PURPOSE

The Retirement Rule of $20

How much money do you need for a financially healthy retirement? Can your retirement savings keep up with inflation? How will market volatility impact your nest egg? And the biggest question of all: How long will my money last?

The **Retirement Rule of $20 (Rule of $20)** may help provide the answers. It is an innovative, but simple, rule of thumb that helps you estimate the amount of retirement income you can expect to drawdown annually – taking into account important factors such as inflation, market volatility and longevity risk. Basically the **Rule of $20** states that every $20 in retirement savings can generate $1 of retirement income annually, adjusted for inflation.

The Rule of $20 starts with the following basic assumptions:

- Net-of-fee portfolio return is 4.2% annually
- Annual payout is indexed to inflation (assumed at 2.5% a year)
- Portfolio is comprised of 35% equities, 65% fixed income
- Investor is married and retires at a minimum age of 65

As an example, a couple heading into retirement with $1 million in savings can expect to generate $50,000 a year (increasing by 2.5% annually) in annual retirement income, exclusive of other sources such as the Canada or Quebec Pension Plan, Old Age Security or any other pension income, for a period of approximately 25 years.

Potential risks

The rate of inflation

The **Rule of $20** projects funds to last about 25 years using a 2.5% annual inflation rate. If the annual inflation rate is higher, the funds will deplete more quickly, whereas if the annual inflation rate is lower, the funds will last longer. If you are concerned about the possibility of higher inflation in the future, it may be prudent to save more than this rule of thumb suggests.

Longevity

The **Rule of $20** projects funds to deplete at age 90 for an investor who retires at 65. While that is a decent lifespan, it does leave open the possibility you may run out of money in your lifetime. Again, saving more would alleviate this concern, as would opting for a smaller annual payout.

Market volatility

This is an obvious concern for recent retirees. While equities are needed for growth, it might be prudent to consider a dynamically managed portfolio that aims for absolute returns, which can help smooth out the ride through retirement.

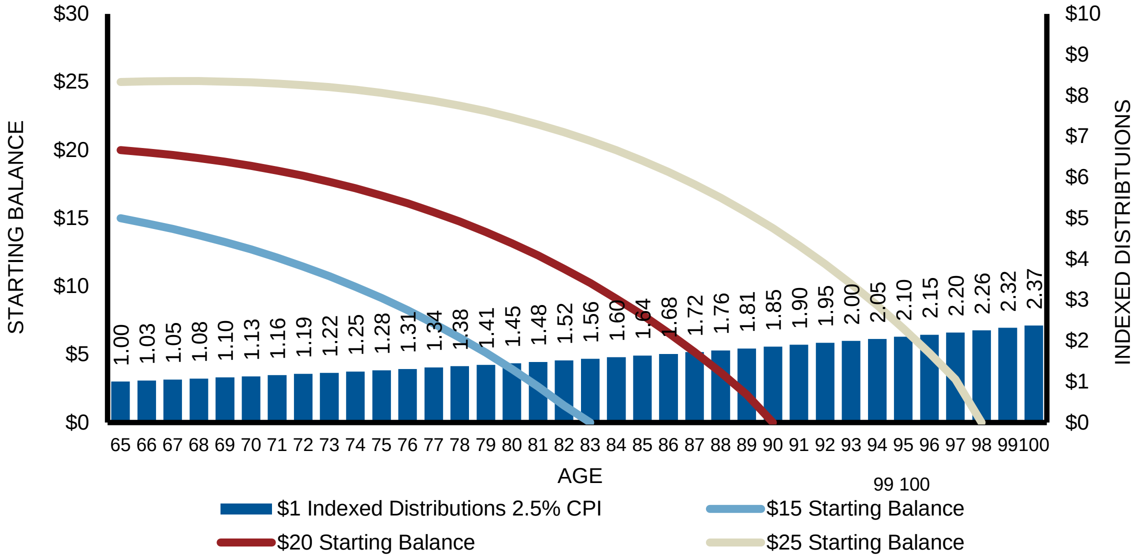
Age of retirement and marital status

The **Rule of $20** assumes the investor is married and retires at the age of 65. Retiring at an earlier age would require saving more, while retiring later would require less. Similarly, a single investor requires fewer savings.

Taxes

For a true picture of your financial situation, you should always treat income tax as part of the total expenses your income needs to cover. Based on your portfolio composition (taxable versus registered investments) the worst-case scenario would be to have all your retirement income drawn down from registered investments. This type of income is fully taxed at an appropriate effective income tax rate for the individual. A competent advisor can help you structure your portfolio to reduce your tax burden.

Retirement Rule of $20 adjusted for duration of payout



Source: Russell Investments

A note about probability:

Like all rules-of-thumb, the **Rule of $20** is an average expectation. In statistical terms, that means it has a 50% probability of certainty. To increase the chance that it works for your particular circumstance, talk to your financial advisor about the Russell Investments funded ratio tool. This tool can help you determine your specific retirement plan and may help give you peace of mind about the future.

IMPORTANT INFORMATION

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