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Do-It-for-Me Investing: Target-Date Funds

Most of us prefer to let experts do the job when we don't have the experience, know-how, or time to do it on our own. Investing in your 401(k) account is no different.

Do-it-yourself investing can be a hit-or-miss proposition, and, according to research, most investors miss. Why? Do-it-yourself investors often select investments or an asset allocation mix that doesn't align with their financial goals, investment objectives, or risk tolerance (the amount of loss an investor is prepared to accept). Further, unskilled investors may find it difficult to separate the emotional aspects of investing from the calculated, dispassionate decision-making successful investing often requires. This causes them to buy high and sell low—a fatal and costly investing blunder.

A Do-It-for-Me Approach to Investing

Fortunately, there is an option for those who don't feel comfortable or don't have the time to choose their own investments. Target-date funds (TDFs), available to most 401(k) plan investors, are professionally managed mutual funds that automatically allocate the appropriate mix of stocks, bonds, and fixed income products based on the date an investor expects to retire. In short, TDFs take the guesswork out of investing. Here are three reasons to consider investing in TDFs in your 401(k) account:

1. **They dial in diversification.**

   TDFs mix several different types of stocks, bonds, and other investments to help you take more risks when you're young (which usually means a higher concentration of stocks) and gradually get more conservative (which usually means a higher concentration of bonds or fixed income) with your investment strategy over time.

2. **They are convenient.**

   The dates in TDF names represent roughly when investors are expected to retire or begin withdrawing money from their 401(k) accounts. Simply select the fund that most closely correlates to that date, and you're done!

3. **They are automatic.**

   TDFs are automatically adjusted over time to become more conservative as your target retirement date approaches. TDFs also automatically rebalance (asset allocation mixes can skew away from their original mix over time; rebalancing returns the current investment allocation mix back to the original on an annual basis).

Two Critical Factors

Here's an example of how two retirement investors might select a TDF based on two key factors: their current age and when they expect to retire.

Kate is 30 years old. She is still in her early working years, and her expected retirement age of 67 is a long way away. Because of this, Kate would choose a TDF that most closely corresponds to the year she expects to retire, which is 2057. Doing this will allow Kate to invest more aggressively now. This is usually done by selecting more risky investments, such as stocks, that give the possibility of bigger gains (which she can live with given her long time horizon), then adjusting the risk of her investments as she nears retirement.

For Kim, 58, retirement is much closer; she plans to retire in 2029 when she turns 67. Because of this, Kim would select a TDF with a date that most closely corresponds to that year. That fund will be made up of more conservative investments (e.g., bonds or fixed income, which are more stable and less prone to big market swings) that seek to guard against any big losses. The trade-off is it won't provide many big gains, either. But that's okay—preserving an account's value is important for those who are nearing retirement.

Although Kate's and Kim's ages and expected retirement dates are vastly different, one thing is the same: by selecting a TDF, they can have confidence knowing their retirement dollars are being managed by investment experts and are being reviewed on a regular basis.

"To-Retirement" Vs. "Through-Retirement" TDFs

Another factor you may encounter with TDFs is how the fund invests your dollars when you reach the date of retirement. When TDFs are managed with a "to-retirement" strategy, it means they reach their most conservative mix *at* the target date and remain fixed at that allocation throughout the investor's retirement years. When TDFs are managed with a "through-retirement" strategy, they continue to adjust to a more conservative mix for a set number of years (typically between 20 and 30) *beyond* the target date.

Do-It-for-Me or Do-It-Yourself?

If you are intimidated by investing, unsure how to choose investments for your hard-earned retirement dollars, or simply don't have the time to keep up with the topsy-turvy financial markets, investing in a TDF might be a good choice for you. It's important to remember, however, that everyone's financial situation, objectives, and goals can vary and need to be weighed in the decision-making process. Another factor to consider is the cost of TDFs; they are generally more expensive than regular mutual funds because you're paying an expert to automatically invest and adjust assets on your behalf. Talk with your financial advisor or your company's retirement plan advisor to help you make an informed choice.

Investments in target-date or target-retirement funds are subject to the risks of their underlying holdings. The year in the fund name refers to the approximate year (the target date) when an investor in the fund would retire and leave the workforce. The fund will gradually shift its emphasis from more aggressive investments to more conservative investments based on its respective target date. The performance of an investment in a target-date or target-retirement fund is not guaranteed at any time, including on or after the target date, and investors may incur a loss. Target-date and target-retirement funds are based on an estimated retirement age of approximately 65. Investors who choose to retire earlier or later than the target date may wish to consider a fund with an asset allocation more appropriate to their time horizon and risk tolerance.

Your 401(k) Plan Preparation Checklist

As this memorable year winds down, you can be forgiven for not making your 401(k) account your top priority. But for every 401(k) account owner, there are a few simple (and advisable) maintenance tasks you can tick off your year-end list with a few taps of a smartphone or a quick call to a trusted financial advisor or your company's benefits administrator.

- **Review your account statements.** Whether they're available monthly or quarterly, it's important to review your statements to ensure that your contributions are being deposited in a timely manner and being allocated to the investment options you have elected. In most cases, retirement account statements are made available online through a web portal. Ask your human resources or benefits administrator if you need help finding your statement.

- **Bump up your contribution rate.** Are you spending less on things like entertainment or dining out because of the pandemic? If so, maybe you can find a few extra dollars to contribute to your 401(k) account. Increasing the percentage you defer from your paycheck now—even by just 1 percent—can make a big difference in the future. It might even help you contribute enough to fully capitalize on a company matching contribution. Or, if you're 50 or older, perhaps you can take advantage of special catch-up contribution provisions that allow you to defer more than the 2020 (and 2021) maximum limit of $19,500.

- **Be sure that designated beneficiaries are up to date.** Naming a beneficiary (or beneficiaries) on your 401(k) account should not be treated as an afterthought. Is an ex-spouse your named beneficiary? Should a new family member be added? Review your beneficiary form and make sure the person (or people) you want to have your assets when you pass away is who you intended. Consult an attorney or tax professional if you're unsure who to designate as your beneficiary.

- **Review your investments.** Has a life change—such as marriage, divorce, birth of a child, or an advancement or setback in your professional career—caused you to reassess your investment goals or time horizon for retiring? Make sure your retirement investing strategy aligns with your current life situation and objectives. Your company's 401(k) plan provider probably has online tools and resources to help you with your assessment, or, alternatively, chat with a financial advisor or your company's retirement plan advisor.

- **Consider rolling old 401(k) accounts into your current account.** Do you have an old 401(k) account from a former employer? If so, maybe it makes sense to roll that account into your existing 401(k) account. By doing so, you'll preserve the account's tax-favored status and steer clear of early withdrawal penalties, not to mention make it easier to keep track of your assets in one account. Benefits of leaving money in an employer-sponsored plan may include access to lower-cost institutional class shares; access to investment planning tools and other educational materials; the potential for penalty-free withdrawals starting at age 55; broader protection from creditors and legal judgments; and the ability to postpone required minimum distributions beyond age 72, under certain circumstances. These are only some of the factors to consider, so consult a financial advisor or tax consultant if you need advice.

3 Tips for Keeping Holiday Spending Reasonable

The holiday season, usually a time to enjoy the company of family and friends, has become synonymous with stress. At the heart of that anxiety is money. Roughly 69 percent of people are stressed by a shortage of holiday funds, and 51 percent are anxious because of the pressure to give or get gifts, according to research from the American Psychological Association. Here are three tips to help you keep your holiday spending reasonable—and your stress levels lower:

Be rigid with your budget. Having a plan for how much you intend to spend during the holidays is the easy part; resolving to not exceed that budget is the hard part! But staying within your spending limits can give you added peace of mind.

Account for shipping costs. Virtual shopping is all the rage, but online holiday shoppers often fail to factor in shipping costs, which can drive up your total spend and blow up your budget. Also, remember that shipping costs skyrocket if you wait until the last minute and need an item fast, so shop early and give yourself plenty of time for gifts to arrive.

Get creative. The act of giving someone a gift is a way of showing thoughtfulness, love, and affection. Why not create a gift by using a special creative talent? A homemade gift is more likely to have sentimental value and bring joy to the person who receives it.

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