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5 RISKS TO RETIREMENT INCOME

Retirement income planning has changed drastically over the last three decades. Thirty years ago most Americans could safely rely on Social Security and a pension to provide the income they needed in retirement. That's no longer the case. Today we have a much greater personal responsibility to create our own retirement income plan. To help make sure that a retirement portfolio lasts a lifetime, individuals should prepare for and manage the following common risks to retirement income.

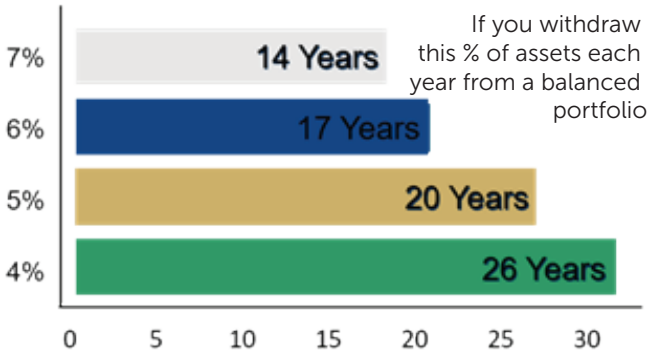
1. What if you live longer than your money? The fact that you may spend more time in retirement than you did on the job is a double-edged sword.

The answer is...**You may need income for 30 years or more after you retire.** Just how many years depends on how early you retire...and how long you live... which of course, none of us knows for sure. But to plan for retirement income, you need to understand the importance of longevity risks and may want to plan for a longer retirement than just to the median. If you plan only to the average life expectancy (that 50% chance), you could potentially outlive your assets.

2. What if you retire at the beginning of a bear market? What if you find yourself in a perfect storm - just as you set sail for a well-deserved retirement, you watch your retirement assets fall faster than expected.

The answer is...**The less you withdraw, the longer it should last.** As a rule of thumb, if you are retiring around age 65, you may want to consider limiting yourself to withdrawing **4% or less** of your total assets each year. As you can see from the chart, that withdrawal rate could extend the life of a balanced portfolio (for purposes of this example, the portfolio is assumed to be 50% equities, 40% bonds, 10% short-term) to about 26 years under extended down-market conditions. At a 5% withdrawal rate, your assets in a balanced portfolio will only last about 20 years under average market conditions.

THIS IS THE NUMBER OF YEARS YOUR PORTFOLIO MAY LAST IN EXTENDED DOWN MARKETS



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3. What if your investment philosophy does not match your life expectancy? Common wisdom recommends that you invest more conservatively when you retire. But how conservative and how soon?

Many new retirees invest too conservatively, too soon, and risk outliving their money. When your retirement could last 30-35 years, **your investment philosophy needs to reflect your surprisingly long time horizon.** Depending on your circumstances there may be a big risk in being too conservative, especially given today's longer life spans.

4. What if prices go up faster than your income?

When inflation increases a mere 1% in one quarter, it is difficult to notice the impact. Only a 4% inflation rate means prices will increase over 50% in just 12 years and double in 18 years.

And the answer is... **You may need to plan for double the income in 25 years...just to equal the buying power you have today.** Just how much more income would you need to keep pace with inflation? That depends on the specifics of your situation. But if you made $5,087 in 1958, you'd need $19,587 in 1979, over $56,000 in 2004, and possibly over $117,000 in 25 years. Only in 2029, you will not be enjoying an inflation-adjusted paycheck from your employer. We hear the term "inflation" tossed around by the economists. But it has a very practical, very real impact on how much your income will need to increase over a long retirement. Which just means you better plan on giving yourself some retirement pay raises over the years!

5. What if the cost of staying healthy is more than you can afford?

The good news is that people are living longer than before. But health care costs continue to outpace inflation. Many employers have found it necessary to cut back on retiree medical benefits. Over the long term, Medicare and Medicaid may face major funding challenges. The risk posed by uncovered health care expenses can be ***substantial*** , so much so that health insurance itself must be seen as a pillar of retirement security along with pensions, personal savings, and Social Security.

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