TD Asset Management

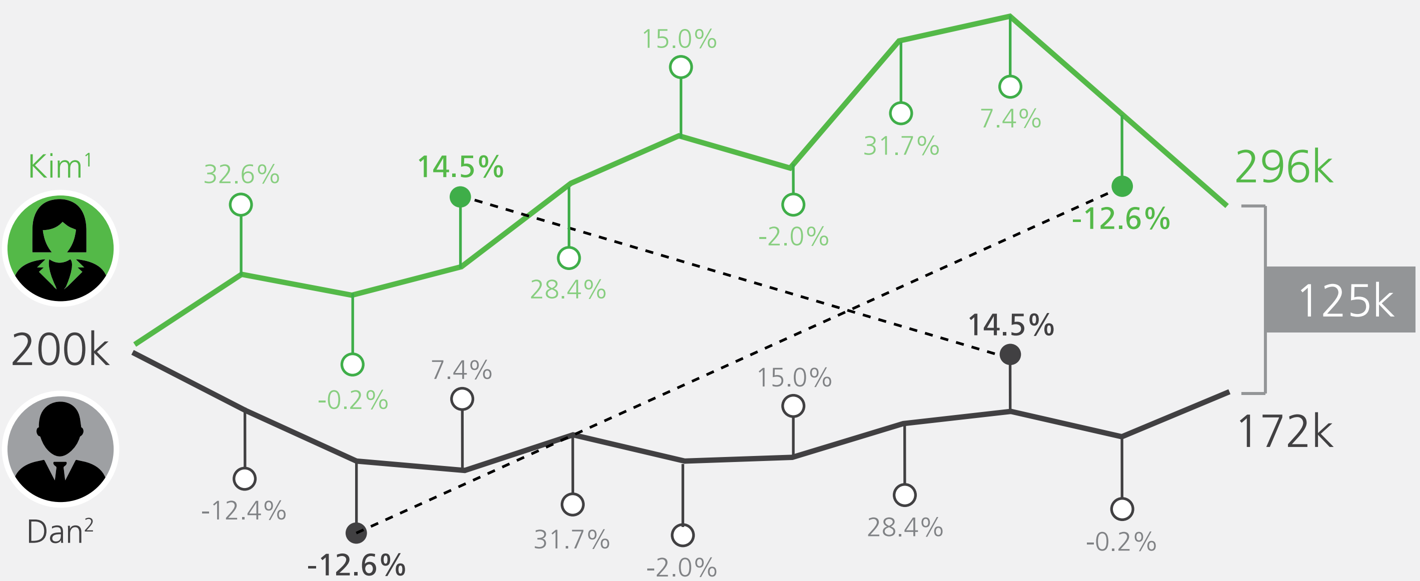
Sequence of Returns

Changes in the market are common. While no one can predict when volatility may strike, markets have historically bounced back over the long-term. However, for retirees who require income, periods of high volatility can have a serious impact on their savings if the sequence of returns is unfavorable.

The impact of market conditions during retirement

Timing matters. Take the examples of two investors, Kim and Dan. Both retired at 65 with $200,000 in retirement savings. Over the next 10 years they both achieved a 9% average annual return and each withdrew $15,000 per year in retirement income. However, at the end of 10 years Kim had $297,000 while Dan only had $172,000.

Market impact on retirement



For illustrative purposes only. Assumption: Kim and Dan have an annual withdrawal of $15,000 per year. Using the S&P TSX Composite PR index. Dividends are not reinvested.
[1] Kim's returns reflect the S&P/TSX average calendar year return between 1993 and 2002. [2] Dan's returns reflect the S&P/TSX average calendar year return between 2001 and 2010.

So what happened? These two were the same in every way except for **when** they experienced market volatility.

Kim captured strong positive returns early in her retirement followed by negative returns.

- Because these high returns were experienced at the beginning of her retirement this allowed her to sell less shares for a higher dollar amount and still receive a $15,000 per year income.

Dan experienced the same returns as Kim but in the reverse order.

- Since the negative returns Dan experienced occurred at the beginning of his retirement years, they affected a greater number of his assets.
- He was also forced to redeem more shares for a lower dollar amount in order to have an income of $15,000 per year. This amplified the impact of the market decline to the value of his investments.

The bottom line

Despite Kim and Dan having the same average annual return, it's the sequence of those returns and the timing of when they each redeemed their shares that had the greatest impact.

Retirement-focused Solutions

TD Asset Management Inc. (TDAM) offers solutions designed with the unique needs of pre-retirees and retirees in mind.

To learn more about the TDAM's retirement focused solutions, contact your advisor today.