

HOW MUCH LOSS CAN RETIREES REALLY HANDLE DURING DISTRIBUTION YEARS?

SEQUENCE OF RETURNS RISK

While planning for retirement, many focus on the accumulation phase and fail to acknowledge how a negative market could impact them during their distribution phase. See what a difference a few bad years made for Bill in the example below.

PAUL - RETIRED IN 1990 WITH \$1M

Invested in the S&P 500



BILL - RETIRED IN 2000 WITH \$1M

Invested in the S&P 500



YEAR	RETURN	WD	WD %	BALANCE
1990	-6.56%	\$ 50k	5.00%	\$ 887,680
1991	26.31%	\$ 50k	5.63%	\$ 1,058,074
1992	4.46%	\$ 50k	4.73%	\$ 1,053,034
1993	7.06%	\$ 50k	4.75%	\$ 1,073,848
1994	-1.54%	\$ 50k	4.66%	\$ 1,008,081
1995	34.11%	\$ 50k	4.96%	\$ 1,284,882
1996	20.26%	\$ 50k	3.89%	\$ 1,485,069
1997	31.01%	\$ 50k	3.37%	\$ 1,880,084
1998	26.67%	\$ 50k	2.66%	\$ 2,318,167
1999	19.53%	\$ 50k	2.16%	\$ 2,711,140

Average withdrawal rate: 4.18%

YEAR	RETURN	WD	WD %	BALANCE
2000	-10.14%	\$ 50k	5.00%	\$ 853,670
2001	-13.04%	\$ 50k	5.86%	\$ 698,871
2002	-23.37%	\$ 50k	7.15%	\$ 497,230
2003	26.38%	\$ 50k	10.06%	\$ 565,209
2004	8.99%	\$ 50k	8.85%	\$ 561,527
2005	3.00%	\$ 50k	8.90%	\$ 526,873
2006	13.62%	\$ 50k	9.49%	\$ 541,823
2007	3.53%	\$ 50k	9.23%	\$ 509,184
2008	-38.49%	\$ 50k	9.82%	\$ 282,444
2009	23.45%	\$ 50k	17.70%	\$ 286,952

Average withdrawal rate: 9.21%

Paul got lucky. If Bill repositioned a portion of his retirement assets into a tax-free or tax-deferred program, he would have been able to take distributions from a different income source without having to deplete his accounts that were tied directly to the market.

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