thrivent

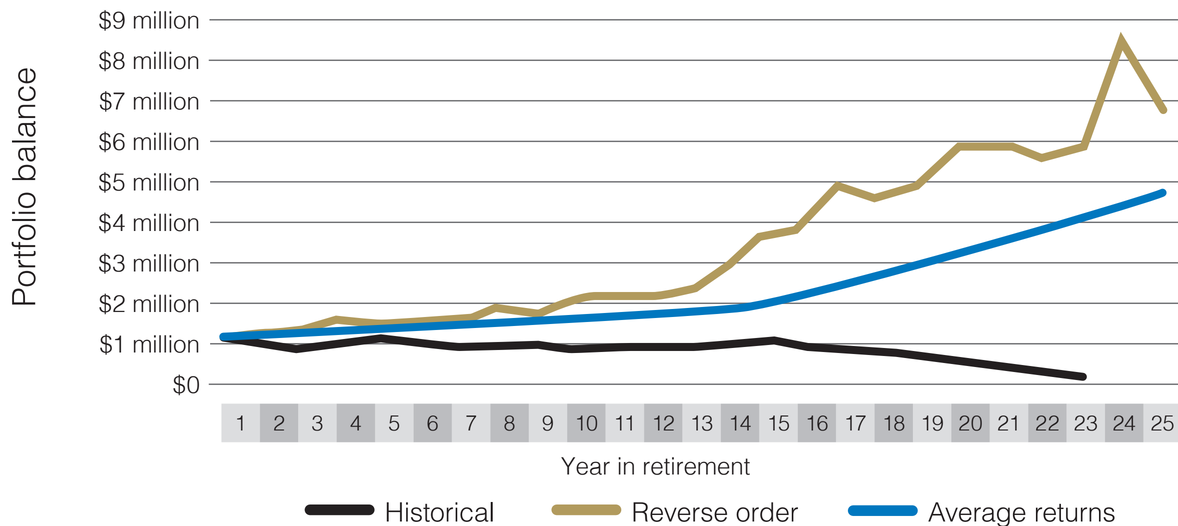
Plan for the Things You Can't Control

Markets, inflation, interest rates and time

When you're investing for retirement, saving on a regular basis, maintaining a diversified portfolio and rebalancing periodically can be very helpful. However, they still may not be sufficient to prevent you from running out of money in retirement.

To illustrate this, we've created three retirement scenarios, the details of which are on the following page.

Portfolio balances over time: Impact of the order of returns



Ann invested and saved a total of $1 million for retirement. When she retired, she withdrew 4% of her account balance, or $40,000. She continued taking that amount each year, adjusting for inflation. Using historical data for the 25 years from 1973 to 1997, the average portfolio return was 10.7% and inflation averaged 5.5%. However, as you can see from the black line in the chart above, annual inflation and market fluctuations had a big impact on her portfolio—and she runs out of money in the 23rd year.

If the same market factors had taken place during that time, but her portfolio returns had occurred in reverse order, her outcome would have been much different. This result is represented by the gold line. While the average return and inflation rates would have remained the same as in the previous scenario, we can see that her portfolio would have realized growth and she would not have run out of money.

Finally, we can see by the blue line that if Ann had realized the average return and inflation rate each year, she would have experienced predictable but unrealistic growth in her portfolio.

In other words, depending on the order of returns, Ann's outcome changes significantly.

Through these examples, we can see that planning on average returns—even if useful while saving money for retirement—may have serious consequences in retirement. That's why you'll want your retirement strategy to anticipate and account for market volatility, varying interest rates and the effects of inflation.

1973–1997 historical

Year	Withdrawal	Accumulated Value (Beginning of Year)	Portfolio Returns	Inflation
1	$40,000	$960,000	-10.5%	8.7%
2	$43,480	$816,176	-18.7%	12.3%
3	$48,828	$614,331	25.5%	6.9%
4	$52,197	$718,739	19.0%	4.9%
5	$54,755	$800,200	-5.9%	6.7%
6	$58,423	$694,733	2.5%	9.0%
7	$63,682	$648,336	10.6%	13.3%
8	$72,151	$644,825	19.6%	12.5%
9	$81,170	$689,747	-3.2%	8.9%
10	$88,394	$579,081	24.6%	3.8%
11	$91,753	$629,755	14.9%	3.8%
12	$95,240	$628,258	7.4%	3.9%
13	$98,954	$575,744	27.4%	3.8%
14	$102,714	$630,692	16.2%	1.1%
15	$103,844	$628,938	1.8%	4.4%
16	$108,413	$531,842	11.5%	4.4%
17	$113,184	$479,557	24.1%	4.6%
18	$118,390	$476,668	-1.0%	6.1%
19	$125,612	$346,242	23.7%	3.1%
20	$129,506	$298,939	5.5%	2.9%
21	$133,261	$182,230	8.3%	2.7%
22	$136,860	$60,487	-2.6%	2.7%
23	$58,912[1]	$0	29.6%	2.5%
24	$0	$0	13.8%	3.3%
25	$0	$0	23.3%	1.7%
		Average	**10.7%**	**5.5%**

1997–1973 reverse order

Year	Withdrawal	Accumulated Value (Beginning of Year)	Portfolio Returns	Inflation
1	$40,000	$960,000	23.3%	1.7%
2	$40,680	$1,143,058	13.8%	3.3%
3	$42,022	$1,259,229	29.6%	2.5%
4	$43,073	$1,589,404	-2.6%	2.7%
5	$44,236	$1,503,780	8.3%	2.7%
6	$45,430	$1,583,095	5.5%	2.9%
7	$46,748	$1,624,003	23.7%	3.1%
8	$48,197	$1,961,369	-1.0%	6.1%
9	$51,137	$1,890,422	24.1%	4.6%
10	$53,489	$2,292,241	11.5%	4.4%
11	$55,843	$2,498,871	1.8%	4.4%
12	$58,300	$2,485,539	16.2%	1.1%
13	$58,941	$2,828,932	27.4%	3.8%
14	$61,181	$3,542,425	7.4%	3.9%
15	$63,567	$3,740,714	14.9%	3.8%
16	$65,983	$4,231,555	24.6%	3.8%
17	$68,490	$5,203,838	-3.2%	8.9%
18	$74,586	$4,961,220	19.6%	12.5%
19	$83,909	$5,847,453	10.6%	13.3%
20	$95,069	$6,371,455	2.5%	9.0%
21	$103,625	$6,426,352	-5.9%	6.7%
22	$110,568	$5,937,979	19.0%	4.9%
23	$115,985	$6,947,359	25.5%	6.9%
24	$123,988	$8,594,391	-18.7%	12.3%
25	$139,239	$6,843,876	-10.5%	8.7%
		Average	**10.7%**	**5.5%**

1973–1997 average returns

Year	Withdrawal	Accumulated Value (Beginning of Year)	Portfolio Returns	Inflation
1	$40,000	$960,000	10.7%	5.5%
2	$42,200	$1,020,520	10.7%	5.5%
3	$44,521	$1,085,195	10.7%	5.5%
4	$46,970	$1,154,341	10.7%	5.5%
5	$49,553	$1,228,302	10.7%	5.5%
6	$52,278	$1,307,452	10.7%	5.5%
7	$55,154	$1,392,196	10.7%	5.5%
8	$58,187	$1,482,974	10.7%	5.5%
9	$61,387	$1,580,264	10.7%	5.5%
10	$64,764	$1,684,589	10.7%	5.5%
11	$68,326	$1,796,514	10.7%	5.5%
12	$72,084	$1,916,658	10.7%	5.5%
13	$76,048	$2,045,692	10.7%	5.5%
14	$80,231	$2,184,350	10.7%	5.5%
15	$84,644	$2,333,431	10.7%	5.5%
16	$89,299	$2,493,809	10.7%	5.5%
17	$94,211	$2,666,437	10.7%	5.5%
18	$99,392	$2,852,353	10.7%	5.5%
19	$104,859	$3,052,696	10.7%	5.5%
20	$110,626	$3,268,709	10.7%	5.5%
21	$116,710	$3,501,751	10.7%	5.5%
22	$123,129	$3,753,308	10.7%	5.5%
23	$129,901	$4,025,011	10.7%	5.5%
24	$137,046	$4,318,641	10.7%	5.5%
25	$144,584	$4,636,152	10.7%	5.5%
		Average	**10.7%**	**5.5%**

Portfolio distributions can be affected by order of returns, guarantees and asset allocations.

[1]Full intended withdrawal amount of $140,554 was not met.

Portfolio consists of 65% stocks, 25% corporate bonds and 10% Treasury bonds.

This hypothetical illustration does not reflect the performance of any Thrivent Financial investment product. Stock performance is based on the S&P 500 Index. Corporate bond performance is based on the U.S. AAA Corp Bond Index (1973–1975) and Barclays U.S. Aggregate Bond Index (1976–1997). Treasury bonds are based on the U.S. 10-Year Treasury Note. The returns are net of 2% advisory fees and do not assume reinvestment of dividends, interest and capital gains. Historical returns are used and are not a prediction or projection of future results. Investors cannot invest directly in any index. Remaining assets are beginning-of-year values after accounting for the withdrawal taken at the beginning of each year. The dates were selected to illustrate the concept. Selecting other periods will produce different results. Investing involves risks, including the possible loss of principal.

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