JACKSON®

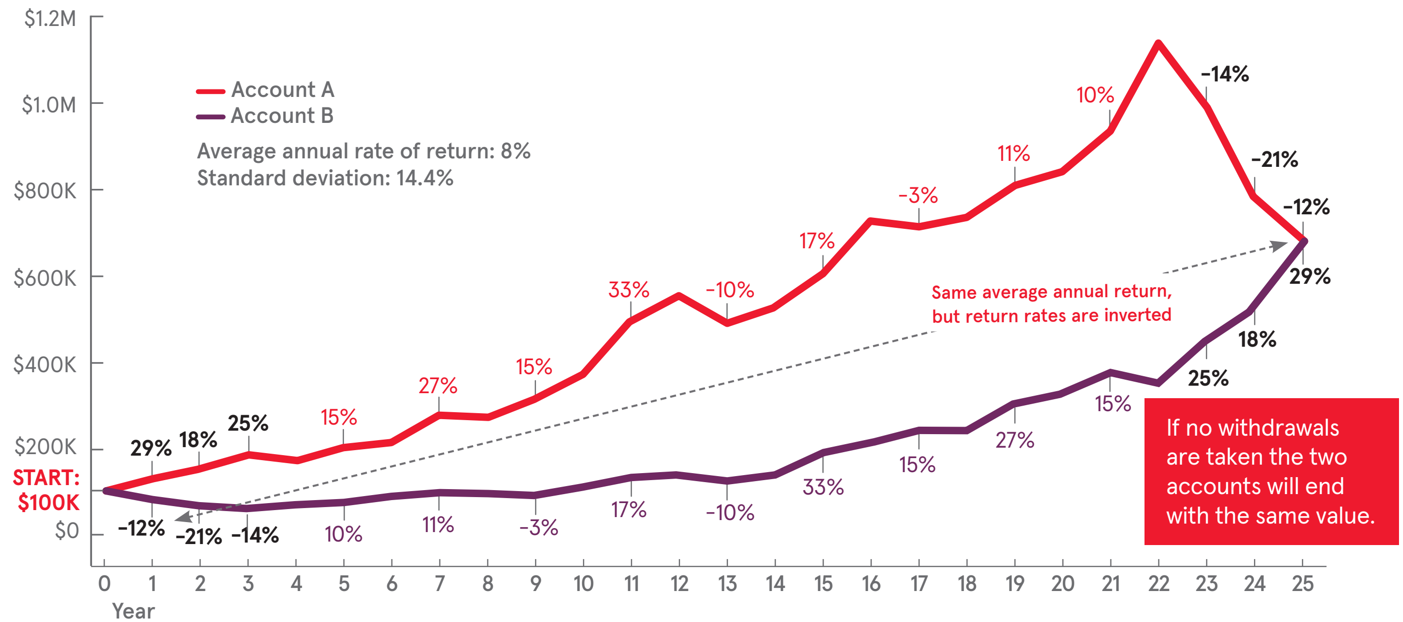
Why the sequence of returns is so important to retirees

Most investors go through a life stage during which they make periodic contributions to their investment accounts, and then another stage—retirement—when they make periodic withdrawals. During retirement the timing of investment returns can have a dramatic impact on a retiree's account.

Let's look at two hypothetical accounts representing the assets of two investors. Notice that, although the accounts take different paths, they reach the end of the accumulation phase with the same average annual total rate of return of 8% and standard deviation of 14.4%. The key difference between them is that the rates of return are inverted.

Before retirement (no withdrawals)

The long-term accumulation phase is not affected by inverting the sequence of returns.



This information provided in this chart is hypothetical. The average annual return is equal to 8.0% in both scenarios and does not reflect the performance of an actual product or account, or the taxes and other fees that, if applied, would reduce performance. Performance over time shows an inverse relationship between Account A and Account B.

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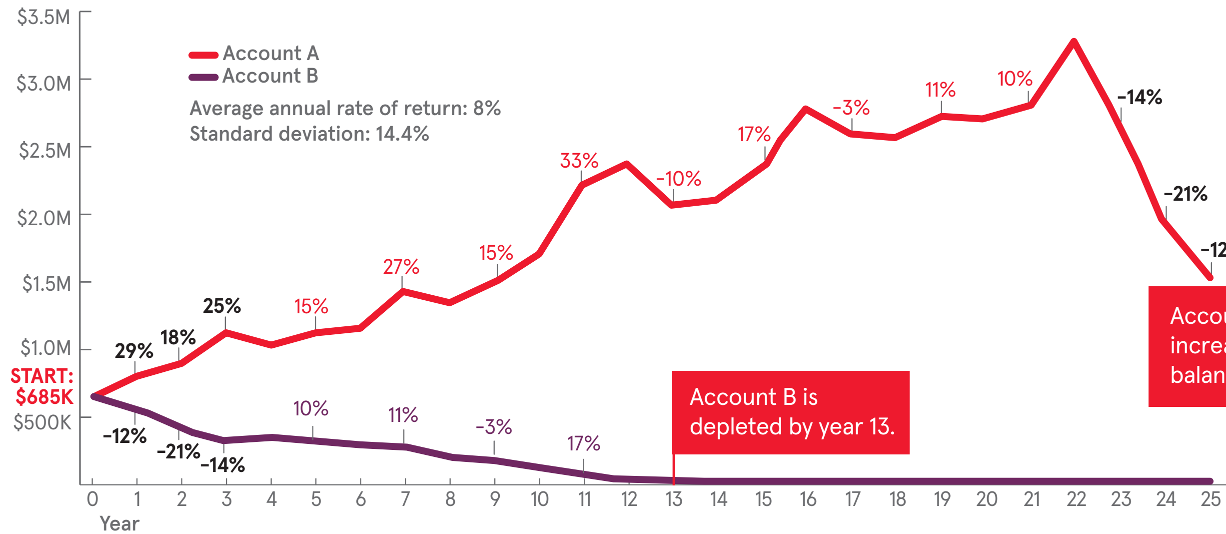
The timing of distributions makes a difference

Now let's look at two hypothetical accounts representing the investments of two retirees. Each retiree remains invested and must withdraw 5% at the end of every year. The starting point is the same for both accounts, but the end results are very different. The investor in Account A—who began the distribution phase in an up market—achieves an ending balance greater than when distributions began. But when rates of return are inverted—as in Account B—the investor taking the same 5% each year in a down market depletes the account by year 13.

During retirement (taking 5% annual withdrawals)

During the distribution phase the sequence of returns has a dramatic impact.



During the distribution phase, each hypothetical account is adjusted for the annual return indicated in the Before retirement chart, then reduced according to a 5% hypothetical withdrawal at the end of each year. Starting in year two, the withdrawal amount is increased each year by 3% for an assumed rate of inflation.

Are your investments prepared for your retirement? Work with your financial professional to find out.

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