

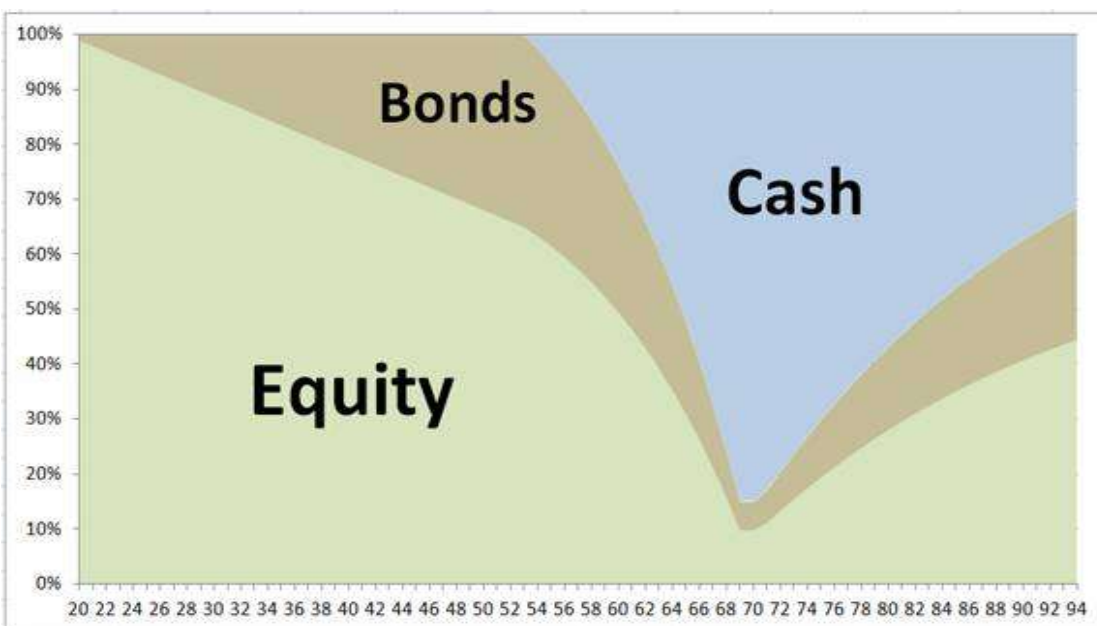
U-shaped Target Date Fund Glidepaths

The Continuing Evolution of Target Date Funds

- Thoughtful researchers recommend no risk as we transition from our working lives into retirement.
- Contrary to popular belief and practice, these same researchers recommend increases in equity/risk during retirement.
- One target date fund glide path actually takes this advice.

In the April 27, 2017 issue of *Seeking Alpha*, Dale Roberts published “What If A Retiree Went All To Cash And Bonds?” Dale advocates a portfolio that is very safe during the “Risk Zone” that spans the 5-to-10 years before and after we retire, and explains how sequence of return risk can ruin our retirement years. Beyond this transition from working life to retirement, Dale recommends increases in equity allocation. Dale is not alone in this recommendation. In 2013, Dr Wade Pfau and Michael Kitces wrote [Reducing Retirement Risk with a Rising Equity Glidepath](#). And in 2012 I wrote [The Three Stages Of Individual Investing Are Like A Journey Into Space: Retirement Orbits Are Unique And Personal](#).

Here is what a target date fund glide path looks like if it follows the advice of these researchers.



Note that this is a “To” target date fund because the definition of “To” is “reaches its lowest equity allocation at the target date.” And it is also a “Through” fund because it serves a lifetime. Note also that this glide path has a low Morningstar rating but a high Prudence rating, as described in [Discovering Target Date Fund Prudence](#).

There is only one target date fund glide path that currently follows these recommendations. The patented [Safe Landing Glide Path™](#) is followed by the [SMART Target Date Fund Index](#).

The Before and After

The rationales for U-shaped can be broken into two parts: (1) ending our working years and (2) beginning our retirement years. Here are the 2 primary justifications for each phase.

Working life

1. Surveys of [Beneficiaries](#) and [Advisors](#) report that they both want safety at the retirement date. They want beneficiaries to be protected.
2. The math of liability-driven investing (LDI) requires no risk at retirement when the “liability” is defined as the current account balance. Don’t lose savings.

Retirement

1. The end of our working life is the start of our retirement, and it should start very safely to protect savings, but the long horizon (Longevity Risk) requires re-risking to extend the life of investments.
2. Kitces and Pfau researched thousands of post-retirement glidepaths and found that the one that works best starts at 10% in equities and gradually increases to 50% over 30 years.

What’s Next?

Target date funds are still in their infancy, effectively launching in 2006 with the Pension Protection Act. Expect more innovations and improvements in the future, as described in [The Remarkable Metamorphosis of Target Date Funds](#)