Account Basics

BlackRock

Target Date Funds 101

Even with good investing habits, saving for retirement can be stressful, but target date funds (TDFs) are designed to help with the process.

What are target date funds?

TDFs are a type of investment vehicle that use stocks, bonds and other types of assets in a single investment vehicle to help you grow your savings.

TDFs are professionally managed, and provide you with a diversified mix of equities and fixed income that changes over time, which can help take some of the guesswork out of investing. When you're young, these funds are invested more heavily in stocks to take advantage of the stock market. As you get older, they gradually shift to more conservative investments such as bonds while still allowing for some upside potential.

How do target date funds work?

A portfolio manager will make trades for you using a "glidepath," a tool that adjusts the underlying mix of investments that make up the fund. Think of a glidepath like a flight plan for your portfolio: It helps determine your risk exposure over the course of your career by adjusting diversification levels depending on how long you have until your expected retirement date.

A TDF tends to take more risk when you're younger since you have a longer horizon to weather the typical ups and downs of the stock market. But as you get closer to retirement, the fund shifts toward lower-risk options based on the plan laid out in the glidepath.

What are some benefits of investing in a target date fund?

One main benefit provided by TDFs is access to professional management. The portfolio manager assigned to your fund will pick investments that are tailored to your life stage.

Another advantage of investing your money in a target date fund?

TDFs offer diversification, meaning your investments are spread across a range of asset classes, with the goal of maximizing returns while minimizing your portfolio's overall risk. Diversification can help provide stability: If one kind of investment—stocks, for example—has a bad year, other types of investments—like bonds—might gain value. In other words, you're not putting all your eggs in one basket.

Target date funds can also help offset inflation

By investing more heavily in stocks earlier in your career, you can grow your savings past the point of inflation.

Some TDFs invest in what are called "real assets," such as Treasury Inflation-Protected Securities and real estate, which help hedge against inflation.

What are some drawbacks of investing in a target date fund?

TDFs may not be the right choice for every investor. For example, a specific TDF's glidepath may take more (or less) risk at a given point than you'd like. You may also prefer to adjust the asset allocation on your own instead of having a professional do it for you. You may wish to speak with a financial advisor to better understand what investments may be right for you.