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## Help Participants Avoid These Target Date Fund (TDF) Missteps



Target date funds (TDFs) are becoming more and more popular with participants. According to a recent Sway Research study<sup>1</sup>, total TDF assets reached a record \$3.5 trillion in 2023.

Target Date Funds offer participants numerous advantages: a simplified investment decision-

making process, diversification by professional fund managers, automatic rebalancing, and a glide path strategy that adjusts risk over time. Given the popularity of these funds, plan sponsors should ensure participants understand how their Target Date Fund works to maximize potential benefits and avoid common missteps that can undermine their retirement strategy.

**Mixing it up.** TDFs are designed as stand-alone investments. However, some participants may not realize the potential impact of mixing their already diversified funds with other investments, inadvertently increasing their risk exposure. Understanding the underlying strategy behind TDFs is crucial to maximizing their utility as part of a prudent investment plan and avoiding unintended consequences. Target Date Funds typically do not clearly state their risk level. This makes it difficult for participants to determine if the plans selected TDF is a good fit for them.

**Changes happen.** TDFs are often considered set-it-and-forget-it investments, but retirement time horizons, individual investing goals, or risk tolerance may change over time. Plan participants should always review their Target Date Fund to ensure it still aligns with their goals and objectives. Without regular reviews with a financial advisor, the TDF and participant may end up on opposite trajectories.

**Hunting for hype.** Participants seeking to capitalize on the latest market trends, such as AI,

<sup>1</sup> [Research — Sway Research](#)



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may feel they're missing out on their TDF due to a lack of control over individual investment choices. For these investors, selecting a TDF may be based more on its popularity than a full understanding of its operational parameters and the potential benefits of a well-diversified portfolio. Employees should be educated on the historically proven benefits of diversification, which typically result in solid performance and overall risk reduction when maintaining a long-term investment horizon.

**Crossing paths.** A Target Date Fund utilizes a glide path to guide its asset allocation strategy. As the target date gets closer, the glide path over time will gradually become more conservative, decreasing the equity exposure in the portfolio, and increasing the fixed income exposure. Not all TDF glide paths are equal. Some allocate more heavily to equities, resulting in a more aggressive growth-oriented glide path, while others prioritize stability with a higher allocation to fixed income. Investors should understand how their assets are managed during both the accumulation and decumulation phases.

**Targeting Knowledge Gaps.** With the tremendous growth and popularity of TDFs, participant education on the topic can be an important addition to a plan sponsor's financial wellness program. Through empowering participants with knowledge and guidance, plan sponsors can help them navigate the complexities and nuances of Target Date Funds to make better-informed decisions about their retirement strategy.

#### Sources

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