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A monthly savings tip from the American Savings Education Council (ASEC)

The Basket You CAN Put All Your Nest Egg In

When you sit down to make choices with your retirement plan investments, you are generally presented with a list of fund choices—and given an opportunity to choose those that will help your retirement savings grow. However, most of us are not investment experts—and even if you have the time, and get the help to make a good decision, you may well be too busy to keep an eye on those choices on a regular basis.

That's why a growing number of retirement plans now make available an option that can help you make the right investment choice for your retirement plan. Most people call these a "lifestyle" fund or a "lifecycle" fund, but you also may hear it referred to as a "managed account" or an "asset allocation" fund.

Most of these are mutual funds made up of other funds, and some may even include funds already on your current retirement fund menu. They are rebalanced on a regular basis to keep your investment approach (stocks vs. bonds) in line with your goals. Because of that, though we are frequently told "not to put all our eggs in one basket," the unique design of an asset allocation fund does that for you automatically.

There are three basic types of asset allocation funds—and your retirement plan investment menu may have one, or more than one, of these available:

- **Lifestyle funds** are designed to take into account your willingness to assume some risk in order to achieve your retirement goals. These funds frequently have names that indicate a tolerance for risk. "Conservative" lifestyle funds are for investors who are not comfortable with big market shifts, for instance—whereas an "aggressive" fund generally would be more appropriate for an investor who is not that concerned with temporary bumps in the market. Your willingness to take those risks is frequently determined by a short quiz called a risk tolerance questionnaire. These days, they are often referred to as "risk-based" funds.

- **Lifecycle funds** are designed to take into account when you plan to withdraw the money. Generally speaking, they are based on a target date in the future—in fact, many call these "target-date" funds. They have numbers in their names, like 2010 or 2040, that reflect the date in the future when you plan to retire.

- **Managed accounts** differ from lifestyle and lifecycle funds in that they tend to be more tailored to your individual financial situation. Consequently, the proportion invested in stocks and bonds takes into account both when you plan to retire (like target-date solutions) and your willingness to take on market risk to achieve your investment goals (like risk-based solutions).

Bear in Mind

An asset-allocation fund is designed to make it easy for you to make good investment decisions by allowing you to make a single investment choice that provides you access to a diversified portfolio, rather than building, and keeping up with it, yourself. However, studies have shown that people sometimes treat these funds as just another investment fund on that retirement fund menu, spreading their account across two, three, or even four different asset-allocation funds. Finally, keep an eye out for the costs of these funds, generally by checking out the fund prospectus—because the fees can be quite different.