Retirement Risk Zone – Sequence of Returns

TIMING MATTERS

What is the Retirement Risk Zone?

- It's the five (5) years before and the five (5) years after retirement.[1]
- It's a critical time — a time when pre-retirees and retirees can least afford losses

Losses incurred by a retirement portfolio in the five (5) years **before retirement** may be difficult to make up before they need to use the money for retirement income. Many feel that losses incurred in the five years (5) **after retirement** could impair the probability that their retirement income will last as long at they do. Additionally, it matters when the losses occur in that 10 year time frame. Losses at the beginning can have a bigger impact than losses at the end, even though numerically the returns average out to be the same. This is referred to as the Sequence of Returns risk.

TIMING MATTERS: Let's take a closer look at a hypothetical example on how the Sequence of Returns Risk can impact Retirement Savings.

Meet Art. Art retires at age 65 with $1,000,000 saved for retirement and starts taking $50,000 a year in income, adjusted for inflation annually.

Scenario A

Retires in a market with more up years in the beginning and losses at the end of the period

Scenario B

Retires in a market with more losses in the beginning and more up years at the end of the period

Fixed and fixed indexed annuities issued by

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Scenario A: Art retires in an up market

Age	Return	Distribution	Acct Value (EOY)
65	0.00%	$50,000	$950,000
66	26.89%	$51,500	$1,153,955
67	16.26%	$53,045	$1,288,543
68	28.88%	$54,636	$1,606,038
69	-6.24%	$56,275	$1,449,546
70	19.42%	$57,964	$1,673,084
71	9.54%	$59,703	$1,772,993
72	-0.73%	$61,494	$1,698,557
73	11.39%	$63,339	$1,828,684
74	29.60%	$65,239	$2,304,736
75	13.41%	$67,196	$2,546,605
76	0.00%	$69,212	$2,477,393
77	12.78%	$71,288	$2,722,716
78	23.45%	$73,427	$3,287,766
79	-38.49%	$75,629	$1,946,676
80	3.53%	$77,898	$1,937,495
81	13.62%	$80,235	$2,121,146
82	3.00%	$82,642	$2,102,138
83	8.99%	$85,122	$2,205,999
84	26.38%	$87,675	$2,700,266
85	-23.37%	$90,306	$1,978,909
86	-13.04%	$93,015	$1,627,844
87	-10.14%	$95,805	$1,366,976

Scenario B: Art retires in a down market

Age	Return	Distribution	Acct Value (EOY)
65	0.00%	$50,000	$950,000
66	-10.14%	$51,500	$802,170
67	-13.04%	$53,045	$644,533
68	-23.37%	$54,636	$439,261
69	26.38%	$56,275	$498,862
70	8.99%	$57,964	$485,746
71	3.00%	$59,703	$440,616
72	13.62%	$61,494	$439,135
73	3.53%	$63,339	$391,297
74	-38.49%	$65,239	$175,448
75	23.45%	$67,196	$149,395
76	12.78%	$69,212	$99,276
77	0.00%	$71,288	$27,988
78	13.41%	$31,741	$0
79	29.60%	$0	$0
80	11.39%	$0	$0
81	-0.73%	$0	$0
82	9.54%	$0	$0
83	19.42%	$0	$0
84	-6.24%	$0	$0
85	28.88%	$0	$0
86	16.26%	$0	$0
87	26.89%	$0	$0

Hypothetical example for illustrative purposes only, and is not the story of an actual client. Does not represent the actual results of any particular financial product.

In both scenarios, Art begins collecting income payments, known as distributions, at the same age and the same amount. The only difference is what the market is doing – and those first few years really matter.

- Scenario A, Art starts withdrawals when there are 3 years of positive returns which results in $1.36 million in account value at age 87.
- Scenario B, those first 3 years are negative which results in Art running out of income at age 78.

Concerned About Outliving Your Money?

Talk to a National Life Group Agent to learn how our fixed and fixed indexed annuities help to eliminate the negative market returns, mitigate the Sequence of Returns risk, and can provide an income you can't outlive.

1 Investopedia, Post-Retirement Risk, 11/2023