

Set it and stay on track: How target date funds work



Target date funds are a relatively simple and convenient way to invest for a long-term goal. They can be particularly useful to investors who feel they lack the expertise or the time to invest their retirement savings effectively or to monitor their portfolios adequately.

Target date funds are used primarily by retirement plan investors and are usually structured as a mutual fund.¹ The fund may invest in other mutual funds (a so-called “fund of funds”) or it may invest directly in individual securities. The target date is typically expressed as a year. Investors choose a fund with a target date closest to the year they plan to retire and start withdrawing money from their retirement accounts. Target-date funds offered in retirement plans are generally available in five- or 10-year intervals. For most retirement investors, the one significant advantage that comes from investing in a target date fund is that the fund’s investment professionals implement an asset allocation strategy² designed to be appropriate for the investor’s retirement date.

✓ The importance of asset allocation

Research has shown why investors should pay close attention to asset allocation when selecting investments. If, as an investor, you spread your assets over several broad asset classes, stocks, bonds and cash equivalents, you are managing risk and volatility in your portfolio. In other words, by spreading your money among the major asset classes, you may reduce the risk that your portfolio’s overall value will be severely impacted if one asset class suffers a decline for any length of time.

✓ Target date funds take care of asset allocation for investors

A target date fund invests in a number of asset classes. When you invest in a target date fund, you can diversify your retirement plan money with one, single investment.³ The investment professionals who manage the target date fund reallocate the fund’s investments over time so that the fund gradually becomes more conservative as the target or retirement date approaches. The thinking behind a target date fund is that, in general, the fund can take on more risk and potentially earn a higher return while the target date is far in the future. As the target date draws nearer, the fund reduces risk by adopting a more conservative asset allocation and focuses on preserving gains and capital. The shift to a more conservative allocation over time is often described as the fund’s “glide path.” A fund may be designed to reach its most conservative allocation on the target retirement date and then maintain that allocation or it may be designed to reach the most conservative allocation after the target retirement date.

Not all funds are alike

As with every investment, there are risks associated with target date funds. A target date fund's principal value is not guaranteed at any time, including at the target date. Different funds with the same target date could have different investment mixes and their performance records can vary, sometimes significantly. Also, the years and pace at which a target date fund becomes more conservative may differ from fund to fund.

Before buying a target date fund, you should take some time to familiarize yourself with its primary features and investment strategy, risks, fees and expenses. It can also be helpful to talk with a financial professional about your overall goals and strategies for retirement.

1 You should consider the fund's investment objectives, charges, expenses, and risks carefully before you invest. The fund's prospectus, which can be obtained from your financial representative, contains this and other information about the fund. Read the prospectus carefully before you invest or send money. Shares, when redeemed, may be worth more or less than their original cost.

2 Asset allocation does not guarantee a profit or protect against losses.

3 Diversification does not ensure a profit or protect against loss in a declining market.

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