Market Risk and Your Retirement

The Impact of Varying Returns on Your Retirement

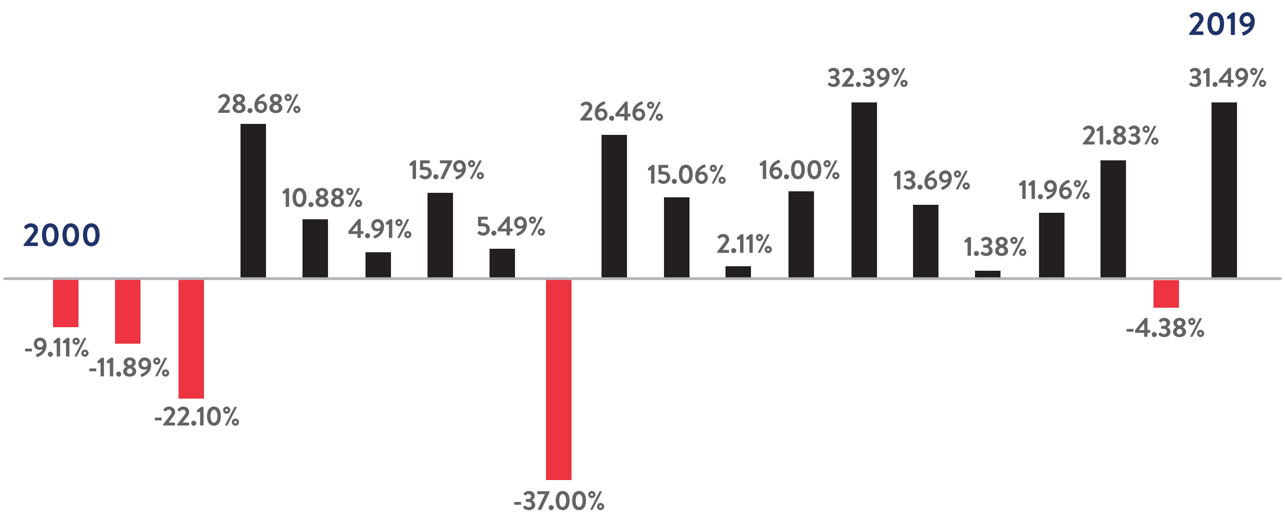
The Sequence of Returns Matters

Many people saving for retirement invest in equities because of the long-term growth potential they offer. While the value of these investments varies with changes in the financial markets, the expectation is that they will grow over the long term. So short-term market swings are generally not a concern. However, the order in which you experience losses and gains can be more important than the losses and gains themselves. As you enter retirement, the sequence of returns risk will be magnified when annual income distributions are being taken.

What if You Retired in 2000?

Suppose that you retired in 2000 with $1,000,000 of your retirement savings invested in a non-qualified account that will have the same returns as the S&P 500 Index[1] from 2000 through 2019. The following chart shows the returns over this 20-year period. For purposes of this example, we will ignore the impact of investment expenses and taxes, which you would need to pay if this were an actual investment.

S&P 500 [1] RETURNS (2000 - 2019)



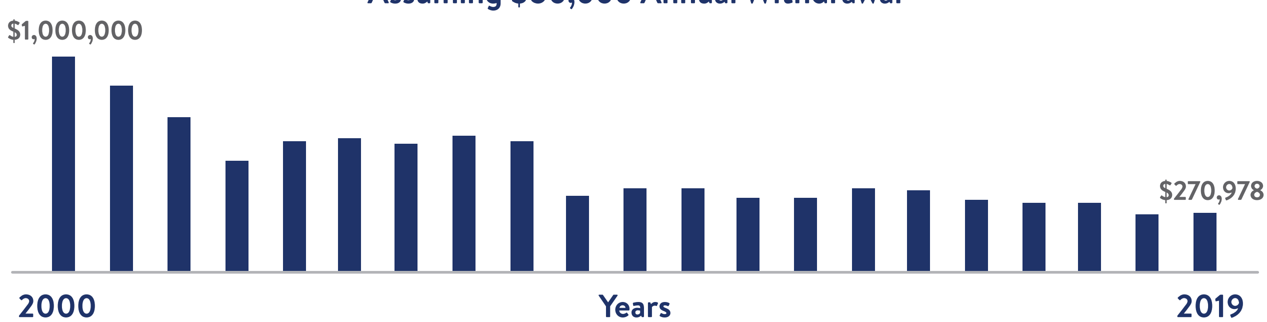
The average annual return over this period was 7.68%. However, there were two significant market declines. The first started in 2000 with a three-year downturn attributable to the tech-bubble; the second was a large negative return in 2008 as a result of the financial crisis.

Annual Retirement Income – $50,000

What if you were to withdraw $50,000 from the account at the beginning of each year for 20 years? The following chart shows the year-by-year account value through 2019.

ACCOUNT VALUE[1] (2000 - 2019)

Assuming $50,000 Annual Withdrawal



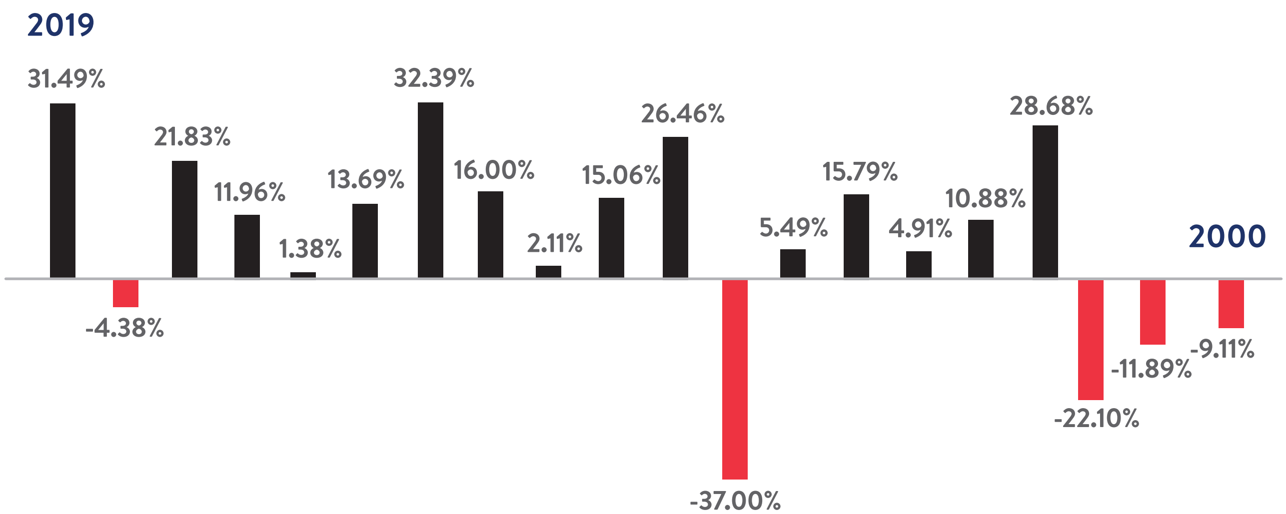
[1] The S&P 500 Index is a list of securities frequently used as a measure of U.S. stock market performance. These investment results and account values are hypothetical. They do not reflect fees and charges associated with an actual investment. Had fees and charges been reflected, the values would be lower. You cannot invest directly in an index. Past performance does not guarantee future results.

As you can see, the two big market downturns had a long-term impact on the account. Following both declines, the account was never able to fully recover its value. So after taking $1,000,000 of income out of the account over the 20 years, you are left with about $271,000 at the end of 2019.

What if We Were to Reverse the Returns?

Let's look at the same scenario, but this time reverse the order of the S&P returns (2019-2000). In this scenario, the significant negative returns fall in the latter half of the 20-year period.

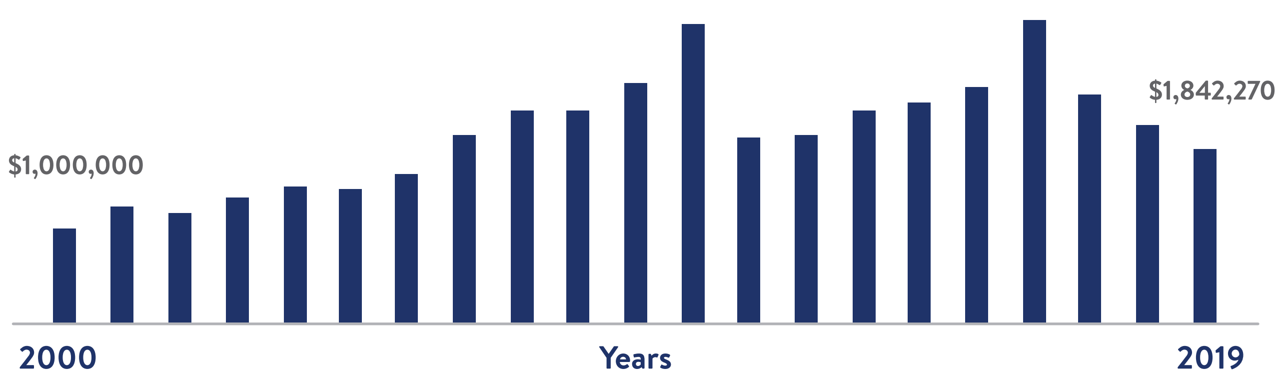
S&P 500 [1] RETURNS (2019 - 2000) — REVERSE ORDER



Now, let's suppose you take out the same $50,000 each year for 20 years under this scenario.

ACCOUNT VALUE (2000 - 2019)

Assuming $50,000 Annual Withdrawal

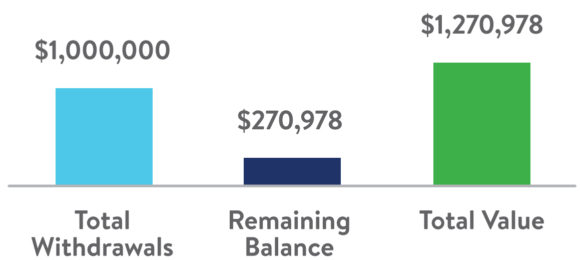


If you withdrew the same $50,000 each year for 20 years, your ending balance would be $1,843,270. You can see the negative returns in this scenario still had a big impact, but the account was able to grow to over $2,000,000 by the time significant market downturns occurred. As a result, you were able to withdraw the income you needed and still ended up with a large account balance.

Summary

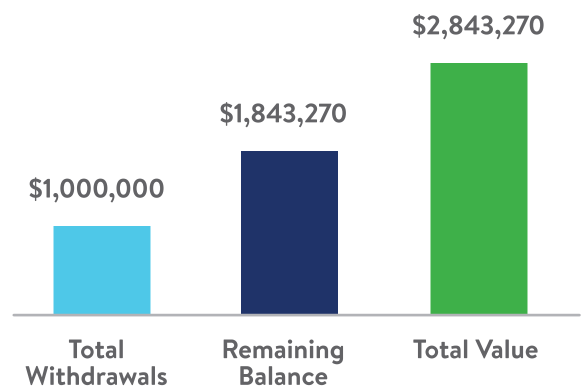
The following charts summarize the results under each scenario:

S&P 500 RETURNS (2000 - 2019)



S&P 500 RETURNS (2019 - 2000)

Reverse Order



Based on the actual returns from 2000 to 2019, you received all of the income you needed, but only had a remaining balance of $270,978. Assuming those returns were reversed, you withdrew the same $1,000,000, but had a remaining balance of $1,843,270. This is almost seven times more.

Summary

This example illustrates the impact that timing of market downturns can have on a retirement portfolio. In order to take advantage of the long-term growth potential that equities and other higher-risk assets offer during retirement, you need to be in a position to weather the economic downturns that impact them over time. Having dependable sources of income that are not directly impacted by short-term disruptions in the financial market can help you reduce the impact of market downturns during retirement.

> You can't predict when market downturns will occur, but you can be better prepared to manage them.

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