Invesco

# The Variable Annuity Approach

## Sequence of portfolio returns and the effect on your retirement income

Performance of the market is one of the biggest concerns that many investors have, especially as they get closer to retirement. Investors who are nearing retirement and will need to draw from their portfolios for income need to prepare for an additional risk to their portfolio and the longevity of the income coming from that portfolio, known as the sequence of returns.

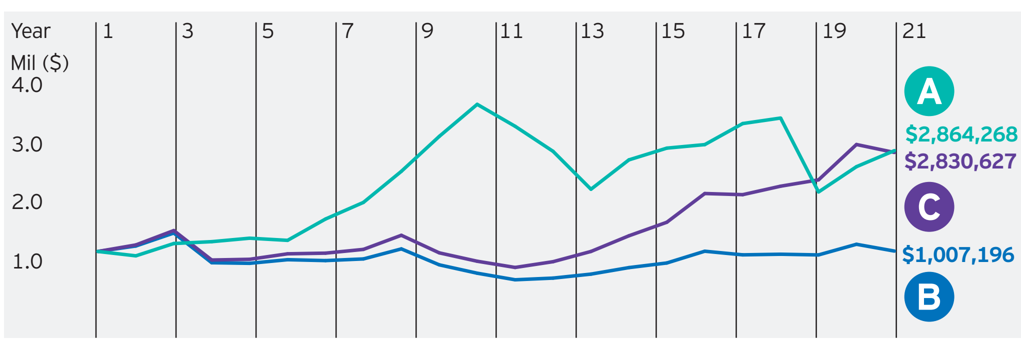
Sequence of returns refers to the fact that, due to the power of compounding, early losses in a portfolio – especially after income withdrawals have begun – have a more significant impact on your portfolio value than losses that occur later on.

To understand how sequence of returns and market performance can affect the longevity of your income, let's look at two hypothetical retirees: Julie and Don.[1]

- Julie and Don both start their retirement with a beginning portfolio balance of $1 million.
- During the next 21 years of their retirement, Julie and Don each take an annual withdrawal for retirement income of $50,000 with a 3% annual increase.

### The VA difference

| Sequence of returns | Retirement income strategy | Year 21 portfolio value |
|---|---|---|
| Julie's portfolio balance of $1,000,000 experienced chronological S&P 500 returns from 1990-2010 | **A** $50,000 annual portfolio draw with a 3% annual increase | **$2,864,268** based on a sequence of returns best-case scenario |
| Don's portfolio balance of $1,000,000 experienced S&P 500 returns in reverse chronological order from 2010-1990 | **B** $50,000 annual portfolio draw with a 3% annual increase<br>**versus**<br>**C** $30,000 annual portfolio draw with a 3% annual increase + $20,000 annual draw from a variable annuity | **$1,007,196** relying solely on a less favorable sequence of returns<br>**versus**<br>**$2,830,627** achieved with income protection from a variable annuity |




Source: Lipper. Data as of Dec. 31, 2017. For illustrative purposes only. Past performance does not guarantee future results. The S&P 500 is an unmanaged index considered representative of the US stock market. An investment cannot be made directly in an index. Each portfolio assumes a first-year withdrawal that was subsequently adjusted for a 3% increase annually. The table assumes annual withdrawals are taken at the end of each year.

### The takeaway

Early losses during retirement can have a big impact on the longevity of income coming from a portfolio – but a VA may be able to help by providing income protection.

1 This hypothetical example is not intended to project performance or reflect fees and charges associated with any specific investment.

## Contact us

If you are an investor seeking more information, please visit invesco.com/us. Advisors, contact your Invesco representative in the Insurance and Education Sales Division to learn how we can help you serve your clients.



Note: Not all products, materials or services available at all firms. Advisors, please contact your home office.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

Retirement plans and accounts that satisfy relevant qualification rules, such as 403(b)s, IRAs, 401(k)s, etc., can be tax deferred regardless of whether or not they are funded with an annuity.

If you are considering funding a tax-qualified retirement plan or account with an annuity, you should know that an annuity does not provide any additional tax deferred treatment of earnings beyond the tax deferral of the tax-qualified retirement plan or account itself. However, annuities do provide other features and benefits.

A variable annuity is a long-term, tax-deferred investment designed for retirement, involves investment risks and may lose value. Earnings are taxable as ordinary income when distributed and may be subject to a 10% additional tax if withdrawn before age 59½.

Invesco Distributors, Inc. does not offer any variable annuity products.