

Impacts of changes in interest rates

We regularly review changes and anticipated changes in financial markets and discuss their potential impact on your retirement savings. One aspect of economic markets that we continually monitor is interest rates, as they can have a significant effect on your portfolio returns.

Your retirement timeline/risk tolerance

Members 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 and the interest rate environment.

Impacts of interest rate changes on 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, however during a period of rising interest rates, the value of currently-held bonds declines, resulting in a lower or negative rate of return for bond funds.

The challenge for retiring members

Investors with many years until retirement have more time to withstand potential volatility in their retirement savings, however those closer to retirement may be invested in less aggressive investments such as a conservative asset allocation or retirement date funds that are close to their target date.

The majority of the holdings in these more conservative investments are in bonds, so individuals who are (or are about to start) receiving income from one of these funds during a period of rising interest rates could realize an investment loss at the time of withdrawal.

As always, we recommend that all members regularly review their risk tolerance to ensure that they have selected investments that can withstand potential volatility and changes in financial markets.

To discuss your retirement portfolio and investment choices, please contact Reuter Benefits by phone at 1-800-666-0142 or by email at retire@reuterbenefits.com.

