Russell Investments

Russell Retirement Investment Solutions

The Russell 10/30/60 Retirement Rule

For much of your working life, you focus on saving for retirement. But research shows that 60% of your investment earnings can come from post-retirement returns—which means that developing a retirement plan that keeps your portfolio growing after you retire is just as crucial to your financial health as saving for retirement during your working years.

It's common knowledge that regular savings and equity market growth are great for building a retirement nest egg. But you might be surprised to learn that continued investment growth after you retire can keep you in good financial health. Based on the *Russell 10/30/60 Retirement Rule*, the sources of your investment earnings during retirement can look approximately like this:

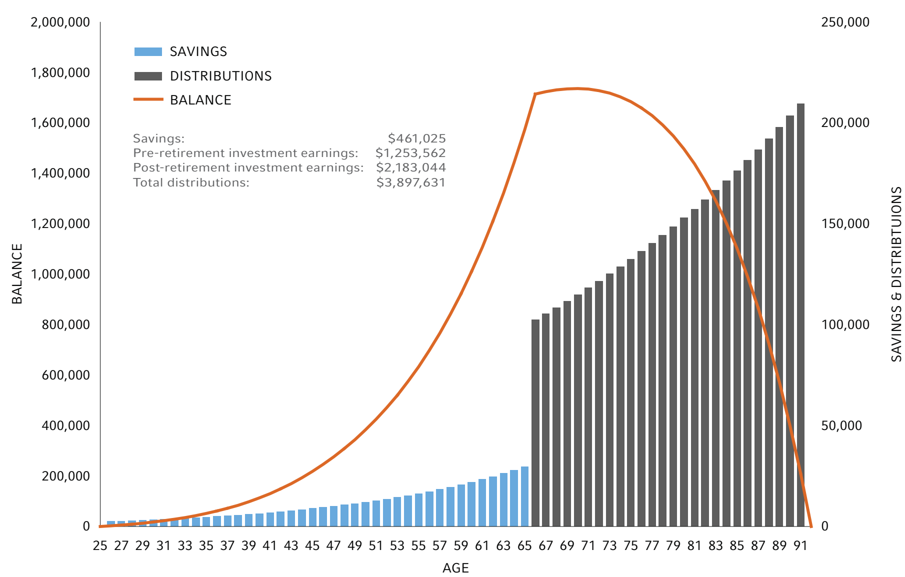
> 10% from money you saved during your working years

> 30% from the growth of your savings before you retired

> 60% from growth that occurs during your retirement

In other words, as much as 90% of your investment earnings during retirement can come from growth, and a significant majority of that growth can take place after you retire. How does it work? The key is having the right portfolio mix in place at retirement—one that balances the stability of bonds with the continued growth potential of equities.

Figure 1: Savings, growth and income: a portfolio of 35% equities/65%bonds*



The *Russell 10/30/60 Retirement Rule* is all about striking a post-retirement asset mix that can generate strong and steady cash flow for the rest of your life.

* 6% annual distribution rate after retirement (indexed at 2.9% annually); average annual investment return pre-retirement based on Russell Glide Path and 6.9% post-retirement (reflecting 35% equities / 65% bonds portfolio with assumed RoR of 8.9% on equities and 5.9% on fixed income); account is distributed in full by the 91st year; 6.5% average annual increase in savings rate from 25 to 65.

Collie, Bob and Matt Smith. "The 10/30/60 Rule: Where Do Defined Contribution (DC) Plan Benefits Come From? It's Not Where You Think." *Russell DC Insights*, Source: January 2008.

Figure 1: Source: Russell Investments Canada Limited.

Manage risk while planning for growth

When it comes to designing an effective retirement portfolio, there are two primary risks to consider:

> **Market volatility**: If the market underperforms, the value of your savings goes down. To address this risk, it makes sense to move into more conservative investments as retirement approaches. In fact, at the point of retirement, when your savings are at their peak, adverse market conditions could be particularly harmful.

> **Longevity risk**: At the same time, many people underestimate their true life expectancy. If your portfolio does not continue to grow during retirement, you could run out of money.

Combat both of these risks with the *Russell 10/30/60 Retirement Rule*. According to our research, all it takes is a relatively conservative mix of 35% equities and 65% bonds. With the right portfolio mix and the skill of professional money managers behind you, you can reduce the risk of market volatility and still earn the growth and long-lasting income you'll need.

The power of growth after retirement

Paul starts saving for retirement at the age of 25 by contributing $1,600, with an additional $800 from his employer. Over the next 40 years, he makes various annual contributions, which total $461,025 by the time he is 65. At 65, Paul begins to withdraw from his retirement savings – starting with $102,495 the first year and increasing each year until age 91. Paul was able to withdraw over $3.8 million during retirement.

Paul's case illustrates the *Russell 10/30/60 Retirement Rule* in action:

> Just 12% of Paul's investment earnings between ages 65 and 91 came from his initial contributions of $461,025.

> 32% of Paul's investment earnings came from portfolio growth of $1,253,562 that occurred before he turned 65.

> $2,183,044 – a whopping 56% -- of Paul's investment earnings came from growth that occurred between the ages of 65 and 91.

> Paul's total distributions between 65 and 91 were $3,897,631.

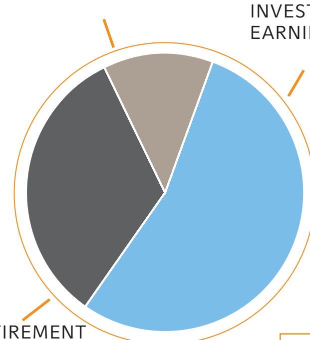


FIGURE 2

Make your money last a lifetime

No matter what your stage of life, the fundamentals of investing remain the same. Work with a professional investment advisor. Take advantage of market performance. And diversify by asset classes, investment styles and investment managers to reduce risk.

> Russell is your expert in retirement. We're dedicated to helping you prepare for a financially healthy retirement. Ask your advisor how the *Russell 10/30/60 Retirement Rule* can help your money last a lifetime.

To find out more about Russell Retirement Investment Solutions, ask your advisor or visit www.myfinanciallyhealthyretirement.com.