Sequence of Returns Risk

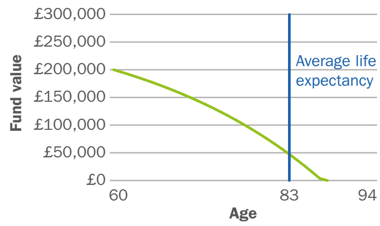
Factsheet comparing the scenarios

To help explain the impact that sequence of returns risk can have on a Drawdown fund, let's take a look at a fictional client called Frank, using three different growth scenarios.

> Frank retires at age 60 with an initial Drawdown fund of £200K, withdrawing £12K income each year from his plan. His life expectancy is age 83. The investment performance in each scenario delivers an average growth of 5% over a 30 year period.

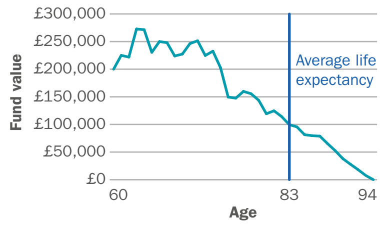
01 Consistent investment scenario

- Frank's fund achieves the same 5% growth rate every year with no volatility
- This supports his income withdrawals throughout retirement
- His fund will last until age 88, which is 5 years beyond his average life expectancy
- But this is an unlikely scenario as investment performance isn't consistent



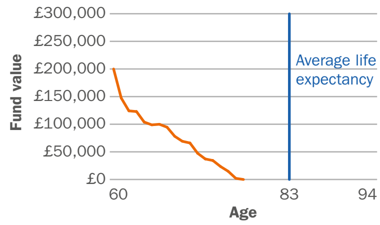
02 Strong start scenario

- Whilst delivering an average 5% over the full term of investment the early years show stronger growth
- Frank's fund performs well in the early years, with only 2 years of negative returns in the first 10 years
- His fund will last until age 94, which is 11 years beyond his average life expectancy
- Despite the same average investment return, the fund lasts 6 years longer than Scenario 1



03 Poor start scenario

- Whilst still delivering an average 5% over the full term of investment the early years show weaker growth than Scenario 2
- This scenario has 4 years with negative returns in the first decade of Frank's retirement
- He'd actually run out of money at age 76, 18 years earlier than Scenario 2 and importantly 7 years before his life expectancy. In fact, more than half of people will live beyond the average life expectancy so this could mean even more time without being able to take any pension income
- So he'd have no fund to pass on to beneficiaries and no pension income in the final 7 years of his life



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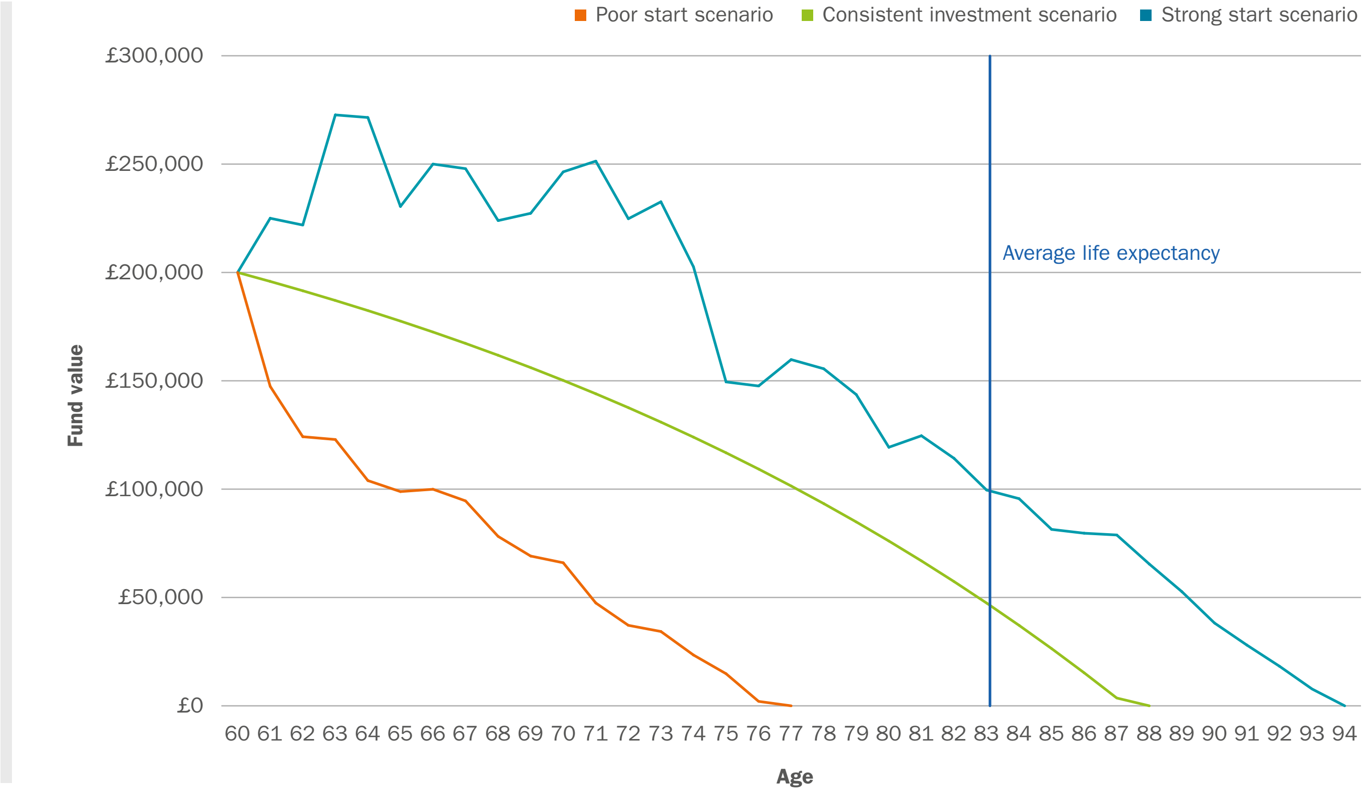
We've plotted these three scenarios on one graph below to help you compare. Remember, all three options return an average 5% growth over 30 years.



These scenarios have shown us that while the average annualised returns in each case are the same, in reality the outcomes for Frank couldn't be more different. It confirms that when in drawdown, the order in which returns occur is perhaps more important than the average return over a period of time.

Please note: these examples don't take into account State Pensions or any other pensions, savings, investments or income that Frank may be receiving.

Sequence of returns risk also applies to inflation, as higher inflation in the first decade of retirement means that clients need to increase withdrawals earlier on in retirement to maintain the purchasing power of their income for their lifestyle. But the more income they withdraw, the sooner the Drawdown fund runs out.

To help with sequence of returns risk there are a number of options available such as choosing lower risk funds, buying guarantees, securing a guaranteed income or a mix of more than one of these or other options. Your adviser will be able to help you decide which of these is right for you.

For more information about the effects of sequence of returns risk, please speak to your financial adviser.

You can get this and other documents from us in Braille, large print or audio by contacting us.

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