



Sequence of returns

The importance of when your ups and downs occur

It's not just how much your investments go up or down, it's also when the ups and downs occur.

What is sequence of returns risk?

Sequence of returns is the order of your investment returns. It can become a risk when you reach retirement and begin making withdrawals. If you received strong returns during your early working years, you may not have any problems. But poor returns and withdrawals early in retirement can do lasting damage to your portfolio.

To illustrate how sequence of returns risk works, let's look at a hypothetical example involving two couples who are just entering retirement. We'll reverse the rate of return sequence for each couple's investment, and illustrate the impact.

Example: How sequence of returns affects two different couples

Both couples begin with a portfolio balance of \$500,000 and over 30 years make 5 percent annual withdrawals (\$25,000, plus annual increases to account for inflation). Both couples expect the same average annual net return of 6 percent.

Poor returns early, strong returns later

However, Dave and Joan experience poor early returns and strong returns later on, which results in a depleted investment portfolio by year 13, at their mutual age of 78.

Strong returns early, poor returns later

On the other hand, Jeff and Wendy experience positive returns in the early years, and negative returns later, still leaving them with a comfortable portfolio at their mutual age of 78.



Dave and Joan

Sequence of returns: Poor, then strong

Hypothetical net return	Withdrawal	Balance	Age
		\$500,000	65
-27.1%	\$25,000	346,275	66
-16.5%	25,750	267,638	67
-1.9%	26,523	236,535	68
3.1%	27,318	215,702	69
10.9%	28,138	208,009	70
-9.4%	28,982	162,199	71
7.4%	29,851	142,141	72
8.1%	30,747	120,417	73
15.4%	31,669	102,415	74
9.4%	32,619	76,356	75
6.2%	33,598	45,410	76
12.4%	34,606	12,143	77
2.8%	12,143	-	78
11.4%	-	-	79
9.0%	-	-	80
24.3%	-	-	81
-11.0%	-	-	82
22.4%	-	-	83
9.6%	-	-	84
7.6%	-	-	85
9.2%	-	-	86
-6.1%	-	-	87
18.1%	-	-	88
-3.7%	-	-	89
22.5%	-	-	90
17.6%	-	-	91
8.9%	-	-	92
4.3%	-	-	93
10.1%	-	-	94
26.7%	-	-	95



Jeff and Wendy

Sequence of returns: Strong, then poor

Hypothetical net return	Withdrawal	Balance	Age
		\$500,000	65
26.7%	\$25,000	601,825	66
10.1%	25,750	634,259	67
4.3%	26,523	633,869	68
8.9%	27,318	660,534	69
17.6%	28,138	743,697	70
22.5%	28,982	875,527	71
-3.7%	29,851	814,385	72
18.1%	30,747	925,477	73
-6.1%	31,669	839,286	74
9.2%	32,619	880,880	75
7.6%	33,598	911,675	76
9.6%	34,606	961,268	77
22.4%	35,644	1,132,964	78
-11.0%	36,713	975,663	79
24.3%	37,815	1,165,745	80
9.0%	38,949	1,228,207	81
11.4%	40,118	1,323,532	82
2.8%	41,321	1,318,113	83
12.4%	42,561	1,433,720	84
6.2%	43,838	1,476,055	85
9.4%	45,153	1,565,407	86
15.4%	46,507	1,752,811	87
8.1%	47,903	1,843,006	88
7.4%	49,340	1,926,397	89
-9.4%	50,820	1,699,273	90
10.9%	52,344	1,826,444	91
3.1%	53,915	1,827,478	92
-1.9%	55,532	1,738,278	93
-16.5%	57,198	1,403,702	94
-27.1%	58,914	980,350	95

This is a hypothetical example for illustrative purposes only. Your particular circumstances may be different than those shown. You should ask your financial professional to run a personalized illustration for you. The returns shown above are purely hypothetical, and are assumed to be net of all fees and expenses. The balances are end-of-year and reflect an assumed annual withdrawal of \$25,000 (increasing 3 percent annually for inflation) taken at the beginning of the year.

Reducing sequence of returns risk

Although retreating from the markets would reduce your exposure to sequence of returns risk, it may also lower the growth potential of your portfolio – and lessen its ability to provide you with adequate long-term income.

To counteract the risk of poor returns early in your retirement, consider using a portion of your retirement income to purchase a product or products that include principal guarantees, which may be purchased for an additional cost and may be subject to limitations.

That way a portion of your assets are protected against declines in periods of poor returns. And you'll still have the ability to benefit from potential market gains over the long term.



Learn more

Consult a financial professional if you have investment-related questions or want to find out more about sequence of return.



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