

Target Date Funds Primer

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As defined benefit plans have become less common in the US, more of the responsibility for retirement outcomes has shifted to individual participants in defined contribution (DC) plans. Target date funds (TDFs) were built for this environment: they offer a professionally managed, diversified portfolio in a single investment vehicle and are frequently used as a plan's default option. TDFs represented 42% of plan assets and 64% of plan contributions in 2024, and 84% of participants used TDFs when offered.¹ Among plans that designated a qualified default investment alternative (QDIA), 98% used a TDF.² Target date funds are named for the year an investor expects to retire, with portfolios designed to evolve automatically as that date approaches.

TDFs are designed to make retirement investing simpler for plan participants by combining a diversified portfolio with an automatic shift in risk over time. However, target date fund offerings with the same target year can produce very different outcomes. This is because the funds' investment managers may structure the portfolios in meaningfully different ways, particularly around the target date. In practice, outcomes hinge on a small set of choices, such as the glide path, the choice of active versus passive management, and fees. Because target date funds are so widely used, plan sponsors have a responsibility to carefully evaluate and monitor their target date funds. They must ensure that the selected funds align with the needs and expectations of their plan participants.

This is the first in a series on target date funds. In subsequent pieces, we anticipate discussing the integration with fiduciary responsibilities, annuities, custom target date funds, private assets, recordkeeping, and artificial intelligence.

Key Takeaways

- › Target date funds (TDFs) have become the dominant option for retirement investing in defined contribution plans, offering a professionally managed and diversified portfolio that shifts risk over time.
- › TDFs with the same target year can produce very different outcomes due to variations in glide paths, management style, and fees.
- › Recent trends show TDFs extending investment horizons and increasing equity allocations for younger participants, reflecting longer expected lifespans and evolving retirement needs.
- › Because TDFs are so prevalent and can change substantially over time, plan sponsors must carefully evaluate, select, and monitor these funds to ensure they align with participant needs and expectations.

What Is a Target Date Fund?

A target date fund is a diversified investment portfolio built around a target year intended to align with an investor's expected retirement age, rather than an individual investor's specific retirement date. For example, a "2060" fund is designed for someone expected to reach a typical retirement age around 2060. Target date funds tend to include a suite of funds organized by expected retirement ages expressed as future years. Target date funds are intended to provide an investor with a one-stop shop investment.

TDFs are also known as lifecycle funds. Target date funds are intended to provide an investor with a streamlined single investment that will de-risk automatically as the assumed retirement age.

Typically, TDF offerings are composed of a suite or series of funds organized in five-year increments. The longer dated funds are for younger entrants in the work force that may not expect to retire until 2065 or beyond, while the nearest date funds are designed for those participants who have likely already reached retirement age. A defined contribution plan will usually feature a single TDF series or suite in its investment line-up and will add a new long-dated TDF every five years to accommodate its youngest participants.

It is equally important to define what a TDF is not. The target year in the fund's name does not guarantee performance, does not promise capital preservation at or near retirement, and does not ensure an investor will have sufficient assets to retire on schedule. The label alone is not sufficient to evaluate suitability because similarly dated funds can be constructed very differently.³

How Does a TDF work?

Most TDFs work through a pre-set glide path, a schedule that shifts the portfolio's allocation through time. Early in the lifecycle, the fund is typically equity-heavy to seek growth. As retirement age approaches, the allocation generally shifts toward bonds and other diversifying assets to reduce volatility and to help manage the risk of large losses close to retirement (see Figure 1).

The glide path is implemented through periodic rebalancing and planned allocation adjustments. This "autopilot" feature is a primary reason TDFs are used as defaults: it reduces the operational burden on participants who may not rebalance on their own, and it helps maintain a more consistent risk profile over time. Since they were first introduced, glide paths have generally become more equity-oriented, perhaps in response to demographic changes that include longer expected lifespans.

Generally, TDF providers have extended their investment horizon (see Figure 2). For example, in 2010, the average TDF extended for (i.e., anticipated) ten years of retirement, and by 2024 the average TDF extended to twenty years of retirement. The average equity allocation for workers just beginning their careers was 92% at the end of 2024, up from 85% a decade earlier.⁴ This helps explain why "target date" alone is not a sufficient descriptor of risk posture and reinforces the importance of reviewing the glide path, particularly in the decade surrounding retirement.

Figure 1
Illustration of Target Date Fund Derisking Glide Path (% in Equities & Bonds)

Source: US Government Accountability Office (GAO). 401(k) Retirement Plans: Department of Labor Should Update Guidance on Target Date Funds (GAO-24-105364, March 2024).

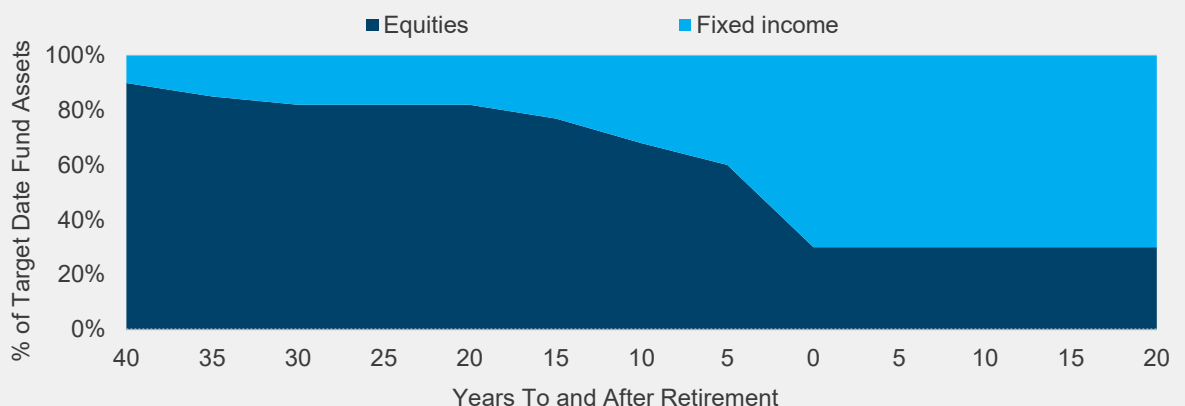
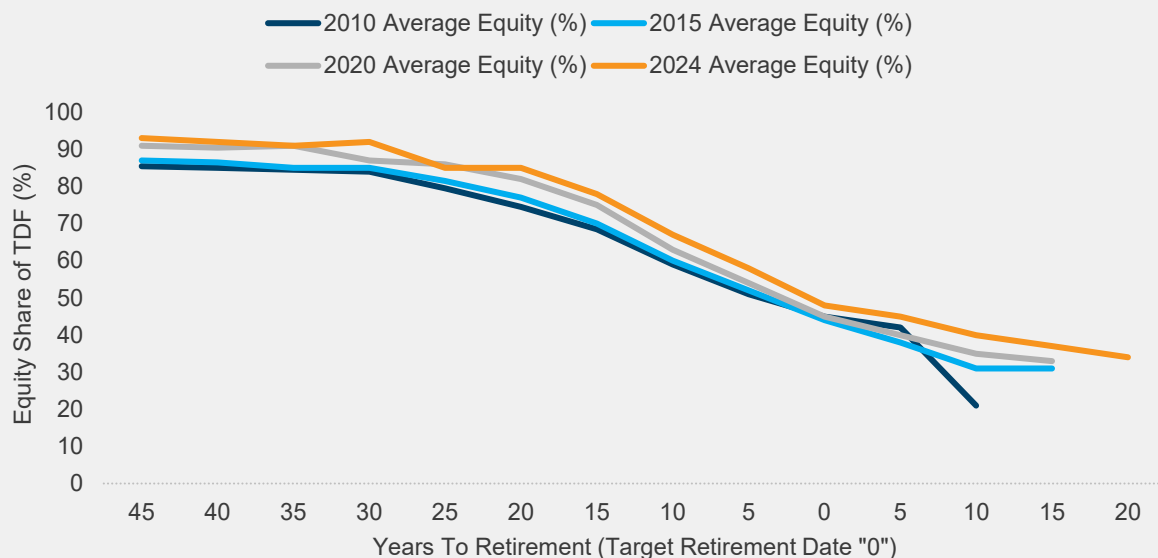


Figure 2
Average Equity as a % of TDF, in Years To Retirement



Source: Morningstar, "Target Date Fund Landscape," April 2025.

Structurally, the majority of TDF products are implemented as fund-of-funds, investing in underlying funds rather than holding individual securities directly.⁵ That structure can be more efficient, but it also means a TDF can change meaningfully over time not only through adjustments to the glide path but also through changes to the underlying lineup (e.g., switching managers, benchmarks, or exposures inside the component funds). A practical question for fiduciaries is not whether change is possible, but how changes are governed and communicated.

Who Are TDFs Designed For?

TDFs are designed primarily for participants in employer-sponsored DC plans who want a single diversified solution that adjusts risk over time without requiring frequent participant decisions. The Department of Labor (DOL) encourages fiduciaries to evaluate whether a TDF series' design aligns with the plan population, pointing to factors such as salary levels, turnover, contribution behavior, and withdrawal patterns.⁶

A simple way to describe the intended best fit is that TDFs are well suited to participants who prefer a one-stop diversified portfolio and are unlikely to construct and maintain a multi-asset portfolio on their own. Fit can be less straightforward when participant behavior diverges from glide-path assumptions. For instance, if a significant number of participants roll

assets out of the plan at retirement, retire earlier or later than the series suggests, or possess unusually high or low risk capacity because of outside assets or other benefits, evaluating fit becomes more complex. These are precisely the population-specific factors DOL recommends fiduciaries consider when selecting and monitoring a series.⁷

Because TDFs are commonly used as the default investment, plan sponsors and investment committees should treat the selection of a TDF series as a high-impact decision. Specifically for plans subject to the Employee Retirement Income Security Act of 1974 (ERISA), QDIA rules provide a framework for fiduciary relief for default investing, but they do not eliminate fiduciary responsibility. That is, plan fiduciaries remain responsible for prudent selection and ongoing monitoring.⁸

Two Glide-Path Philosophies: "To" Versus "Through" Retirement

Funds with the same target year can reflect different philosophies about what happens at and after retirement. In practice, there are two types of glide paths: "to" and "through." "To" glide paths shift the investment mix up to the target date and generally not past it, while "through" glide paths continue shifting beyond the target date.

Figure 3
Median Equity Allocation “To” Retirement and “Through” Retirement

Source: Morningstar, “Target Date Fund Landscape,” April 2025.

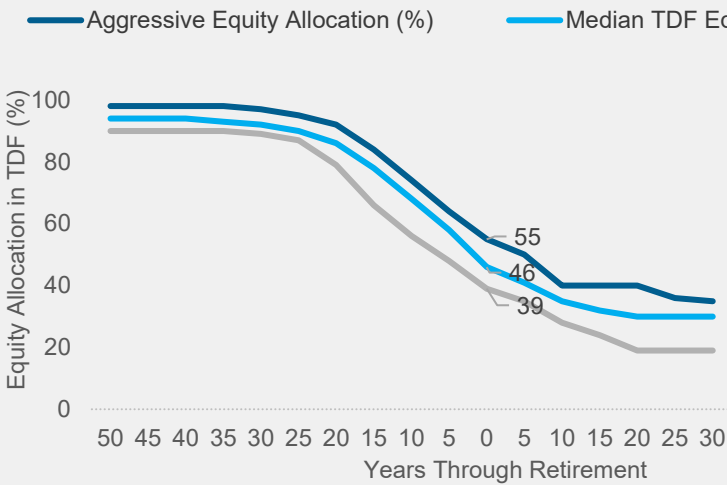
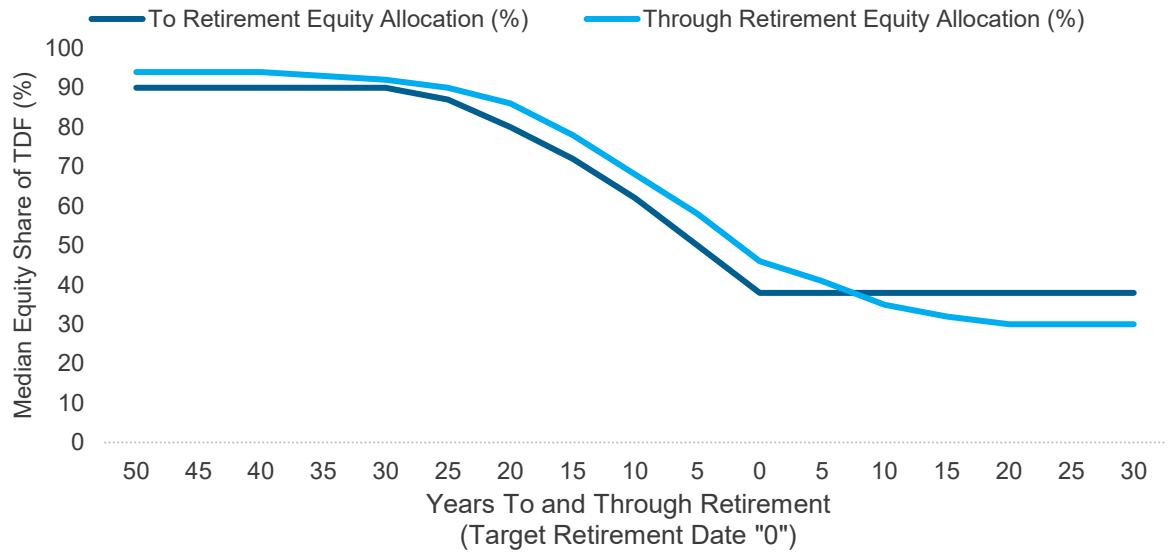


Figure 4
Range of TDF Equity Allocation “Through” Retirement

Source: Morningstar, “Target Date Fund Landscape,” April 2025.

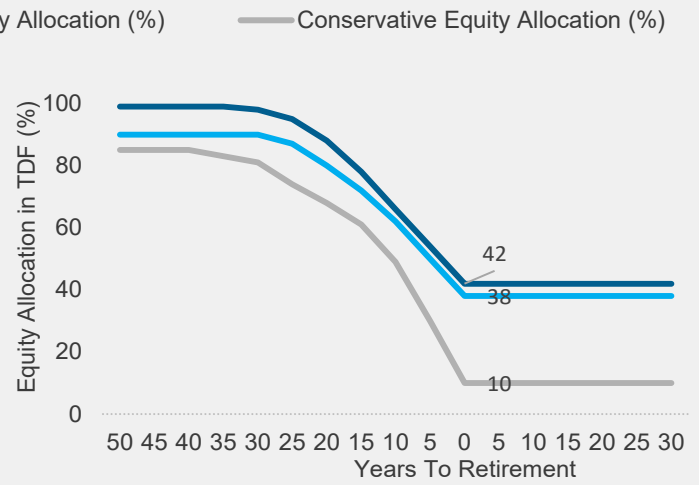


Figure 5
Range of TDF Equity Allocation “To” Retirement

Source: Morningstar, “Target Date Fund Landscape,” April 2025.

The DOL similarly explains that “to” approaches generally reach their most conservative allocation at the target date, whereas “through” approaches may not reach their most conservative allocation until years later.⁹

From a fiduciary perspective, this distinction is an explicit risk decision. A “through” design generally maintains more equity exposure around retirement, which may be appropriate for populations that remain invested and withdraw gradually over a multi-decade retirement. A “to” design typically reduces equity exposure earlier, which can be a better fit when participants tend to roll

assets out at retirement or draw down more quickly. The appropriate posture depends on participant behavior and plan objectives rather than marketing labels.

In committee discussions, it is helpful to frame “to” versus “through” by examining the series’ equity exposure at the target date and the pace at which it continues to change thereafter. These design decisions are practical determinants of retirement-transition risk and offer a clear basis for comparing otherwise similar target date fund options.

Active Versus Passive TDFs

A second major area of variation is implementation, which refers to the manner in which a TDF executes its glide path and obtains market exposures, rather than the glide path itself. A passive TDF series typically constructs its portfolio using index-based building blocks for equities and fixed income, aiming for broad, systematic market exposure and generally lower fees. In contrast, an active TDF series generally relies on active underlying managers and may incorporate greater manager discretion in security selection or portfolio positioning, which can introduce higher fees and greater dependence on manager selection and organizational stability.

In both cases, it is useful to treat active versus passive as an implementation choice layered on top of the glide path. Two series can share a similar “to” or “through” philosophy and still differ materially in net outcomes due to differences in fees, manager risk, and the behavior of the underlying building blocks.

Fiduciary Considerations: Selection and Monitoring

Because TDFs are frequently used as QDIAs, the fiduciary process is central. The QDIA regulation provides a framework for fiduciary relief for default investing, but it does not replace prudent selection and monitoring responsibilities.¹⁰ The DOL’s guidance encourages fiduciaries to understand the series’ glide path and underlying holdings, evaluate fees, and establish a process for periodic review, including whether key characteristics or management have changed.¹¹ Regulators also emphasize that differences among TDFs can be meaningful, particularly near the target retirement date. The SEC cautions that risk can remain substantial at and around the target date depending on the fund’s asset allocation.¹² For committees, regulatory guidance points toward a practical monitoring posture: focus on whether the series continues to reflect the intended risk profile for the plan population, and whether implementation changes have altered net exposures in a way the committee would not expect.

Current State of the TDF Market

The Investment Company Institute (ICI) reports that Americans held \$13.9 trillion in employer-based DC

plans as of September 30, 2025, including \$10.0 trillion in 401(k) plans.¹³ These totals frame the scale of the DC system, but they do not, by themselves, indicate how much is allocated to TDFs. There are approximately \$4.8 trillion dollars invested in off-the-shelf target date funds and another \$400 billion in custom target date funds.¹⁴

Recordkeeper-based statistics are often the clearest lens on TDF adoption within plans. Vanguard reports that as of 2024, TDFs accounted for 42% of plan assets and 64% of plan contributions.¹⁵ When a TDF is designated as the plan’s QDIA and receives a substantial share of automatic and ongoing contributions, its design choices, especially its risk posture near retirement, can matter as much as any single manager selection on the core menu. Morningstar estimates that target-date assets reached \$4 trillion in 2024 across mutual funds and collective investment trusts (CITs).¹⁶ Morningstar also reports that CITs surpassed mutual funds as the dominant vehicle in mid-2024 and represented 52% of target-date assets at year-end 2024.¹⁷ The top ten largest investment managers have accrued 93% of target date fund assets.¹⁸

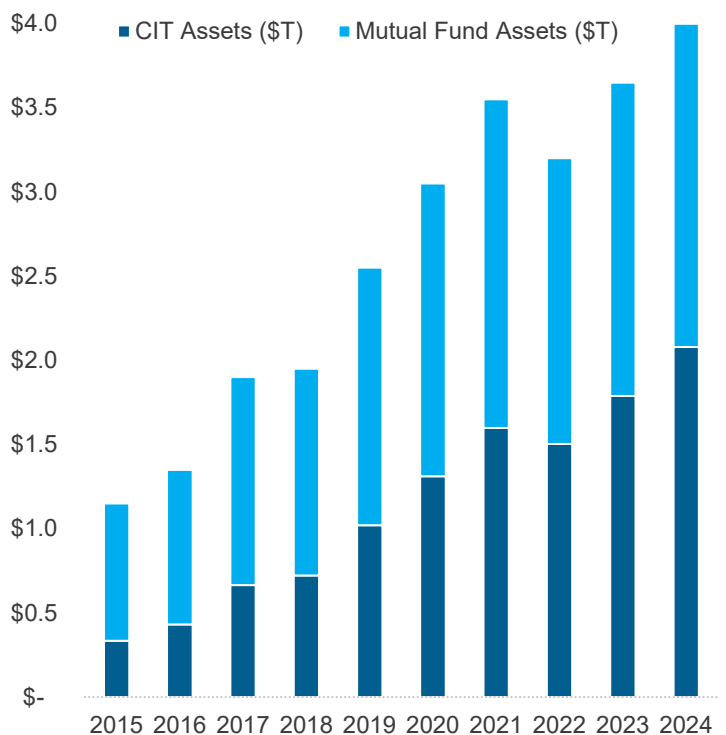


Figure 6
Mutual Fund & CIT Target Date Funds Assets (\$T)

Source: Morningstar, “Target Date Fund Landscape,” April 2025.

Conclusion

TDFs are widely used because they help translate a complex portfolio construction problem into a single, professionally managed investment structure implemented through a series of options that automatically adjusts risk over time. The target date fund market continues to evolve in response to regulatory guidance, growing participant assets, and ongoing debate over active and passive implementation choices. Fiduciaries face a nuanced responsibility: they must understand the underlying glide path philosophy and the composition of the underlying building blocks within a TDF series, remain vigilant regarding fees and manager risk, and consider the impact of implementation decisions on participant outcomes. Regulatory agencies such as the DOL and SEC stress the importance of prudent selection and monitoring, particularly given that variation across TDF offerings can lead to materially different results for plan participants near retirement.

Given their prevalence as default options, the selected TDF series effectively becomes the plan's primary investment hire. As TDFs are commonly designated as the qualified default investment alternative in many defined contribution plans and, as a result, now attract a majority of new contributions, their design and risk posture have significant implications for the retirement security of millions of Americans. The industry is marked by a high concentration among the largest managers and a growing shift toward collective investment trusts, while substantial assets are also held in custom solutions. Plan committees must maintain a practical and ongoing monitoring process that assesses whether their chosen TDF series continues to align with the plan population's needs and risk tolerance, adapting to market and regulatory changes to support successful long-term outcomes.

End Notes

¹ Source: Vanguard, How America Saves 2025 reporting year-end 2024 recordkeeping statistics.

² Source: Ibid.

³ Source: Securities and Exchange Commission (Office of Investor Education and Advocacy). Target Date Funds – Investor Bulletin, March 25, 2025.

⁴ Source: Morningstar, "Target Date Fund Landscape," April 2025.

⁵ Source: Securities and Exchange Commission (Office of Investor Education and Advocacy). Target Date Funds – Investor Bulletin, March 25, 2025.

⁶ Source: US Department of Labor (EBSA). Target Date Retirement Funds – Tips for ERISA Plan Fiduciaries (web guidance).

⁷ Source: Electronic Code of Federal Regulations. 29 CFR § 2550.404c-5 – Fiduciary relief for investments in qualified default investment alternatives (QDIA).

⁸ Source: US Department of Labor (EBSA). Target Date Retirement Funds – Tips for ERISA Plan Fiduciaries (web guidance).

⁹ Source: Securities and Exchange Commission (Office of Investor Education and Advocacy). Target Date Funds – Investor Bulletin, March 25, 2025.

¹⁰ Source: US Department of Labor (EBSA). Target Date Retirement Funds – Tips for ERISA Plan Fiduciaries (web guidance). Under ERISA Section 404(c)(5) and 29 C.F.R. § 2550.404c-5, a plan fiduciary is relieved of liability for investment losses resulting from a participant's account being defaulted into a Qualified

Default Investment Alternative (QDIA), provided the fiduciary satisfies applicable notice requirements, ensures participants can redirect assets without penalty, and offers a broad range of investment alternatives. The relief covers investment outcomes only (i.e., the fiduciary retains full responsibility for the prudent selection and ongoing monitoring of the QDIA itself).

¹¹ Source: US Department of Labor (EBSA). Target Date Retirement Funds – Tips for ERISA Plan Fiduciaries (web guidance).

¹² Source: Securities and Exchange Commission (Office of Investor Education and Advocacy). Target Date Funds – Investor Bulletin, March 25, 2025.

¹³ Source: Investment Company Institute (ICI). Quarterly Retirement Market Data, Third Quarter 2025.

¹⁴ Source: Sway Research, "State of the Target Date Market: Year-end 2025" Many investment managers offer plan sponsors with sufficient plan assets the ability to customize their target date funds. These custom target date funds are designed to address specific plan participant demographic needs.

¹⁵ Source: Investment Company Institute (ICI). Quarterly Retirement Market Data, Third Quarter 2025.

¹⁶ Source: Morningstar, "Target Date Fund Landscape," April 2025.

¹⁷ Source: Ibid.

¹⁸ Source: Ibid.

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