

Understanding the Sequence of Returns

How Market Performance and Distribution Timing Can Affect How Long Your Money Will Last



Get Ready for Retirement

As you approach your retirement years—or have already reached them—you need to ensure that your portfolio is ready to last your lifetime. The span of time that can impact your long-term retirement income the most is the period just prior to and immediately following retirement. The risk to your portfolio value and your retirement income is called the *sequence of returns*.

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The Sequence of Returns

You may be living more years in retirement than previous generations, so your investments need to last longer than ever. To demonstrate how market fluctuations may impact your portfolio when you begin to take income, let's look at two hypothetical portfolios with the same initial \$200,000 investment amount and a 20-year period (1989–2008) of the S&P 500® index with an average rate of return of 10.36%. The difference is that Investor A experiences market declines in the last half of a 20-year period, and Investor B has a market decline immediately after retiring and in three of the next eight years.

Investor A—Early Gain						Investor B—Early Loss					
Year	Rate of Return	Balance after Returns	Withdrawal % of Initial Investment	Amount Withdrawn	End-of-Year Balance	Year	Rate of Return	Balance after Returns	Withdrawal % of Initial Investment	Amount Withdrawn	End-of-Year Balance
1	31.69%	\$263,380	5.00%	\$10,000	\$253,380	1	-37.00%	\$126,000	5.00%	\$10,000	\$116,000
2	-3.10%	\$245,525	5.15%	\$10,300	\$235,225	2	5.49%	\$122,368	5.15%	\$10,300	\$112,068
3	30.47%	\$306,898	5.30%	\$10,609	\$296,289	3	15.79%	\$129,764	5.30%	\$10,609	\$119,155
4	7.62%	\$318,867	5.46%	\$10,927	\$307,939	4	4.91%	\$125,006	5.46%	\$10,927	\$114,078
5	10.08%	\$338,980	5.63%	\$11,255	\$327,725	5	10.88%	\$126,490	5.63%	\$11,255	\$115,235
6	1.32%	\$332,050	5.80%	\$11,593	\$320,458	6	28.68%	\$148,284	5.80%	\$11,593	\$136,691
7	37.58%	\$440,886	5.97%	\$11,941	\$428,945	7	-22.10%	\$106,483	5.97%	\$11,941	\$94,542
8	22.96%	\$527,431	6.15%	\$12,299	\$515,132	8	-11.89%	\$83,301	6.15%	\$12,299	\$71,002
9	33.36%	\$686,980	6.33%	\$12,668	\$674,313	9	-9.10%	\$64,541	6.33%	\$12,668	\$51,873
10	28.58%	\$867,031	6.52%	\$13,048	\$853,984	10	21.04%	\$62,788	6.52%	\$13,048	\$49,740
11	21.04%	\$1,033,662	6.72%	\$13,439	\$1,020,223	11	28.58%	\$63,956	6.72%	\$13,439	\$50,516
12	-9.10%	\$927,382	6.92%	\$13,842	\$913,540	12	33.36%	\$67,369	6.92%	\$13,842	\$53,526
13	-11.89%	\$804,920	7.13%	\$14,258	\$790,663	13	22.96%	\$65,816	7.13%	\$14,258	\$51,558
14	-22.10%	\$615,926	7.34%	\$14,685	\$601,241	14	37.58%	\$70,934	7.34%	\$14,685	\$56,249
15	28.68%	\$773,677	7.56%	\$15,126	\$758,551	15	1.32%	\$56,991	7.56%	\$15,126	\$41,865
16	10.88%	\$841,081	7.79%	\$15,580	\$825,501	16	10.08%	\$46,085	7.79%	\$15,580	\$30,505
17	4.91%	\$866,033	8.02%	\$16,047	\$849,986	17	7.62%	\$32,830	8.02%	\$16,047	\$16,783
18	15.79%	\$984,199	8.26%	\$16,528	\$967,671	18	30.47%	\$21,897	8.26%	\$16,528	\$5,368
19	5.49%	\$1,020,796	8.51%	\$17,024	\$1,003,772	19	-3.10%	\$5,202	2.60%	\$ 5,202	\$0
20	-37.00%	\$632,376	8.77%	\$17,535	\$614,841	20	31.69%		0.00%		\$0
Totals				\$268,704	+ \$614,841	Totals				\$239,346	+ \$0
10.36% Average Rate of Return				Total Benefit = \$883,545		10.36% Average Rate of Return				Total Benefit = \$239,346	

The results shown are intended to demonstrate the impact of the effect of market performance on retirement assets, assuming 5% annual withdrawals of \$10,000 (increasing at 3% annually for inflation). If fees and charges had been included, investment results would have been lower.

S&P 500® index 1989–2008. Past performance does not guarantee future results.

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