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Donald G Creech, CFP(r) AIF(r)

Investor Resources, Inc.

QAIB 2005

Advisor Edition

How Much Should I Be Saving?

Extract of Quantitative Analysis of Investor Behavior —2005 ©

This report shows how much you should be saving for your retirement, whether in a retirement plan like a 401(k) or in some other form of investment. You will discover whether you are on track to a comfortable retirement.

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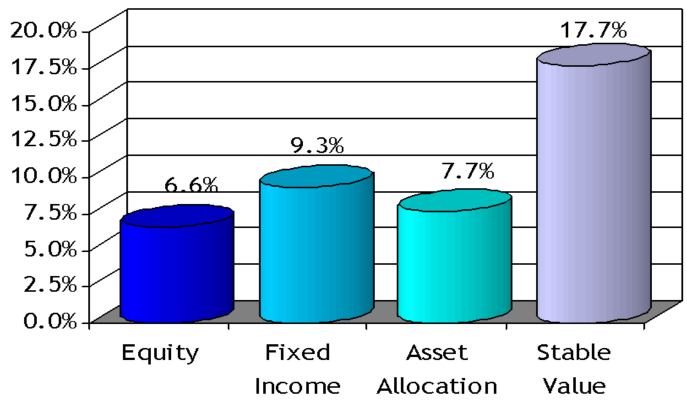
Retirement Savings Requirements

Required Retirement Savings Rates



Commentary

Retirement savings must be maintained at these levels from the start of employment life because future investment results cannot reasonably be expected to exceed the previous 45 years. It is a very high risk to assume that the future results will exceed the past.

Current practices encourage the use of equity funds for retirement because of the lower required savings rates. While the required rate is the lowest, it may also be more difficult to stay on track. The best choice is the one that encourages good investment behavior, starting early and staying the course. This is most likely to produce adequate retirement income.

"Use 50% of future raises to catch up to required savings rate."

Retirement Plans Show Poor Investor Behavior

What percentage of working income needs to be saved to have income for life? Employees need to know what the required retirement savings rate is.

While employers and providers of defined contribution plans, such as 401(k), have been diligent in providing employees with good investment selections and the education to manage these investments, very few have addressed the investor behavior of inadequate savings. The low national savings rate is evidence of this failure.

Plans with inadequate deferral rates are expected to fail to achieve adequate retirement funding for employees since investor behavior has been shown to have a greater effect on investment outcome than does the choice of investment.

The required retirement savings rates shown here are reasonable estimates of what is adequate to provide the average investor with income for life at the pre-retirement lifestyle. This is based on the last 45 years of market performance.

Required rates are for each class of investment based on producing returns that approximate the appropriate index. In the case of equity the rate is based on the S&P 500. The Long Term US Treasury rate is used for fixed income and T Bill rate for the stable value. Asset allocation category is based on a 60/40 blend of equity and fixed income.

Past performance is no guarantee of future results.

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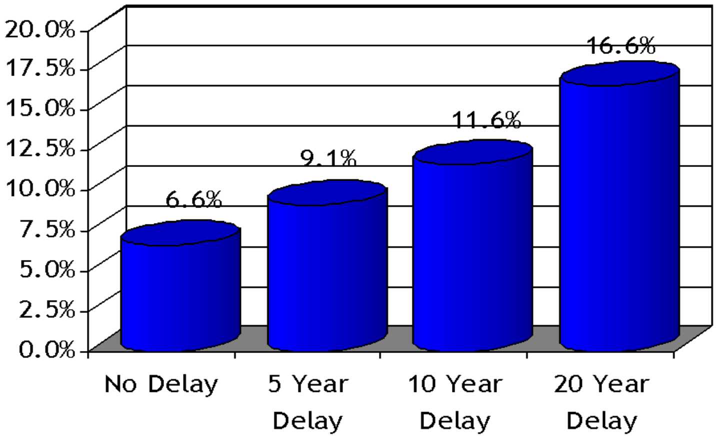
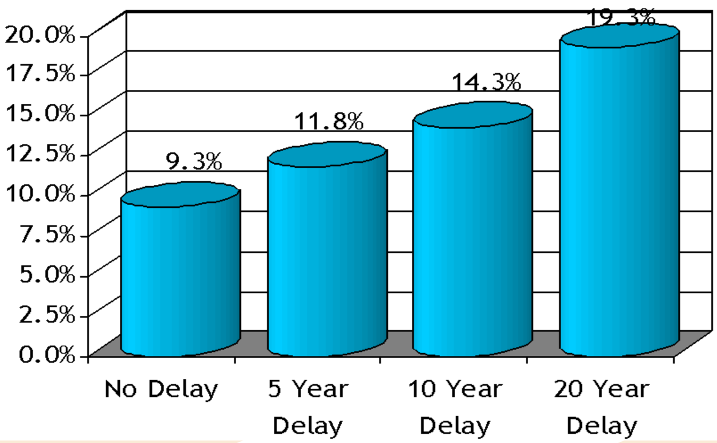
Retirement Savings Behavior

Required Retirement Saving Rates

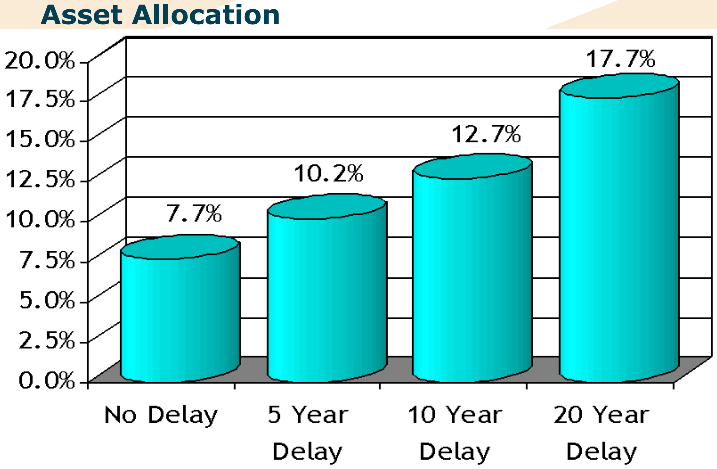
Equity



Fixed Income



Asset Allocation



Help: I Am Already 40

It can be very difficult to recover from a delay in starting retirement savings or if saving was interrupted. Difficult but not impossible.

The charts show how much savings are required if there are delays of 5, 10 and 20 years. Starting to save at age 40 means that there is a 20 year delay, so 16.6% of income needs to go into retirement savings when equities are used.

These higher rates of savings do mean significant changes in spending and should be avoided by starting to save immediately.

How Are Required Rates Calculated?

While is true that every situation is different, there is still a way to estimate what savings rates are needed to achieve retirement income security.

The method used to determine the required savings was to go back one working life which was set at 45 years. There were a variety of events that occurred over this 45 year period so that the results reflect what actually happened. This is not to suggest that the same things will happen in the next 45 years, but it is safe to say that there will be a variety of events that affect future retirement savings.

Savings rates were tested through all the varying of market activity and inflation until the correct rate was found. This correct rate reflects the steady savings that are required to support a retirement lifestyle at the level reached just before retirement.

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Disclaimer

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