Taking a Closer Look at Target Date Funds – Video Transcript

Target date funds have become a staple of workplace retirement plans, where they are often the default investment option for new employees.

They are also a common option for IRAs and 529 college savings plans.

A target date fund is based on—and named after—the year that approximates when an investor plans to start withdrawing money. In a retirement plan, that date is the anticipated retirement date; in a college savings account, it's the year a child enters college.

As the target date grows closer, the mix of investments in the fund becomes more conservative.

By automatically shifting its portfolio allocations over time, a target date fund helps investors manage risk, and is designed to simplify investing by maintaining an appropriately balanced portfolio in a single mutual fund.

The "glide path" refers to the formula that determines how the fund's asset mix will change over time.

In a "to" fund, the glide path ends at the target date.

In a "through" fund, the assets will continue to shift beyond the target date. Through funds tend to hold a larger percentage of stocks for longer periods of time, which may make them riskier options in the short term.

And regardless of whether they are to or through funds, those with the same target date can have different glide paths.

For example, there could be significant variations in the stock allocations of funds that are nearing the same target date. Their underlying investment holdings, turnover rates, fees, and performance may also vary.

Target date funds offer convenient automatic rebalancing and can be a good choice for younger or inexperienced investors, or those who prefer a hands-off strategy.

However, hands-on investors or those nearing retirement may prefer a more customized investment portfolio.

The principal value of a target-date fund is not guaranteed before, on, or after the target date. There is no guarantee that you will be prepared for retirement on the target date or that any fund will meet its stated goals. The return and principal value of all funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Bond funds are subject to the interest rate, inflation, and credit risks associated with the underlying bonds in the fund. As interest rates rise, bond prices typically fall.

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.