RELIABLE. RESOURCEFUL. **REUTER**.

REUTER INSIGHT | APRIL 2014

The Impact of Rising Interest Rates

We regularly review changes and anticipated changes in financial markets and discuss their potential impact on your retirement savings. This month's newsletter will be of particular value to members who are closer to retirement.

Your retirement timeline/risk tolerance

Members close to retirement as well as others who have identified their Investor Style as Conservative may have chosen a low-risk fund invested mostly in Fixed Income securities (also known as bonds). Unlike a Guaranteed Interest Investment, Bond Funds do not provide a guaranteed rate of return and their value can increase or decrease in accordance with the performance of the fund holdings.

These funds invest in a diversified portfolio of debt securities. By investing in bonds, the fund earns an amount of interest based on the interest rate paid. This type of fund is exposed to two types of risk: credit/default risk, which is the risk relating to the issuers' ability to repay the debt at maturity, as well as to changes in interest rates.

Past Benefits of Declining Interest Rates for Bond Investors

Investors have witnessed decades of declining interest rates and corresponding consistently positive Bond Fund returns. Many investors take for granted that these stable returns will continue in the future.

The Future Impact of Rising Interest Rates on Your Bond Fund Portfolio

During a period of rising interest rates, the value of currently held bonds declines, with a resulting lower or negative rate of return for Bond Funds. 2013 was the first year in many that investors have realized a negative rate of return in their bond portfolios: the DEX Universe Bond Index was down by 1.2% for the year. When interest rates do rise, the result may be lower or negative returns for Bond Fund investors.

The Challenge for Retiring Members

Conservative investors with many years until retirement have more time to withstand potential volatility in their retirement savings. However, members that are closer to retirement may be invested in a Bond Fund, or a Conservative Asset Allocation Fund, where the majority of the fund holdings are in bonds. For individuals who are or are about to start receiving income from their Bond Fund, during a period of rising interest rates, they would realize an investment loss at the time of withdrawal. For this reason, if you are within three to five years of retirement, we recommend that you review your risk tolerance and portfolio holdings to ensure that you have selected the correct investments to withstand any potential future market volatility and to minimize the impact on your retirement income.

Please contact Reuter Benefits to complete an Investor Strategy Worksheet and discuss your retirement portfolio and investment choices at 1-800-666-0142 or via email at **retire@reuterbenefits.com**.

15 Sheldon Drive, Unit 4, Cambridge Ontario N1R 6R8
P 519.620.0218 - **F** 1.888.634.0591 - **TF** 1.800.666.0142
retire@reuterbenefits.com - www.reuterbenefits.com