TALKING ABOUT

SEQUENCING RISK

Allianz Retire+
POWERED BY PIMCO

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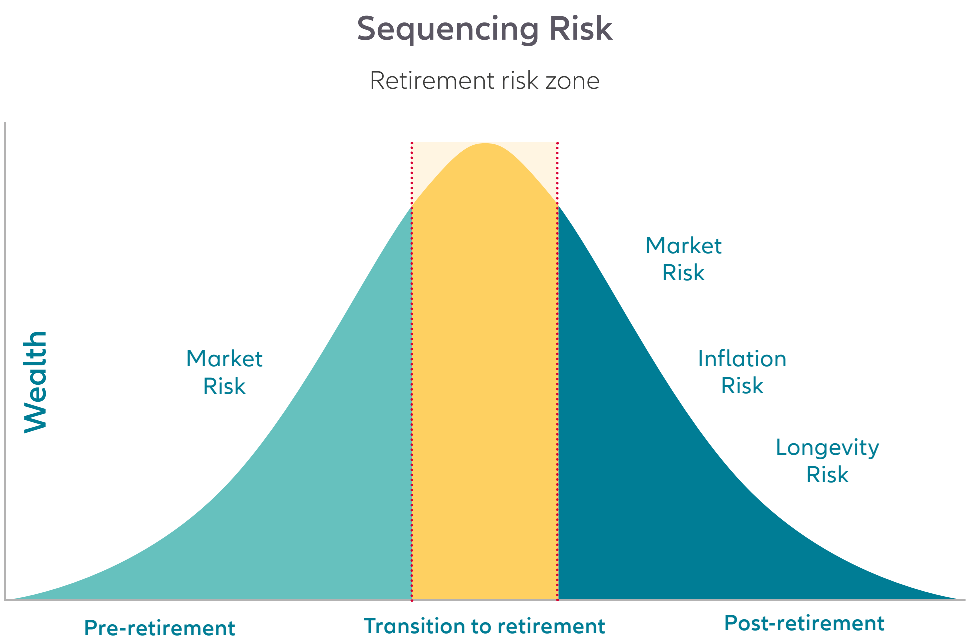
DEFINING SEQUENCING RISK

In retirement, market volatility could have a major impact on how long your clients' savings last and how long they can live a comfortable lifestyle.

One key factor to consider is the “sequence of returns”. The sequence of returns is the order of year-on-year returns their retirement assets continue to experience whilst they draw a regular income.

In the 7 or so years before and after your clients retire, they are in what’s known as the ‘retirement risk zone’. This is when their savings are at their highest, but also when they are most vulnerable to market volatility. At this time their investments' ability to recover from a market downturn, whilst maintaining a consistent income, is significantly reduced.

This is because there is less time to recover and the combination of falling asset prices and capital drawdowns for income compound the impact of a capital loss. Ultimately, any losses will diminish the total value of the remaining assets.



Source: Chart adapted from Strategic Insight (SI)
Research: “Global” Retirement: A Global Challenge 2018

FINANCIAL IMPLICATIONS OF SEQUENCING RISK

Rachel and Stan are both retiring in different years with a nest egg of

$100,000

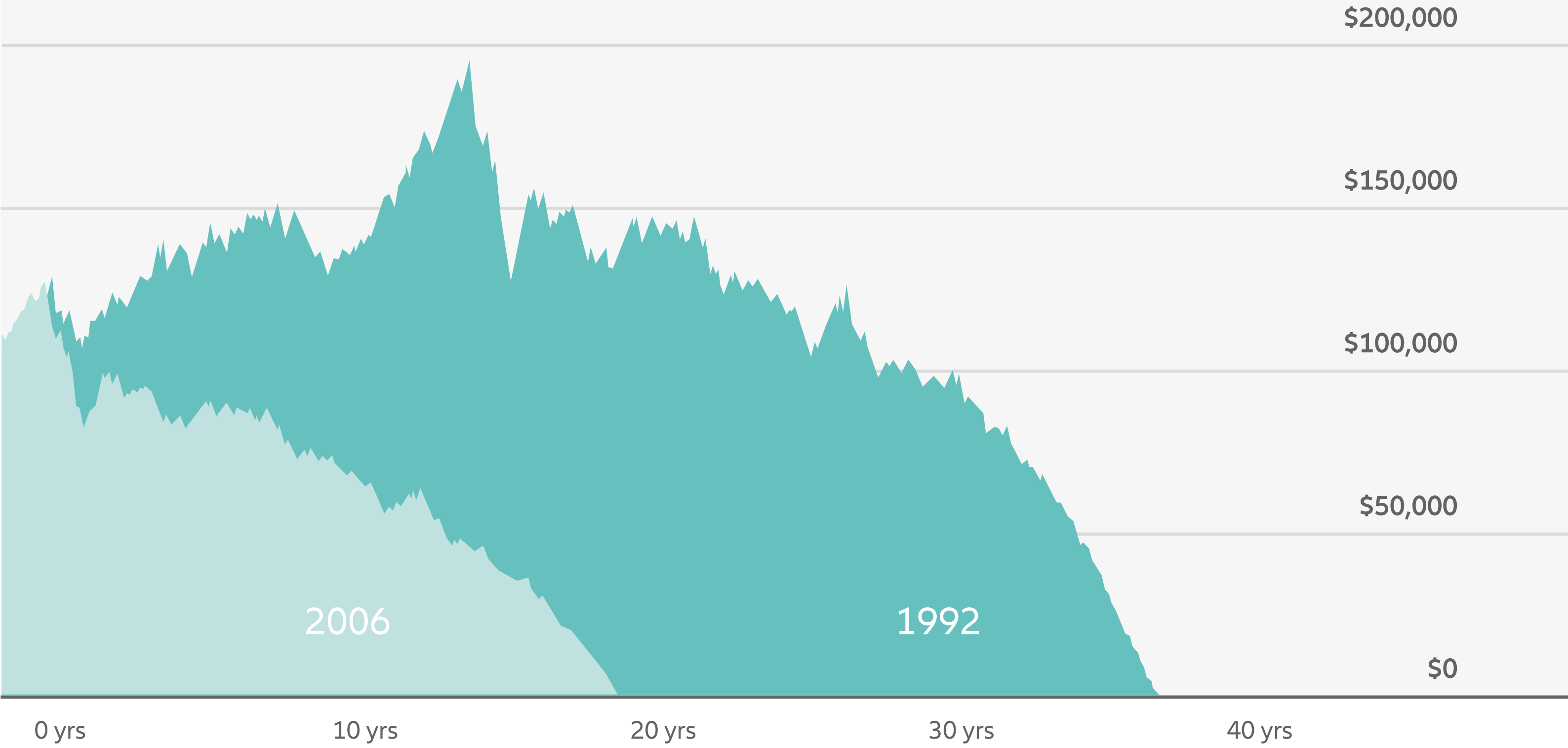
and plan to withdraw

$7,200

per year

With an annual adjustment for inflation of

2.5%



Let's consider Rachel and Stan who are retiring in different years, 1992 and 2006 respectively.

It should be noted that for Rachel, the year 1992 was prior to a bullish period whereas for Stan, 2006 was prior to the GFC. From the chart above, you can see that although the set of returns are the same for Rachel and Stan, the order of returns is different. Rachel experiences positive returns at the beginning of her retirement and is able to successfully draw an inflation linked income for 38 years. Conversely, the impact of negative returns at the start of Stan's retirement means his account is depleted after only 20 years. A difference of 18 years. By not protecting their capital during a market downturn, investors are at risk of exhausting their savings much earlier than planned in the "retirement risk zone".

Illustrative purposes only.
Source: Bloomberg.

Investment in balanced portfolio weighted 60% Australian Equities (S&P/ASX 200 Accumulation Index) and 40% Australian Bonds (Bloomberg AusBond Credit 0+ Yr Index).

Monthly AUD returns from 1st June 1992 and 1st June 2006 to 31st July 2018. Monthly returns then loop back to 1st June 1992. Monthly withdrawal amount of $7,200 p.a. indexed monthly for inflation at 2.5% p.a.

CUSTOMER INSIGHTS

"At the time of retirement, the fear to move to safety can outweigh any rational thought of needing to invest for growth"

"In this low yield environment, the ability to generate reasonable returns with little risk is very difficult."

"I don't want to run out of money and be a burden to my family and loved ones"

"Retirement means freedom. It means doing more of what gives me happiness"

Source: Allianz Retire+ market research 2017

CREATING THE RETIREMENT AUSTRALIANS DESERVE

Allianz Retire+ will deliver the next generation of retirement investment solutions to the Australian market. Our solutions are designed to simplify the complex financial and emotional challenges that can confront people who are heading into retirement.

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