

# RETIREMENT CHECK-UP



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COUNTY PUBLIC SCHOOLS

## Target Date Funds: Is One Right for You

Your strategy for saving and investing for retirement may vary depending on how close you are to your planned retirement date.

Target date funds help take some of the guesswork out of how to invest your retirement dollars. You choose a target date closest to when you want to begin retirement, and your account is automatically invested in a diversified portfolio of investments that help you meet that goal. Generally, the retirement date is in the name of the fund.

Typically, the further you are from retirement today, the more stocks you will have in your asset allocation mix. Stock funds are historically more volatile

investments than bond funds, but have the potential to earn higher returns, especially over long periods. As the target retirement date approaches, target date funds automatically add a greater percentage of lower volatility bond funds to the portfolio in order to preserve capital for investors.

Anne Arundel County Public Schools' Supplemental Retirement Plan (SRP) participants have access to target date funds designed to help make saving for retirement easy. Depending on your SRP provider (ING (soon Voya Financial), Lincoln, or VALIC), you have access to target date funds through either T. Rowe Price or Vanguard.

## T. Rowe Price and Vanguard: Finding the Right Mix for You

### SIMILARITIES

T. Rowe Price and Vanguard each offer AACPS participants a choice from 11 target retirement date funds and an additional retirement income fund that maintains a fixed asset allocation mix for investors who prefer not to have their investment options change much over time. The target retirement date funds for both T. Rowe Price and Vanguard are actually composed of each company's underlying mutual funds.

### DIFFERENCES

There is a difference in how T. Rowe Price and Vanguard construct these target retirement date funds. T. Rowe Price actively manages its underlying mutual funds; that simply means that a portfolio manager, co-manager, or team of managers, reviews and makes trades in the funds to achieve long term performance objectives. In contrast, Vanguard uses a passive management style for its mutual funds (which are index funds). That simply means that its portfolios mirror the components of a market index, such

as the Standard & Poor's 500 Index. Some investors prefer active management for the potential to outperform the market, while others prefer passive management to avoid potential performance surprises.

Another significant difference between T. Rowe Price and Vanguard is the make-up of the funds. Both T. Rowe Price and Vanguard can make convincing arguments for their own investment styles.

T. Rowe Price uses 18 of its underlying mutual funds in making up the asset allocations for each target retirement date fund; Vanguard uses just five underlying mutual funds in making up its asset allocations for each target retirement date fund. Underlying funds are chosen for their contribution to balancing risk and return potential relative to one another.

T. Rowe Price's underlying funds include U.S. and non-U.S. equities (stocks), stocks from emerging market companies, core fixed income (bonds), high-yield bonds, U.S. Treasury inflation protected securities (TIPS), and inflation-hedging products.

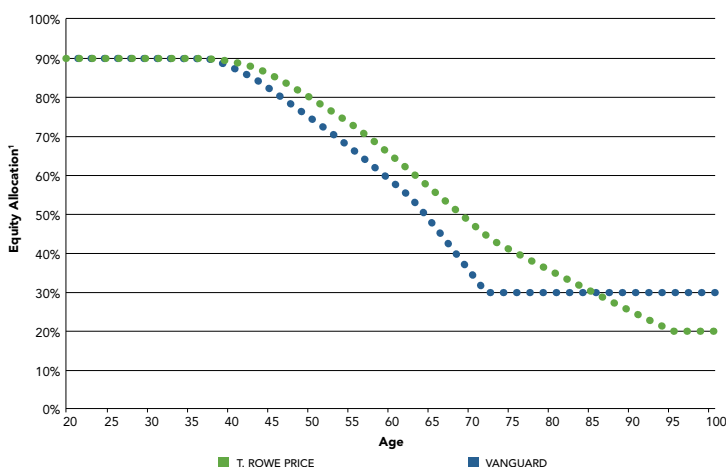
## Target Date Retirement Funds: Available through the AACPS Supplemental Retirement Plan

	T. Rowe Price	Vanguard
Investment Funds	11 Target Retirement Date funds, plus a Retirement Income Fund	11 Target Retirement Date funds, plus a Retirement Income Fund
Each Target Retirement Date Fund is comprised of:	18 Underlying T. Rowe Price Funds that include U.S. and non-U.S. equities (stocks), stocks from emerging market companies, core fixed income (bonds), high-yield bonds, U.S. Treasury inflation protected securities (TIPS), and inflation-hedging products	5 Vanguard Index Funds that include U.S. and non-U.S. equities (stock), core fixed income and non-U.S. fixed income bonds, and TIPS.
Fund Management	Active Fund Management	Passive Fund Management
Investment Costs	Range from 0.57% – 0.78% depending on fund selected	Range from 0.16% – 0.18% depending on fund selected.
Available through	Lincoln and VALIC	MetLife and ING (soon Voya Financial)

Vanguard uses U.S. and non-U.S. equities (stock), core fixed income and non-U.S. fixed income bonds, and TIPS. Your familiarity with and comfort level may determine which vendor is best for you. The chart highlights the equity allocations for both T. Rowe Price and Vanguard at various ages.

**T. Rowe Price Glidepath/Equity Landing Point:** The highest equity allocation (neutral position of 90% stocks) is maintained in the Retirement Funds with the longest time horizons. Beginning at 25 years before the targeted retirement date, each fund’s asset allocation becomes more conservative, systematically moving out of equities and into fixed income and short-term fixed income investments on a quarterly basis. At the expected retirement date, the funds maintain an adequate exposure to equities (approximately 55%). The most conservative allocation (approximately 20% stocks) does not occur until thirty years after the expected retirement date.

### T. Rowe Price and Vanguard Glide Path Illustrations



<sup>1</sup>Equities include Commodities and REITs

**Vanguard Glidepath/Equity Landing Point:** Younger investors maintain a 90% exposure to stocks until age 40. Investors then see a gradual reduction in their stock exposure over time until reaching approximately 50% stocks / 50% bonds by age 65. The most conservative allocation (approximately 30% in equities) does not occur until seven years after the expected retirement date.

### COSTS

Vanguard’s index approach to investing in target date funds results in lower investment costs ranging from 0.16% – 0.18% depending on the actual retirement date fund chosen. T. Rowe Price’s active approach to investing results in higher investment costs ranging from 0.57% – 0.78%; however, long term performance, net of fees, has been superior. *Please consider both Vanguard and T. Rowe Price funds carefully as past performance does not guarantee future results.*

### SRP Providers

Lincoln and VALIC use T. Rowe Price target date funds. MetLife and ING (Voya Financial) use Vanguard target date funds. As of July 1, 2014, MetLife will no longer be an option for SRP participants. If you are currently enrolled in MetLife, now is a good time to learn more about your investment options, including target date funds managed by T. Rowe Price and Vanguard. You may attend open house events at AACPS locations, or schedule a meeting with an SRP provider at your worksite. Visit the AACPS Supplemental Retirement Plan home page for additional information, including open house dates:

[www.aacps.org/humanresources/retirement\\_new.asp](http://www.aacps.org/humanresources/retirement_new.asp)