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The Sequence of Returns Can Make or Break a Retirement Portfolio

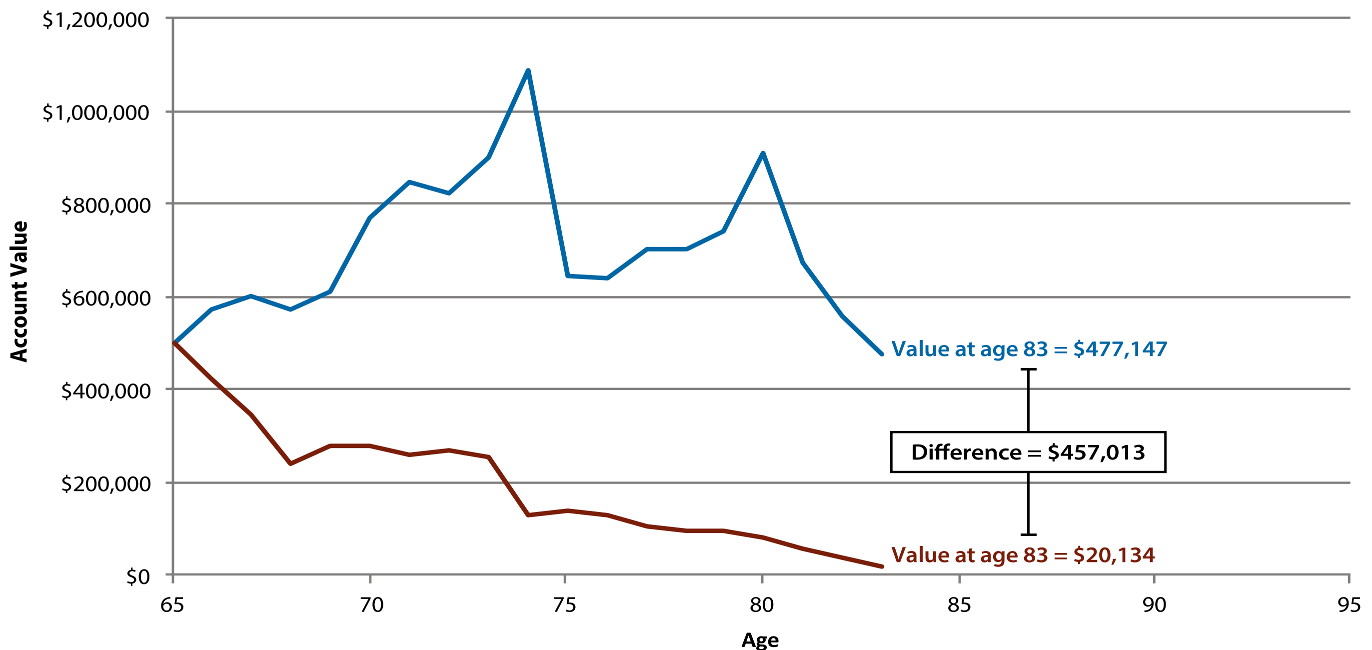
You've invested over the years and now you're ready to retire and withdraw income from your retirement nest egg. How long will your money last? There are a number of variables at play, but one you should know is the sequence of returns. If you start taking income withdrawals from your portfolio in a down market, and continue that course without making adjustments, your money may not last as long as you need it to.

Early Negative Returns vs. Early Positive Returns Hypothetical Example

Jim, age 65, has $500,000 in savings invested in an index fund that mirrors the performance of the S&P 500®. He begins to withdraw 5% each year for income. Compare the difference in his portfolio balance in the graph below. In each scenario, the average annual rate of return is 4.95 percent. But starting withdrawals in years with negative returns yields a very different portfolio outcome than when withdrawals begin in years with positive returns.

Scenario A – Early Negative Returns
Income distributions begin in a down market, based on S&P 500 returns from 2000-2017[1]

Scenario B – Early Positive Returns
Income distributions begin in an up market, based on same returns but reversed from 2017-2000



At age 83, Jim has only $20,134 left in account value (scenario A), when withdrawals began in a negative market. In scenario B, Jim has $477,147 in account value after 18 years, a difference of $457,013. More portfolio account value is preserved when withdrawals begin in years with positive returns. See the detailed annual account value charts on the reverse.

1 Source: Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc.

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Scenario A – Early Negative Returns

Income distributions begin in a down market, based on S&P 500 returns from 2000-2017

Scenario B – Early Positive Returns

Income distributions begin in an up market, based on same returns but reversed from 2017-2000

Scenario A – Income Distributions Begin in a Down Market			
Age	**Return**	**Annual Withdrawal**	**Account Value**
65	N/A	$25,000	$500,000
66	-10.1%	$25,000	$424,300
67	-13.0%	$25,000	$343,971
68	-23.4%	$25,000	$238,585
69	26.4%	$25,000	$276,524
70	9.0%	$25,000	$276,383
71	3.0%	$25,000	$259,675
72	13.6%	$25,000	$270,043
73	3.5%	$25,000	$254,575
74	-38.5%	$25,000	$131,564
75	23.5%	$25,000	$137,415
76	12.8%	$25,000	$129,977
77	0.0%	$25,000	$104,977
78	13.4%	$25,000	$94,055
79	29.6%	$25,000	$96,895
80	11.4%	$25,000	$82,931
81	-0.7%	$25,000	$57,326
82	9.5%	$25,000	$37,795
83	19.4%	$25,000	**$20,134**

Scenario B – Income Distributions Begin in an Up Market			
Age	**Return**	**Annual Withdrawal**	**Account Value**
65	N/A	$25,000	$500,000
66	19.4%	$25,000	$572,100
67	9.5%	$25,000	$601,678
68	-0.7%	$25,000	$572,286
69	11.4%	$25,000	$612,469
70	29.6%	$25,000	$768,760
71	13.4%	$25,000	$846,851
72	0.0%	$25,000	$821,851
73	12.8%	$25,000	$901,884
74	23.5%	$25,000	$1,088,376
75	-38.5%	$25,000	$644,460
76	3.5%	$25,000	$642,209
77	13.6%	$25,000	$704,678
78	3.0%	$25,000	$700,818
79	9.0%	$25,000	$738,822
80	26.4%	$25,000	$908,723
81	-23.4%	$25,000	$671,355
82	-13.0%	$25,000	$558,810
83	-10.1%	$25,000	**$477,147**

You can’t predict what the market will do when you start taking withdrawals for income. But, there are ways to help mitigate sequence of returns risk, such as allocating assets to different types of accounts and securing future guaranteed income from insurance products.

See your financial representative about protecting your retirement assets from sequence of returns risk.

The examples shown are hypothetical, are used for illustration purposes only, and do not take into account other sources of retirement income. It is not recommended that one invests 100% of assets in one type of account. Past performance is not an indication of future results.

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