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# Fire...Ready...Aim! Target-Date Funds

**S**eed it and Fughettaboudit! That's the claim made for the use of Target-Date funds in 401(k) plans—the hot new choice for 401(k) fund line-ups.

Target-Date funds are built to take care of asset allocation and rebalancing decisions for those who just want to take their hands off the wheel. Target-date funds are normally built as self-contained portfolios of several different mutual funds. As the years go by, your fund is routinely rebalanced and becomes incrementally more conservative.

They differ from typical balanced funds in that their allocation changes automatically as an investor's retirement ("target date") approaches. Each fund is a mix of cash, bonds and stocks, including in many cases some foreign stocks as well.

There are a growing number of target-date funds offering investors a fund that matches their expected retirement date. At the end of last year, about 55 companies offered these products, according to Lipper Inc. The biggest players are Fidelity Investments, with a 33 percent market share, and the Vanguard Group, with about 17 percent. Even AARP now has a set of funds.

### FIRE – HOW TO CHOOSE

The formula seems simple. Determine the year in which you want to retire and put a bull's-eye on the calendar. Go to your 401(k) or IRA and find the "target date" mutual fund that matches your retirement date. Start putting your retirement dollars into that one fund.

For the plan committee, it is important to make sure that a full complement of funds are available to meet the needs of your participant demographics. If you have employees whose age ranges from 25 to 65, then you need a set of funds that span from 2010 to 2050. That's the easy part. The key to choosing success is in the "AIM"-ing

### READY – GATHER THE DATA

One of the difficulties with these funds has been figuring out how well they should be performing. It is important to determine what to compare them to because no two target-date funds are alike.

Dow Jones recently launched a new series of indexes to help investors gauge the performance of these all-in-one products. Plan committees can access the indexes at (<http://www.djindexes.com/mdsidx/portfolio/index.cfm?event=showPortfolioTargetDateHome>).

The concept of the target date plan is a good idea, but in practicality they can be very difficult to implement, monitor and understand.

### UNDERSTAND RISK

The asset allocation of a particular fund may not suit the risk tolerance of all individuals who plan to retire in a given year. The Plan Committee should be sure to understand the

risk levels associated with each fund chosen. Each fund family that offers Target-Date funds has a different idea of risk levels, so it is best for the committee to define those levels before making a choice.

### UNDERSTAND ASSET ALLOCATION WITHIN THE FUND

The asset allocation for a specific target date fund can vary from one firm to another. Not only that, but it will change by design each year.

Choose funds that meet your participant demographics—age dispersion, investment knowledge and likely participation in the education process. When in doubt, it may be better to err on the conservative side.

### COST

Most Target Date funds are funds of funds, so cost is very important. Costs range from no management or administrative fees to up to 1 percent in addition to the cost of underlying funds. Make sure your analysis includes the cost of both the target date fund itself as well as the cost of the underlying funds. Avoid front-end sales charges, deferred sales charges or any redemption fees.

*Target Date funds are a service, not just an investment.*

### AIM – CONSIDER THE FUND FAMILY

Theoretically, participants are choosing a fund for their working life. This is a heavy burden for the Plan Committee because participants will be putting all their eggs in one basket. Target Date funds are only as good as the fund family providing them. And because you're committing to the fund's overall investment strategy over the very long term, you must be certain you have high-quality investment managers.

One way to measure the quality of a fund family can be found at Fiduciary Analytics ([www.fi360.com](http://www.fi360.com)), which provides a quarterly review of 270 fund families.

### HITTING THE TARGET

First of all, you may have guessed that Ready, Aim, Fire will work much better than the typical scenario. Secondly, Target Date funds are a service, not just an investment. Up-front evaluation of the fund family, fund risk and participant needs are among the most important steps to a successful choice. **BeG**

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