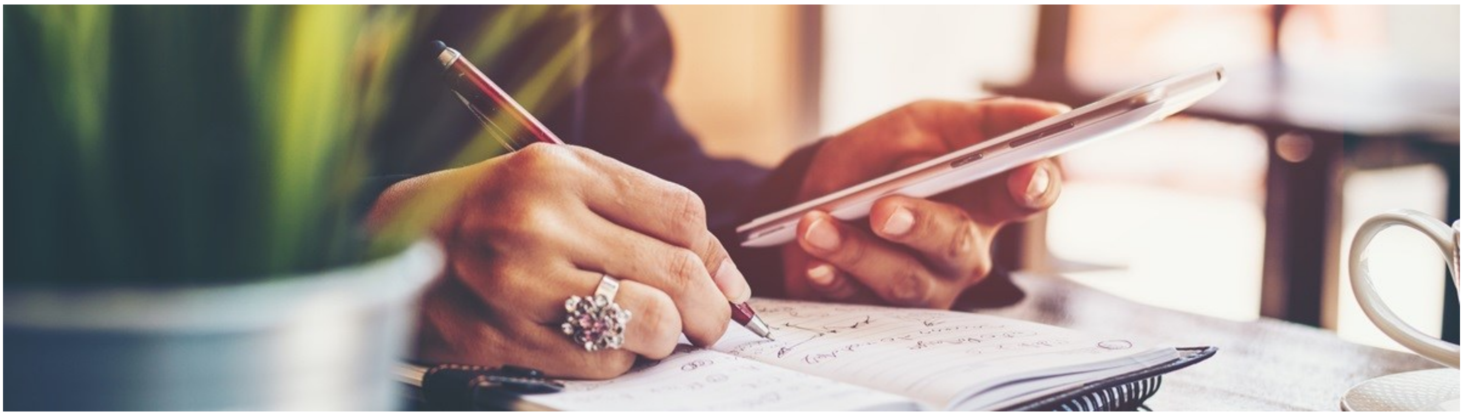
PROTECT YOUR RETIREMENT SAVINGS



PERPETUAL
29/03/2020

There's never a good time for poor investment performance. But some times are worse than others, and the worst of all times is near the point of retirement.

"Lost time is never found again." Benjamin Franklin

When you are in the early stages of your working life and building your retirement nest egg, time is on your side. If you experience a bad investment return, you can weather the set back over the long term. Your investment portfolio has time to recover.

Fast forward to your retirement and the fundamentals have changed. Now you are risking a lifetime of savings - savings that you depend on for income after work. If you suffer a series of poor returns in the first few years of retirement, your investment portfolio may not have time to recover. Which means less retirement income.

People call this dilemma ***sequencing risk*** – the risk of experiencing poor returns at the worst possible time in your life.

The perils of "sequencing risk"

If a market downturn occurs when you are 25 years young, only a few years of investment are at risk. You're still earning a salary. You aren't dependant on your investments for income. You're in a position to ride out periods of volatility over the long term.

Compare this scenario to a 65 year old at the point of retirement, with 40-plus years of super contributions. Not only is the negative investment impact far greater, because more money is at risk, it is compounded when you start drawing down on your nest egg for income.

Consequently you have even less capital with which to recover any losses, as well as increasing the likelihood that you may outlive your savings. This scenario may force people to adjust their lifestyle expectations and take more risk in their portfolio at a time when they can least afford to do so.

FOUR WAYS TO MANAGE SEQUENCING RISK

You can help to lessen the impact of sequencing risk as you approach retirement by:

1. **Ensuring your portfolio is well-diversified:** Research shows that appropriate diversification across asset classes, local versus global markets and even investment managers helps to lower the volatility of returns, and lessens the impact of a downturn, without affecting total returns.
2. **Regularly reviewing your asset allocation:** Consider making adjustments to your asset allocation over your working life, with higher exposure to growth assets when you're younger being gradually replaced by more defensive assets as you approach retirement.
3. **Creating an emergency fund:** Having several years of living expenses in cash can reduce your need to draw down on your retirement savings after a period of negative returns, allowing a greater proportion of your portfolio to benefit from any recovery.
4. **Considering an annuity:** Buying a term or lifetime annuity provides you with a guaranteed income stream over a chosen period, regardless of the sequence of investment returns.