Choosing the Right Target Date Funds for your 401(k) Plan: Considerations for Investment Committees

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Abstract
Target-date funds (TDFs) have become the standard default investment choice for 401(k) plans since the 2006 Pension Protection Act approved them for this use. However, TDFs from different providers should not be considered perfect substitutes. They differ in several key areas: investment philosophy, glide paths, and costs. Understanding these differences is a requirement of plan sponsors under ERISA’s “prudent expert” rule when choosing the investment line up for their 401(k) plan. This paper seeks to explain the distinctive characteristics of TDFs in an effort to help investment committees choose a TDF series in a manner that will satisfy the “prudent expert” requirement.