
Retirement Income

Then and Now

Asset allocation before and after retirement

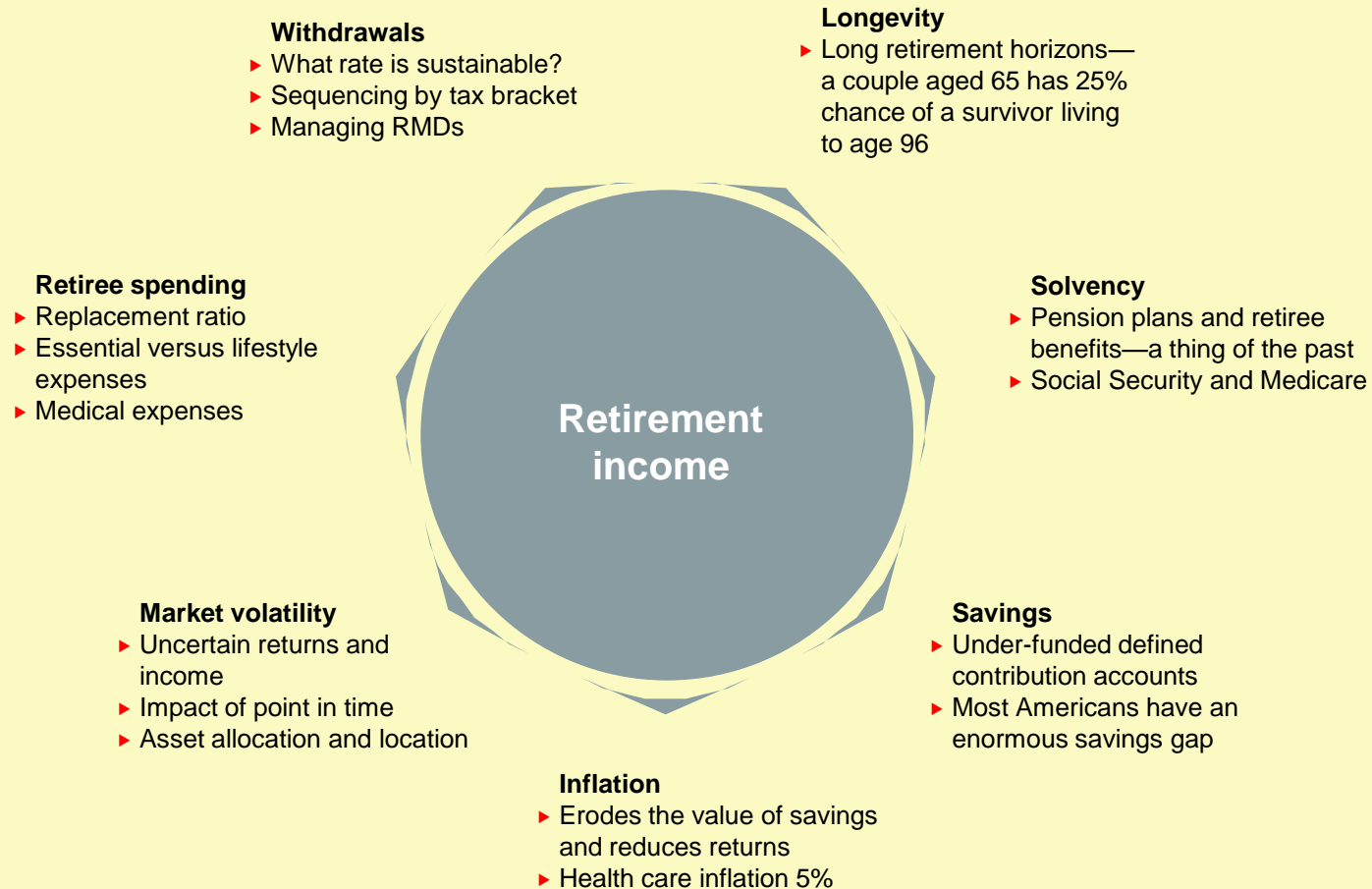
Before retirement

- ▶ Accumulation
- ▶ Long-term growth
- ▶ Current savings
- ▶ Time to recover
- ▶ Tax-deferred growth

After retirement

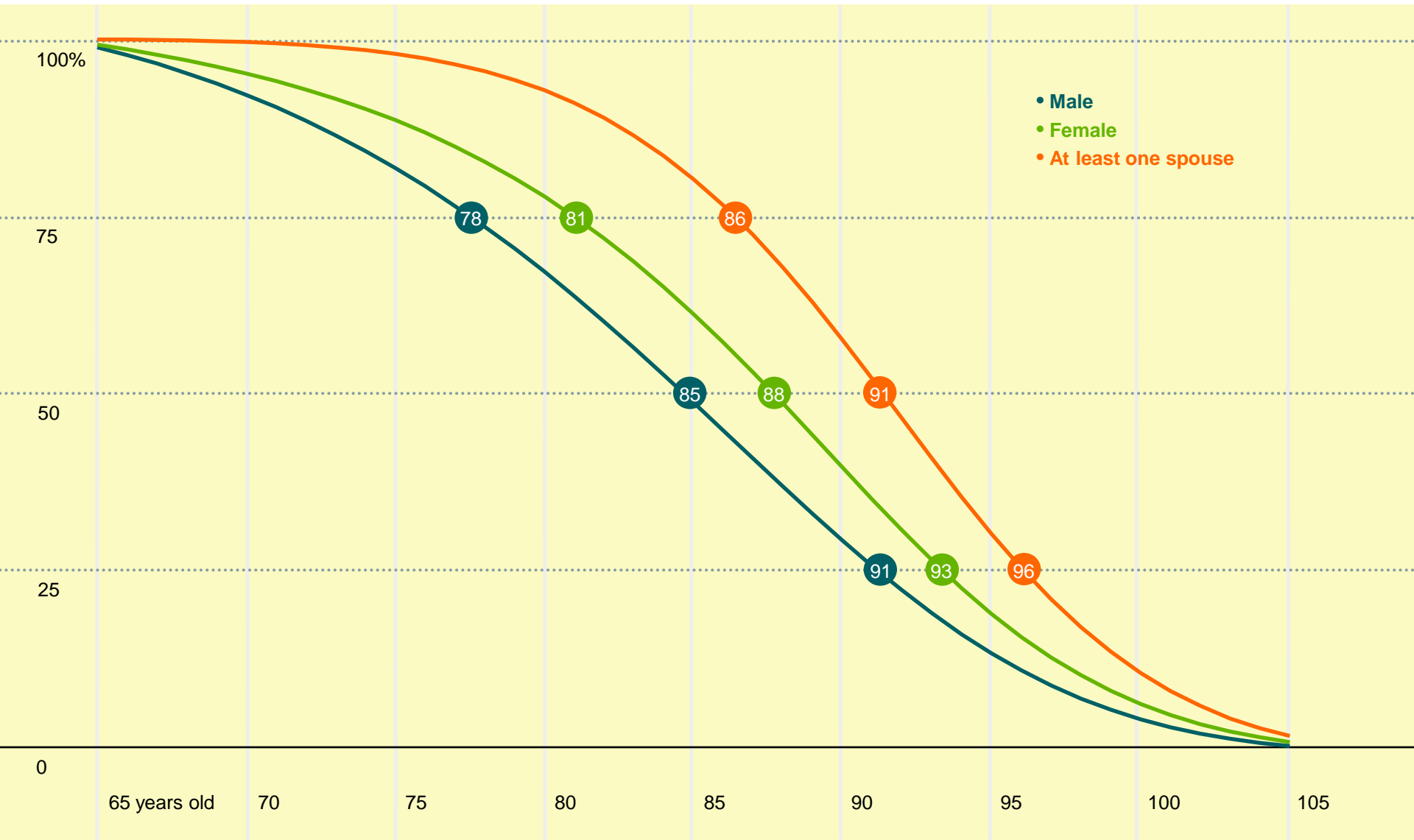
- ▶ Disbursement
- ▶ Long-term growth
- ▶ Current income
- ▶ Downturns immediately felt
- ▶ Minimum required distributions
- ▶ Taxes

Retirees Face Numerous Risks



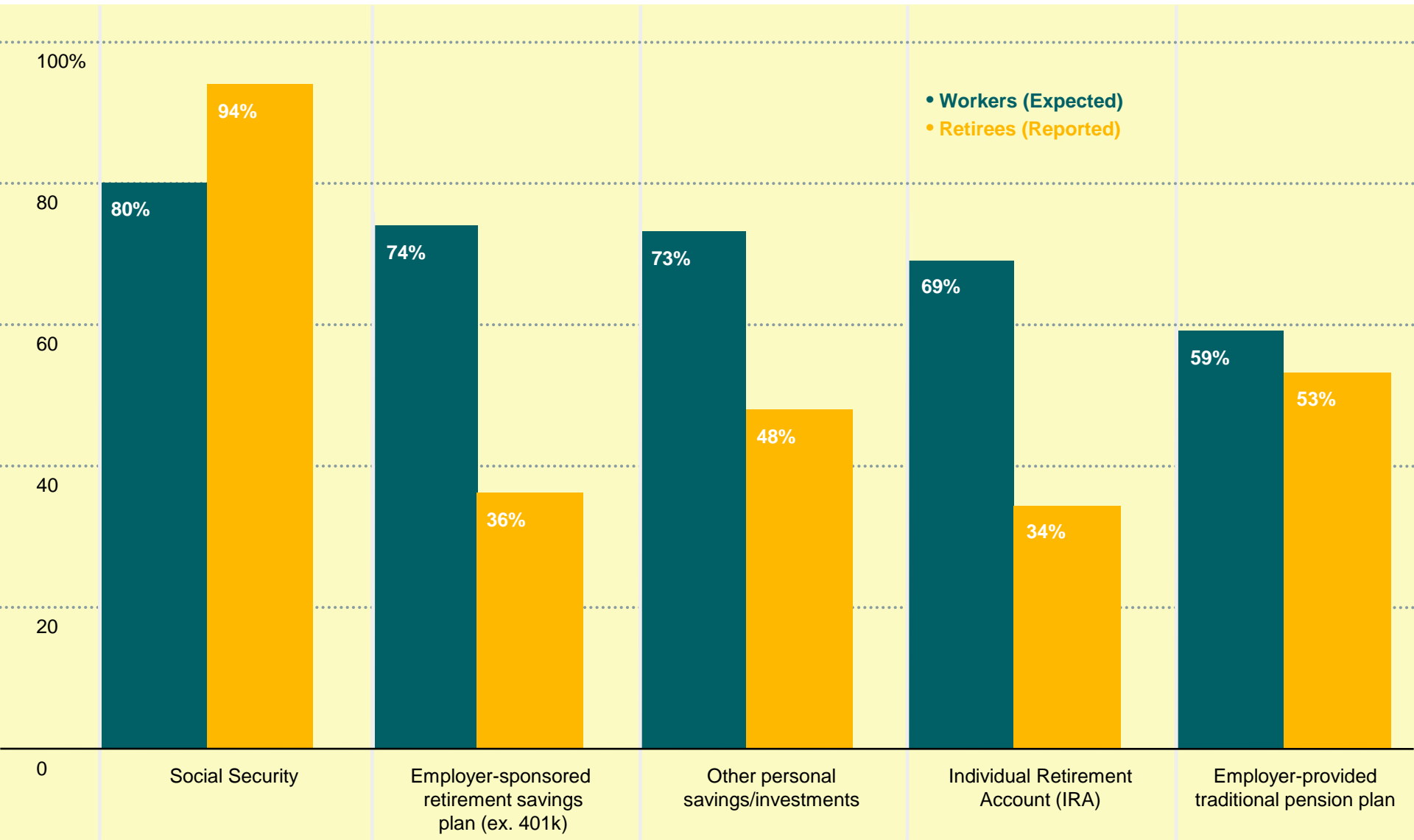
Retirees Should Plan for a Long Retirement

Probability of a 65-year-old living to various ages



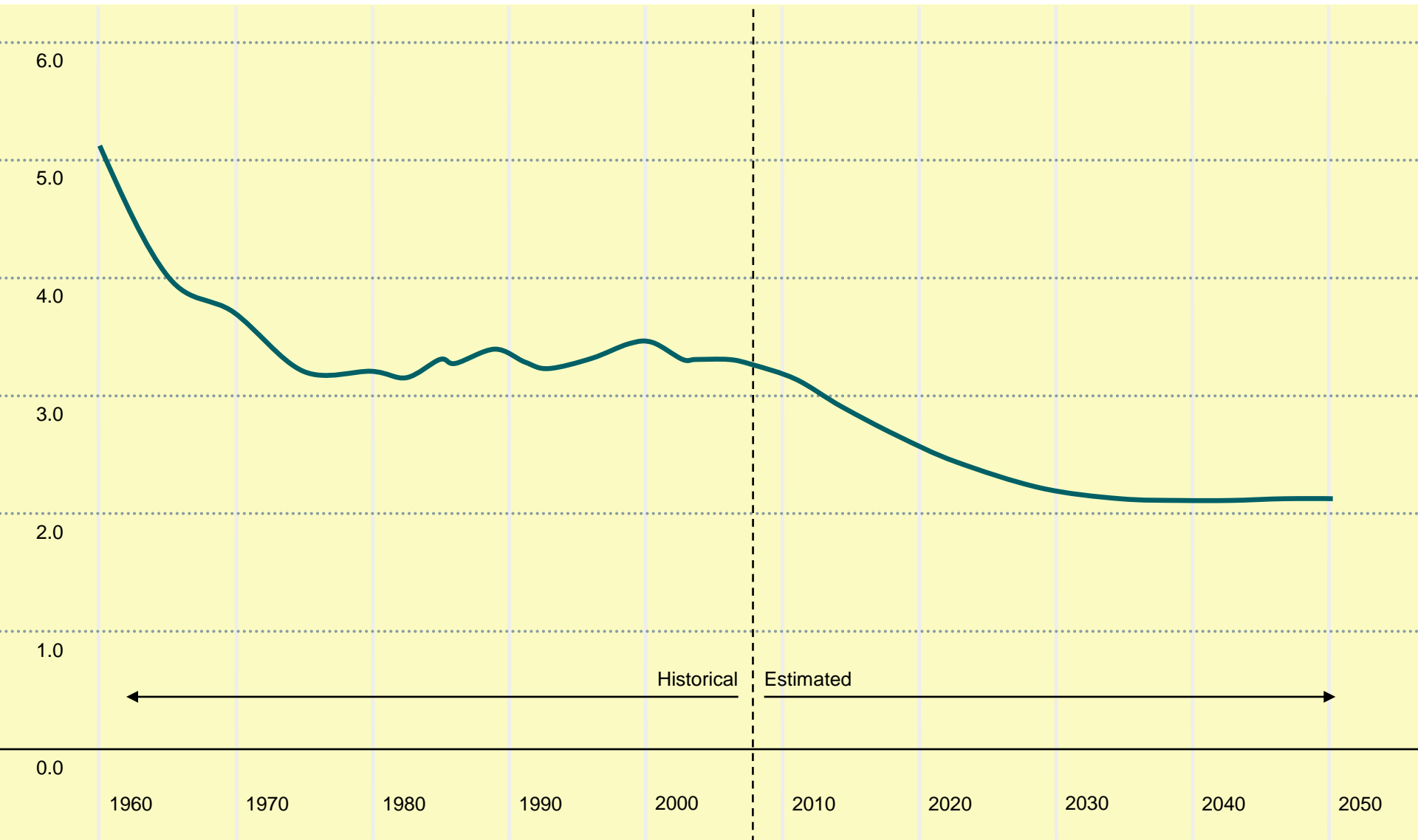
Personal Savings Expected to Play a Larger Role in Retirement

Survey of retirement income sources



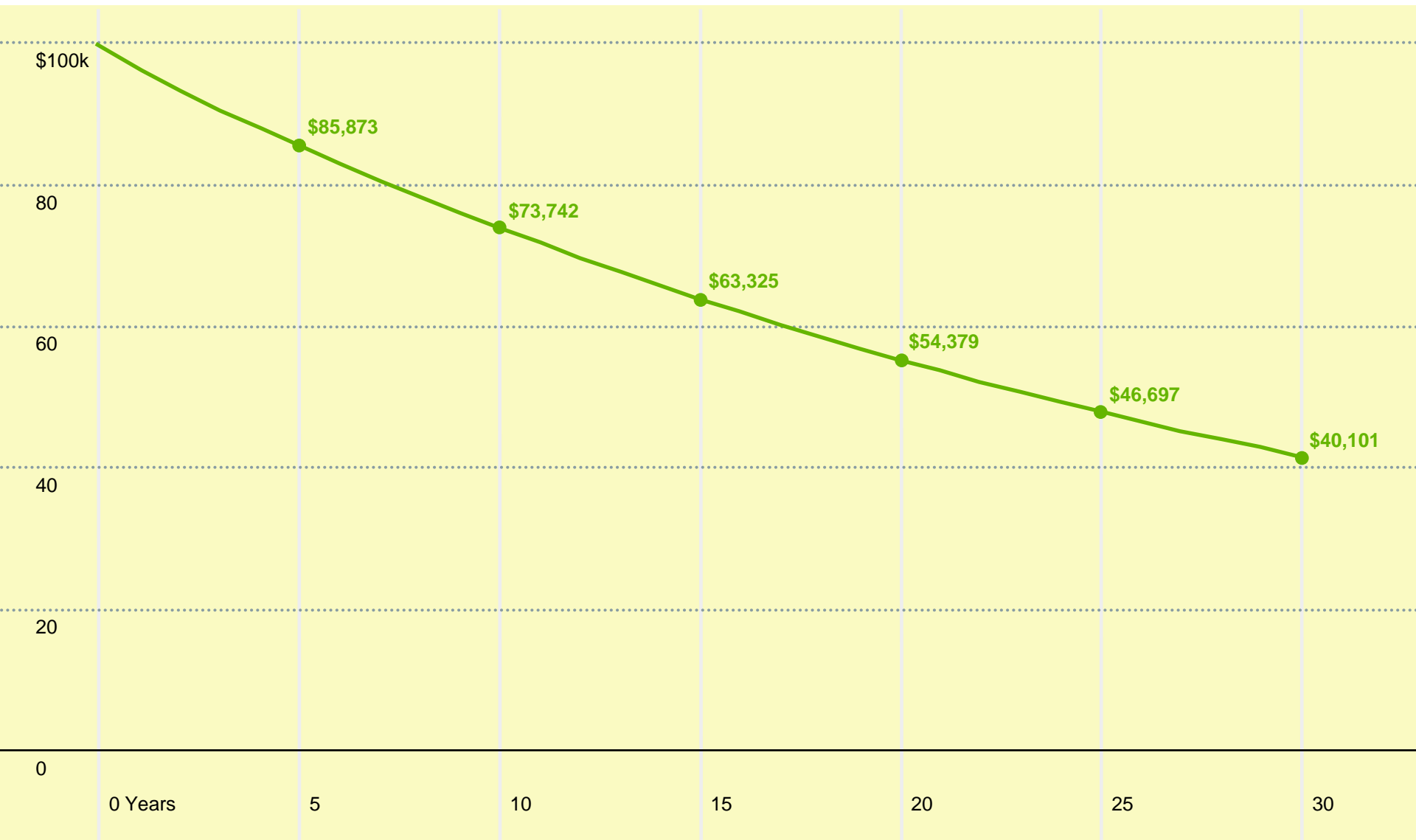
Social Security is Under Strain From Fewer Workers Per Retiree

Ratio of workers to beneficiary



Inflation Significantly Erodes Purchasing Power Over Time

Effects of 3% inflation on purchasing power

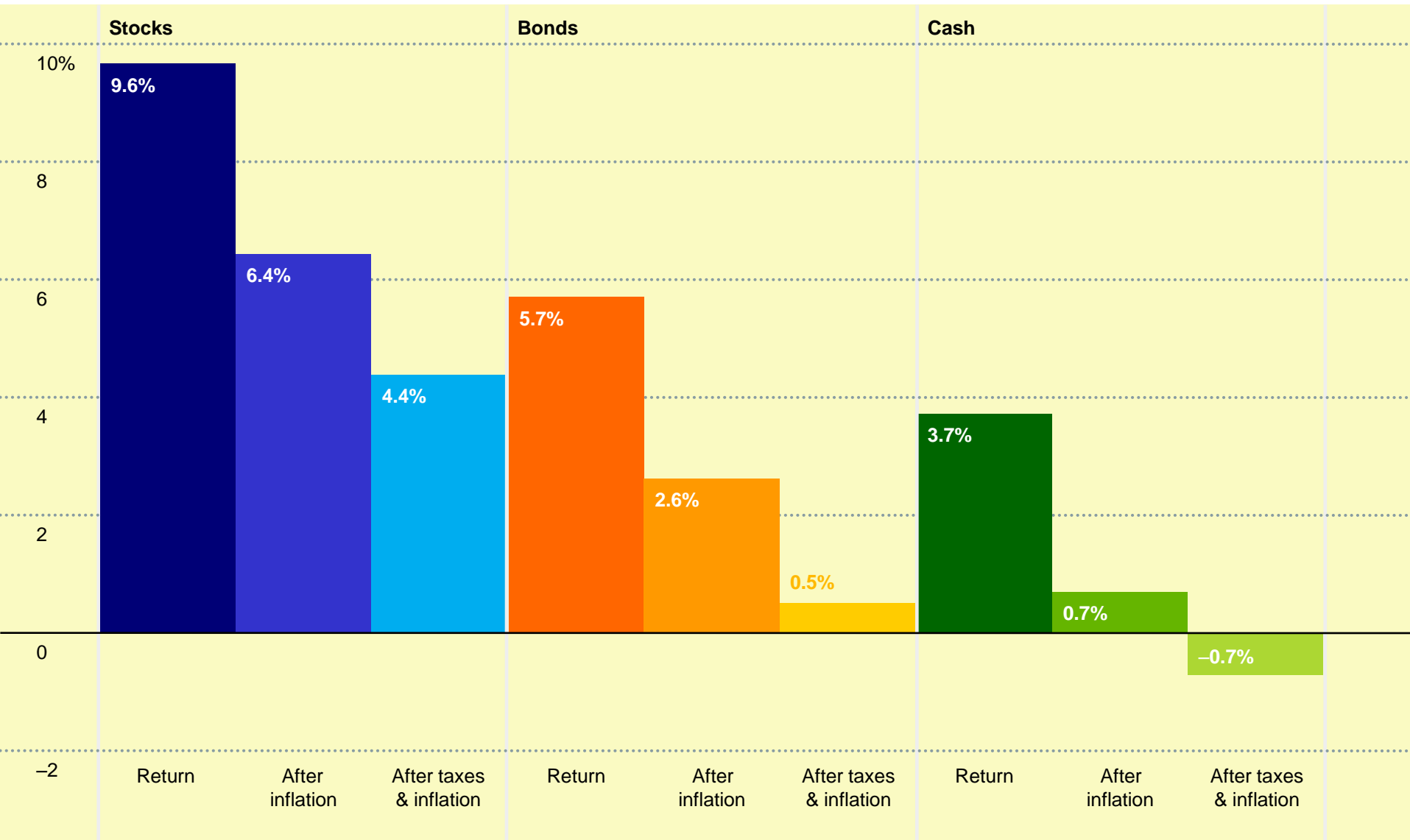


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Inflation and Taxes Reduce Returns

Compound annual returns, 1926–2008

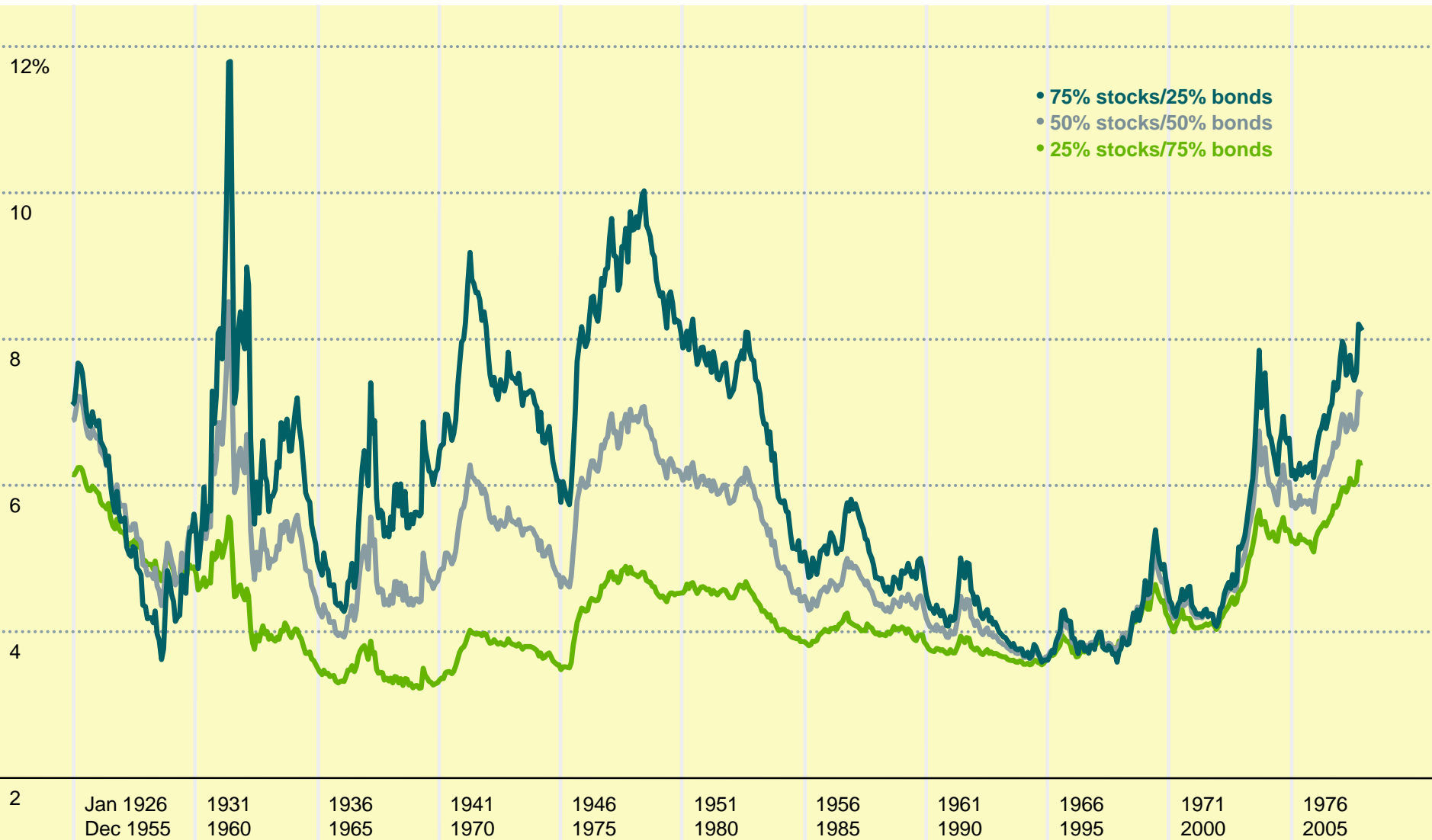


Past performance is no guarantee of future results. Assumes reinvestment of income and no transaction costs. Inflation rate over the time period 1926–2008 was 3.0%. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.
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Sustainable Withdrawal Rates Vary Over Time

Rolling 30-year periods 1926–2008

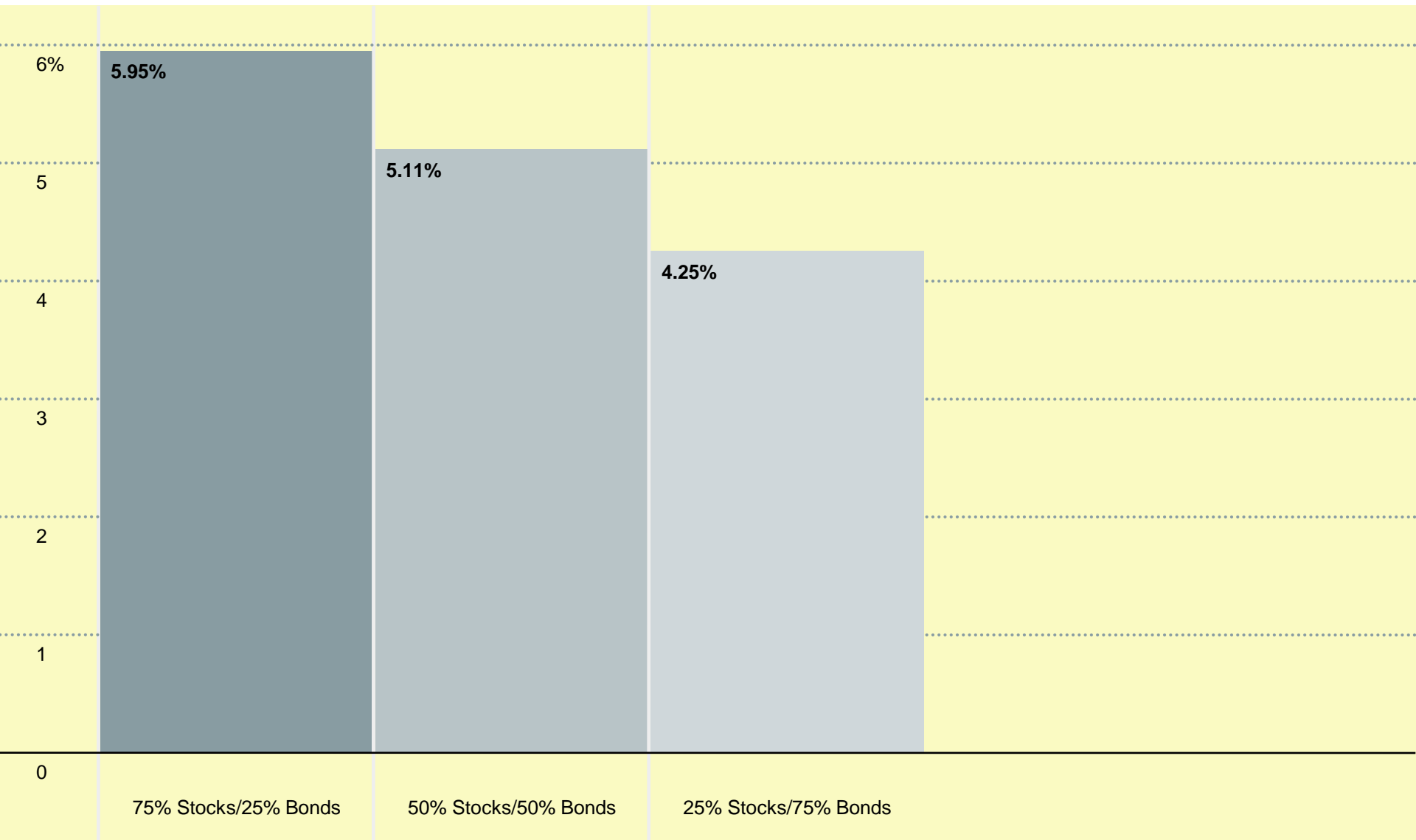


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Withdrawal Rate You Can Sustain May Be Lower Than You Think

Average: 1926–2008

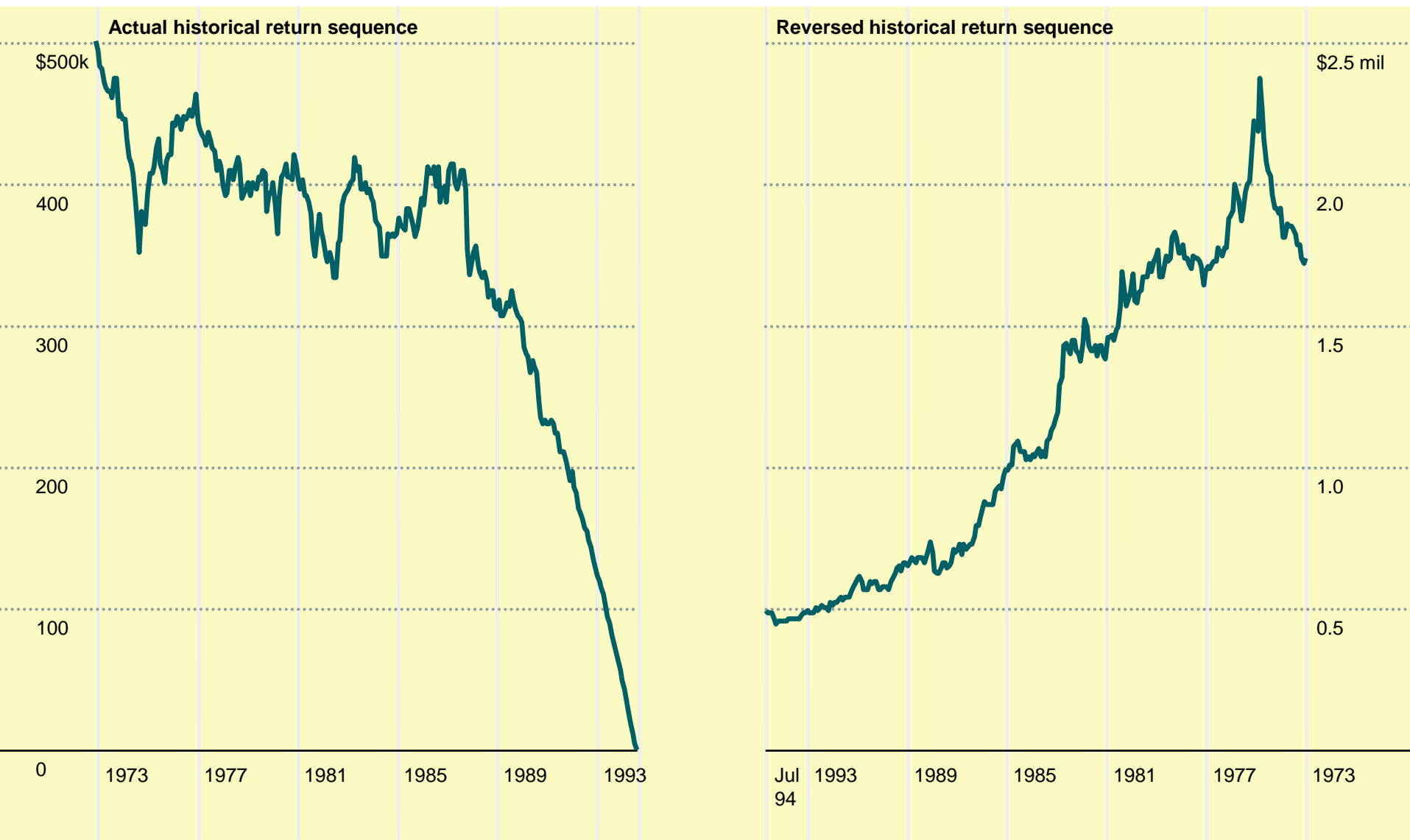


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The Sequence of Returns Can Significantly Affect Your Retirement

Sequence of returns matters



Past performance is no guarantee of future results. Hypothetical value of \$500,000 invested at the beginning of 1973 and July 1994. Assumes inflation-adjusted withdrawal rate of 5%. Portfolio: 50% large-company stocks/50% intermediate-term bonds. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2009 Morningstar, Inc. All rights reserved. 3/1/2009



Discussion of Simulation Criteria and Methodology

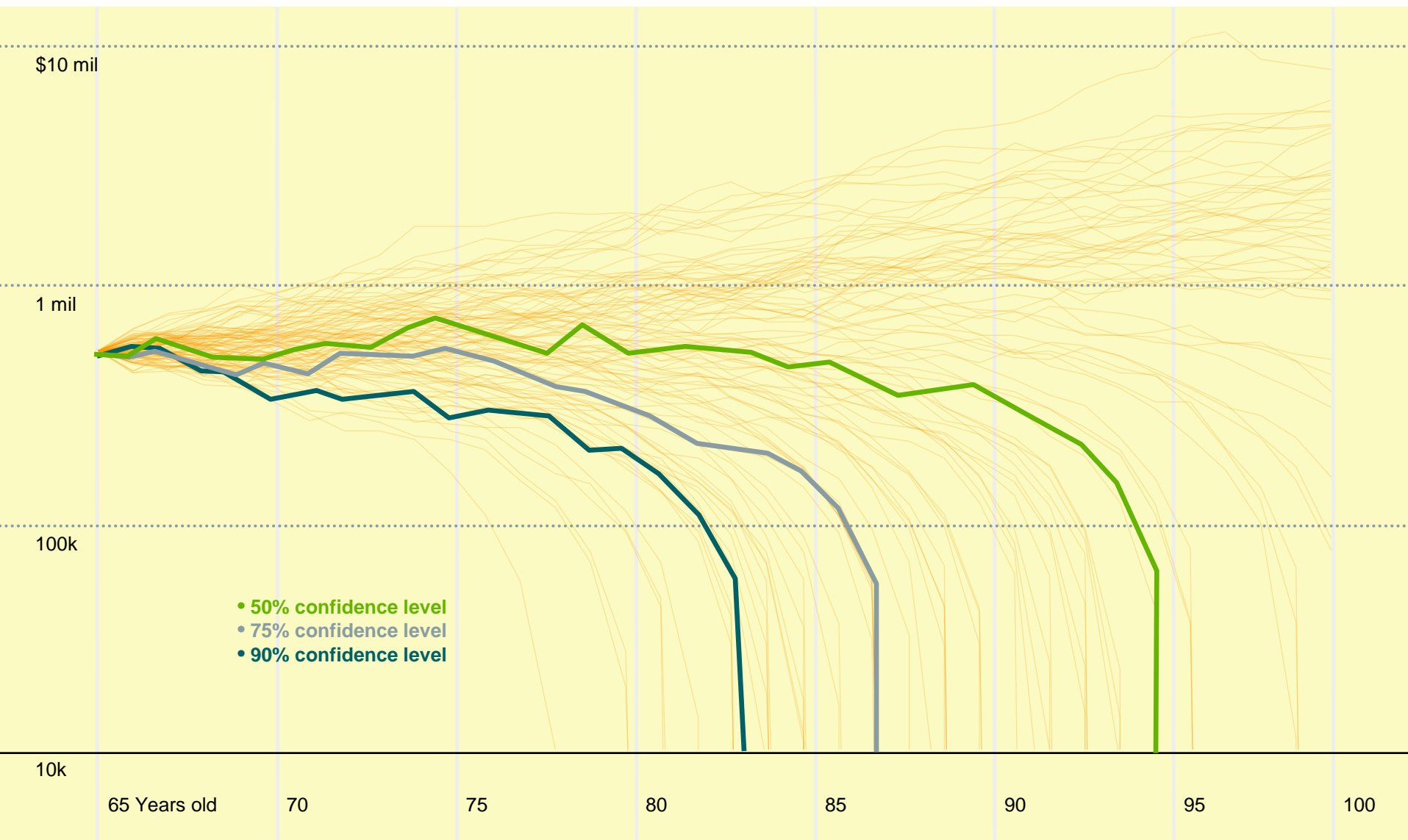
- ▶ Many of the following images were created using Monte Carlo parametric simulation. This model estimates the range of possible outcomes based on a set of assumptions including arithmetic mean (return), standard deviation (risk), and correlation for a set of asset classes. The inputs used herein are the historical 1926–2008 figures. The risk and return of each asset class, cross-correlation, and annual average inflation over this time period follow. Stocks: risk 20.6%, return 11.7%; Bonds: risk 5.7%, return 5.6%; Correlation 0.00; Inflation: return 3.1%.
- ▶ Note that other investments not considered may have characteristics similar or superior to those being analyzed. Each simulation produces 35 randomly selected return estimates consistent with the characteristics of the portfolio to estimate the return distribution over a 35-year period. Each simulation is run 5,000 times, to give 5,000 possible 35-year scenarios. A limitation of the simulation model is that it assumes that the distribution of returns is normal. Should actual returns not follow this pattern, results may vary.

Interpreting Confidence Levels in Simulation

Confidence level	Chance of exceeding	Chance of falling short
50%	50%	50%
75%	75%	25%
90% (More conservative)	90%	10%

Simulation Can Illustrate the Probability of Achieving Outcomes

A visual interpretation of confidence levels in simulation

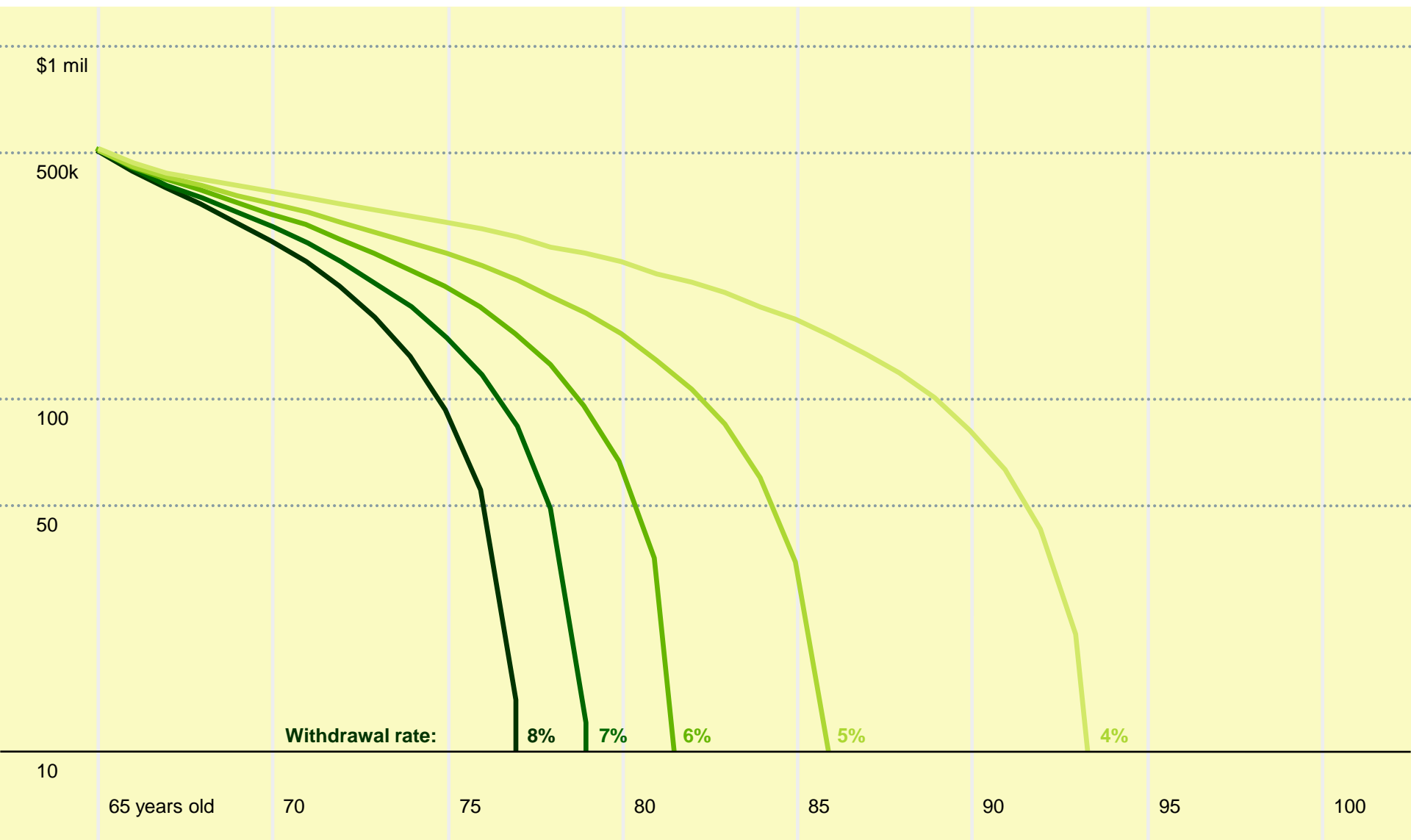


IMPORTANT: Projections generated by Morningstar regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Results may vary over time and with each simulation. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2009 Morningstar, Inc. 3/1/2009



High Withdrawal Rates Will Quickly Deplete Your Assets

Simulated portfolio values (90% confidence level)

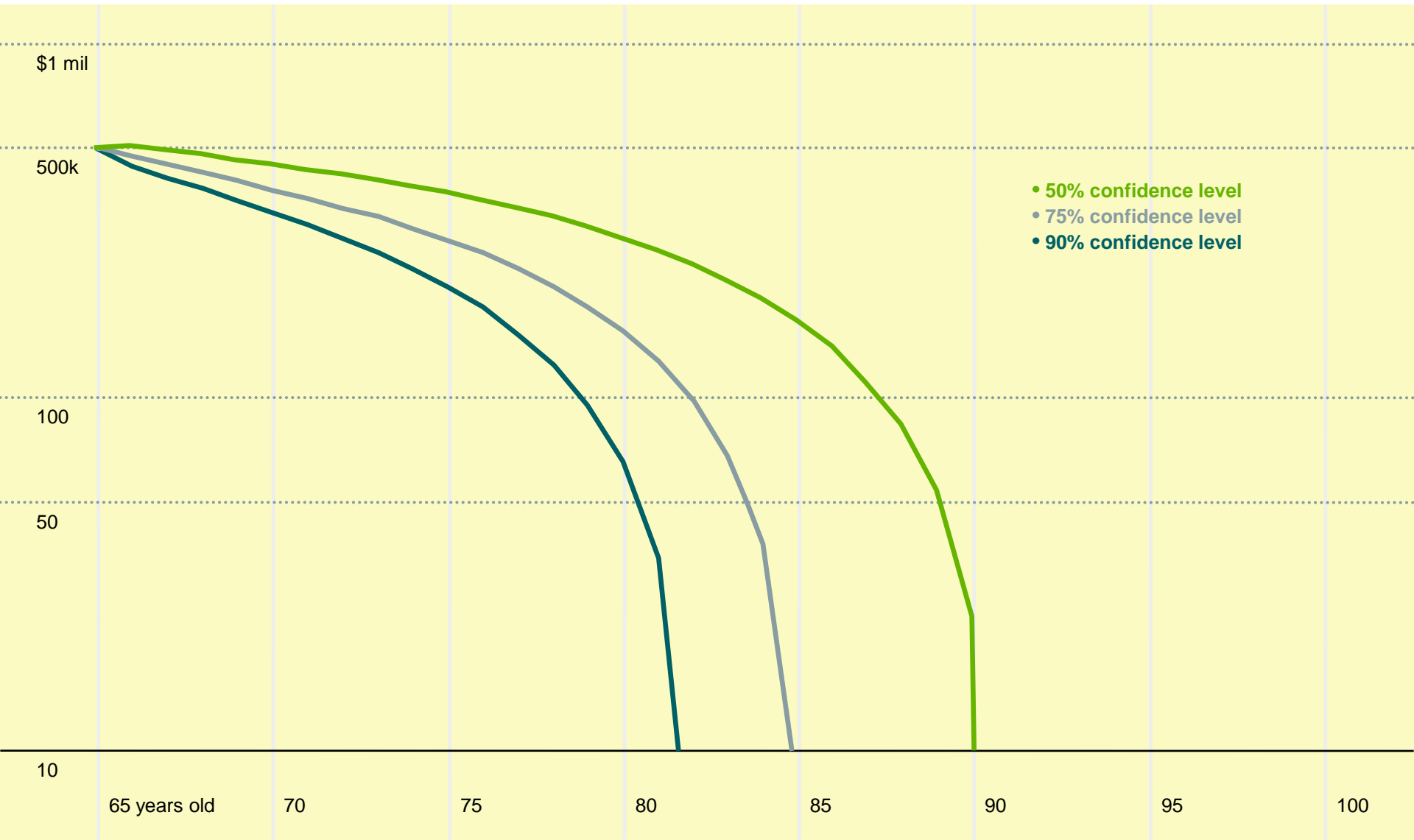


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Market Performance Affects Chance of Portfolio Shortfall

Six percent inflation-adjusted withdrawal at three confidence levels

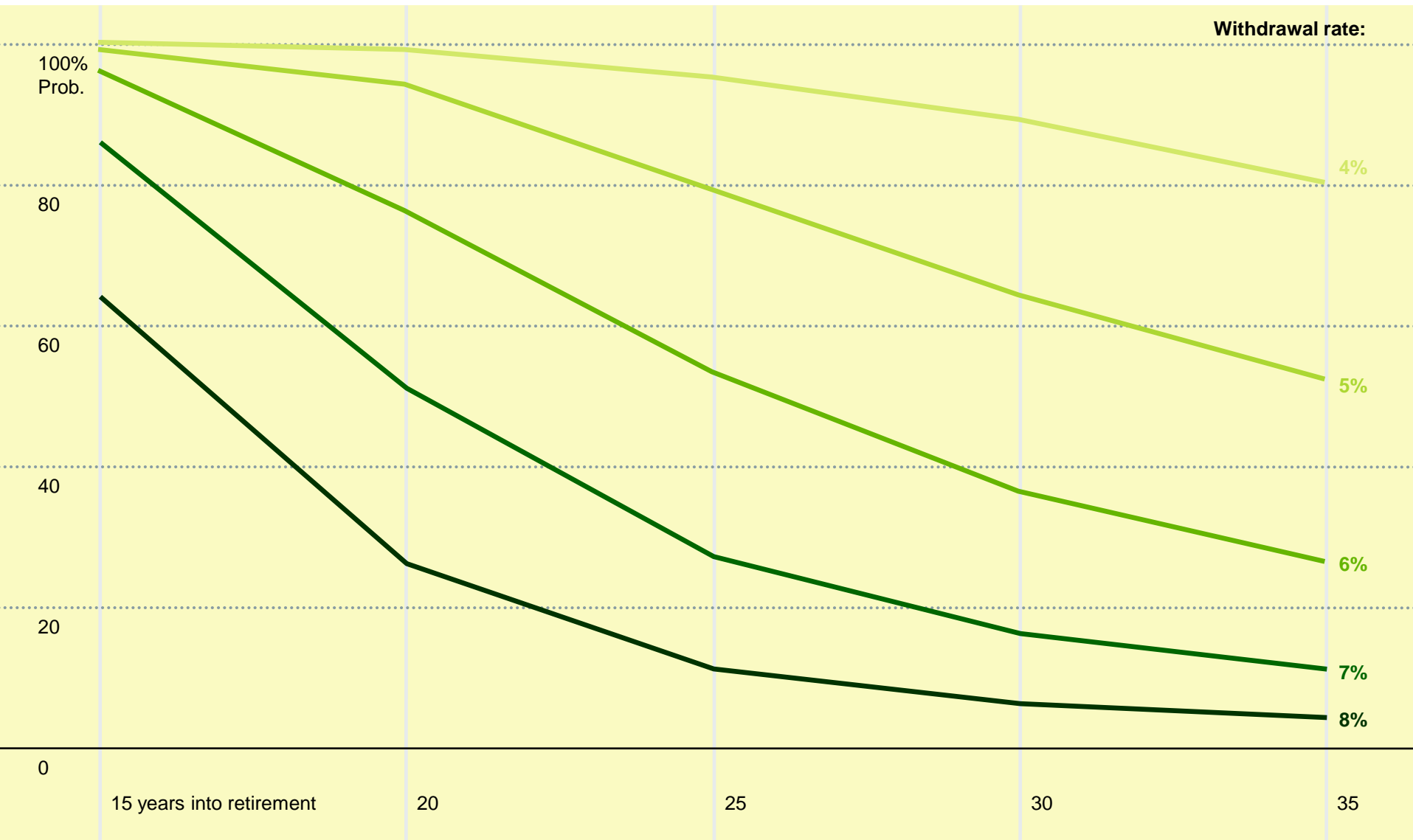


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Withdrawal Rates and Retirement Horizon Affect Ability to Meet Goals

Probability of meeting income needs throughout retirement








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Probability of Meeting Income Needs

Various withdrawal rates and portfolio allocations over a 25-year retirement

86%	97%	95%	92%	88%	4% Withdrawal rate
35%	71%	79%	79%	76%	5%
4%	28%	52%	60%	62%	6%
0%	5%	27%	42%	48%	7%
0%	0%	11%	26%	36%	8%
100% Bonds	75% B 25% S	50% B 50% S	25% B 75% S	100% Stocks	
					

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Providing for Retirement Income

- ▶ Retirement risks can be managed by intelligent combination of funds, stocks and bonds, and insurance products
- ▶ How do you find the right asset mix for retirement?
 - ▶ age and risk tolerance
 - ▶ desire for consumption and bequest
 - ▶ expenses and fees of product choices