

Rethinking Retirement

Timing Risk

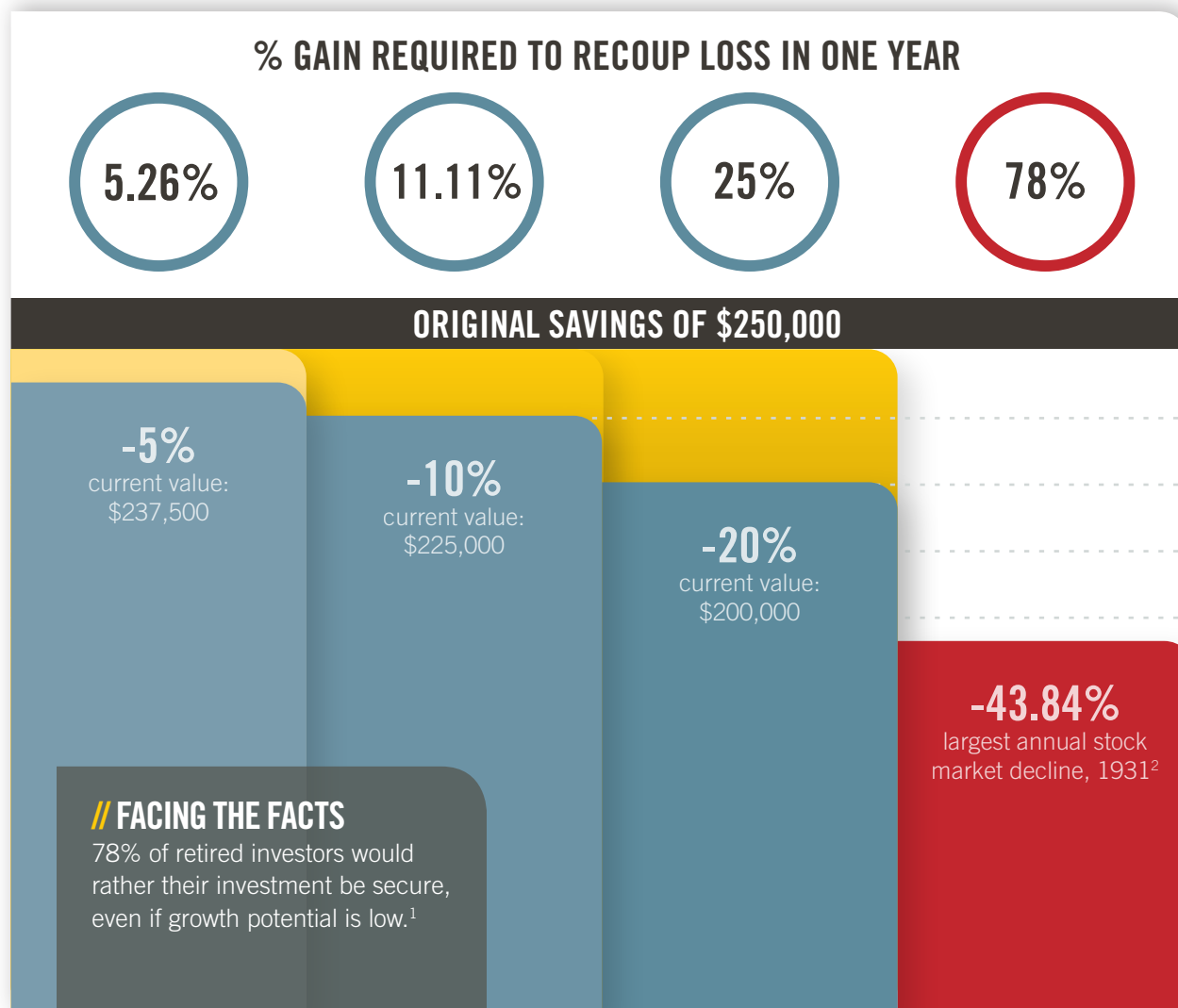


LOSS OVERPOWERS GAIN

Losing money in your portfolio can make achieving gains even more difficult

An important lesson to realize is that loss overpowers gain. In order to “make up” for a loss, a higher return is necessary to make up for the lost funds. Simply put, after a loss, you have less assets to work with, so the remaining assets have to work harder to compensate.

Although this can be a minor setback if you are in your early savings years, the closer the losses are to your target retirement age—or if losses occur during retirement—the more impactful the losses can be to your standard of living.



1. Gallup, *Investors Risk-Averse When It Comes to Retirement Savings* <http://bit.ly/1LjcPdr> (Feb. 2015)

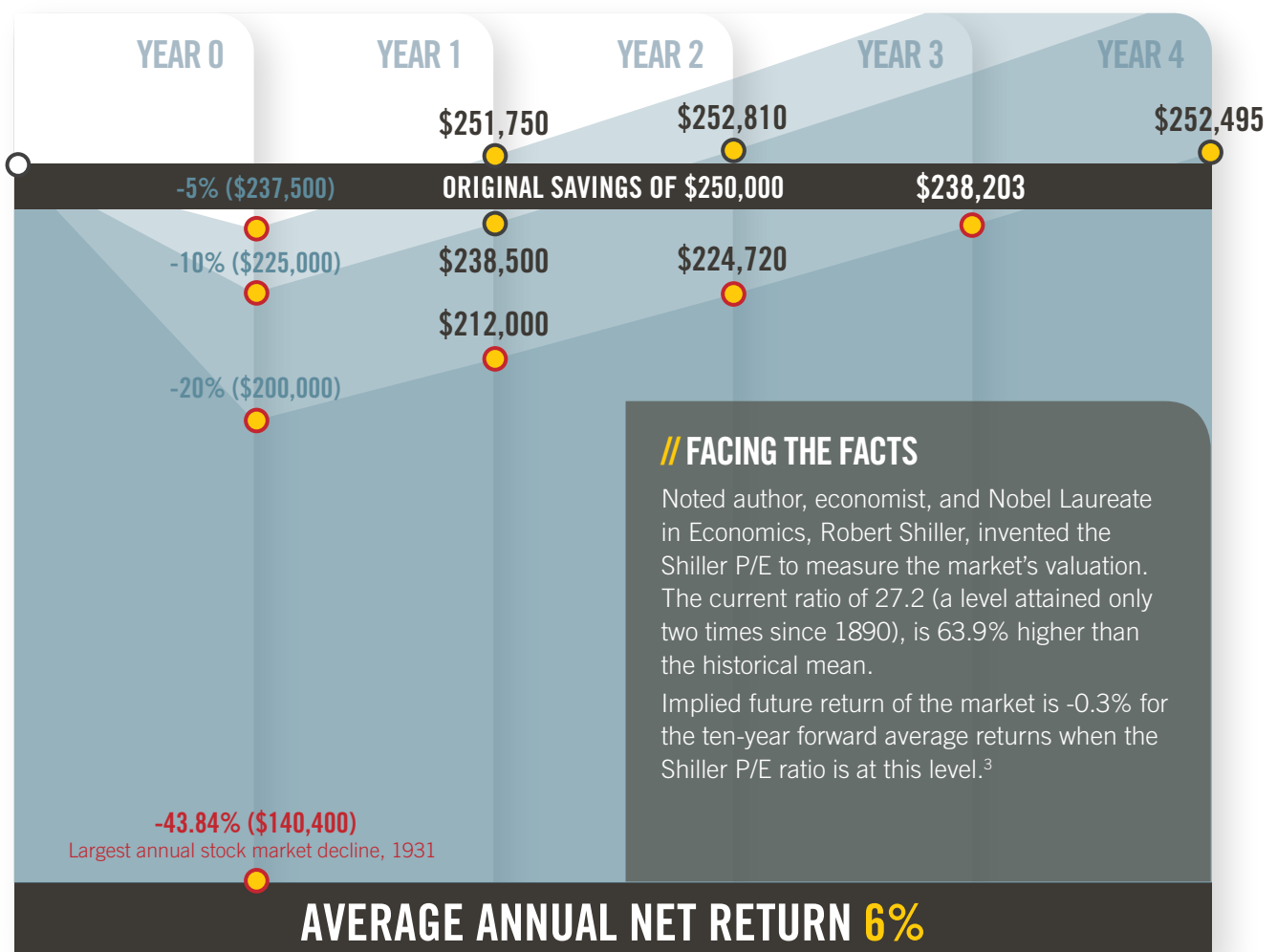
2. Stock market decline is based on the S&P 500® Index. NYU Stern School of Business, *Annual Returns on Stock, T. Bonds and T. Bills: 1928 - Current* <http://bit.ly/1rr5h3v> (Feb. 2015)

TIME MAY NOT BE ON YOUR SIDE

It can take years to overcome one bad day in the market

One asset that we can never make up is time. A significant market correction as you approach or begin your retirement can dramatically impact your nest egg and your retirement income. When you are younger, there is time to make up for losses.

If retirement is coming in a few years, or if you are only a few years into your retirement, any loss can have a very real impact on your comfort in retirement and the longevity of your savings.



HATFIELDS AND MCCOYS

The luck of the draw

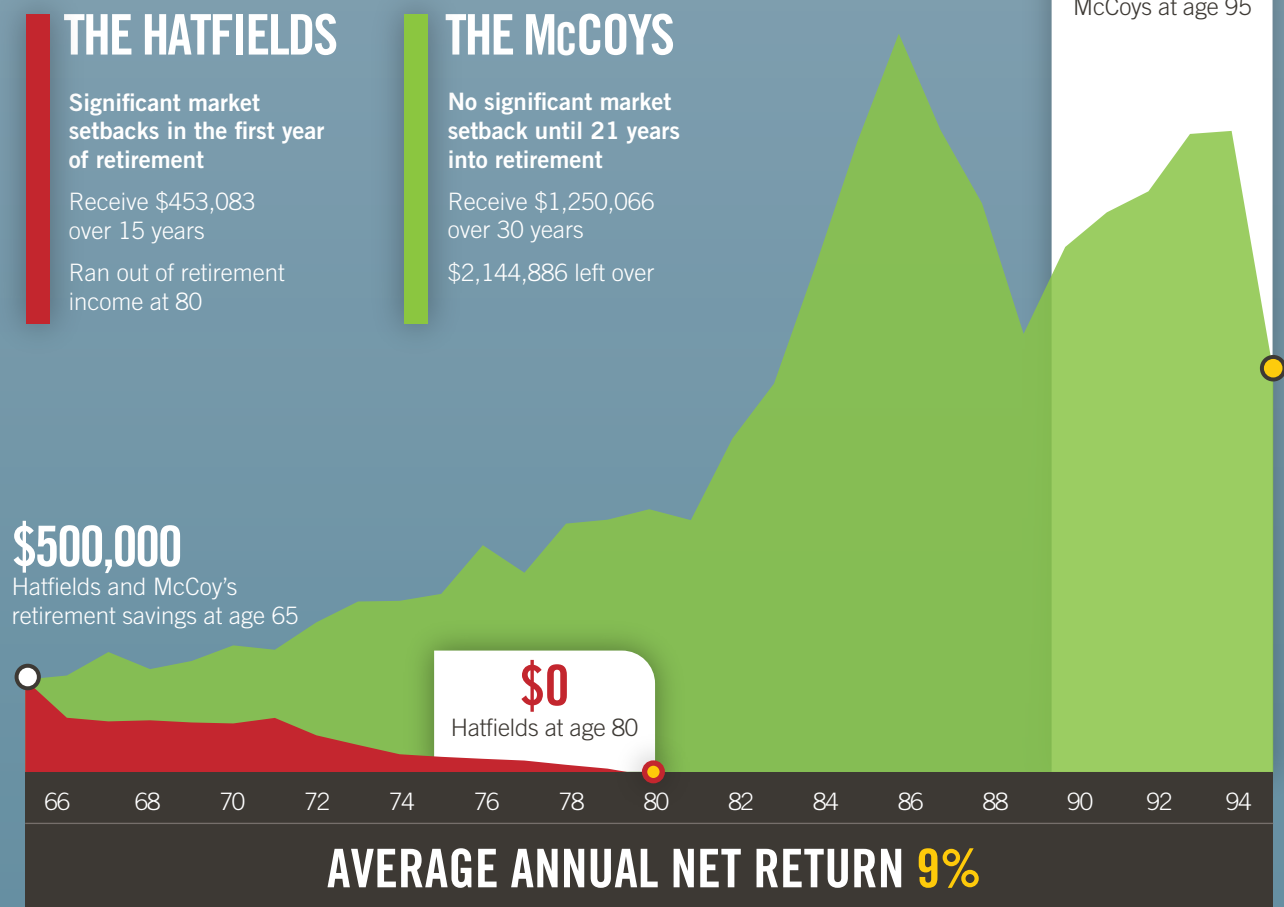
By retirement at age 65, both the Hatfields and McCoys have worked hard enough to put away \$500,000 for their future. As they settle into their new life after work, they leave their retirement funds in the stock market.

Both couples are prudent. Factoring for inflation using a 3% rise in their annual income to accommodate it, they take only 5% of their stock market portfolio out every year.

The chart below represents hypothetical market returns over a period of 30 years. The annual market returns are identical, but occur in the opposite order, resulting in significantly different experiences for the Hatfields and McCoys. Although the market returns an average 9% net rate over both 30-year periods, the Hatfield's early negative returns had a profound effect on their retirement nest egg.

// SEQUENCE OF RETURNS MATTERS

The order in which you experience losses and gains can be more important than the losses and gains themselves.



This is a hypothetical example used for illustrative purposes only, assuming an initial premium of \$500,000. Chart assumes a 5% rate of withdrawal beginning in year 1, with a 3% annual increase of the net withdrawal amount to account for inflation. Actual S&P 500® historical data from 01/02/1979 to 01/02/2009 has been used in this graph. The hypothetical illustration does not consider the impact of taxes, which would reduce all values. Time period selected because of the extreme volatility during the 2000's, to better illustrate the impact of significant losses early in retirement. Using the current time period would demonstrate less dramatic results. Returns are based upon the Standard & Poor's 500 Index (S&P 500 Index) historical data from 1979-2009. S&P 500 Index returns for the Hatfields are in reverse chronological order. The S&P 500 Index is an unmanaged group of large company stocks. It is not possible to invest directly in an index. Past performance does not guarantee future results.

The chart below demonstrates how, in spite of an average 9% net rate of return for the period, the Hatfield's early negative returns profoundly impacted their retirement nest egg.

THE HATFIELDS (EARLY LOSS)				THE MCCOYS (EARLY GAIN)		
Hypothetical Net Return	Withdrawal	Balance	Age	Hypothetical Net Return	Withdrawal	Balance
		500,000	65			500,000
-35.61%	25,000	296,941	66	9.34%	25,000	521,676
2.16%	25,750	277,597	67	28.91%	25,750	646,767
11.65%	26,523	283,411	68	-9.98%	26,523	555,729
5.55%	27,318	271,823	69	12.71%	27,318	599,042
8.44%	28,138	266,638	70	18.58%	28,138	682,191
21.94%	28,982	296,159	71	0.81%	28,982	658,741
-21.27%	29,851	203,304	72	26.74%	29,851	805,037
-10.02%	30,747	152,184	73	17.59%	30,747	915,869
-11.82%	31,669	102,532	74	3.85%	31,669	919,467
18.49%	32,619	88,875	75	7.57%	32,619	956,435
25.95%	33,598	78,343	76	30.65%	33,598	1,215,976
32.30%	34,606	69,040	77	-9.24%	34,606	1,068,998
18.73%	35,644	46,329	78	27.82%	35,644	1,330,722
35.20%	36,713	25,925	79	4.34%	36,713	1,351,796
-1.36%	25,925	0	80	6.90%	37,815	1,407,314
6.90%			81	-1.36%	38,949	1,349,225
4.34%			82	35.20%	40,118	1,784,074
27.82%			83	18.73%	41,321	2,076,959
-9.24%			84	32.30%	42,561	2,705,188
30.65%			85	25.95%	43,838	3,363,450
7.57%			86	18.49%	45,153	3,940,320
3.85%			87	-11.82%	46,507	3,428,222
17.59%			88	-10.02%	47,903	3,036,768
26.74%			89	-21.27%	49,340	2,341,398
0.81%			90	21.94%	50,820	2,804,303
18.58%			91	8.44%	52,344	2,988,754
12.71%			92	5.55%	53,915	3,100,726
-9.98%			93	11.65%	55,532	3,406,392
28.91%			94	2.16%	57,198	3,422,679
9.34%			95	-35.61%	58,914	2,144,887

// FACING THE FACTS

Since 1900, the stock market has declined 26 times by 15% or more. The greatest decline was the 1929 market crash, with a total loss of 89% of the previous market value.⁴ Depending on when you start your retirement, returns could have a significant negative impact on your savings.

AVERAGE ANNUAL NET RETURN 9%

This is a hypothetical example used for illustrative purposes only, assuming an initial premium of \$500,000. The hypothetical illustration does not consider the impact of taxes, which would reduce all values. Table assumes a 5% rate of withdrawal beginning in year 1, with a 3% annual increase of the net withdrawal amount to account for inflation. Actual S&P 500® historical data from 01/02/1979 to 01/02/2009 has been used in this graph. Circled years in this table indicate years of negative returns. 4. Chart of the Day, Stock Market Corrections (Dow since 1900) <http://bit.ly/1FXTArB> (Feb. 2015)

YOU MAY LIVE LONGER THAN YOU THINK

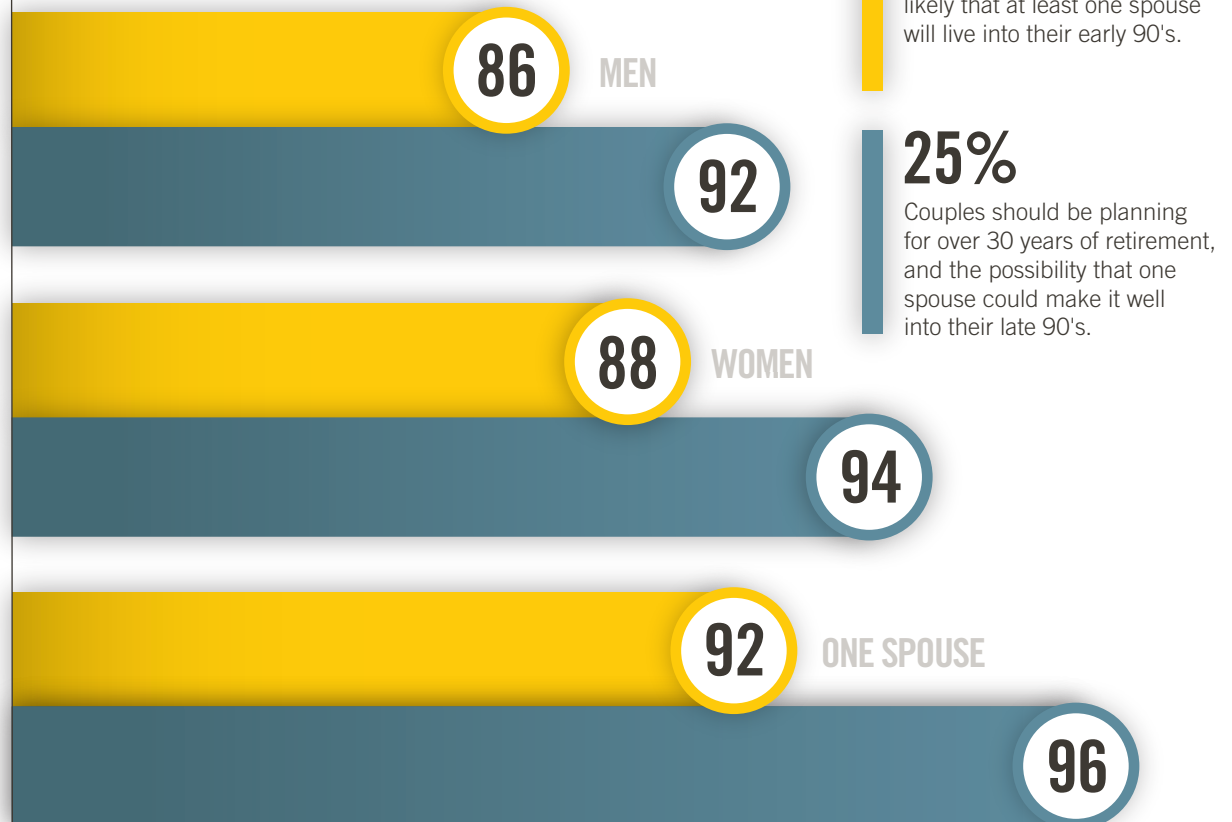
Your retirement savings must last as long as you

Most Americans retire around the age of 63. By age 65, 68% of Americans have joined the Hatfields and McCoys in retirement. For married couples, there is a 50% chance that one spouse will live to 92, and a 25% chance that a spouse will make it to age 96.⁵

As seen in the prior hypothetical illustration, the Hatfields' early, large market downturns meant they ran out of money at age 80. Further complicating the situation, there is a 50% chance that one of them will live into their early 90's, and long outlive their savings.

Retirement Age

65



PLANNING AND PROTECTING YOUR RETIREMENT

As you approach retirement, it's important to keep the sequence of returns in mind. A sequence of returns that begins with early losses could require you to cut back on your retirement lifestyle, or remain in the workforce longer than you had planned.

Market performance in the years leading up to your retirement can have a profound effect on your retirement savings. Significant gains early in retirement could increase your retirement income over the long term. However, large market downturns could reduce your retirement income. You may feel the need to delay your retirement to allow for time to rebuild your assets.

Market performance can have an even greater impact after you retire and begin to take withdrawals. Your average rate of return may not be as important as when—and how big—any market downturns you experience are. You could end up depleting your savings if your withdrawals are greater than your gains for a year.

As you enter into the years leading to retirement, sequence of returns risk is magnified, as you will have less recovery time in the event of a market downturn. As part of a long-term retirement strategy, it may be worth considering moving savings into solutions that protect from market downturns while still taking advantage of positive markets. Always be sure to discuss your retirement plans with your financial professional to help align your goals with your retirement needs.

