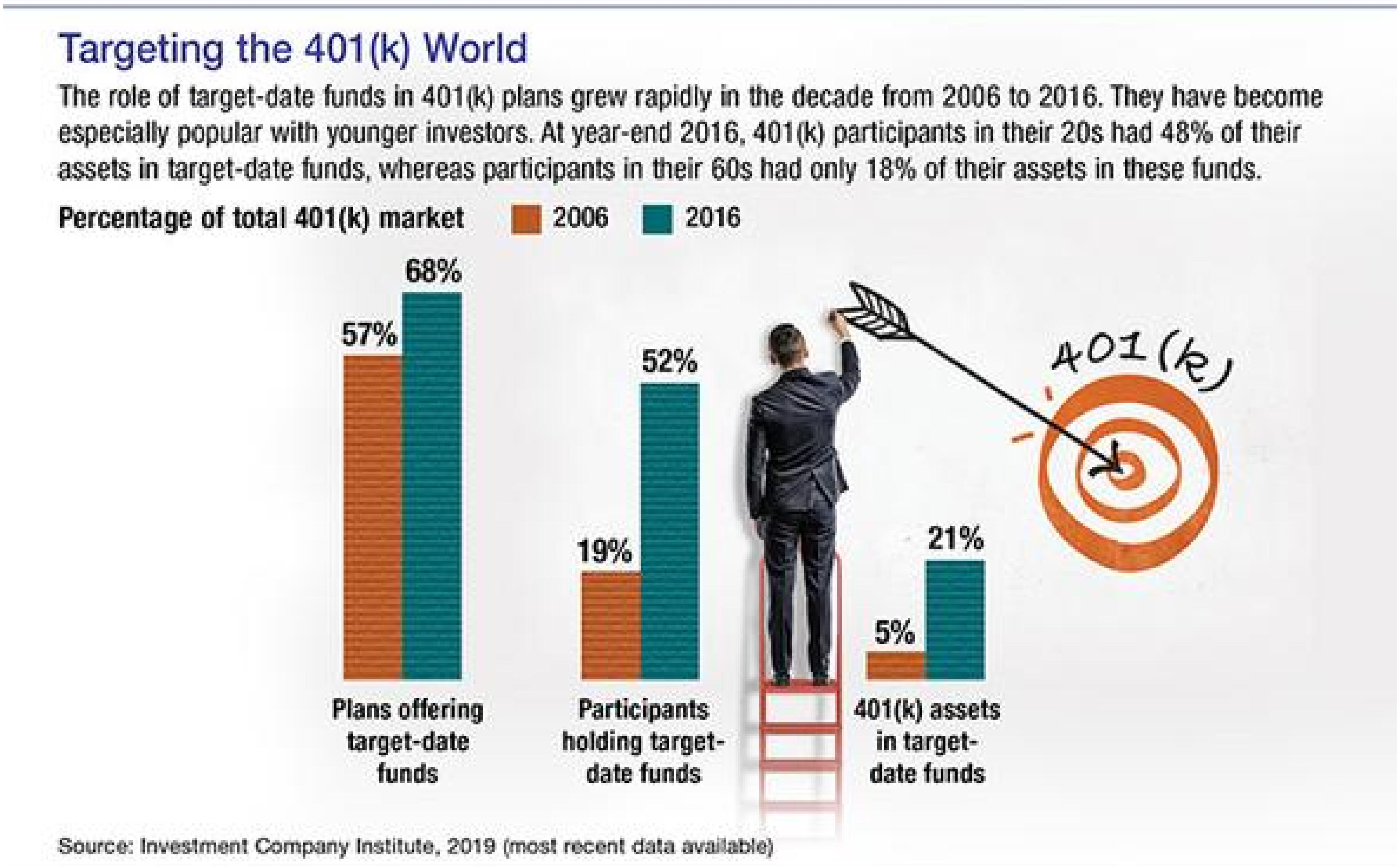
Do Target-Date Funds Hit the Bull's-Eye for You?

More than half of 401(k) participants have assets invested in target-date funds.[1] These "all-in-one" funds are often the default option in workplace plans, and their apparent simplicity appeals to many investors.



But target-date funds are not as simple as they appear to be. Like all investment strategies, they have strengths and weaknesses.

Focused on Time

Target-date funds offer a professionally managed mix of assets — typically a combination of other funds containing stocks, bonds, and cash alternatives — selected for a specific time horizon. The target date, usually included in the fund's name, is the approximate date when an investor would begin to withdraw money for retirement (or another purpose, such as paying for college). An investor expecting to retire in 2045, for example, might choose a 2045 fund.

As the target date approaches, the fund typically shifts toward a more conservative asset allocation to help conserve the value it may have accumulated and potentially provide income.

One Size May Not Fit All

Target-date funds utilize basic asset allocation principles that are often used to construct more complex portfolios, but the allocation is based solely on the target date and does not take into account the investor's risk tolerance, personal goals, asset levels, sources of income, or any other factors that make an investor unique. An investor with $200,000 in a target-date fund has the same asset allocation as an investor with $20,000 in the fund. An investor who also has a pension and might be comfortable taking more risk with 401(k) investments is placed in the same risk category as an investor who will depend primarily on savings in the 401(k) account.

Glide to or Beyond Retirement

The transition from more aggressive to more conservative investment allocations is driven by a formula called the *glide path*, which determines how the asset mix will change over time. The glide path may end at the target date or continue to shift assets beyond the target date, taking the fund into your retirement years.

Funds with the same target date may vary not only in their glide path but also in the underlying asset allocation, investment holdings, turnover rate, fees, and fund performance. Be sure you understand the asset mix of your fund and how it changes over time.

Asset allocation is a widely accepted method to help manage investment risk. It does not guarantee a profit or protect against investment loss, and there is no guarantee that you will be prepared for retirement on the target date or that the fund will meet its stated goals. Keep in mind that investing in other securities outside of a target-date fund may change your overall asset allocation.

The principal value of a target-date fund is not guaranteed before, on, or after the target date. The return and principal value of mutual funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) Investment Company Institute, 2019

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