Where there is more than one term used, the primary name is listed first, with other terms used also included in that cell.