

## Sequence of Returns Risk

In our video entitled, "Sequence of Returns Risk," Hans and Tom review this part of Income Planning.

**SEQUENCE OF RETURNS RISK**

- THE ORDER AND THE TIMING OF POOR MARKETS RETURNS
- IN RETIREMENT, YOU ARE NO LONGER CONTRIBUTING AND MOST LIKELY WITHDRAWING TO LIVE
- STRATEGIES TO MITIGATE
  - DELAY SOCIAL SECURITY (LARGER CHECK)
  - USE SOME FIXED RATE RETURNS
  - SOME LIFETIME INCOME ANNUITIES
  - SOME FIXED INDEXED ANNUITIES
- LEAVES THE REST TO INVEST DIRECTLY IN EQUITIES

SS

MED

LTC

401K/IRA

Income

Estate

Taxes

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02 04 06 08 10 12 14 16 18 20 22 24 26 28 30 32 34 36 38 40 42 44 46 48 50 52 54 56 58 60 62 64 66 68 70 72 74 76 78 80 82 84 86 88 90 92 94 96 98 00 02 04 06 08 10 12 14 16 18 20 22 2023 800.14

# S&P 500 Large Cap Index - 1925-Present



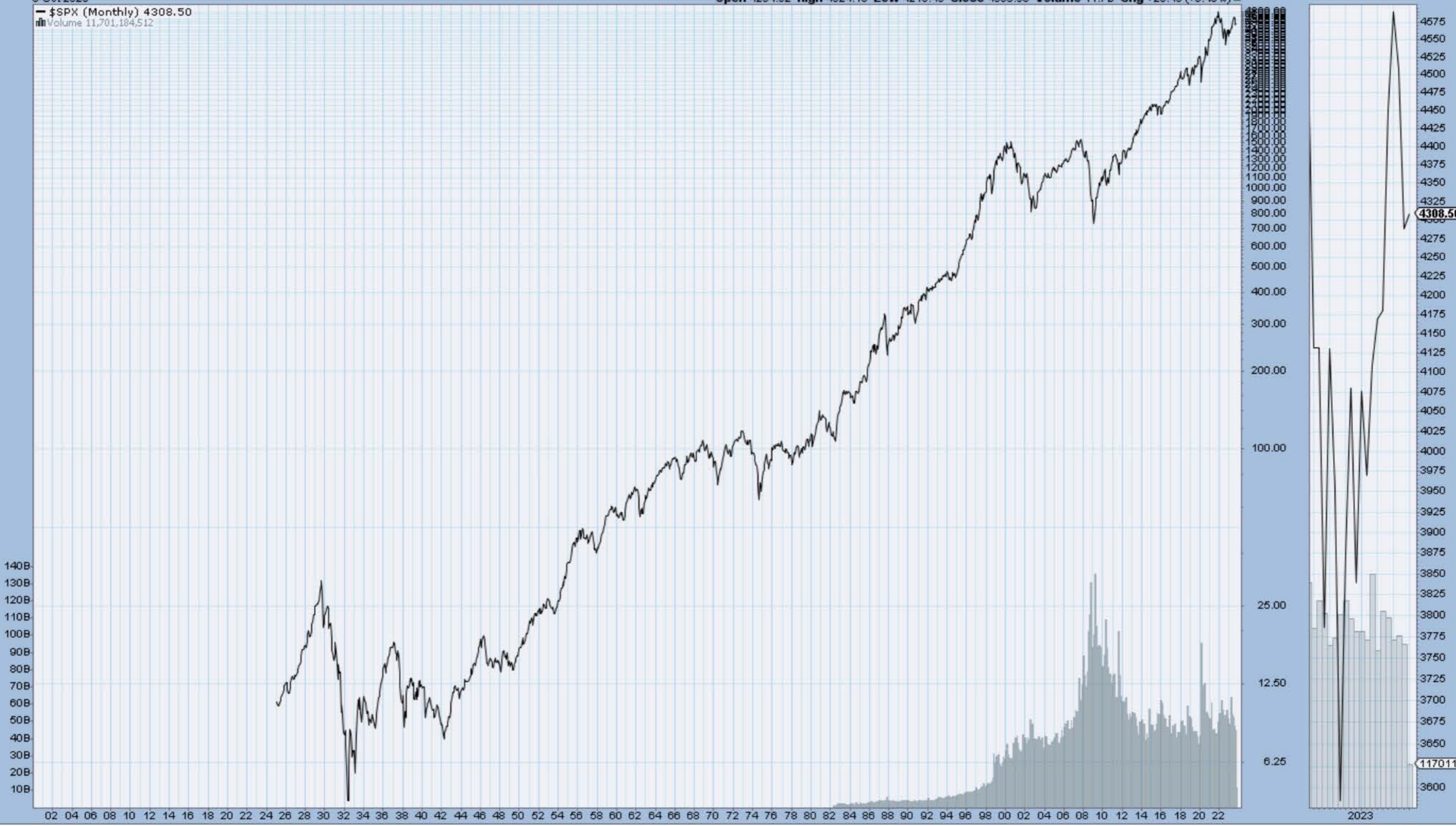
\$SPX S&P 500 Large Cap Index INDX

6-Oct-2023

Open 4284.52 High 4324.10 Low 4216.45 Close 4308.50 Volume 11.7B Chg +20.45 (+0.48%)

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\$SPX (Monthly) 4308.50  
Volume 11,701,184,512



# Don't let a down market change your retirement plans.

You work hard to accumulate assets to meet your retirement income needs, and you want to make sure they are protected from market volatility.

However, most people don't consider how the timing of market volatility can impact them as they are saving for retirement as well as once they start to take income in retirement.

## Market Volatility While You're Accumulating Assets

The chart demonstrates what a hypothetical \$100,000 would grow to after 25 years.

The two charts use the same set of annual returns, the only difference is *the order of the returns has been reversed* between the two to show the effects of strong early returns compared to negative early returns.

### Scenario Results

- Same average annual return
- Same ending value over \$693,824

Age	Favorable Sequence of Returns Strong returns in the early years		Unfavorable Sequence of Returns Weak returns in the early years	
	Annual Return	Balance	Annual Return	Balance
40	2%	\$102,000	-38%	\$62,000
41	26%	\$128,520	4%	\$64,480
42	15%	\$147,798	14%	\$73,507
43	2%	\$150,754	3%	\$75,712
44	12%	\$168,844	9%	\$82,527
45	27%	\$214,432	26%	\$103,983
46	17%	\$250,886	-23%	\$80,067
47	26%	\$316,116	-13%	\$69,659
48	4%	\$328,761	-10%	\$62,693
49	7%	\$351,774	20%	\$75,231
50	-2%	\$344,739	27%	\$95,544
51	34%	\$461,950	31%	\$125,162
52	20%	\$554,340	20%	\$150,195
53	31%	\$726,185	34%	\$201,261
54	27%	\$922,255	-2%	\$197,235
55	20%	\$1,106,706	7%	\$211,042
56	-10%	\$996,036	4%	\$219,484
57	-13%	\$866,551	26%	\$276,549
58	-23%	\$667,244	17%	\$323,563
59	26%	\$840,728	27%	\$410,925
60	9%	\$916,393	12%	\$460,236
61	3%	\$943,885	2%	\$469,440
62	14%	\$1,076,029	15%	\$539,856
63	4%	\$1,119,070	26%	\$680,219
64	-38%	<b>\$693,824</b>	2%	<b>\$693,824</b>

Average Annual Return	<b>8.00%</b>	<b>8.00%</b>
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The timing of negative market returns can have short term impacts as you are saving for retirement, but as you can see, the timing is less impactful over the long term.

## Market Volatility as You're Taking Income

This next example shows a totally different story once you begin taking income.

This chart shows a hypothetical account balance of \$693,824 at retirement with \$35,000 in income being withdrawn each year. Similar to the first scenario, we reversed the order of the market returns.

### Scenario Results

- Same average annual return
- Drastically different balance with one running out of money

Age	Favorable Sequence of Returns Strong returns in the early years		Unfavorable Sequence of Returns Weak returns in the early years	
	Annual Return	Balance	Annual Return	Balance
65	2%	\$672,000	-38%	\$408,471
66	26%	\$802,620	4%	\$388,409
67	15%	\$882,763	14%	\$402,887
68	2%	\$864,718	3%	\$378,923
69	12%	\$929,284	9%	\$374,876
70	27%	\$1,135,741	26%	\$428,244
71	17%	\$1,287,867	-23%	\$302,798
72	26%	\$1,578,613	-13%	\$232,984
73	4%	\$1,605,357	-10%	\$178,186
74	7%	\$1,680,282	20%	\$171,823
75	-2%	\$1,612,377	27%	\$173,765
76	34%	\$2,113,685	31%	\$181,783
77	20%	\$2,494,422	20%	\$176,139
78	31%	\$3,221,842	34%	\$189,126
79	27%	\$4,047,290	-2%	\$151,044
80	20%	\$4,814,748	7%	\$124,167
81	-10%	\$4,301,773	4%	\$92,734
82	-13%	\$3,712,092	26%	\$72,744
83	-23%	\$2,831,361	17%	\$44,161
84	26%	\$3,523,415	27%	\$11,634
85	9%	\$3,802,372	12%	—
86	3%	\$3,880,393	2%	—
87	14%	\$4,383,749	15%	—
88	4%	\$4,522,699	26%	—
89	-38%	\$2,782,373	2%	—

Average Annual Return	<b>8.00%</b>	<b>8.00%</b>
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Make sure your long-term retirement strategy includes solutions designed to help protect you from the impact of negative market returns when you start taking income.

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