



## Press Release

Contacts:

George Millington  
Walt & Company  
(408) 496-0900  
[NRPC@walt.com](mailto:NRPC@walt.com)

Alexa Auerbach  
Ibbotson Associates  
312-616-7353

### **For Immediate Release**

## **NATIONAL RETIREMENT PLANNING COALITION REPORT REVEALS RISKS TO RETIREMENT INCOME**

### ***The Risk of Living Longer Than Average In Volatile Economic Times Could Jeopardize Envisioned Retirement Lifestyles***

**Washington, D.C., November 18, 2003** — The National Retirement Planning Coalition (NRPC), a group of financial industry and advocacy organizations, today released the results of a study analyzing risk factors faced by all current and future retirees that may cause their retirement resources to run out well before their retirement objectives are fulfilled.

According to a retirement income study conducted by Ibbotson Associates, Inc., a prominent Chicago-based asset allocation research firm, there are two key risk factors that all prospective retirees need to understand. They are “Longevity Risk,” the risk that a retiree or a retiree’s spouse or partner will outlive their retirement assets, and “Financial Market Risk,” the risk that unexpected, sustained market declines will undermine the ability of a retiree’s investment portfolio to produce the income required to meet his or her retirement needs.

“Today, many Americans’ retirement strategies are based on the periodic withdrawal of interest, capital gains and principal from accumulated assets to fund their envisioned retirement lifestyles,” said Prof. Roger Ibbotson, founder and chairman of Ibbotson Associates. “However, it is critical that everyone planning today for retirement understands the real-life risk factors that could negatively impact their retirement income, and ultimately the way they would like to live during their retirement years.”

The study was designed to quantify these risk factors, apply them to typical retirement

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scenarios and assess the impact that they may have on retirement income.

**Longevity Risk**

Many retirement planning calculations use age 85 as a typical assumed life expectancy, but today many individuals live longer. As the table below shows, for those individuals that reach 65 years of age, more than 50 percent of single females and more than 40 percent of single males will still be alive at age 85. For married couples, in over 70 percent of the cases at least one spouse will still be alive at age 85. Consequently, if these survivors had planned to have their retirement income last just until their life expectancy of 85, they would have depleted their retirement resources (other than pensions and Social Security) long before their actual mortality. As such, this longevity risk – the risk of outliving one’s resources – is substantial.

**Chances of Living Past Age 65**

To Age:	Single Female	Single Male	At Least One Member of a Couple
70	94%	92%	99%
75	84%	80%	97%
80	71%	63%	89%
85	53%	41%	72%
90	32%	20%	45%
95	13%	6%	18%

*Source: Society of Actuaries*

**Financial Market Risk**

Financial market risk is the risk that capital market fluctuation may result in the reduction and/or depletion of the value of one’s retirement assets. Many retirees assume that market fluctuations will balance out over time, providing a consistent return upon which withdrawals can be made to support retirement lifestyles. Unfortunately, there are market outcomes, such as the recent three-year sustained market downturn, where a constant withdrawal strategy combined with prolonged negative market forces can result in a complete depletion of assets far sooner than planned. Such scenarios can leave retirees without retirement income far sooner than expected.

Just as many prospective retirees often ignore longevity risk by underestimating life expectancy, they also ignore financial risk by assuming a constant rate of return from their retirement portfolio. This can lead to inappropriate asset allocation and insufficient diversification of retirement income vehicles.

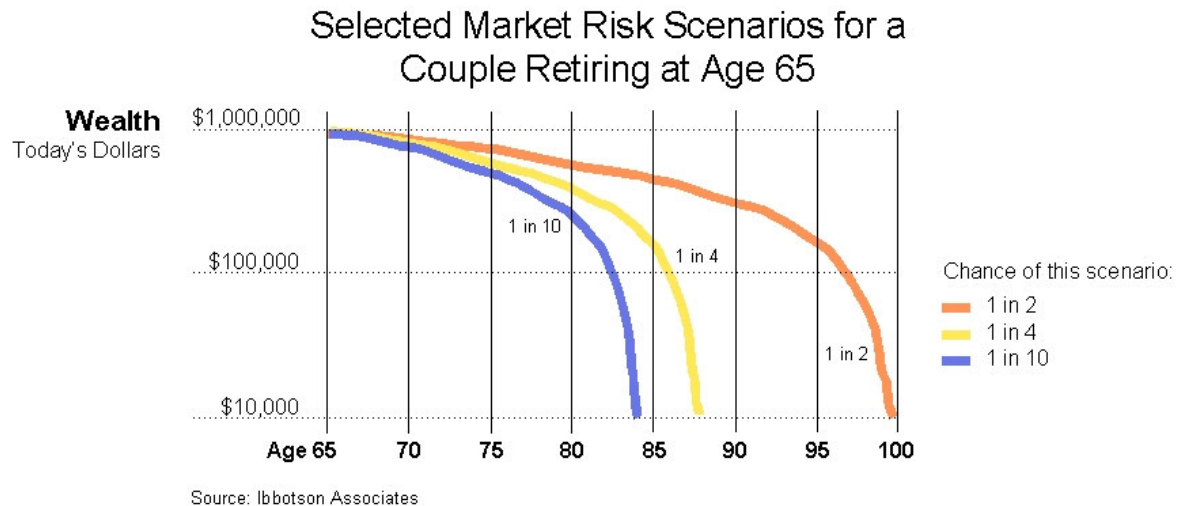
**Retirement Risk Factor Study Analysis**

The study employed the Monte Carlo simulation, a computerized analytical model that takes into account the inherent uncertainty of the financial markets. By considering thousands of pieces of data, such as inflation, interest rates, and market returns, the simulation presents a range of probabilities that various investment outcomes might actually occur at various ages.

### NRPC Study Reveals Hidden Retirement Planning Risks – Page 3

To illustrate, an analysis was performed based on a hypothetical 65-year-old investor with a \$1 million portfolio invested in 60 percent stocks and 40 percent in bonds, who would like to have \$65,000 worth of income generated each year by the portfolio for retirement income.

The analysis shows that there is a ten percent chance that this portfolio would be depleted by age 84; a 25 percent chance it would be depleted by age 89; and a 50 percent chance it would be depleted by age 100. The following chart clearly shows that there *is* a risk that the retiree in this case will run out of money, and that the risk increases with age.



#### Minimizing Risks To Retirement Income

The Longevity Risk and the Financial Market Risk can be significantly reduced through careful financial planning that focuses on retirement strategies that guarantee income. By diversifying investment vehicles to include lifetime income-producing financial instruments, such as fixed and variable payout annuities along with conventional investment instruments such as mutual funds, retirees can significantly minimize the impact of these risks.

#### About Ibbotson Associates

Ibbotson Associates, founded in 1977 by Professor Roger Ibbotson, is a leading authority on asset allocation, providing products and services to help investment professionals obtain, manage and retain assets. The company's business lines include asset allocation, investment management services, analytical and wealth forecasting software, educational services and a widely used line of NASD-reviewed presentation materials. Ibbotson offices are located in Chicago, New York and Tokyo. For more information please visit [www.ibbotson.com](http://www.ibbotson.com).

**About The NRPC**

The National Retirement Planning Coalition brings together leading financial industry and advocacy organizations for the purpose of educating consumers and financial industry professionals on the issues surrounding retirement planning. NRPC members include the Actuarial Foundation, the American Savings Education Council (ASEC), the International Foundation for Retirement Education (InFRE), the National Alliance for Caregiving (NAC), the National Association for Variable Annuities (NAVA), the National Preretirement Education Association (NPEA), and the Retirement Solutions Foundation. For more information please visit [www.RetireOnYourTerms.org](http://www.RetireOnYourTerms.org).

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