



AMERICAN BENEFITS

COUNCIL

TESTIMONY OF

ALLISON R. KLAUSNER

ON BEHALF OF THE

AMERICAN BENEFITS COUNCIL

FOR THE

DEPARTMENT OF LABOR

and SECURITIES AND EXCHANGE COMMISSION

JOINT HEARING ON TARGET DATE FUNDS

June 18, 2009

My name is Allison Klausner and I am the Assistant General Counsel – Benefits for Honeywell International Inc. (“Honeywell”). I appreciate having the opportunity to testify at this hearing.

I am here today on behalf of the American Benefits Council (the “Council”), a public policy organization representing principally Fortune 500 companies and other organizations that assist employers of all sizes in providing benefits to employees.

Honeywell Plan Background

Honeywell’s primary defined contribution plan is a fairly typical 401(k) plan that permits participants to make contributions on both a before tax and after tax basis and to direct the investments of their contributions.

The Honeywell 401(k) plan, like many 401(k) plans, provides participants with the opportunity to select among numerous asset classes, including relatively low risk funds, such as a bond fund and a short term fixed income or stable value fund; four equity based funds; three specialty funds; the company stock fund; and, of course, the target date funds. Currently, the target date funds are a series of ten funds which invest in several asset classes, are targeted to specific retirement dates, and automatically reduce the exposure to equities and risk as the targeted retirement date approaches.

Honeywell 401(k) plan participants can choose to invest in one or more target date funds and, for those participants who do not make an investment direction, their plan assets are invested in the age appropriate target date fund as the default investment vehicle.

Selecting and Evaluating Target Date Funds

After Honeywell made the decision to include target date funds as an asset class available for investment of the plan’s assets, the Honeywell Savings Plan Investment Committee, a fiduciary committee, made numerous decisions consistent with its investment policy, including whether to offer target date funds that are (1) custom designed or off the shelf; (2) actively or passively managed; (3) in 5 year or 10 year increments. Furthermore, the Committee analyzed glide paths; the asset allocations in retirement; and, of course, fees and expenses relating to the potential funds.

With my counsel, the Committee understood that satisfaction of their fiduciary duties depended on the process itself. I note this today as I think it is critical that any guidance issued by the Department of Labor or the Securities and Exchange Commission with regard to the selection and monitoring of target date funds should be on the decision-maker’s prudent procedure. The focus should be on whether the process employed by fiduciaries is designed to identify target date funds that are appropriate as an investment within a menu of investment funds and as a default

investment fund for participants who do not affirmatively choose the investment funds to which their plan assets will be allocated.

I urge the agencies to draft regulations which do not mandate the features and characteristics of target date funds. Any regulations promulgated should permit plan fiduciaries to make prudent decisions appropriate for its body of plan participants. We ask the agencies to respect that one size and one style will not be best for all plans.

Disclosure and understanding fund specifics

After Honeywell decided to include target date funds in the 401(k) plan, the focus turned to disclosure and communication. I counseled our Honeywell team with regard to the legal obligations involving modifications to our summary plan description. I worked with our communications, investments and administration teams to develop and implement communications describing the pros and cons of target date funds, including the value of these funds to investors who are interested in a more “hands off” approach to investing. We described the differences between target date funds, with equity glide paths on the one hand, and conservative, moderate and aggressive prepackaged fund, which are static and non-dynamic, on the other hand. Participant education was deemed critical as the implementation of the target date funds was followed shortly thereafter with the closing of the pre-packaged funds. Thus, in addition to providing the SMM, , ‘pop-up’ messaging was added to the plan website, meaningful brochures were distributed, and a “fund fact” sheet which, among other things, noted the target date funds’ objectives, investment strategies, expense ratio, historical performance and, very importantly, the asset allocation of each of the target date funds, was created.

Although Honeywell made great efforts to disclose and communicate the target date funds to the Honeywell 401(k) participants, I urge the DOL and SEC to recognize that special disclosure rules for target date funds are not necessary. Rather, plan sponsors should be encouraged to comply with current disclosure rules that are applicable to other defined contribution plan investment choices.

Glide Paths and Fiduciary Liability

With regard to glide paths and the underlying investments in target date funds, plan fiduciaries generally do not support government mandates. Plan fiduciaries will support regulations, however, that respect the well established rule that fiduciary decisions regarding the characteristics of an investment fund will be satisfied by fiduciaries that engage in thoughtful, developed processes which are documented and provide evidence of diligence, prudence and care. As such, it is not apparent to me why this standard would need to be modified or lose its flexibility in the context of target date funds.

If the Agencies determine that target date funds must comply with mandated glide paths and rules regarding their underlying investments, the agencies must provide protections for plan fiduciaries that use appropriate processes in adding and maintaining target date funds. Plan fiduciaries that have a reasonable process in place to gather and analyze information, should have their decisions regarding the target date funds' glide paths respected in the absence of a showing that their judgment was adversely impacted by bad faith, gross negligence or willful misconduct. If regulations mandate the glide path for target date funds, it is critical that any such regulations provide that plan fiduciaries will not have any liability with regard to any negative outcome which is based in whole or in part on the target date fund's glide path.

Custom vs. Shelf Target Date Funds

Finally, like with glide paths, any regulations regarding whether target date funds are custom or off the shelf should be drafted so that plan fiduciaries have the flexibility to determine the appropriate offering for its plan participants based on the information obtained from its due diligence. As such, we specifically request that the Agencies not draft regulations which include an inflexible rule or which includes a presumption for or against one type of target date fund.

Thank you for holding this hearing and permitting the American Benefits Council to testify today. I anticipate that our comments, as well as the comments you will receive from others at this hearing, will help guide you in your next steps. I am happy to answer any questions you have at this time.