[TOPIC]

Retirement Planning: Monte Carlo analysis puts odds in your favor

[ADVICE]

When it comes to retirement planning, "Monte Carlo" might not be what you have in mind, but it should be. Using Monte Carlo simulation for forecasting your retirement is your best bet for accounting for future uncertainty. While this methodology has been around for decades and widely accepted in many scientific fields, it has been rarely used and poorly understood by the financial planning industry. However, over the past few years it has finally become the preferred forecasting method for wealth professionals. Monte Carlo simulations project and illustrate the probability that you'll reach your financial goals.

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Each projection combines up to one thousand simulations using variable assumptions instead of a static one, more like the uncertainty experienced in the real world. Your portfolio may be up 20% one year and down 10% the next. Monte Carlo analysis not only accounts for this, it assumes this will happen. The result is a range of possible outcomes that are clear and easy to understand. For example, results may state that you have a 60% chance of success if you retire at age 55, an 85% chance if you wait until age 60, and a 90% chance if you wait until 64. These results paint a clear picture of what the future might look like and help you make informed financial decisions today.