

MANAGE SEQUENCE OF RETURN RISK

RETIREMENT PLANNING

NAVIGATING MARKET VOLATILITY IN RETIREMENT WITH PERMANENT LIFE INSURANCE

Client profile

- Male, age 50, Super Preferred NS, married
- All children “out of the house”
- No mortgage or other significant debt
- Desires approximately \$60,000 of annual after-tax income during retirement (not including Social Security benefits)
- Is able to direct \$2,500/month to additional savings.

Mr. Smith – 30-year average market return → 9.64%

Age	Year	Beginning Balance	Withdrawal Amount	Actual returns	Year-end balance
65	1969	2,000,000	\$100k	-15.19%	1,611,314
66	1970	1,611,314	\$100k	4.82%	1,584,129
67	1971	1,584,129	\$100k	6.11%	1,574,854
68	1972	1,574,854	\$100k	14.58%	1,689,932
69	1973	1,689,932	\$100k	-16.58%	1,326,258
70	1974	1,326,258	\$100k	-27.57%	888,129
71	1975	888,129	\$100k	38.32%	1,090,172
72	1976	1,090,172	\$100k	17.86%	1,167,017
73	1977	1,167,017	\$100k	-17.27%	882,764
74	1978	882,764	\$100k	-3.15%	758,131
75	1979	758,131	\$100k	4.19%	685,706
76	1980	685,706	\$100k	14.93%	673,170
77	1981	673,170	\$100k	-9.23%	520,261
78	1982	520,261	\$100k	19.61%	502,653
79	1983	502,653	\$100k	20.27%	484,258
80	1984	484,258	\$100k	-3.74%	369,887
81	1985	369,887	\$100k	27.66%	344,532
82	1986	344,532	\$100k	22.58%	299,755
83	1987	299,755	\$100k	2.26%	204,274
84	1988	204,274	\$100k	11.85%	116,629
85	1989	116,629	\$100k	26.96%	21,112
86	1990	21,112	\$100k	-4.34%	—
87	1991	—	\$100k	20.32%	—
88	1992	—	\$100k	4.17%	—
89	1993	—	\$100k	13.72%	—
90	1994	—	\$100k	2.14%	—
91	1995	—	\$100k	33.45%	—
92	1996	—	\$100k	26.01%	—
93	1997	—	\$100k	22.64%	—
94	1998	—	\$100k	16.10%	—
95	1999	—	\$100k	25.22%	—

Analysis of “*sequence of return risk*” shows that withdrawing income early in retirement during a down market can significantly reduce portfolio longevity. Show your clients how a cash-value life insurance policy can help protect them against this risk by providing an alternative source of income during down markets.

Impact of sequences of returns

Compare Mr. Smith (retiring in 1969) and Mrs. Jones (retiring in 1971):

- Each start with retirement accounts with \$2M
- Each withdraw \$100k annually

Mrs. Jones – 30-year average market return → 9.54%

Age	Year	Beginning Balance	Withdrawal Amount	Actual returns	Year-end balance
65	1971	2,000,000	\$100k	6.11%	2,016,147
66	1972	2,016,147	\$100k	14.58%	2,195,579
67	1973	2,195,579	\$100k	-16.58%	1,748,048
68	1974	1,748,048	\$100k	-27.57%	1,193,615
69	1975	1,193,615	\$100k	38.32%	1,512,732
70	1976	1,512,732	\$100k	17.86%	1,665,046
71	1977	1,665,046	\$100k	-17.27%	1,294,794
72	1978	1,294,794	\$100k	-3.15%	1,157,194
73	1979	1,157,194	\$100k	4.19%	1,101,490
74	1980	1,101,490	\$100k	14.93%	1,151,043
75	1981	1,151,043	\$100k	-9.23%	954,021
76	1982	954,021	\$100k	19.61%	1,021,452
77	1983	1,021,452	\$100k	20.27%	1,108,203
78	1984	1,108,203	\$100k	-3.74%	970,496
79	1985	970,496	\$100k	27.66%	1,111,258
80	1986	1,111,258	\$100k	22.58%	1,239,630
81	1987	1,239,630	\$100k	2.26%	1,165,408
82	1988	1,165,408	\$100k	11.85%	1,191,649
83	1989	1,191,649	\$100k	26.96%	1,385,946
84	1990	1,385,946	\$100k	-4.34%	1,230,110
85	1991	1,230,110	\$100k	20.32%	1,359,749
86	1992	1,359,749	\$100k	4.17%	1,312,331
87	1993	1,312,331	\$100k	13.72%	1,378,687
88	1994	1,378,687	\$100k	2.14%	1,306,051
89	1995	1,306,051	\$100k	33.45%	1,609,499
90	1996	1,609,499	\$100k	26.01%	1,902,180
91	1997	1,902,180	\$100k	22.64%	2,210,211
92	1998	2,210,211	\$100k	16.10%	2,449,934
93	1999	2,449,934	\$100k	25.22%	2,942,611
94	2000	2,942,611	\$100k	-6.17%	2,667,279
95	2001	2,667,279	\$100k	-7.10%	2,384,899

An alternative scenario for Mr. Smith

What if Mr. Smith had been able to avoid taking withdrawals during the years when the market performed negatively (excluding year 1), because he had another tax-advantaged source of income he could access? In that case, he likely would have experienced a much different outcome with respect to the longevity of his account.

Mr. Smith – 30-year average market return → 9.64%

Age	Year	Beginning Balance	Withdrawal Amount	Actual returns	Year-end balance
65	1969	2,000,000	\$100k	-15.19%	1,611,314
66	1970	1,611,314	\$100k	4.82%	1,584,129
67	1971	1,584,129	\$100k	6.11%	1,574,854
68	1972	1,574,854	\$100k	14.58%	1,689,932
69	1973	1,689,932	—	-16.58%	1,409,674
70	1974	1,409,674	—	-27.57%	1,020,970
71	1975	1,020,970	\$100k	38.32%	1,273,923
72	1976	1,273,923	\$100k	17.86%	1,383,585
73	1977	1,383,585	—	-17.27%	1,144,668
74	1978	1,144,668	\$100k	-3.15%	1,011,792
75	1979	1,011,792	\$100k	4.19%	949,996
76	1980	949,996	\$100k	14.93%	976,926
77	1981	976,926	—	-9.23%	886,746
78	1982	886,746	\$100k	19.61%	940,988
79	1983	940,988	\$100k	20.27%	1,011,431
80	1984	1,011,431	—	-3.74%	973,603
81	1985	973,603	\$100k	27.66%	1,115,224
82	1986	1,115,224	\$100k	22.58%	1,244,493
83	1987	1,244,493	\$100k	2.26%	1,170,381
84	1988	1,170,381	\$100k	11.85%	1,197,210
85	1989	1,197,210	\$100k	26.96%	1,393,007
86	1990	1,393,007	\$100k	-4.34%	1,236,865
87	1991	1,236,865	\$100k	20.32%	1,367,876
88	1992	1,367,876	\$100k	4.17%	1,320,797
89	1993	1,320,797	\$100k	13.72%	1,388,315
90	1994	1,388,315	\$100k	2.14%	1,315,885
91	1995	1,315,885	\$100k	33.45%	1,622,622
92	1996	1,622,622	\$100k	26.01%	1,918,717
93	1997	1,918,717	\$100k	22.64%	2,230,493
94	1998	2,230,493	\$100k	16.10%	2,473,481
95	1999	2,473,481	\$100k	25.22%	2,972,097

Conclusion

Cash value life insurance can help manage the sequence of return risk clients will face during their retirement years. And using an indexed universal life policy can help drive cash value growth at potentially higher crediting rates than a traditional UI policy can, while offering a “floor” that provides downside protection during down markets. What’s more, adding a Long-Term Care rider gives clients additional protection of their primary income assets. In short, cash value life insurance offers a solution that clients may be looking for, now more than ever, to help cover times of financial uncertainty.

Avoiding withdrawals from this account in years when there was negative market returns substantially increases its potential longevity. However, in order to avoid taking taxable withdrawals in this manner, Mr. Smith would likely need another source of income from which to draw. Permanent life insurance can serve as this source of tax-free income.

Although Mr. Smith experienced a slightly higher average rate of return over a 30-year period, his outcome was much different due to the sequence of those returns. * This is a hypothetical of those returns.

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