



Index Insights | Fixed Income

Index-based lifecycle investing: A customisable solution for US dollar-based investors

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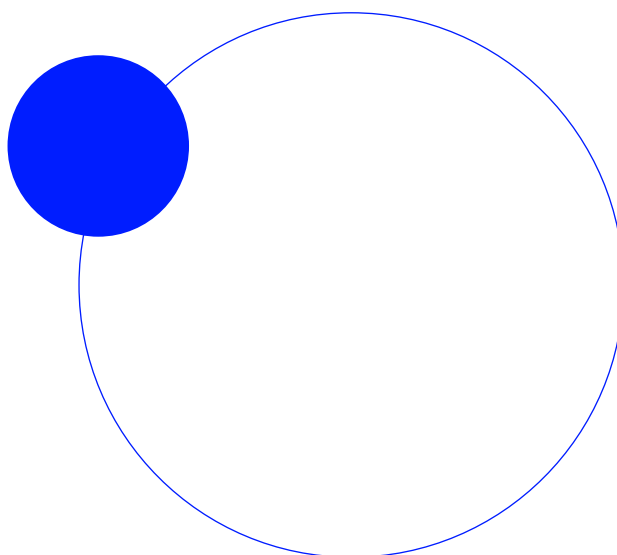
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Overview

In this paper, we explore index-based asset allocation solutions for US dollar investors seeking to implement a “lifecycle” strategy in support of a long-term retirement savings plan.

Using different indices from the FTSE Russell range, we explore hypothetical asset allocations for lifecycle investors of different ages. We then examine two different lifecycle strategy use cases: one prioritising long-term growth and higher retirement income through reinvestment, the other prioritising increased financial flexibility as retirement approaches.



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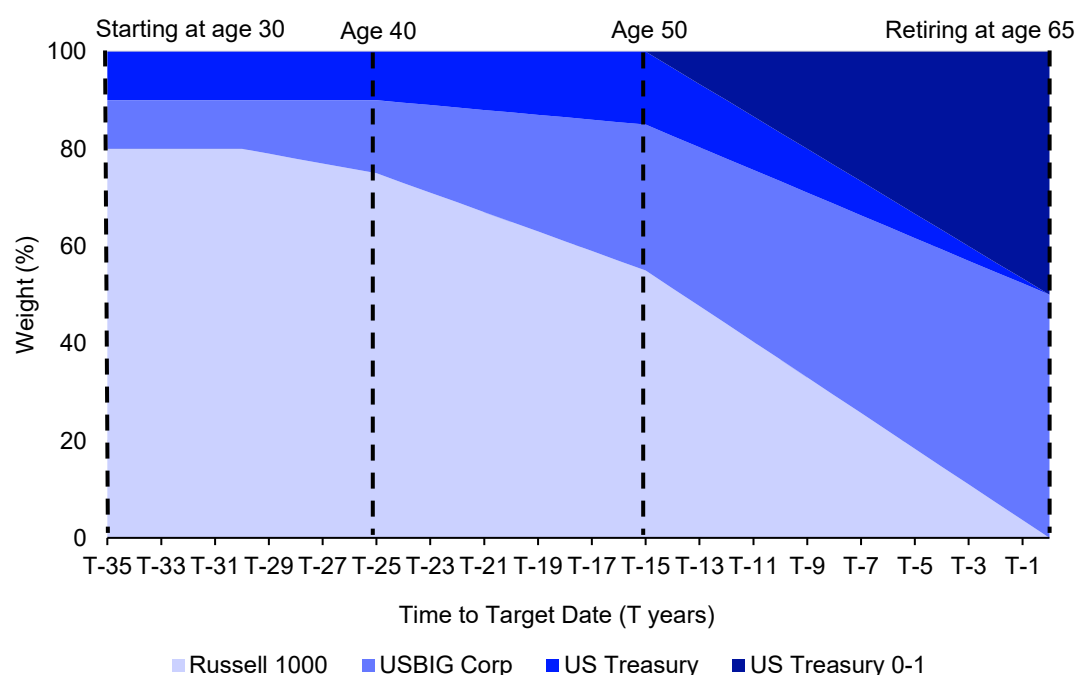
1. What's lifecycle investing?

Planning for a long-term financial goal like retirement can feel overwhelming: with so many decisions about risk, timing and asset choices, it's hard to know where to start. That's where "lifecycle investing" comes in. Also known as "target-date investing" or "age-based investing", the lifecycle approach simplifies the asset allocation process by providing a structured framework to align your investments with your age, risk tolerance and planned retirement schedule.

A lifecycle investing framework automatically adjusts the asset allocation of your retirement savings portfolio over time, taking on more growth potential in the early stages of your career and transitioning toward assets promising greater stability as retirement nears.

The lifecycle investment strategy is based on the principle that younger investors, due to their extended investment horizon and future earnings potential, can afford to allocate a larger portion of their portfolio to riskier assets like equities and to withstand the associated market fluctuations. Conversely, as investors age, the strategy advocates for a greater emphasis on less volatile assets like bonds and cash equivalents, to prioritise the preservation of accumulated capital. This dynamic shift in asset allocation over time follows a pre-determined "glidepath" that outlines the planned trajectory of these changes (see Figure 1).

Figure 1: Sample lifecycle asset allocation glidepath



Source: FTSE Russell.

To make this strategy accessible, many fund providers offer standardised "lifecycle funds" or "target-date funds". These funds are structured to adjust the mix of assets automatically over time according to the pre-determined glidepath. Investors typically select a fund with a target date that closely matches their expected retirement timeline.

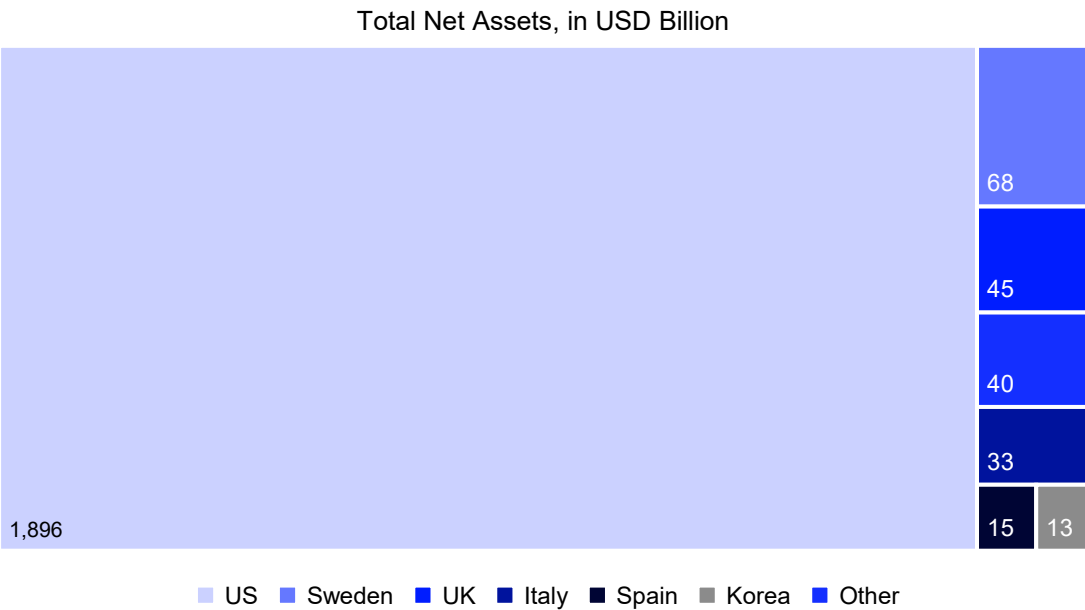
For example, a “Target Date 2065 Fund” is designed for someone planning to retire around the year 2065. Upon reaching its target date, the lifecycle or target-date fund typically continues managing assets with a conservative, income-focused allocation. Depending on its glidepath, the fund either reaches its most conservative mix at the target date, then keeps a static asset allocation, or it continues to reduce risk gradually for a few years after the target date. Investors can then either stay invested and withdraw their funds over time, or they can transition to other income-generating products after retirement.

Introduced in the early 1990s, lifecycle funds and target-date funds have since grown rapidly, especially in developed economies, where retirement planning is a priority. In markets such as the US and UK, financial institutions increasingly offer these types of funds among the default investment options in retirement savings plans.

As of April 2025, the global lifecycle and target-date fund complex managed well over US\$2trn in assets, with the US accounting for roughly 90% of total lifecycle assets under management (see Figure 2). Before 2015, most lifecycle and target-date funds launched were actively managed. Today, however, there are more than 80 passive (index-based) lifecycle funds available in the market (see Figure 3). So, while most lifecycle assets are still actively managed, passive funds have gained traction due to their lower fees, making them an increasingly attractive option for cost-conscious investors.

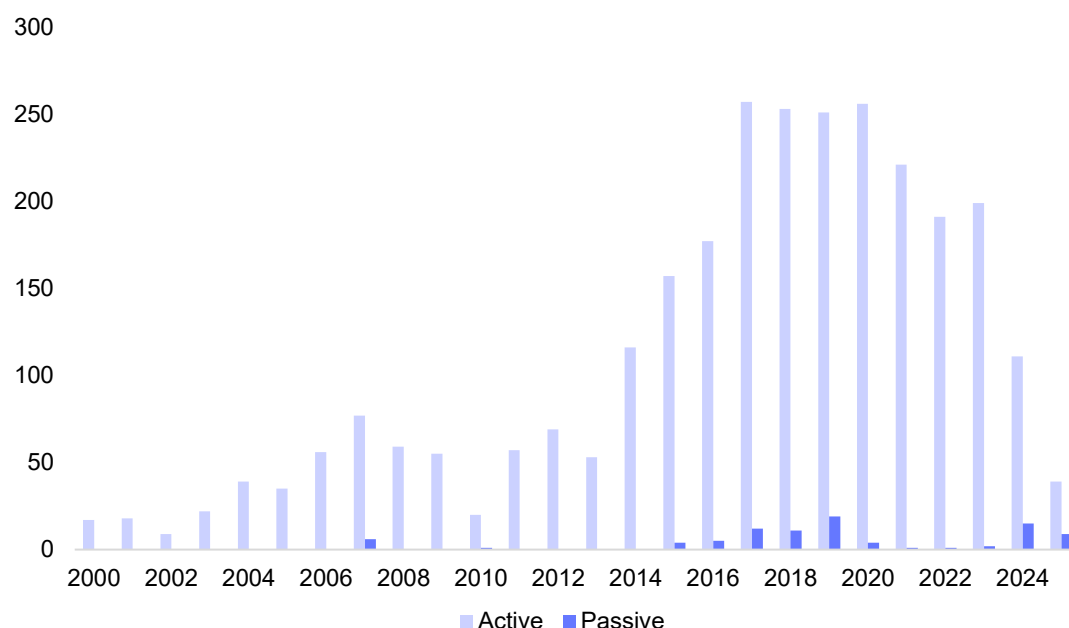
More details about FTSE Russell’s index-based solutions for target-date funds and the underlying FTSE Lifecycle indices [can be found here](#).

Figure 2: Lifecycle/target-date fund total net assets by domicile



Source: LSEG Lipper, as of April 30, 2025. The statistics include mixed assets mutual funds, exchange traded funds, investment trust, insurance funds and pension funds.

Figure 3: Lifecycle/target-date funds launched (by management approach)



Source: LSEG Lipper, as of April 30, 2025. The statistics include mixed assets mutual funds, exchange traded funds, investment trust, insurance funds and pension funds.

2. Key attributes of lifecycle investing

Adopting the lifecycle investment strategy can offer several notable advantages. A key attribute of the lifecycle approach is its **built-in risk management**. The gradual transition towards more conservative investments as retirement draws near helps protect accumulated savings from market volatility in the critical years before and throughout retirement. In addition, this approach inherently diversifies across asset classes, which is a fundamental principle of risk mitigation in investment management.

The **simplicity** of the lifecycle model is another major benefit. Its design appeals especially to investors who may not have the time or expertise to manage their portfolios actively. The automatic rebalancing feature of the lifecycle strategy means it maintains the intended asset allocation over time without a requirement for constant manual adjustments.

Moreover, following a predetermined glidepath encourages **disciplined** investment behaviour, potentially preventing investors from making impulsive decisions spurred by short-term market fluctuations. Consequently, lifecycle investing can be particularly well-suited for long-term retirement savings, as its asset mix adapts systematically to the evolving stages of an investor's financial life.

For example:

Early Career (Age 30 to 40): During the early stages of your career, your portfolio is heavily weighted towards equities. This is because you have more time to recover from possible market downturns and to benefit from the higher long-term growth potential of stocks.

Mid-Career (Age 40 to 50): As you progress in your career, the allocation gradually shifts to include more bonds and other fixed-income assets. This shift helps to balance growth with stability.

Approaching Retirement (Age 50 to 65): In the years leading up to retirement, the portfolio becomes more conservative, with a focus on preserving the wealth you've accumulated, reducing risk and ensuring a steady income stream for your retirement years.

3. Lifecycle indices for US dollar-based investors

The [FTSE Lifecycle Screened Select Index Series](#) considers the lifecycle strategy and is designed specifically to address the needs of euro-based investors. To evaluate if a similar lifecycle approach can be applied for US dollar-based investors, we conducted a back-test using a diversified portfolio of four asset classes:

- **Equities:** Represented by the Russell 1000® Index, the market-leading benchmark for large-cap US stocks
- **Fixed Income:** In bonds, we combine the FTSE US Broad Investment-Grade (USBIG®) Corporate Bond Index and the FTSE US Government Bond Index, offering broad exposure to high-quality, US dollar-denominated corporate and sovereign bonds
- **Cash Equivalents:** Short-term US government securities tracked by the FTSE US Government Bond 0–1 Year Index, providing liquidity and capital stability

We then vary the asset allocation between these four asset classes following a glidepath approach, reducing the equity component and boosting the fixed income/cash components as the investor ages (see Figure 4).

Figure 4: Lifecycle strategy asset allocation by age

Asset Class	Underlying Index	Weight %			
		Age 30	Age 40	Age 50	Age 65
Large Cap Equities	Russell 1000® Index	80	75	55	0
IG Corp Bond	FTSE US Broad Investment-Grade (USBIG®) Corporate Bond Index	10	15	30	50
Treasury	FTSE US Government Bond Index	10	10	15	0
Short-term Treasury	FTSE US Government Bond 0–1 Year Index	0	0	0	50

Source: FTSE Russell.

In Figure 5, we look at the long-term risk and return characteristics of these four indices, based on more than thirty years of data. We also calculate the risk and return figures for a hypothetical lifecycle strategy in operation over the whole period (last column of Figure 5), using the glidepath asset allocation approach outlined in Figures 1 and 4.

Despite its significant drawdown during the financial crisis, the Russell 1000® Index offered high average annual returns (10.37%) over the long term. This highlights equities' potential use as a return source for younger investors with a longer investment horizon. The USBIG® Corporate Bond Index provided a lower (5.26%) but less volatile return

compared to equities, making corporate bonds an excellent choice during this period for mid-career investors seeking a balance between growth and stability.

US Treasuries provided a lower return, lower volatility and a lower maximum drawdown than corporate bonds, especially during stock market downturns, making this asset class ideal for those nearing retirement. Short-term US Treasuries offered the highest stability and were least affected by market volatility (with a maximum drawdown of -0.37%), providing a haven for retirees.

Figure 5: Risk/return statistics for lifecycle strategy asset classes

	Russell 1000	USBIG Corp	US Treasury	US Treasury 0-1	Lifecycle
Annualised Return	10.37%	5.26%	3.98%	1.92%	7.64%
Annualised Volatility	15.28%	5.93%	4.63%	0.60%	9.77%
Return/Vol Ratio	0.68	0.89	0.86	3.19	0.78
Sortino Ratio	0.94	1.15	1.37	13.23	1.01
Calmar Ratio	0.20	0.26	0.22	5.22	0.21
% Positive Months	66.13%	64.00%	59.73%	90.34%	65.87%
Best Monthly Return	13.21%	6.73%	5.41%	0.81%	7.41%
Worst Monthly Return	-17.46%	-7.46%	-4.38%	-0.21%	-12.84%
Max Drawdown	-51.13%	-20.36%	-18.19%	-0.37%	-36.05%

Source: FTSE Russell. Historical performance for Russell 1000, USBIG Corp, US Treasury and Lifecycle is calculated from January 1994 to March 2025. Historical performance for US Treasury 0-1 is calculated from January 2001 to March 2025. Past performance is no guarantee of future results.

One of the biggest concerns for those saving for retirement is a market crisis as the retirement date approaches. So we conducted stress tests to see how the lifecycle strategy would have been affected at the time of the 2008 financial crisis and during the 2022 interest rate rebound (see Figure 6).

2008 Financial Crisis:

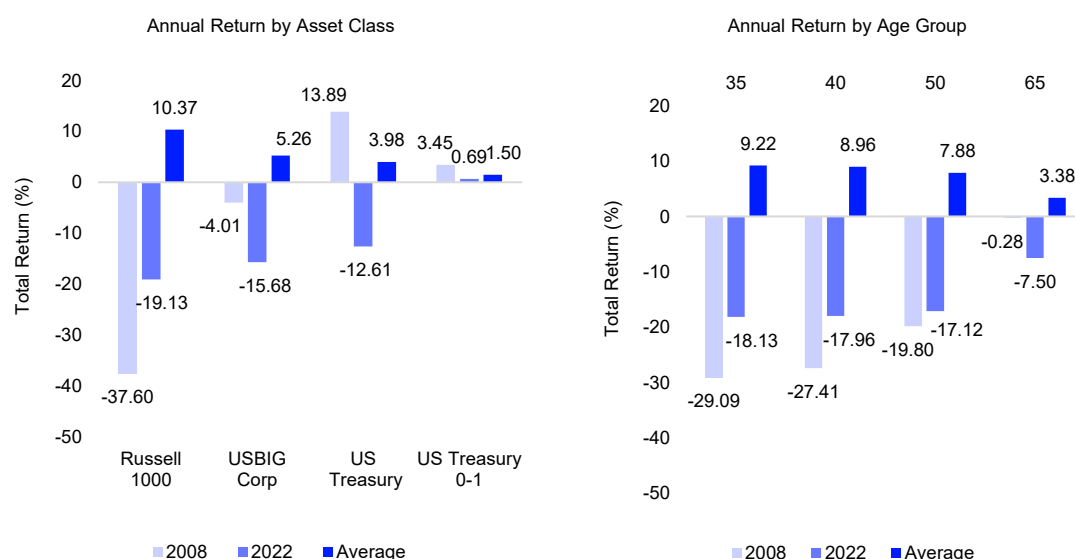
- The Russell 1000 Index declined by -37.6% during 2008, while US Treasuries gained 13.89%
- A 35-year-old with an 80/10/10 allocation (Russell 1000/USBIG Corp/US Treasury) would have experienced a -29.09% loss
- In contrast, a 65-year-old with a 50/50 allocation between USBIG Corp and short-term Treasuries would have seen only a -0.28% loss

2022 Interest Rate Hike:

- Equities and fixed income assets declined between -12.61% and -19.13%.
- Between the ages of 30 and 50, Investors with either an 80/10/10 or 55/30/15 allocation (Russell 1000/USBIG Corp/US Treasury) would have faced losses between -17.12% and -18.13%.
- However, a 65-year-old with a 50/50 allocation between USBIG Corp and short-term Treasuries would have limited losses to just -7.5%.

In summary, the glidepath asset allocation approach would have largely protected investors nearing retirement age around the time of these two periods of market turbulence.

Figure 6: Stress-testing the lifecycle strategy



Source: FTSE Russell. Average annual return calculated from January 2004 to March 2025. Past performance is no guarantee of future results.

4. Income or accumulation? Two lifecycle investing sub-strategies

When planning for retirement, it's essential to consider not only where to invest but also how much to invest, based on personal circumstances, lifestyle and financial responsibilities. Individuals supporting family members or with rising medical needs often require greater spending flexibility than those with more predictable expenses.

For example, consider Jack and Emma, who both have an annual surplus of \$15,000 for retirement savings purposes, but who take different paths in managing their finances.

Jack: The Income-Focused Lifecycle Builder

Jack is a 30-year-old, newly married blue-collar worker, who values building a passive income stream early, even if it starts small. He invests his full \$15,000 annually and spends only the dividends and interest. He does not reinvest earnings, aiming to grow a steady income stream over time without selling assets.

Emma: The Growth-Oriented Lifecycle Accumulator

Emma, also 30, is a single professional who is focused on maximising her long-term financial independence. She invests \$10,000 each year and uses the remaining \$5,000 for discretionary spending. All investment income is reinvested, allowing her portfolio to grow through compounding.

Figure 7: Lifecycle strategy worked examples

Method	Jack – Income Strategy	Emma – Accumulation Strategy
Invest	\$15,000 per year	\$10,000 per year
Spend	Dividend and interest received	\$5,000 per year
Reinvest	None	Dividends and interest received
Simulation Result		
Year 1 Spending	\$533	\$5,000
Year 35 Spending	\$32,590	\$5,000
Year 35 Portfolio Value	\$1,022,850	\$1,291,800
Retirement Withdrawal (from age 65 to 100)		
Monthly Withdrawal Amount	\$2,435	\$3,075
Yearly Withdrawal Amount	\$29,224	\$36,909

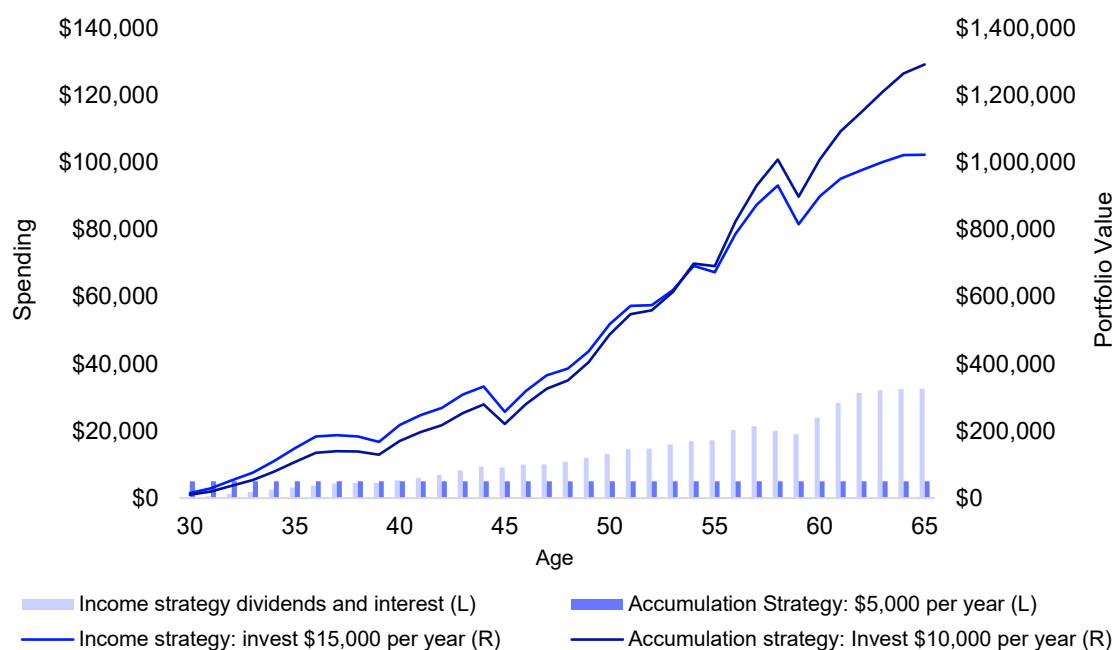
Source: FTSE Russell.

Over a 35-year period, their choices lead to different outcomes:

- In **Year 1**, Jack spends \$533 from investment income, while Emma spends \$5,000 from her surplus.
- By **Year 35 (age 65)**, Jack's annual investment income grows to \$32,590, offering him greater spending flexibility. Emma, however, continues to spend \$5,000 annually, preserving her reinvestment strategy.
- At retirement, Emma's portfolio grows to approximately **\$1.29 million**, compared to Jack's **\$1.02 million**.
- From age 65 to 100: If they begin systematic withdrawals at retirement (similar to an annuity), Emma can withdraw **\$3,075 per month** (\$36,909 annually), while Jack can withdraw **\$2,435 per month** (\$29,224 annually).
- **Age 40** marks the point at which the yearly income of these two sub-strategies crossed, Jack chose the income strategy because he needs to cover increasing family costs, such as children's education and annual family trips, whereas Emma wanted to continue building her assets.

In summary, Emma's strategy prioritises long-term growth and higher retirement income through reinvestment, while Jack's approach gives him increasing financial flexibility as he nears retirement, without the need to sell assets. There is no right or wrong choice here: what works best for the individual depends on financial goals and lifestyle preferences.

Figure 8: Lifecycle income and accumulation strategies



Source: FTSE Russell. Historical performance for ages 30 to 61 is calculated from January 1994 to December 2024 using the lifecycle strategy outlined above. The returns for ages 62 to 65 (year 2025 to 2028) are simulated based on the average return over the past 20 years. Past performance is no guarantee of future results.

5. Making retirement investing simple

The lifecycle investment strategy streamlines retirement investing by dynamically adjusting the asset allocation based on an investor's age or time until retirement. This automated approach ensures a balance between growth and capital preservation, reducing the need for active portfolio management. By progressively shifting toward safer investments as retirement nears, it lowers the investor's exposure to market volatility during the critical years around retirement. As a result, individuals can remain invested with relative confidence, knowing that their portfolio is adapting to their evolving financial needs. This allows them to focus on their long-term financial security without the burden of constant decision-making.

In [a recent research paper](#), we showed how the lifecycle framework can be adapted to meet both traditional financial objectives and individual investor preferences for sustainable investing. In this paper, we have illustrated the potential benefits of a lifecycle investment approach for US dollar-based investors using FTSE Russell indices as building blocks. We also looked at two different sub-strategies for investors prioritising income and asset accumulation.

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