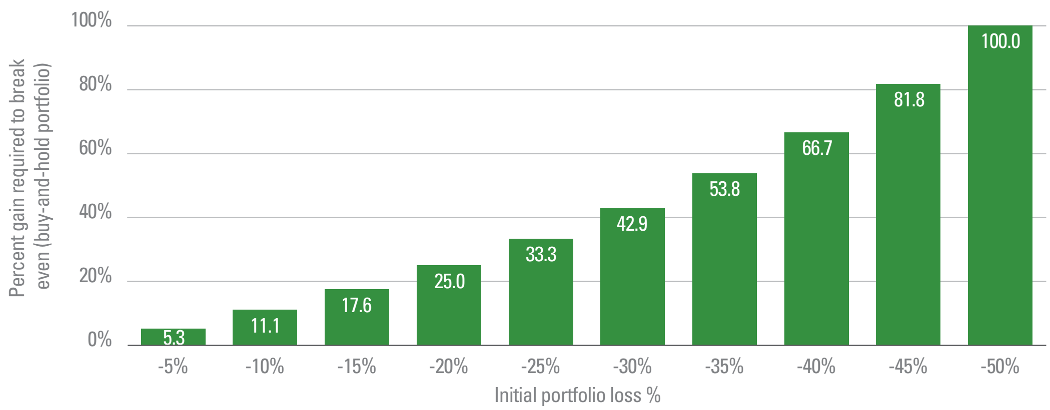
# Responding to today's retirement realities

Thanks to the realities of longer life expectancy, rising health care costs and inflation, your retirement savings will have to last longer and work harder than ever before. In fact, you may need **80% or more of your pre-retirement income** to maintain your lifestyle in retirement.[1]

## Getting even

The investment landscape looks much different than in recent years and many investors have experienced a substantial portfolio loss due to market volatility. The chart to the right illustrates the total return needed to "catch up" from various levels of portfolio losses.

**Total (cumulative) return required to restore original portfolio balance**

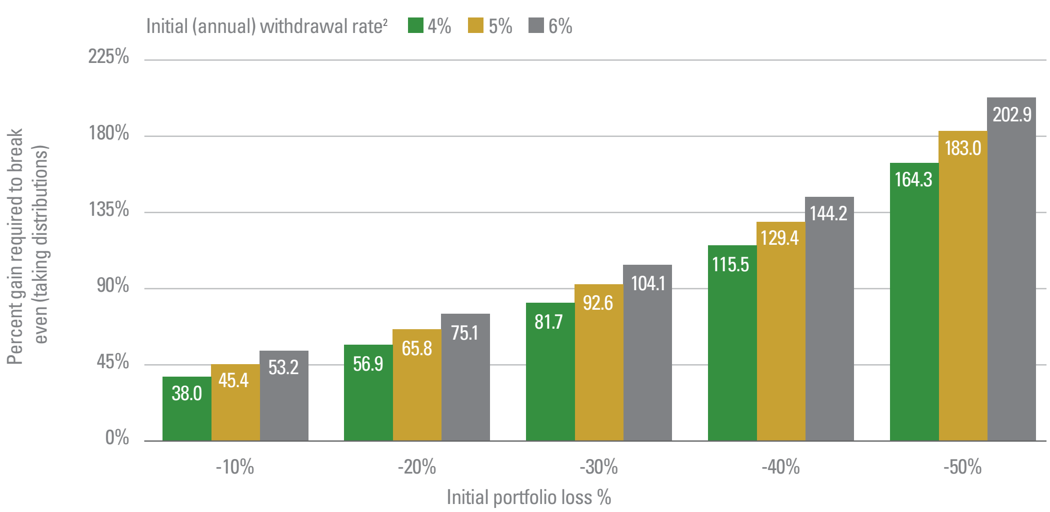



Source: Calculations by Retirementoptimizer.com Inc. All figures are rounded to one decimal place. The chart above is for illustrative purposes only and does not represent a specific investment.

## The distribution challenge

During the distribution phase, each dollar of withdrawal compounds its own loss, which must then be recovered by the remaining assets in the portfolio. In addition, withdrawals typically increase over time to combat inflation, making it even more difficult to recover in full from a market decline.

**Total (cumulative) return required over five years to restore original portfolio balance**




Source: Calculations by Retirementoptimizer.com Inc. All figures are rounded to one decimal place. The chart above is for illustrative purposes only and does not represent a specific investment.

1 Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2006 Retirement Confidence Survey.
2 Initial withdrawal rate is the annual withdrawal rate as a percentage of the initial portfolio value at the start of retirement. Figures in this table are based on an annual 3% increase of the dollar amount of withdrawals; the purpose of the increase is to maintain the purchasing power.

## What are the odds?

Regardless of level of investment expertise, sooner or later every investor will face a market loss. The table below illustrates the probability of experiencing a loss in any one calendar year for various markets based on historical index returns.

**Probability of occurrence of loss in a calendar year** (%)

| Index | Any amount of loss | Loss of less than 10% | Loss of 10% or more |
|---|---|---|---|
| DJIA[3] (since 1900) | 36 | 14 | 22 |
| S&P 500[4] (since 1900) | 32 | 10 | 22 |
| Nikkei 225[5] (since 1914) | 40 | 15 | 25 |
| FTSE All Shares[6] (since 1900) | 40 | 19 | 21 |

Source: Jim Otar, *Unveiling the Retirement Myth,* ISBN: 978-0-9689634-2-5. Past performance is not a guarantee of future results. Please note that an investor cannot invest directly in an index. The chart above is for illustrative purposes only and does not represent a specific investment.

The S&P 500 index was established in 1926; data prior to inception were sourced from Robert Shiller, who derived the data from Cowles and associates (Common Stock Indexes, 2nd ed. [Bloomington, Ind.: Principia Press, 1939]), interpolated from annual data. Nikkei 225 and the FTSE All shares indexes were established in 1950 and 1962, data prior to inception were sourced from http://www.finfacts.com, and it indicates its source as Credit Suisse Global Investment Returns Yearbook (ISBN 978-3-9523513-2-1).

Now, let's look at this same probability within various market trends. Cyclical trends, which are composed of shorter-term bullish and bearish trends, typically last three to five years. A secular trend, meanwhile, is longer-term and typically lasts 16 to 20 years. A secular bullish trend refers to a group of securities (for example, an index) in which prices rise for several years. A secular bearish trend is the opposite. Most investors are accustomed to experiencing either bullish or bearish trends.

There is a third type of secular trend, however, called a sideways trend, with which many investors might not be as familiar. A secular sideways trend is a market made up of several cyclical bullish and bearish trends that result in a market that barely changes over time.

**Probability of occurrence of loss in a calendar year** (%)

**In secular bullish trends** (1921-1928, 1949-1965, 1982-1999)

| Index | Any amount of loss | Loss of less than 10% | Loss of 10% or more |
|---|---|---|---|
| DJIA (since 1900) | 17 | 12 | 5 |
| S&P 500 (since 1900) | 14 | 12 | 2 |

**In secular sideways trends** (1900-1920, 1937-1948, 1966-1981)

| Index | Any amount of loss | Loss of less than 10% | Loss of 10% or more |
|---|---|---|---|
| DJIA (since 1900) | 49 | 18 | 31 |
| S&P 500 (since 1900) | 43 | 12 | 31 |

Source: Jim Otar, *Unveiling the Retirement Myth,* ISBN: 978-0-9689634-2-5. Past performance is not a guarantee of future results. Please note that an investor cannot invest directly in an index. The chart above is for illustrative purposes only and does not represent a specific investment.

During a secular bullish trend, there is about a one in six chance of experiencing a loss in any given year. Within a secular sideways trend, however, the chance of experiencing a loss grows to about one in two, or about 50%. And larger losses (over 10%) occur more frequently than in secular bullish trends, an unfortunate reality if you are taking distributions from your portfolio.

[3] The Dow Jones Industrial Average (DJIA) is a total return price-weighted average based on the price movements of 30 blue-chip stocks, computed by reinvesting quarterly dividends on a daily basis.
[4] The S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S.
[5] The NIKKEI 225 is a price-weighted index composed of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange.
[6] The FTSE All Shares is a market capitalization-weighted index representing the performance of all eligible companies listed on the London Stock Exchange's main market which pass screening for size and liquidity.

## The bottom line

Experiencing market loss is an inevitable part of the investing experience. Depending on where you are in your retirement timeline, portfolio losses may have greater impact. As previously illustrated, recovering from market losses can be difficult and it becomes increasingly challenging if you are taking distributions.

## Where can I find more information?

Be sure to consider these realities when determining your savings strategy to help achieve your retirement income goals. Talk to your financial advisor today about determining ways to help protect assets and create income, which includes selecting the right product solutions that are suitable for your specific needs.

All investments involve risk, including possible loss of principal.