

How Much Do You Know About Target Date Funds?

The average person is likely unfamiliar with the term “TDF” however it is the most utilized and fastest-growing investment option in an employer-sponsored retirement plan. As a plan participant, it is essential to know what you are investing in. Follow along below to educate yourself about your retirement investments.

What is a target date fund (TDF)?

A TDF is a diversified investment portfolio that is managed based on the investor’s age and target year of retirement. They are designed to simplify retirement by providing a diversified portfolio that automatically adjusts the risk level based on your specific retirement date.

What is diversification?

Diversification is vital because it spreads your money across various asset classes such as stocks, bonds, and cash, thereby reducing your overall investment risk. For instance, an underperforming investment will likely be balanced by an investment that is performing well. This will lessen investment exposure to market volatility, leading to a more secure retirement.

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

A target date fund emphasizes high growth/risk early on in an investor’s career and transitions to stability/lower risk as an investor approaches retirement. These investments follow the glidepath, a roadmap of investing aggressively early in an investor’s career and becoming more conservative as the investor approaches retirement. Over time the allocation of stocks shifts to bonds making the fund more conservative.

What is a glidepath?

A glidepath is a strategy that gradually shifts the asset allocation in a retirement portfolio to become more conservative (less risky) as the investor’s retirement date approaches. Glidepaths are set using a formula based on an investor’s projected retirement date. The number of years to the retirement date determines the asset allocation mix.



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

While performance and fees are important factors for every investment and are commented on by the DOL, the highly diverse glidepath (risk) of target date funds is emphasized by the DOL. They encourage plans to align the glidepath (TDF) with participant characteristics, which can include plan design and risk tolerance.

Concepts like these are important to know to make the most of your retirement account and ultimately, your financial future. Please access your retirement plan provider's website or consult with Brody Ledingham at 978.817.2858.

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