

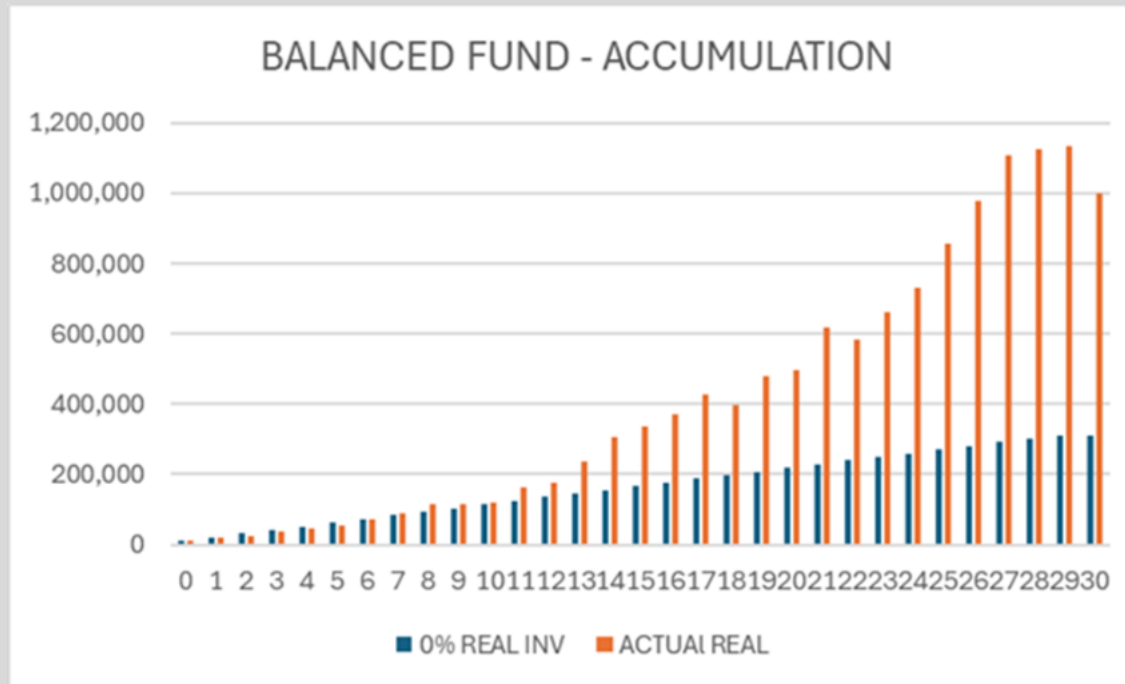


Sequencing risk relates to the timing of adverse investment events that are not detected in long term average returns. These events can have severely detrimental consequences to the sustainability of account-based pension drawdowns in retirement phase, particularly if they occur in the first decade of retirement.

These two charts are based on actual balanced fund investment returns and inflation over the thirty years commencing in December 1972.

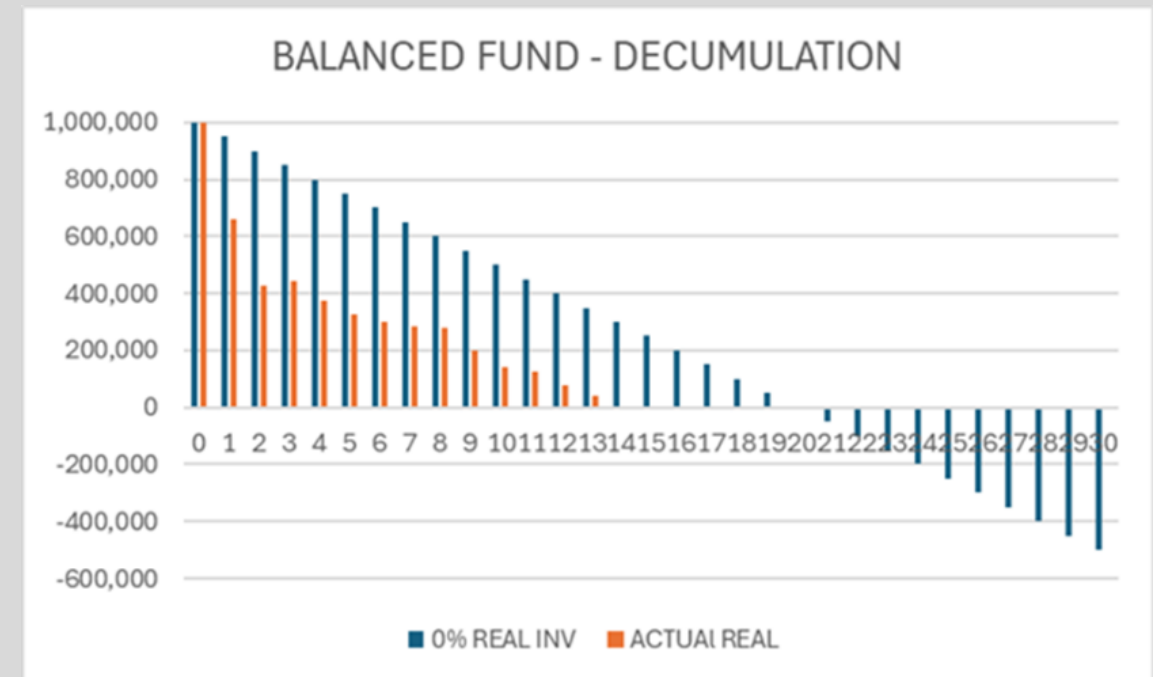


The balanced fund produces great results in accumulation, despite poor returns early in the thirty-year period.



Assumes \$10,400 contributions pa in real terms

In contrast, the same balanced fund investment returns and inflation over the thirty years commencing in December 1972 produce a poor outcome in decumulation.



Assumes annual drawdowns of 5% of initial balance, maintained in real terms for the 30 years.



The reason the fund runs out so quickly in drawdown phase, despite investment returns and volatility being consistent with the accumulation phase is the impact of sequencing risk. That is, the poor returns in the early years mean the drawdowns in that time take a larger proportion of the fund than if the returns had been positive, and the fund balance never recovers from this.

Sequencing risk is a far greater risk than longevity risk for decumulation phase in terms of frequency and magnitude.

Interested in finding out how we've solved this?

If you are a Superannuation Trustee, Superannuation Fund Executive Financial Planning Licensee Group or Financial Planner focused on retirement solutions then book an introductory call with us and we will showcase and demonstrate how this can be done.

PRIMARY CONTACTS

Ian Laughlin, Chair
Ian.Laughlin@cipheriq.com.au

Jayesh Bhana, Joint Managing Director & CEO
Jayesh.Bhana@cipheriq.com.au

Cary Helenius, Joint Managing Director & Chief Research
Officer (CRO)
Cary.Helenius@cipheriq.com.au

Prepared by CipherIQ
Cipheriq.com.au
ABN 92 691 009 122

