Sequence of return risk.

The order of your investment returns can make a dramatic difference in your retirement income.

It's not only the average return of your portfolio that matters. The sequence, or order, in which you experience investment gains and losses will have a large impact on the value of your portfolio over time.

People who experience even one year of market loss early in retirement may need to make significant adjustments to their plans. Conversely, the same loss later on in retirement will likely have much less of an impact on one's retirement income or lifestyle.

Let's look at two hypothetical retirement portfolios with the same average return, but with a different sequence of returns:[1]

Portfolio 1

	Year	Investment return	Withdrawal	Account balance
2000	1	-9.10%	$4,000	$86,900
2001	2	-11.89%	$4,120	$72,448
2002	3	-22.10%	$4,244	$52,193
2003	4	28.68%	$4,371	$62,791
2004	5	10.88%	$4,502	$65,121
2005	6	4.91%	$4,637	$63,681
2006	7	15.79%	$4,776	$68,960
2007	8	5.49%	$4,919	$67,827
2008	9	-37.00%	$5,067	$37,664
2009	10	26.46%	$5,219	$42,410
2010	11	15.06%	$5,376	$43,422
2011	12	2.11%	$5,537	$38,801
2012	13	16.00%	$5,703	$39,306
2013	14	32.39%	$5,874	$46,163
2014	15	13.69%	$6,050	$46,433
2015	16	1.38%	$6,232	$40,841
2016	17	11.96%	$6,419	$39,307
2017	18	21.83%	$6,611	$41,277
2018	19	-4.38%	$6,810	$32,659
		6.43%[2]	**$100,467**	**$32,659**

Portfolio 2

	Year	Investment return	Withdrawal	Account balance
2018	1	-4.38%	$4,000	$91,620
2017	2	21.83%	$4,120	$107,501
2016	3	11.96%	$4,244	$116,114
2015	4	1.38%	$4,371	$113,346
2014	5	13.69%	$4,502	$124,361
2013	6	32.39%	$4,637	$160,004
2012	7	16.00%	$4,776	$180,828
2011	8	2.11%	$4,919	$179,724
2010	9	15.06%	$5,067	$201,724
2009	10	26.46%	$5,219	$249,881
2008	11	-37.00%	$5,376	$152,049
2007	12	5.49%	$5,537	$154,860
2006	13	15.79%	$5,703	$173,609
2005	14	4.91%	$5,874	$176,259
2004	15	10.88%	$6,050	$189,386
2003	16	28.68%	$6,232	$237,470
2002	17	-22.10%	$6,419	$178,570
2001	18	-11.89%	$6,611	$150,727
2000	19	-9.10%	$6,810	$130,201
		6.43%	**$100,467**	**$130,201**

Portfolio 1:
Experiences S&P 500 returns from 2000-2018

Portfolio 2:
Experiences the same returns in the reverse sequence (2018-2000)

Assumptions:

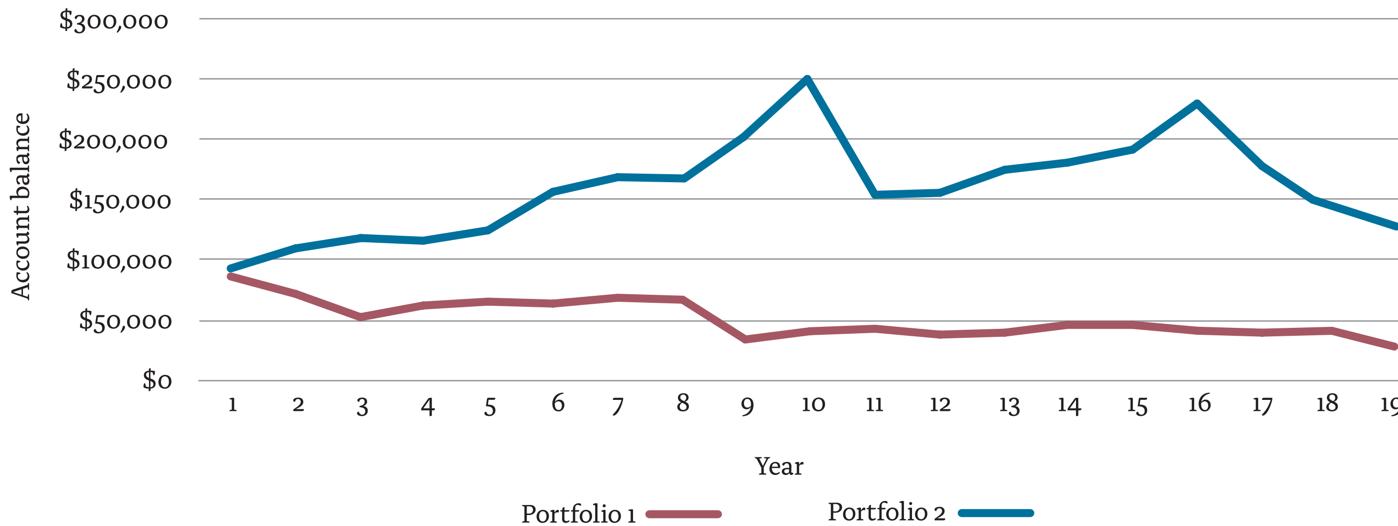
- $100,000 initial investment
- $4,000 annual withdrawals increasing 3% each year for inflation
- Actual S&P 500 index returns for years 2000-2018*

While both portfolios experienced the same average return (6.43%) and had the same withdrawals ($100,467), the ending account balance for portfolio 2 is almost four times larger than for portfolio 1. Portfolio 1 would have a much more difficult time providing retirement income for the future. This is all the result of the sequence of returns.

[1]The S&P 500 is an unmanaged index consisting of 500 primarily large-capitalization stocks. Performance shown does not reflect the deduction of fees and expenses. It is not possible to invest in an index. This hypothetical example is for illustrative purposes only and is not intended to represent the performance of any particular investment product.

[2]The average annual total return from 2000 - 2018 was 5.42%.

Hypothetical sequence of returns: Effect on account balances



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- $100,000 initial investment
- $4,000 annual withdrawals increasing 3% each year for inflation
- Actual S&P 500 index returns for years 2000-2018

Shrinking account balances can significantly impact how much income you can generate during retirement. Early losses, as illustrated above, may lead to a much lower account balance over time, meaning less income is available during retirement.

A risk-free alternative.

An effective way to eliminate the sequence of return risk is to have guaranteed sources of income that aren't subject to the unpredictability of the market. New York Life offers several options for generating guaranteed lifetime income. The New York Life Guaranteed Lifetime Income Annuity can provide a solid foundation of guaranteed retirement income that starts right away. The New York Life Guaranteed Future Income Annuity provides guaranteed income at a point of your choosing in the future (2 – 40 years). The New York Life Mutual Income Annuities provide guaranteed lifetime income with the opportunity for more income through dividends, if declared.[3] The New York Life Clear Income Fixed Annuity can provide a guaranteed stream of income in the future, plus it allows you to maintain a level of liquidity as well. Utilizing any of these products for retirement income provides the confidence of knowing you'll never outlive your money, because it's free of market risk.

[3]No dividends are payable on the first policy anniversary. Dividends, if declared, are payable beginning on the second policy anniversary (i.e., 24 months after issue).

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