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Sequence of returns

The importance of when your ups and downs occur

It's not just how much your investments go up or down, it's also when the ups and downs occur.

What is sequence of returns risk?

Sequence of returns is the order of your investment returns. It can become a risk when you reach retirement and begin making withdrawals. If you received strong returns during your early working years, you may not have any problems. But poor returns and withdrawals early in retirement can do lasting damage to your portfolio.

To illustrate how sequence of returns risk works, let's look at a hypothetical example involving two couples who are just entering retirement. We'll reverse the rate of return sequence for each couple's investment, and illustrate the impact.

Example: How sequence of returns affects two different couples

Both couples begin with a portfolio balance of $500,000 and over 30 years make 5 percent annual withdrawals ($25,000, plus annual increases to account for inflation). Both couples expect the same average annual net return of 6 percent.

Poor returns early, strong returns later

However, Dave and Joan experience poor early returns and strong returns later on, which results in a depleted investment portfolio by year 13, at their mutual age of 78.

Strong returns early, poor returns later

On the other hand, Jeff and Wendy experience positive returns in the early years, and negative returns later, still leaving them with a comfortable portfolio at their mutual age of 78.

Dave and Joan

Sequence of returns: Poor, then strong

Jeff and Wendy

Sequence of returns: Strong, then poor

Dave and Joan: Hypothetical net return	Withdrawal	Balance	Age	Jeff and Wendy: Hypothetical net return	Withdrawal	Balance
		$500,000	**65**			$500,000
-27.1%	$25,000	346,275	**66**	26.7%	$25,000	601,825
-16.5%	25,750	267,638	**67**	10.1%	25,750	634,259
-1.9%	26,523	236,535	**68**	4.3%	26,523	633,869
3.1%	27,318	215,702	**69**	8.9%	27,318	660,534
10.9%	28,138	208,009	**70**	17.6%	28,138	743,697
-9.4%	28,982	162,199	**71**	22.5%	28,982	875,527
7.4%	29,851	142,141	**72**	-3.7%	29,851	814,385
8.1%	30,747	120,417	**73**	18.1%	30,747	925,477
15.4%	31,669	102,415	**74**	-6.1%	31,669	839,286
9.4%	32,619	76,356	**75**	9.2%	32,619	880,880
6.2%	33,598	45,410	**76**	7.6%	33,598	911,675
12.4%	34,606	12,143	**77**	9.6%	34,606	961,268
2.8%	**12,143**	**-**	**78**	22.4%	35,644	1,132,964
11.4%	-	-	**79**	-11.0%	36,713	975,663
9.0%	-	-	**80**	24.3%	37,815	1,165,745
24.3%	-	-	**81**	9.0%	38,949	1,228,207
-11.0%	-	-	**82**	11.4%	40,118	1,323,532
22.4%	-	-	**83**	2.8%	41,321	1,318,113
9.6%	-	-	**84**	12.4%	42,561	1,433,720
7.6%	-	-	**85**	6.2%	43,838	1,476,055
9.2%	-	-	**86**	9.4%	45,153	1,565,407
-6.1%	-	-	**87**	15.4%	46,507	1,752,811
18.1%	-	-	**88**	8.1%	47,903	1,843,006
-3.7%	-	-	**89**	7.4%	49,340	1,926,397
22.5%	-	-	**90**	-9.4%	50,820	1,699,273
17.6%	-	-	**91**	10.9%	52,344	1,826,444
8.9%	-	-	**92**	3.1%	53,915	1,827,478
4.3%	-	-	**93**	-1.9%	55,532	1,738,278
10.1%	-	-	**94**	-16.5%	57,198	1,403,702
26.7%	-	-	**95**	**-27.1%**	**58,914**	**980,350**

This is a hypothetical example for illustrative purposes only. Your particular circumstances may be different than those shown. You should ask your financial professional to run a personalized illustration for you. The returns shown above are purely hypothetical, and are assumed to be net of all fees and expenses. The balances are end-of-year and reflect an assumed annual withdrawal of $25,000 (increasing 3 percent annually for inflation) taken at the beginning of the year.

Reducing sequence of returns risk

Although retreating from the markets would reduce your exposure to sequence of returns risk, it may also lower the growth potential of your portfolio – and lessen its ability to provide you with adequate long-term income.

To counteract the risk of poor returns early in your retirement, consider using a portion of your retirement income to purchase a product or products that include principal guarantees, which may be purchased for an additional cost and may be subject to limitations.

That way a portion of your assets are protected against declines in periods of poor returns. And you'll still have the ability to benefit from potential market gains over the long term.

Learn more

Consult a financial professional if you have investment-related questions or want to find out more about sequence of return.

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

Life insurance products contain fees, such as mortality and expense charges (which may increase over time), and may contain restrictions, such as surrender periods.

Depending upon actual policy experience, the owner may need to increase premium payments to keep the policy in force.

Insurance policy guarantees are subject to the financial strength and claims-paying ability of the issuing insurance company.

Policy loans and withdrawals may create an adverse tax result in the event of lapse or policy surrender, and will reduce both the surrender value and death benefit. Withdrawals may be subject to taxation within the first 15 years of the contract. You should consult your tax advisor when considering taking a policy loan or withdrawal.

Other than contribution limits or tax treatment, several other factors should be considered before purchasing any of these products. These include investment objectives, costs and expenses, liquidity, safety, fluctuation of principal or return, credit rates, rider availability, surrender periods and other product/investment characteristics.

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