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One of these things is not like the others

The differentiation of Mesirow's Target Date Fund glide paths

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Target Date Funds (TDFs) have been utilized since the Pension Protection Act (PPA) of 2006 in a Qualified Default Investment Alternative (QDIA) setting as a means of providing retirement savers with a one-stop solution suited to their age and, in some cases, risk tolerance level. Among the allowed QDIA options — which consist of managed accounts, balanced funds and TDFs — the target date option is the most utilized by far. The framework utilized with TDFs is meant to provide a comprehensive, generalized asset mix solution that is deemed appropriate for most retirement investors.

The associated asset mix glide path typically decreases in portfolio risk level over a person's lifecycle. The original academic foundation of this lifecycle approach is Human Capital Theory, which was first posited by Jacob Mincer and Nobel economist Gary Becker in the late 1950s and early 1960s.[1, 2] Some later extensions of this work, including by Ravi Jagannathan and Narayana Kocherlakota,[3] more oriented toward lifetime savings strategies, posited that as the relative weight of the current financial value of the portfolio increases relative to the present value of future human capital, the ability to weather volatility shocks declines. In practice, TDF glide paths conform to the prescriptive advice of numerous practitioners that model volatility in conjunction with time horizon.

Empirical work by behavioral economists had demonstrated that, in practice, savers' investment allocation choices in the absence of QDIA options tended to follow more haphazard construction approaches, such as equally allocating among investment options, otherwise known as the 1/n heuristic.[4] The systemic response to problems identified by behavioral economists resulted in a system comprised of stimulants and stabilizers designed to address historical behavioral shortcomings in investor retirement savings behavior, including automatic enrollment, automatic contribution rate escalation and the use of QDIAs.

As the most utilized QDIA option, it is important to understand what typical industry lifecycle glide paths look like as well as benchmark sets that are typically used in the industry. This is a topic that we cover in detail in our paper Target Date Funds: An Industry Overview of Glide paths and Asset Allocations.[5] This paper looks at the differentiation of Mesirow's glide path allocations versus TDF universe averages that are highlighted in that earlier paper in both aggregate allocations to equity and fixed income, as well as detailed allocations within the equity sleeve. Additionally, we hypothesize on the underlying causes of these various differences.


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1. Mincer, Jacob. 1958. “Investment in human capital and personal income distribution.” Journal of Political Economy 66 (4): 281–302

2. Becker, Gary S. 1962. “Investment in human capital: A theoretical analysis.” Journal of Political Economy 70 (5, Part 2): 9–49.

3. Jagannathan, Ravi, and Narayana Kocherlakota, 1996, Why Should Older People Invest Less in Stocks than Younger People?, Federal Reserve Bank of Minneapolis Quarterly Review 20, 1123.

4. Benartzi, Shlomo and Thaler Richard. “Heuristics and Biases in Retirement Savings Behavior”, Journal of Economic Perspectives – Volume 21, Number 3- Summer 2007, PP.86-87