



T. Rowe Price Introduces Enhanced Online Retirement Income Calculator For Those in Any Stage of Retirement Planning

BALTIMORE, Sept 25, 2008 /PRNewswire-FirstCall via COMTEX News Network/ -- T. Rowe Price (Nasdaq: TROW) has introduced a new retirement planning tool on its web site that enables those planning for, transitioning to, or in retirement to estimate their monthly retirement income with inflation adjustments.

(Photo: <http://www.newscom.com/cgi-bin/prnh/20080925/NETH049>)

Moreover, the interactive tool enables users to immediately see the impact on retirement income of changing various factors, such as the amount being saved, retirement age, number of years in retirement, asset allocation strategy, and, for retirees, the monthly amount they expect to spend.

The new Retirement Income Calculator (<http://www.troweprice.com/ric>) is far more robust than the web-based tool it replaces. Although the prior retirement planning tool was aimed only at those in or near retirement, it had been the most popular tool on the firm's web site.

The new tool calculates a projected monthly income stream throughout retirement for those in any phase of retirement planning, taking into account such factors as current savings, future savings in employer-sponsored retirement plans, as well as other tax-deferred and tax-exempt retirement accounts, and regular taxable accounts, Social Security and other sources of income, the expected number of years in retirement, and investment strategy before and after retirement. For couples, the calculator accommodates such data for each spouse.

Like its predecessor, the new Retirement Income Calculator also incorporates the firm's proprietary "Monte Carlo" methodology, providing personalized results based on 1,000 potential market simulations, assuming a certain probability that income will be sustained throughout the retirement period. This approach provides a more realistic and reliable estimate than simply projecting results based on an assumed average rate of return on an investment portfolio.

"The calculator is designed to provide users with maximum flexibility to determine if their current plans are on track to meet their financial needs during retirement," says Christine Fahlund, a T. Rowe Price senior financial planner. "And if their projected income in retirement falls short of what T. Rowe Price thinks is a reasonable goal from investments and Social Security (e.g., replacing 70% of pre-retirement income), investors can easily revise their assumptions and immediately see the impact on their results. By enabling users to see these tradeoffs, such as when to retire, how much to save, or how much to spend, the calculator is a helpful learning tool for retirement planning as well."

Planning for Retirement

For example, consider John and Mary Smith, a hypothetical 40-year-old couple that has already saved \$300,000 for retirement and has a combined income of \$180,000 annually. Together, they are investing 7% of their salaries in their employers' 401(k) plans. In addition, each invests \$4,000 a year in a traditional Individual Retirement Account (IRA). Prior to retirement, the couple's portfolio is invested 80% in stocks and 20% in bonds. After retirement, they expect to become more conservative with 60% in stocks, 30% in bonds, and 10% in short-term fixed income securities. They plan to retire at age 62.

As reflected in the summary table provided by the calculator, their investments, along with Social Security income, could provide them with a monthly income of \$7,654 in today's dollars, assuming a seven in ten probability that they will still have money in their portfolio at age 95.

However, they would need \$10,500 to replace 70% of their pre-retirement income from their investments and Social Security combined, a gap of \$2,846 a month. The calculator advises that they could close that gap by investing an additional \$2,126 a month between now and retirement.

Alternatively, if they maintain their current savings rate but work until 65 instead of 62, their projected monthly income would be \$9,399. If they work to 65 and increase their retirement plan contributions by \$600 a month, their estimated monthly income in retirement is \$10,379-closer to the 70% replacement rate T. Rowe Price suggests.

Transitioning to Retirement

Bill and Glenda Wilson are 58 and plan to retire at 63. Together they have a combined salary of \$200,000 and are contributing 15% of their salaries to their companies' retirement plans. They have already saved \$800,000. Mr. Wilson is also contributing \$5,000 to an IRA.

Their current investment strategy has 60% allocated to stocks, 30% to bonds, and 10% to short-term fixed income securities (60/30/10) but they expect to invest more conservatively in retirement, changing their allocation to 20/40/40 at that time. They think they will need to spend about \$10,000 a month including Social Security.

The calculator advises that they should consider reducing their spending goal to \$6,877, assuming an 80% probability of their savings lasting to age 95. They decide that their retirement portfolio may be too conservative so they change it 40/40/20. Now, they will be able to spend a projected \$7,055 a month. If they decide to continue working to age 67, they should be able to spend \$9,637 a month, much closer to their spending goal.

Planning At Retirement

Richard and Ellen Jones are about to retire at 63. Together, they have saved \$1.2 million, with a portfolio of 60% stocks, 30% bonds, and 10% short-term fixed income securities. They expect to need a monthly income of \$6,000 including Social Security with the rest coming from their investments. The calculator advises that they could actually afford to spend \$6,594 a month, assuming a 90% probability of still having money in their portfolio at age 95.

While the calculator is a useful planning tool, those seeking a personalized recommended strategy from T. Rowe Price should consider the firm's Advisory Planning Services program. A recommendation is provided after extensive consultation with a T. Rowe Price Advisory Counselor, who then assists clients with implementing their plan.

This ongoing service enables clients to re-run their analysis online at any time to ensure they are "on track" to meet their goals. The firm's Advisory Associates are always available by phone or appointment to offer financial planning guidance, and if changes are warranted, provide a new recommended strategy.

The advisory services are for investors who already have at least \$100,000 in investment assets (at T. Rowe Price and/or elsewhere). The one-time \$250 fee is waived for investors with \$500,000 or more in assets with T. Rowe Price and is reimbursed for those who transfer at least \$100,000 in new assets to the firm in connection with the service.

More information on these services is available at <http://www.troweprice.com/advisoryservices> or by calling 1-800-844-9424. Advisory Planning Services are services of T. Rowe Price Advisory Services, Inc., a federally registered investment adviser. Advisory Services is a subsidiary of T. Rowe Price Group.

Founded in 1937, Baltimore-based T. Rowe Price Group (Nasdaq: TROW) is a global investment management organization with \$387.7 billion in assets as of June 30, 2008. T. Rowe Price Group provides a broad array of mutual funds, subadvisory services, and separate account management for individual and institutional investors, retirement plans, and financial intermediaries through other subsidiaries, which also offer a variety of sophisticated investment planning and investment guidance tools. Its disciplined, risk-aware investment approach focuses on diversification, style consistency, and fundamental research. More information is available at <http://www.troweprice.com>.

Explaining Monte Carlo Analysis Used in Retirement Calculator

Monte Carlo Simulation

Monte Carlo simulations model future uncertainty. In contrast to tools generating average outcomes, Monte Carlo analyses produce outcome ranges based on probability thus incorporating future uncertainty.

Material Assumptions Include:

- Underlying long-term expected annual returns for the asset classes are not based on historical returns, but estimates, which include reinvested dividends and capital gains.
- Expected returns plus assumptions about asset class volatility and correlations with other classes are used to generate random monthly returns for each asset class over specified time periods.
- These monthly returns are then used to generate hundreds of scenarios, representing a spectrum of possible performance for the modeled asset classes. Success rates are based on these scenarios. Success rate is

defined as the percent of market simulations that result in a positive balance at the end of the time horizon.

-- Taxes on withdrawals are not taken into account, nor are early withdrawal penalties. But fees, average expense ratios for typical actively managed funds within each asset class, are subtracted from the expected annual returns.

-- Required minimum distributions (RMDs) are included. In the simulations, if the RMD is greater than the planned withdrawal, the excess amount is reinvested in a taxable account.

Material Limitations Include:

-- Extreme market movements may occur more often than in the model.

-- Some asset classes have relatively short histories. Expected results for each asset class may differ from our assumptions with those for classes with limited histories potentially diverging more.

-- Market crises can cause asset classes to perform similarly, lowering the accuracy of projected portfolio volatility and returns. Correlation assumptions are less reliable for short periods.

-- The model assumes no month-to-month correlations among asset class returns. It does not reflect the average periods of "bull" and "bear" markets, which can be longer than those modeled.

-- Inflation is assumed to be constant, so variations are not reflected in our calculations.

-- The analysis assumes a diversified portfolio which is rebalanced on a monthly basis. Not all asset classes are represented and other asset classes may be similar or superior to those used.

Portfolio and Initial Withdrawal Amount:

The underlying long-term expected annual return assumptions (without fees) are 10% for stocks, 6.5% for bonds, and 4.75% for short-term bonds. Net-of-fee expected returns use these expense ratios: 1.211% for stocks, 0.726% for bonds, and 0.648% for short-term bonds. The portfolio is either determined by the user or based on preconstructed allocations that shift in 5% increments throughout the retirement horizon. The initial withdrawal amount is the percentage of the initial value of the investments withdrawn on the first day of the first year. In subsequent years, the amount withdrawn grows by a 3% annual rate of inflation. Success rates are based on simulating 1,000 market scenarios and various asset-allocation strategies.

IMPORTANT: The projections or other information generated by the T. Rowe Price Retirement Income Calculator 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 assumptions. There can be no assurance that the projected or simulated results will be achieved or sustained. The results 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 results are not predictions, but they should be viewed as reasonable estimates. Source: T. Rowe Price Associates, Inc.

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<http://www.troweprice.com/ric>

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