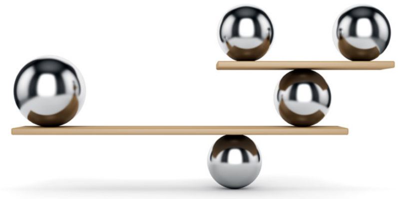
Funded Ratio

What is it and what's yours?



When it comes to your retirement, determining the size of your nest egg is key. On the face of it, it seems simple enough: your nest egg will equal forecasted savings plus any expected income from sources such as a pension, the Canada or Quebec Pension Plan and Old Age Security. But how can you know if those accumulated funds will be enough to last you as long as you may live?

Enter the Funded Ratio

The funded ratio — a concept commonly used to describe the health of defined benefit pension plans — can help you determine whether you will have enough money to meet your retirement income needs.

It can help you answer three tough questions:

- How much can I expect to spend in retirement?
- How long is my money expected to last?
- Am I on track?

Determining your funded ratio is easy to calculate: take your total assets and divide them by your total spending needs in retirement.

Since it gets represented as a percentage, it gives you and your advisor an easy way to check how you're doing.

- If your funded ratio is above 100% — congratulations! — you should have enough assets to fulfill your spending goals, assuming no extreme or unexpected events occur.
- If your funded ratio is less than 100%, you may need to re-evaluate your plans. You could be at risk of outliving your assets unless you decide to work longer, reduce your spending goals, or — if you are already retired and it looks as if you are going to run out of money — consider buying an income annuity to help cover basic expenses.

This sort of retirement planning can beat the traditional "rule of thumb," which usually suggests withdrawing a certain percentage of a portfolio each year (adjusted for inflation), so that the lion's share of the principal can potentially continue growing. However, this "rule of thumb" offers little guidance, flexibility or certainty for the future. It doesn't take into account any significant changes in market behavior — which anyone who experienced the financial crisis in 2008/09 now knows is quite possible — nor does it consider the possibility of low interest rates or equity returns in the future.

Another common approach is to live off dividends and interest, never touching the principal. This also seems like a safe plan: eat the eggs, but don't kill the chicken. Plus it feels like a free lunch: you could get income while still giving your portfolio the potential to grow. However, if low interest rates means your portfolio doesn't produce the necessary income, then you will have to decide to either live with a lower cash flow or buy higher-yielding instruments. Since higher interest and dividends come with additional risk, chasing yield could jeopardize your retirement plan.

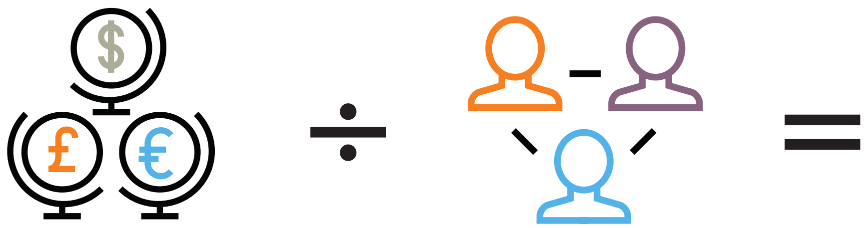
The advantage of the funded ratio concept is that it takes into account your actual assets and spending needs, gives a truer running tally of forecasted income and expenses, and as you review it regularly, can help avoid any rude awakenings.

Whether you plan to retire in five, 10 or 20 years, putting a plan in place and knowing where you stand today is critical. Factors you need to consider include:

- Your retirement spending needs could span a long time horizon. Many people spend 30 or even 40 years in retirement.
- You have no idea how long you may live. Remember that 50% of people live beyond their life expectancy.[1]
- Your spending needs in retirement need to keep up with inflation, and you may also need to plan for unforseen events such as large medical expenses or family needs.

To further complicate matters, your portfolio will likely fluctuate unpredictably through time as markets respond to economic and political events. That's why your retirement income planning problem requires you to take into account the growth and uncertainty of both your assets and liabilities. This is what a funded ratio does.

Will your assets and expenses balance out?



YOUR TOTAL ESTIMATED ASSETS ÷ YOUR TOTAL ESTIMATED LIABILITIES* = your **funded ratio**

*Once you're within **a couple of years or in retirement**, your advisor can more precisely calculate your **funded ratio** — a key indicator of the health of your retirement portfolio.*

* *In today's dollars*

For more information on how Russell Investments can help you pursue your investment goals, please ask your advisor or visit us at **russellinvestments.com/ca**

1 *Life expectancy is the median age at death for a particular population group. https://www.sciencedirect.com/topics/medicine-and-dentistry/life-expectancy*

Date of first use: May 2014. Revised: June 2020 // CORPCA-00297 [EXP-06-2022]