MassMutual Ascend
Life Insurance Company

How sequence of returns can make or break a portfolio

When you begin taking income from a portfolio, the subsequent sequence of returns can have a critical impact on its value over time. While early positive returns can help grow a portfolio to a point where it could withstand a downturn, early negative returns can cause a portfolio to lose value at a faster rate – jeopardizing your retirement income plan.

Sequence of returns comparison

Say you invest $500,000 in the stocks that make up the S&P 500® and decide to take an initial withdrawal of $25,000 during your first year of retirement. In each of the following years, you increase that amount by 2% to account for inflation. The two scenarios below show how a poor sequence of returns early on in retirement can impact your portfolio over the years.

Scenario One: Early Negative Returns

Shows chronological S&P 500® (SPX) returns. In this scenario, the first three years yielded negative returns.

Year	Withdrawal	Index Return	Account Value
1999	-	-	$500,000
2000	$25,000	**-10.13%**	$424,350
2001	$25,500	**-13.04%**	$343,515
2002	$26,010	**-23.36%**	$237,260
2003	$26,530	26.38%	$273,319
2004	$27,061	8.99%	$270,829
2005	$27,602	3.00%	$251,352
2006	$28,154	13.61%	$257,407
2007	$28,717	3.52%	$237,751
2008	$29,291	-38.48%	$116,971
2009	$29,877	23.45%	$114,525
2010	$30,475	12.78%	$98,687
2011	$31,084	0.00%	$67,603
2012	$31,706	**13.40%**	$44,955
2013	$32,340	**29.60%**	$25,922
2014	$28,874	**11.39%**	$0
Average Return:		4.07%	$0

Scenario Two: Early Positive Returns

Shows the same S&P 500® (SPX) returns, but reverses the first three years and last three years. In this scenario, the three consecutive years of negative returns occur at the end of the 15-year period.

Year	Withdrawal	Index Return	Account Value
1999	-	-	$500,000
2012	$25,000	**13.40%**	$542,000
2013	$25,500	**29.60%**	$676,932
2014	$26,010	**11.39%**	$728,025
2003	$26,530	26.38%	$893,547
2004	$27,061	8.99%	$946,816
2005	$27,602	3.00%	$947,619
2006	$28,154	13.61%	$1,048,436
2007	$28,717	3.52%	$1,056,623
2008	$29,291	-38.48%	$620,743
2009	$29,877	23.45%	$736,430
2010	$30,475	12.78%	$800,071
2011	$31,084	0.00%	$768,987
2000	$31,706	**-10.13%**	$659,382
2001	$32,340	**-13.04%**	$541,059
2002	$32,987	**-23.36%**	$381,680
Average Return:		4.07%	$381,680

In both scenarios, the average return is the same. However, early negative returns caused the portfolio to deplete to $0 over fifteen years, where early positive returns left a portfolio balance of over $381,000.

For advice tailored to your specific circumstances, contact your financial professional.

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