Sequence of returns

When you retire matters

A sequence of returns is the order that a series of gains or losses occur over time. If you aren't taking withdrawals, then the order is less important. But if you're in the income phase, the sequence of returns can have a significant impact on your hard-earned dollars.

Accumulation phase

Two portfolios start at $250,000. Both have the same annualized return of 5.37%.

Although their sequence of returns is reversed, with one seeing early negative returns and the other having early positive returns, both end up with the same value.

Early Positive Returns

Year End	Return	Value
1	31.49%	$328,725
2	-4.38%	$314,327
3	21.83%	$382,944
4	11.96%	$428,745
5	7.97%	$462,915
6	13.69%	$526,289
7	32.39%	$696,753
8	16.00%	$808,234
9	2.11%	$825,288
10	15.06%	$949,576
11	21.83%	$1,156,869
12	-37.00%	$728,827
13	5.49%	$768,840
14	15.79%	$890,240
15	7.38%	$955,939
16	-7.24%	$886,729
17	28.68%	$1,141,043
18	-22.10%	$888,873
19	-11.89%	$783,186
20	-9.10%	$711,916

Early Negative Returns

Year End	Return	Value
1	-9.10%	$227,250
2	-11.89%	$200,229
3	-22.10%	$155,979
4	28.68%	$200,713
5	-7.24%	$186,182
6	7.38%	$199,922
7	15.79%	$231,490
8	5.49%	$244,199
9	-37.00%	$153,845
10	21.83%	$187,429
11	15.06%	$215,656
12	2.11%	$220,207
13	16.00%	$255,440
14	32.39%	$338,177
15	13.69%	$384,473
16	7.97%	$415,116
17	11.96%	$464,764
18	21.83%	$566,222
19	-4.38%	$541,422
20	31.49%	$711,915

Income phase

Two portfolios start with $250,000. Both have the same annualized returns of 5.37%, but taking $12,500 in annual withdrawals, increasing 2% annually for inflation.

Although the annualized returns are the same, in the case of withdrawals, the reversed sequence of returns results in a much different outcome for the two portfolios.

Early Positive Returns

Year End	Return	Value
1	31.49%	$316,225
2	-4.38%	$289,624
3	21.83%	$339,844
4	11.96%	$367,225
5	7.97%	$382,962
6	13.69%	$421,589
7	32.39%	$544,064
8	16.00%	$616,756
9	2.11%	$615,123
10	15.06%	$692,822
11	21.83%	$828,828
12	-37.00%	$506,620
13	5.49%	$518,580
14	15.79%	$584,294
15	7.38%	$610,921
16	-7.24%	$549,867
17	28.68%	$690,409
18	-22.10%	$520,326
19	-11.89%	$440,606
20	-9.10%	$382,301

Early Negative Returns

Year End	Return	Value
1	-9.10%	$214,750
2	-11.89%	$176,466
3	-22.10%	$124,462
4	28.68%	$146,893
5	-7.24%	$122,727
6	7.38%	$117,984
7	15.79%	$122,536
8	5.49%	$114,905
9	-37.00%	$57,744
10	21.83%	$55,411
11	15.06%	$48,519
12	2.11%	$34,000
13	16.00%	$23,587
14	32.39%	$15,057
15	13.69%	$625
16	7.97%	$0
17	11.96%	$0
18	21.83%	$0
19	-4.38%	$0
20	31.49%	$0

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Why sequence of returns matters

Timing: You can control when you retire; not when the market declines.

Income: Early declines may lower income and increase the risk of running out of money.

Why consider fixed index annuities

Safeguard: Principal is protected from loss due to index volatility.

Guarantee: Lifelong income payments, unaffected by downturns.

Manage: Risk of depleting retirement income, while benefitting from potential increases.

Key Considerations

- Fixed index annuities are designed for long-term retirement income needs.
- Early withdrawals may incur surrender charges.
- Withdrawals may be subject to ordinary income tax.
- Interest earning potential may be limited by crediting rates.

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