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CAN RETIREES SIDESTEP THE "UNCERTAINTY TAX" AND MITIGATE SEQUENCING RISK?

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Retirement income strategies can often create uncertainty, leading many retirees to underspend. Concerns around predictable cashflows, market timing and longevity create ambiguity on what they really need to support their path ahead. If retirees prioritize cashflow, will they have the confidence to spend more?

Retirees are Held Back by an "Uncertainty Tax"

Investing in retirement is a different ballgame. Retirement portfolios need to generate income and inherently face new considerations like "sequencing risk," or the danger that the timing of market returns can negatively impact how long retirement savings will last.

Consider two investors with $1 million in equity portfolios in the year 2000. Investor A is 40 years old and actively working. They make no withdrawals and continue to allow their money to grow. Investor B is retired and applies the "4% rule," selling $40,000 annually for income, rising with inflation.[1]

Fast-forward 25 years, and the S&P 500 Index delivered an 8.4% annual return to both investors. However, the returns arrived inconsistently. The market suffered a difficult run over the first 12 years, through the dot-com crash, 2008 global financial crisis and euro debt crisis. Over the rest of the period, the market recovered and performed strongly.

This "sequence" of returns had no impact on Investor A's terminal wealth (Figure 1, next page). The outcome was the same as a consistent 8.4% annual return. But the unfortunate sequence of events profoundly impaired Investor B's portfolio.

This is because Investor B was a "forced seller" during those first few difficult years, which meant crystallizing painful losses and forfeiting their ability to fully participate in the recovery that followed.

Investor A

- 40 years old, actively working
- No withdrawals, money continues to grow

Investor B

- Retired
- Applies 4% rule: sells $40k per year for income, rising with inflation

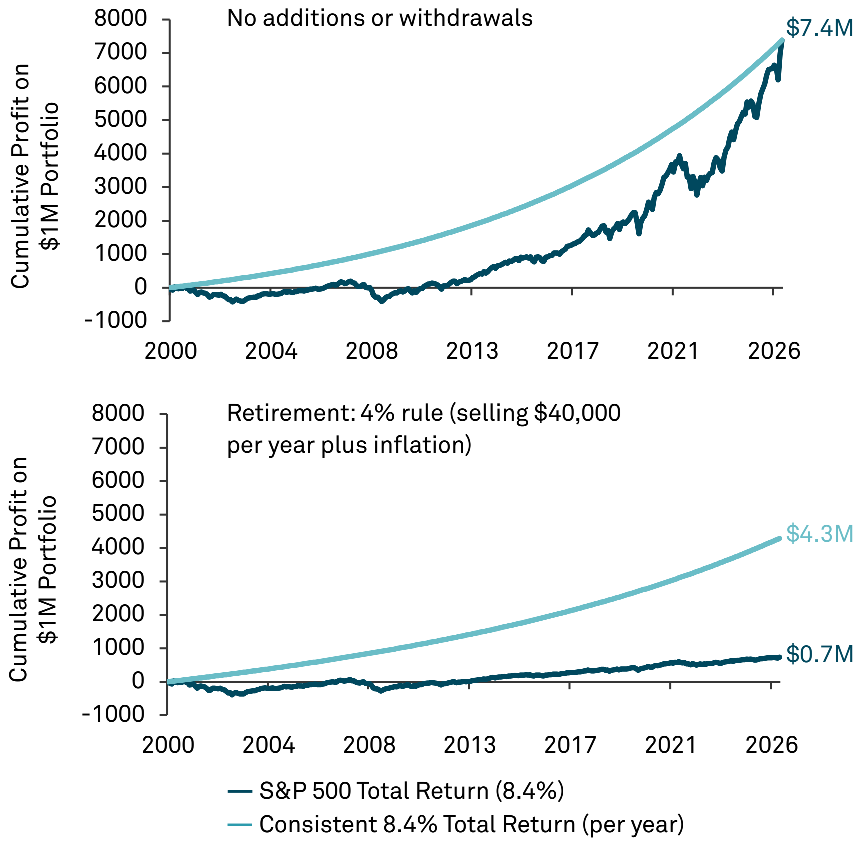
Figure 1:
Low Returns Early in Retirement Can Dramatically Impair a Portfolio's Value Over Time

Investor A:

Without withdrawals: No difference between consistent (expected) return and end results

Investor B:

With withdrawals: Due to sequence of returns, retirees achieved only $736,000, a fraction of expected $4M



Source: Bloomberg, Insight Investment, May 31, 2026. 4% rule assumes a $40,000 outflow in year one, rising in line with historical CPI rates each year. For illustrative purposes only.[2]

Being Conservative Helps, But at the Cost of Spending

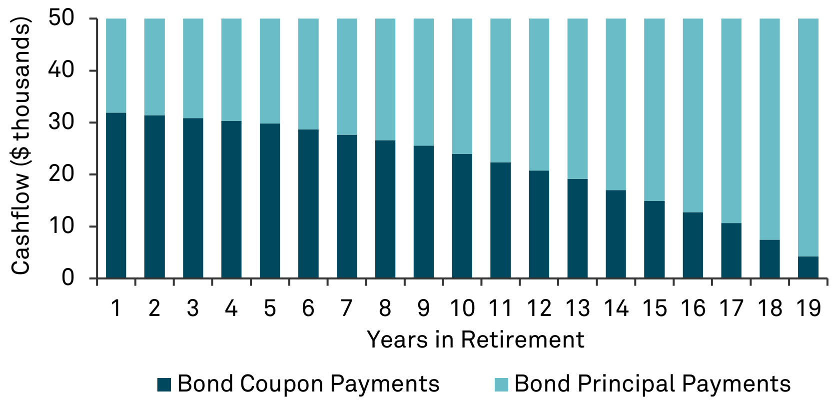
To mitigate sequencing risk (and other sources of uncertainty like longevity), many retirement frameworks recommend conservative approaches. As such, research suggests many retirees tend to underspend investment assets, often preserving savings.[3]

Focusing on Contractual Cashflows May Offer Retirees the Confidence to Spend

We believe investments structured to deliver potential steady and more predictable cashflows can offer a solution to this retirement dilemma.

Bond coupons and principal repayments are backed by contractual obligations. If retirees can align these cashflows to match the timing and size of their income needs, their spending may be less dependent on the "sequence" of returns in the market. By holding bonds to deliver cashflows when needed, rather than relying on forecasts or market timing, this approach may create a clearer, more reliable path to funding income–potentially maximizing spending power throughout retirement. This type of strategy is designed to systematically return and fully deplete capital over the investment horizon, aligning assets with the retiree's planned use of funds.

Figure 2: Structuring Contractual Investment Cashflows May Offer Retirees the Confidence to Spend



Source: Insight Investment, May 2026. For illustrative purposes only.

"Annuity-Like" Income, with the Flexibility of an Investment Portfolio

Customized personal bond (PB) strategies may offer the type of steady income and confidence that retirees typically seek from more traditional solutions, without their undesirable features such as illiquidity and complexity of instruments like annuities. The trade-off is that personal bond strategies do not offer the insurance guarantees that annuities provide.

However, since they are built with liquid corporate bonds, PB portfolios can allow retirees the flexibility to update their income requirements as their needs or circumstances change without incurring the costly penalties associated with some annuities.

This strategy, also known as cashflow matching, in our view, may serve as the heart of a retirement income portfolio, or a pillar of a broader investment approach. A common implementation, based on a client's risk tolerance, may be to pair it with a more aggressive risk exposure (such as the S&P 500 Index), to allow the portfolio to grow, while potentially mitigating forced selling to support withdrawals, particularly during market downturns.

These solutions may allow retirees to spend more and also pass more down to their heirs.

Managing Uncertainty

Customizing bond portfolios for clients is not typically scalable for advisors. However, partnering with a specialist fixed income manager may offer helpful infrastructure and resources.

Managers that focus on security selection and monitoring default risk may be best placed to seek to deliver these solutions.

Advisors work hard to manage the consequences of structural uncertainty for their clients. But can they sidestep a major driver of that uncertainty and offer their clients more?

About Insight Investment

Insight Investment is a leading global investment manager and fixed income specialist firm within BNY Investments.

Endnotes

1. The 4% rule is a retirement withdrawal guideline suggesting retirees withdraw 4% of their retirement account in the first year and adjust that amount for annual inflation.
2. Information shown herein is for illustrative purposes and not meant to depict the performance of any client account or strategy managed by Insight Investment or its affiliates. The information does not reflect trading or market conditions. The quoted benchmark does not reflect deductions for fees, expenses or taxes. The benchmark is unmanaged and does not reflect actual trading. There could be material factors relevant to any such comparison such as differences in volatility, and regulatory and legal restrictions between the index and the strategy.
3. Employee Benefit Research Institute (EBRI), April 2018.

Appendix

The S&P 500 Index is a market-capitalization-weighted index that tracks the 500 largest leading publicly traded companies in the U.S. An investor cannot directly invest in an index. **The Consumer Price Index (CPI)** is used to measure inflation, based on the prices in a basket of goods and services, meant to be representative of those we typically spend our money on.

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Bond ratings reflect the rating entity’s evaluation of the issuer’s ability to pay interest and repay principal on the bond on a timely basis. Bonds rated BBB/Baa or higher are considered investment grade, while bonds rated BB/Ba or lower are considered speculative as to the timely payment of interest and principal. Credit ratings reflect only those assigned by Nationally Recognized Statistical Rating Organizations (NRSRO) that have rated fund holdings. Split-rated bonds, if any, are reported in the higher rating category.

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