Hatfields and McCoys

Rethinking retirement

The luck of the draw

By retirement at age 65, both the Hatfields and McCoys have worked hard enough to put away $500,000 for their future. As they settle into their new life after work, they leave their retirement funds in the stock market. Both couples are prudent. Factoring for inflation using a 2.4% rise in their annual income to accommodate it, they take only 4% of their stock market portfolio out every year.

The chart on the next page represents hypothetical market returns over a period of 30 years. For this example the McCoys experience S&P 500® returns from 1978 to 2008, while the Hatfields experience these same returns — in the opposite chronological order. Both families experience a 9% average annual return over these 30 year periods, but the Hatfields' early negative returns had a profound effect on their retirement nest egg.

Sequence of returns matters

The order in which you experience losses and gains can be more important than the losses and gains themselves. With the S&P 500® near historic highs, sequence of returns may be more important than ever.

The Hatfields

Significant market setbacks in the first year of retirement

Receive $682,328 over 24 years

$0 Ran out of retirement income at 90

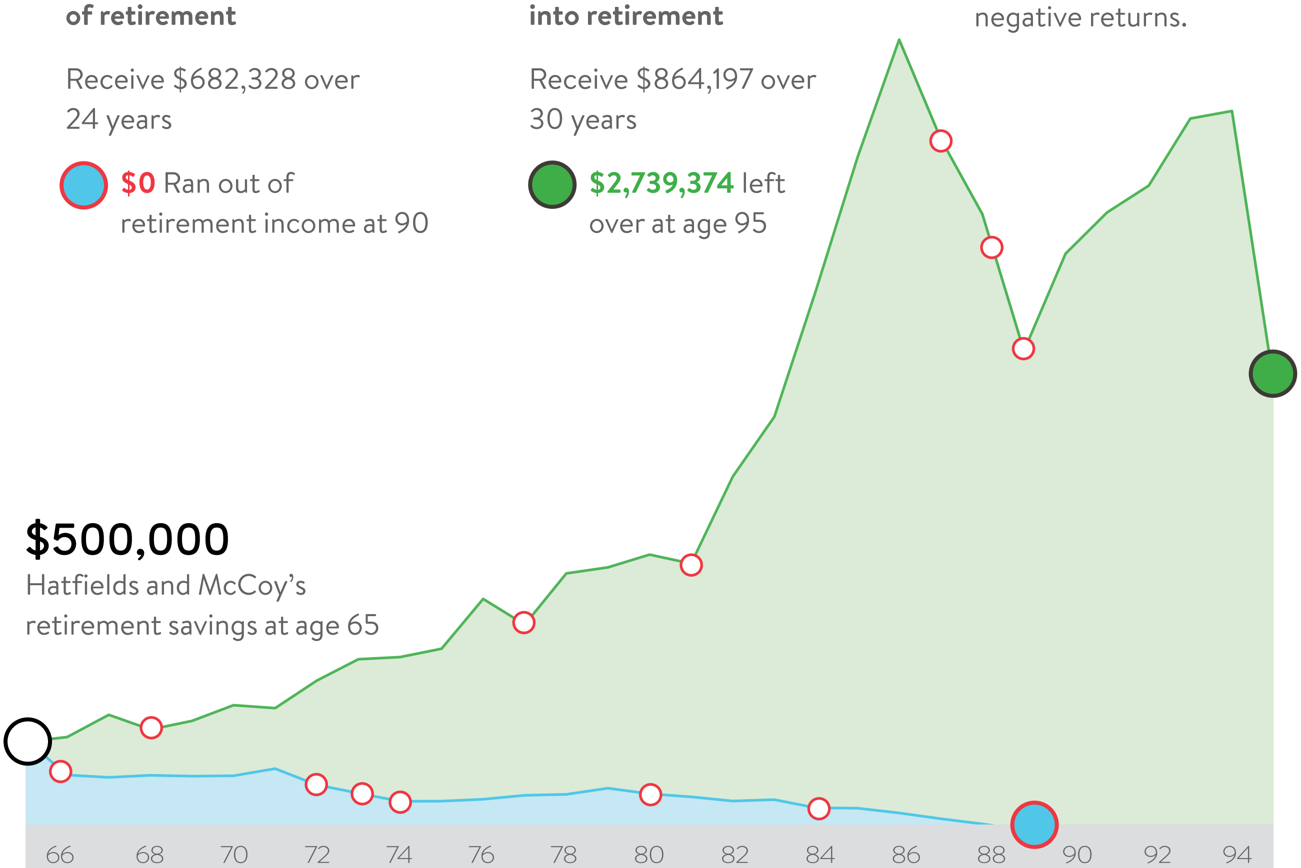
The McCoys

No significant market setback until 21 years into retirement

Receive $864,197 over 30 years

$2,739,374 left over at age 95

(Circled) years in this table indicate years of negative returns.



Average annual net return 9%

This is a hypothetical example used for illustrative purposes only, assuming an initial portfolio value of $500,000. Chart assumes a 4% rate of withdrawal beginning in year 1, with a 2.4% annual increase of the net withdrawal amount to account for inflation. This is based off of Social Security Cost of Living Adjustments' average increase from 1991 to 2020. Cost-of-Living Adjustment (COLA) Information, https://www.ssa.gov/cola/. Actual S&P 500® historical data from 12/29/1978 to 12/31/2008 has been used in this graph. The hypothetical illustration does not consider the impact of taxes, which would reduce all values. Time period selected because of the extreme volatility during the 2000s, to better illustrate the impact of significant losses early in retirement. Using the current time period would demonstrate less dramatic results. Returns are based upon the Standard & Poor's® 500 Index (S&P 500® Index) historical data from 1978 to 2008. S&P 500® Index returns for the Hatfields are in reverse chronological order. The S&P 500® Index is an unmanaged group of large company stocks. It is not possible to invest directly in an index. Past performance does not guarantee future results.

The chart below demonstrates how, in spite of an average 9% net rate of return for the period, the Hatfield's early negative returns profoundly impacted their retirement nest egg.

THE HATFIELDS (EARLY LOSS)				THE McCOYS (EARLY GAIN)		
Hypothetical Net Return	Withdrawal	Balance	Age	Hypothetical Net Return	Withdrawal	Balance
		500,000	65			500,000
-38.49%	20,000	287,550	66	12.31%	20,000	541,550
3.53%	20,480	277,221	67	25.77%	20,480	660,627
13.62%	20,972	294,006	68	-9.73%	20,972	575,377
3.00%	21,475	281,352	69	14.76%	21,475	638,828
8.99%	21,990	284,655	70	17.27%	21,990	727,163
26.38%	22,518	337,229	71	1.40%	22,518	714,825
-23.37%	23,058	235,360	72	26.33%	23,058	879,980
-13.04%	23,612	181,057	73	14.62%	23,612	985,022
-10.14%	24,179	138,520	74	2.03%	24,179	980,839
19.53%	24,759	140,814	75	12.40%	24,759	1,077,704
26.67%	25,353	153,016	76	27.25%	25,353	1,346,026
31.01%	25,961	174,505	77	-6.56%	25,961	1,231,765
20.26%	26,585	183,275	78	26.31%	26,585	1,529,258
34.11%	27,223	218,567	79	4.46%	27,223	1,570,240
-1.54%	27,876	187,325	80	7.06%	27,876	1,653,223
7.06%	28,545	172,005	81	-1.54%	28,545	1,599,218
4.46%	29,230	150,447	82	34.11%	29,230	2,115,482
26.31%	29,932	160,098	83	20.26%	29,932	2,514,147
-6.56%	30,650	118,945	84	31.01%	30,650	3,263,134
27.25%	31,386	119,972	85	26.67%	31,386	4,102,026
12.40%	32,139	102,710	86	19.53%	32,139	4,871,013
2.03%	32,910	71,885	87	-10.14%	32,910	4,344,182
14.62%	33,700	48,695	88	-13.04%	33,700	3,744,001
26.33%	34,509	27,007	89	-23.37%	34,509	2,834,519
1.40%			90	26.38%	35,337	3,546,928
17.27%			91	8.99%	36,185	3,829,612
14.76%			92	3.00%	37,053	3,907,447
-9.73%			93	13.62%	37,943	4,401,699
25.77%			94	3.53%	38,853	4,518,225
12.31%			95	-38.49%	39,786	2,739,374
Average annual net return 9%						

This is a hypothetical example used for illustrative purposes only, assuming an initial premium of $500,000. The hypothetical illustration does not consider the impact of taxes, which would reduce all values. Table assumes a 4% rate of withdrawal beginning in year 1, with a 2.4% annual increase of the net withdrawal amount to account for inflation. This is based off of Social Security Cost of Living Adjustments' average increase from 1991 to 2020. Cost-of-Living Adjustment (COLA) Information, https:// www.ssa.gov/cola/. Actual S&P 500® historical data from 12/29/1978 to 12/31/2008 has been used in this graph.

○ (Circled) years in this table indicate years of negative returns.

Facing the Facts

The largest annual stock market decline was in 1931, when the S&P 500® fell by 43.84%.[1]

Depending on when you start your retirement, market returns could have a significant negative impact on your savings.

The families depicted herein are fictitious. No association with any real family is intended or should be inferred.

[1] Stock market decline is based on the S&P 500® Index. NYU Stern School of Business, *Annual Returns on Stock, T. Bonds and T. Bills: 1928 – Current* http://bit.ly/1rr5h3v (Feb. 2015)

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