HOW MARKET VOLATILITY AND TIMING OF WITHDRAWALS CAN **IMPACT** **YOUR RETIREMENT INCOME**

In the few years prior to retirement and immediately after you start drawing down assets, market volatility – the ups and downs of your returns – has the greatest impact on the longevity of your portfolio. Understanding how market volatility leads to “sequence of returns risk” can help ensure your retirement income lasts as long as possible.

What is “sequence of returns risk?”

Let’s start by defining sequence of returns, which is the order in which you receive market returns. If the market continues to be volatile, the sequence of returns will cause your accumulation value to fluctuate.

During the accumulation phase, sequence of returns matters less as your focus is on long-term savings. Since you aren’t taking withdrawals, if you experience a down year, there’s time to balance that out with a potential increase in future years.

However, when you start taking income withdrawals, negative returns at the beginning of the retirement distribution phase are magnified because they are on a higher overall accumulation value. This can have a lasting negative effect because there isn’t time, like there can be in the accumulation phase, to recoup those downturns in the market – especially as you continue to take withdrawals.

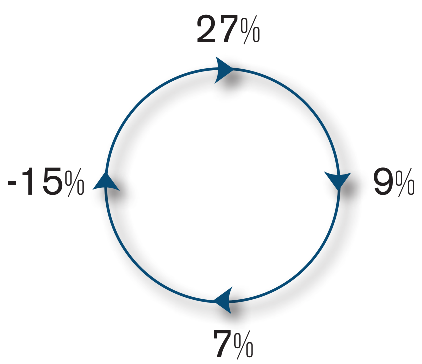
Therefore, the timing of withdrawals is important because it can change the amount of retirement income you receive. This is called “sequence of returns risk” and it can accelerate the pace at which you draw down your retirement resources.

How big of an impact can sequence of returns have on retirement income?

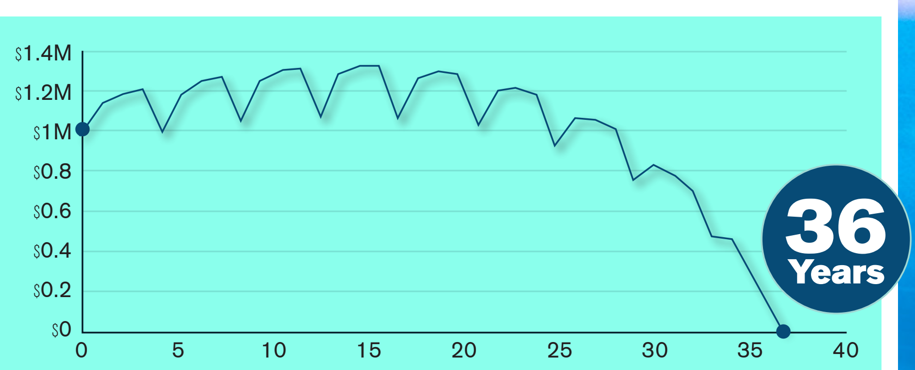
To demonstrate the potential effect on your retirement income, we’ll compare two hypothetical scenarios.

Scenario A: Withdrawing in an up market

Let's say you have a $1 million nest egg and plan to withdraw 5% per year ($50K), assuming a 3.5% annual adjustment for inflation. In this scenario, we'll use the following sequence of returns:



We'll repeat this sequence until your retirement income is depleted.



This is a hypothetical example and is not intended to project the performance of any specific investment or index. It is not possible to invest directly in an index. If this were an actual product, the returns may be reduced by certain fees and charges. Withdrawals are subject to ordinary income tax and, if taken prior to age 59½, a 10% federal additional tax.

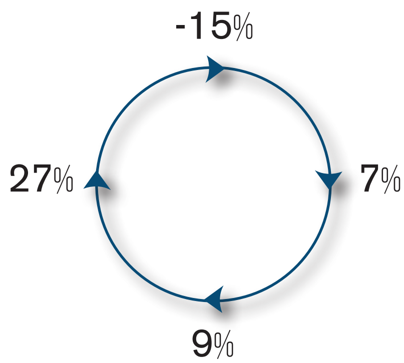
As you can see, the ups and downs of the market produce a **6% average** return and retirement income lasts **36 years.**

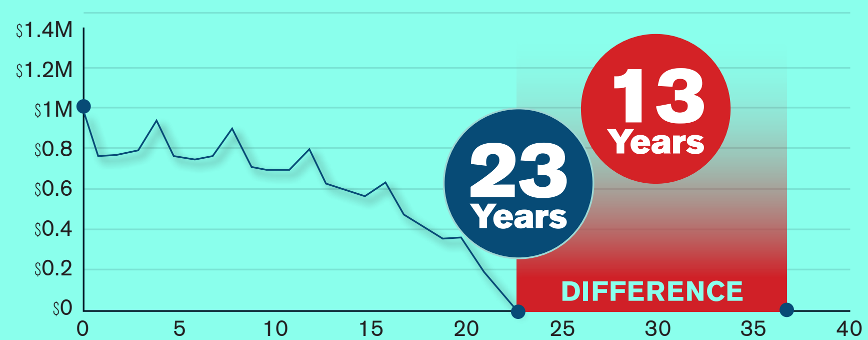
Year	Market Return	Withdrawal Amount	Investment balance
			$1,000,000
1	27%	$50,000.00	$1,220,000
2	9%	$51,750.00	$1,278,050
3	7%	$53,561.25	$1,313,952
4	-15%	$55,435.89	$1,061,424
5	27%	$57,376.15	$1,290,632
6	9%	$59,384.32	$1,347,404
7	7%	$61,462.77	$1,380,260
8	-15%	$63,613.96	$1,109,607
9	27%	$65,840.45	$1,343,360
10	9%	$68,144.87	$1,396,118
11	7%	$70,529.94	$1,423,316
12	-15%	$72,998.49	$1,136,820
13	27%	$75,553.43	$1,368,208
14	9%	$78,197.80	$1,413,149
15	7%	$80,934.73	$1,431,135
16	-15%	$83,767.44	$1,132,697
17	27%	$86,699.30	$1,351,826
18	9%	$89,733.78	$1,383,757
19	7%	$92,874.46	$1,387,745
20	-15%	$96,125.07	$1,083,458
21	27%	$99,489.44	$1,276,503
22	9%	$102,971.57	$1,288,416
23	7%	$106,575.58	$1,272,030
24	-15%	$110,305.72	$970,920
25	27%	$114,166.42	$1,118,902
26	9%	$118,162.25	$1,101,441
27	7%	$122,297.93	$1,056,243
28	-15%	$126,578.36	$771,229
29	27%	$131,008.60	$848,452
30	9%	$135,593.90	$789,218
31	7%	$140,339.69	$704,124
32	-15%	$145,251.57	$453,254
33	27%	$150,335.38	$425,297
34	9%	$155,597.12	$307,977
35	7%	$161,043.02	$168,492
36	-15%	$143,218.24	$0
37	27%	$0	$0
38	9%	$0	$0
39	7%	$0	$0

Average Return: 6%

Scenario A: Withdrawing in a down market

For this scenario, you still have a $1 million nest egg and plan to withdraw 5% per year ($50K), assuming a 3.5% annual adjustment for inflation. However, we'll show the sequence of returns in reverse order, starting with a negative return in the first year and repeat until retirement income is depleted.





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The average return is the same at **6%**, but because withdrawals were started in a down market, income runs out in **23 years.** That's **13 years sooner** than Scenario A, where income was started in an up market.

Year	Market Return	Withdrawal Amount	Investment balance
			$1,000,000
1	-15%	$50,000.00	$800,000
2	7%	$51,750.00	$804,250
3	9%	$53,561.25	$823,071
4	27%	$55,435.89	$989,865
5	-15%	$57,376.15	$784,009
6	7%	$59,384.32	$779,505
7	9%	$61,462.77	$788,198
8	27%	$63,613.96	$937,397
9	-15%	$65,840.45	$730,948
10	7%	$68,144.87	$713,969
11	9%	$70,529.94	$707,696
12	27%	$72,998.49	$825,755
13	-15%	$75,553.43	$626,355
14	7%	$78,197.80	$592,003
15	9%	$80,934.73	$564,348
16	27%	$83,767.44	$632,955
17	-15%	$86,699.30	$451,312
18	7%	$89,733.78	$393,170
19	9%	$92,874.46	$335.681
20	27%	$96,125.07	$330,189
21	-15%	$99,489.44	$181,172
22	7%	$102,971.57	$90,882
23	9%	$99,061.80	$0
24	27%	$0	$0
25	-15%	$0	$0
26	7%	$0	$0
27	9%	$0	$0
28	27%	$0	$0
29	-15%	$0	$0
30	7%	$0	$0
31	9%	$0	$0
32	27%	$0	$0
33	-15%	$0	$0
34	7%	$0	$0
35	9%	$0	$0
36	27%	$0	$0
37	15%	$0	$0
38	7%	$0	$0
39	9%	$0	$0

Average Return: 6%

What can be done to manage sequence of returns risk?

If you enter the distribution phase of retirement with all assets invested in the market, it can leave you vulnerable to volatility and sequence of returns risk. That's why generally 5-10 years prior to retirement, you may want to consider repositioning a portion of your assets out of the market and into a guaranteed product.

One guaranteed product option is an annuity. Annuities are specifically designed to help prevent you from outliving your income, regardless of how the market performs.

Additionally, certain annuities offer tax-deferred growth and an accumulation value death benefit to beneficiaries. They can also help pay for medicine, insurance premiums, living expenses and maintaining your current lifestyle, among other costs in retirement.