Fall 2011

Wise Choices®

Bad time for surprises

Life, as the saying goes, is full of surprises. Some are pleasant. Like getting a present when you weren't expecting one. Others are not. Like running out of money in retirement. Fortunately, with some planning, that's one surprise you can take steps to avoid.

Anticipate your income
Unless you keep working, your paychecks will stop when retirement starts. Where will your income come from then? One source of retirement income is Social Security. The way the system currently works, Social Security retirement benefits continue, regardless of how long your retirement lasts. However, the payments provide only a portion of the income most retirees need.

Monthly benefits from an employer's pension plan can provide another relatively reliable income source, but fewer employers offer pension plans. You may need to use your own savings and your other personal assets to make up any short fall.

Predict your expenses
How long your retirement savings will last depends in large part on your retirement lifestyle. If you plan to do a lot of traveling, for example, it may cost quite a bit. The more income you're going to need, the more you need to save.

Check your time frame
The best way to avoid running out of money in retirement is to start saving as early as you can and contribute as much as you can. If your career is just beginning, you should have time to build a healthy nest egg if you stick with it.

If you don't have decades left to save, increase the amount you're contributing to your plan as often as possible during the time you have left. If retirement is very close, you might want to consider working a few extra years so you have more time to build up your savings.

No surprise here
Wherever you are in your career, contributing as much as you can to your plan *now* can help ensure that you don't outlive your savings *later*.

A look at how long assets will last

Percentage withdrawn annually	Number of years before assets are gone				
5%	42	*	*	*	*
6%	29	37	*	*	*
7%	22	26	34	*	*
8%	18	21	24	31	*
9%	15	17	19	23	29
10%	14	15	16	18	21
Average annual return on remaining assets	4%	5%	6%	7%	8%

Source: NPI 2011

* Indicates that assets will not be depleted based on withdrawal percentage and annual return.

This chart is for illustrative purposes only. Actual earnings would vary from year to year. Your investment results will be different.

V is for volatility

Every trading day, billions of dollars worth of securities are bought and sold. And every trading day, prices go up and down in response to factors such as supply and demand, economic news, and even political events. The up and down movement in security prices is known as volatility.

When a security's price changes sharply within short time periods, that security is considered very volatile. When price changes are smaller and less frequent, the security is considered less volatile.

A measure of risk

Volatility is important to a retirement investor because it's a measure of investment risk. The more volatile an investment, the greater the risk of short-term losses. On the flip side, riskier investments generally have higher potential returns. Of the three major asset classes — stocks, bonds, and cash alternatives — stocks are the most volatile. Bonds are less volatile than stocks, and cash alternatives are the least volatile asset class.[1]

There are also volatility differences within each asset class. For example, small company stocks are usually more volatile than the stocks of larger, more established companies. In the bond asset class, long-term bonds are generally more volatile than short-term bonds.

A reason to diversify[2]

Different types of investments may react differently to economic and political events. For example, there will be times when bonds outperform stocks or large company stocks do better than stocks of small companies. So spreading your investments among the various asset classes is a good strategy for managing risk.

Imagine a hypothetical retirement account that is 100% invested in a stock fund that generally tracks the overall stock market. If the stock market goes down, the value of the investment will probably fall. Now imagine an account that is 50% invested in a stock fund and 50% invested in a bond fund. If the stock market goes down, the bond investment may provide a cushion and limit the investor's overall loss. Of course, bond prices also fluctuate, so an investment in a bond fund is not risk free and investors may lose money.

What volatility means to you

Volatility may be relatively short-lived. Past performance is certainly no guarantee of future results. However, looking beyond short-term volatility and including investments with strong growth potential in your portfolio may give you a better chance of reaching your long-term retirement savings goals.

Diversification at work

Investment Mix	100% Stocks	50% Stocks; 50% Bonds	40% Stocks; 35% Bonds; 25% Cash Alternatives
Amount invested	$1,000	$1,000	$1,000
Value if stock prices drop 20%	$800	$900	$920
Value if bond prices drop 20%	$1,000	$900	$ 930

Source: NPI 2011

This is a hypothetical example used for illustrative purposes only. The example assumes that cash alternative prices remain constant. The example does not represent any specific investments. Your investment performance will be different.

[1] Cash alternatives may not be federally guaranteed or insured and it is possible to lose money by investing in them. Returns on cash alternatives may not keep pace with inflation, so you could lose purchasing power.
[2] Diversification does not ensure a profit or protect against loss in a declining market.

ubs.com/fs
110106-2703-014

UBS Financial Services Inc. is a subsidiary of UBS AG.