A Retirement Readiness Guide

GOALS REALITY

Turning Goals Into Reality

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INVEST WITH CONFIDENCE

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What Can You Expect From This Guide?

T. Rowe Price has developed this guide for people who expect to retire within the next five years. We believe it can be useful as well for spouses, partners, and anyone assisting a friend or relative who's planning for this transition.

The guide helps you get organized for a serious look at retirement finances and takes you through an efficient, step-by-step process to:

- estimate your in-retirement expenses for one year,
- see whether your sources of income are likely to meet those expenses, and
- learn what you might need to do *now* to match your goals with your financial realities.

Why not put off planning until retirement, when you'll have more time?

Not a good idea! Like other significant life events, the period just before and just after retirement can play havoc with emotions. It's not only late in the game but also a poor time to make decisions that can significantly affect your future financial security. Remember, too, that the financial decisions you make and actions you take now *do* have an impact on your retirement.

Prepare for Real Change

Say the word "retirement" to 10 people and you'll conjure 10 different images. Your friend the sailor sees a film clip of herself at the helm, cresting an ocean roller. Your carpool companion is freeze-framed in a hammock with a good book. A golfing buddy endlessly replays a hole-in-one, while your office mate's in a TV special about her volunteer work.

No matter how diverse these retirements appear, they'll have a key feature in common: change, and plenty of it. The obvious change — not having to appear at work every day — is just the beginning. Personal and social lives alter. Time takes on a new quality. Priorities shift; attitudes are reshaped. Dozens, perhaps hundreds, of books have been written about these changes and how they affect people in retirement. As you near your own retirement, using this guide and resource can help you prepare for this transition and limit the number of surprises you'll face in the future.

Need to get organized?

Between now and retirement, you may be consulting your financial and personal records more frequently than you have in the past. Simplify the process and save time by putting this material together now if you haven't already. See "Get Organized!", page 40, for practical tips.

Anticipate changes in your finances and investing

The only surprise most of us would like to encounter in our financial future is a pleasant one — earning more than anticipated on an investment, for example, or being left a windfall by a long-lost uncle.

Unfortunately, another kind of financial surprise is more common. Taxes rise, markets fall, the world economy wobbles. These events can lock in losses from which an unprepared investor in retirement may not be able to recover. Fortunately, careful planning and good preparation can reduce the impact of financial surprises in *your* future.

Use this guide as a framework

T. Rowe Price encourages you to use this guide as a framework for planning. It reflects our expertise, lessons we've learned, and research we've conducted as financial services professionals — as well as the experiences of our clients. We've specifically focused on helping you make the transition from accumulating and growing your assets to preserving and drawing from them for in-retirement income. Before you begin, be aware:

- You *may* need to adjust some of your current assumptions and investment habits.
- You *will* need to do your homework, now and in the future. Planning is not a one-time activity.

Accumulation. Distribution. What's the difference?

When you invest *for* retirement, you focus on growing assets (this is "accumulation"). When you're *in* retirement, growing assets remains a goal. But you also begin drawing from them (in this "distribution" phase), so priorities change:

- Reliable cash flow becomes as important as asset growth.
- Preserving assets means investing to dampen the effects of market volatility.
- To provide spending resources and balance risk, bonds can be key.
- To address more complex financial decisions (pension payouts, retirement plan distributions, estate planning, etc.), preparation is essential.

Get started now

To save time, you may want to collect the following materials:

Gather Information

About your sources of retirement income

Your most recent Social Security Statement	If you can't locate this annual mailing, call 1-800-772-1213 or visit www.socialsecurity.gov/mystatement/.
Your anticipated pension benefit	Consult your most recent annual statement, or contact a specialist in your employer's benefits office.
Estimated annuity payment	If you own an annuity, get information about your payment from your provider. For information about a T. Rowe Price annuity, call 1-800-341-5516.
Estimated dividends, interest, rental, and other income	Include these sources only if you plan to use them for income in retirement.

About investments you've earmarked for retirement

Current account balances for taxable and tax-deferred investments

The value of any other assets you plan to use for retirement income

Retiring with a spouse or partner?

T. Rowe Price financial planners offer suggestions for joint planning. See page 42.

TIPS ON...
Retirement

- *Everyone* should have a will. If you don't, the state will decide what to do with your assets.
- All areas of your financial life are interrelated — spending, saving, and investing. A move in one area *will* affect the others.
- Estate planning is *not* just for the wealthy. Plan in advance for your survivors, whether they're loved ones, institutions, or both.

Review Your Plans, Estimate Your Expenses

Where do you want to go?

At some point between five years out from retirement and the night of the farewell dinner, most Americans begin to think seriously about their future. Planning may center on family, social life, recreation, personal growth, health concerns, or starting a new business. Regardless, it's planning. And the more detailed the plans, the more likely they are to be realized. Rules of thumb and approximations are not as reliable as goal-setting, tying goals to a time frame, and looking at costs.

If you haven't yet put pen to paper (or cursor to screen), take some time now to turn your thoughts about retirement into words. Consider the average day you hope for, the things you've put off "until I retire," and the big and small plans that have shaped your thinking about the future.

What will it cost to get there?

Financial planning for retirement means setting goals and figuring out how you'll pay for them. In order to do this, you'll need to get specific about your goals. For example, it's relatively easy to put a price tag on "three four-week trips to Venice before I'm 75." But try to estimate the actual cost of "travel"! Travel where? When? With whom? Using Elderhostels or five-star hotels?

While you're getting specific, be realistic, too. Perhaps you've been telling yourself and your colleagues that you'll spend more time with family or friends in another state. Have you talked about this with the family members or friends? Do you agree on what "more time" means? You might be thinking of moving, but it could be smarter to plan some extended visits. Considering details like these can help you sensibly judge reality and estimate the cost of your retirement dreams.

Do the numbers

You may be familiar with the common estimate that people need between 60% and 80% of their preretirement income once they are retired. You may even have done some planning using this rule of thumb.

Now, with five years or fewer until retirement, it's time to assign real costs to the real plans you're making.

- If you're planning a home addition, talk to contractors and look at furniture catalogs.
- Want to start your own business? Price office equipment, extra phone and cable connections, accountants, lawyers, clerical help, and insurance. Will you need employees? Inventory? What are the tax implications?
- Hoping to spend every February at the beach? Add up the fares, the hotel, the meals, and the movies on rainy days.

In short, seek the reality behind the dreams. Brew a pot of coffee, roll up your sleeves, turn on the calculator, and take a deep breath. This is work, but if you don't do it now, you stand a good chance of experiencing frustration and disappointment in the future.

Estimate Expenses for One Year

Planning for spending is a key element in your overall retirement plan — and a driver of its success in the future. If you've recently made a detailed expense projection, use your results in the table below. If not, focus on your retirement expenses using the worksheet starting on page 44.

In-Retirement Expenses for One Year

Required expenses, *excluding* income taxes	$	If you will not receive in-retirement benefits from your employer, carefully consider the added costs of these benefits, particularly health insurance. As an individual, you're likely to pay substantially more for the same or fewer benefits without the advantage of group rates. Look into this sooner rather than later.
Discretionary spending	$	(For example, travel, entertainment, hobbies, contributions.)
SUBTOTAL	$	

In addition to your one-year required and discretionary expenses, you may anticipate spending for one-time or time-limited occurrences. Include these expenditures in the following table:

Other In-Retirement Expenses

Special Expenses Total cost _____ Expected number of years to pay _____ Divide (÷) cost by number of years to estimate: **SPECIAL EXPENSES FOR ONE YEAR**	$	• Special expenses might include a once-in-a-lifetime vacation, major home improvements, help with a grandchild's education, etc. • It's not uncommon for people to make major purchases just prior to or early in retirement. Are such expenditures in your future? Think of those "I've always wanted" items like recreational vehicles, boats, home office equipment, home gyms, and sports or hobby equipment. • Many people buy a new car in the year before retirement "when they can afford it," as if it's the last car they'll ever buy. Unless you're planning a short retirement, this isn't realistic!
Debt Repayment Total debt at retirement _____ Expected number of years to pay _____ Divide (÷) total debt by number of years to estimate: **DEBT REPAYMENT FOR ONE YEAR**	$	If you expect to have outstanding debt at retirement, account for it here. • The lower your debt as you begin retirement, the better. (For tips on cash management, see page 58.)
SUBTOTAL	$	

Add your essential, discretionary, and other anticipated expenses to estimate your total income needs for a year in retirement:

Total Expenses for One Year
(Does not include income taxes)

Expense	Amount
Essentials and discretionary	$
Other	$
TOTAL ONE-YEAR EXPENSES	$

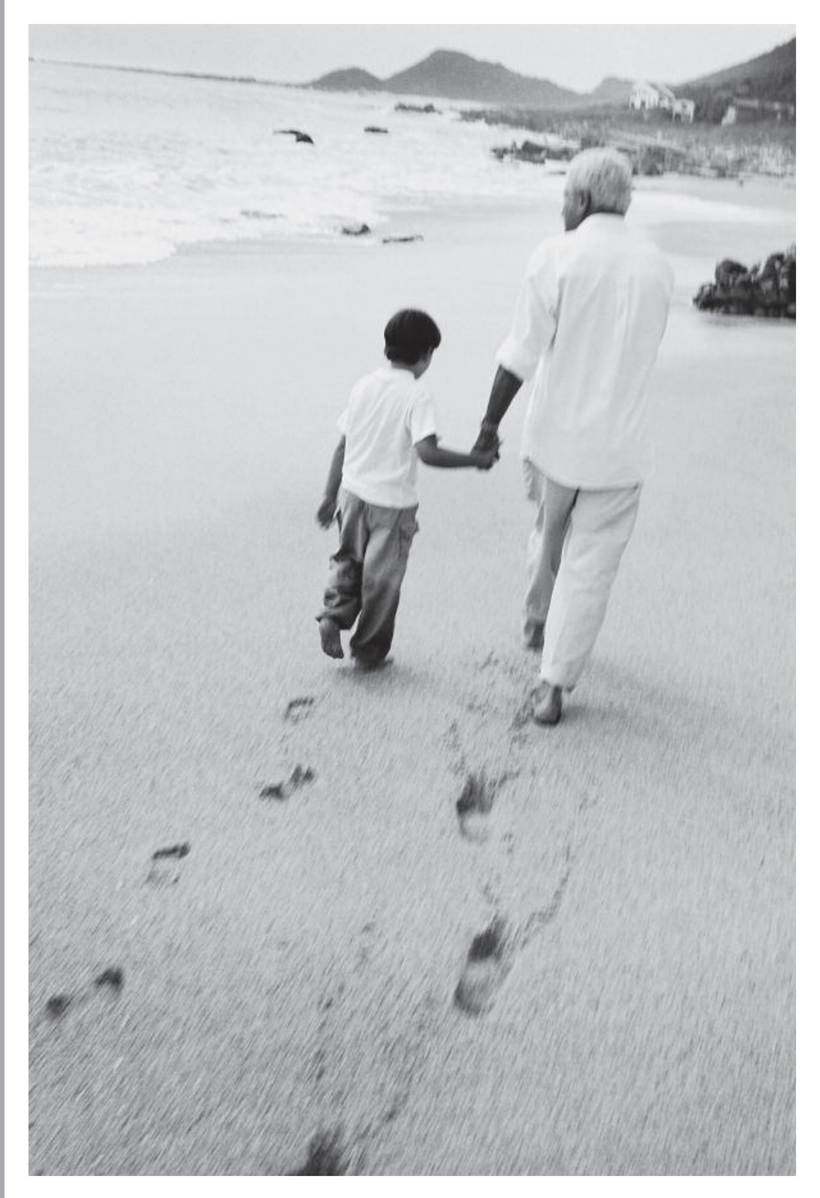
Perhaps you've already anticipated a number close to this total. Or you may be surprised at how large — or small — your estimated in-retirement expenses appear. If you just can't believe the number, recheck your entries. Did you transpose figures? Enter an extra zero? Forget to include an item?

When you're comfortable that your estimated expense total is a good working number, turn to Section III: "Inventory Your Sources of Retirement Income."

Having a thoughtful, realistic spending plan puts you ahead of many, maybe most, people who are five years or fewer from retirement.

TIPS ON...
Planning

- The future won't take care of itself. Planning is up to you!
- Financial planning is more than balancing your checkbook or totaling up a net worth statement.
- Base decisions first on goals and economics, *not* taxes.
- A financial goal should be specific, have a time frame, and be quantifiable.



Inventory Your Sources of Retirement Income

One of the keys to planning for the future is knowing exactly where you stand right now. Having a complete list of each of your expected sources of retirement income gives you an excellent start toward achieving your goals.

Your retirement income sources will probably include pensions, Social Security benefits, and both individual investments and money you've saved through retirement plans. These assets will form the foundation of your retirement plan, so it's important to have a firm grasp of what you can expect from them.

To get a clear picture of your retirement income prospects, use this section of the guide. It's divided into two parts:

- **Noninvestment income —** This part focuses on **anticipated benefits income** for one year. Here, you'll look at Social Security, pension, and other sources that may provide a fairly predictable sum each year.
- **Income from investments —** In this part, you'll list and total the **assets you've earmarked for retirement.** Then you'll **estimate how much income** those assets may provide.

Estimate Benefits Income For One Year

Use the space below to estimate your total annual income from sources that may provide a fairly predictable sum each year of your retirement.

Benefits Income for One Year

Annual Social Security benefit	$	*When* you begin receiving benefits is an important factor in *how much* your annual benefit will be. Check your statement or see page 49 for more information.
Annual pension benefit	$	Most company pension plans offer several payout options. If you do not have specific information about your company's plan options, see page 50.
Annual annuity income	$	If you own an annuity contract (immediate, deferred, etc.), will you be taking income from it?
Annual dividend/ interest income (From assets not earmarked as retirement income sources)	$	Keep in mind that if these assets are to be liquidated at some point in the future, dividend/interest payments will end.
Annual income from rental properties	$	Consider how long you may wish to maintain ownership of rental properties. Do you hope to sell at some point during retirement, or have you earmarked such properties to be left to others through your estate?
Other annual income	$	For example, income from a trust, annual payments from the sale of a business, earnings from part-time work, etc.
TOTAL ONE-YEAR INCOME	$	

Estimate Income From Your Retirement Assets

In addition to benefits income, you may be planning for retirement income from other sources. To estimate how much income these assets may provide, begin by totaling their value.

Retirement Assets

Total taxable investments	$	• Include *only* the taxable assets (non-IRA investments and other investments made outside a qualified employer plan) that you have earmarked for retirement spending.
Total tax-deferred investments	$	Examples include account balances in qualified employer plans such as 401(k), 403(b), Keogh, SEP-IRA, and SIMPLE IRA plans and in Traditional Rollover and Roth IRAs. • Certain decisions about employer plan distributions could mean losing 30% to taxes and penalties if you haven't reached age 59 1/2. "Managing Your Retirement Plan Distribution," available at no cost from T. Rowe Price, explains options and consequences. • Tax-deferred isn't forever! The Internal Revenue Service *requires* you to take withdrawals from most tax-deferred plan accounts eventually. For information about deadlines, see page 60. • If you have company stock in a retirement plan, see page 51 for information about protecting its value.
Total value of other assets you plan to use for income	$	• Such assets might include your home, a second home, a business (if you have not previously listed this source), or a valuable collection. For a discussion of your home as an income source, see page 53. • If you are unsure whether you would be comfortable turning an asset into cash, do not include its value here.
TOTAL ONE-YEAR INCOME	$	

How can you make the most of your retirement assets?

This is the point in many planning guides when you're asked to estimate the average return you expect on your retirement investments. You simply multiply your total assets by the average return and assume you'll have that money to spend each year.

Don't be distracted by what you *can't* control

It seems logical, but this shorthand approach is seriously flawed. *In the real world, you can't control investment returns.*

Returns are likely to be both positive and negative. Planning for an average rate of return means you're assuming that you will have a consistently *positive* return year in and year out. You'd hope this would be true throughout your retirement, but it's probably not something you should count on.

Returns are variable not only year to year, but month to month and day to day. Even knowing in advance the average of real returns for your retirement years wouldn't give you a more reliable projection. That's because the *sequence* and *variation* of returns, and not their average, determine how long your assets will last as you draw from them.

For example, losses early in your retirement can do more damage to your portfolio than losses later on in retirement. Early losses can erode your portfolio and restrict its ability to provide a reliable level of income over the long term. ***(For more information about the risks of relying on average return projections, see page 56.)***

Focus on what you *can* control

For a more realistic way to think about your retirement assets, focus on your initial withdrawal amount. **This amount,** which you *can* control, **establishes how much income you withdraw from your asset base during the first year of retirement.** In subsequent years, this dollar amount is increased for inflation.

For example, an initial withdrawal amount of 4% from a $500,000 asset base establishes $20,000 as the first year's withdrawal. In the second year of retirement, this amount is increased for inflation. Assuming 3% inflation, the increase would be 3% of $20,000, or $600, and the second year's withdrawal would be $20,600. In the third year, income withdrawal rises to $21,218, and so on.

Using the same approach, an initial withdrawal amount of 3% from a $300,000 asset base would establish $9,000 as the first year's withdrawal. In the second year, income withdrawal would be $9,270 ($9,000 increased by 3% for inflation) and in the third, $9,548.

Analysis done by T. Rowe Price indicates that your initial withdrawal rate may have to be smaller than you might think. The reasons include allowing for market volatility, compensating for inflation, and increasing the likelihood that your money will last as long as you'll need it. In fact, our research suggests that **planning for an initial withdrawal equal to or less than 4% of your asset base may be prudent.**

Select an initial withdrawal amount that can sustain your income over time

Choosing an appropriate initial withdrawal amount for your assets is one of the best steps you can take to help ensure that you have a secure retirement. The table on the next page shows three different retirement lengths (25, 30, and 35 years) and provides four different initial withdrawal amounts ranging from 4% to 7%.

Note that as your withdrawal amount increases, the chance that your money will last throughout retirement decreases. This percentage (Likelihood of Success) indicates how often in our computer simulations a specific initial withdrawal amount provided income throughout that retirement period. For example, if your retirement period is 25 years, a 5% initial withdrawal amount would provide a 78% Likelihood of Success if you have a 60% stock/40% bond asset allocation.

How your stock/bond mix and withdrawal rates affect your retirement security

The bar running across the top of the chart shows five different portfolio mixes, ranging from 100% stock to 20% stock/80% bond. Note that, in general, having a higher percentage of stocks in your portfolio increases your chance of success if you choose a higher initial withdrawal amount, while a larger investment in bonds increases the chance of success for lower initial withdrawal amounts.

Overall, it's important to see that your Likelihood of Success is more strongly influenced by your initial withdrawal amount than your asset allocation. For example, look at the column showing a 100% stock portfolio. It shows that over a 25-year retirement period, your Likelihood of Success increases from 42% with a 7% initial withdrawal amount to 88% with a 4% initial withdrawal amount.

When setting your initial withdrawal amount and asset allocation, you must determine the relative importance of having more money early in your retirement versus the security of having a greater likelihood that your money will last throughout retirement.

A Broader Look at Initial Withdrawal Amounts

Years in Retirement	Initial Withdrawal Amount	STOCK/BOND MIX* 100% stock/ 0% bond	80% stock/ 20% bond	60% stock/ 40% bond	40% stock/ 60% bond	20% stock/ 80% bond
		Likelihood of Success**				
25	4%	88%	91%	94%	97%	98%
	5%	74%	77%	78%	78%	73%
	6%	57%	57%	53%	44%	25%
	7%	42%	39%	36%	17%	4%
Years in Retirement	Initial Withdrawal Amount	Likelihood of Success**				
30	4%	93%	95%	96%	97%	98%
	5%	64%	65%	63%	57%	40%
	6%	47%	45%	38%	24%	7%
	7%	33%	28%	19%	7%	1%
Years in Retirement	Initial Withdrawal Amount	Likelihood of Success**				
35	4%	75%	78%	79%	77%	71%
	5%	57%	57%	52%	41%	19%
	6%	40%	37%	28%	14%	2%
	7%	27%	22%	12%	3%	0%

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* The following bond allocations include short-term bonds: 60/40 is 60% stocks, 30% bonds, and 10% short-term bonds; 40/60 is 40% stocks, 40% bonds, and 20% short-term bonds; and 20/80 is 20% stocks, 50% bonds, and 30% short-term bonds.

** T. Rowe Price has analyzed a variety of retirement savings strategies using computer simulations to determine the Likelihood of Success (having at least $1 remaining in the portfolio at the end of the retirement period) of each strategy, shown as percentages in each grid. The analysis for each retirement strategy is based on running 100,000 hypothetical future market scenarios that account for a wide variety of return possibilities. The initial withdrawal amount is the percentage of assets withdrawn at the beginning of the first year of retirement, is a lump sum made at the beginning of each year, and is inflation-adjusted (3%) annually. The analysis assumes assets are invested in accounts which are 100% tax-deferred, and we do not take into consideration taxes or required minimum distributions. Investment scenarios are based on hypothetical (not historical) annual rates of return for the asset classes represented in the portfolio mixes. The return assumptions of 10.00% for stocks, 6.50% for bonds, and 4.75% for short-term bonds are based on our best estimates for future long-term periods. The expense ratios for the asset classes are stocks 1.211%, bonds 0.726%, and short-term bonds 0.648%. These examples only present a range of possible outcomes. Actual results will vary, and such results may be better or worse than the simulation scenarios.

Estimate your initial income withdrawal

Select an initial withdrawal amount that seems reasonable, given your anticipated retirement length and the kind of investment mix you may be comfortable with. Use this amount for the following calculation:

Estimated Income From Retirement Assets for First Year

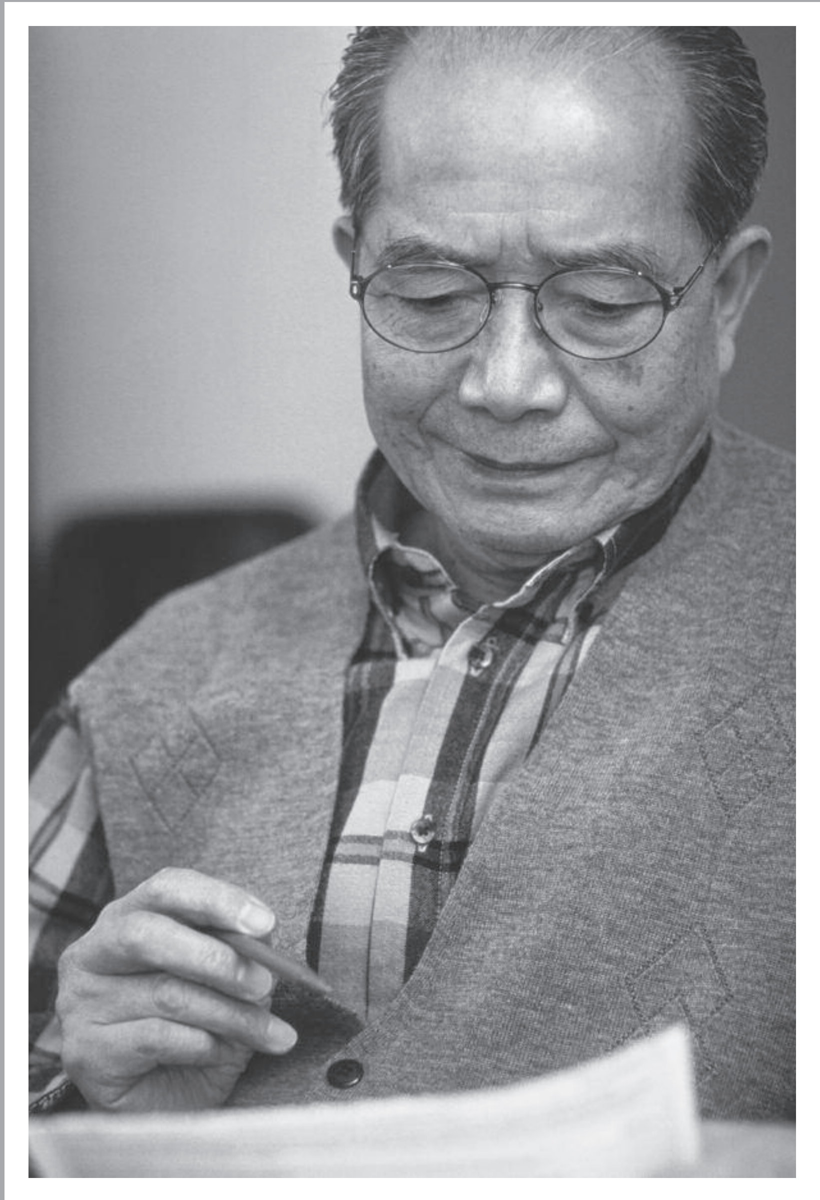
Expense	Amount
Your assets earmarked for retirement (page 17)	$
Initial withdrawal amount	X . ___
TOTAL FIRST-YEAR INCOME FROM ASSETS	$

With this figure in hand, you're ready to take a snapshot of your overall readiness for your first year of retirement.

For more about income from your retirement assets...

...check out the T. Rowe Price Retirement Income Calculator. This easy-to-use online tool lets you see how your retirement assets might provide income over different retirement periods with different portfolio allocations. For any set of variables you type in, it displays a "simulation success rate" — how often, in proprietary computer simulations, your assets could sustain a particular income stream throughout retirement.

To access the calculator, visit **troweprice.com/ric**.



Monte Carlo Simulation

Monte Carlo simulation is an analytical tool for modeling future uncertainty. In contrast to deterministic tools (e.g., expected value calculations) that model the average case outcome, Monte Carlo simulation generates ranges of outcomes based on our underlying probability model. Thus, outcomes generated via Monte Carlo simulation incorporate future uncertainty, while deterministic methods do not. Please note that in this example, the amount you will have saved at retirement is based on a deterministic calculation, while the amount of retirement income you will have incorporates Monte Carlo analysis as described below:

Material Assumptions

The investment results shown in the various charts were developed with Monte Carlo modeling using the following material assumptions:

- The underlying long-term expected annual return assumptions for the asset classes indicated in the charts are not historical returns, but are based on our best estimates for future long-term periods. Our annual return assumptions take into consideration the impact of reinvested dividends and capital gains.
- We use these expected returns, along with assumptions regarding the volatility for each asset class, as well as the intra-asset class correlations, to generate a set of simulated, random monthly returns for each asset class over the specified period of time.
- These monthly returns are then used to generate hundreds of simulated market scenarios. These scenarios represent a spectrum of possible performance for the asset classes being modeled. The success rates are calculated based on these scenarios.
- We do not take any taxes into consideration, and we assume no early withdrawal penalties.
- Investment expenses in the form of an expense ratio are subtracted from the expected annual return of each asset class. These expenses are intended to represent the average expenses for a typical actively managed fund within the peer group for each asset class modeled.

Material Limitations

Material limitations of the investment model include:

- Extreme market movements may occur more frequently than represented in our model.
- Some asset classes have relatively limited histories. While future results for all asset classes in the model may materially differ from those assumed in our calculations, the future results for asset classes with limited histories may diverge to a greater extent than the future results of asset classes with longer track records.

- Market crises can cause asset classes to perform similarly over time; reducing the accuracy of the projected portfolio volatility and returns. The model is based on the long-term behavior of the asset classes and therefore is less reliable for short-term periods.
- The model assumes there is no correlation between asset class returns from month to month. This means that the model does not reflect the average periods of "bull" and "bear" markets, which can be longer than those modeled.
- Inflation is assumed to be constant; variations in inflation levels are not reflected in our calculations.
- The analysis does not take into consideration all asset classes, and other asset classes not considered may have characteristics similar or superior to those being analyzed.

Model Portfolio Construction

Seven model investment portfolios were designed by our investment professionals according to the principles of Modern Portfolio Theory, which is used to achieve effective diversification among different asset classes. An effectively diversified portfolio theoretically consists of all investable asset classes, including equities, bonds, real estate, foreign investments, commodities, precious metals, currencies, and others. Since it is unlikely that investors will own all of these assets, we selected the ones we believed to be the most appropriate for long-term investors. The primary asset classes used for the model portfolios are stocks, bonds, and short-term bonds. From these, we chose the following seven sub-asset classes for our model portfolios: large-cap, small-cap, and international stocks; investment-grade, high-yield, and international bonds; and short-term bonds. We did not consider real estate because of its illiquidity and the significant exposure many investors already have through home ownership. We believe the fixed-income sub-asset classes we chose fairly represent the broad, liquid, domestic capital markets. We selected short-term, investment-grade bonds to provide stability and eliminated any explicit allocation to cash because we believe that the investor is best positioned to determine his own allocation to cash based on his near-term needs.

The portfolios were constructed based on our analysis of the complementary behavior of sub-asset classes over long periods of time, which enables us to identify investment mixes that offer greater efficiency through low correlation.

IMPORTANT: The projections or other information generated by the T. Rowe Price Investment Analysis Tool regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. The simulations are based on a number of assumptions. There can be no assurance that the projected or simulated results will be achieved or sustained. The charts present only a range of possible outcomes. Actual results will vary with each use

and over time, and such results may be better or worse than the simulated scenarios. Clients should be aware that the potential for loss (or gain) may be greater than demonstrated in the simulations.

The initial withdrawal amount is the percentage of the initial value of the investments withdrawn in the first year where the entire amount is withdrawn on the first day of the year; in each subsequent year, the amount withdrawn is adjusted to reflect a 3% annual rate of inflation. The simulation success rates are based on simulating 100,000 possible market scenarios and various asset allocation strategies. The underlying long-term expected annual return assumptions (gross of fees) are 10% for stocks; 6.5% for intermediate-term, investment-grade bonds; and 4.75% for short-term bonds. The following expense ratios are then applied to arrive at net-of-fee expected returns: 1.211% for stocks; 0.726% for intermediate-term, investment-grade bonds; and 0.648% for short-term bonds.

These results are not predictions, but they should be viewed as reasonable estimates.

Source: T. Rowe Price Associates, Inc.

Take Your Retirement Readiness Snapshot

Tax time!

Use the table below to estimate your income taxes for one year in retirement.

You can estimate your overall effective tax rate by dividing the federal, state, and local income taxes you paid last year by your total taxable income (after itemized deductions and exemptions).

Or use your current marginal federal tax rate. If you do, add your adjusted state tax rate to your federal rate using the following formula: [federal tax rate] + [(1.00-federal tax rate) x (state tax rate)]. For example: .28 + [(1.00-.28) x .07] = .33.

Estimated Income Tax for One Year

Expense	Amount
Estimated benefits income (Page 16)	$
Estimated income from retirement assets (Page 21)	$
SUBTOTAL	$
Estimated in-retirement tax rate	X . ___ ___
TOTAL ONE-YEAR INCOME TAX	$

To fine-tune your tax estimate...

...consider using tax-estimating software (applications are available on the Internet and for purchase) or consult a tax advisor.

Snap the shutter

To compare your retirement goals with your financial realities, bring your estimated income, expense, and tax totals to this table:

Overall Readiness — One Year of Retirement

Expense	Amount
One-year benefits income (Page 16)	**$**
One-year income from retirement assets (Page 21)	**+$**
One-year expenses (Page 12)	**– $**
One-year income taxes (Page 27)	**– $**
GRAND TOTAL	**$ (+/–)**

Advisory Planning Services — personalized solutions targeted to your financial goals.

To prepare for retirement, you need a long-term investment plan that's attuned to your goals. But developing that plan on your own means navigating mountains of information and taking time to find exactly the material that applies to you.

That's why you may want to work with T. Rowe Price Advisory Planning Services. You can rely on one trusted company to provide you with objective, easy-to-follow advice. We'll help you evaluate your income requirements before you retire, then suggest a retirement portfolio designed to provide a secure income stream.

To learn more about putting our financial expertise to work for you, call us at 1-800-844-9424 or visit **troweprice.com/advisoryservices**.

Now that you've considered *all* potential sources of retirement income, ***does it appear that one year's expenses, including taxes, will be covered?***

(+) Positive number

If your result is a positive number, you may be on track to a comfortable retirement.

- Keep in mind, however, that this is ***only a snapshot, and it addresses only one hypothetical year***. The closer you are to retirement, the more specific and detailed your planning should become. You may find it helpful to consult a tax advisor or accountant. In addition, see page 36 for resources that can help you make the important decisions that lie ahead.
- If you're counting on ***part-time work*** for a portion of your in-retirement income, keep in mind that this income stream is likely to stop before your retirement ends.
- Be sure you're aware of other challenges facing in-retirement investors. Before you close this guide, ***Do a Retirement Reality Check*** (see page 31).

(–) Negative number

If your result is a negative number, you're not alone! Many people find they need to make adjustments to help ensure a comfortable retirement.

Begin by focusing on what you can control: when you retire, how much you save between now and then, and how much you spend both now and in retirement.

- Revisit your anticipated in-retirement expenses. Would you be willing — and able — to reduce spending?
- If you have significant debt, make a detailed plan for reducing or eliminating it. (For suggestions, see page 58.)
- Look seriously at how much more you can save and invest through tax-deferred accounts like your Traditional or Roth IRA.
- Consider deferring retirement for a few more years to provide income, add savings, and give your investments more time to grow.
- Think about working part-time for a few years early in retirement. (If you've always believed that part-time work wouldn't really pay, consider this example: You'd have to earn 8% returns on a $100,000 investment for an entire year to provide the $8,000 income you could reasonably earn through part-time employment.)

Do a Retirement Reality Check

Actually, you'll want to do *several* reality checks between now and retirement. If you're three to five years from retirement, you'll probably find it helpful to return to this guide periodically and recheck your estimates. Then, once you're within a year or so of retirement, you'll need to begin making several key decisions. (See page 60 for a calendar of retirement-related activities.)

In the meantime, ***before you leave this planning behind for now***, take a moment to check out five key areas that merit your attention as you close in on retirement:

- the potential length of your retirement
- how inflation can affect your future
- the need for cash reserves
- how your investment focus and style may change
- the possibility of consulting experts

Check your assumptions about retirement length

How long do you assume your retirement will last? Are you among the growing number of Americans who hope to live to age 100? How do your family history and your lifestyle choices influence your thinking about longevity?

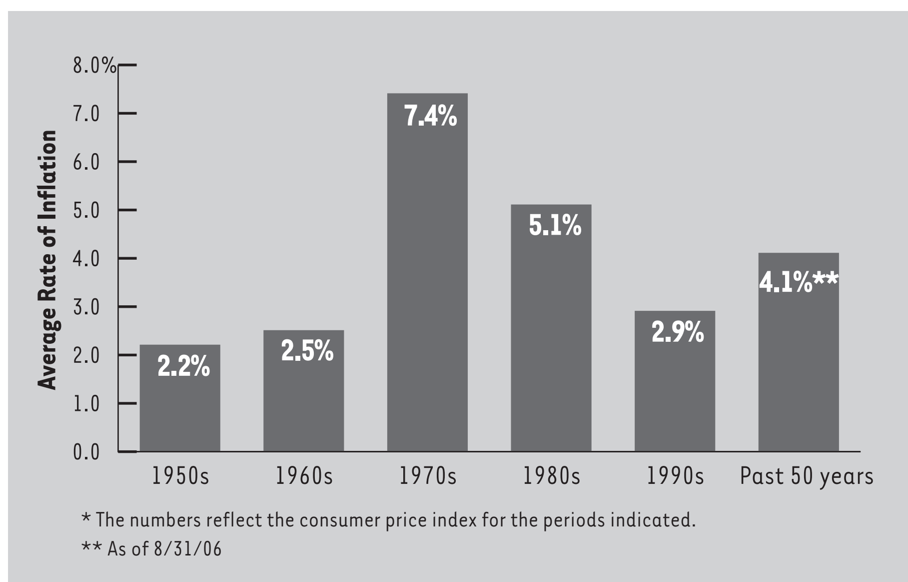
Remember that average life expectancy for American men and women rose during the last century. Also keep in mind that you have a 50% chance of outliving the average life expectancy for a person your age. You may want to consider adding 10 years to any average life expectancy table you consult.

Several online life expectancy calculators let you enter personal data and therefore look at an estimate that's less general than "average." (Type in "life expectancy" to begin an online search.)

Check the impact of inflation

Consider the effects of inflation going forward. As a point of reference, review the average annual rates of inflation for the past five decades — and their overall average:

A Look Back at Inflation*



* The numbers reflect the consumer price index for the periods indicated.
** As of 8/31/06

Inflation cuts buying power over time. Unless you keep up with the *cost* of living, your *standard* of living drops.

Consider, for example, the person who retired in 1978 at age 60 with an income of $20,000. By age 80, she would have needed $53,800 per year to maintain her standard of living. (Annual inflation for the period averaged 5.07%.)

Closer to home, imagine retiring with an initial income of $50,000. In 20 years, you'll need over $90,000 annually to keep pace with a 3% average rise in inflation.

How "fixed" is your retirement income?

Social Security benefits currently include an annual cost-of-living adjustment. But what about the other sources of your income in retirement?

- If you're relying on a defined benefit pension, will payments rise with inflation?
- You may have chosen to use an immediate annuity, but do payments automatically increase each year?
- CDs, money market funds, and other fixed-income investments may offer stability and consistent returns, but their average historical returns are lower than stocks (which are more volatile) and may not keep up with inflation.*

As a result, keeping pace with inflation in retirement means managing investments for a prudent degree of asset growth.

The risk of "safe" investing

People nearing or in retirement often reduce market risk by focusing more on preserving principal and less on growing their capital. They move away from stocks and stock mutual funds and into more conservative instruments, like corporate bonds and Treasury bills.

While this approach can effectively reduce market risk, it increases inflation risk. That is, investing too large a portion of your retirement assets in "safe" securities too soon can mean your investment return may not keep pace with inflation. Remember: even though you're retired, your money may still be invested for 30 more years. Some growth may be a very desirable part of your strategy for this long-term time frame.

Go to troweprice.com/prospectus to download a prospectus for any of our mutual funds.

**Unlike bank products such as CDs, an investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in them.*

Check out the need for cash reserves

In retirement, having a cash reserve (in a readily accessible vehicle like a money market mutual fund) is strongly recommended by most financial planners. How generous should your reserve be? Some planners suggest three to six months of living expenses; others recommend six months to a year.

T. Rowe Price financial planners believe **an amount equal to one year of expenses** is a more realistic number for people who are *dependent* on their investments for even part of their retirement income. The reason: during market dips, taking money from investments locks in a loss. In contrast, drawing from your cash reserves keeps investments intact so their earning power isn't diminished when markets rebound.

An investment in a money market mutual fund is not insured or guaranteed by the FDIC or any other government agency. Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in them.

Check in-retirement investing assumptions

Three common investment objectives for retirees are maintaining stability of principal, generating income, and continuing to grow capital. As you work toward these goals, be aware that how you invest *in* retirement may require a change in approach from how you've invested *for* retirement.

For example,

- Don't fixate on preserving your principal amount. Once retirement begins, look at how much money you have (including income and growth), and base your planning on that amount.
- Set reasonable expectations and focus on an initial withdrawal amount. Your returns may have beaten the index averages for a while, but don't assume that outperformance will last indefinitely. Withdrawing too much money in the early years of retirement can have serious consequences if there's a market downturn.
- As you make decisions about asset allocation in retirement, consider factors in addition to those which may have driven your decisions before retirement. We've already looked at how asset allocation, retirement length, and withdrawal rate are related. Also consider your:
  - Age, health, family health history, and those of your spouse or partner
  - Asset base
  - Degree of dependence on this asset base for income

- Need to keep pace with inflation
  - Desire to leave money for heirs

- Realize that "tax-deferred" isn't forever! Withdrawals and required minimum distributions from retirement plans are taxable events once you've retired.

- Plan to revisit your long-term investment strategy annually in retirement.

If you want expert advice on creating an investment strategy targeted to your goals, consider T. Rowe Price Advisory Planning Services.* We can give you a comprehensive portfolio evaluation and recommended investment strategy. You'll receive a complimentary annual checkup that can help you stay focused on your annual goals. To learn more, call 1-800-844-9424.

Check into expert resources

Many independent investors have never consulted a financial planner, tax or investment advisor, or other expert resource. However, retirement finances can present challenges that even the most successful investor may find daunting.

In addition, with the freedom to travel, be away from home for extended periods, or just enjoy less responsibility, you may want to begin sharing some of your financial management chores.

In seeking financial advisors or experts, ask for referrals from friends and family members whose judgment you trust. Interview more than one potential advisor. Look into background and experience, compensation, services, and registrations with the U.S. Securities and Exchange Commission and state regulatory agencies. (To request guidelines for interviewing a financial planner, contact the National Association of Personal Financial Advisors at 1-888-FEE-ONLY or www.napfa.org.)

Consider the convenience of consolidating your accounts

Centralizing your assets can make financial management easier and more convenient:

- Receive one consolidated statement
- Request automatic reinvestment of dividends
- Select automatic withdrawal and deposit options
- Get free required minimum distribution calculations for selected T. Rowe Price accounts
- Request automatic portfolio rebalancing to a predetermined asset allocation
- Enjoy no-fee exchange privileges

These and other services can help reduce the time you need to spend at your desk — without reducing the financial decision-making control you may want to retain.

For information about consolidating tax-deferred assets with T. Rowe Price, call **1-800-472-5000.** For information about consolidating other investments, call **1-800-222-7002.**

*Advisory Planning Services are services of T. Rowe Price Advisory Services, Inc., a federally registered investment advisor.

Take the next step

We've designed this guide to help you take a snapshot of one hypothetical year in retirement. Your actual retirement may last 20 years, 30 years, or longer. As you prepare to invest for your retirement, T. Rowe Price Advisory Planning Services can help. You can get a personalized Recommendation that includes:

- The recommended annual amount to withdraw from your investments
- A comprehensive portfolio evaluation and recommended investment strategy
- An "Action Plan" with specific investment solutions for your portfolio

You'll find a variety of useful tools from Morningstar® that can make you a more informed investor. These include:

Portfolio Manager: Lets you track, rebalance, and analyze your portfolio.

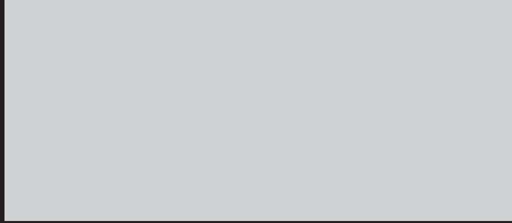
Portfolio X-Ray: Shows your exposure to different sectors, stock types, sub-asset classes, and global diversification.

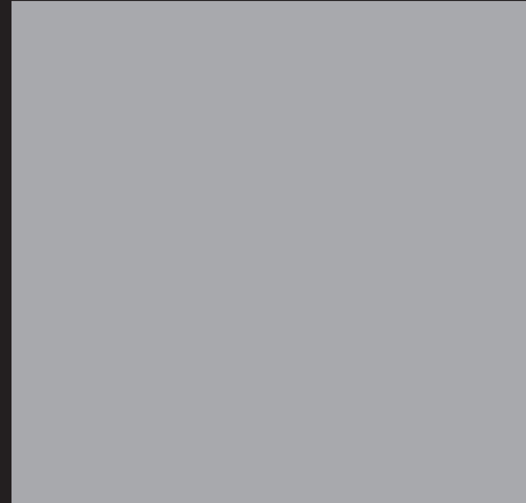
IRA Calculator: Shows how much you can contribute to a Roth or Traditional IRA and whether it makes sense to convert a Traditional IRA to a Roth IRA.

We invite you to talk with a retirement specialist about your particular questions or concerns. Specialists are available at 1-800-844-9424.

TIPS ON...
Investing

- Evaluate investment performance against appropriate benchmarks, not unreasonable expectations.
- Invest in regular installments rather than waiting until you have a significant sum. Don't try to "time" the market.
- When you invest in mutual funds, understand their investment styles and objectives so you can be sure you're appropriately diversified.
- Determine overall asset allocation *before* you make individual investments. Remember that asset allocation *can* reduce risk but *can't* eliminate loss.
- Start each year by revisiting your investment strategy. Is it still appropriate? Do you need to rebalance your portfolio?





Learn More

In the following pages, you'll find information that can help you answer common preretirement planning questions:

- "What should I keep in my safe deposit box?"
- "How do I know how much income I'll need?"
- "What are my options for company stock?"
- "When should I be thinking about Social Security? Medicare? Estate planning?"

Subjects include:

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Get Organized!

Once you've done all this organizing, be sure someone else knows about it! Talk with the person or people responsible for your affairs in your absence. Let them know where to find your important papers.

You may already have a system in place for keeping track of your important personal and financial records. Perhaps it's one that someone else could follow easily.

Or you might not have found the time to organize these materials; your approaching retirement is an excellent reason to make the time now.

In either case, check out the following list to see whether you've covered the bases most financial planners believe are important.

Make a "where-to-find-it" list

For your own convenience, and to make things easier for anyone else who might need to locate important papers for you, make a list. Include where to find your:

- Fireproof file box (in your residence) and its key
- File cabinet containing personal and business records — and where to find the key
- Your safe deposit box key (and where the box itself is located)
- Personal, financial, and business records, by specific location in one of these three resources

What to keep where

In your fireproof file box

Your fireproof box (available at office supply stores for about $50) should store material to which you or your survivor may need immediate access:

- ***Personal information:*** family contact information; birth, death, adoption certificates; marriage license; divorce decree; passport; citizenship papers; wills; letters of instruction
- ***Professional contact information:*** lawyer, accountant, banker, employee benefits, office at work, etc.
- ***Estate information:*** wills* and trusts, letters of instruction, powers of attorney, living wills or other directives about medical care decisions**

In your file cabinet

- Tax returns for the past six years
- Recent pay stubs
- Bank account records
- Records for retirement accounts, investments, credit cards
- Warranties
- Property assessments

In your safe deposit box

- Photo or video record of your home contents
- Jewelry and other small valuables
- Business contracts
- A list of IOUs, both owing and owed
- ***Property and asset information:*** deeds, titles, stock and bond certificates (broker information if applicable), insurance information and policies

* The matter of who gets what personal items is sometimes overlooked and often a source of tension and even argument in families and among survivors. Even though you may have taken meticulous care with major assets, you might not have specified how your personal effects should be disposed of — at least those that are likely to have sentimental or even monetary value. Don't leave it to your survivors to bicker over the antique pickle dish!

** If you or a family member is hospitalized or bedridden and you have written instructions about health care in an emergency, keep it at the bedside so it's immediately available if an emergency occurs.

For Spouses and Partners

You and your spouse or partner may face complex financial and emotional issues as you approach retirement. Seriously considering the following subjects together now can help you avoid tension and anxiety later on.

It's time to share the family finances

Money has long been called the root of all evil and is often identified as a major source of contention in marriage and family interactions. Because the life changes associated with retirement can be stressful on their own, addressing family finances *before* your retirement can be very helpful.

For example, if one spouse has been the primary keeper of the books, the other should learn how it's done. If your partner consults with or depends on financial advisors, meet with them together. If you don't feel comfortable with an advisor, let your partner know. Work together to find professionals you agree on.

Have meetings with your spouse to build expertise. Understand each other's pension plans, investments in one name, and investments in both names. Review beneficiaries of all policies and investments to be sure you agree about these important designations.

Ask questions, and ask for help

Through all these conversations, don't be afraid to ask questions, no matter how insignificant they may seem. In fact, give yourself high marks for asking many questions — after all, questions result from thoughtful reflection.

Even if you've never consulted with a financial advisor before, consider adding a disinterested third party to your conversations about family finances, retirement planning, and estate planning. For more information about selecting an advisor, see page 36. Having a knowledgeable nonpartner, nonfamily person on hand can help keep discussions businesslike and less emotional.

Going it alone

Even if you and your partner have avoided discussing the subject, the fact is that one of you is likely to outlive the other. For the benefit of the one who must deal with life alone, discuss your wishes. Who would your spouse like you to turn to for help? Who might provide emotional support? Day-to-day decision-making help? Immediate help with insurance, Social Security, and other benefits? Practical longer-term help with finances and investing? What resources will you depend on for health care and other decision-making?

If all your credit cards and credit references (like phone, utilities, auto loans) are in one partner's name, take steps now to establish individual credit for the other. Are your home and other ownerships, including checking accounts and investments, in one name? If so, consider the tax and estate implications.

Projecting Your Expenses for One Year

You may want to begin with an inventory of *current* expenses, both essential and discretionary, as a basis for projecting your in-retirement costs. Or go directly to the "Projected" column if you have a good sense for what you're spending now.

Note that income taxes are **not** included in these projections. You'll see tax calculation material elsewhere in this guide.

Begin with the essentials:

Expenses — Essentials

Category	Current	Projected	Have you considered?
Housing Mortgage, utilities, telephone, cable, maintenance	$	$	• When will your mortgage be paid off? • Might your phone and utility bills rise or decline?
Food	$	$	• Will you be eating at home for more or fewer meals? • Will you eat more or fewer (expensive) convenience foods?
Transportation	$	$	• Include fuel, maintenance, etc. • Will you add significantly more or less mileage each year? • Do you expect to maintain auto loan payments at about the same level in retirement?
Clothing, personal care	$	$	• Will your clothing expenses be lower if you're not dressing for the office each weekday?

Category	Current	Projected	Have you considered?
Professional, educational	$	$	• Will memberships, subscriptions, or other necessary work-related expenses drop or disappear?
Insurance Medical, dental, vision, hearing, prescription drug, life, disability, property/casualty, auto	$	$	What about health care? • Medical insurance and expenses, like those for prescription drugs, tend to increase over time. While the general population in America spends about 5% of annual income on health care, those 65 and over spend about 12%, and those over 75 about 14%. (Medicare benefits are not available until age 65, regardless of when you retire.) Check employer benefits • In retirement, will you be completely responsible for your health insurance premiums and other benefits now provided by your employer?
Uninsured health care	$	$	For example, out-of-pocket expenditures for office visits not covered by medical insurance, the portion of prescription costs not covered, vision and/or dental if not included in your medical plan.
Dependent care/support	$	$	• Do you anticipate taking financial responsibility for parents' care and/or housing? • If you currently support other dependents, do you anticipate continuing that support into retirement?

(Continued on following page)

Category	Current	Projected	Have you considered?
Professional services	$	$	• If you have lawn care, house-cleaning, and other maintenance tasks done by others now, do you anticipate reducing or eliminating those services? Conversely, if you've carried this load yourself, might you want to hand it off to another as time goes on? • Do you currently depend on a lawyer, accountant, tax preparer, or financial advisor for assistance? If not, have you considered sharing some of these responsibilities with a professional in the future to permit extended travel or just to simplify your life?
Property taxes (income taxes are considered elsewhere in the guide)	$	$	
Other	$	$	
Totals	$	$	

In addition to the essential expenses you've just considered, take a look at the "nice to have" and "nice to do" expenses:

Expenses — Discretionary

Category	Current	Projected	Have you considered?
Entertainment/cultural	$	$	
Hobbies, leisure, fitness	$	$	
Education	$	$	Might you take courses at a local university? Is tuition reduced or free for retirees?
Vacations, travel	$	$	Do you anticipate ongoing travel expenses, or are you planning a once-in-a-lifetime journey?
Memberships, subscriptions, dues	$	$	Even if you're reducing professional subscriptions, might you want to increase hobby, leisure, or other publications and memberships?
Contributions, gifts	$	$	Don't forget that charitable giving to institutions is different from giving to family members because of tax incentives. Also, you may want to think about whether you'll be increasing charitable giving as time goes on.
Other	$	$	
Totals	$	$	

(Continued on following page)

Add It Up!

Use the following table to total your estimated in-retirement expenses for one year. Then, take your totals back to page 10 and continue with the guide.

One Year's Expenses In Retirement

Type	Amount
Essential	$
Discretionary	$
TOTAL	$

Social Security Highlights

Social Security benefits do not begin automatically — it's up to you to begin the process. The Social Security Administration advises you to contact it about one year before you wish to begin receiving benefits. To do so, call **1-800-772-1213** or visit its Web site at **www.ssa.gov**. (You can also use these contact resources for general information.)

Good news about Social Security benefits

- You may be eligible to receive Social Security benefits for your own retirement because you are the survivor of an eligible person or because you have a disability.
- You may request the direct deposit option for convenience and security.
- Your benefit is adjusted annually for inflation (because this adjustment reflects the "cost of living," the shorthand term is COLA — cost of living adjustment).

Your options

You may begin receiving benefits as early as age 62, or you may choose to wait until "full benefits" age or even later. Be aware that the full benefits age is gradually increasing from 65 to 67 for people born in 1938 and later.

If you begin earlier, your monthly benefit is smaller. If you begin later, your monthly benefit may be larger. In this way, the Social Security Administration tries to make the lifetime value of the benefit fair for all recipients.

Will your benefits be taxed?

In April 2000, laws governing taxation of Social Security benefits were updated. Generally, whether or to what degree benefits are taxed depends on age. Different treatments are applied to the age groups 62–64, 65–69, and over 69. Check with the Social Security Administration or your tax advisor for specifics as they apply to you.

Pension Plan Payout Options

Typically, a pension benefit provides a fixed lifetime monthly income based on length of employment and earnings during your final years of employment.*

Most pension plans offer several payout options. If you're married, you're required to select a "joint and survivor" option unless you and your spouse approve, in writing, another distribution option. Joint and survivor benefits provide a given amount each month during your lifetime and a percentage of that amount (specified at the time you make your decision) to your surviving spouse for life. Generally, the higher the guaranteed benefit to the spouse, the lower the initial payments.

Other options may include:

- **lump sum** — you receive one payout
- **life only** — income stops at your death
- **period certain and life** — during the "period certain," which is often 10 years, you (or your spouse, if you die during the period) receive a specific amount. Once the period is over, you continue to receive the amount, but if you die first, your spouse receives nothing.

Learn whether your pension benefit involves either of the following provisions:

- A "Social Security offset." In this case, your pension benefit is reduced by the amount of your Social Security benefit.
- An annual cost-of-living adjustment (COLA). (In general, COLAs are more likely to be included in public-sector pensions.)

*If you've worked for more than one employer who provides a pension plan, each pension benefit will be paid separately. Each is paid based on the plan and your employment and earnings history with that employer.

Company Stock — Handle With Care

Distribution options

In general, plans offer the following distribution options for qualified employer stock held in a plan account:

- Cash in the shares of stock before taking the distribution
- Leave your shares of stock in the plan
- Take your shares of stock out of the plan and transfer them to a regular taxable account
- Roll over your shares of stock to a Rollover IRA

The best course of action depends on *at least* the following factors:

- How much the stock has appreciated and its potential for further appreciation
- How long you may hold the stock
- Whether you hope to leave any or all of the stock to your heirs
- Your age and tax rates, both current and anticipated
- Whether you may sell part of the stock to achieve diversification
- Whether you are able to afford the upfront tax costs associated with some options

(Continued on page 52)

Do you have substantial stock investments?

Is a major portion of your plan account invested in your employer's company stock? If the value of the stock plunged, would your retirement security be in jeopardy?

If so, you may want to consider options that can help you diversify. The closer you are to retirement, the more seriously you may wish to focus on these choices. You might, for example, sell a portion of the stock and reinvest it within your plan's other investment options prior to retirement. Or you can roll over these assets to a Rollover IRA at retirement. Then sell and reinvest to diversify within the IRA.

Do you hold highly appreciated employer stock?

The difference between what a share of stock cost when it was purchased (cost basis) and its current market value is its "net unrealized appreciation" (NUA). (You have not yet "realized" the value of the appreciation because the share remains in your account and has not been sold.) For high-NUA employer stock distributed as part of a lump-sum distribution, carefully consider the distribution options. These include (a) transferring the stock to a taxable account and (b) rolling it over to continue tax deferral in a Rollover IRA.

(a) If you transfer the stock into a taxable account, you pay ordinary income tax on its cost basis, **not** on the NUA. If, for example, you hold stock now worth $100 per share and purchased at $10 per share, moving it to a taxable account would result in income tax on the $10 cost basis. Later, if you sell the stock, the profit is taxed as either long-term or short-term capital gain depending on how long the shares have been held in the taxable account.

(b) Rolling the stock over into a Rollover IRA means you can't take advantage of the favorable tax treatment available with NUA. All distributions from the IRA are treated as ordinary income for tax purposes.

Because your distribution decision cannot be changed and because tax implications can be significant, you may want to consult a financial or tax advisor before you select your distribution option.

Home Sweet Home

You may have several options for realizing value from your home, whether you plan to move or stay where you are.

Sell, invest your profit, downsize

Capital gain (up to $500,000 for married couples filing jointly) realized on the sale of your principal residence is exempt from taxes. There's one restriction: the house must have been your principal residence for at least two of the five years preceding the sale.

Stay put with a reverse mortgage

A reverse mortgage lets you turn the equity in your home into cash, with the lender making payments to you. One-time, annual, monthly, and line-of-credit advances are common options, and the money is *not* considered taxable income and does *not* affect Medicare or Social Security benefits. Note that the loan must be paid back when the property is sold, transferred, or passed to heirs. (For more information, contact the National Center for Home Equity Conversion, 7373 147th Street West, Apple Valley, MN 55124.)

Stay put with a sale/leaseback

Sell your home to family, a friend, a charity, or an investor and continue living there. Invest the money you've made from the sale and use it to pay "rent" — your "landlord" is responsible for all costs associated with ownership and maintenance. Talk with a financial advisor to learn about potential estate tax and probate advantages in this approach.

(Continued on page 54)

Stay put and generate income

Renting a portion of your home to a tenant or tenants may create a welcome income source and perhaps even companionship. Be sure to learn what, if any, restrictions are imposed by your local government.

Staying put?

If you hope to remain in your home for most or all of your retirement years, consider making changes now for later. Remodel or reorganize so you can live on one floor if necessary. Add that hobby or workout room you now have time to use.

A Tax-Smart Withdrawal Strategy

To maximize the earning power of your retirement assets, it's important to prioritize the order in which you withdraw them. Generally speaking, allowing tax-deferred investments to grow as long as possible is smart.

So, consider withdrawing from taxable accounts (mutual funds and individual securities) first. (Although you'll pay capital gains tax, typically the rate for this tax is more favorable than the ordinary income tax rate.)

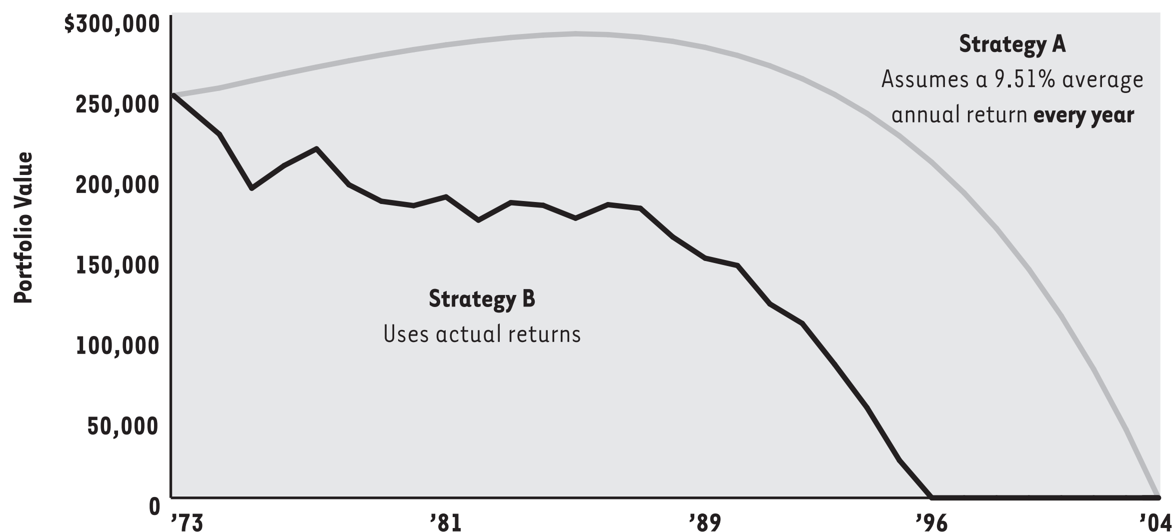
Next, tap into tax-deferred savings such as Traditional and Rollover IRAs. Use assets from a Roth IRA last, particularly if you hope to pass assets along to heirs. (Though distributions are tax-free, the Roth IRA offers some significant estate planning benefits.)

Before you make a decision, however, be sure that general rules are appropriate for your particular situation. Personal circumstances — for example, tax basis of the securities you own, rate of return on investments, age, tax bracket, and withdrawal period — may suggest a different approach. *You may find it helpful and profitable to consult with a financial or tax advisor before you begin withdrawing from your retirement assets, particularly if you have highly appreciated assets in taxable accounts.*

Risks of Relying on Average Return Projections

When you plan your retirement, your first instinct may be to assume that you'll average the same rate of return on your assets year after year. This can be a dangerous assumption since it doesn't account for market volatility and the possibility of incurring significant losses early in your retirement period. As shown below, these losses can deplete your principal to the point where your assets cannot bounce back during up markets to provide you with a secure, lifelong income.

Different Assumptions, Different Outcomes



The graph above shows two portfolios that both started in 1973 with $250,000. An amount equal to 6.99% was withdrawn from each the first year, with subsequent withdrawal amounts increased 3% annually to keep up with inflation.

Strategy A shows the results of a constant annual return—the 9.51% actually experienced over the 31 years shown. The line moves in a steady arc, and the assets last until 2004. In contrast, Strategy B shows what happened under actual market returns. Note that due in part to market losses early in retirement, this strategy runs out of money in 1996.

This chart is shown for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results. Analysis does not take into account taxes, fees, or RMDs. Both portfolios are invested in 40% stocks, 40% bonds, and 20% short-term securities, and both are rebalanced annually to maintain this allocation. Stocks = S&P 500, bonds = U.S. Intermediate Government Bond Index, short-term securities = U.S. 30-day Treasury notes.

Create a long-term retirement strategy with our experts.

Planning ahead with the experts at T. Rowe Price Advisory Planning Services can help you prepare for the volatility that comes with actual market returns. You can get advice that will help you build a portfolio with a long-term time horizon suited to the 20 to 30 years you may spend in retirement. You'll work with an advisory counselor who will explain your Recommendation and help you put it into action.

Call 1-800-472-5000

For more information on the risks of relying on average returns, visit our Web site at troweprice.com. Click on "Retirement IRAs," then "Retirement Income."

Cash Management

None of these suggestions is new, yet each one can help you take control of your cash flow — and reduce debt. The trick is sticking with them. Now that retirement is on your horizon, you'll want to ensure that you stay on track to reach your long-term goals.

Cut the cards

Credit card and other consumer debt interest is generally higher — often *much* higher — than earnings on savings and investments. Use credit cards wisely. Try to charge only what you can pay off each month. If balances persist, make an aggressive schedule for repayment. Pay down more than the minimum due each month, and pay off your highest-interest credit card debt first.

Once you've paid off credit card debt, cut the card and close the account, maintaining just one or two multipurpose, low-interest, no-annual-fee cards. (Try to find a "points" card which provides value based on card purchases. Some points cards, for example, award frequent-flyer points or accrue value toward the purchase of a car.)

Drive past the ATM

Twenty dollars here and there add up. And when they're impulsive cash withdrawals from ATMs, they're not in your budget. Make only planned trips to the ATM, and drive past when it's not on your schedule.

Keep track of expenses

For a month or two, keep track of EVERY expenditure, cash included. Every two weeks, total your expenses and take a hard look at what was necessary, what wasn't. Evaluate each expenditure against the measure of retirement: how much could this $50 or $120 have earned if I'd saved and invested it? What do I want more: this new outfit or retiring before I'm 80?

Downsize

Many people downsize in retirement, not only to reduce their chores and expenses, but also to enjoy the simplicity that can come with fewer possessions and a smaller space. You might even consider downsizing *before* retirement in order to reap another benefit: costs saved can be invested. A smaller house, fewer cars, less "stuff" — each step in downsizing can be profitable financially and satisfying emotionally.

Debt out of hand?

If you have equity in your home, consider two good reasons to borrow against it to pay down other debts. First, the interest rate on an equity loan is likely to be lower than other loan interest rates. Second, equity loan interest payments may be tax-deductible (once you've paid down debts, be careful not to incur new ones).

Happy Birthday!

An ages and options time line

Here's a quick look at your options and responsibilities, keyed to birthdays.

Ages and Options Time Line

When you're age…	…you may:	…you must:
any!		Pay quarterly estimated taxes on income you receive if withholding has not been taken out by an employer or other payer. This includes income from pensions and some retirement plans. (If your finances are complex or if you are unsure about what to do, consult a tax advisor.)
55	If you're retired, begin taking payments from retirement plans (401(k), 403(b), Keogh, profit sharing). (No penalty!)	
59 1/2	If you're retired or not, begin taking payments from these retirement plans without penalty: Traditional IRA, Rollover IRA, SEP-IRA.	
62	If you're retired, begin receiving reduced Social Security benefits.	
65 (66 or 67)	• Depending on your birth year, begin receiving full Social Security benefits. • Retired or not, begin eligibility for Medicare.	
70 1/2		In most circumstances, begin taking required minimum distributions (RMDs) from retirement plans (IRA, SEP-IRA, Keogh, 401(k), 403(b)) by April 1 of the year following the year you turn 70 1/2. (Penalties if not done!)

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