



Market Volatility and Your Retirement: Can Timing Alter Your Plans?

For most investors, market volatility is a fact of life. Stock prices fluctuate from day to day, and markets ebb and flow over time along with the economy and business cycle. Those saving for long-term goals can usually overlook temporary volatility in the interest of long-term gain. But for retirees, who increasingly rely on their investments to fund their living costs, market volatility can mean the difference between living comfortably and just scraping by. In fact, retirees are particularly vulnerable to market

downturns, especially in the early years of retirement because of their dependence on portfolio income, their limited investment horizon, and their need to make sure their savings last throughout their retirement.

To better understand how market volatility can affect the longevity of your retirement nest egg, consider the following hypothetical example. The chart below shows three different investment scenarios, each of which assumes a rate of 3% inflation.

In SCENARIO #1, Mr. Jones' investments got off to a shaky start with three straight years of negative performance. When he factors in his 7% annual withdrawals, in addition to the poor performance, he will have depleted almost half of his nest egg in just 10 years.

In SCENARIO #2, Mr. Jones experienced a steady 6% rate of return over 10 years. After factoring in his 7% withdrawals, his portfolio would be worth considerably more after 10 years than in Scenario #1—\$373,895 versus \$229,109—but such consistent market performance over an extended time period is unrealistic.

In SCENARIO #3, look at what could have happened if Mr. Jones had experienced positive returns early in retirement and hadn't experienced investment declines until much later. As the chart indicates, his portfolio would have come much closer to retaining its original principal value—\$479,744—despite his annual 7% withdrawals.

		SCENARIO #1		SCENARIO #2		SCENARIO #3	
Age	Year	ROR	Negative Returns First*	ROR	Flat Rate Return*	ROR	Positive Returns First*
65	1	-7.0%	\$430,000	6.0%	\$494,991	16.1%	\$545,700
66	2	-7.0%	\$363,850	6.0%	\$488,632	16.1%	\$597,508
67	3	-7.0%	\$301,249	6.0%	\$480,809	16.1%	\$656,575
68	4	9.2%	\$290,718	6.0%	\$471,404	9.2%	\$678,734
69	5	9.2%	\$278,072	6.0%	\$460,287	9.2%	\$701,785
70	6	9.2%	\$263,080	6.0%	\$447,321	9.2%	\$725,775
71	7	9.2%	\$245,491	6.0%	\$432,361	9.2%	\$750,754
72	8	16.1%	\$241,970	6.0%	\$415,249	-7.0%	\$655,156
73	9	16.1%	\$236,590	6.0%	\$395,820	-7.0%	\$564,958
74	10	16.1%	\$229,109	6.0%	\$373,895	-7.0%	\$479,744
Avg. Annualized Return		6.00%		6.00%		6.00%	
Value at end of 10 years			\$229,109		\$373,895		\$479,744

* Based on \$500,000 beginning portfolio balance

Source: Standard & Poor's. This example is hypothetical and is for illustrative purposes only. It assumes a 6.0% average annualized rate of return, rounded to the first decimal, and 7% annual withdrawals based on the first-year principal, adjusted thereafter for 3% inflation each year. Actual results will vary. Past performance does not guarantee future results.

This example points out the importance of timing in relation to investment gains or losses when you are in the early years of retirement. Positive returns early on can mean a lifetime of financial comfort, while early losses can mean running out of money in the midst of retirement. Unfortunately, the timing of market losses and gains is something that we cannot control.

Market Volatility—A Historic Inevitability

How likely is it that a market decline will coincide with your retirement timing? No one knows for sure. We do know what history tells us—that over long periods of time the stock market has delivered positive returns on an average basis. But we also know that in the shorter term, stocks fluctuate in response to many factors. For instance, through the market boom of the 1990s, personal investment portfolios were swelling and the stock market reached an all-time high. Then the bubble burst in the technology/Internet sector, corporate scandals the likes of Enron dominated the headlines, and many investors lost a significant portion of their retirement savings. Those who were unlucky enough to be on the brink of retirement—or worse, those who were recently retired—found themselves making radical adjustments to their retirement plans in order to get by.

There have been many other periods of decline throughout history—even though the particular events that triggered them may have been different. And there will no doubt be more periods of market decline in the future. Although market fluctuations are a normal part of investing, they can still pose challenges to investors, especially those entering or already in retirement. History shows that the probability of experiencing a bear market—defined as a 20% drop in stock values—in any of the first five years of retirement is 44%.

Strategies for Managing Market Volatility in Retirement

The following strategies can't guarantee against losses, but they may be able to ease the ups and downs in the market and contribute to greater peace of mind.

1. Keep withdrawal assumptions conservative.

When calculating how much of your retirement portfolio you can spend each year, be realistic: The amount you have saved and the expected length of your retirement will dictate the annual withdrawal amount. Using historical market performance as a guide, retirement experts suggest withdrawing no more than 5% of a portfolio's value each year. This approach may help maintain a cushion against future market declines while supporting a hypothetical payout schedule of 20 years or more.

2. Maintain a sensible asset allocation.

Divide your portfolio among stocks, bonds, and cash investments so that you have adequate exposure to the long-term growth potential that stocks provide, but also have some protection against market setbacks. By spreading your assets across investments that react differently to various market conditions, you reduce the impact that any single losing investment can have on your overall portfolio performance.

3. Review and rebalance your portfolio.

Once you have set an asset allocation that works for you, review and, if necessary, adjust it from time to time to ensure that it still reflects your needs. Fluctuations in the market may cause your asset mix to become too heavy in stocks—which could expose your retirement nest egg to damaging, even irreversible, setbacks when you are on the verge of retirement. Similarly, as you grow older, you may want to “weight” your portfolio more toward bonds, for their ability to produce income.

4. Work with a financial professional.

The guidance of a financial advisor can always be beneficial, but it may be especially so in the years leading up to and entering retirement. It is at this time that investors are at their most vulnerable to specific market events as well as normal market fluctuations. In either case, an advisor can help investors make informed, unemotional decisions consistent with their financial goals.

Points to Remember

1. Although market volatility is a normal part of investing, it can pose serious challenges to investors, especially those entering or already in retirement.
2. Market declines in the early years of retirement can dramatically increase the probability of running out of money in later years.
3. Maintaining conservative withdrawal assumptions—spending no more than 5% of a portfolio's value each year may help maintain a cushion against future market declines while supporting a hypothetical payout schedule of 20 years or more.
4. Maintain a sensible asset allocation of stocks, bonds, and cash investments and rebalance it from time to time to ensure that it doesn't expose you to damaging investment setbacks.
5. The guidance of a financial advisor can be especially beneficial in the years leading up to and entering retirement.

Contact your financial advisor or visit www.jhannuities.com for more information, including product and fund prospectuses that contain complete details on investment objectives, risks, fees, charges, and expenses, as well as other information about the investment company, which should be carefully considered. Please read the prospectuses carefully prior to investing. The prospectuses contain this and other information on the product and the underlying portfolios.

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