



Target Date Fund Popularity Grows

A study of defined contribution plan and participant activity in 2013 in plans for which Vanguard performs recordkeeping indicates that the trend toward increasing availability and usage of target date funds* continues.

Target Date Fund Adoption in 2013 notes that 86% of plans offered a target date fund (TDF) in 2013, and 81% of plans have established a TDF or balanced fund as the default investment vehicle.

TDFs attract participants

At the end of 2013, 55% of participants had a position in TDFs, and one-third of plan contributions went to these funds.

Participants potentially reducing risk via TDFs

The study notes that by design the risk taken falls as the participant ages and helps mitigate the problem of extreme allocations among participants.

Ten years ago, 13% of participants did not invest at all in equities (giving up the potential for higher returns) and 22% had their entire balances in equities, leaving them exposed to the higher risks related to equities. Thus, 35% were at the ends of the equity risk spectrum.

By contrast, in 2013 about 23% of “do-it-myself” investors were at either end of this risk spectrum. About 10% had no equity investments and 13% invested solely in that asset class.

Vanguard’s report is at <http://tinyurl.com/VanguardTDFs>.

More Guidance Is Available on Target Date Funds

Last year, the U.S. Department of Labor issued general guidance for plan fiduciaries about selecting and monitoring TDFs in 401(k)s and similar participant-directed individual account plans. *Tips for ERISA Plan Fiduciaries* is available at <http://tinyurl.com/DOLTipsAboutTDFs>.

The Defined Contribution Institutional Investment Association (DCIIA) has published a guide concerning TDFs that is intended to supplement the Department of Labor’s suggestions.

The DCIIA Guide to U.S. Department of Labor Tips on Selecting Target Date Funds offers discussions on how to develop a prudent process, portfolio construction considerations, asset allocation, and the use of active and passive funds. Also included is a review of factors related to off-the-shelf and custom TDFs. See the guide at <http://tinyurl.com/DCIATargetDateFunds>.

* The target date is the approximate date when investors plan to start withdrawing their money. The principal value of a target date fund is not guaranteed at any time, including at the target date.

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