

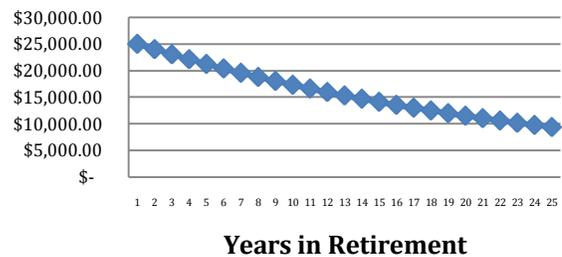


Retirement Planning Obstacles

Inflation

Inflation is a slow and steady drain on the purchasing power of your money. Over time, its effects can be dramatic as shown in this example. Suppose you retired with a guaranteed fixed income of \$25,000. After 20 years of 4% inflation, your \$25,000 will only purchase \$11,510 of goods and services. After 25 years your purchasing power has dropped to just \$9,358.

Cumulative effect of 4% inflation on a fixed income of \$25,000



Taxation

Now, if inflation isn't bad enough, let's take a look at what happens when we combine the effects of inflation and taxes. The chart here uses an example of a \$2,000 investment earning a 6% rate in interest. After accounting for 4% inflation, 28% federal tax and 6% state tax, the net amount is just slightly **less** than the initial investment. As you can see, if your investments are too conservative, it may be difficult to stay ahead of inflation and taxes.

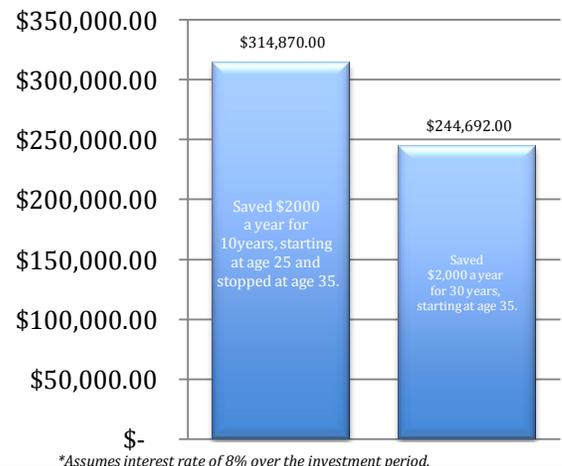
The effect of inflation and taxes

| | |
|-----------------------------|-------------|
| Investment | \$2,000 |
| 6% Interest | <u>120</u> |
| Total | \$2,120 |
| Less taxes @ 34% | <u>(41)</u> |
| Net after taxes | \$2,079 |
| Less 4% inflation | <u>(80)</u> |
| Net after taxes & inflation | \$1,999 |
| Real Rate of return | -0.04% |

Procrastination

Although it's never too late to plan for retirement, the earlier you start, the easier it will be to accumulate the funds you need. Consider this hypothetical example. Imagine two people, Sarah and Sam. Sarah started saving at age 25 and invested \$2,000 per year for 10 years (a total of \$20,000), then stopped putting money aside. Sam waited until age 35 to begin saving \$2,000 per year, and he continued to save until age 65 – a total of \$60,000 over 30 years. Who ended with more money at age 65? The chart here tells the story: Sam's account grew to \$244,692. But Sarah's investment grew to \$314,870, a difference of \$70,178 **more**.

The effects of compounding at age 65+



Rates of return used in these examples are hypothetical and are not representative of a specific investment. Your actual investment results will vary and are not guaranteed.

