FROM PAYCHECK TO PORTFOLIO

VIRTUS INVESTMENT PARTNERS

A DECLINE EARLY IN YOUR RETIREMENT CAN HAVE A BIG IMPACT ON THE VALUE OF YOUR NEST EGG

Starting today, 10,000 people will reach retirement age every day for the next 19 years.[1] If you're one of them, you'll have to make the shift from living off your paycheck to living off your portfolio. But what happens if the markets take a deep dive just when you're ready to start taking withdrawals? This is known as "sequence of returns risk."

A decline early in your retirement can have a big impact on the value of your nest egg. You'd have to draw down a larger portion of your portfolio to meet your income needs, while a decline that occurs later might be less hazardous to your wealth.

Let's look at two retirement scenarios.

In the first, both Michael and Richard are accumulating assets. Each starts with a $1 million investment portfolio at age 65, and averages a 7% annual return that grows to the same value after 25 years. The big difference is the order in which the returns are achieved. Michael started with a string of positive years, but ended with three down years. Richard, on the other hand, suffered losses at the start of his accumulation period, but finished with three positive years, including two very strong ones.

The Accumulation Phase

	Up Market—Michael		Down Market—Richard	
Age	Annual Return	Year End Value	Annual Return	Year End Value
65		$1,000,000		$1,000,000
66	6%	$1,060,000	-23%	$770,000
67	27%	$1,346,200	-7%	$716,100
68	30%	$1,750,060	-22%	$558,558
69	-9%	$1,592,555	13%	$631,171
70	14%	$1,815,512	23%	$776,340
71	19%	$2,160,460	18%	$916,081
72	9%	$2,354,901	-3%	$888,598
73	30%	$3,061,371	15%	$1,021,888
74	14%	$3,489,963	22%	$1,246,704
75	20%	$4,187,956	8%	$1,346,440
76	6%	$4,439,233	15%	$1,548,406
77	-25%	$3,329,425	12%	$1,734,215
78	-6%	$3,129,659	-6%	$1,630,162
79	12%	$3,505,219	-25%	$1,222,621
80	15%	$4,031,001	6%	$1,295,979
81	8%	$4,353,481	20%	$1,555,174
82	22%	$5,311,247	14%	$1,772,899
83	15%	$6,107,934	30%	$2,304,768
84	-3%	$5,924,696	9%	$2,512,198
85	18%	$6,991,142	19%	$2,989,515
86	23%	$8,599,104	14%	$3,408,047
87	13%	$9,716,988	-9%	$3,101,323
88	-22%	$7,579,251	30%	$4,031,720
89	-7%	$7,048,703	27%	$5,120,284
90	-23%	**$5,427,501**	6%	**$5,427,501**
Average Return	**7%**		**7%**	

Though the ride was different for our hypothetical investors, Michael and Richard, neither experienced sequence of returns risk because there were no withdrawals from the accounts.

[1]Source: Pew Research Center, FactTank, http://pewrsr.ch/T4o2Hs

Past performance is not indicative of future results. For illustrative purposes only. Not representative of a Virtus portfolio. Source: Virtus Performance Analytics.

But what happens if Michael and Richard need to live off their portfolios in retirement?

In this second scenario, each takes 6% distributions (of the starting value) from their initial $1,000,000 balances, starting at age 65. While Michael's portfolio values grow over the 25 years, Richard has run out of money by age 81. This is a direct result of the timing of each decline.

Michael experienced positive returns at the start of his withdrawal phase, protecting and growing his nest egg. Richard, on the other hand, experienced three down years in a row, just as he was starting to take distributions. He was not able to recover from the early erosion of his capital.

Living from a Portfolio

		Up Market—Michael		Down Market—Richard	
Age	Withdrawal	Annual Return	Year End Value	Annual Return	Year End Value
65	$60,000		$1,000,000		$1,000,000
66	$60,000	6%	$1,000,000	-23%	$710,000
67	$60,000	27%	$1,210,000	-7%	$600,300
68	$60,000	30%	$1,513,000	-22%	$408,234
69	$60,000	-9%	$1,316,830	13%	$401,304
70	$60,000	14%	$1,441,186	23%	$433,604
71	$60,000	19%	$1,655,012	18%	$451,653
72	$60,000	9%	$1,743,963	-3%	$378,104
73	$60,000	30%	$2,207,151	15%	$374,819
74	$60,000	14%	$2,456,153	22%	$397,279
75	$60,000	20%	$2,887,383	8%	$369,062
76	$60,000	6%	$3,000,626	15%	$364,421
77	$60,000	-25%	$2,190,470	12%	$348,152
78	$60,000	-6%	$1,999,041	-6%	$267,262
79	$60,000	12%	$2,178,926	-25%	$140,447
80	$60,000	15%	$2,445,765	6%	**$88,874**
81	$60,000	8%	$2,581,427	20%	
82	$60,000	22%	$3,089,340	14%	
83	$60,000	15%	$3,492,741	30%	
84	$60,000	-3%	$3,327,959	9%	
85	$60,000	18%	$3,866,992	19%	
86	$60,000	23%	$4,696,400	14%	
87	$60,000	13%	$5,246,932	-9%	
88	$60,000	-22%	$4,032,607	30%	
89	$60,000	-7%	$3,690,324	27%	
90	$60,000	-23%	**$2,781,550**	6%	
	Average Return	**7%**		**7%**	

Richard was not able to recover from the early erosion of his capital, and he is out of money by age 81.

TIMING AND PREPARATION CAN MAKE A DIFFERENCE

While we can't control the markets, we can recognize the value of time and compounding, and start saving for retirement early. When the time comes to draw income from your portfolio, it's important to have a plan for market declines early in your retirement. Risk management to avoid losses in the first 10 years of retirement can make all the difference in the quality of your retirement and the legacy you leave.

To learn more, please contact us at 800-243-4361 or visit virtus.com.

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