

## PARTICIPANT CORNER

# How Much Do You Know About Target Date Funds?

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A Target Date Fund (TDF) is among the most utilized and fastest-growing investment options in employer-sponsored retirement plans, yet many plan participants are unfamiliar with it. As a plan participant, it's essential to understand what you're investing in. Follow along below to learn what a Target Date Fund is and how it works.

### **What is a Target Date Fund (TDF)?**

A TDF is a diversified investment portfolio managed according to the investor's age and target retirement year. Designed to simplify retirement, Target Date Funds automatically adjust the risk level of your portfolio based on your retirement date.

### **What is diversification?**

Diversification reduces your overall investment risk by spreading your investments across various asset classes, such as stocks, bonds, and cash. For instance, if one investment underperforms, it is likely balanced by another that performs better. This approach reduces exposure to market volatility and contributes to a more secure retirement.

### **How does the risk of a target date fund change over time?**

Early in an investor's career, a Target Date Fund seeks higher growth by taking on more risk, such as allocating a larger portion of the portfolio to stocks. As the retirement date approaches, the TDF reduces risk by shifting investments from stocks to bonds, following a glidepath. This strategy becomes more conservative over time, transitioning from a higher allocation in stocks to a greater emphasis on bonds, which helps stabilize the portfolio.

### **What is a glidepath?**

A glidepath is a strategy that gradually adjusts a retirement portfolio's asset allocation to become more conservative as the retirement date approaches. It uses a formula based on the projected retirement date to determine the asset mix, shifting from higher-risk investments like stocks to lower-risk ones like

bonds as the retirement date gets closer.

### **What does the Department of Labor emphasize in its TDF Tips bulletin?**

While performance and fees are important factors for any investment, the Department of Labor (DOL) particularly emphasizes the diversity of glidepaths (risk levels) in Target Date Funds. The DOL encourages plans to align the glidepath with participant characteristics, which can include plan design and risk tolerance.

**For more information on retirement planning, please contact Fiduciary Pension Partners at (833) FPP- 401k or email us at [info@fiduciarypp.com](mailto:info@fiduciarypp.com).**