



The Basics

1-fund retirement: Buy and forget

Pick a target date, and the managers do the work, rebalancing for appropriate risk as your goal nears. But there are drawbacks, especially for retirees.

By [Liz Pulliam Weston](#)

You have a busy life. Why should you have to worry about your retirement portfolio?

That's the idea behind the new breed of "targeted maturity" funds now increasingly available in 401(k) plans and at many brokerages and mutual fund companies.

With names like "Outlook 2020" and "Target Retirement 2045," the funds aim to take all the muss and fuss out of retirement investing. You simply pick the fund with a date close to your expected retirement (or other long-term goal) and let the fund's managers take care of the rest.

Not only do they distribute your contributions around a broad spectrum of stocks, bonds and cash, but they rebalance those allocations over time so that your mix gets more conservative as your goal approaches. (This is Retirement Investing 101: You want a bigger chunk of your money in bonds and cash as you approach your last day of work, since you'll have less opportunity to make up any losses.)

T. Rowe Price's Retirement 2025 Fund, for example, currently has about 80% of its assets in stocks, but that percentage will shrink to 20% over the next 20 years. Vanguard's offering for the same year starts off with 80% in stocks, shrinking to 45% over 20 years.

Target maturity funds are a variation on so-called "lifestyle" funds, which similarly do the asset allocation and rebalancing for you. But most lifestyle funds rebalance to keep their asset mix fairly static, rather than ratcheting back on risk over time.

The popularity of both types of no-sweat funds is growing; 55% of large-company 401(k) plans offered lifestyle and target maturity funds last year, according to Hewitt Associates. That's up from 35% in 2001.

Targeted funds got a real boost in the past two years, as Fidelity, T. Rowe Price and Vanguard all introduced new offerings. Although guided by the same overall philosophy, the actual funds are strikingly different, reflecting each fund family's personality:

Vanguard, the low-price leader, relies on an edited selection of thrifty index funds. You get just what you need and no more: the firm's Total Stock Market and Total Bond Market index funds make up the core portfolio, with pinches of international stocks in the form of its European Stock and Pacific Stock offerings.

Fidelity, meanwhile, throws everything but the kitchen sink into its targeted funds -- seemingly regardless of quality. "Some of the offerings in the Fidelity funds are not the best in their categories," says Kerry O'Boyle, the Morningstar analyst who specializes in tracking targeted funds. Fidelity's targeted mixes include a whopping 18 funds, which lean heavily toward the kind of actively managed large-company funds for which the mutual fund behemoth is best known.

T. Rowe Price strikes a balance in the middle of its two major competitors, with eight underlying fund offerings that O'Boyle praises as "a good mix" of large-, small- and midcap funds along with international and high-yield bond offerings. Three of the eight funds -- Mid-Cap Growth, Small-Cap Stock and High-Yield -- have received high praise from Morningstar analysts.

Does this make sense for everybody?

But all this begs the question: Are targeted-maturity funds the right choice for you?

Alas, as with all interesting investment ideas, this one has drawbacks. The biggest one is that you need more than a retirement date to determine your ideal asset mix. Some investors will need to take more risk than the targeted fund allows to reach their retirement goals. On the flip side, you may be such a Nervous Nellie that even a more conservative targeted fund would keep you up at night.

Speaking of asset allocation, the theory that you should ratchet back on risk as you age is generally a good one. You're still likely to need, however, a significant portion of stocks in your retirement portfolio to provide inflation-beating growth, and these targeted-maturity funds might not give you enough. Some financial planners believe a stock allocation shouldn't drop below 50% for most retirees, yet many targeted maturity funds drop to a 20% stock allocation in the final years.

Another issue is that these funds are really designed to stand alone. If you start supplementing them with other picks from your 401(k) or brokerage, you're adding work for yourself and defeating the central purpose.

But if you leave all of your money in one fund -- even a fund of funds -- eventually it will grow to a fairly hefty size that may leave you worried about having all your retirement eggs in a single fund company's basket.

Plus, unless you choose Vanguard's index option, you'll need to at least occasionally monitor your fund against appropriate benchmarks to make sure the underlying funds' quality isn't slipping. (Index funds give you the assurance that you'll never do significantly worse than the market, although you'll never do significantly better, either.)

Best for new investors

These drawbacks lead Morningstar's O'Boyle to think that date-targeted funds are most appropriate for new, nervous investors who might not get into the market at all if they're faced with too many choices. Targeted funds also might have a place for a more sophisticated investor who has a small, auxiliary portfolio he or she would rather not think too much about. "A Coverdell (education savings plan) might be good for one of these, because you're only allowed to contribute \$2,000 a year," reasons O'Boyle, who uses a targeted fund in his 13-month-old son's account.

When you use targeted maturity funds in a college savings account, the funds' low exposure to stocks at the end is a bonus, not a drawback. You'll want almost all your money in readily available cash when it's time to pay tuition.

Otherwise, a better choice for retirement investors who want the least hassle is a good old-fashioned balanced fund that puts about 60% of its assets in stocks and the rest in bonds and cash. The rebalancing is handled for you, and you'll still have the kind of stock exposure that can get you through retirement.

The little (but important) issues

If you still want to explore targeted maturity funds as an option, here are some additional factors to consider.

Watch the fees. In any "fund of funds" arrangement, annual expenses can quickly get out of hand if you're paying chunks of change for all the underlying funds plus another layer for management of the larger portfolio. This isn't a major concern at the lower-cost shops like Vanguard, Fidelity and T. Rowe Price, but it is definitely an issue at full-service brokerages.

Don't pay a load. Speaking of brokerages, the idea of paying a sales charge or "load" for one of these funds is particularly egregious. The only time forking over 5% of your principal makes any sense is if you're getting expert help in putting your portfolio together. Since the fund does the asset allocation for you, the salesperson isn't doing much to earn your money.

Watch the taxes. Even with low-turnover index funds, you'll have some tax issues with a targeted maturity portfolio. The occasional rebalancing is likely to throw off taxable capital gains distributions. Targeted funds are probably best held in tax-deferred accounts.

Finally, (and most obviously), you'll still have to figure out how much to contribute -- and actually put the money in. No amount of asset shuffling is going to deliver you a comfortable retirement if you don't pitch in enough cash over the years.

Liz Pulliam Weston's column appears every Monday and Thursday, exclusively on MSN Money. She also answers reader questions in the [Your Money message board](#).