



Advanced Markets *Planning in Action*

Managing sequence of return risk in retirement

Case in point

Due to recent market volatility, a producer spoke with an Advanced Markets Consultant (AMC) to understand more about how life insurance could be used to help his client address sequence of return risk. With help from the AMC, the producer presented permanent life insurance as an option to serve as a “backstop” to help hedge against many common retirement risks, including sequence of return.

Designing a case

Based on the client’s objectives, the AMC and producer developed a plan that would direct the \$2,500 of additional income into a Protection IUL policy, with an assumed growth rate of 5.92%, for a 10- year premium, with an initial minimum non-MEC face amount set at about \$920K. One of the benefits of this solution is the supplemental income the policy could provide during retirement years to help address potential sequence of return issues. To demonstrate the flexibility of using potential cash value as an additional source of funds, especially in years when there might be poor market performance, the illustration showed random tax-free distributions of approximately \$60K/year (see Sample presentation on page 4 for more information).

Why it works

- Taking tax-free distributions from the life insurance policy may help preserve the value of other assets due to a sequence of return risk
- Cash value in the policy may also be used more broadly to offset unexpected expenses or spending needs during retirement, further protecting assets from depletion
- Adding a Long-Term Care (LTC) rider to the policy may further protect the value of other assets should the client need to eventually pay for long-term care services
- Income tax-free death benefit is available to protect a surviving spouse or for legacy purposes
- John Hancock Protection IUL provides downside protection against market risk, with long-term death benefit guarantees

Client profile

- Male, age 50, Super Preferred Non-Smoker, married
- All children “out of the house”
- No mortgage or other significant debt
- Desires approximately \$60,000 of annual after-tax income during retirement (not including Social Security benefits)
- Is able to direct \$2,500/month to additional savings

See appendix on page 2 for an analysis on sequence of return risk and how life insurance can help address this risk.

Appendix: Understanding sequence of return risk

Sequence of return risk analyzes the order in which investment returns occur and the potential impact on the longevity of income sources at retirement. It's an analysis that centers on the notion that if accounts underperform early in the retirement-distribution phase, it can be difficult to make up those losses later.

In order to best understand let's look at an example:

Compare Mr. Smith (retiring in 1969) and Mrs. Jones (retiring in 1971):

- each start with retirement accounts with \$2M
- each withdraw \$100k annually

Mr. Smith

Age	Year	Beginning balance	Withdrawal amount	Actual returns	Year-end balance
65	1969	2,000,000	\$100k	-15.19%	1,611,314
66	1970	1,611,314	\$100k	4.82%	1,584,129
67	1971	1,584,129	\$100k	6.11%	1,574,854
68	1972	1,574,854	\$100k	14.58%	1,689,932
69	1973	1,689,932	\$100k	-16.58%	1,326,258
70	1974	1,326,258	\$100k	-27.57%	888,129
71	1975	888,129	\$100k	38.32%	1,090,172
72	1976	1,090,172	\$100k	17.86%	1,167,017
73	1977	1,167,017	\$100k	-17.27%	882,764
74	1978	882,764	\$100k	-3.15%	758,131
75	1979	758,131	\$100k	4.19%	685,706
76	1980	685,706	\$100k	14.93%	673,170
77	1981	673,170	\$100k	-9.23%	520,261
78	1982	520,261	\$100k	19.61%	502,653
79	1983	502,653	\$100k	20.27%	484,258
80	1984	484,258	\$100k	-3.74%	369,887
81	1985	369,887	\$100k	27.66%	344,532
82	1986	344,532	\$100k	22.58%	299,755
83	1987	299,755	\$100k	2.26%	204,274
84	1988	204,274	\$100k	11.85%	116,629
85	1989	116,629	\$100k	26.96%	21,112
86	1990	21,112	\$100k	-4.34%	-
87	1991	-	\$100k	20.32%	-
88	1992	-	\$100k	4.17%	-
89	1993	-	\$100k	13.72%	-
90	1994	-	\$100k	2.14%	-
91	1995	-	\$100k	33.45%	-
92	1996	-	\$100k	26.01%	-
93	1997	-	\$100k	22.64%	-
94	1998	-	\$100k	16.10%	-
95	1999	-	\$100k	25.22%	-

30-year average market return → 9.64%

The most recent downturn in the market is a perfect example of how the devaluation of assets may affect retirees. And many clients over the age of 50 are now more aware of this risk than ever before as they have seen their retirement assets shrink in just a short period of time. While no one can predict the future market returns, now is an advisable time to be speaking with clients about “sequence of return risk” and potential opportunities to hedge against this exposure.

Mrs. Jones

Age	Year	Beginning balance	Withdrawal amount	Actual returns	Year-end balance
65	1971	2,000,000	\$100k	6.11%	2,016,147
66	1972	2,016,147	\$100k	14.58%	2,195,579
67	1973	2,195,579	\$100k	-16.58%	1,748,048
68	1974	1,748,048	\$100k	-27.57%	1,193,615
69	1975	1,193,615	\$100k	38.32%	1,512,732
70	1976	1,512,732	\$100k	17.86%	1,665,046
71	1977	1,665,046	\$100k	-17.27%	1,294,794
72	1978	1,294,794	\$100k	-3.15%	1,157,194
73	1979	1,157,194	\$100k	4.19%	1,101,490
74	1980	1,101,490	\$100k	14.93%	1,151,043
75	1981	1,151,043	\$100k	-9.23%	954,021
76	1982	954,021	\$100k	19.61%	1,021,452
77	1983	1,021,452	\$100k	20.27%	1,108,203
78	1984	1,108,203	\$100k	-3.74%	970,496
79	1985	970,496	\$100k	27.66%	1,111,258
80	1986	1,111,258	\$100k	22.58%	1,239,630
81	1987	1,239,630	\$100k	2.26%	1,165,408
82	1988	1,165,408	\$100k	11.85%	1,191,649
83	1989	1,191,649	\$100k	26.96%	1,385,946
84	1990	1,385,946	\$100k	-4.34%	1,230,110
85	1991	1,230,110	\$100k	20.32%	1,359,749
86	1992	1,359,749	\$100k	4.17%	1,312,331
87	1993	1,312,331	\$100k	13.72%	1,378,687
88	1994	1,378,687	\$100k	2.14%	1,306,051
89	1995	1,306,051	\$100k	33.45%	1,609,499
90	1996	1,609,499	\$100k	26.01%	1,902,180
91	1997	1,902,180	\$100k	22.64%	2,210,211
92	1998	2,210,211	\$100k	16.10%	2,449,934
93	1999	2,449,934	\$100k	25.22%	2,942,611
94	2000	2,942,611	\$100k	-6.17%	2,667,279
95	2001	2,667,279	\$100k	-7.10%	2,384,899

30-year average market return → 9.54%

While Mr. Smith experienced a slightly higher average rate of return over a 30-year period, his outcome was much different due to the sequence of those returns.

*This is a hypothetical example for illustrative purposes only

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But what if Mr. Smith had been able to avoid taking withdrawals after the market had performed negatively (excluding 1970) because he had another tax-advantaged source of income he could access? In that case, he likely would have experienced a much different outcome with respect to the longevity of his account.

Let's take a look:

Mr. Smith

Age	Year	Beginning balance	Withdrawal amount	Actual returns	Year-end balance
65	1969	2,000,000	\$100k	-15.19%	1,611,314
66	1970	1,611,314	\$100k	4.82%	1,584,129
67	1971	1,584,129	\$100k	6.11%	1,574,854
68	1972	1,574,854	\$100k	14.58%	1,689,932
69	1973	1,689,932	\$100k	-16.58%	1,326,258
70	1974	1,409,674	-	-27.57%	960,555
71	1975	1,020,970	-	38.32%	1,328,679
72	1976	1,273,923	\$100k	17.86%	1,448,121
73	1977	1,383,585	\$100k	-17.27%	1,115,327
74	1978	1,144,668	-	-3.15%	1,080,228
75	1979	1,011,792	-	4.19%	1,125,489
76	1980	949,996	\$100k	14.93%	1,178,626
77	1981	976,926	\$100k	-9.23%	979,058
78	1982	886,746	-	19.61%	1,171,002
79	1983	940,988	\$100k	20.27%	1,288,062
80	1984	1,011,431	\$100k	-3.74%	1,143,628
81	1985	973,603	-	27.66%	1,459,933
82	1986	1,115,224	\$100k	22.58%	1,667,047
83	1987	1,244,493	\$100k	2.26%	1,602,493
84	1988	1,170,381	\$100k	11.85%	1,680,524
85	1989	1,197,210	\$100k	26.96%	2,006,617
86	1990	1,393,007	\$100k	-4.34%	1,823,832
87	1991	1,236,865	-	20.32%	2,194,434
88	1992	1,367,876	\$100k	4.17%	2,181,856
89	1993	1,320,797	\$100k	13.72%	2,367,528
90	1994	1,388,315	\$100k	2.14%	2,316,054
91	1995	1,315,885	\$100k	33.45%	3,600,684
92	1996	1,622,622	\$100k	26.01%	3,600,684
93	1997	1,918,717	\$100k	22.64%	4,293,273
94	1998	2,230,493	\$100k	16.10%	4,868,348
95	1999	2,473,481	\$100k	25.22%	5,970,973

Avoiding withdrawals from this account after negative market returns substantially increases its potential longevity. However, in order to avoid taking taxable withdrawals in this manner, Mr. Smith would likely need another source of income from which to draw. Permanent life insurance can serve as this source of tax-free income.

30-year average market return → 9.64%

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Conclusion

Cash value life insurance can help manage the sequence of return risk people will face during retirement years. And as an indexed universal life policy, John Hancock's Protection IUL helps drive the cash value at potentially higher crediting rates than a traditional UL policy can, while providing downside protection against market volatility. What's more, adding a LTC rider gives clients additional protection of their primary income assets. In short, now more than ever, cash value life insurance offers a solution that clients may be looking for to help cover times of financial uncertainty.

Resources



Retirement backstop sample presentation



Retirement backstop advisor companion



Retirement backstop client snapshot

Call Advanced Markets at **888-266-7498, option 3** to speak with an Advanced Markets Consultant, or email advancedmarkets@jhancock.com

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Insurance policies and/or associated riders and features may not be available in all states.

Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are few exceptions such as when a life insurance policy has been transferred for valuable consideration.

Guaranteed product features are dependent upon minimum premium requirements and the claims-paying ability of the issuer.

Loans and withdrawals will reduce the death benefit, cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59 1/2.

The Long-Term Care (LTC) rider is an accelerated death benefit rider and may not be considered long-term care insurance in some states. There are additional costs associated with this rider. The Maximum Monthly Benefit Amount is \$50,000. When the death benefit is accelerated for long-term care expenses it is reduced dollar for dollar, and the cash value is reduced proportionately. Please go to www.jhsaleshub.com to verify state availability.

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