RETIREMENT PLANNING WHITE PAPER

Retirement Market-Timing Risk

Why early losses and ongoing withdrawals can have an outsized effect on retirement income.

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Important: This paper is designed for education and discussion. It does not recommend a particular security, insurance contract, rollover, claiming age, distribution strategy, or tax action. Individual decisions should be based on complete facts and applicable licensing and compliance requirements.

Executive Summary

Two retirees can earn similar long-term average returns and still experience very different outcomes if the order of those returns is different. Losses that occur while withdrawals are being taken can force more shares to be sold at depressed prices, leaving fewer assets available to participate in a later recovery.

This is commonly called sequence-of-returns risk. The issue is not that every market decline causes a retirement plan to fail. The issue is that withdrawals change the math: once assets are removed from a declining portfolio, those dollars are no longer available to recover when markets rebound.

Planning principle

The right decision depends on the household's complete circumstances. Use this guide to identify the questions that should be answered before money is moved, benefits are claimed, or long-term income choices are locked in.

Why retirement changes the risk calculation

During the accumulation years, a worker can often respond to a market decline by continuing contributions and waiting. In retirement, the household may need to withdraw money every month regardless of market conditions. That makes the timing of losses more important.

FINRA notes that retirees should reassess investment risk because they may have less time to recover from market downturns, while still balancing inflation risk and the need for long-term growth.

A simple illustration

Assume two hypothetical retirees start with the same balance and take the same withdrawals. One experiences strong returns early and weak returns later. The other experiences the same returns in reverse order. Before withdrawals, the ending values could be identical. After withdrawals, the retiree who suffers losses early can finish with materially less money because more units were sold when prices were low.

The illustration is a planning concept, not a forecast. Real portfolios include taxes, fees, asset allocation changes, Social Security, pensions, and changing spending needs.

> **What to remember**
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> Retirement planning is a coordination exercise. Taxes, liquidity, market risk, longevity, income guarantees, and survivor needs should be evaluated together rather than one account at a time.

Ways an income plan can reduce pressure during a downturn

A retirement income plan can separate near-term spending from long-term growth assets. Cash reserves, short-duration fixed income, pension or Social Security income, and insurance-based guarantees may each play different roles. None is automatically right for every household.

The goal is flexibility. If essential spending can be met without selling depressed growth assets, the portfolio may have more time to recover. That does not eliminate market risk, but it can reduce the need to turn a temporary market decline into a permanent loss.

Guardrails matter

Withdrawal plans should not be set once and ignored. Spending, taxes, portfolio allocation, and market conditions should be reviewed periodically. A plan may include rules for trimming discretionary spending after losses, replenishing reserves after strong markets, or delaying large purchases when portfolio values are under pressure.

Retirement income management is ultimately a coordination problem: how much to withdraw, from which account, at what tax cost, and with what effect on future income.

Questions to Ask Before You Act

- ✓ How many years of planned spending are exposed to immediate market sales?
- ✓ Which income sources are dependable and which depend on portfolio performance?
- ✓ How much liquid reserve is available for a major market decline or emergency?
- ✓ What spending adjustments would be made after a significant loss?
- ✓ How are Social Security timing and taxes coordinated with portfolio withdrawals?
- ✓ Does the plan still preserve enough growth potential to address inflation and longevity?

A useful next step

Bring recent statements, plan documents, Social Security estimates, pension information, tax returns when relevant, and your expected monthly spending to a retirement-income review. The goal is to understand what you already own, what the money needs to accomplish, and which risks need to be addressed before a transaction is made.

Schedule a Retirement Income Review

Visit **www.retirementincomesolutionsnc.com** to request a review.

Sources and Further Reading

FINRA - Managing Your Retirement Portfolio
https://www.finra.org/investors/learn-to-invest/types-investments/retirement/managing-retirement-income/managing-your-retirement-portfolio

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