

# BUSINESS

## INVESTMENT TRENDS

### Retirement funds can take guesswork, high fees out of investing

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Imagine a retirement fund that ages with you.

You decide when you're likely to stop working, put the account on autopilot, and leave it alone.

In fact, that kind of fund is already here and rapidly gaining in popularity.

Unlike the lifestyle funds that were more popular a decade ago, where investors filled out a questionnaire, then chose the balance of stocks and bonds that suited their risk profile, these relatively new funds do it for you.

Target retirement date funds involve no questionnaires. Investors simply choose the date they're most likely to retire, and the fund does the rest.

"These products are designed for those who simply want to hand the reins over to a professional; who are saying 'I'm tired of making all these asset allocation decisions,'" said Michael J. Francis, senior consultant at Francis Investment Counsel LLC. The Hartland investment consulting firm provides advice to retirement plans.

Boston-based mutual fund giant Fidelity Funds was first to introduce target retirement date funds about 10 years ago. Investors choose the fund with a date closest to their likely retirement, and that's it.

The 2040 fund, for example, might have 90% of its assets in stocks and 10% in bonds, spread across a number of different mutual funds. But in 30 years, the fund will have moved to, say, 60% stocks and 40% bonds.

Some have criticized the funds, saying they ignore investors' individual risk tolerances. But their big advantage is their simplicity, Francis said.

Other fund companies were slow to introduce target retirement date funds, but they've been gaining traction. Total assets in these funds were \$98.3 billion as of Sept. 30, up from \$70.2 billion at the end of 2005, according to Financial Research Corp., a Boston financial services consulting firm.

The Pension Protection Act of 2006, signed by President Bush in August, encourages companies



**Francis**

to automatically enroll in their 401(k) plans employees who don't make a choice about whether or not to join. Department of Labor guidelines likely to go into effect in the next few months should spur companies to direct the assets, when employees haven't made a choice,

into target retirement date funds, rather than the money markets many previously used.

"There's an avalanche of new funds that all want to have their bucket underneath this waterfall," Francis said.

He uses several criteria to sort through the target retirement date funds:

- What's the so-called "glide path" of the fund? What is the stock allocation at the beginning, and how low does it go? Because life expectancies have lengthened, Francis says, it's reasonable to keep equity exposure as high as even 65% upon retirement.

- How diversified is the fund between market capitalizations and styles such as growth, value and blend?

- What is the investment style of the manager of the funds the target date retirement portfolio uses?

- How much does it cost to own the fund? Expense ratios on these products can range from 2.0% to 0.20%, with the average that retail investors pay at 0.80% to 0.90% of assets, Francis said.

He uses these firms' funds often for customers' retirement plans:

**T. Rowe Price** ([www.troweprice.com](http://www.troweprice.com)), as an institution, has a value stock bias, so even its growth funds tend to be focused on finding growth at a reasonable price, Francis said.

Value stocks have outperformed their growth counterparts for about six years, but Francis says such a bias shouldn't be a problem over the long-term.

"They've got a very accomplished cadre of stock pickers in their arsenal, and they have

good managers on both sides of their shop, and in fixed income as well," he said.

T. Rowe Price was the leader among fund companies in saying 65-year-old investors could still have 20 years or more to live, so they might want a higher allocation to stocks. The firm has a 65% exposure to stocks in its fund targeted to investors retiring now, Francis said.

**American Funds** ([www.americanfunds.com](http://www.americanfunds.com)) only last month introduced a group of target retirement date funds.

"They're rarely first to the party with a new fund type," Francis said.

He says he likes the quality of the firm's new funds and their more aggressive allocation to stocks, like T. Rowe Price has. Also like T. Rowe Price, American Funds organizationally has a slight value tilt, he said.

**Vanguard** ([www.vanguard.com](http://www.vanguard.com)) offers target retirement date products that use index funds and are style-neutral, Francis said.

Vanguard's products were quite conservative when they were introduced about three years ago, but have shifted their allocations to have a higher percentage of stocks, he said.

The big appeal for Vanguard's target date products is cost: a relatively low 0.21% of assets.

The biggest risk investors have with them is the possibility of highly unusual market activity - like from 2000 to 2002, when most active managers beat the passive indexes. But the funds' low cost and the long-term nature of the investments minimize those risks, he said.

The target retirement date funds will be used more frequently as employers digest the new pension rule changes, Francis said. But individuals may want to use them on their own, too, he said.