The future of TDFs

Lori Lucas: People are generally more likely to be in a target-date fund today than a decade ago. Another trend we're clearly seeing is that as participants get older, they're less likely to be in a target-date fund. So, for example, while in 2018 more than half of the assets of people in their 20s were in target-date funds, that decreased to just over a fifth of the assets of people in their 50s and 60s. So the question plan sponsors need to ask is, "What is the role of target-date funds for their older workers?"

Another question that is becoming more pressing, "How do target-date funds factor in as retirement vehicles?" Many plan sponsors now express a desire to actually keep retiree money in the 401(k) plan for a variety of reasons and how can target-date funds help them in that endeavor?

Abha Dawesar: Lori, you raised some really great points here. So, Liz, how is Vanguard innovating to help investors move from the workforce into retirement?

Liz Tammaro: You know, we're really confident that participants are set up well to accumulate by using a target-date fund in a well-designed plan. But as Lori said, there's this looming question about retirement income. And, look, it is a tough question. Why is that? Well the needs of retirees are more varied, they're more complex so the answer isn't quite as simple.

Here is where we are innovating. So some of you may have seen our first VanguardNEXT event which was solely focused on retirement income and where we discussed at length some of the challenges as well as some solutions. Now if you were there, you heard that from a target-date fund perspective there were plan (GAP) funds with different equity landing points on the glide path.

Again, the reason for this goes back to the fact that retirees have different goals. A participant who needs to meet basic living expenses with their portfolio might not be able to tolerate the same amount of equity risk as the person who's looking for discretionary spending or intends to leave legacy assets. And, look, goals aren't the only differences among retirees. There's risk tolerance, health concerns, longevity, tax situations. And while a product solution may meet the needs of many, it certainly doesn't meet the needs of all.

So our approach will be to offer additional services—think of retirement paycheck service and enhanced participant experience to support those who want to do it themselves. Then our most comprehensive most personalized offer would be Advice, whether that's situational, digital, or in concert with an advisor.

And while we're working on all of this, you as plan sponsors can support your retired participants by doing three things. First, you can review your plan rules. Remove friction,

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Meet the speakers

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Vanguard

allow for withdrawal flexibility through installments or ad hoc withdrawals, and allow participants to consolidate assets—roll assets into your plan. Second, you can ensure that your investment lineup contains investment options that align to retiree spending and/or bequest goals. And then third and finally, you can offer advice and guidance. So we're working on multiple fronts and in partnership with you to increase the odds that participants can live the retirement that they want.

Important information

Investments in target-date funds are subject to the risks of their underlying funds. 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 ones based on its target date. An investment in the target-date fund is not guaranteed at any time, including on or after the target date.

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