

# Protect Your Retirement

## From Sequence of Returns Risk

No one can consistently predict how stock, bonds, and other investments will perform, but you may be able to protect your retirement against the risk that you'll retire into a falling market.

When it comes to your portfolio's ability to support you throughout retirement, it's not just the average return that matters, but also the sequence of returns. Using actual S&P® 500 returns from 2000-2014, let's look at how the sequence of returns can impact a hypothetical retirement path.

*Retiring into a falling market can have a dramatic impact on your retirement portfolio.*

### WHY THE SEQUENCE OF RETURNS MATTERS

The sequence of returns may have less of an impact on the portfolio of a long-term individual who is accumulating assets for retirement. However, during retirement, the interplay between an individual's rate of withdrawal and the sequence of returns can have a dramatic impact on a portfolio's overall ability to last.

### FACTORS AFFECTING PORTFOLIO RESULTS DURING STAGES OF RETIREMENT

#### ACCUMULATION PHASE

- Average Annualized Returns
- Asset Allocation
- Staying in the Market

#### PRESERVATION PHASE

- Asset Allocation
- Volatility

#### DISTRIBUTION PHASE

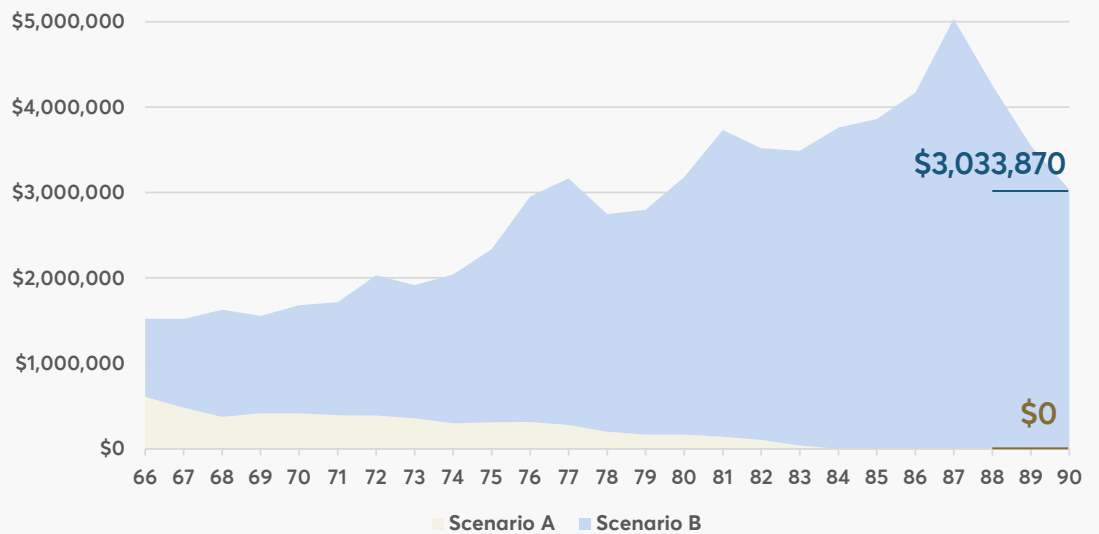
- Sequence of Returns
- Product Allocation
- Portfolio Protection



AGE 65

# YOUR HYPOTHETICAL RETIREMENT

Let's say you retire at age 66 with \$735,302 in your 401(k) account. You plan to withdraw 5% of the first year value (\$36,765) and increase your withdrawals 3% to account for inflation. Both portfolios shown below earn the same average annual rate of 8%.



## SCENARIO A EARLY DECLINES

In Scenario A, the sequence of returns is reversed. Early returns are negative, and late growth is not enough to overcome the early losses. When you reach 80 years old, you have less than \$100,000 in your 401(k) account.

YEAR END PORTFOLIO

**\$0**

## SCENARIO B EARLY GROWTH

In Scenario B, your portfolio experiences strong early growth. Despite a series of negative returns in later years, your 401(k) account still has more than \$944,000 when you're 80 years old.

YEAR END PORTFOLIO

**\$3,033,870**

Age	Annual return	Portfolio A Year-End	Annual Return	Portfolio B Year-End
66	-12%	\$608,058	29%	\$915,383
67	-15%	\$478,981	18%	\$1,038,620
68	-14%	\$372,924	25%	\$1,254,080
69	22%	\$415,677	-6%	\$1,139,914
70	10%	\$415,031	15%	\$1,263,822
71	4%	\$390,325	8%	\$1,325,828
72	11%	\$388,972	27%	\$1,641,225
73	3%	\$354,257	-2%	\$1,559,902
74	-3%	\$296,317	15%	\$1,742,637
75	21%	\$310,572	19%	\$2,025,772
76	17%	\$313,029	33%	\$2,642,842
77	5%	\$278,728	11%	\$2,885,300
78	-10%	\$198,994	-10%	\$2,550,113
79	11%	\$167,091	5%	\$2,631,281
80	33%	\$166,453	17%	\$3,015,102
81	19%	\$140,801	21%	\$3,590,977
82	15%	\$102,502	-3%	\$3,416,756
83	-2%	\$39,480	3%	\$3,448,238
84	27%	\$-	11%	\$3,761,512
85	80%	\$-	4%	\$3,859,407
86	15%	\$-	10%	\$4,171,204
87	-6%	\$-	22%	\$5,030,357
88	25%	\$-	-14%	\$4,255,708
89	18%	\$-	-15%	\$3,544,793
90	29%	\$-	-12%	\$3,033,870
	<b>8%</b>	<b>\$0</b>	<b>8%</b>	<b>\$3,033,870</b>

Total income generated by portfolio during retirement:

**\$839,547**

**\$1,340,429**

**BIG DIFFERENCE**

The difference of year-end portfolio values after 25 years is

**\$3,033,870**

The difference in income generated between the two scenarios is

**\$500,882**

This difference is due to sequence of returns.

**All charts are hypothetical and for illustrative purposes only and are not intended to predict or project portfolio results.**

Source: Standard & Poor's. The sequence of returns has an average compounded annualized return of 8% over 25 years and year-to-year volatility that is consistent with a portfolio predominantly comprised of stocks. Annual returns have been rounded to the nearest whole number. The accumulation portfolios assume a starting value of \$100,000 at age 40 and no annual withdrawals. The distribution portfolios assume a starting value of \$735,302 at age 65 as well as a 5% first-year withdrawal thereafter adjusted for 3% inflation annually. Except where noted, the average annualized return for the 25-year period is 8%.