Risks, Returns and Your Retirement Money

Everyone would like to make great investments all the time but that’s not always possible. Investments fluctuate, increasing and decreasing in value from time to time. To make the most of your savings opportunities now and ensure you have the financial resources you need in retirement, it’s important to invest appropriately – and the best defense against taking too much or too little risk is to know your goals and have a plan in mind to reach them.

Types of Risk

All investments involve some degree of risk. There are many types of risks, including:

- Market risk
- Inflation risk, and
- Longevity risk.

Market Risk

One of the most reliable principles in investing is the tradeoff between risk and rewards: investments that offer the potential for greater rewards also generally involve greater volatility in the marketplace. The safest investments generally come at a price that includes secure but lower returns. When you are investing with a long enough time horizon, don’t overlook the “cost” that low returns might carry for you.

Inflation Risk

Many investors only think of investment risk as volatility, but the consequences of avoiding risk and investing too conservatively includes inflation risk. You want your investments to outpace inflation – or else you may be losing ground.

To illustrate inflation risk, consider that the average price for electricity rose almost three percent per year over the past 20 years. A $100 monthly electricity bill in 2000 would be about $175 per month now. For your retirement income to keep giving you the same buying power year after year in retirement, it’s important for your investments to keep up with or grow faster than inflation.

Longevity Risk

Another risk is longevity, because you want to be comfortable that your financial resources will last for your lifetime. As people enjoy healthier lifestyles and more years in retirement (and the cost of health care after retirement keeps growing), it’s important to invest with an eye toward building a nest egg that provides adequate resources.

What You Can Do

While risks can be scary, it may be easier than you think to manage risks. Consult with your retirement plan advisor, who has tools to help you set goals, evaluate options and mitigate risks on the way to achieving your financial objectives.
RETIREMENT CHECK-UP

RISK AND RETURN: AN EXAMPLE

Jill and Jen are alike in just about everything except their tolerance for risk. They both save $1,000 a month toward retirement and they both expect to retire in about 30 years. Jill invests her money in a guaranteed fund that pays an average of 2%. Jen knows that over any 30-year period the stock market has returned about 10% a year on average so she invests in mutual funds that focus on equities (stock). The difference in their investment results over time is amazing.

<table>
<thead>
<tr>
<th>Jill</th>
<th>Jen</th>
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<tr>
<td>$1,000/month x 30 years x 2% annual earnings</td>
<td>$495,000</td>
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<tr>
<td>$1,000/month x 30 years x 10% annual earnings</td>
<td>$2,300,000</td>
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Here to Help You

Working with an investment advisor can help you reach your financial goals. Each of our providers (Lincoln, AIG Retirement Services and Voya) offer advisors with tools that project your potential retirement savings – and periodically reviewing your goals, savings, investment options and market conditions will help you stay on track.

Does Gender Make A Difference?

Women and men often approach investing differently – but with the same goal of attaining long-term financial security. Nearly 90% of women will be solely in charge of their own finances at some point in life. It is vital for men and women alike to be fully aware and in control of their investments, and here are three differences you may want to consider as you invest.

1. Women face unique obstacles when it comes to wealth accumulation. The gender wage gap and more lengthy and frequent career breaks to care for children or aging parents can add to the challenges of building long-term financial security.

2. In many ways, women are more careful than men. Women are less likely to run yellow lights and more likely to get annual medical check-ups. Perhaps it’s no surprise that this extends to investing. Women tend to invest more conservatively (which is not necessarily bad – it might simply mean investing in less aggressive equities).

3. Women investors often perform better than men. The average male tends to trade investments more often, whereas women are more likely to hold their investments, minimizing the negative effects of volatility. Women tend to do better at staying focused on their long-term goals (retirement, funding college education, etc.) and sticking to a plan.

STAY IN THE KNOW

It’s easy to keep tabs on your retirement investments. Periodically check on your account, your investments and progress toward your financial goals. Reach your provider at:

Lincoln | 410-987-3590 | www.lincolnfinancial.com/retirement
AIG Retirement Services* | 410-850-2480 | www.valic.com
Voya | 800-454-1099 | www.voyaretirementplans.com

*VALIC has a new name, AIG Retirement Services, but its phone number and website address have not changed.