

New insights into a financially healthy retirement

Based on research conducted by
Russell Investments Canada and Harris/Decima
January 2010



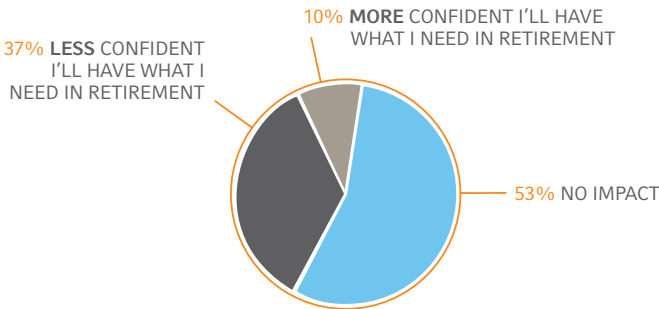
Russell recently partnered with the researchers at Harris/Decima to speak with more than two thousand Canadian investors. As a leading expert in retirement planning, we wanted to deepen our understanding of how Canadians are preparing for retirement, how current retirees are faring, and what we can do to improve the financial health of Canadians.

Despite the recent economic downturn, we discovered that many pre-retirees have remained steadfast in their retirement plans, and that most retirees continue to feel financially secure. However, we also uncovered critical misperceptions that could prevent many Canadians from reaching their best potential financial health. Here is a summary of our findings.

The future of retirement looks bright

The economic downturn of late 2008 and 2009 was difficult for investors of every description. But despite recent financial challenges, the future of retirement looks bright. Although about a third of Canadian investors report some loss of confidence in their retirement finances, most say their confidence level has not been impacted. Just as telling, pre-retirees have not adjusted their retirement dates at all, and nearly half still expect to retire before age 65.

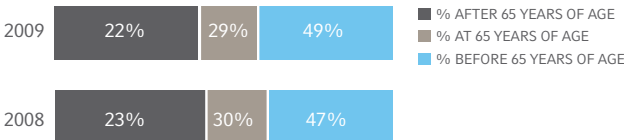
Most have remained confident during the economic downturn



New insight

Despite the recent economic downturn, the number of Canadians planning to continue working past the age of 65 fell slightly to just 22%, from 23%, over the past year.

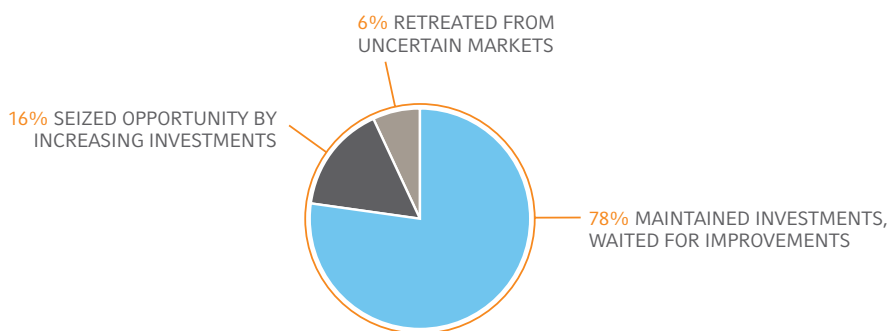
Pre-retirees have not changed their retirement dates



Investors have held the line—for now

Throughout the recent market downturn, a remarkable 78% of Canadian investors have kept their investments unchanged as they wait for economic improvements to take hold. Sixteen percent have taken advantage of market volatility to increase their investments and seize new opportunities. A mere 6% sold their investments and retreated from uncertain markets.

Most left their investments unchanged in volatile markets

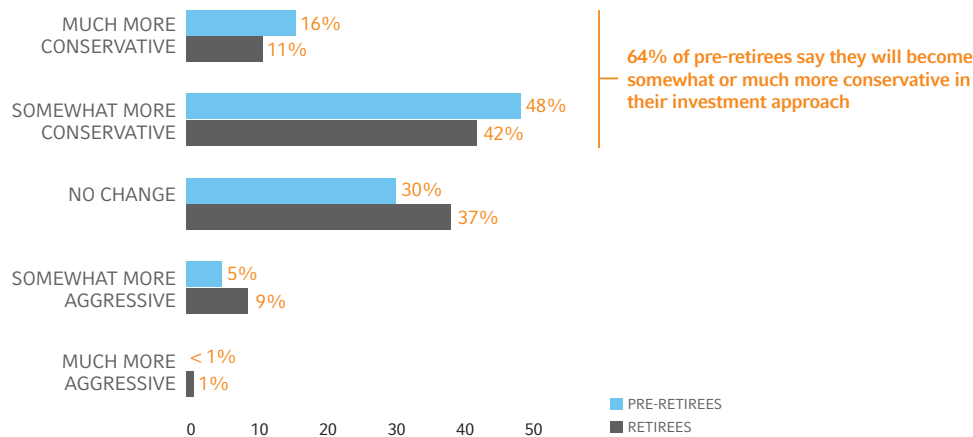


New insight

Almost 80% of Canadians remained committed to their investments during the recession, and most who altered their plans did so in order to seize opportunities.

However, looking further into the future, 64% of pre-retirees say they will become either “somewhat” or “much more” conservative in their investment approach during their retirement years. This figure is up from 58% in our previous survey.

Pre-retirees risk becoming too conservative over time



Certain pre-retirees may be justified in transitioning to a more conservative portfolio at retirement. However, as we will highlight in the next section of this report, retirees who become **too** conservative with their investments can face significant risks.

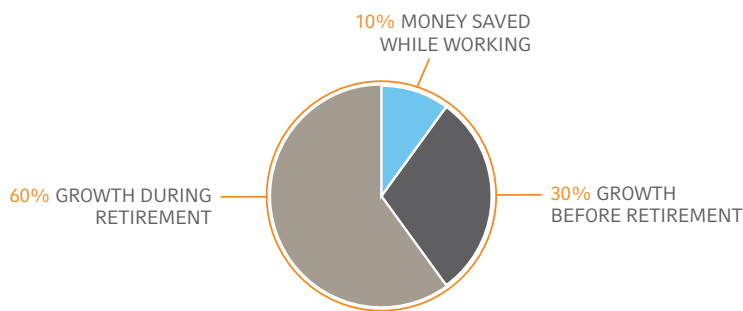
10/30/60 Rule: the truth about retirement income

A retiree's investment income can originate from three sources:

1. Money saved while working
2. The growth of those savings before retirement
3. The continued growth of those savings during retirement

Russell's proprietary research has shown that the amount of income that can be attributed to each of these three sources is as follows:

Sources of investment income during retirement



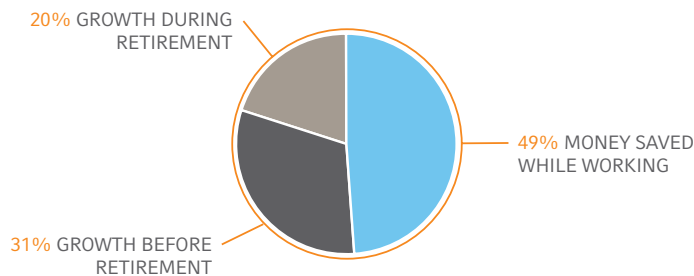
New insight

A remarkable 88% of Canadians are unaware that 60% of their investment income during retirement can come from growth that takes place after they retire.

We refer to these findings as the 10/30/60 Rule—a rule that is perhaps the most important, yet least understood, element of our retirement research. Canadian investors, regardless of their income, amount of retirement savings, or stage of life, greatly underestimate the importance of investment growth during retirement.

Here's what Canadians said when asked where they believe their investment income will originate from during retirement:

Where Canadians believe investment income will come from during retirement

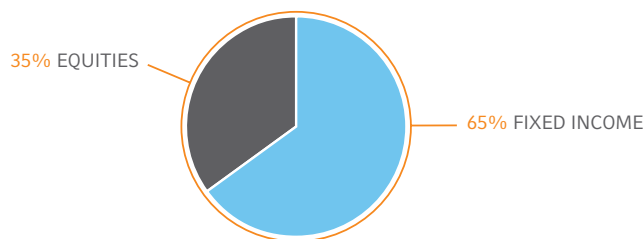


This is the risk we referred to earlier: if Canadian investors continue to underestimate the need for investment growth during retirement, they could become too conservative with their investments and potentially miss out on generating that very important 60% of their investment income during retirement.

A prescription for investment income during retirement

At Russell, we took our research into retirement income a step further and developed a retirement portfolio that's designed to take full advantage of the 10/30/60 Rule. We discovered that a portfolio consisting of 35% equities and 65% fixed income offers an ideal balance. It's not too heavily weighted in equities, so volatility is relatively low. And there is enough long-term growth potential to sustain a stream of income that lasts a lifetime.

Optimal retirement portfolio: 35% equities / 65% fixed income

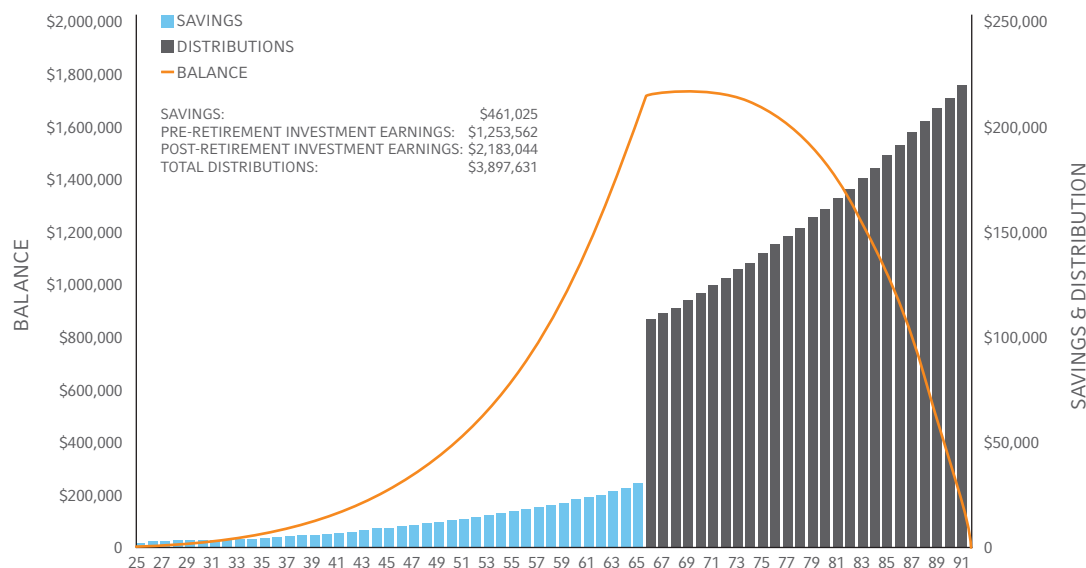


Here is how a 35% equities / 65% fixed income portfolio can perform over an investor's lifetime: accumulating savings during their working years, generating steady growth, and providing a stream of inflation-adjusted income for 30 years beyond retirement.

New insight

A 35% equities / 65% fixed income retirement portfolio is designed to counter two risks: the risk of not having enough immediate income in retirement, and the risk of retirement income running out too soon.

Savings, growth and income: a portfolio of 35% equities/65% bonds*



Assumptions: * 6% annual distribution rate after retirement (indexed at 2.9% annually); average annual investment return pre-retirement based on Russell Glide Path and 6.9% post-retirement (reflecting 35% equities / 65% bonds portfolio with assumed rate of return of 8.9% on equities and 5.9% on fixed income); account is distributed in full by the 91st year; 6.5% average annual increase in savings rate from 25 to 65. The above data are hypothetical assumptions only and are not representations or predictions with respect to actual or expected future performance or returns.

Source: Russell Investments, Collie, Bob and Matt Smith. "The 10/30/60 Rule: Where Do Defined Contribution (DC) Plan Benefits Come From? It's Not Where You Think!" Russell DC Insights, January 2008.

The value of planning

One of the strongest themes to emerge from our research is the value of planning. Virtually all measures of wealth are positively linked with early retirement planning—including having more investable assets, a higher net worth, and greater household income.

In many cases, this planning is directly linked to working with a professional financial advisor. Investors who work with an advisor are:

- > 33% more likely to feel empowered and educated
- > 13% more likely to feel generally positive
- > Less than half as likely to suffer feelings of depression or loneliness

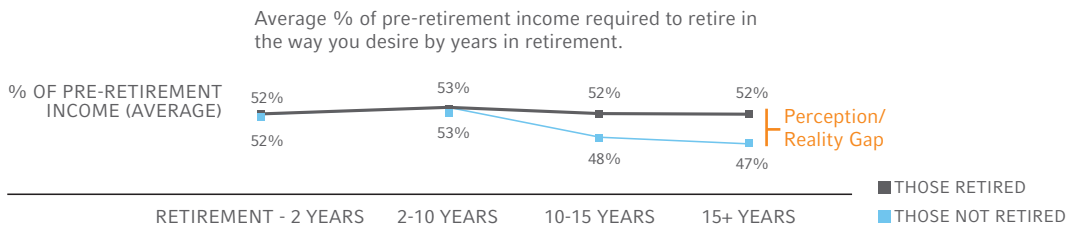
Our research also found that so-called “prepared planners”—those who say that planning has helped them feel “very well prepared” to meet their income needs in retirement—are seven times less likely to worry about outliving their money.

Working with a professional advisor can also help close some of the gaps between perception and reality, and plan accordingly. For example, pre-retirees anticipate that their retirement income needs will drop over time, whereas actual retirees report that their income needs are constant throughout retirement.

New insight

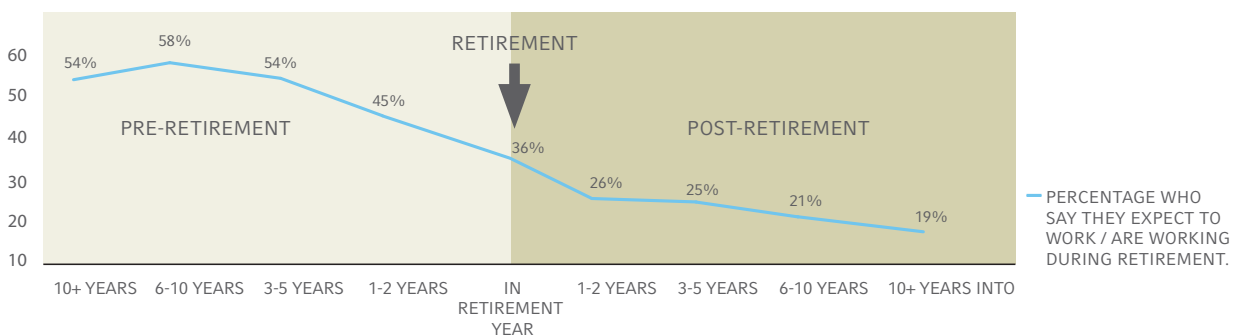
10+ years before retirement, 58% of Canadians say they are concerned about the possibility of outliving their money, yet this number drops to 38% by the time retirement arrives, and drops to 18% a decade after retiring

Income needs stay constant throughout retirement



In another perception gap, more than half of pre-retirees expect to work at least part-time during retirement, yet less than a quarter of retirees say they actually do so.

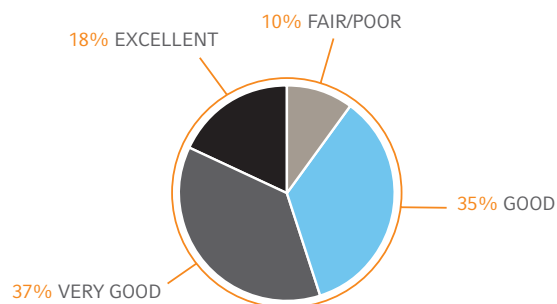
Retirees unlikely to work part-time despite expectations



Financial health is still strong

Perhaps the most important finding of our research is that retirement continues to be a good time of life. Despite recent economic challenges, most retirees say the fear of outliving their savings has declined steadily over time. Ninety percent of retirees rate their financial health as “good”, “very good”, or “excellent”. And almost as many report feelings of happiness, excitement, freedom, and relief.

Retirees overwhelmingly report good financial health



New insight

10+ years before retirement, only 56% of Canadians say they expect to experience feelings of happiness, freedom and relief during retirement, but almost 90% of actual retirees report experiencing these feelings.

We believe that, with the right professional planning advice and an appropriate investment strategy, the future of retirement will continue to look bright for Canadians. For more information, please speak with your financial advisor or visit www.myfinanciallyhealthyretirement.com, where the Russell Financial Health Index lets you compare your financial health with Canadians across the country.

www.myfinanciallyhealthyretirement.com

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Russell Investments

At Russell, we have a rich heritage of directing the investments of some of the world's largest investors—many of whom have billion-dollar portfolios such as Alcoa, AmerisourceBergen Corp., Barclays Bank, BHP Billiton, Bill & Melinda Gates Foundation Trust, Boeing, Caterpillar, Coca-Cola Bottling Co., General Motors, Public School & Education Employee Retirement Systems of Missouri, Toyota Motor Pension Fund, and Wilfrid Laurier University.¹

We're the experts on retirement

Russell conducts extensive research into the needs of retirees and responds with innovative, proprietary products and strategies. With more than three decades of money manager research experience and more dedicated manager research analysts than any other firm, we perform the vital work to keep your portfolio focused on your retirement goals.

How this research was conducted

Harris/Decima conducted 2,200 online surveys across Canada in October 2009. Survey data was weighted by region and retirement status in order to gain a representative cross-section of Canadians. The survey's margin of error is 2.1%.

The survey respondents had a household income of \$50,000 or more and were 42 years of age or older. Of the group, **1,146** were presently employed, and **1,054** were retired from work. The survey sample excludes those who were unemployed, students, or homemakers.

Note that for the purposes of the report, the term "Canadians" refers to the entire sample group including both pre-retirees and current retirees.

¹ U.S. and non-U.S. clients on this representative list were selected from Russell Investments' complete client roster from those who have given permission to publish their names (as of the date of this publication). U.S. publicly-held companies listed are Russell clients that appear on the 2008 Fortune 100 list. The non-public company client and endowment/foundation client are those with the highest total assets. Non-U.S. clients listed represent those with the highest total assets in each of the following regions: Austral-Asia, Japan, Canada, and Europe. Performance-based data was not used in selecting listed clients. The identification of the clients listed does not constitute an endorsement or recommendation of Russell's products or services by such client.