Retirement Today

an educational series for retirement plan investors

Important Retirement Risk Factors

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When investing for retirement, there are many risks that are important to weigh, and potentially mitigate, during your journey from the accumulation phase to the withdrawal phase of your plan. Consider how the following factors may impact your retirement lifestyle.

Inflation risk

Also known as purchasing power risk, inflation risk is the degree to which your money won't be worth as much in the future because of inflation. Whether rising inflation represents a current concern or potential threat, the possibility that the purchasing power of your money will diminish is a retirement risk factor. While working, wages may rise as the costs of goods and services increase, thus keeping pace with inflation. In recent years, sluggish economic activity has kept inflation low while wages have more or less stagnated. However, even moderate inflation can significantly reduce your purchasing power over time and therefore should be considered when assessing the value of your retirement portfolio.

Purchasing power changes over time
At **3%** inflation, **$100,000** will be worth:

$73,742 in **10 years**
$54,379 in **20 years**
$40,101 in **30 years**

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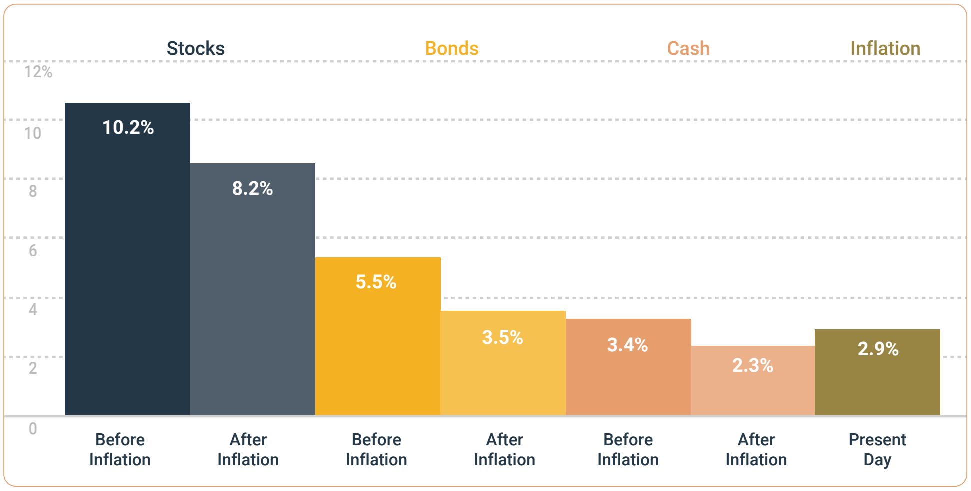
Longevity Risk

Another risk to consider is longevity risk. With longer average life expectancies, retirement savings need to last more years. According to the Society of Actuaries 2014 Mortality Tables, a couple aged 65 today has an 85 percent chance that one of them will live past 85. That percentage is expected to increase over time, which highlights the importance of planning ahead to avoid outliving your retirement savings.

The chart on the next page illustrates the compound annual returns of three asset classes before and after the effects of inflation. Over the past 90 years, inflation has dramatically reduced the returns of stocks, bonds and cash.

The first bars for each asset class represent the nominal, or unadjusted, returns of each asset class. Nominal returns do not consider inflation. It is often the rate of return that investors think of when discussing the return on investment. The second bars illustrate the real, or inflation-adjusted, returns of each asset class. Real returns reflect purchasing power.

Returns before and after inflation
1926-2017*

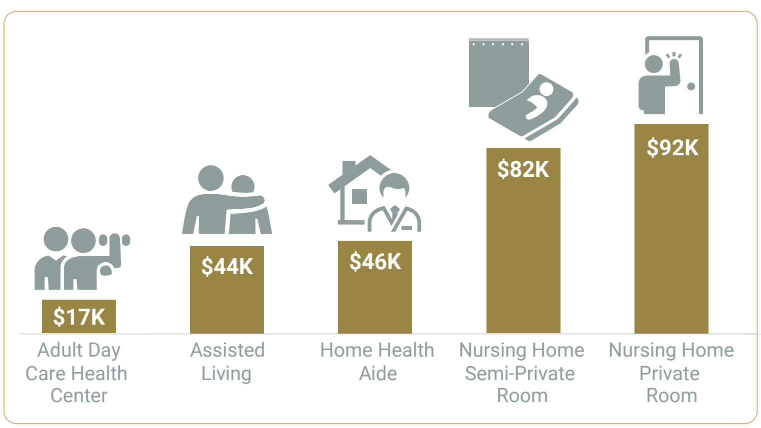


Federal income tax is calculated using the historical marginal and capital gains tax rates for a single taxpayer earning $120,000 in 2015 dollars every year. This annual income is adjusted using the Consumer Price Index in order to obtain the corresponding income level for each year. Income is taxed at the appropriate federal income tax rate as it occurs. When realized, capital gains are calculated assuming the appropriate capital gains rates. The holding period for capital gains tax calculation is assumed to be five years for stocks, while government bonds are held until replaced in the index. No state income taxes are included.Stocks are represented by the Ibbotson® Large Company Stock Index. Government bonds are represented by the 20-year U.S. government bond, cash by the 30-day U.S. Treasury bill, and inflation by the Consumer Price Index. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for transaction costs. Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

Healthcare and Housing Risks

As investors age, healthcare and housing costs can change significantly and unexpectedly. Assisted living (which combines care with housing) or independent living (which may require additional in-home support) may be financially out of reach without long-term planning. As the rising costs of healthcare and long-term care help to illustrate, it's important to consider which unknowns one can protect against and mitigate.

Average Yearly Cost of Long Term Care



Source: U.S. Department of Health and Human Services, 2017

Investors face the risk of many unforeseen costs throughout a lengthy retirement. Even the most comprehensive retirement plans can fail as a result of unexpected events. It is important to try to minimize some of the risks that may be within an investor's control. Understanding these risks is essential to an investor's planning process, thereby increasing the probability of a retirement plan meeting its intended goals.

For more information, visit carillontower.com.

*Government bonds and Treasury bills are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than the other asset classes.

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Investing involves risk including the possibility of loss.

CARILLON
TOWER ADVISERS

880 Carillon Parkway | St. Petersburg, Florida 33716 | 800.521.1195 | 727.573.3885 | carillontower.com

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