

How long will your money last?

Financial and retirement planning efforts usually focus on analyzing how much money you will need at retirement or will want to accumulate by a particular date. If you save enough on a regular basis and earn some level of returns, your funds will grow to a certain level over



a specified period of time. This can be as simple as compound interest.

However, there is another aspect of planning for a financially secure future. What happens as you with-

draw money? How long will it last? The important elements of these questions are the level of withdrawals and the earnings rate on the funds.

In general, if you withdraw less than what you are earning, your funds will last forever. If you withdraw more than you are earning, at some point you will deplete your assets.

Below is a chart showing how many years your money will last at different withdrawal rates and different earnings rates. The chart assumes that the level of withdrawals increases at 4% per year (to cover increasing costs of living) and shows how long your money will last at different rates of return on your money.

For example, let's assume you have accumulated \$250,000 when you retire at age 65. If you start withdrawing 10%

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(\$25,000) per year, assuming your withdrawals increase at 4% per year (a good guess for inflation) and you earn 4% on your money, you will run out of money at the end of ten years. Even if you earn 8%, the money will be depleted

just after the 12th year.

Using the information in this chart can help give you a better understanding of what it will take to afford a financially secure retirement. However, it is not the whole picture. You must also remember that you will probably receive Social Security retirement benefits and pay income taxes.

There are two important messages to learn from this chart:

1. Once you start withdrawing money from what you have accumulated, the rate at which you withdraw is more important than the earnings rate.
2. It is important to have accumulated a significant amount of money before you start needing it so the amount you withdraw each year is a small portion of it.

An Alaska USA Trust Company representative can help you review your investment plan to ensure that you are on track toward realizing your retirement goals.

How many years will your money last?

First year withdrawal rate	Earn 4%	Earn 6%	Earn 8%	Earn 10%
2%	50.0 years	Forever	Forever	Forever
4%	25.0 years	33.5 years	69.0 years	Forever
6%	16.7 years	19.8 years	25.4 years	42.8 years
8%	12.5 years	14.1 years	16.5 years	20.4 years
10%	10 years	11.0 years	12.3 years	14.1 years

Balancing your investment goals

As an investor, you'd love to preserve principal, achieve target returns, **and** beat the stock market's overall growth. However, achieving all three of these goals is unlikely. To beat the market or target a higher rate of return, you risk principal. And when you moderate risk and preserve principal, it's more difficult to earn a high rate of return.

Your overall investment results depend on the specific goals you decide to emphasize:

► **Preserving principal.** This may be your choice if you wish to avoid widely varying and possibly negative investment returns. You almost certainly won't lose money if you stay with U.S. government bonds and money market funds. But safety comes with a history of low returns. In most years, you won't beat the stock market, and you may not even beat the rate of inflation.

► **Beating the Market.** Your portfolio will perform like the stock market if you invest in index funds that track a broad market index, such as the S&P 500. But you won't be able to beat the market with an index fund, nor will you be protecting yourself against market losses.

If your goal is to earn steady returns that beat bonds and cash equivalents

rather than to beat the stock market, you might invest primarily in a diversified mix of stock funds — growth and income and other fund types. While good and bad years are likely and there are no guarantees, over a decade or longer period, your average annual return may be near the long-term results of the overall stock market.

► **Targeting Results.** What if you aim to achieve a specific investment return rate? If the number is high, such as 10%, you could invest your portfolio entirely in equity funds. Some years you'll see big gains and make or surpass your goal; in other years, you'll do a lot less. The higher you set your target, the more often you'll likely miss it.

Although you can't achieve all three goals, you can plan a portfolio based on which investment objective is more important to you – be it principal preservation, targeted results, or

market-beating returns, or a combination that balances more than one of these.

Investment Goals Illustrated

What happens when you counter the stock market's volatility with a diversified portfolio of 50% stocks, 25% bonds, and 25% cash equivalents? Here are two examples:

1. In 2000, the S&P 500 stock index lost 9.10%. Bonds returned 11.85%** and cash equivalents 6.36%.*** These positive returns would have overcome most of your loss on stocks, for a total return of -0.9%. Your portfolio would clearly have beaten the stock market's returns, but you still would have fallen short if your goal had been principal preservation.
2. In 1999, stocks gained 21.04%, but bonds lost 2.15% and cash equivalents returned 5.01%. Diversification would have reduced your overall return to 11.23%. You wouldn't have beaten the stock market, but you would have preserved your principal and still earned a considerable return.

*This allocation is for illustrative purposes only. The proper allocation for your situation may differ. **Measured by the Lehman Brothers Government/Credit Bond Index. ***Measured by the Merrill Lynch 3-Month T-Bill Index. Past performance does not predict future investment returns.



Investing and risk

Many investors worry about **market risk**, the short-term volatility of markets, and so they avoid putting their money into stocks and bonds. However, there are other types of risk that can also show up as bumps in the investment road:

Inflation risk – You've decided that your savings account is the safest place for your money, but is it? With low interest rates, tax obligations and inflation, you may end up with a reduction in purchasing power over time.

Credit risk – Got all your money rolled up into your employer's stock? What happens to your investments in case of bankruptcy or default of that company?

Interest Rate risk – You're comfortable with the investments you've made in CDs, but when interest rates fall, you can lose a lot.

Clearly market risk is not your only concern. The only sure way to help you down the road to your financial goals is to diversify so that no single bump upsets your investment cart. Call an Alaska USA Trust Company representative today to evaluate your goals and create a portfolio that considers all types of risk. Call 562-6544 or (888) 628-4567 outside Anchorage.