

## Target-Dates Funds: Proceed with Caution.

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Over the past few years, mutual fund companies have flooded 401k Plans with Target-Date funds in an attempt to make portfolio selection easier for participants. They want to provide an “easier” option to retirement savings. For those that aren’t familiar with these investments, they are mutual funds designed to provide an “appropriate” asset allocation based on the date at which you expect to need access to your money. i.e. the day you retire.

The more time that you have, the more aggressive these funds invest. Over time, however, they’re designed to automatically move to a more conservative allocation. Thus, they’re a very convenient “set and forget” solution. That being said, you need to be careful.

There are two potential concerns with using these portfolios for your retirement dollars. The first issue you need to review is the fund expenses. By this, I mean consider all of the expenses. With a few exceptions, many mutual fund companies use this new fad as an excuse to double dip on fees. These target date funds are a variation of what is referred to as Fund of funds, meaning that they buy other mutual funds. For example, John Hancock Lifecycle 2045 (JLJAX) will invest in other John Hancock funds making up its investment allocation. On the surface there is no problem, however, when you flip through the prospectus you realize they charge you 1.43% in net fund fees annually and the average of the underlying mutual funds is 0.80%. That means they charge you 0.63% more per year for doing something the 401k plan advisor is getting paid to perform. Many plan advisors specifically include these funds in an effort to check the box on meeting new regulatory requirements and lighten their work load, in a lot of cases in to your detriment.

The second issue to be concerned with is the actual asset allocation itself. Target-date funds make the assumption that the only factor in determining the proper investment mix is time. Simply looking at time horizon could cause some to invest either more aggressively than they are comfortable with or too conservatively to meet their objective. Factors such as an individual’s comfort with the stock market’s ups and downs is probably more important than time. Often more conservative investors are willing to save a little more if they don’t have to take as much risk. Another downside to investing too aggressively is that when people get anxious about their savings (i.e. after a drop in value), there could be a natural tendency to stop saving or to move everything to a preservation (or cash) option, which could cause them to lose any possibility of reasonable performance.

Unfortunately, there is no short cut to retirement savings without trade-offs. The bottom line is you will be happier and more likely to meet your goals if you have an asset allocation that is designed for your overall needs. Many 401k investors have taken advantage of the growing number of fee Advisors that develop, review and adjust your 401k options for a small charge. It gives investors the comfort of knowing that their plan is as personalized as possible by a qualified person and that there are no conflicts of interest. That might be a better use of your money.