



FINANCIAL
& INSURANCE SOLUTIONS

Rethinking Retirement

Timing Risk



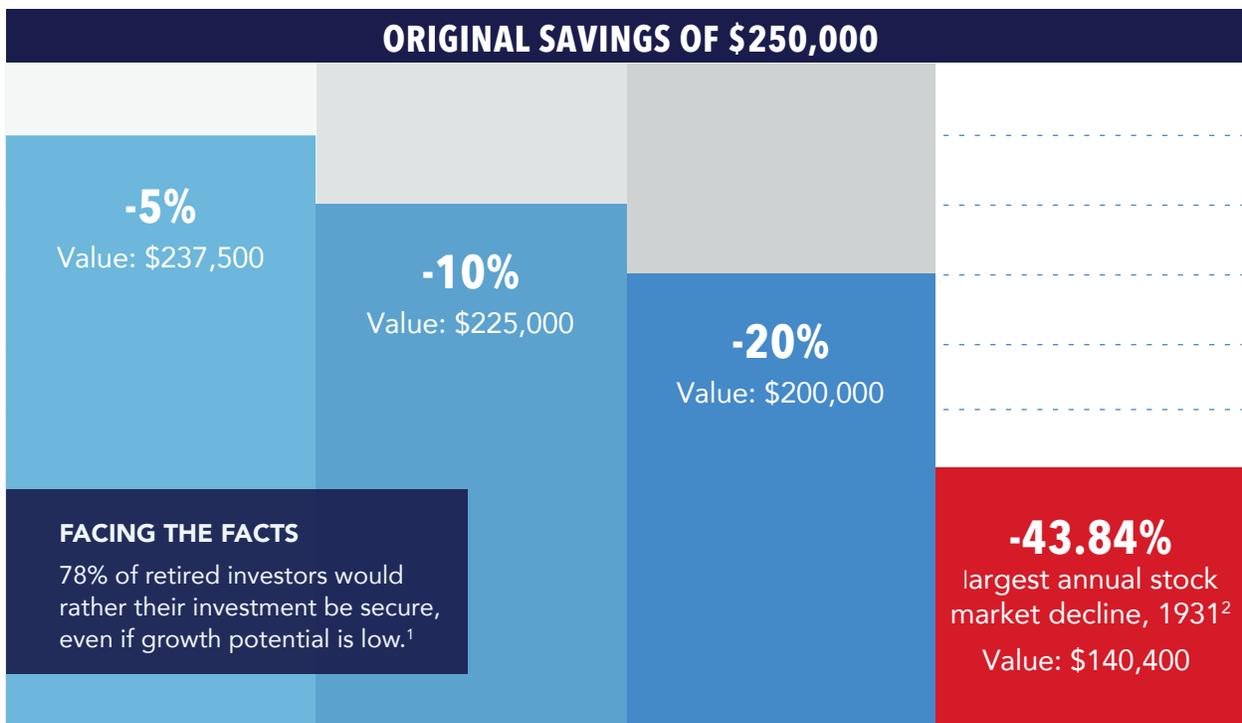
LOSS OVERPOWERS GAIN

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

An important lesson to realize is that losses can overpower gains. In order to “make up” for a loss, a higher percentage 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.

// % GAIN REQUIRED TO RECOUP LOSS IN ONE YEAR



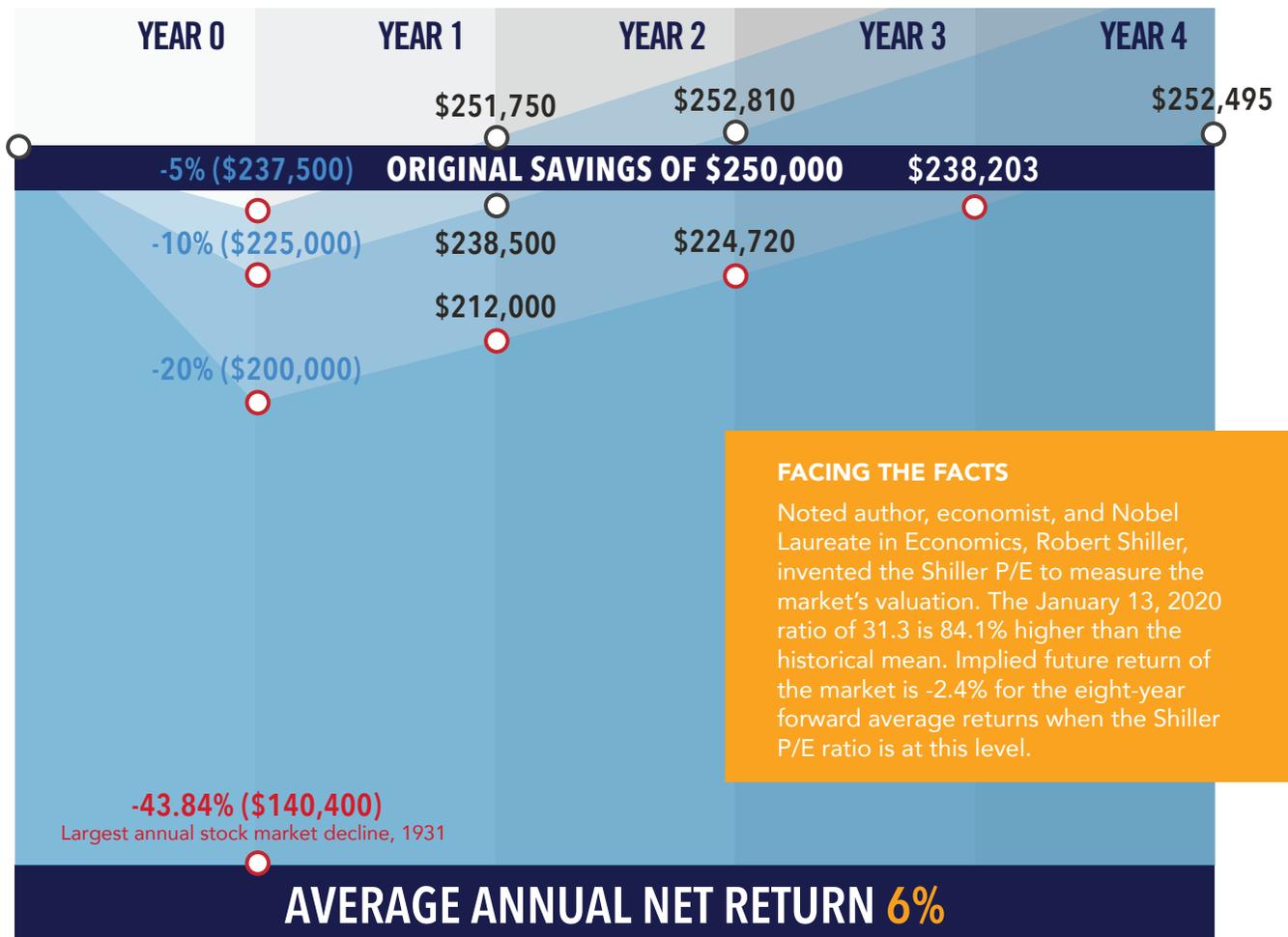
1. Gallup, Investors Risk-Averse When It Comes to Retirement Savings <https://news.gallup.com/poll/168197/investors-risk-averse-comes-retirement-savings.aspx> (Jan. 2020)
 2. Stock market decline is based on the S&P 500® Index. NYU Stern School of Business, Annual Returns on Stock, T. Bonds and T. Bills: 1928 - Current http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html (Jan. 2020)
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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.



FACING THE FACTS

Noted author, economist, and Nobel Laureate in Economics, Robert Shiller, invented the Shiller P/E to measure the market's valuation. The January 13, 2020 ratio of 31.3 is 84.1% higher than the historical mean. Implied future return of the market is -2.4% for the eight-year forward average returns when the Shiller P/E ratio is at this level.

HATFIELDS AND McCOYS

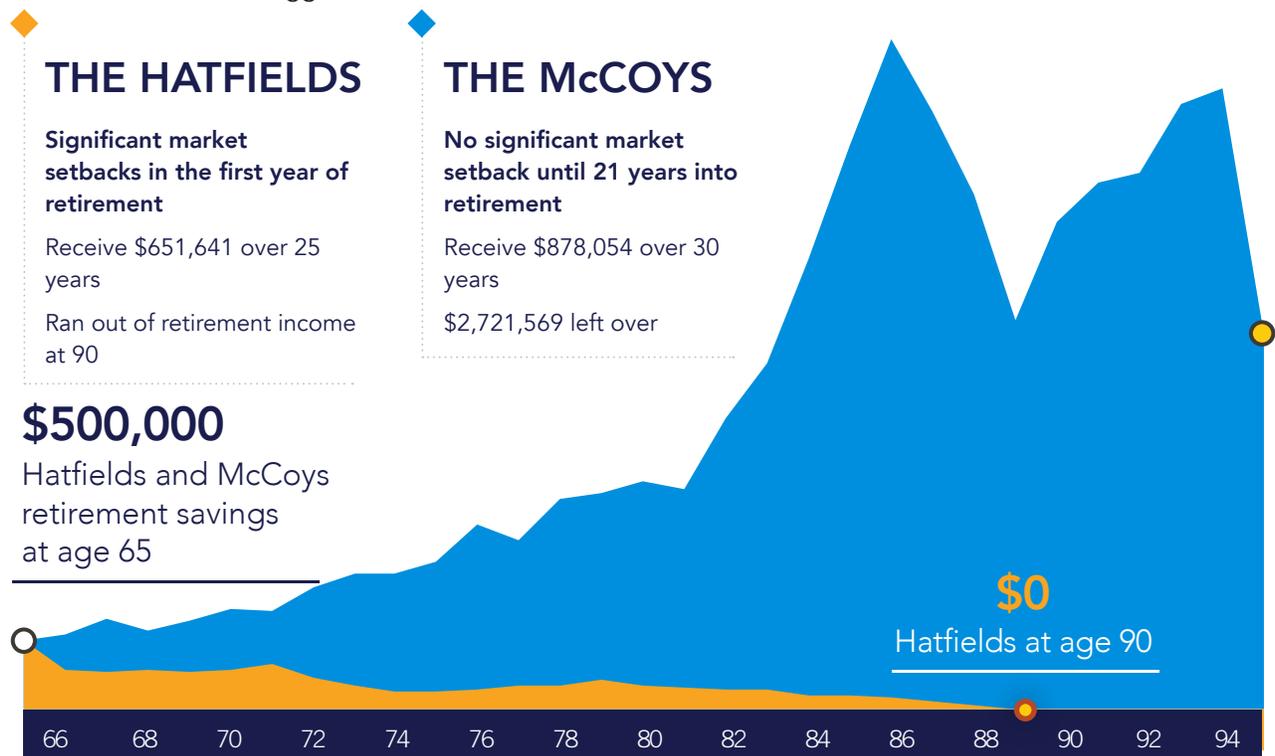
The luck of the draw

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 2.5% rise in their annual income to accommodate it, they take only 4% of their stock market portfolio out every year.

The chart below represents hypothetical market returns over a period of 30 years. For this example the McCoys experience S&P 500® returns from 1978 to 2008, while the Hatfields experience these same returns – in the opposite chronological order. Both families experience a 9% average annual return over these 30 year periods, but the Hatfields’ 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.

\$2,721,569
McCoys at age 95



THE HATFIELDS

Significant market setbacks in the first year of retirement

Receive \$651,641 over 25 years

Ran out of retirement income at 90

THE McCOYS

No significant market setback until 21 years into retirement

Receive \$878,054 over 30 years

\$2,721,569 left over

\$500,000

Hatfields and McCoys retirement savings at age 65

AVERAGE ANNUAL NET RETURN 9%

This is a hypothetical example used for illustrative purposes only, assuming an initial portfolio value of \$500,000. Chart assumes a 4% rate of withdrawal beginning in year 1, with a 2.5% annual increase of the net withdrawal amount to account for inflation. This is based off of Social Security Cost of Living Adjustments’ average increase from 1990 to 2018. Cost-of-Living Adjustment (COLA) Information, <https://www.ssa.gov/cola/>. Actual S&P 500® historical data from 12/29/1978 to 12/31/2008 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 2000s, 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 1978 to 2008. 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 Hatfields' 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
-38.49%	20,000	287,550	66	12.31%	20,000	541,550
3.53%	20,500	277,201	67	25.77%	20,500	660,607
13.62%	21,013	293,943	68	-9.73%	21,013	575,318
3.00%	21,538	281,223	69	14.76%	21,538	638,697
8.99%	22,076	284,429	70	17.27%	22,076	726,924
26.38%	22,628	336,833	71	1.40%	22,628	714,472
-23.37%	23,194	234,921	72	26.33%	23,194	879,399
-13.04%	23,774	180,514	73	14.62%	23,774	984,194
-10.14%	24,368	137,842	74	2.03%	24,368	979,805
19.53%	24,977	139,785	75	12.40%	24,977	1,076,323
26.67%	25,602	151,464	76	27.25%	25,602	1,344,019
31.01%	26,242	172,191	77	-6.56%	26,242	1,229,610
20.26%	26,898	180,179	78	26.31%	26,898	1,526,223
34.11%	27,570	214,068	79	4.46%	27,570	1,566,722
-1.54%	28,259	182,512	80	7.06%	28,259	1,649,073
7.06%	28,966	166,431	81	-1.54%	28,966	1,594,711
4.46%	29,690	144,164	82	34.11%	29,690	2,108,977
26.31%	30,432	151,661	83	20.26%	30,432	2,505,824
-6.56%	31,193	110,519	84	31.01%	31,193	3,251,687
27.25%	31,973	108,663	85	26.67%	31,973	4,086,938
12.40%	32,772	89,365	86	19.53%	32,772	4,852,345
2.03%	33,592	57,587	87	-10.14%	33,592	4,326,726
14.62%	34,431	31,575	88	-13.04%	34,431	3,728,089
26.33%	35,292	4,596	89	-23.37%	35,292	2,821,543
1.40%	4,661	0	90	26.38%	36,175	3,529,691
17.27%			91	8.99%	37,079	3,809,931
14.76%			92	3.00%	38,006	3,886,224
-9.73%			93	13.62%	38,956	4,376,571
25.77%			94	3.53%	39,930	4,491,134
12.31%			95	-38.49%	40,928	2,721,569

AVERAGE ANNUAL NET RETURN 9%

FACING THE FACTS

The largest annual stock market decline was in 1931, when the S&P 500® fell by 43.84%.³

Depending on when you start your retirement, market returns could have a significant negative impact on your savings.

This is a hypothetical example used for illustrative purposes only, assuming an initial portfolio value of \$500,000 invested fully in the S&P 500®. The hypothetical illustration does not consider the impact of taxes, which would reduce all values.

Table assumes a 4% rate of withdrawal beginning in year 1, with a 2.5% annual increase of the net withdrawal amount to account for inflation.

This is based off of Social Security Cost of Living Adjustments' average increase from 1990 to 2018. Cost-of-Living Adjustment (COLA)

Information, <https://www.ssa.gov/cola/>. Actual S&P 500® historical data from 12/29/1978 to 12/31/2008 has been used in this graph. These returns were modeled using quotes from ticker symbol (^GSPC). All data used was from Yahoo! Finance. 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.

Circled years in this table indicate years of negative returns.

3. 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> (Jan. 2020)

YOU MAY LIVE LONGER THAN YOU THINK

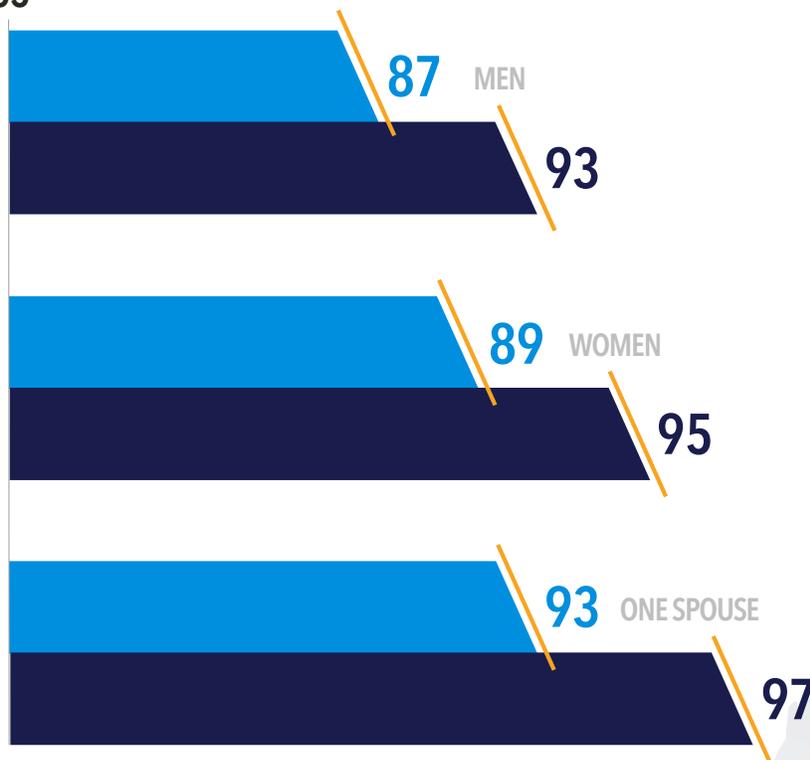
Your retirement savings must last as long as you

By age 65, many of Americans have joined the Hatfields and McCoys in retirement. For married couples, there is a 50% chance that one spouse will live to 93, and a 25% chance that a spouse will make it to age 97.⁴

As seen in the prior hypothetical illustration, the Hatfields' early, large market downturns meant they ran out of money at age 89. Further complicating the situation, there is a 50% chance that one of them will live into their early 90s, and long outlive their savings.

Retirement Age

65



50%

At the retirement age of 65, it is likely that at least one spouse will live into their early 90s.

25%

Couples should be planning for over 30 years of retirement, and the possibility that one spouse could make it well into their late 90s.

4. Society of Actuaries Mortality Improvement Scale, MP-2017 <https://www.soa.org/experience-studies/2017/mortality-improvement-scale-mp-2017/> (Jun. 2018)

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.



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- Not FDIC insured • May lose value • No bank or credit union guarantee
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