



# Retirement Income Challenges

## Sequence of Returns Risk

*The unpredictability of the financial markets.*

Significant concerns when considering how you will generate your retirement income are “market volatility risk” and “sequence of returns risk.”

**Volatility** is the “ups and downs” of the financial markets.

**Sequence of Returns** is the **order** in which these ups and downs **OCCUR**.

It is important to understand how these risks can impact your retirement security.

The **sequence** of returns has **no impact** when **saving** for retirement.



**When saving for retirement, the sequence of returns has no impact.**

Take a look at the chart to the left. It shows that when you are not taking income withdrawals from your retirement savings, the order in which gains and losses occur produces the same end result on your savings balance. In the chart, the actual gains and losses are not important; they are a hypothetical example; what is important is that **even when the order of the gains and losses is reversed, you end-up with the same balance of \$114.**

**When you take income withdrawals from your retirement savings, the sequence of returns has a big impact.** Now let's look at the chart to the right. In this chart you are taking income withdrawals from retirement savings. Note that **when the order of the gains and losses is reversed you end-up with very different results.**

On the left side of the chart, note that your ending balance is \$89, and at the right side of the chart your ending balance is \$81; this is a difference of over 9%. **The income withdrawals are the same, the only difference is the order of the gains and losses.**

The **sequence** of returns has a **big impact** when **taking income.**



**The risk is that the sequence of returns cannot be predicted.**

Hypothetical example of gains and losses; not intended to illustrate any specific investment. Different returns would produce different results.

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