

Removing the Emperor's New Clothes: What Do We Really Know about Target-Date Funds?

Abstract

While the pension fund industry maintains that it is a competitive market and, as such, should remain free from regulatory oversight, the consensus of the academic literature is that this industry is anything but competitive. One of this industry's recent trends in retirement savings products is known as target-date funds (TDFs). These funds claim a self imposed discipline of risk reduction as the retiree approaches some pre-determined date. However, these funds are essentially mutual funds with a twist and are not perfect retirement instruments. In this paper, some standard definitions of market failure are applied to the pension fund industry. This issue is further examined through the use of the technique of content analysis. The goal of the research is to highlight the pitfalls of seemingly "safer" investment vehicles for retirees.

JEL classification: G01, G23, G28

Keywords: Pension Funds, Government Regulation, Agency Costs

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