Don’t Count on Target-Date Funds for Retirement. What to Know.

The funds work well for young people, but older investors may need more customized investments.

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Target-date funds help streamline what can be an overwhelming task—saving enough money to sustain a retirement that could last 30 years or more. Yet while their cookie-cutter recipe works well for young people, investors may need to change it as they get older.
There’s now around $3.3 trillion in target-date funds, making them a huge chunk of 401(k) plans and other retirement portfolios. Fidelity Investments, Vanguard, and T. Rowe Price —the biggest players in the market—collectively manage more than $1 trillion in them.

Target-date funds gradually adjust their mix of stock and bonds to become more conservative as the account holder approaches retirement. The funds are typically offered in five-year increments, and investors choose the vintage that best corresponds to the year they plan to retire; if you plan to call it quits in 2050, you’d pick a 2050 fund.

The key advantage of the funds is that they do the heavy lifting of gradually adjusting their asset mix from stocks to bonds, assuming investors want to be more conservative as they near retirement. Enjoying widespread adoption following the Pension Protection Act of 2006, target-date funds have been a boon for savers who lack the time, interest, or know-how to do it themselves.

Yet as individuals age, they tend to diverge from the one-size-fits-all assumptions. And fund companies diverge sharply in what they consider age-appropriate for near-retirees: Some assume you’ll only want 20% in stocks at the target date, while others go as high as 56%.

“I think they are a great vehicle,” says Nate Miles, head of retirement at Allspring Global Investments. “It’s just that they’re not as good for 55-year-olds as they are for 25-year-olds.”

Part of the issue, he says, is that young people tend to be similar in key ways: Their biggest asset is their human capital, or their ability to earn money in the workforce over decades. By the time they get older, workers’ experiences tend to vary more materially. For example, some will have accumulated assets outside their 401(k), while some will have taken time out of the workforce to care for children or aging parents.

By design, target-date funds aren’t tailored to individual circumstances. Their simplicity is both an asset and a potential liability.

Here are some things for pre-retirees and retirees to consider to see if your fund still works for you.

How Conservative Do You Want to Be?

Target-date funds become more bond-heavy over time. The assumption is that retirees will need more income and stability, and bonds are supposed to act like shock absorbers, holding their value when equities decline.

Yet bonds went through a historically bad stretch as the Federal Reserve hiked interest rates—fueling losses for both bonds and stocks in 2022 and raising questions about whether the target-date model is broken. Last year was better, as bonds regained ground while the stock market soared. With the Fed now expected to cut rates three times later this year, the outlook for fixed income has improved.

While that's good news for bond owners, investment pros generally warn against making long-term decisions based on short-term market movements. And most advisors still recommend a balanced portfolio.

Retirement

A key consideration for target-date investors is whether to hold a "to" or "through" fund. Some funds reach their most conservative asset allocation at the target retirement year, while others reach it after retirement. The first are known as "to" funds, because they take their participants to retirement and generally keep a static asset allocation beyond that point. The latter are known as "through" funds, since they continue to lower the stock allocation for another 10 to 15 years beyond retirement.

The asset mix can vary greatly, depending on the fund company's philosophy. According to Morningstar, equity allocations in 2025 funds range from 20% in a "to" fund to 56% in a "through" fund." The divide is less pronounced at younger ages: In 2055 funds, equities range from 98% in a "to" fund to 80% in a "through" fund.

It pays to know which type of fund you're in. Savers who don't know might wind up investing more conservatively or aggressively than they might otherwise.

Are You Factoring In Other Savings?

Target-date funds assume you have no savings outside of the fund. While that's the case for many Americans, those with money in an IRA or other accounts need to consider their portfolio holistically.

Rich Weiss, chief investment officer of multi-asset strategies at American Century Investments, whose funds take a "to" approach, invests in American Century's 2065 fund,

which holds 85% equities. “I am not 20 years old,” he says. But since he holds conservative assets outside his 401(k), he wants to be more aggressive inside it.

Weiss is “off-dating,” or choosing a fund that corresponds to his preferred asset mix rather than target retirement year. It’s a move many pros recommend if your target-date fund’s asset allocation doesn’t match your risk tolerance and goals.

Based on data from early 2022, about 23% of American Funds’ target-date investors off-date, says Maddi Dessner, head of global asset-class services at Capital Group.

Another option is to sell the target-date fund and pick other funds. That’s what advisor Jordan Naffa did for one client, who had $1 million in a target-date fund through his 401(k). Now in his mid-50s, the client plans to retire around 60, well before the fund’s assumption of age 65.

Naffa’s client was in a 2025 Vanguard target-date fund with 53% stocks and 47% bonds. Naffa figured his client needed a higher stock allocation to have a better chance of his money lasting through retirement. So the client sold the target-date fund and moved into individual funds offered by his 401(k) plan that gave him a 75/25 stock and bond split.

“The target-date fund was great and served him well, but at this point he needed more customization,” says Naffa, director of financial planning at Arista Wealth Management in Las Vegas.

Consider a Customized Strategy

While you’re still working, making adjustments within your 401(k) is a good option. Contributions are probably going in automatically from your paycheck, and if you switch from one tax-deferred, or post-tax, vehicle to another, there will be no tax impact. Lastly, 401(k) plans may have favorable institutional pricing. If you exit the plan, you risk taking on additional, unnecessary costs.

One reason to make adjustments is if you want to leave a legacy. Target-date funds assume you’ll want to deplete your assets upon death, projecting life expectancy with actuarial tables. If you want to leave money to family or charity—and have enough for your own retirement—then you might want to invest more aggressively, says Rand Spero, president of Street Smart Financial in Lexington, Mass.

Spero sees target-date funds’ cookie-cutter approach as problematic at older ages. “The range of what is suitable seems quite divergent, but the answer is still the same,” he says.