HATFIELDS AND McCOYS

The luck of the draw

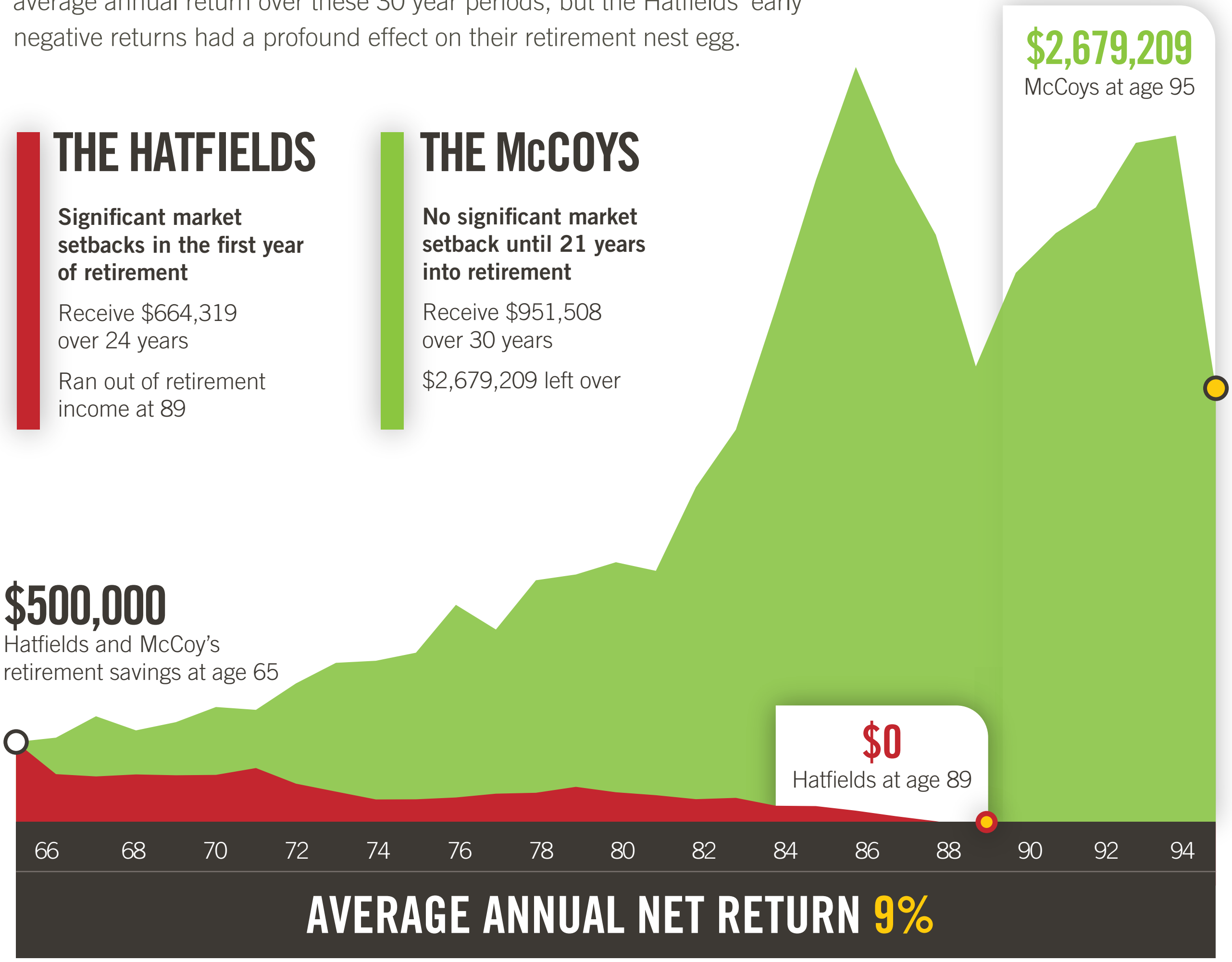
By retirement at age 65, both the Hatfields and McCoys have worked hard enough to put away $500,000 for their future. As they settle into their new life after work, they leave their retirement funds in the stock market. Both couples are prudent. Factoring for inflation using a 3% rise in their annual income to accommodate it, they take only 4% of their stock market portfolio out every year.

The chart below represents hypothetical market returns over a period of 30 years. For this example the McCoys experience S&P 500® returns from 1979 to 2009, 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.



This is a hypothetical example used for illustrative purposes only, assuming an initial premium of $500,000. Chart assumes a 4% rate of withdrawal beginning in year 1, with a 3% annual increase of the net withdrawal amount to account for inflation. Actual S&P 500® historical data from 01/02/1979 to 01/02/2009 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 1979-2009. 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.

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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
-35.61%	20,000	301,941	66	9.34%	20,000	526,676
2.16%	20,600	287,855	67	28.91%	20,600	658,362
11.65%	21,218	300,168	68	-9.98%	21,218	571,472
5.55%	21,855	294,974	69	12.71%	21,855	622,251
8.44%	22,510	297,372	70	18.58%	22,510	715,339
21.94%	23,185	339,432	71	0.81%	23,185	697,953
-21.27%	23,881	243,342	72	26.74%	23,881	860,705
-10.02%	24,597	194,358	73	17.59%	24,597	987,477
-11.82%	25,335	146,057	74	3.85%	25,335	1,000,166
18.49%	26,095	146,973	75	7.57%	26,095	1,049,765
25.95%	26,878	158,240	76	30.65%	26,878	1,344,630
32.30%	27,685	181,662	77	-9.24%	27,685	1,192,684
18.73%	28,515	187,177	78	27.82%	28,515	1,495,943
35.20%	29,371	223,698	79	4.34%	29,371	1,531,535
-1.36%	30,252	190,404	80	6.90%	30,252	1,607,026
6.90%	31,159	172,390	81	-1.36%	31,159	1,554,011
4.34%	32,094	147,782	82	35.20%	32,094	2,068,973
27.82%	33,057	155,835	83	18.73%	33,057	2,423,493
-9.24%	34,049	107,385	84	32.30%	34,049	3,172,152
30.65%	35,070	105,227	85	25.95%	35,070	3,960,376
7.57%	36,122	77,069	86	18.49%	36,122	4,656,671
3.85%	37,206	42,831	87	-11.82%	37,206	4,069,229
17.59%	38,322	12,041	88	-10.02%	38,322	3,623,118
26.74%	15,261	0	89	-21.27%	39,472	2,812,878
0.81%			90	21.94%	40,656	3,389,395
18.58%			91	8.44%	41,876	3,633,720
12.71%			92	5.55%	43,132	3,792,274
-9.98%			93	11.65%	44,426	4,189,602
28.91%			94	2.16%	45,759	4,234,225
9.34%			95	-35.61%	47,131	2,679,209

AVERAGE ANNUAL NET RETURN 9%

// 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.

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 3% annual increase of the net withdrawal amount to account for inflation.
Actual S&P 500® historical data from 01/02/1979 to 01/02/2009 has been used in this graph.
Circled years in this table indicate years of negative returns.

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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