Securian FINANCIAL®

SOUND STRATEGIES

Sequence of Returns Risk

The importance of WHEN your ups and downs occur

Retirement income investment returns

When developing a strategy for withdrawing retirement savings, many individuals base their assumptions on an average annual investment returns number, like 6%. They assume that so long as they keep withdrawals under that amount, their money should last throughout retirement. Unfortunately, they're overlooking the importance of timing.

It's not just how much your investments go up or down, it's also WHEN the ups and downs occur. WHEN your portfolio goes up and down can have a dramatic impact on your retirement income – significantly affecting your retirement portfolio's ability to last as you make needed withdrawals. It's crucial that you understand this interplay between timing or "sequence of your returns" and your rate of withdrawals, so you can minimize the potential risk that early poor returns can have on your long-term retirement income.

What is sequence of returns risk?

Simply put, sequence of returns is the order of your investment returns. It can become a risk when you approach retirement and begin making withdrawals. If you're fortunate enough to experience strong returns in the early years, you may not have any problems. But poor returns and withdrawals early in retirement can do lasting damage to a portfolio.

To illustrate how sequence of returns risk works, on the following page we'll look at a hypothetical example of two different couples who are just entering retirement: Jeff and Wendy and Dave and Joan. We'll reverse the rate of return sequence for each couple's investment, and illustrate the impact.

Both couples begin with a portfolio balance of $500,000 and over 30 years make 5% annual withdrawals ($25,000, plus annual increases to account for inflation). Both couples expect the same average annual net return of 6.0%.

Dave and Joan experience poor early returns and strong returns later on, which results in a depleted investment portfolio by year 13 at their mutual age of 78. On the other hand, Jeff and Wendy experience positive returns in the early years, and negative later on, still leaving them with a comfortable portfolio at their mutual age 78 and well beyond.

Reducing sequence of returns risk

Although retreating from the markets would reduce your exposure to sequence of returns risk, it may also lower the growth potential of your portfolio and lessen its ability to provide you with adequate long-term income.

To counteract the risk of poor returns early in your retirement, consider using a portion of your retirement income to purchase a product or products that include principal guarantees (the guarantees may be purchased for an additional cost and may be subject to limitations). That way a portion of your assets is protected against declines in periods of poor returns, and you'll still have the ability to benefit from potential market gains over the long term.

With a sound strategy, your financial professional can help you prepare your retirement income for what matters most.

Not a deposit – Not FDIC/NCUA insured – Not insured by any federal government agency – Not guaranteed by any bank or credit union – May go down in value

Insurance products issued by:
Minnesota Life Insurance Company

Dave and Joan
Sequence of returns: Poor, then strong

Jeff and Wendy
Sequence of returns: Strong, then poor

Dave and Joan: Hypothetical Net Return	Dave and Joan: Withdrawal	Dave and Joan: Balance	Age	Jeff and Wendy: Hypothetical Net Return	Jeff and Wendy: Withdrawal	Jeff and Wendy: Balance
		$500,000	**65**			$500,000
-27.1%	$25,000	346,275	**66**	26.7%	$25,000	601,825
-16.5%	25,750	267,638	**67**	10.1%	25,750	634,259
-1.9%	26,523	236,535	**68**	4.3%	26,523	633,869
3.1%	27,318	215,702	**69**	8.9%	27,318	660,534
10.9%	28,138	208,009	**70**	17.6%	28,138	743,697
-9.4%	28,982	162,199	**71**	22.5%	28,982	875,527
7.4%	29,851	142,141	**72**	-3.7%	29,851	814,385
8.1%	30,747	120,417	**73**	18.1%	30,747	925,477
15.4%	31,669	102,415	**74**	-6.1%	31,669	839,286
9.4%	32,619	76,356	**75**	9.2%	32,619	880,880
6.2%	33,598	45,410	**76**	7.6%	33,598	911,675
12.4%	34,606	12,143	**77**	9.6%	34,606	961,268
2.8%	**12,143**	**0**	**78**	22.4%	35,644	1,132,964
11.4%	0	0	**79**	-11.0%	36,713	975,663
9.0%	0	0	**80**	24.3%	37,815	1,165,745
24.3%	0	0	**81**	9.0%	38,949	1,228,207
-11.0%	0	0	**82**	11.4%	40,118	1,323,532
22.4%	0	0	**83**	2.8%	41,321	1,318,113
9.6%	0	0	**84**	12.4%	42,561	1,433,720
7.6%	0	0	**85**	6.2%	43,838	1,476,055
9.2%	0	0	**86**	9.4%	45,153	1,565,407
-6.1%	0	0	**87**	15.4%	46,507	1,752,811
18.1%	0	0	**88**	8.1%	47,903	1,843,006
-3.7%	0	0	**89**	7.4%	49,340	1,926,397
22.5%	0	0	**90**	-9.4%	50,820	1,699,273
17.6%	0	0	**91**	10.9%	52,344	1,826,444
8.9%	0	0	**92**	3.1%	53,915	1,827,478
4.3%	0	0	**93**	-1.9%	55,532	1,738,278
10.1%	0	0	**94**	-16.5%	57,198	1,403,702
26.7%	0	0	**95**	**-27.1%**	**58,914**	**980,350**
Average Annual Net Return = 6%				**Average Annual Net Return = 6%**		

The returns shown are purely hypothetical, and are assumed to be net of all fees and expenses. The balances shown above are end-of-year and reflect an assumed annual withdrawal of $25,000 (increasing 3% annually for inflation) taken at the beginning of the year. The above illustration does not illustrate any particular type of investment.

Using average returns to develop a retirement income portfolio can be insufficient when you need to generate a dependable long-term income. To help you overcome this challenge:

- **Determine how much of your income comes from guaranteed sources:** Social Security, pension plans and annuities. If your portfolio doesn't include any guaranteed sources, consider using annuities[1] and bond portfolios[2] to guarantee income into the future, especially to cover essential living expenses.
- Identify essential, fixed income needs and discretionary expenses. **Adjust discretionary expenses during down markets.**
- Consider working with a financial professional to help you **determine a balance of guarantees and growth** that will help you generate dependable long-term income that also takes the sequence of returns challenge into account.

1. The guarantees are based on the claims-paying ability of the issuing insurance company.
2. Investments in fixed income securities are subject to the credit worthiness of their issuers and interest rate risk, and as such, the net asset value of bond and real estate funds will fall as interest rates rise.

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An annuity is intended to be a long-term, tax-deferred retirement vehicle. Earnings are taxable as ordinary income when distributed, and if withdrawn before age 59½, may be subject to a 10% federal tax penalty. If the annuity will fund an IRA or other tax qualified plan, the tax-deferral feature offers no additional value. Qualified distributions from a Roth IRA are generally excluded from gross income, but taxes and penalties may apply to non-qualified distributions. Please consult a tax advisor for specific information. There are charges and expenses associated with annuities, such as surrender charges (deferred sales charges) for early withdrawals. Variable annuities have additional expenses such as mortality and expense risk, administrative charges, investment management fees and rider fees. The variable subaccounts of variable annuities are subject to market fluctuation, investment risk and loss of principal.

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