

THE SEQUENCE OF RETURNS CAN HAVE A DRAMATIC IMPACT ON YOUR RETIREMENT

Withdrawals at the wrong time can cause a retirement portfolio to run out of money

As you can see from the chart below, the timing of retirement withdrawals can tell two very different stories. Both investors began retirement with \$500,000 and took the same 5% withdrawal adjusted for inflation. However, the **red line** investor began retirement in 2000, while the **green line** investor began retirement in 2003. All other variables being equal, the red line investor runs out of money in retirement, while the green line investor does not.



This hypothetical example is for illustrative purposes only and is not representative of the future performance of any product. Past performance is no guarantee of future results.

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The timing of distributions makes a difference

In this hypothetical scenario, Zack starts retirement with \$500,000. He takes a 5% withdrawal, which increases by 3.5% every year to keep up with inflation. Since he began taking withdrawals in a down market, his retirement account is reduced to zero when he celebrates his 78th birthday. On the other hand, Kelly starts with the same \$500,000, the same 5% withdrawal increasing by 3.5% every year for inflation, but she retires three years later than Zack, in 2003. All other factors being equal, Kelly has money throughout her retirement, while Zack runs out of money early on.

Zack \$500,000 starting value

Age	Year	Withdrawal	Rate of Return ¹	Account Value
65	2000	\$25,000	-10.14%	\$424,300.00
66	2001	\$25,875	-13.04%	\$343,096.28
67	2002	\$26,781	-23.37%	\$236,134.05
68	2003	\$27,718	26.38%	\$270,708.27
69	2004	\$28,688	8.99%	\$266,356.87
70	2005	\$29,692	3.00%	\$244,655.42
71	2006	\$30,731	13.62%	\$247,246.10
72	2007	\$31,807	3.53%	\$224,166.91
73	2008	\$32,920	-38.49%	\$104,964.84
74	2009	\$34,072	23.45%	\$95,506.66
75	2010	\$35,265	12.78%	\$72,447.44
76	2011	\$36,499	0.00%	\$35,948.20
77	2012	\$37,777	13.41%	\$2,992.14
78	2013	\$3,878	29.60%	-\$0.00
79	2014	\$0	11.39%	-\$0.00
80	2015	\$0	-0.73%	-\$0.00
		Total WD	Average Rate of Return	
		\$406,704	3.77%	

Kelly \$500,000 starting value

Age	Year	Withdrawal	Rate of Return ¹	Account Value
65	2003	\$25,000	26.38%	\$606,900.00
66	2004	\$25,875	8.99%	\$635,585.31
67	2005	\$26,781	3.00%	\$627,872.24
68	2006	\$27,718	13.62%	\$685,670.50
69	2007	\$28,688	3.53%	\$681,186.59
70	2008	\$29,692	-38.49%	\$389,305.71
71	2009	\$30,731	23.45%	\$449,866.52
72	2010	\$31,807	12.78%	\$475,552.48
73	2011	\$32,920	0.00%	\$442,632.25
74	2012	\$34,072	13.41%	\$467,916.81
75	2013	\$35,265	29.60%	\$571,155.21
76	2014	\$36,499	11.39%	\$599,710.55
77	2015	\$37,777	-0.73%	\$557,555.94
78	2016	\$39,099	9.54%	\$571,647.88
79	2017	\$40,467	19.42%	\$642,194.54
80	2018	\$41,884	-6.24%	\$560,237.88
		Total WD	Average Rate of Return	
		\$524,276	8.10%	

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¹ MacroTrends, S&P 500 Historical Annual Returns. Accessed May 23, 2019.

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