



# Target Date Funds in the Spotlight: How Well Are 401(k) Participants Using Them?

EBRI Webinar

November 30, 2021

# Speakers



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Relationship Group**

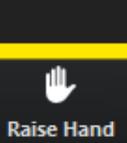
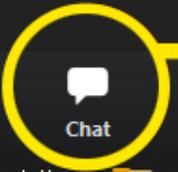
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# John Doe

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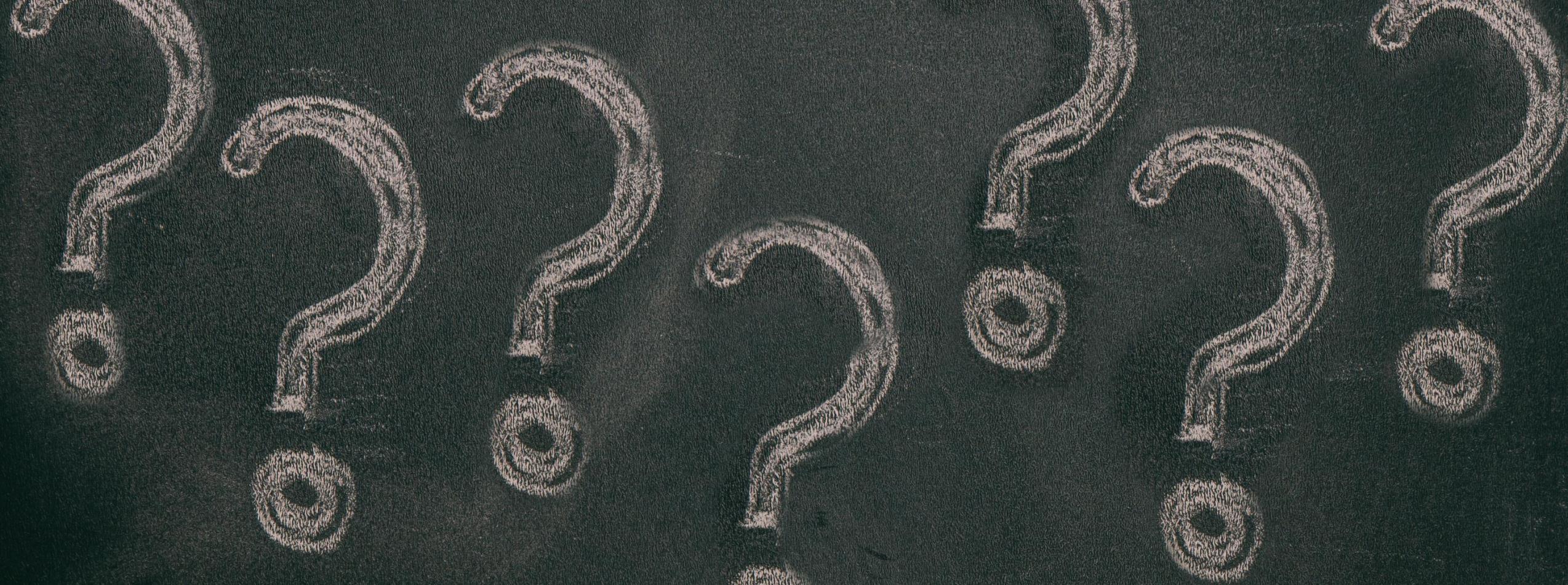
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# POLLING QUESTION

PLEASE SHARE YOUR THOUGHTS

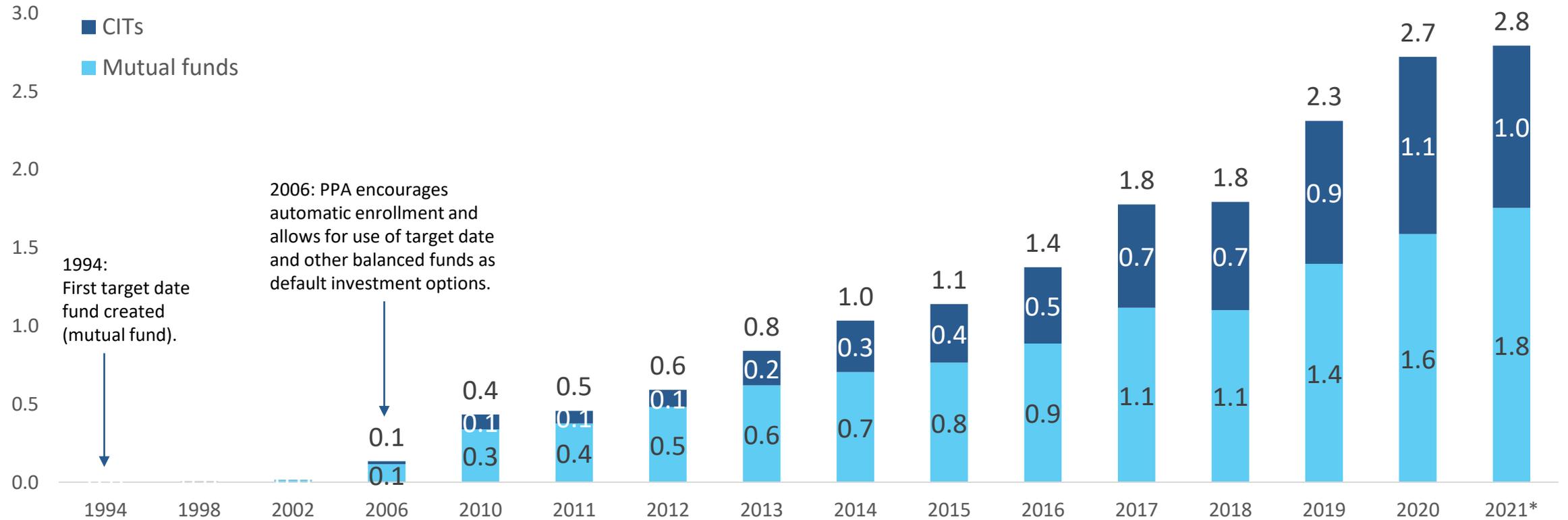
# Q1: WHAT'S THE LANDSCAPE IN THE TDF MARKET?

# Target Date Funds

- Target date funds, or lifecycle funds, are diversified and rebalance over time
- The fund's portfolio rebalances to become more focused on income and less focused on growth as the fund approaches and passes the target date
- The target date is the year in which the fund investors expect to stop contributing to the fund and retire
- Target date funds can be structured as mutual funds, collective investment trusts, separate accounts or other pooled structures

# Target Date Fund Assets Have Grown

Trillions of dollars



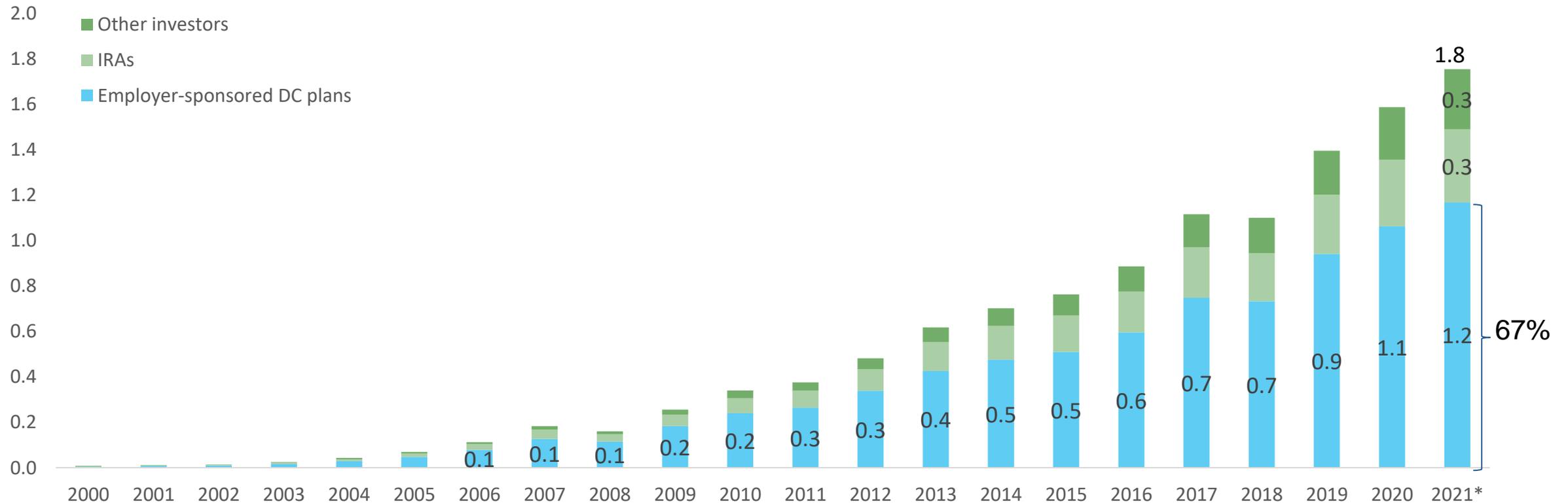
\*Data are as of June 30, 2021.  
Sources: Investment Company Institute and Morningstar

# US Department of Labor Explained Its Thinking

- Following the Pension Protection Act, the US Department of Labor changed the qualified default investment alternative (QDIA) rule to allow for diversified, balanced investments with both stocks and fixed-income components, expressing concern in their proposed rule that:
  - “...The retirement savings problem is also exacerbated by those employees who enroll in their employer’s plan, but do not assume responsibility for investment of their contributions, leaving their accounts to be invested in a conservative default investment that over the career of the employee is not likely to generate sufficient savings for a secure retirement.”
- <https://www.govinfo.gov/content/pkg/FR-2006-09-27/pdf/06-8282.pdf>

# Target Date Mutual Funds Often Are Held in DC Plans

Trillions of dollars

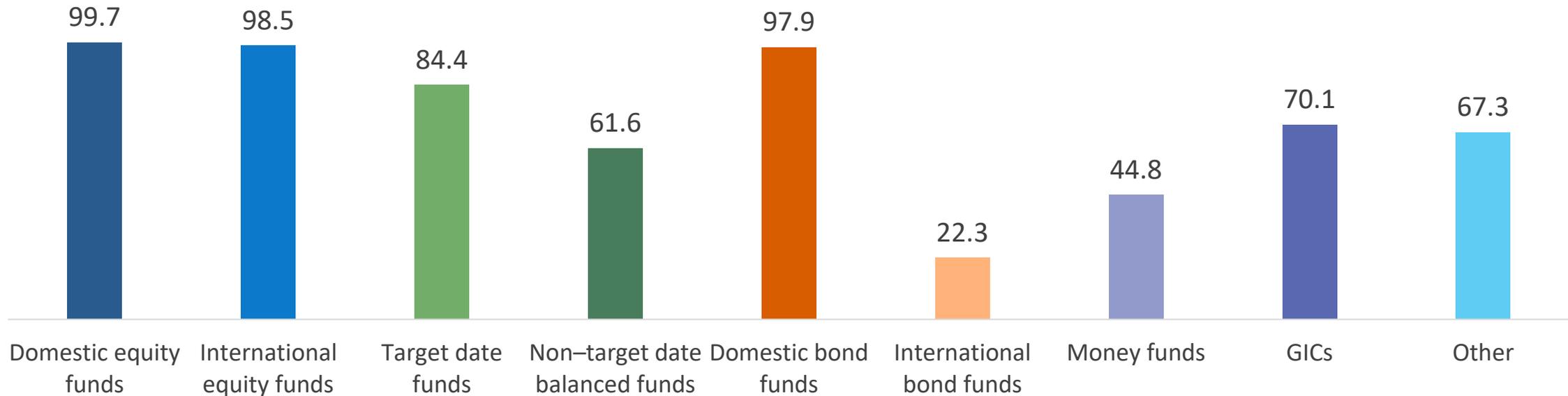


\*Data are as of June 30, 2021.

Source: Investment Company Institute; see “The US Retirement Market, Second Quarter 2021” (<https://www.ici.org/research/stats/retirement>)

# 401(k) Plans Offer a Wide Array of Investment Options, Including Target Date Funds

Percentage of plans with audited 401(k) filings in the BrightScope database offering the specified investment option, 2018

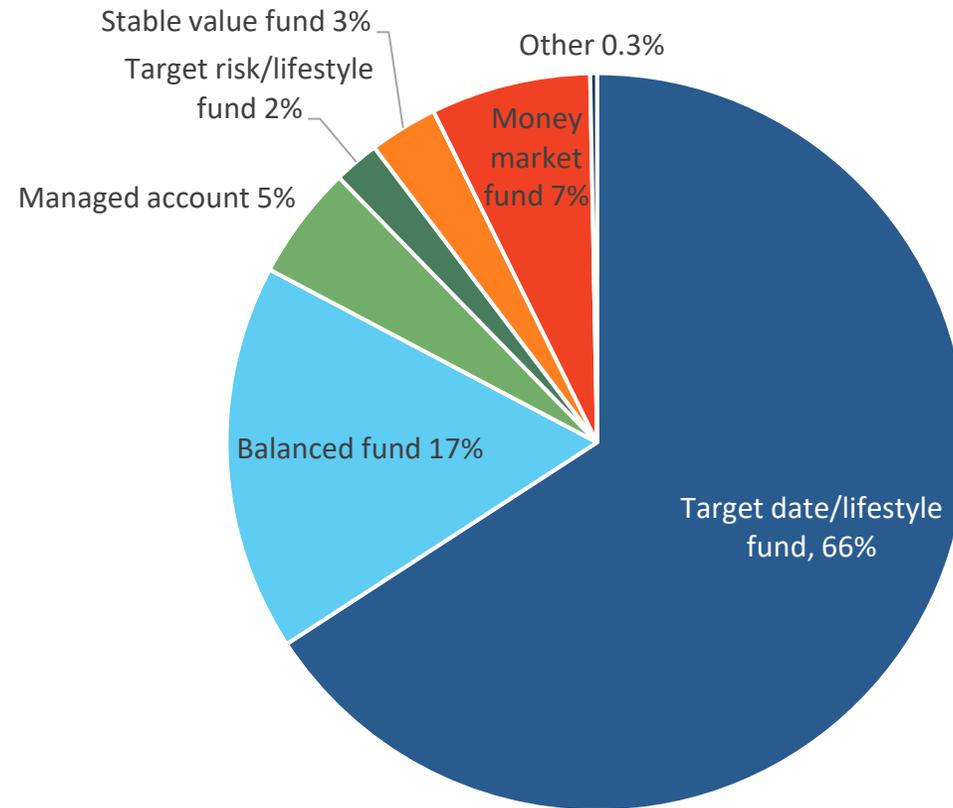


Note: Funds include mutual funds, collective investment trusts (CITs), separate accounts, and other pooled investment products. A target date fund typically rebalances its portfolio to become less and passes the target date of the fund, which is usually included in the fund's name. GICs are guaranteed investment contracts offered by insurance companies. "Other" includes commodity funds, real estate funds, and individual stocks (including company stock, which is the stock of the employer) and individual bonds, but each separate option is counted as a unique investment option.

Source: BrightScope Defined Contribution Plan Database; see BrightScope and Investment Company Institute at <https://www.ici.org/research/retirement/dcplanprofile>

# Target Date Funds Often Are the Default Investment for Automatic Enrollment

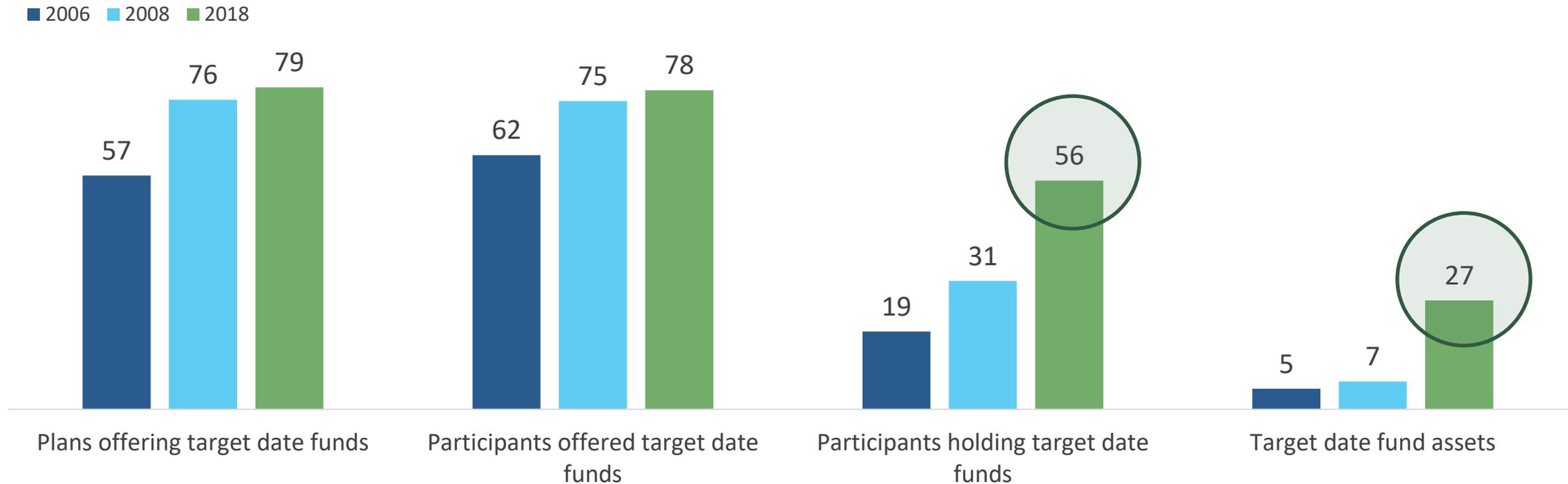
Percentage of automatic enrollment plans, 2019



Source: Plan Sponsor Council of America

# Target Date Funds Have Grown in Popularity

Percentage of total 401(k) market, year-end



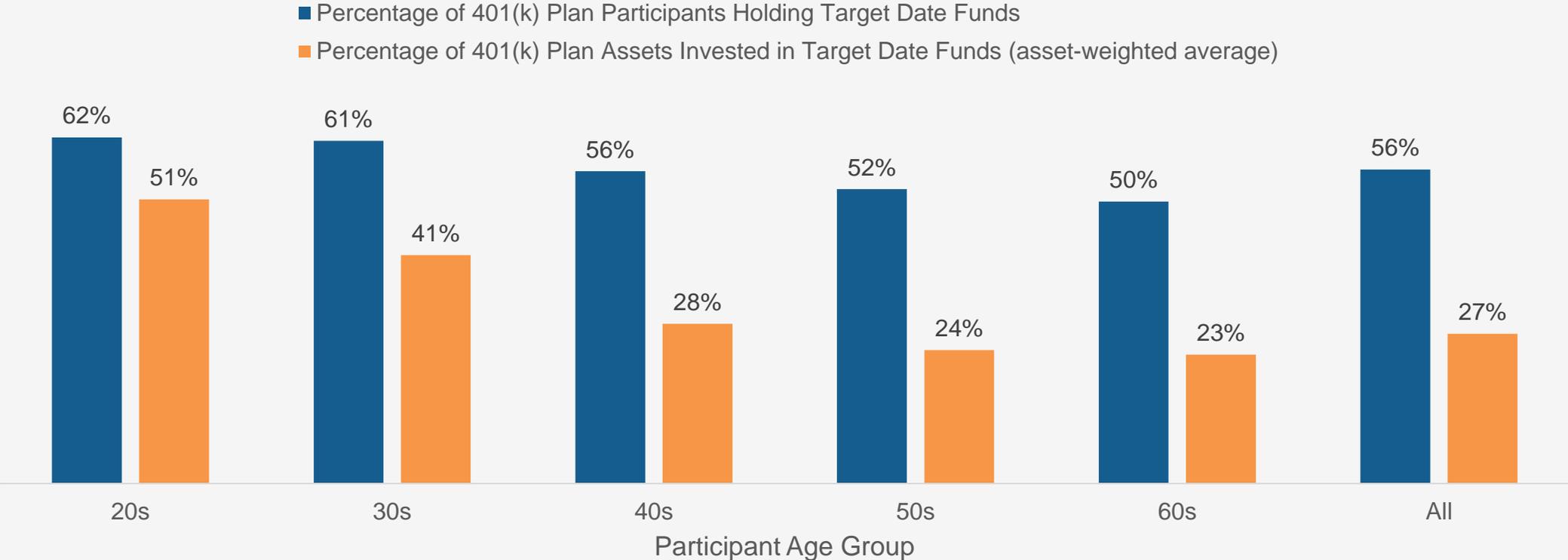
Note: Funds include mutual funds, bank collective trusts, life insurance separate accounts, and other pooled investment products.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; see "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2018," *ICI Research Perspective* and *EBRI Issue Brief* (<https://www.ici.org/system/files/attachments/pdf/per27-02.pdf>) and (<https://www.icifactbook.org/>)

## Q2: CHARACTERISTICS OF THOSE USING TDFS

# Target Date Fund Use Is Higher Among Younger 401(k) Plan Participants

Year-end 2018

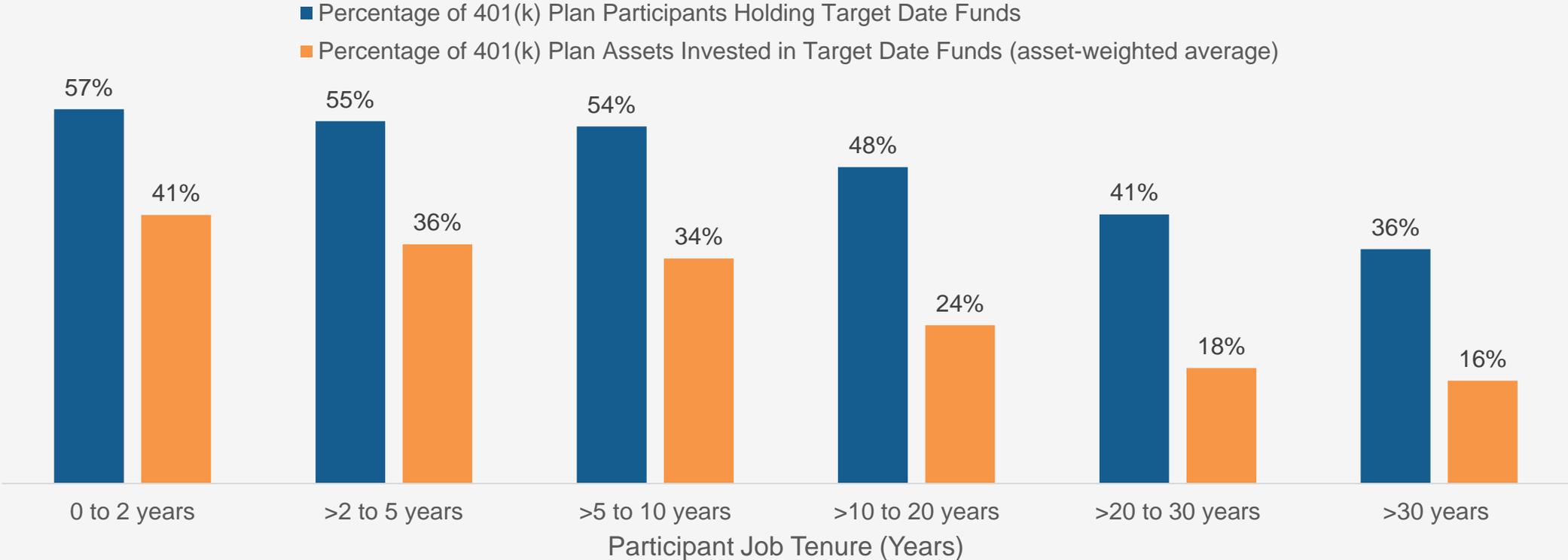


Note: Funds include mutual funds, bank collective trusts, and life insurance separate accounts

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; see Holden, VanDerhei, and Bass 2021

# Target Date Fund Use Is Higher Among More Recently Hired 401(k) Plan Participants

Year-end 2018

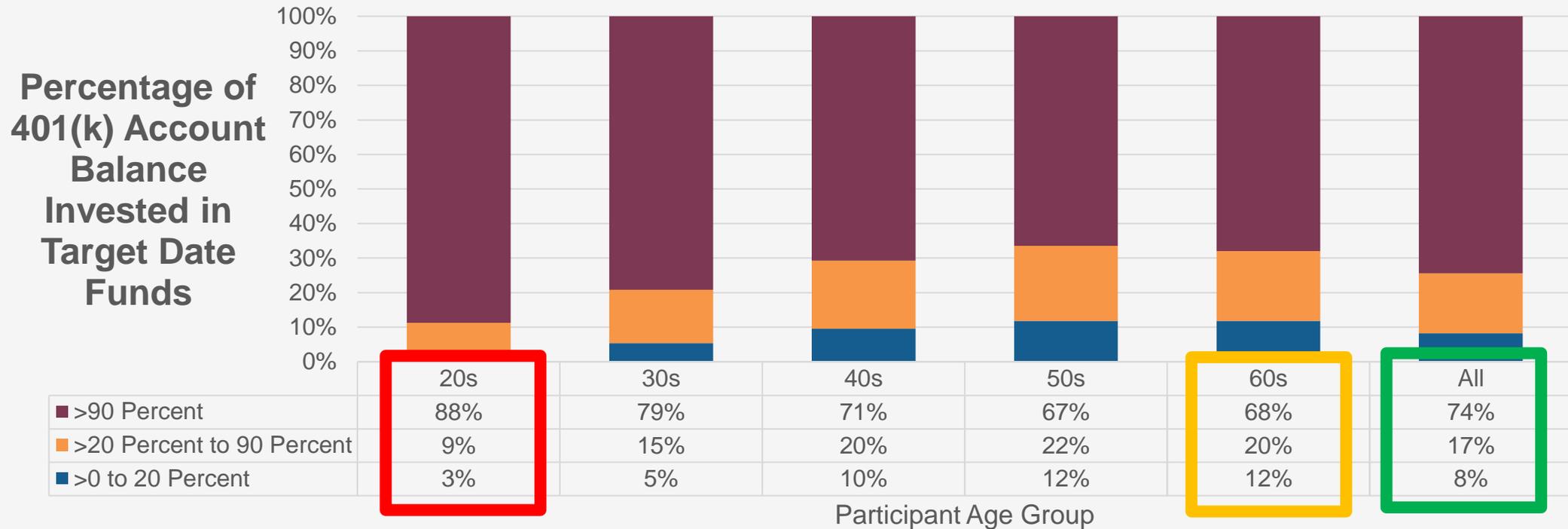


Note: Funds include mutual funds, bank collective trusts, and life insurance separate accounts. The tenure variable is generally years working at current employer (based on the individual’s date of hire) and thus may overstate years of participation in the 401(k) plan.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project

# 401(k) Plan Target Date Fund Investors Tend to Concentrate Their Accounts in Target Date Fund Investments

Percentage of 401(k) plan participants holding target date funds by participant age, year-end 2018



Note: Funds include mutual funds, bank collective trusts, and life insurance separate accounts. Figure reports the concentration of 401(k) plan accounts invested in target date funds among 401(k) plan participants holding target date funds.

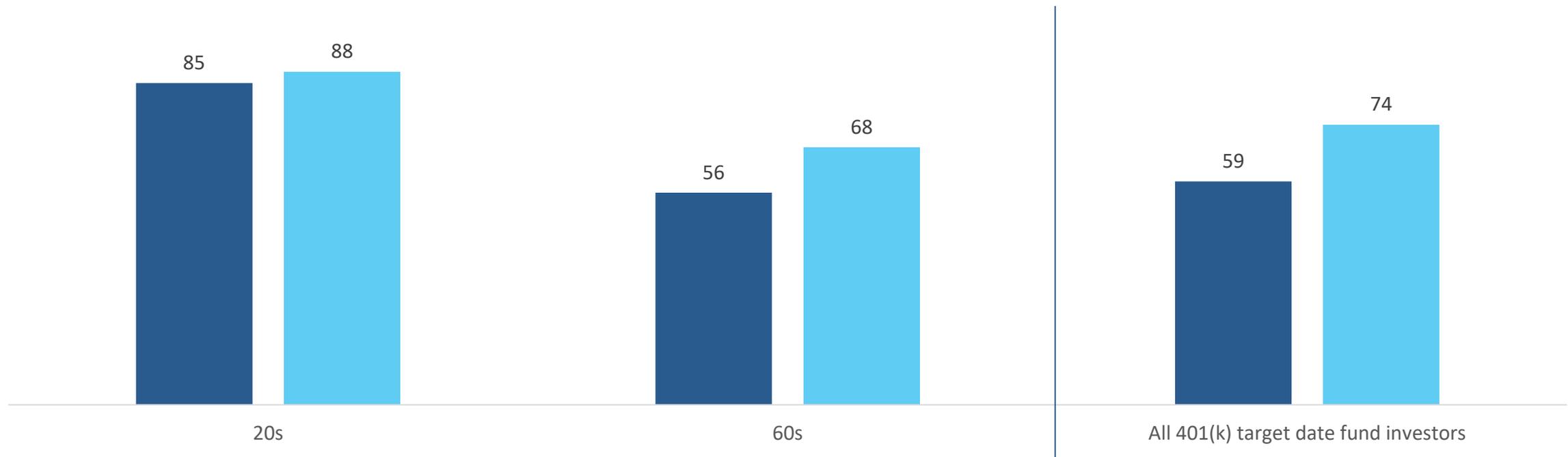
Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; see Holden, VanDerhei, and Bass 2021

# Q3: ARE DC PARTICIPANTS PROPERLY UNDERSTANDING AND USING TDFs?

# Majority of 401(k) Target Date Fund Investors Hold High Concentrations in Target Date Funds

Among 401(k) plan participants investing in target date funds, year-end 2018

- Percentage of 401(k) plan assets invested in target date funds (asset-weighted average)
- Percentage of 401(k) plan target date fund investors with >90 percent of account balance in target date funds

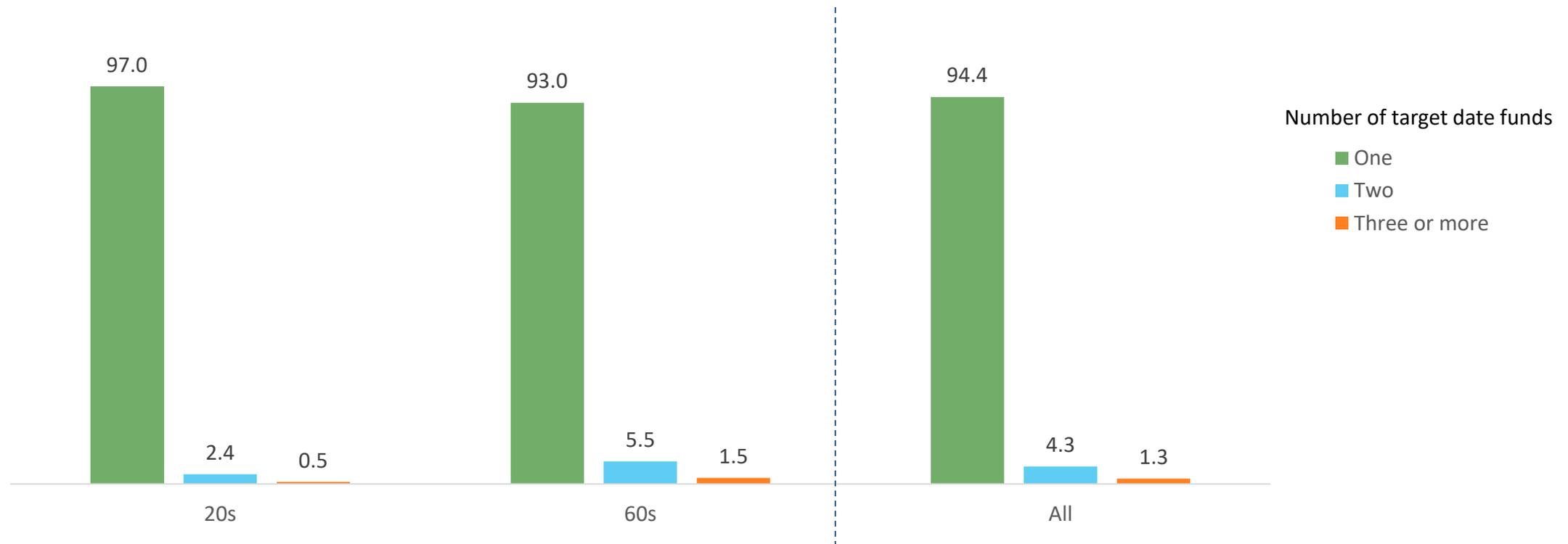


Note: Funds include mutual funds, bank collective trusts, and life insurance separate accounts.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; [https://www.ici.org/research/investors/ebri\\_ici](https://www.ici.org/research/investors/ebri_ici)

# 401(k) Plan Target Date Fund Investors of All Ages Tend to Concentrate in One Target Date Fund

Percentage of 401(k) plan participants with target date funds by participant age, year-end 2018



Note: Funds include mutual funds, bank collective trusts, and life insurance separate accounts.

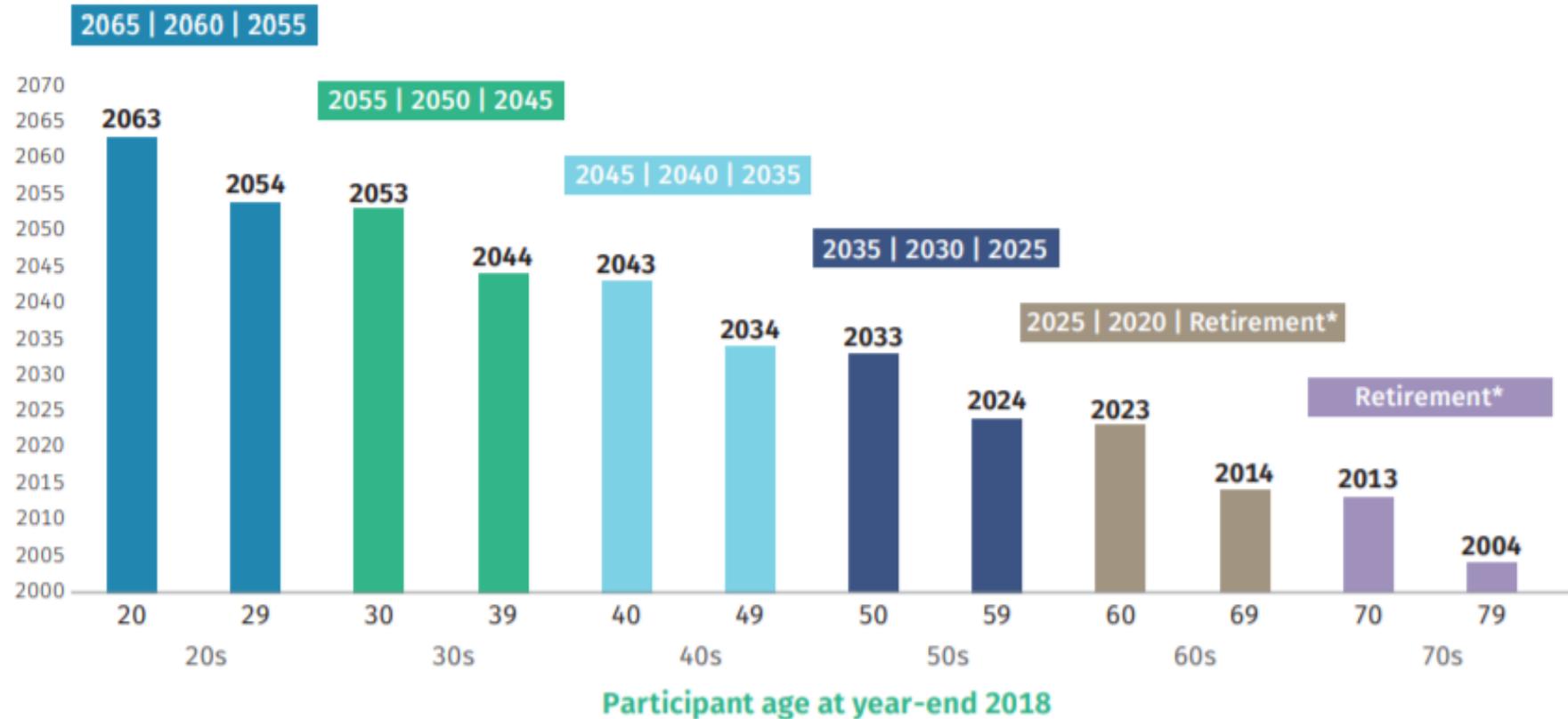
Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; see "Target Date Funds: Evidence Points to Growing Popularity and Appropriate Use by 401(k) Plan Participants," *ICI Research Perspective* and *EBRI Issue Brief* (<https://www.ici.org/system/files/2021-09/per27-07.pdf>)

# Choosing the Age-Appropriate Target Date Fund

- 401(k) plan participants invested in the target date fund with the target date closest to the year that they turn 65 are considered in their age-appropriate target date fund.
- But individual investors
  - may have a different target retirement age in mind (e.g., age 67 for Social Security full retirement age; or age 55 for police/fire),
  - may be seeking more focus on growth (choosing a later target date than their age suggests, making them old for the fund)
  - may be seeking more focus on income (choosing an earlier target date than their age suggests, making them young for the fund).

# Categorization of Age-Appropriate Target Date Funds

Year of 65th birthday, by participant age at year-end 2018

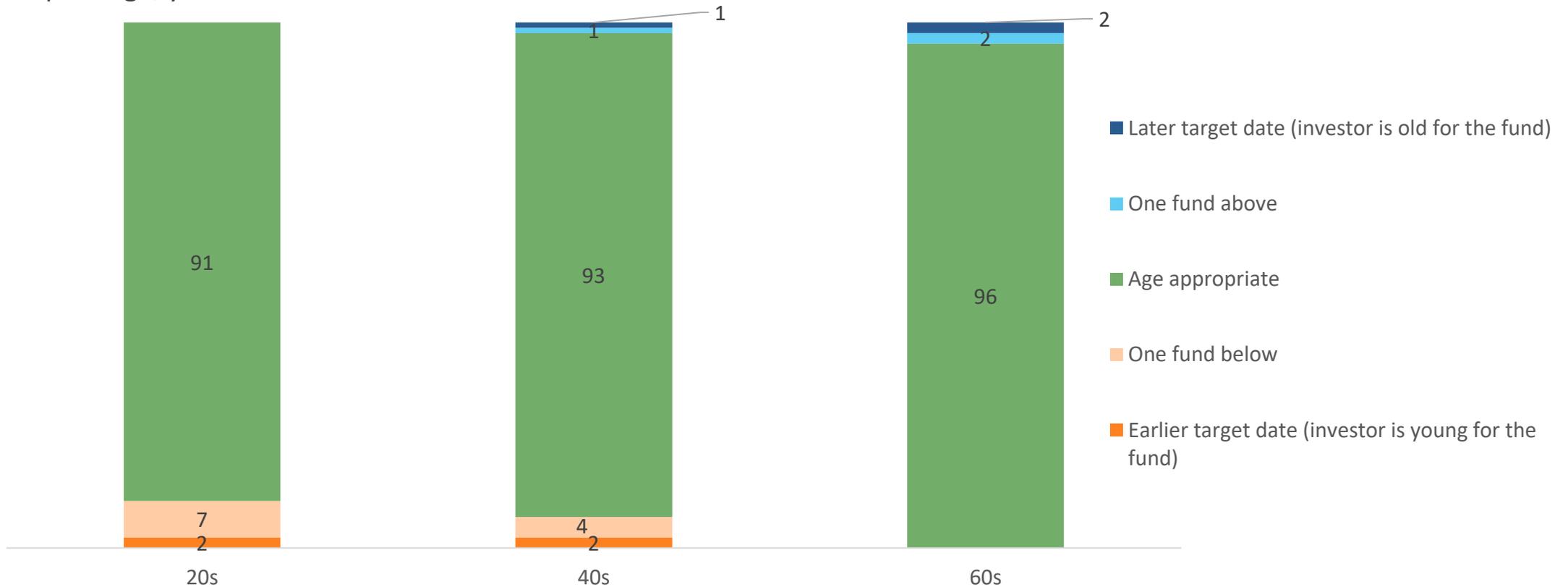


\*Retirement funds include target date funds that have passed their target dates in 2018 (2000, 2005, 2010, or 2015), in addition to the retirement income fund included in the target date fund suite.

Note: This illustration assumes that 401(k) plan participants are invested in the target date fund with the target date closest to the year that they turn 65. Individual investors may have a different target retirement age in mind, or may be seeking more focus on growth (choosing a later target date than their age suggests) or more focus on income (choosing an earlier target date than their age suggests).

# Majority of 401(k) Participants Holding One Target Date Fund Held Fund Appropriate to Their Age

Target date alignment with participant turning age 65; Percentage of 401(k) plan participants holding one target date fund by participant age, year-end 2018

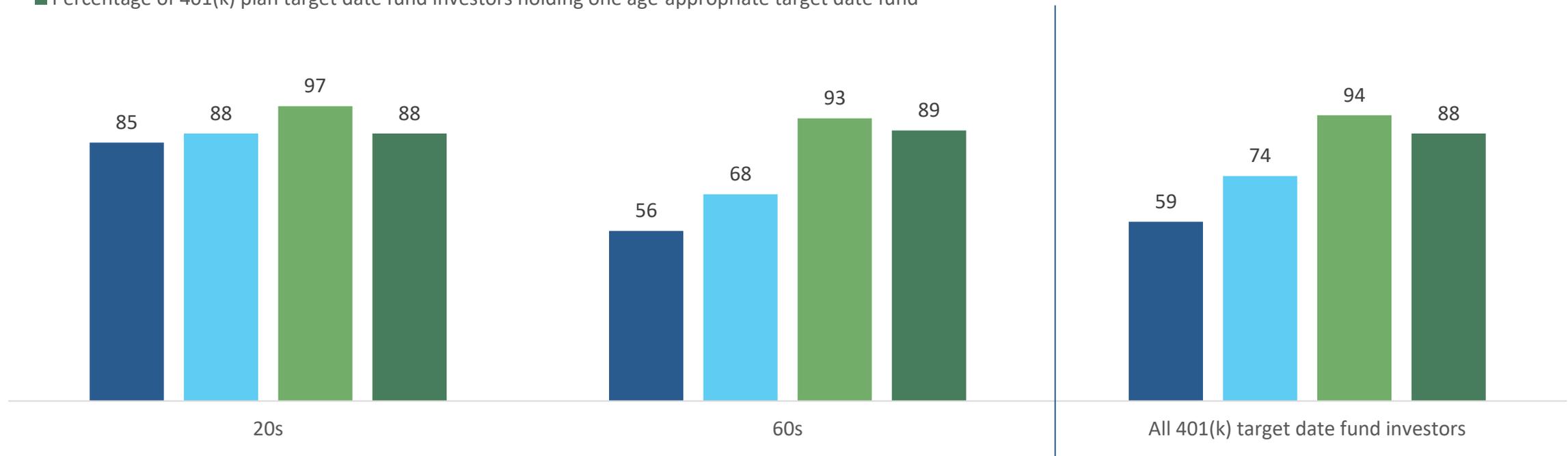


Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; see “Target Date Funds: Evidence Points to Growing Popularity and Appropriate Use by 401(k) Plan Participants,” *ICI Research Perspective* and *EBRI Issue Brief* (<https://www.ici.org/system/files/2021-09/per27-07.pdf>)

# Vast Majority of 401(k) Target Date Fund Investors Hold One Age-Appropriate Target Date Fund

Among 401(k) plan participants investing in target date funds, year-end 2018

- Percentage of 401(k) plan assets invested in target date funds (asset-weighted average)
- Percentage of 401(k) plan target date fund investors with >90 percent of account balance in target date funds
- Percentage of 401(k) plan target date fund investors holding one target date fund
- Percentage of 401(k) plan target date fund investors holding one age-appropriate target date fund



Note: Funds include mutual funds, bank collective trusts, and life insurance separate accounts.

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; see “Target Date Funds: Evidence Points to Growing Popularity and Appropriate Use by 401(k) Plan Participants,” *ICI Research Perspective* and *EBRI Issue Brief* (<https://www.ici.org/system/files/2021-09/per27-07.pdf>)

# Q4: HOW DO THE ASSET ALLOCATIONS OF TDF USERS COMPARE TO THOSE WHO DON'T USE TDFS?

# Average Asset Allocation of 401(k) Plan Accounts by Target Date Fund Ownership and Participant Age

## 401(k) Plan Participants Holding Target Date Funds

Age Group	Equity Funds	Target Date Funds <sup>2</sup>	Balanced Funds			GICs <sup>2,3</sup> and Other Stable Value Funds	Company Stock <sup>2</sup>	Other	Unknown	Memo: Equities <sup>4</sup>
			Non Target Date Balanced Funds	Bond Funds	Money Funds					
20s	9.3%	85.0%	0.5%	1.0%	0.2%	0.5%	1.6%	1.5%	0.3%	86.6%
30s	16.1%	73.3%	0.9%	2.0%	0.4%	1.1%	3.6%	2.3%	0.4%	84.3%
40s	23.7%	60.1%	1.4%	3.2%	0.7%	2.0%	5.4%	3.0%	0.5%	76.7%
50s	25.1%	54.4%	1.9%	4.3%	1.1%	3.7%	5.9%	3.2%	0.5%	63.3%
60s	21.7%	56.1%	2.0%	5.5%	1.5%	5.7%	4.3%	2.6%	0.6%	51.3%
<b>All</b>	<b>22.5%</b>	<b>59.2%</b>	<b>1.6%</b>	<b>4.0%</b>	<b>1.0%</b>	<b>3.3%</b>	<b>5.0%</b>	<b>2.9%</b>	<b>0.5%</b>	<b>66.2%</b>

## 401(k) Plan Participants Not Holding Target Date Funds

Age Group	Equity Funds	Target Date Funds <sup>2</sup>	Balanced Funds			GICs <sup>2,3</sup> and Other Stable Value Funds	Company Stock <sup>2</sup>	Other	Unknown	Memo: Equities <sup>4</sup>
			Non Target Date Balanced Funds	Bond Funds	Money Funds					
20s	50.8%	0.0%	7.1%	22.9%	1.1%	2.6%	1.5%	8.7%	5.1%	56.4%
30s	55.8%	0.0%	8.5%	9.4%	1.7%	3.9%	2.8%	16.2%	1.6%	63.5%
40s	58.6%	0.0%	6.0%	8.9%	2.5%	5.3%	4.2%	12.9%	1.4%	66.3%
50s	53.2%	0.0%	7.0%	11.1%	4.1%	8.6%	4.6%	10.0%	1.3%	61.9%
60s	45.3%	0.0%	7.1%	14.2%	4.0%	13.1%	3.6%	11.3%	1.4%	53.0%
<b>All</b>	<b>52.4%</b>	<b>0.0%</b>	<b>7.0%</b>	<b>11.5%</b>	<b>3.6%</b>	<b>8.7%</b>	<b>4.1%</b>	<b>11.4%</b>	<b>1.5%</b>	<b>60.4%</b>

<sup>1</sup>Percentages are dollar-weighted averages.

<sup>2</sup>Not all participants are offered this investment option.

<sup>3</sup>GICs are guaranteed investment contracts.

<sup>4</sup>Equities include equity funds, company stock, and the equity portion of balanced funds.

Note: Funds include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated.

# Q5: HOW MUCH DO TDF INVESTORS STICK WITH TDFS OVER TIME?

# Changes in 100 Percent Allocation to Target Date Funds Among Consistent 401(k) Participants Between 2010 and 2018

Percentage of consistent 401(k) participants by age, year-end 2010 and year-end 2018

Age	100 Percent in 2010	Moved Away From 100 Percent by 2018	Remained at 100 Percent	Moved to 100 Percent by 2018	Net Change	100 Percent in 2018
20s	60.7%	-17.8%	42.9%	3.2%	-14.6%	46.1%
30s	30.6%	-8.0%	22.6%	3.2%	-4.8%	25.8%
40s	18.3%	-5.1%	13.2%	3.0%	-2.1%	16.2%
50s	14.4%	-3.8%	10.6%	3.1%	-0.7%	13.7%
60s	15.1%	-3.4%	11.7%	4.8%	1.4%	16.5%
<b>All</b>	<b>17.9%</b>	<b>-4.6%</b>	<b>13.3%</b>	<b>3.6%</b>	<b>-1.0%</b>	<b>16.9%</b>

Note: A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name. Funds include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated. The consistent sample is 1.9 million 401(k) plan participants with account balances at the end of each year from 2010 through 2018. Age group is based on the participant's age at year-end 2018.

Overall, 13.3/17.9 = 74% that were 100 percent in 2010 remained at 100 percent, not much difference by age

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project

# Changes in Zero Allocation to Target Date Funds Among Consistent 401(k) Participants Between 2010 and 2018

Percentage of consistent 401(k) participants by age, year-end 2010 and year-end 2018

Age	Zero in 2010	Moved Away From Zero by 2018	Remained at Zero	Moved to Zero by 2018	Net Change	Zero in 2018
20s	26.4%	-11.3%	15.1%	7.7%	-3.6%	22.8%
30s	37.5%	-11.0%	26.5%	7.0%	-4.0%	33.5%
40s	48.4%	-12.5%	35.9%	6.2%	-6.3%	42.1%
50s	53.8%	-14.0%	39.8%	6.1%	-7.9%	45.9%
60s	53.5%	-12.8%	40.7%	6.3%	-6.5%	47.0%
<b>All</b>	<b>50.1%</b>	<b>-12.8%</b>	<b>37.3%</b>	<b>6.3%</b>	<b>-6.5%</b>	<b>43.6%</b>

Note: A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name. Funds include mutual funds, bank collective trusts, life insurance separate accounts, and any pooled investment product primarily invested in the security indicated. The consistent sample is 1.9 million 401(k) plan participants with account balances at the end of each year from 2010 through 2018. Age group is based on the participant's age at year-end 2018.

Overall, 74% that were 0 percent in 2010 remained at 0 percent, but only 57% of those in their 20's

Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project

# Q&A



## Upcoming Events

**December 6** — Virtual Policy Forum Day 1: **Keynote: Department of Labor Update With Kathleen Kennedy Townsend and A Path to a More Equitable Solution: Solving the Retirement Coverage Gap**

**December 7** — Virtual Policy Forum Day 2: **Spending in Retirement: The Full Picture**

**December 9** — Virtual Policy Forum Day 3: **Health Care Reform Redux: How Might Legislative and Regulatory Action Drive Change?**

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