American Heritage Securities, Inc.
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Are Target Date Funds Right For You?

Be sure you know the risks

Target date funds (TDFs) are growing in popularity—attracting $16 billion in the first two months of 2013 alone. In fact, you may be invested in TDFs and not even know it.

This relatively new investment concept was fueled by the Pension Protection Act of 2006 which approved their use as a default option for 401(k) plans and granted sponsors permission to automatically select them for participants.

A TDF is designed to provide a simple investment solution with an asset allocation mix that becomes more conservative as a future target date approaches (usually retirement). In theory, as investors get older and their capacity to sustain risk decreases, the TDF "glide path" gradually switches the portfolio from equities to theoretically safer and less volatile assets, such as bonds .

An allocation mix of stock and bonds that targets your retirement date sounds great and might seem fairly risk-free. But here are a few things you'll want to consider before investing in TDFs.

One-size fits all planning: Target date funds are blind investments—they don't take into account ***your goals*** or ***other investments*** in your portfolio. Your retirement investments should never be a canned asset allocation default solution. As you plan for retirement, your portfolio should include a customized investment mix that perfectly matches your age, risk tolerance, and goals rather than a one-size-fits-all retirement fund.

Outliving your money: Retirees are living longer. Living beyond one's financial resources is an ever increasing concern. When you reach age 65-70, most TDFs switches the bulk of their allocation to bonds. If you are lucky enough to live another decade or two, you become subject to very large ***inflationary risks***.

Spreading your eggs around: Most TDFs are grossly under-diversified because they miss market exposure to major asset classes like commodities, global real estate, international bonds and TIPS. A portfolio consisting of just stocks and bonds alone is not true diversification. Efficient diversification is the best method to reduce risk while providing reasonable returns.

Paying more for convenience: TDF holders pay dearly for the convenience the funds provide. Although TDF's are generally passively managed funds (meaning no human input), they often cost the investor as much or more than an actively managed portfolio. Furthermore, higher-priced target-date funds do not necessarily deliver better performance than the lower-priced ones.

IS THERE A BETTER CHOICE?

A study titled **"Target Date Funds: Still Off Target,"** by Marc Fandetti, Meketa, reveals that TDFs provide few choices for investors near or in retirement who seek a relatively conservative allocation. He suggests that retirement plan sponsors should consider alternatives, such as customized TDF solutions.

We agree. It may be true that a TDF default choice is better than nothing, but it is not a better choice than a customized investment mix designed to meet your goals, dreams and risk tolerances.

We invite you to learn more about utilizing our planning services, which we integrate into a customized portfolio solution built for your specific needs. Please visit **Our Planning Services – *Your* Life Plan!** on our website.