



MONEY SPROUTS

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Target Date Funds: What You Need to Know

The world of investing is confusing and many investors are concerned about the safety of their money, while they hope for growth that will allow them to enjoy their retirement years. A popular strategy in recent years has been to select target date funds. In early 2021, investors had \$1.6 trillion dollars in target date funds. Yet, there is a lot of misunderstanding over what target date funds are, why employees should consider them, and what to watch out for when selecting one.



What is a Target Date Fund? Target date funds are designed to simplify the investment choices for employees investing in their 401k. Typically used as a “set it and forget it” option, the goal is to let the fund manager select the right mix of investments (to allocate your assets) based on the date you plan to retire. The theory is that a 30-year-old employee could select a 2055 Target Date Fund and leave the investment decisions throughout their working years to the “experts.” Long-term funds will be more heavily weighted toward growth stocks during the early years but will transition to more conservative options as the date approaches the end of the fund: your retirement date.

What Most Target Date Funds Don't Consider:

- Your health, marital status, and when you will need the funds. **Caution:** A target date fund is expected to reach the end of its life around the expected time of your retirement. *What then?* Experts project that the average employee could now live 20 to 30 years into retirement. You'll need your money to continue to grow for you throughout those years.
- The value of your assets, debts, and other investment resources at retirement.
- Your attitudes about risk.
- Your investment style: active vs. passive role in selecting the investments

Take time to read the prospectus which will outline the fund's objectives, risks, and fees.

Questions to consider when evaluating whether a target date fund is your best option:

- Do you want to play an active role in managing your investments throughout your working years? If so, a target date fund may not be right for you.
- Does the fund strategy and level of risk match your goals?
- Do you understand and agree with how the fund will shift the investments over time?
- What happens if you need some of the funds for an emergency prior to retirement?
- How much of the funds will you need immediately upon retirement?

Based on the answers to these questions, discuss your options with your plan provider or financial advisor to determine if a target date fund is right for you. For information on selecting a target date fund from the many options offered, review this article from 401kspecialistmag.com

“The question isn't at what age I want to retire, it's at what income.”
— George Foreman