



FIDELITY CANADA INSTITUTIONAL™

# Through versus To: Underappreciated and misunderstood, yet a key decision influencing outcomes

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## **KEY TAKEAWAYS**

- Our analysis shows that in 74% of simulated macroeconomic environments, the accumulated wealth at the target date (age 65) was higher with our Through glide path than with a To glide path.
- The advantage of our Through glide path is asymmetrical as it adds more years of income in retirement during normal and strong equity markets than it detracts during weak equity markets. As further proven in our research, the severe environments where the To glide path was marginally better, its advantage at the retirement date was modest, where in contrast, in normal to favourable market environments, Through's advantage at the target date was more impactful.
- How or where plan members continue to invest their savings upon reaching their target date has no bearing on their decision of selecting a Through or To glide path.
- Meaningful adjustments to the assumptions used in this analysis that modify contribution rates, retirement ages or wealth accumulation could reduce (but are unlikely to eliminate) the relative advantage Through glide paths offer in successfully replacing income throughout retirement.
- Through the lifecycle, our approach interacts with member preferences, needs and sensitivities in a way that better aligns with their long-term goals. As members near their target date, our age-appropriate investment design is well suited to match the unique and evolving risks Canadians face.



The design of a target date strategy is determined largely by an investment manager's fundamental belief as to whether a glide path should reach its most conservative allocation at a specified retirement date ("To" strategy) or if it should continue to evolve beyond the target date ("Through" strategy). Generally speaking, a To glide path is constructed in a way that has less exposure to growth investments in the later stages of a member's accumulation journey, de-risking to a static allocation at the target date. This approach shortens the effective investment horizon for members. A Through glide path, on the other hand, tends to have more exposure to growth investments in the years around retirement. It also adopts a more gradual de-risking process, continuing to adjust beyond the target date.

In this paper, we provide a comprehensive assessment of the advantages and trade-offs of a glide path that has greater exposure to growth-oriented investments around the target date and continues to de-risk beyond it.

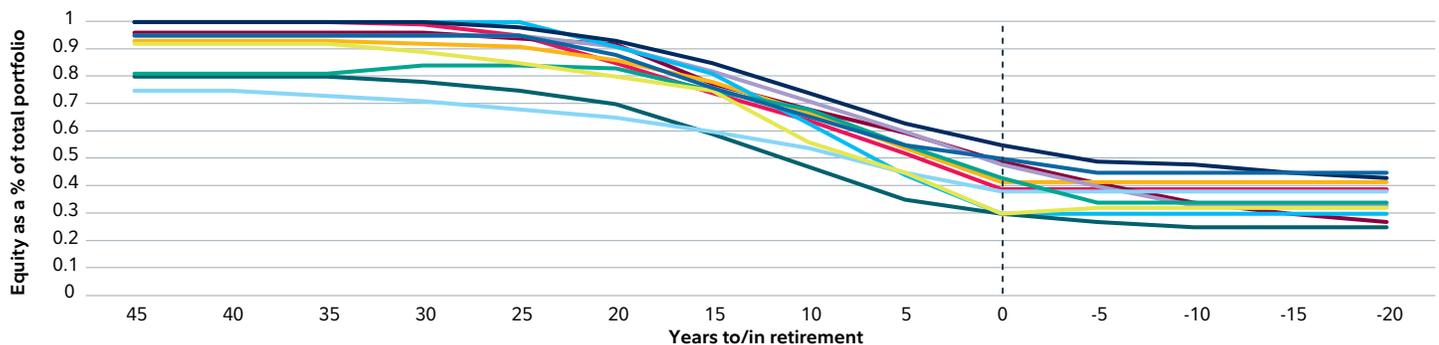
## Navigating uncertainty when constructing a glide path

For years, the debate between To and Through target date glide paths has been framed as a question of behaviour. Do people stay in the plan or leave at retirement? Do they roll over, take advice or start drawing down immediately? Do plan members display flexibility in their decisions, or do they stick closely to a pre-determined retirement plan? The Canadian industry has treated these unknowns as a defining variable in the evaluation and selection of their default investment option.

**Designing a long-term investment strategy around one moment of uncertain human behaviour creates a false sense of security.** Anchoring a glide path around variable human behaviour that is bound to evolve and adjust as experiences emerge is overfitting investment design to uncertainty. This leads to an overly defensive posture which strives to minimize market risk near the target date, based on the possibility of a severe market drawdown. Our approach, however, prioritizes analysis of a wide distribution of potential experiences that could drive better retirement outcomes for members. We believe the point of maximum vulnerability and need for diversification happens several years beyond the target date.

Sometimes sponsors mistakenly focus on the target date as the primary risk event facing their member population. They select a To glide path to avoid the impact of a market drawdown at that single point in time when the real objective should be to offer a strategy that positions their members for superior long-term outcomes and naturally accommodates varying retirement experiences. Every plan member, regardless of what retirement looks like for them (stay in plan, move assets to an advisor, withdraw a portion or purchase an annuity, etc.), or when it occurs, are faced with the potential for decades of financial decisions and income needs that extend far beyond the target date. It is time the industry reframes the debate away from market timing risk at the target date, towards a more balanced and deliberate evaluation of retirement outcomes. **Age-appropriate asset allocation seeks to do just that and has shown to offer a tangible benefit (e.g. more retirement income, higher sustainable withdrawal rates, lower probability of running out of money) to those who deploy such an approach.**

### Exhibit 1: Equity exposure varies greatly by manager



Source: Fidelity Investments, Morningstar Direct, eVestment Alliance. As of December 31, 2025

Beneath the simplicity of a single date lies the most consequential—and misunderstood—design choice in the industry: whether a target date strategy is designed to accommodate the full span of retirement or conclude its evolution at the moment of retirement. This choice is not just technical. It reflects how we, as an industry, choose to lead plan members' financial futures.



## Our glidepath has a relative wealth advantage across various macroeconomic environments.

Target date strategies are designed as a comprehensive retirement product in which members start saving during their working years and follow the asset allocation of the glide path through the various stages of life. A target date strategy therefore must balance the competing goals of wealth accumulation and downside protection during periods of market volatility, while reflecting a member's changing needs, time horizon and ability to adapt.

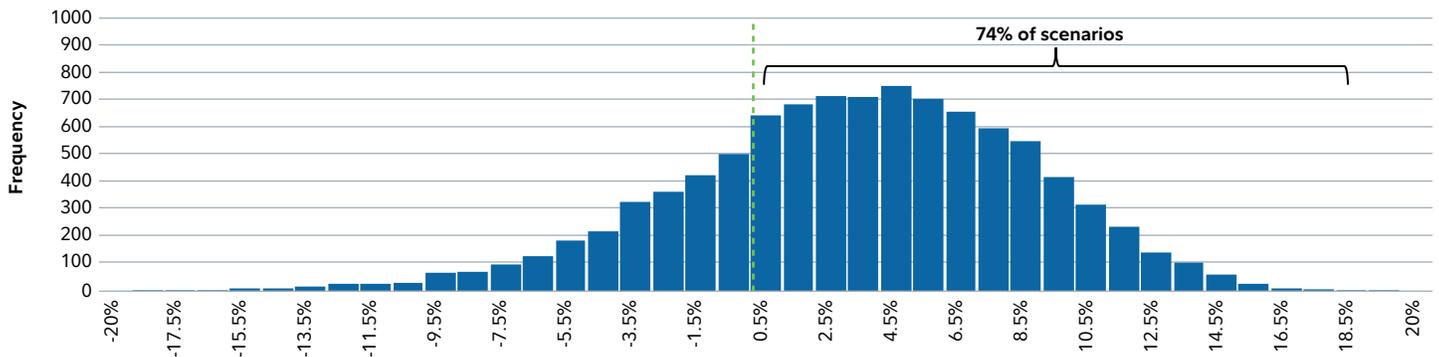
As Exhibit 1 shows, during a member's working years, exposure to equities differs among target date managers. It is therefore challenging to argue that members would be able to generate the same account balances around the target date. These differences are compounded further if we isolate for To or Through approaches. Allocation differences mean that our glide path has higher average equity exposure. Over long-term horizons, members would accumulate a "wealth buffer"—defined as the value of accumulated assets above a base assumption—in this case above those accumulated with the typical To glide path.

In 74% of simulated macroeconomic environments, the accumulated wealth at the target date (age 65) was higher with our Through glide path than with the typical To glide path. Moreover, there is an asymmetrical relationship where the potential benefit is multiples larger than the potential downside. In the severe environments where the To glide path was marginally better, its advantage at the retirement date was modest, on the order of 0.8 years of a member's final preretirement salary. On the other hand, in normal to favourable market environments, Through's advantage at the target date ranged from 0.8 to 3.8 years of a member's final salary. Our research into Canadian retirement experiences shows that while 65 is roughly the average retirement age among public and private sector employees, there is a natural distribution of ages at which people retire. Adjusting the retirement age between 62 and 68 years old yields comparable results with our Through approach, accumulating more wealth in 71-77% of simulations.

**THROUGH VERSUS TO: UNDERAPPRECIATED AND MISUNDERSTOOD, YET A KEY DECISION INFLUENCING OUTCOMES**

A glide path should be built to achieve an appropriate balance between the potential for wealth accumulation to reduce longevity risk and downside protection during extreme market events. Doing so recognizes the terminal planning horizon for a broad set of members. In this view, the To glide path sacrifices too much wealth accumulation potential as it may not consider the full risk capacity. This may be in part because it is not considering a retirement horizon that could last 20 years or more. In contrast, a strategy that is unnecessarily aggressive (e.g. far more equity than a typical Through strategy) may improve wealth accumulation results on average, but it may expose members to levels of loss that could exceed their economic capacity for risk-taking. In the next assessment, we analyze the trade-off between wealth accumulation and downside protection.

**Exhibit 2: Frequency of times when Through accumulates more wealth than To**



Source: Fidelity Investments, 10K simulations

Market environments in percentiles	Difference in simulated years of retirement income between Through/To at various ages						
	65	70	75	80	85	90	95
10%	-0.8	-1	-1.1	-1.5	-2.5	-3.9	-5.9
25%	0.0	0.1	0.2	0.0	0.0	-0.2	-0.7
50%	0.8	1.5	1.8	1.8	1.5	0.7	0.0
75%	2.1	3.4	4.3	4.6	4.6	4.6	4.3
90%	3.8	6.4	7.8	8.8	9.5	10.1	10.6

Red – To glide path generated more retirement income. Green – Through glide path generated more retirement income. White – neither approach yielded an advantage.





## Is there sufficient wealth accumulation to insulate members from adverse market events?

Proponents of To glide paths argue that most target date members transfer their assets out of the target date strategy shortly after retirement. In this case, the period between the initial investment and the target date is the effective investment horizon; the strategy focuses on preserving wealth by reaching its most conservative allocation at the target date. In addition, they may use risk measures, such as equity allocation at the target date or wealth-weighted glide path volatility, to quantify risk properties of To glide paths at and around this date. The argument for this is that such metrics are justified given members are in the vicinity of their peak lifetime wealth. In our view, such measures of glide path risk are incomplete and inappropriate, particularly near the target date. They also tend to overlook the important role government benefits play. It also overlooks the willingness and ability that plan members exhibit to adjust their retirement plans in response to fluctuations in the value of their savings.

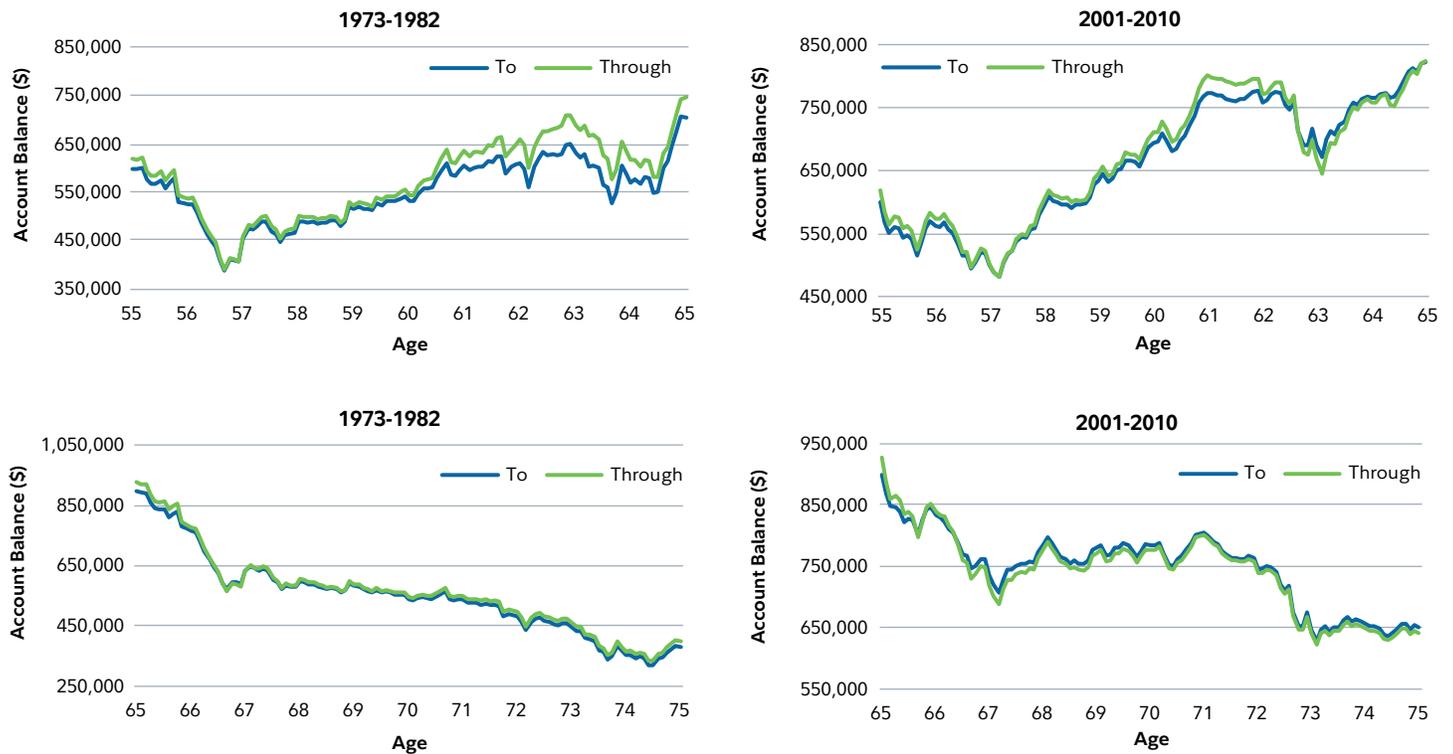
To test this headline statement, we evaluated how each approach performed by looking at the two most challenging 10-year return environments since 1950. Both periods are robust experiences against which we can stress test a glide path. For the period from 1973 to 1982, two equity drawdowns of nearly 50 and 30 percent occurred, while the period from 2001 to 2010 presented members with two drawdowns of roughly 40 percent. As the results below show, the wealth buffer can provide a meaningful cushion to the impact of equity market declines around retirement, should a member experience such an event. 2001 presents the most challenging historical example for recent retirees as the wealth buffer was insufficient to offset the persistent underperformance equities experienced relative to bonds. Despite this underperformance, the impact on a Canadian's retirement income would have been small.

**We see two primary reasons why our Through glide path may fare better than a To glide path:**

1. During their working years, a member in our Through glide path may amass more wealth that, during the years near retirement, cushions the impact of a potential equity market decline.
2. The slope of our Through glide path in the decade before the target date is less likely to aggressively “lock in” losses during equity market declines that tend to be cyclical in nature.

Evaluations that emphasize a narrow scope of outcomes are likely to miss the broader context. In this instance, a focus on the *magnitude* of a drawdown misses the level associated with that very same event.

**Exhibit 3: The wealth buffer can provide a meaningful cushion against market declines around retirement**



Source: Fidelity Investments



## Stress testing our assumptions and beliefs

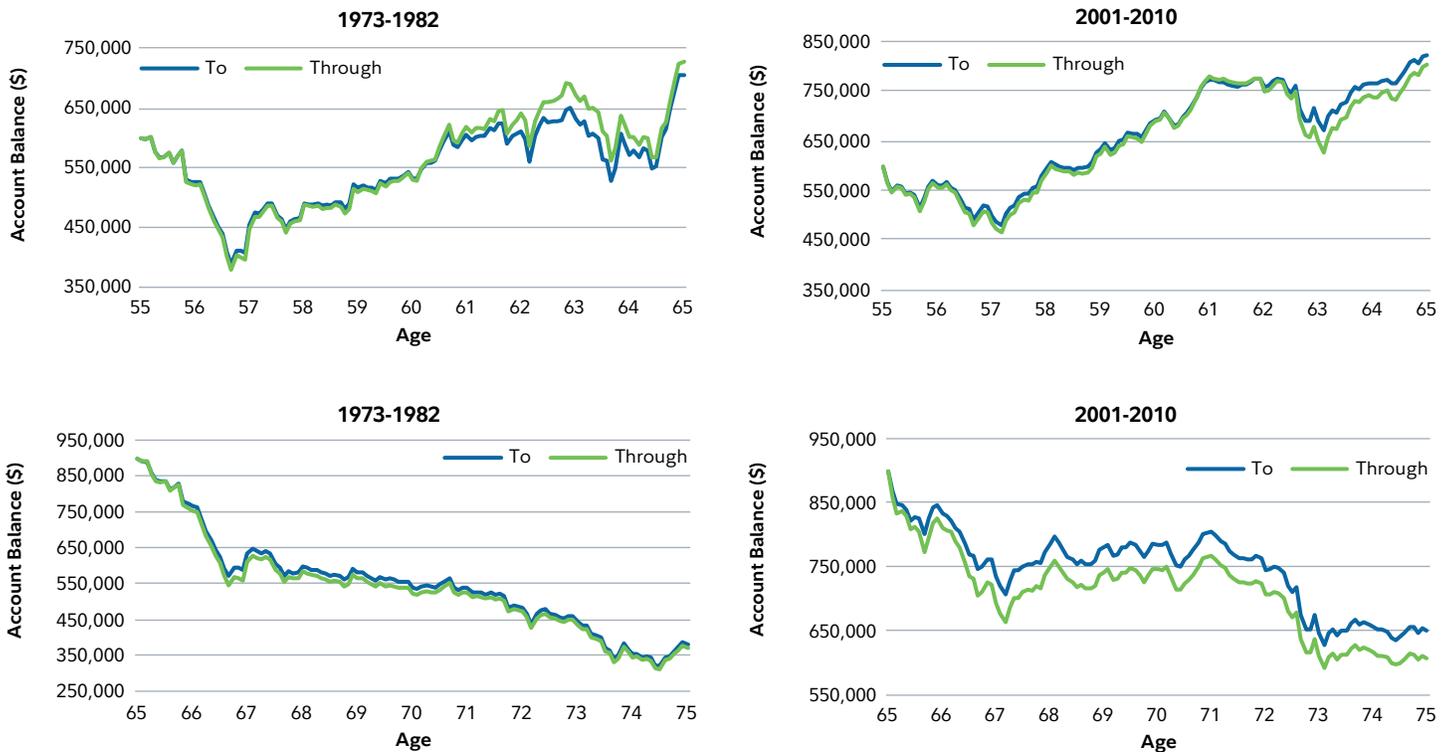
To challenge our research and some of the assumptions used in the illustrations above, we ran a range of different simulations based upon a more extreme set of assumptions:

1. Higher constant contribution rates, 20%
2. Members start accumulating retirement savings at age 20.
3. Retirement occurs at age 60.
4. The wealth buffer does not exist.

Across a range of different assumptions, our Through glide path is still able to generate greater wealth and, subsequently, more years of retirement income although this enhanced benefit may be diminished. To be clear, many of these dynamics are not supported by our research. However, it is a useful exercise to understand and demonstrate when a To glide path may prove to be a more advantageous investment design.

For a To approach, we find the most compelling scenario comes when we assume that a To and Through glide path accumulate the same level of wealth (i.e. our Through glide path is unable to create a wealth buffer), and a severe market event occurs around retirement. While the focus of this paper is on the glide path, it should be noted that robust diversification principles applied to the strategic investment mix can mitigate the influence of these challenging environments, narrowing or eliminating any potential gap.

### Exhibit 4: An aggressive de-risking approach may not improve retirement income in the face of a market decline



Source: Fidelity Investments

## A portfolio aligned with the true arc of retirement

We believe in generating an investment mix that appropriately considers the needs of members at each age. This has been a foundational element of our investment process since we launched ClearPath® in 2005. The market tends to agree with us, and it is rare to hear a rebuttal that structurally disagrees with the view of an evolving allocation in the years around the target date. To this point, many investors tell us they believe risks facing retirees are even more dynamic, necessitating greater scrutiny and adjustment. We find there to be an interesting disconnect between the market's qualitative assessment and the practical application where, in Canada, 74%<sup>1</sup> of the total target date market follows a de-risking process that stops evolving beyond the target date. There are two primary justifications for this:

1. A plan sponsor believes that most of their employees are going to leave and go to a financial advisor, so why should they evaluate and consider the investment mix beyond retirement?
2. A plan sponsor is worried about exposing their employees to too much risk at their target date.

On the first point, while it is true that many Canadians leave their plan and move to a financial advisor, this reflects a snapshot of the current retirement experience. Over the last few years, the stay-in-plan trend has started to gain some momentum. While still small, RIF assets in a Capital Accumulation Plan (CAP) setting doubled from 2018 to 2023. Increasingly, plan sponsors will try to retain plan member assets, providing greater economic value at both the aggregate plan and individual member level.

Let us assume behaviour does not change, and members move to an advisor. It is important to have a sense of how this movement could influence the retirement savings journey. By partnering with the financial advisor community, we have studied this at various points through history. Advisors consistently recommend that their clients have a meaningfully higher allocation to equities than the landing point of a To glide path. This exposes members to sequencing risk where they have prematurely de-risked, during important wealth accumulation years, only to re-risk their portfolios when they "cross the street." Our Through glide path facilitates a more gradual transition into retirement, whatever that may look like.

On the second point, when probed about this response, it is clear to us that sponsors are focused on traditional volatility or drawdown metrics at the target date in their assessment of risk. While this should certainly be considered, evaluated and understood, we propose that plan sponsors evaluate risk from an alternative perspective. In a pension and retirement savings environment, the goal of any plan sponsor is the creation of retirement income that can last members with a degree of permanence. The mechanism to achieve this goal is different between Defined Benefit (DB) and Defined Contribution (DC) pension schemes. DB plans are primarily focused on overall plan funded status to match its income obligations. DC plans may be rewarded by considering the "individual funded status" of members, prioritizing long-term wealth creation over short-term marginal drawdown differences, to satisfy retirement income needs – thereby achieving strong "funded status." This can be accomplished without unnecessarily exposing members to the type of volatility that may lead to adverse outcomes.

Regardless of when members may retire, or how they may use their savings upon retirement, they have a common need to generate sustainable retirement income for a long planning horizon in a way that is consistent with their willingness and ability to bear risk at each stage of the lifecycle, including beyond the target date.



<sup>1</sup> Source: Morningstar Direct, Fidelity calculations as of December 31, 2025. Interestingly, in the U.S., which many argue is more mature than Canada in terms of TDF utilization, at the end of June 2025 approximately 80% of total assets were invested in a strategy that deployed a Through glide path.

## **Retirement in Canada continues to change. It's time our portfolios acknowledge the new retirement income reality.**

The transition from work to retirement is no longer a "cliff," but a gradual shift into a new stage of financial and personal life. Employees may continue working part-time, phase into retirement or pursue their passion project<sup>2</sup>. Retirees are faced with evolving risks and must contend with spending needs that have trended higher over the years, reflecting evolving lifestyles, rising costs and longer periods of financial independence. Yet, based on our analysis, many Canadian members may fall short of achieving the level of wealth they need to sustain their retirement income needs. As demonstrated, the potential upside of our Through glide path design outweighs the perceived downside.





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This document contains hypothetical scenario analysis. To glide path is an equal weighted composite of select Canadian peers, constructed using Morningstar data, Through glide path is data provided by Fidelity. 10,000 simulations were generated using the following baseline assumptions – saving begins at age 25 and continues until retirement, constant contribution rate of 15%, annual merit rate of 1.5%, income replacement set at 45% of final salary. Unless otherwise stated Fidelity’s unconditional capital market assumptions were used Global equity returns, 5.1%; Canadian investment grade bonds, 1.7%, per annum. Additional scenarios were run, where referenced in the above material differing inputs have been disclosed. A Hidden Markov Model (HMM) was used to simulate these results. In a Markov model, each observation in the data sequence depends on previous elements in the sequence. A HMM not only accommodates a Markov chain, but also considers the uncertainty in which state the system may be in at any given time. The word “hidden” in Hidden Markov Models means that market members do not know with certainty which structural state the financial system may be in at any point in time, and have only some probabilistic insight on where it could be along the continuum of state transitions, given the observed behavior of (multi-class) asset returns.

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