



THE ROAD LESS GLIDED

Rethinking the Retirement Target





EXECUTIVE SUMMARY

Target date fund (TDF) glidepaths have become increasingly similar over the past decade, with many providers adopting higher equity allocations throughout the participant journey. While this trend reflects a growing focus on longevity risk and supporting retirement spending over longer lifespans, fiduciaries should consider whether glidepath trends are appropriately aligned with the needs of their specific participant populations.

Key Takeaways

- **The TDF industry has become more concentrated and equity oriented.** As glidepaths have converged and equity exposure has increased, plan sponsors may have fewer distinct approaches from which to choose.
- **Sequence-of-returns risk becomes increasingly important near retirement.** While higher equity allocations can support wealth accumulation, participants nearing retirement are more vulnerable to market losses and have less time to recover from significant drawdowns.
- **Participant behavior should not be overlooked.** Loss aversion can influence participant confidence and decision-making, particularly during periods of market volatility, reinforcing the importance of thoughtful risk management.
- **Retirement rarely happens exactly as modeled.** Persistent trends of participants retiring earlier than traditional assumptions suggest may support glidepath designs that seek to manage risk sooner in the retirement transition.
- **Managing risk does not necessarily require sacrificing return potential.** Active management and diversified exposures may offer additional ways to improve expected portfolio results beyond simply increasing equity allocations.

Amid the industry's shift toward higher equity exposure, fiduciaries should consider whether prevailing glidepath trends are the best fit for their participants. A careful evaluation of participant characteristics, retirement behavior, and risk tolerance may point to a different course.

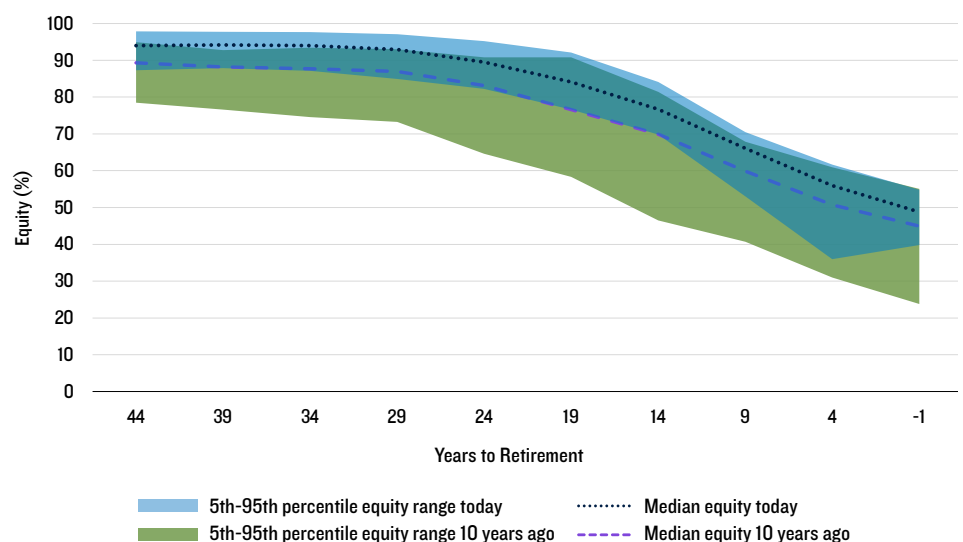
A CHANGING GLIDEPATH LANDSCAPE

Choosing a TDF glidepath may be one of the most important decisions a defined contribution (DC) plan fiduciary committee makes. The asset allocation progression should reflect a plan’s unique characteristics, including participant demographics, plan design, additional retirement benefits, and participant behavior. Given the variability across plans, industry best practice has long been to select a glidepath suited to a specific participant population rather than assume any single glidepath design is inherently superior. The Department of Labor (DOL) reinforces this principle in its 2013 “Target Date Retirement Funds – Tips for ERISA Plan Fiduciaries,” which remains a foundational guide for fiduciary best practice. Among its recommendations is the importance of ensuring that a glidepath is an appropriate fit for a plan’s participants.

Therein lies the challenge. The ability to select a suitable glidepath is critical for fiduciaries, yet the range of available options is narrowing. As shown in Exhibit 1, the universe of TDF glidepaths has both compressed and shifted toward higher equity exposure over the past decade. Simply put, fiduciaries face a narrower range of glidepath designs today, and the options available generally involve greater equity exposure and, therefore, greater participant exposure to market risk than they did a decade ago.

Exhibit 1: A Decade of Glidepath Convergence and Rising Equity Exposure

Over the past decade, the TDF glidepath universe has compressed significantly, as illustrated by the narrowing blue band representing the 5th to 95th percentile range of equity exposure. At the same time, median equity allocations have increased relative to 10 years ago.



Source: Morningstar Direct. Data as of 06/30/2026.

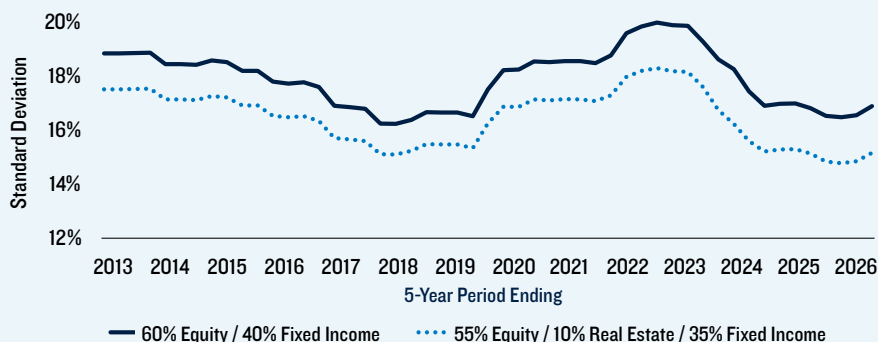
There may be valid reasons for this trend, including a growing emphasis on longevity risk and supporting retirement income over increasingly long retirement horizons. However, it also raises an important question: does the move toward a more concentrated, higher-equity TDF landscape benefit participants, or should plan fiduciaries consider moving away from the herd?

DEFINING EQUITY

In this paper, equity refers specifically to public equity, or shares of companies traded on public stock exchanges. “Total growth assets” is a broader category that encompasses public equity as well as other assets intended to generate portfolio growth.

A higher level of growth assets does not necessarily mean more risk. Here, a portfolio with greater growth asset exposure but more diversified sources of return experienced lower average volatility than a traditional 60/40 portfolio.

Rolling 5-Year Standard Deviation, Quarterly Data



	60/40 Portfolio	55/10/35 Portfolio
Equity Weight	60%	55%
Growth Assets Weight	60%	65%
Average 5-Year Standard Deviation	17.9%	16.5%

Source: eVestment. Data as of 06/30/2026. Equity, Real Estate, and Fixed Income are represented by MSCI ACWI, NCREIF ODCE, and Bloomberg U.S. Aggregate Index, respectively.

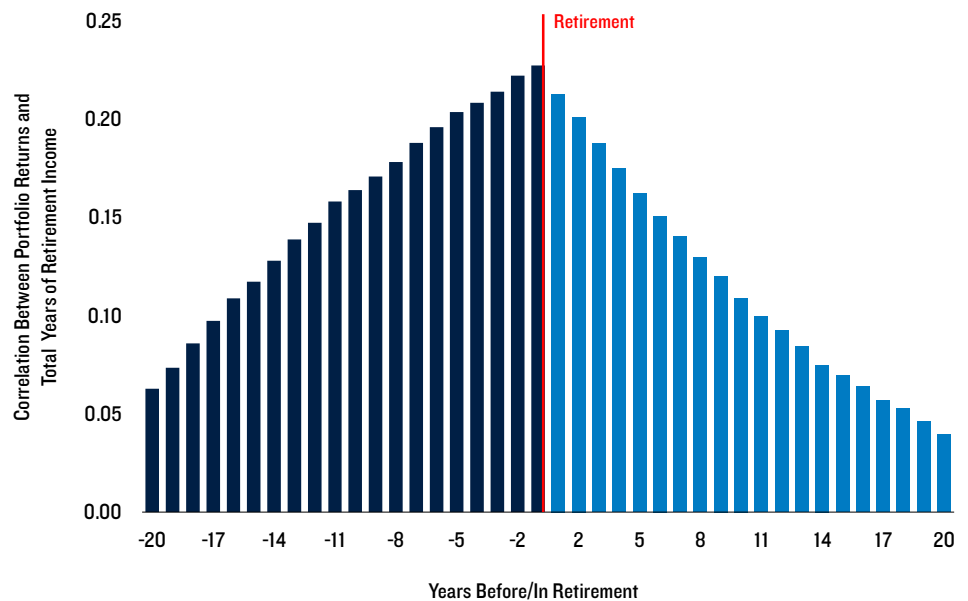
SEQUENCING RISK: WHEN RETIREMENT OUTCOMES BECOME MOST VULNERABLE

The retirement industry is conditioned to view returns as the ultimate measure of investment success. Often, that’s the appropriate perspective: when evaluating the track record of an active core plus fixed income manager, a fiduciary may reasonably focus on whether the strategy has consistently outperformed its benchmark over time. However, TDFs add additional complexities. Because they’re designed to support wealth accumulation over a participant’s entire working career, fiduciaries must consider not only long-term returns, but also how and when those returns are earned. While substantial equity exposure can be appropriate earlier in a participant’s career, the sensitivity of retirement outcomes to portfolio returns increases materially as retirement approaches.

This sequencing risk means the focus shifts from accumulation to preservation as retirement approaches, and the portfolio objective shifts with it. While higher equity allocations may help address longevity risk, fiduciaries must also consider the increasingly significant consequences of market losses when participant DC balances are largest and retirement outcomes are most vulnerable. These consequences may include delayed retirements, stressed workforces, lower productivity, and higher labor costs.

Exhibit 2: Sequencing Risk Increases as Retirement Approaches

Returns near retirement have a greater impact on how long a DC balance can support retirement spending than returns before or after retirement.



Source: "Exploring the Retirement Risk Zone" by David Blanchett, Michael Finke, and Wade Pfau, March 2026.

BEHAVIORAL RISK: WHEN VOLATILITY BECOMES PERSONAL

Protecting participants also means considering how they experience risk. DC participants can change their investment elections, modify contributions, or transfer their assets if their confidence deteriorates. As a result, participant behavior can meaningfully influence retirement outcomes.

One way to integrate participant behavior is through loss aversion, the tendency for individuals to feel the pain of losses more intensely than the satisfaction of equivalent gains. When loss aversion is considered, the optimal equity allocation for a group of heterogeneous investors (such as those invested in a TDF) will be lower than the average optimal allocation of each investor considered individually. As illustrated in Exhibit 3, the greater the diversity of participant preferences and circumstances, the stronger the case for lower risk levels near retirement.

Exhibit 3: Greater Participant Diversity May Support Lower Equity Allocations

Optimal Equity Allocations for Groups of Heterogeneous Investors

Participants	Low Dispersion	Moderate Dispersion	High Dispersion
Conservative Chris	45%	35%	25%
Moderate Michelle	50%	50%	50%
Aggressive Alex	55%	65%	75%
Average	50%	50%	50%
Optimal	50%	47%	41%
Difference	0%	-3%	-9%

The Intuition Behind Lower Optimal Equity Allocations for Pooled Funds

Chris, Michelle and Alex are investing for retirement. Chris is much more risk averse than Alex and Michelle, while Alex is more aggressive. Left on their own, each participant would choose an optimal allocation for their individual preferences.

But if they're forced into a single shared portfolio, the optimal fund allocation is not the average of their individual optimal allocations. The reason is that the utility loss Chris suffers from taking more risk is larger than the utility gain Alex receives from taking more risk. Moving from 25% toward 75% (high dispersion scenario) hurts Chris more than it helps Alex. As a result, the portfolio that maximizes the combined welfare for all three people ends up with only about 41% stocks.

In other words, under Constant Relative Risk Aversion (CRRA) preferences, the downside experienced by more risk-averse investors carries more weight than the upside enjoyed by less risk-averse investors, causing the optimal pooled portfolio to be more conservative than the average of individual preferences.

Analysis assumes CRRA with a risk-free asset (cash) with a return of 3% and a risky asset (equities) with a return of 9% and a standard deviation of 20%. The three scenarios illustrate increasing dispersion in participants' optimal equity allocations. As the spread between individual allocations widens, the optimal equity allocation for the pooled portfolio decreases, even though the average individual allocation remains unchanged.

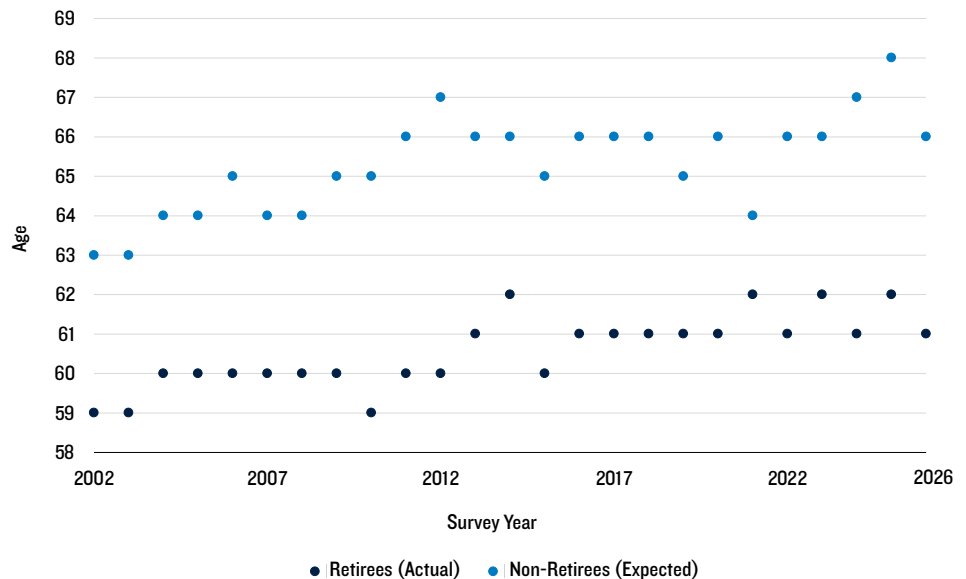
The analysis is illustrative and is based on simplified assumptions. The modeled allocations are not recommendations and should not be interpreted as appropriate for any particular plan or participant population. Results would change if different return, volatility, risk-aversion, or participant assumptions were used.

RETIREMENT TIMING RISK: LIFE DOESN'T FOLLOW THE GLIDEPATH

Finally, data on actual retirement experience may support a glidepath that de-risks more quickly. As Exhibit 4 illustrates, there has been a long-term, persistent trend of participants retiring earlier than standard assumptions suggest. When considered alongside sequencing and behavioral risk, these findings raise an important question for fiduciaries: should glidepaths be designed primarily for participants who retire as the model predicts, or for the broader range of retirement outcomes participants actually experience? A sponsor may ultimately favor a glidepath built on realistic assumptions, one that seeks to support participants who retire before the assumed retirement date as well as those who retire on it.

Exhibit 4: Retirement Reality Doesn't Always Match Glidepath Assumptions

People consistently expect to retire later than they actually do, as shown by the gap between expected retirement age (light blue) and actual retirement age (dark blue).



Source: <https://news.gallup.com/poll/709319/nonretirees-worry-remains-high.aspx>. Published 05/06/2026.

RETHINKING THE RISK-RETURN TRADEOFF

Collectively, the considerations above suggest that risk management deserves greater emphasis as participants approach retirement. At first glance, this conclusion may appear to require accepting lower expected returns in exchange for lower expected risk. However, that assumption may be overly simplistic.

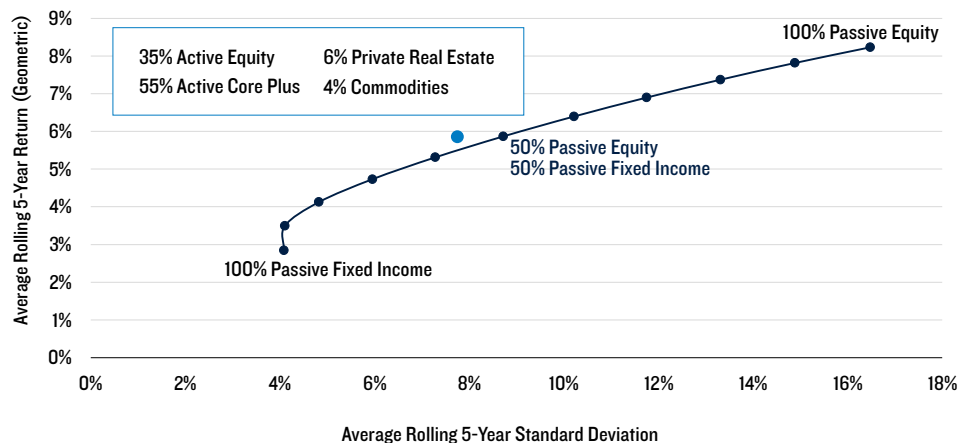
According to NEPC, 59% of their institutional clients utilize passively implemented target date strategies in which risk and return expectations are largely managed through mixing market exposures, primarily through equity and fixed income allocations. However, market exposure is not the only tool available for managing risk.¹

By incorporating greater diversification and active management, sponsors may be able to reduce risk levels without a commensurate decrease in expected return. In Exhibit 5, the frontier illustrates the average rolling five-year return and standard deviation over the past 20 years of portfolios shifting between passive equity (MSCI ACWI) and passive fixed income (Bloomberg U.S. Aggregate). The gray dot shows that a portfolio consisting of 35% active equity, 55% active core plus, 6% private real estate, and 4% commodities produced an average rolling five-year return similar to that of a 50% equity portfolio, but with a lower level of risk. This suggests that sponsors seeking to manage sequencing, behavioral, and retirement timing risks may have opportunities to do so without sacrificing returns.

¹ <https://www.napa-net.org/news/2026/2/plan-sponsors-reassess-managed-accounts-as-passive-strategies-expand/>

Exhibit 5: Managing Risk Through Diversification

Compared to a passive portfolio of global equities and bonds (navy frontier), the illustrative diversified, active/passive portfolio (light blue dot) returned the same as the 50% equity portfolio but with 11% lower volatility.



Source: eVestment. Data as of 06/30/2026. Exhibit 5 represents the average of 4,180 portfolios at the target allocation noted. This includes all combinations of active global large cap core equity (55) and active core plus fixed income managers (76) with at least 20 years of history and the NCREIF ODCE and Bloomberg Commodities Index for private real estate and commodities, respectively. Results are illustrative, showing average results using net-of-fee data. There is no assurance that an actual portfolio would have achieved, or will achieve, similar results.

Conclusion

To summarize, there are valid reasons that the TDF glidepath universe has contracted and shifted toward higher levels of equity exposure. Chief among them is a growing focus on longevity risk and the need to create portfolios that have the potential to support spending throughout an increasingly long retirement horizon. Importantly, we do not view the choice as one between longevity risk protection and risk management near retirement. In our view, thoughtful portfolio construction may allow sponsors to address both objectives simultaneously, supporting sustainable retirement spending while reducing reliance on equity exposure alone.

Rather than relying primarily on greater equity exposure, sponsors may be able to balance growth potential and risk management through a combination of diversifying assets, thoughtful active management, and a more deliberate approach to glidepath design. Ultimately, fiduciaries should evaluate whether prevailing industry trends align with the needs of their participant population or whether a different path may better support retirement success.

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