



Sequence of Returns Risk: Why Timing Matters in Retirement

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For many retirees, the timing of market returns can have a bigger impact on portfolio longevity than the overall long-term performance of investments. This concept, known as **sequence of returns risk**, refers to the potential for early negative market performance to significantly reduce the value of a portfolio when withdrawals begin. Unlike during accumulation years, when downturns can be recovered over time, losses during retirement withdrawals can have long-lasting consequences.

Why Early Withdrawals During a Down Market Are Risky

When retirees withdraw funds during a market downturn, they may be forced to sell investments at depressed prices. This can permanently reduce the portfolio's growth potential and shorten its lifespan. For this reason, it's imperative for retirees and those nearing retirement to maintain a balanced allocation that includes growth positions, minimal-risk positions, and very low or no-risk positions.

- **Growth Positions:** Allow the portfolio to keep pace with inflation and sustain purchasing power over decades of retirement.
- **Minimal Risk Positions:** Provide stability while still allowing for modest growth potential.
- **No-Risk Positions:** Act as a buffer for immediate income needs, reducing the chance that withdrawals come from investments experiencing losses.

This structure helps ensure that money is never taken from a down position, which is a key principle for protecting long-term retirement income.

The Impact of Longer Lifespans and Technological Advances

With people living longer than ever before and advancements in healthcare and technology continuing to improve longevity, retirees face a greater risk of outliving their money. Sequence

of returns risk becomes even more critical under these circumstances, as withdrawals may be needed for 25–30 years or more.

The average 70-year-old has a 1 in 5 chance of living to 95 and a 1 in 10 chance of living to 100. That means your portfolio may need to last another 30 years or even more.

A money market may feel safe, but a 3-4% return simply isn't going to keep up with lifestyle needs, living expenses, and medical inflation. Retirees need strategies that allow for growth, stability, and near-term liquidity, all working together to sustain income over decades.

Strategic Income Planning: Integrating Risk, Growth, and Tax Efficiency

This is where **strategic income planning** becomes critical. Managing withdrawals thoughtfully ensures that retirees can maintain their lifestyle, avoid taking money from declining positions, and minimize taxes along the way.

A comprehensive approach includes:

- **Coordinating Withdrawals Across Accounts:** Using pre-tax, Roth, and taxable accounts in a tax-efficient order can help reduce lifetime tax obligations.
- **Aligning Withdrawals With Portfolio Performance:** Taking funds from safer, low-risk positions during downturns allows growth-oriented investments to recover, protecting long-term purchasing power.
- **Planning for Longevity and Inflation:** By factoring in longer lifespans and rising costs, retirees can design an income strategy that sustains them for 25–30 years or more without running out of money.

By combining growth, stability, and tax efficiency, retirees gain both flexibility and security, reducing the impact of sequence of returns risk while preserving their nest egg for decades.

Adjusting Your Plan Over Time

Retirement planning isn't static, as life changes, markets shift, and evolving personal goals all require periodic review and adjustment. What worked when you first retired may need tweaking as your portfolio grows, medical expenses change, or new opportunities arise.

Regular check-ins allow retirees to:

- **Reassess Risk Tolerance:** Adjust allocations between growth, minimal-risk, and no-risk positions as financial needs and comfort with market volatility change.
- **Update Income Strategy:** Ensure withdrawals continue to be tax-efficient and aligned with long-term goals.

- **Account for Life Events:** Changes such as relocation, unexpected healthcare costs, or inheriting assets can affect both portfolio strategy and spending plans.

By reviewing and adjusting your plan periodically, you maintain control over your retirement strategy and ensure that your portfolio continues to support both short-term needs and long-term sustainability.

Strategies to Mitigate Sequence of Returns Risk

Every retiree's situation is unique, but some general principles apply. Maintaining a mix of growth-oriented investments for long-term inflation protection, minimal-risk investments for stability, and no-risk investments for near-term withdrawals helps protect against early losses.

Flexibility is key: a well-structured plan can adjust for market conditions, tax considerations, and unexpected expenses, rather than relying solely on historical averages or fixed withdrawal rates.

Conclusion

Sequence of returns risk is a critical concept for anyone approaching or in retirement. Maintaining a diversified mix of growth, minimal-risk, and no-risk investments, combined with a strategic and tax-efficient income plan, allows retirees to protect against market volatility, preserve purchasing power, and avoid withdrawing from declining positions.

With longer lifespans, technological advancements, and rising costs, careful planning has never been more important to ensure that retirement savings can support income throughout an unpredictable future. By integrating risk management, growth potential, and tax efficiency, retirees can enjoy greater confidence and security in retirement.

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Avery Hayes is a dedicated Financial Advisor at Hayes Advisory Group with a focus on strategic planning and education. With a passion for helping clients navigate the complexities of financial management, Avery specializes in creating and implementing comprehensive plans that encompass investment management, financial planning, and tax planning. Avery's approach is rooted in a deep understanding of the financial landscape and a commitment to educating clients, empowering them to make informed decisions about their financial future. Avery also helps with educational courses taught through employer classes, classes taught for Federal employees, and The Prepare Institute, a 501©3 non-profit educational institution.

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