



Managing Retirement Risks

INFLATION



Our inflation calculator will help you examine why inflation is an important retirement risk.

Welcome to Managing Retirement Risks – an interactive tool which will help you solve the challenges and issues of retirement planning. You’ve spent decades accumulating your savings and assets, so it makes sense that you spend some time learning about the most critical risks you face – and how to address them. The time spent could mean the difference between success and failure. Take control of your financial destiny today!

Why Is Inflation Risk So Important?

A dollar today doesn’t buy what it did a decade ago. This is due to inflation – the rising costs of goods and services over time – and it will likely continue through our lifetime. You can expect that you will be paying more over the coming years for the same goods and services, just to maintain the same standard of living.

Because retirees are living longer, the effects of inflation can build up over many years. At the same time, many sources of income in retirement (like pensions, fixed annuities, interest and dividend income from CDs and bonds) do not keep pace with inflation. As a result, retirees are at risk of having to reduce their standard of living later in retirement so they don’t run out of assets.

You might think of inflation risk as *eating into more savings, just to keep eating the same*. The hidden cost of inflation can put your retirement plan at risk.



INFLATION continued

What Do I Need to Know?

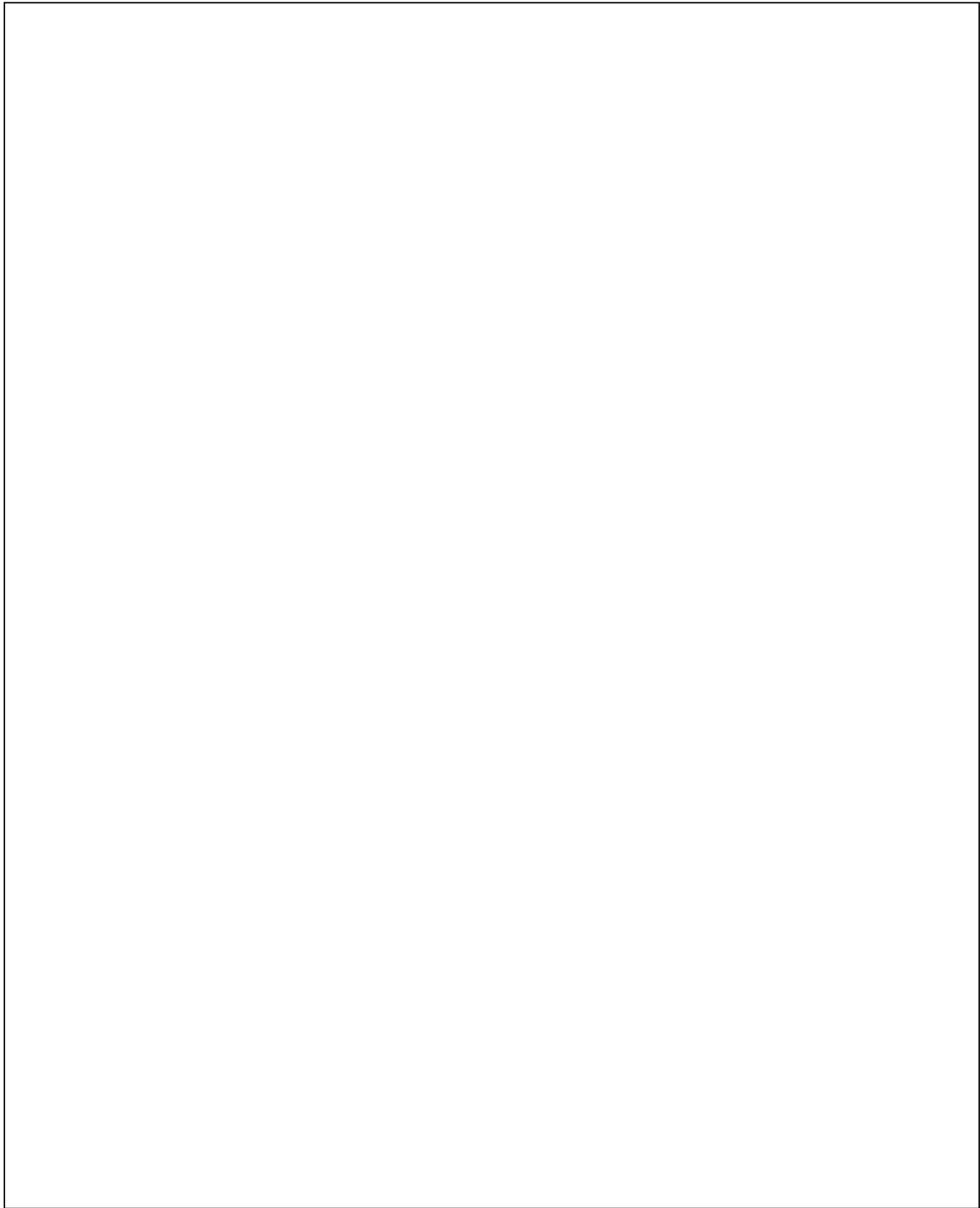
Use the tool on the next page to:

- Test your understanding of the historical inflation rates on items you normally purchase.
- Examine the impact of inflation on the cost of these items.
- Observe how inflation erodes the value of money.
- See how inflation has compared with market results in the past.

Here's what to do:

- Click on an item to see the average rate of inflation over the past 40 years.
- Move the *Time* slider to see how much you'll spend on that item in the future by looking at the left gauge.
- See what \$100 will be worth at that time in the future, based on the inflation rate by looking at the right gauge.
- Observe how the inflation environment impacts the results by moving the *Inflation Environment* slider.
- Click on the *Historical Inflation* tab and move the *Time* slider to select a historical period.
- Look at the left gauge to see the average impact of inflation during that period.
- Compare the returns on equities to the impact of inflation by comparing the left and right gauges.
- See the chance of losing money in the stock market over the same period of time in the center gauge.

In constructing a sound retirement plan, the degree to which equities should be included in the retirement income solutions should be considered. It should be noted that there are risks involved with equities and that historical results are not a guarantee that future results will be similar. In addition, there may be alternatives which may not involve the risk exposures of investing in equities that could be considered for use in a retirement plan.





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What Should I Do Now?

Remember these key points about inflation:

- Retirees who live on a fixed income are particularly vulnerable to inflation.
- At a 4% annual inflation rate, it would take only 18 years for prices to double, cutting purchasing power of a retiree's fixed income in half. In 18 years, that fixed income would only buy half of what it would buy today!

Consider taking these actions:

- Seek growth of your assets to ease the risk of inflation.
- Stay invested in the market, in a balanced and broad portfolio of investments.
- Maximize the value of your existing assets by insuring your longevity with the use of guaranteed income sources.
- Discuss ways to best achieve a balance of safety and growth with your financial advisor.

IMPORTANT ASSUMPTIONS AND DISCLOSURES

This calculator has been designed for educational purposes only and is not intended to provide investment or financial advice.

This calculator does not predict the rates of inflation you will experience on any particular category of goods and services.

We have used the Consumer Price Index as published by the US Department of Labor - Bureau of Labor Statistics to estimate historical inflation averages used in this calculator. We do not warrant that these estimates are accurate. The rate of inflation that you will experience may be higher or lower than what is shown in this calculator, or what you input in this calculator.

This calculator is not endorsed by the US Department of Labor - Bureau of Labor Statistics or by any other branch of the United States Government.

All projections are hypothetical in nature. The historical performance of equity markets is not a guarantee of future results.

You should consult a financial advisor for investment or financial advice or to assist you with your financial planning.