What is a Target Date Fund?
A Target Date fund is comprised of a mix of stocks, bonds, and cash equivalents. As time passes, each fund is managed to gradually shift from higher-risk investments (such as stocks) to lower-risk investments (such as bonds and cash equivalents). The fund rebalances its portfolio to become less focused on growth and more focused on income as it approaches and, in some cases, passes the target date.

Target Date funds attempt to help smooth out the short-term highs and lows of the markets by diversifying your portfolio through investing in several asset classes at once. The mix of investments varies depending on the risk/return objectives of the specific Target Date fund.

What is a Glide Path?
A Glide Path is the changing mix of stock, bonds and cash equivalents. By the time a fund reaches its target date, it “glides down” to reach a more conservative mix of investments.

What is the Difference Between a “To” vs. “Through” Glide Path?
A Target Date fund glide path refers to how a fund’s allocation mix of equity, bonds, and cash is managed. Funds managed “to” retirement tend to be more conservative before retirement compared to funds managed “through” retirement.

“To” Glide Path: Assumes retirement is the target date. At the designated retirement date and going forward, the equity allocation and the underlying investment mix remains static.

“Through” Glide Path: The investment mix continues to adjust through the designated retirement date. Typically, the allocation to equity continues to decrease for several years after retirement before leveling off.

What is an Equity Landing Point?
An Equity Landing Point is the point at which the Target Date fund reaches its lowest equity allocation.

Chart 1 below shows the glide path comparison of the State Farm LifePath series to three other large Target Date series. This chart shows the disparity of allocation to equity that exists in Target Date funds throughout the industry, with equity allocation at the time of retirement ranging from an Industry High of 64% to an Industry Low of 8% equity.

Note that there is no right or wrong approach to the different investment mixes or equity landing points. However, it is important that investors understand that the investment mix impacts both absolute and relative returns, and that Target Date funds will have very different risk profiles and do not protect against loss.

*Source: Morningstar
The State Farm LifePath Fund’s (Target Date funds) asset allocation models are designed with a conservative approach for the long-term investor. The intent of this conservative approach to investing is to minimize the volatility extremes during the accumulation years while attempting to minimize the risk of loss of principal in retirement.

State Farm LifePath Funds are managed to “glide down” to an approximate allocation of 40 percent equity, and to maintain this equity allocation for the life of the Fund (See Chart 1). The State Farm philosophy is that a “to” strategy is more intuitive and easier for most investors to comprehend. In addition, maintaining a moderate level of equity in the portfolio potentially helps offset inflation and provides further growth potential during retirement years.

Understanding Target Date Fund Performance

The variance in the allocation mix of equity, bonds, and cash within Target Date funds can lead to differences in performance and risk profiles, and make it difficult to conduct an “apples-to-apples” comparison with other Target Date funds. In addition, the underlying mix within each asset class varies (e.g. U.S. or International stocks, Real Estate, Bonds, etc.). These differences could result in two Target Date funds which have a common 20-year time horizon, producing meaningfully different results.

For example, in Chart 2, Target Date Fund A and Fund B both have a time horizon of approximately 25 years (e.g. the year 2040). However, Fund A contains 90% equity (60% U.S. Stocks, 20% International Stocks, and 10% Real Estate) and 10% bonds. On the other hand, Fund B contains 80% equity (55% U.S. Stocks, 25% International Stocks, and 0% Real Estate) and 20% bonds.

Even though disparity exists across Target Date funds, with proper education, fund selection, and an appropriate understanding of the underlying asset mix, Target Date funds can be an effective investment tool.

Target Date funds can serve as an effective way to save for retirement, but for most investors, Target Date funds may not be the only source of retirement income. Other assets and sources such as Social Security, private pensions, annuities, etc., may help comprise a more complete portfolio for retirement.

There are two important elements when selecting funds - investment style and time horizon (how long you intend to invest). statefarm.com® offers a Fund Selection Tool to show which funds may be a good option for you based on these two components.

For more information on Target Date funds and saving for retirement, contact a State Farm agent or visit statefarm.com®.

1Morningstar 2016 Target-Date Fund Landscape

LifePath Funds are target-date portfolios whose investment objectives are adjusted over time to be more conservative as the target date (date the investor plans to start withdrawing their funds) approaches. The principal value of the fund(s) is not guaranteed at any time, including at the target date. LifePath® is a registered trademark of BlackRock Institutional Trust Company, N.A. The LifePath Funds invest a portion of their assets in equity securities. Risks of investing in equity securities include the risk that the financial condition of the issuers of the securities in the portfolio, or the condition of the stock market in general, may decline. Bonds are subject to interest rate risk and may decline in value due to an increase in interest rates. Diversification does not assure a profit or protection against loss. Investing involves risk, including potential for loss. Neither State Farm nor its agents provide investment, tax, or legal advice. Before investing, consider the funds’ investment objectives, risks, charges and expenses. Contact State Farm VP Management Corp (1-800-447-4930) for a prospectus or summary prospectus containing this and other information. Read it carefully. AP2016/06/0793