Investing for retirement can be complex. When deciding where to invest, you may need to make a variety of decisions, including how to balance the risk of losing money with the desire to increase your returns, keeping in mind that inflation may reduce the purchasing power of your savings and you or your spouse or partner may live longer in retirement than you expect. Recognizing this, a number of companies offer “target date retirement funds,” sometimes referred to as “target date funds” or “lifecycle funds.”

These funds are designed to make investing for retirement more convenient by automatically changing your investment mix or asset allocation over time. Asset allocation involves dividing an investment portfolio among different asset categories, such as stocks, bonds, and cash investments. Once you select a target date fund, the managers of the fund make all the decisions about asset allocation.

Target date funds are often available through 401(k) plans. Some 401(k) plans use these funds as the default investment for plan participants who have not selected their investments under the plan. Both before and after investing in a target date fund, consider carefully whether the fund is right for you.

**Target Date Retirement Fund Basics**

Target date funds, which are often mutual funds, hold a mix of stocks, bonds, and other investments. Over time, the mix gradually shifts according to the fund’s investment strategy. Target date funds are designed to be long-term investments for individuals with particular retirement dates in mind. The name of the fund often refers to its target date. For example, you might see funds with names like "Portfolio 2030," "Retirement Fund 2030," or "Target 2030" that are designed for individuals who intend to retire in or near the year 2030.

However, target date funds, even if they share the same target date, for example 2030, may have very different investment strategies and risks. They do not guarantee that you will have sufficient retirement income at the target date, and you can lose money. Target date funds do not eliminate the need for you to decide, before investing and from time to time thereafter, whether the fund fits your financial situation. Even if you plan to retire in 2030, you may decide, based on your investment objectives, tolerance for risk, and other assets, that a 2020, 2040, or other target date fund is more appropriate for you. Or you may decide that you don’t want to invest in a target date fund.

Most target date funds are designed so that the fund’s mix of investments will automatically change in a way that is intended to become more conservative as you approach the target date. Typically, the funds shift over time from a mix with a lot of stock investments in the beginning to a mix weighted more toward bonds.

Remember that all investments have some level of risk, regardless of whether they are stocks, bonds, or something else. Even with the same type of investment, some stocks have less risk than other stocks, and some bonds have more risk than other bonds.
Although bonds are often considered to be less risky than stocks, some types of bonds may be riskier than stocks.

You should evaluate the investments and decide how much risk you can tolerate. Your risk tolerance will likely change as you get closer to retirement, so it is critical to pay attention to what the target date fund invests in over time. Also, be aware that while a target date fund discloses what it invests in and how the investment mix will shift over time, the fund manager can make changes in the future without your approval – even if those changes will create more risk. Thus, you should monitor your target date fund’s investments over time.

**Evaluating a Target Date Retirement Fund**

As with any investment, evaluate a target date fund carefully before investing. The target date may be a useful starting point in selecting a fund, but you should not rely solely on the date when choosing a fund or deciding to remain invested in one. You should consider the fund’s asset allocation over the whole life of the fund and at its most conservative investment mix, as well as the fund’s risk level, performance, and fees. This information is available in the fund’s prospectus.

As noted above, funds with the same target date may have different investment strategies and levels of risk. These variations may occur before the target date, and also at the target date and after it. Some target date funds may not reach their most conservative investment mix until 20 or 30 years after the target date, as shown in Example 1 below. Others may reach their most conservative investment mix at the target date or soon after, as shown in Example 2 below.

The fund in Example 1 holds 60% of its investments in stocks at the target date and 40% in bonds. The investment in stocks decreases until 25 years after the target date when it reaches an investment mix with 30% in stocks.

**Example 1**
The fund in Example 2 holds 25% in stocks at the target date, and reaches its final investment mix with 20% in stocks five years later. The fund in Example 2 also holds cash investments (such as money market funds) as part of its mix.

**Example 2**

[Graph showing asset allocation percentages over years before, at, and after the target date]

Target date funds also may have different investment results and may charge different fees, even with the same target date. Often a target date fund invests in other mutual funds, and fees may be charged by both the target date fund and the other funds. Keep in mind that a fund with high costs must perform better than a low-cost fund to generate the same returns for you. Even small differences in fees can translate into large differences in returns over time.

You should also consider how a target date fund fits in with your other investments. If you have other stock, bond, or mutual fund investments, you should carefully examine your overall asset allocation.

In summary, before investing in a target date fund:

- **Consider your investment style.** Do you want to play an active role in managing your investments, or do you prefer the more hands-off approach of a target date fund? Keep in mind, however, that even with a target date fund, it is important to monitor the fund’s investments over time.

- **Look at the fund’s prospectus to see where the fund will invest your money.** Do you understand the strategy and risks of the fund, or of any underlying mutual funds held as investments?

- **Understand how the investments will change over time.** Are you comfortable with the fund’s investment mix over time? In particular, make sure you understand when the fund will reach its most conservative investment mix and whether that will occur at or after the target date. Does your level of risk tolerance match how aggressive or conservative it is?

- **Take into account when you will access the money in the fund.** How does the fund’s investment mix at the target date and thereafter fit with your plans for the future, whether they are to withdraw your money at retirement, or to continue to invest?
- **Examine the fund’s fees.** Do you understand the costs for both the target date fund and for any mutual funds in which the target date fund invests?

**Related Information**

**From the Department of Labor:**

- [A Look at 401(k) Plan Fees](#)
- [Savings Fitness: A Guide to Your Money and Your Financial Future](#)
- [What You Should Know About Your Retirement Plan](#)

**From the SEC:**

- [Beginners’ Guide to Asset Allocation, Diversification, and Rebalancing](#)
- [Invest Wisely: An Introduction to Mutual Funds](#)
- [Mutual Fund Fees and Expenses](#)

**From the Financial Industry Regulatory Authority (FINRA):**

- [Fund Analyzer](#)

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The U.S. Department of Labor is providing this simplified discussion of target date retirement funds for purposes of general information. This publication does not constitute legal, accounting, or other professional advice, nor is it intended to be a substitute for the advice of a retirement plan or investment professional.