# PREMIER
BROKERAGE SERVICES, INC.

## The Sequence of Returns Can Make or Break a Retirement

Your clients have invested over the years and may be ready to retire and withdraw income from their retirement nest eggs. How long will their money last? There are a number of variables at play, but one you should know is the sequence of returns. If clients start taking income withdrawals from portfolios in a down market, and continue that course without making adjustments, their money may not last as long as they need it to.

**Early Negative Returns vs. Early Positive Returns Hypothetical Example**

Jim, age 65, has $500,000 in savings invested in an index fund that mirrors the performance of the S&P 500.® He begins to withdraw 5% each year for income. Compare the difference in his portfolio balance in the graph below. In each scenario, the average annual rate of return is 4.95 percent. But starting withdrawals in years with negative returns yields a very different portfolio outcome than when withdrawals begin in years with positive returns.

**Scenario A – Early Negative Returns**
Income distributions begin in a down market, based on S&P 500 returns from 2000-2017

| Scenario A – Income Distributions Begin in a Down Market | | | |
|---|---|---|---|
| Age | Return | Annual Withdrawal | Account Value |
| 65 | N/A | $25,000 | $475,000 |
| 66 | -10.1% | $25,000 | $401,835 |
| 67 | -13.0% | $25,000 | $324,436 |
| 68 | -23.4% | $25,000 | $223,615 |
| 69 | 26.4% | $25,000 | $257,605 |
| 70 | 9.0% | $25,000 | $255,763 |
| 71 | 3.0% | $25,000 | $238,436 |
| 72 | 13.6% | $25,000 | $245,911 |
| 73 | 3.5% | $25,000 | $229,592 |
| 74 | -38.5% | $25,000 | $116,199 |
| 75 | 23.5% | $25,000 | $118,448 |
| 76 | 12.8% | $25,000 | $108,585 |
| 77 | 0.0% | $25,000 | $83,585 |
| 78 | 13.4% | $25,000 | $69,794 |
| 79 | 29.6% | $25,000 | $65,453 |
| 80 | 11.4% | $25,000 | $47,908 |
| 81 | -0.7% | $25,000 | $22,559 |
| 82 | 9.5% | $24,711 | $0 |
| 83 | 19.4% | $0 | **$0** |

**Scenario B – Early Positive Returns**
Income distributions begin in an up market, based on same returns but reversed from 2017-2000

| Scenario B – Income Distributions Begin in an Up Market | | | |
|---|---|---|---|
| Age | Return | Annual Withdrawal | Account Value |
| 65 | N/A | $25,000 | $475,000 |
| 66 | 19.4% | $25,000 | $542,245 |
| 67 | 9.5% | $25,000 | $568,975 |
| 68 | -0.7% | $25,000 | $539,822 |
| 69 | 11.4% | $25,000 | $576,307 |
| 70 | 29.6% | $25,000 | $721,894 |
| 71 | 13.4% | $25,000 | $793,700 |
| 72 | 0.0% | $25,000 | $768,700 |
| 73 | 12.8% | $25,000 | $841,940 |
| 74 | 23.5% | $25,000 | $1,014,375 |
| 75 | -38.5% | $25,000 | $598,942 |
| 76 | 3.5% | $25,000 | $595,085 |
| 77 | 13.6% | $25,000 | $651,135 |
| 78 | 3.0% | $25,000 | $645,669 |
| 79 | 9.0% | $25,000 | $678,715 |
| 80 | 26.4% | $25,000 | $832,760 |
| 81 | -23.4% | $25,000 | $613,144 |
| 82 | -13.0% | $25,000 | $508,190 |
| 83 | -10.1% | $25,000 | **$431,660** |

At age 83, Jim has $0 left in account value (scenario A), when withdrawals began in a negative market. In scenario B, Jim has $431,660 in account value after 18 years. More portfolio account value is preserved when withdrawals begin in years with positive returns. See the detailed annual account value charts on the reverse.

You can't predict what the market will do when it's time to start taking withdrawals for income. But, there are ways to help mitigate sequence of returns risk, such as allocating assets to different types of accounts and securing future guaranteed income from insurance products.