# Most Investors Understand TDFs: Vanguard

By Editor Test *Thu, Jan 20, 2011*

*But Vanguard's newly published survey also showed that only 62% of its DC plan participants who own TDFs have heard of a TDF, and only 24% know that the asset allocation changes after the target date.*

Most target-date fund investors understand the funds' basic design and their risks, but need "education about the highly diversified nature of a single-target date fund," according to a new study by Vanguard, the second-largest manager of target-date funds in the U.S.

In its *Investor Comprehension and Usage of Target-Date Funds: 2010 Survey*, Vanguard also found "opportunities exist to improve investors' knowledge of target-date fund (TDF) mechanics at and around the target date, and the implications of combining TDFs with other assets."

The study showed that only 62% of plan participants who owned TDFs had ever heard of a TDF. That finding didn't surprise Vanguard, since most of those participants were probably defaulted into TDFs and, ipso facto, didn't need to know or understand them.

"Participants who are not aware of TDFs are likely to be unengaged investors—and these funds are intended to provide such investors with a prudently diversified portfolio," said John Ameriks, head of Vanguard Investment Counseling & Research.

The study was released this month, prior to the Department of Labor's deadline for comments on proposed regulations on disclosures for TDFs, which came under Congressional and regulatory scrutiny after they failed to protect near-retirement investors from significant losses in the 2008-2009 financial crisis.

For the study, Vanguard in January 2010 surveyed 4,700 Vanguard IRA owners and participants in Vanguard-administered retirement plans, some of who owned TDFs and some who didn't.

Among Vanguard's findings:

- Some 95% of TDF investors in IRA accounts reported having "heard of a target-date fund," versus 62% of TDF owners in defined contribution retirement plans. Vanguard wasn't surprised, because participants are frequently defaulted into TDFs.
- Only 24% of the participants knew that the asset allocation of most TDFs continues to change after the target year.
- 61% of participants said they chose TDFs because they wanted "a balanced portfolio, simplicity, and convenience."
- Among investors who hold other investments along with a TDF, 56% said they did so to hold "more aggressive investments." Another 41% thought they needed a mixed portfolio for adequate diversification.
- 75% of participants said they intended to gradually draw down their target-date fund assets.
- more than 90% of the respondents plan to have an equity position in their portfolio at retirement.

- 77% knew that the asset allocation becomes more conservative as the target year approaches, showing an understanding of these funds' changing asset allocation.
- 68% recognized that target-date funds offer a diversified mix of stock and bonds. (Diversification does not ensure a profit or protect against a loss in a declining market.)
- 87% believed target-date funds involve "some risk" or more; less than 1% felt they were risk-free.
- Only 8% of participants incorrectly believed that target-date funds provide "guaranteed income" and only 4% of participants incorrectly indicated that TDFs provide a guaranteed return or become risk-free at the target date.