

# The new *retirement* *reality*

Karl Heap / September 2024

# Learning objectives



Understand the difference between a Centralised Investment Proposition (CIP) and Centralised Retirement Proposition (CRP)



Identify the factors that make a decumulation strategy flexible to meet your client's changing needs



Identify risks associated with planning for income in retirement, including rising inflation, sequencing, longevity and investment risk

# Retirement income

# The Brief



Who is the advice aimed at?

What is being recommended?

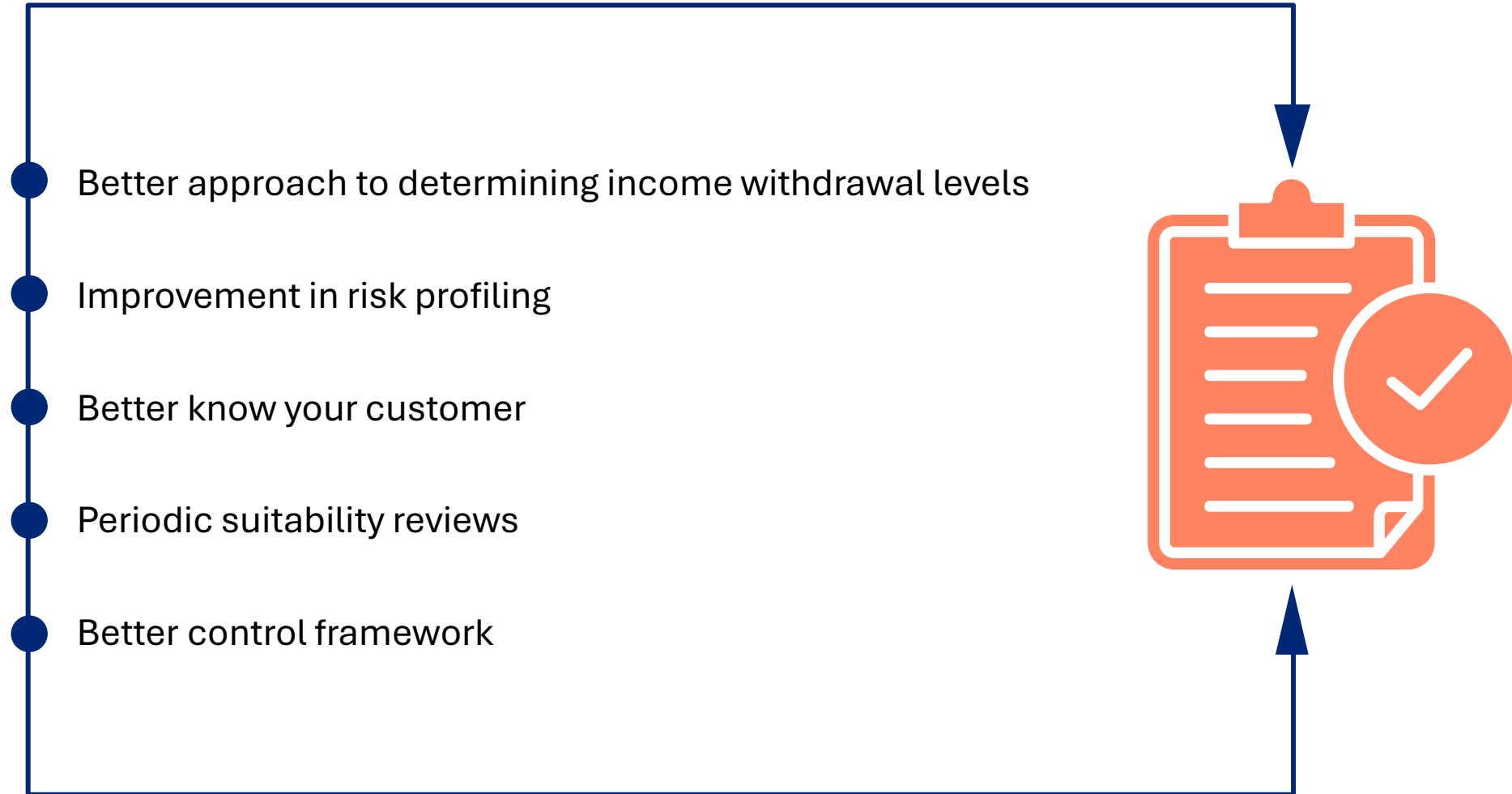
Where is being recommended?



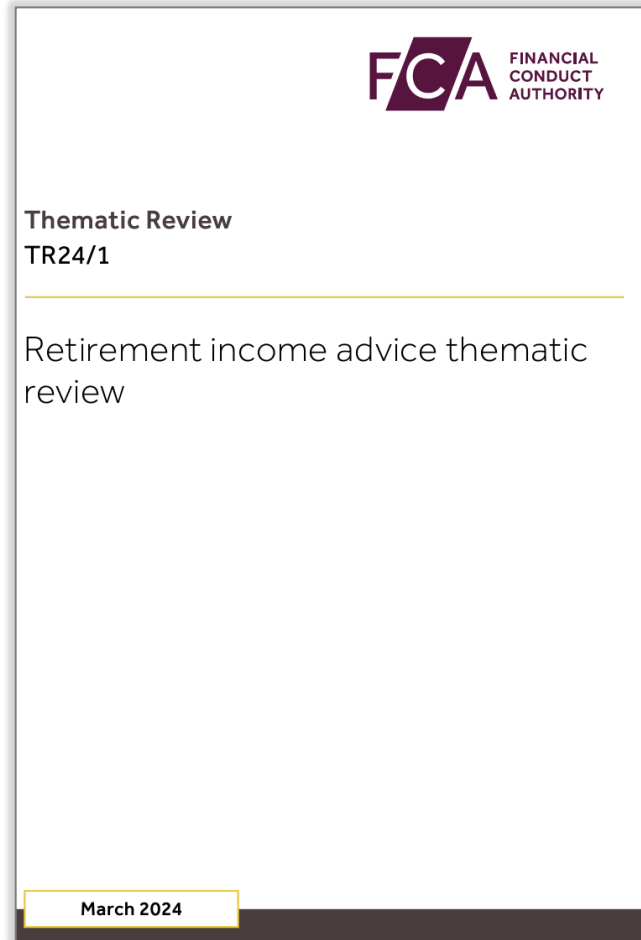
Why specifically this advice, at this time?

How will this ultimately help achieve their goals and objectives?

# The FCA's findings



# Retirement income advice review



- **Platforms (section 4)**
  - Objective - The firm's choice of investment platforms meets its customers' needs
  - Firms need to be able to show they have considered whether the features and services platforms provide reflect the needs of customers in decumulation
- **Poor practice**
  - One firm was unable to provide evidence of its last platform review or explain how it continued to meet the needs of its customers. Another firm acknowledged its platform did not fully meet the needs of its customers in decumulation but did not appear to have taken any steps to address this

# Our paper & guidance



## Target market

Have you as a business defined your target market for decumulation advice/services?

Have you also considered a negative target market (i.e. who you do not believe to be suitable for your proposition?)



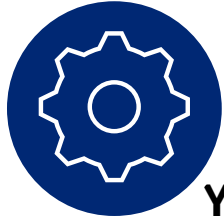
## Scope of advice

What does the scope of this advice look like?

Is it independent, or restricted

Is it holistic or product based?

# Our paper & guidance



## Your service proposition and charging model

How does your service proposition differ in decumulation to accumulation?

Does your charging model change?

How will you monitor whether this is working?



## Choice of platforms

When conducting your DD on platforms, did you specifically look for a platform suitable for decumulation vs accumulation?

When did you last carry out a Platform DD exercise?



# Our paper & guidance



## Third party service providers

What 3rd party service providers do you use within your business? Cashflow, Risk Profiling, Client portals etc.

How comfortable are you with their output in relation to decumulation advice?



## Product solutions

What product based solutions do you utilise for decumulation advice? i.e. annuities, hybrid products, tax wrappers etc.

When did you last review this and how comfortable are you with how they all work?

# Our paper & guidance



## **Investment solutions**

How does your investment philosophy differ in decumulation?

What solutions do you use and when?

When was this last reviewed?

# Poor practice in the spotlight



## Addressing findings of platform due diligence

Another firm acknowledged its platform did not fully meet the needs of its customers in decumulation but did not appear to have taken any steps to address this.



## No guidance for cashflow modelling tools

One firm stated CFM tools were used but it was up to advisers to decide whether and how to use these leading to variable outcomes for clients.



## Evidencing and explaining platform due diligence

One firm was unable to provide evidence of its last platform review or explain how it continued to meet the needs of its customers



## Inconsistent processes for risk profiling

One firm had a 3-step process for risk profiling, risk tolerance, risk capacity and experience. With no standard questions to guide the discussion, it can result in inconsistent outcomes between advisers.

# Ding Ding Round 2

1. Date of Advice
2. Adviser Name
3. Adviser IRN
4. Introducer
5. Customer Name or Reference
6. Was advice proceeded with? Y/N
7. Was the file QA'd? Y/N
8. Basis of decumulation advice given
9. Ceding Scheme Provider
10. Ceding Scheme Product Category
11. Recommended Solution Category
12. Ceding Scheme Guarantees
13. Customer ATR
14. Recommended Solution Provider
15. Replacement Business Y/N
16. Replacement Transfer Y/N
17. Investment Amount
18. Underlying Investment
19. Initial Fee %
20. Initial Fee Total £
21. Ongoing Fee %
22. Ongoing Fee £
23. Was the initial advice telephone based?
24. Is the initial call recording available?
25. Other

# Ding Ding Round 2

- You must explain your approach to decumulation advice, including your fee structure, strategy, and proposition.
- You must share your organisation chart and explain your supervision structure and methods.

**You are then asked to complete the following:**

“A description of your firm’s decumulation advice business model, including details of how it attracts new business, details of introducers, how it generates revenue, and any plans for future growth”

“In relation to decumulation advice only, details of the compliance monitoring arrangements that are in place, together with copies of all internal and external compliance/audit reports produced during the last two years and actions taken in response to those reports.”

# Attitude to risk questionnaires could be unsuitable for decumulation

“Red flags raised in client decumulation risk assessments”

*professionaladviser.com, July 2024*

**Factors that trump the ATRQ score in determining appropriate investment solutions for clients**

**External factors**

**Client-focused metrics**

Performance  
Platform availability  
Price

A conversation about risk  
The client's wider holdings  
Investing time horizon

# Rating companies - due diligence



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Designing a retirement spending strategy that ensures clients can achieve their desired lifestyle without running out of money has never been more challenging...



# Effective tools enabling positive outcomes



Firms should have a process to assess customers' ATR and CFL. Firms should understand how the profiling works, including any limitations, and have a robust process in place to mitigate any shortcomings



Firms should ensure that Cash Flow Management tools use appropriate assumptions to help deliver good outcomes for customers



Where a firm commits to an ongoing service, which may include a periodic review of the suitability of customer investments and retirement income strategy, those services should be matched to customer needs, delivered as promised and executed well

# Action points



Review the initial FCA survey to understand if your own MI is sufficiently accurate to complete it

Assess your current CRP against the FCA's findings within their review and their 'good' and 'poor' practices

Consider how the Retirement Income Advice Assessment Tool could assist you in assessing the quality of your decumulation advice as part of your ongoing file quality checks

# Action points







Review your firm's approach to risk assessment cashflow modelling in line with the new guidance from the FCA, the data you use and how this will regularly be updated





Review the firms investment philosophies to ensure they cover the risks specifically linked to decumulation advice

Ask for help if you feel you need support with any elements of this

# FCA drivers of vulnerability - Retirement

<h2>Health</h2> 	<h2>Life events</h2> 	<h2>Resilience</h2> 	<h2>Capability</h2> 
<ul style="list-style-type: none"><li>• Physical disability</li><li>• Severe or long-term illness</li><li>• Poor mental health</li><li>• Addiction</li><li>• Low mental capacity or cognitive impairment</li></ul>	<ul style="list-style-type: none"><li>• Caring responsibilities</li><li>• Bereavement</li><li>• Relationship breakdown</li><li>• Domestic abuse</li><li>• People with non-standard requirements such as people with convictions, care leavers, refugees</li><li>• Retirement</li></ul>	<ul style="list-style-type: none"><li>• Low or erratic income</li><li>• Over indebtedness</li><li>• Low emotional resilience</li></ul>	<ul style="list-style-type: none"><li>• Low knowledge or confidence in managing finances</li><li>• Poor literacy or numeracy skills</li><li>• Poor or non-existent digital skills</li><li>• Learning impairments</li><li>• No or low access to help or support</li></ul>

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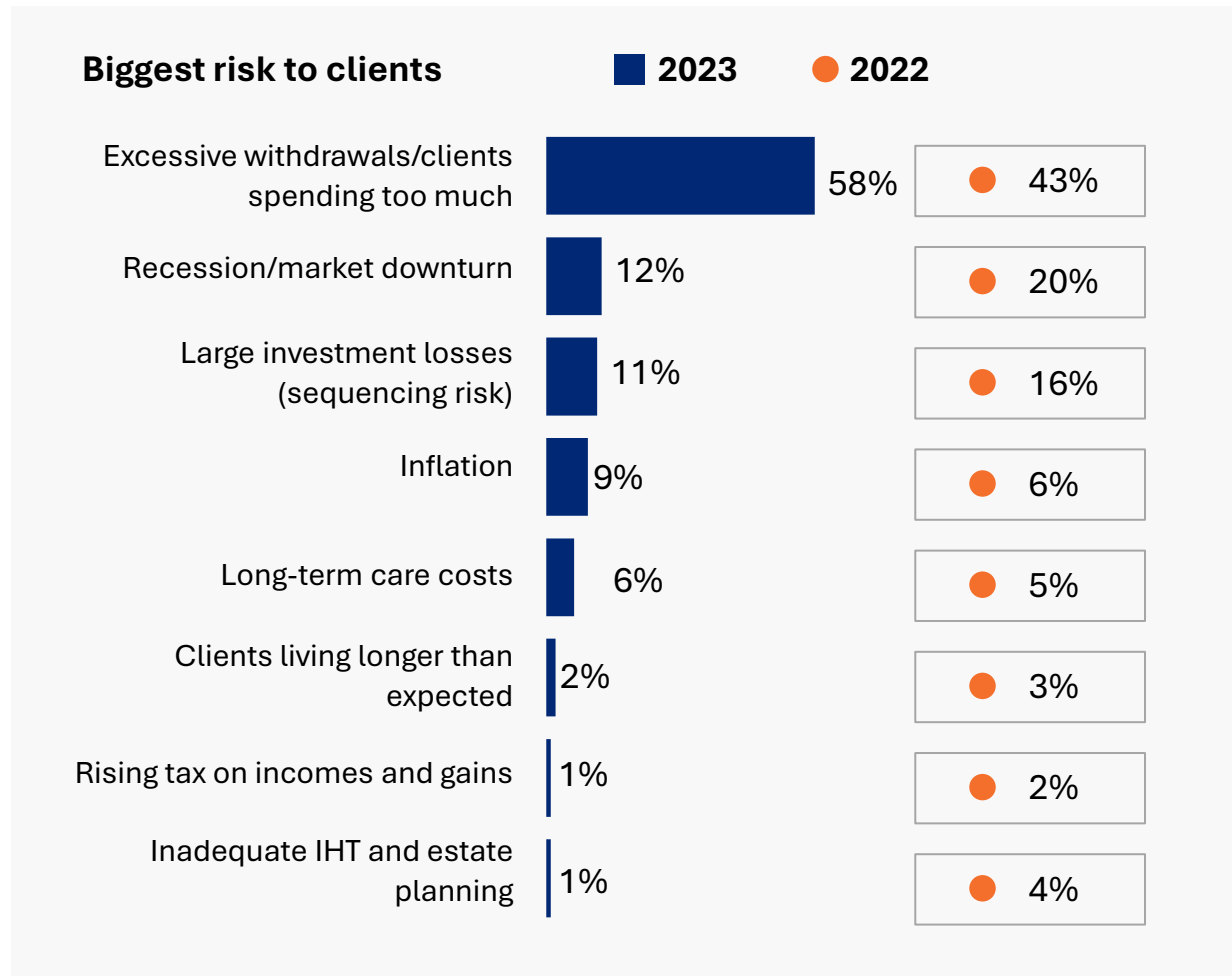
# The CRP building blocks

- Adapting to suit your business, process and proposition



Managing  
the risks

# Risk in drawdown – Platform feedback



Percentage of advisers identified:

**80%**

Excessive withdrawals/spending is one of the top three risks

**57%**

Over half of advisers say sequencing risk and

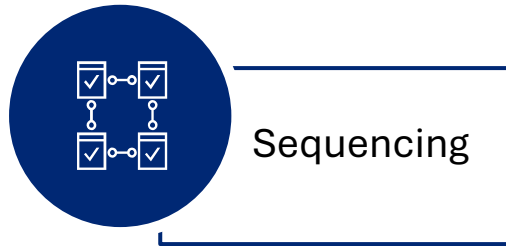
**55%**

recession/market downturn are among the top three biggest threats to retirement plans

Source: Platform, December 2023. What are the biggest risks to your clients' long-term financial plans in retirement? Please rank the top three in order of importance. Base: 2022: 291 advisers; 2023: 321 advisers

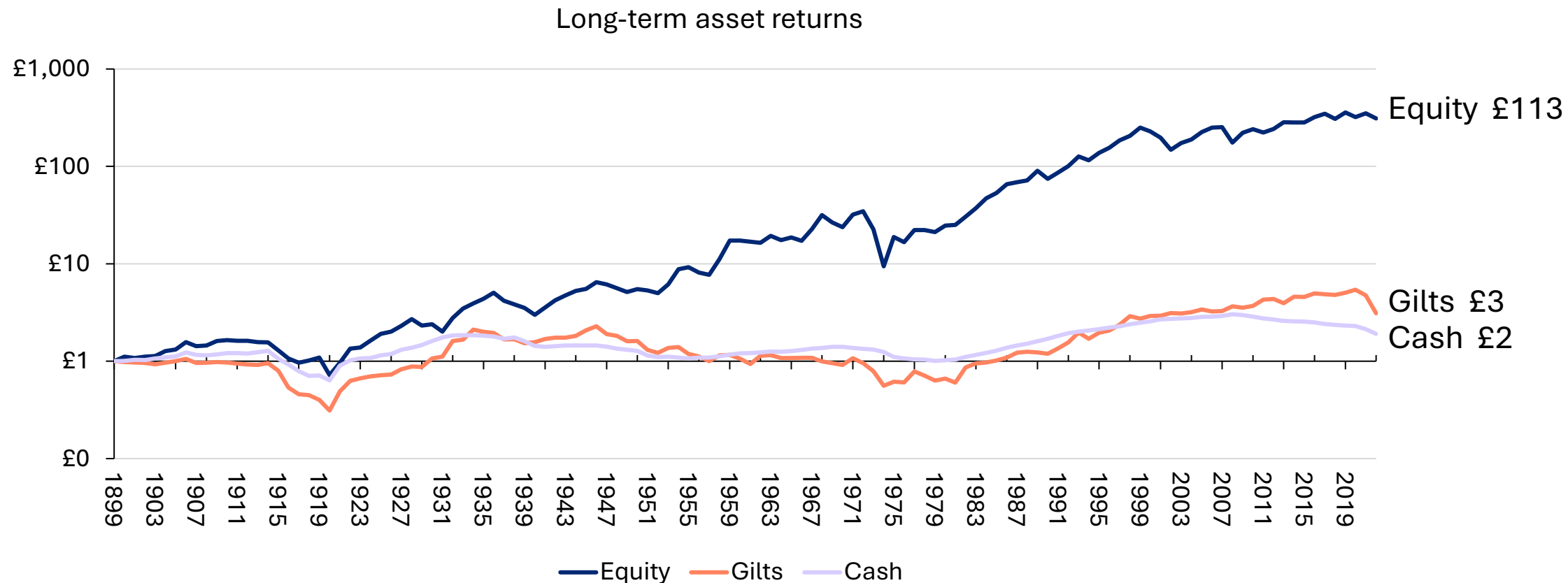


# Decumulation: what are the risks?



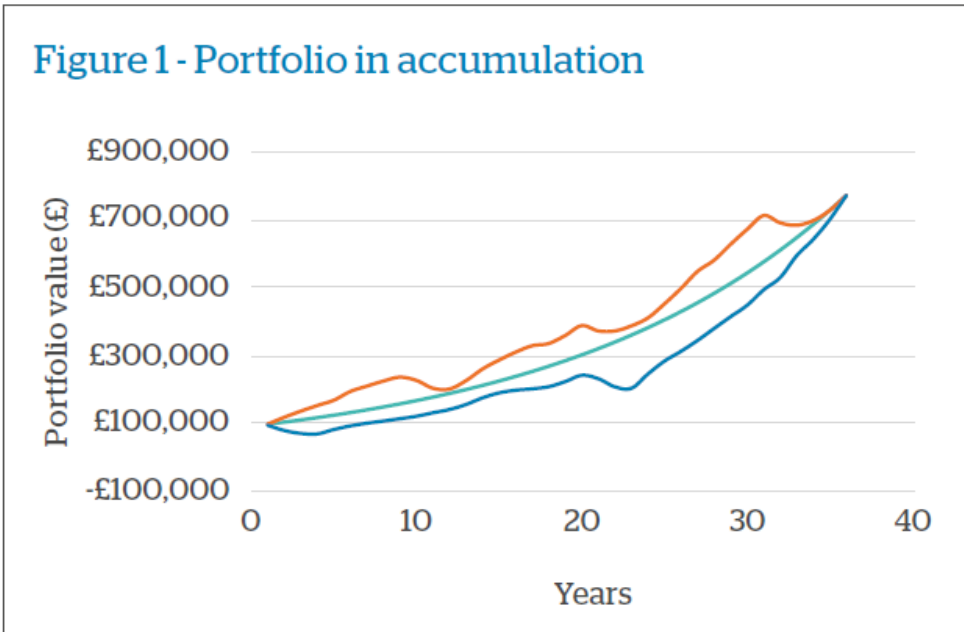
The evolution  
of the  
investment  
based solutions

# Remember the long run... equities over time outperforms cash and bonds

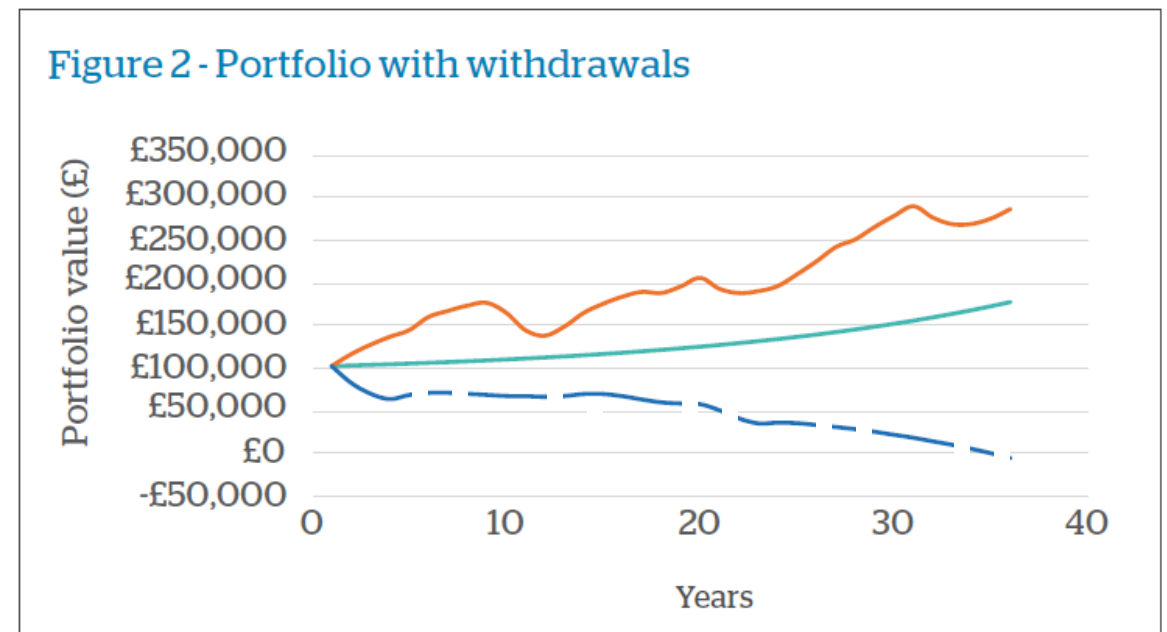


Source: Barclays Equity Gilt Study. £ figure is total return of £1 in real terms. Data based on real return data for UK equities, gilts and cash between 1900 and 2022. Log scale. Past performance is not a reliable indicator of current and future results. Data to December 2022.

# Sequencing risk: accumulation versus decumulation



- Strong performance at outset
- 6% annualised return
- Portfolio in **accumulation**

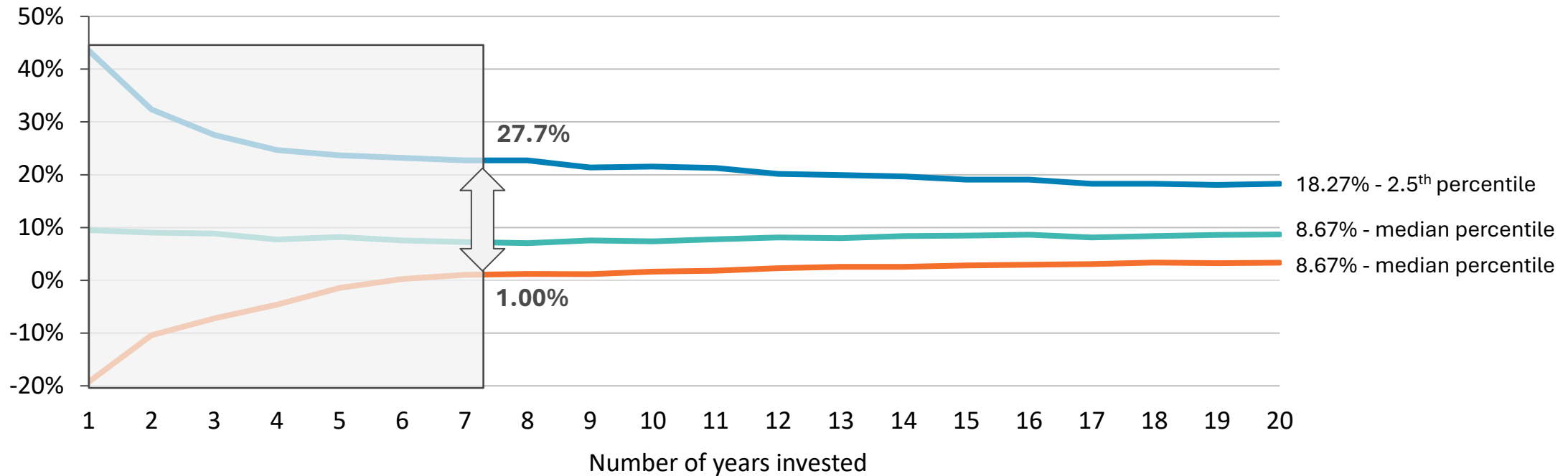


- Strong performance at outset
- 6% annualised return
- Portfolio with **withdrawals**

Poor performance at outset

*Past performance is not a reliable indicator of future results.  
Source: Brooks Macdonald, December 2020. For illustrative purposes only.*

# Time horizons are key - reducing sequencing risk



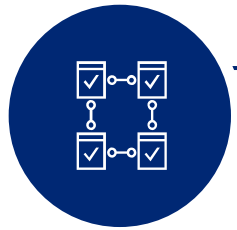
Variation between highest and lowest annualised returns<sup>1</sup> from a Medium to High risk portfolio<sup>2</sup> over different investment periods.

1. Based on nominal return data for UK equities, gilts and cash between 1900 and 2017. Highest/lowest returns are represented by 97.5th/2.5th percentile values (i.e. excluding top/bottom 2.5% of outcomes from the sample.)

2. A fixed asset allocation of 85% UK equity, 12% UK gilt and 3% UK cash is applied.

Past performance is not a reliable indicator of future results. Source: Brooks Macdonald and Barclays Equity Gilt Study, June 2018.

# Decumulation strategies



**Natural  
income**



**Volatility  
managed**



**Annuity/  
blend**



**Bucket  
approach**

# Good news for natural income

**December 2021**

## **Traditional assets**

High yield credit  
Emerging market debt  
Equities

## **Alternative assets**

Infrastructure  
Private debt  
Real estate  
Music royalties

**Asset classes  
offering  
3%+ yields**

**December 2023**

## **Traditional assets**

High yield credit  
Emerging market debt  
Equities  
Cash/money markets  
Gilts

US Treasuries  
US TIPS / Index-linked Gilts  
Corporate Bonds

## **Alternative assets**

Infrastructure  
Private debt  
Real estate  
Music royalties

# Managed volatility

Stable, predictable, recurring  
long-term income

Limit capital volatility  
and drawdowns

Generate long term growth in  
capital and income over time



Mandated maximum risk limit



Mandated lower risk limits



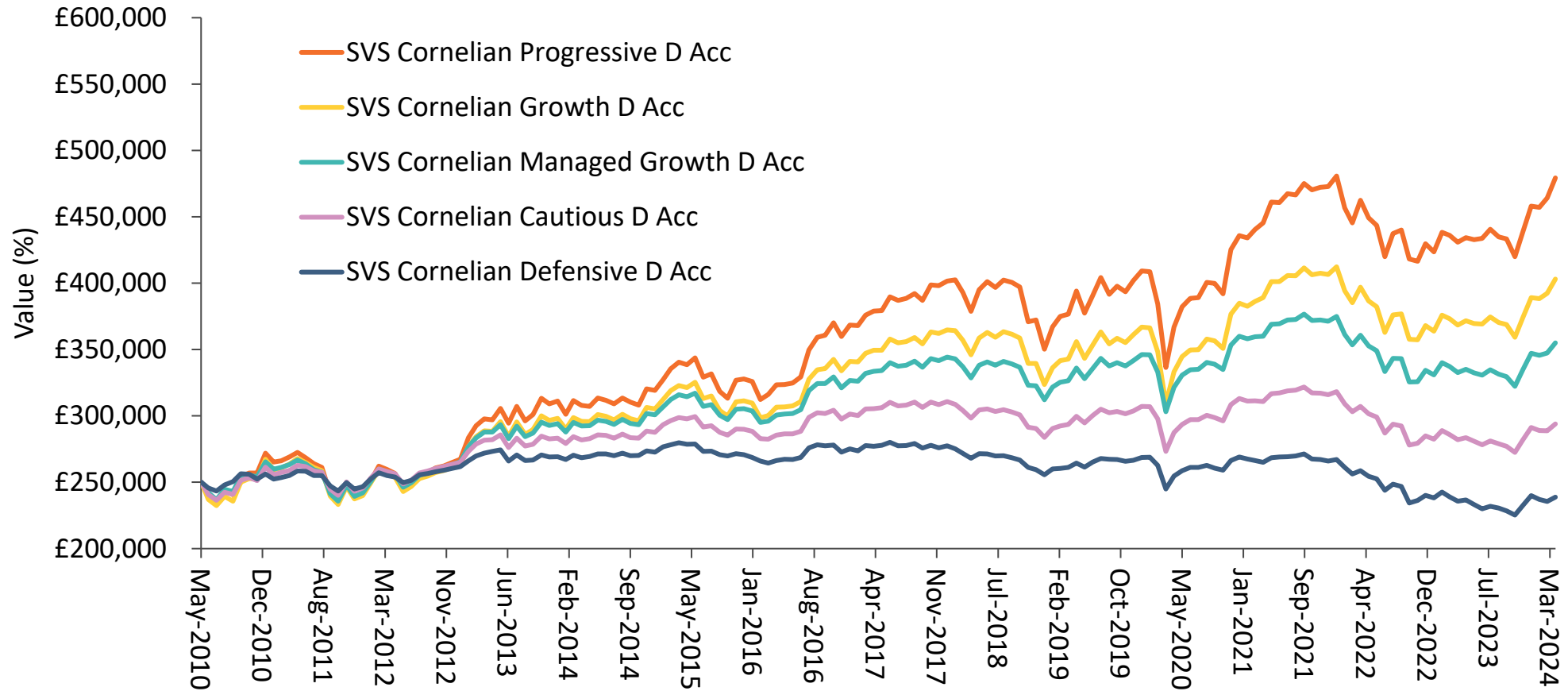
Strategic asset allocation



Fixed or minimum allocations



# £250,000 initial investment – withdrawal

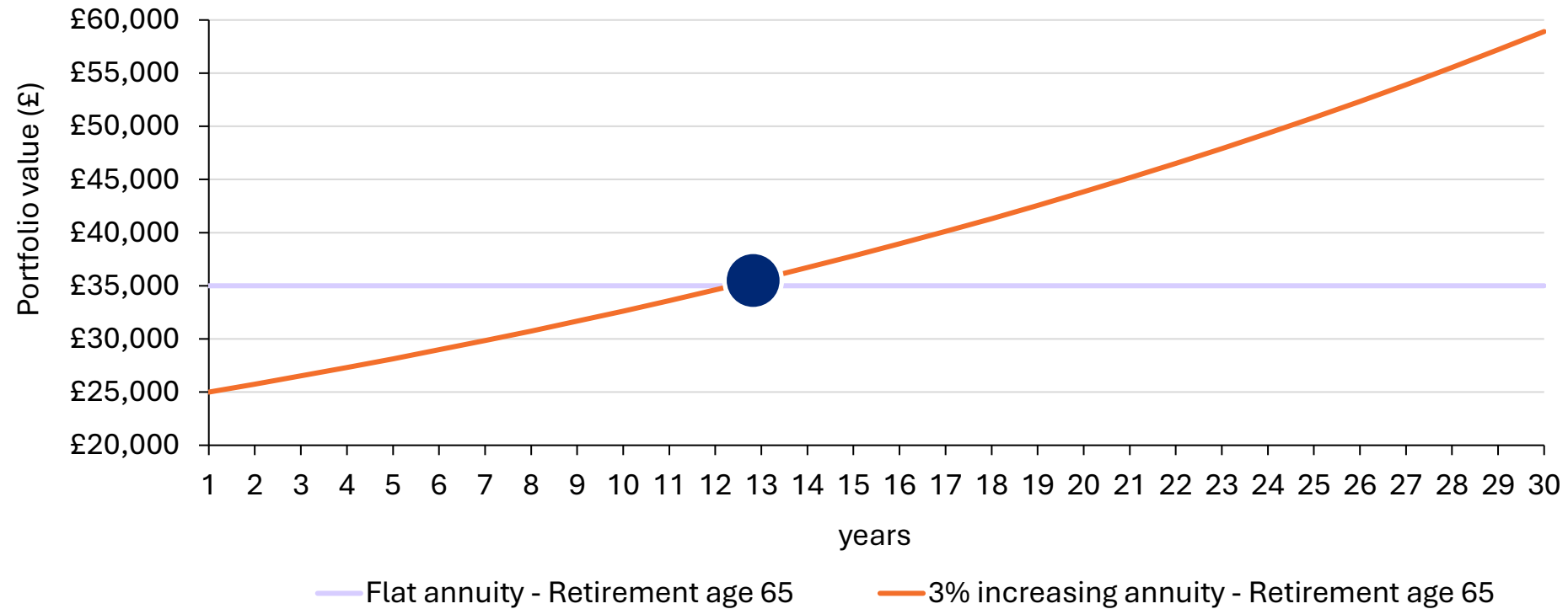


Past performance is not a reliable indicator of future results.

Chart shows the performance of a £250,00 initial investment with a £830 withdrawal made each month, from 4 May 2010 to 31 March 2024.

Total withdrawal is £138,610. Source: Morningstar, 31 March 2024. Net total returns in GBP

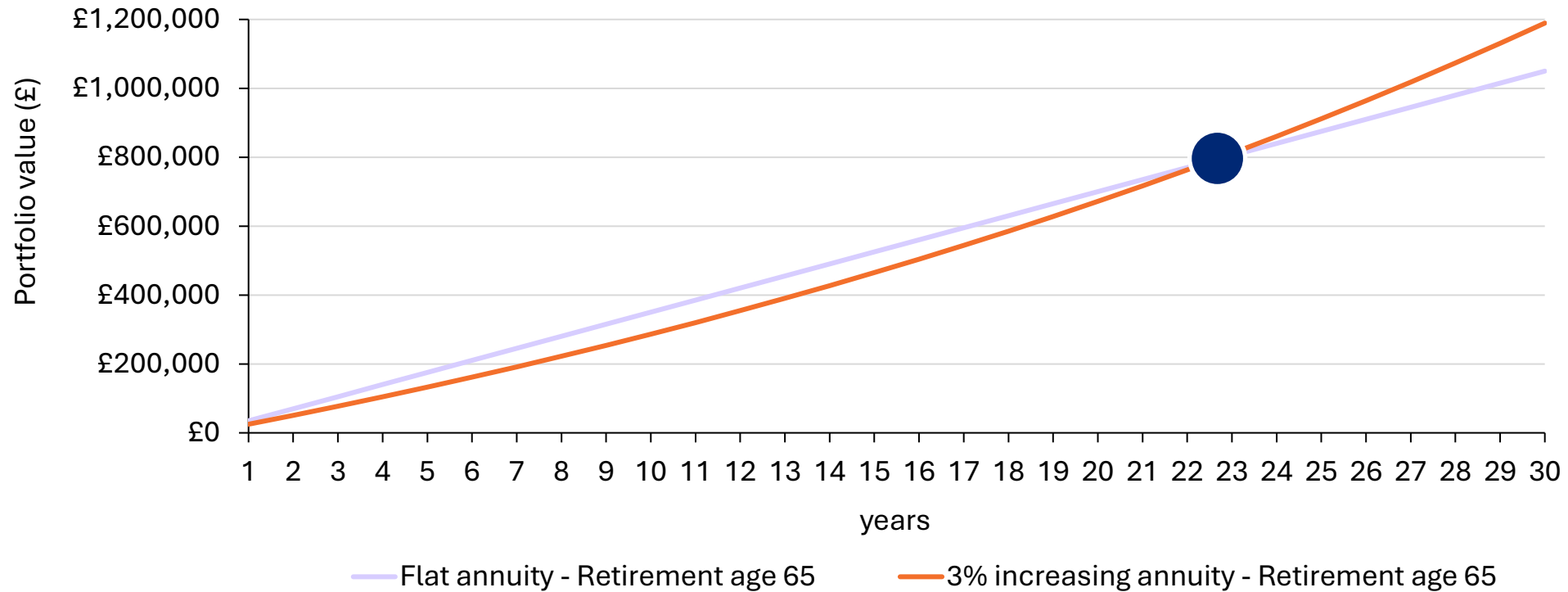
# Lifetime annuities



Simulated past performance is not a reliable indicator of future results. BM Decumulation strategy launched 2018.

Source: ARC private client indices, 31 March 2024

# Lifetime annuities - cumulative

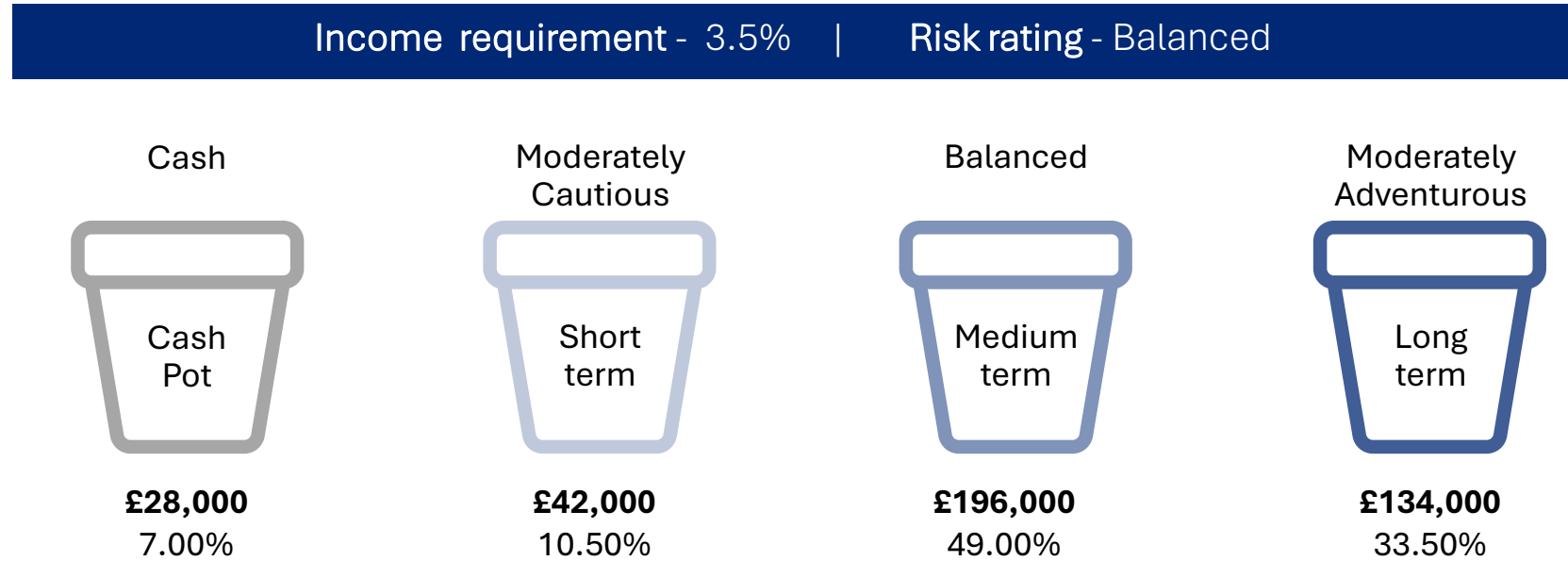


*Simulated past performance is not a reliable indicator of future results. BM Decumulation strategy launched 2018.*

*Source: ARC private client indices, 31 March 2024*

# Brooks Macdonald integration – user experience

## Proposed portfolio structure



For each risk profile and income level, we have calculated an allocation of cash, low, medium and higher risk investments. These are calculated in a way that combine to form a portfolio that matches your risk profile.

Source: Brooks Macdonald. For illustrative purposes only

# Learning outcomes



Understood the difference between a Centralised Investment Proposition (CIP) and Centralised Retirement Proposition (CRP)



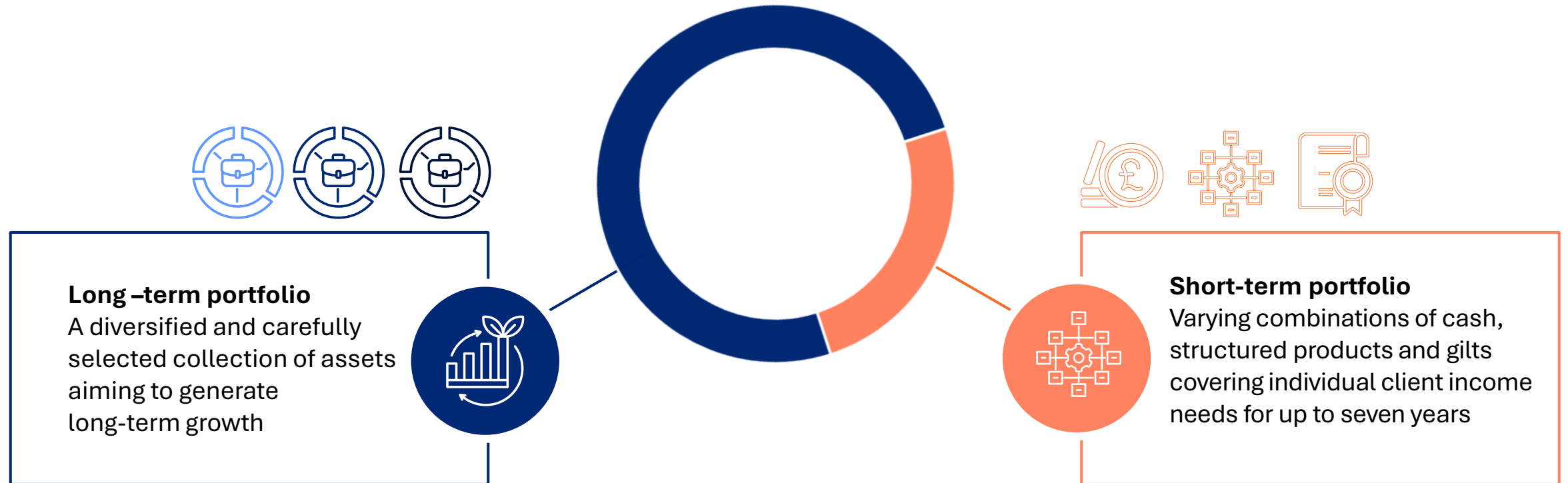
Identified the factors that make a decumulation strategy flexible enough to meet our clients' changing needs



Recognised the risks associated with planning for income in retirement, which include rising inflation, sequencing, longevity, and investment risk.

# Actively managed, bespoke solution

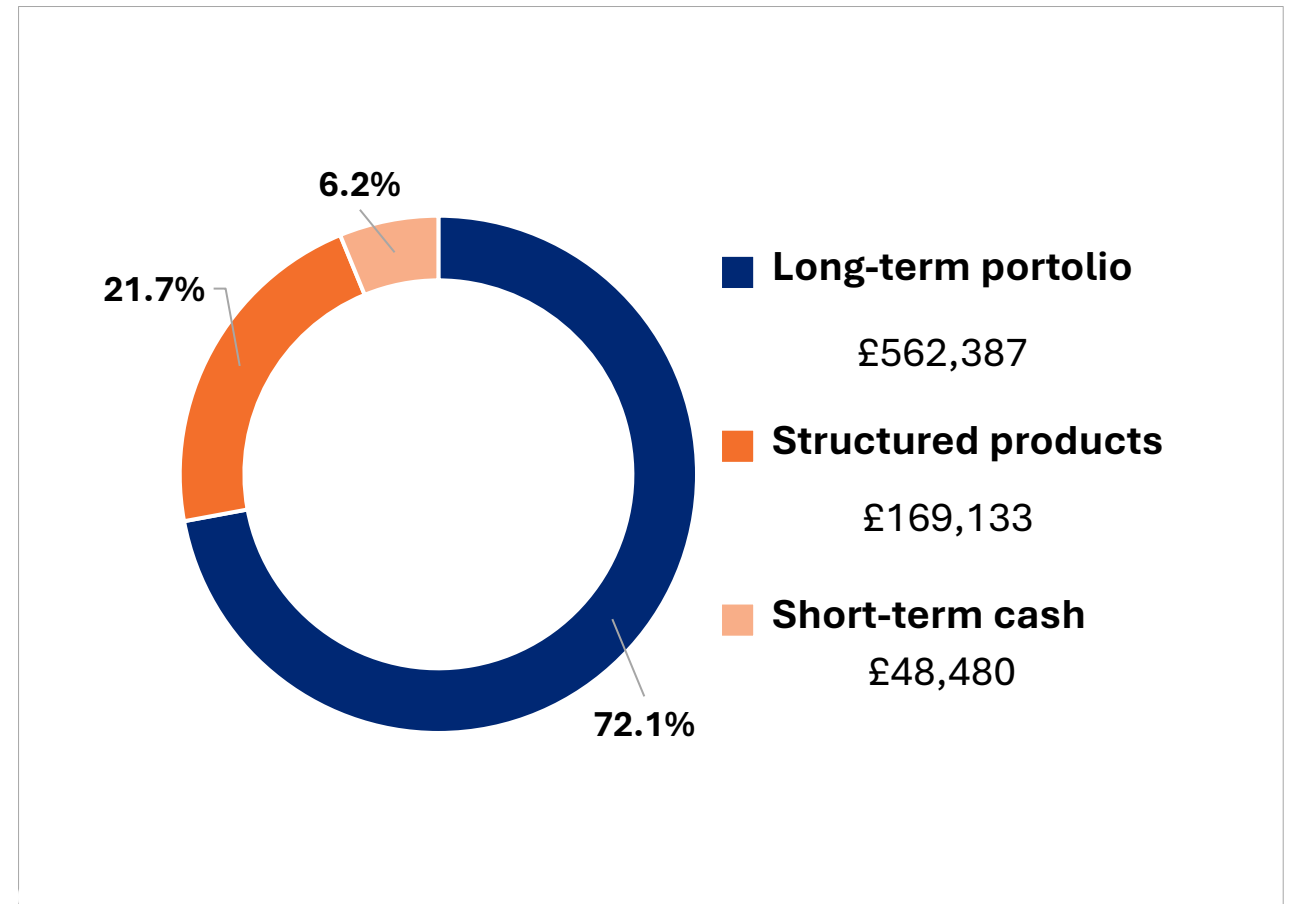
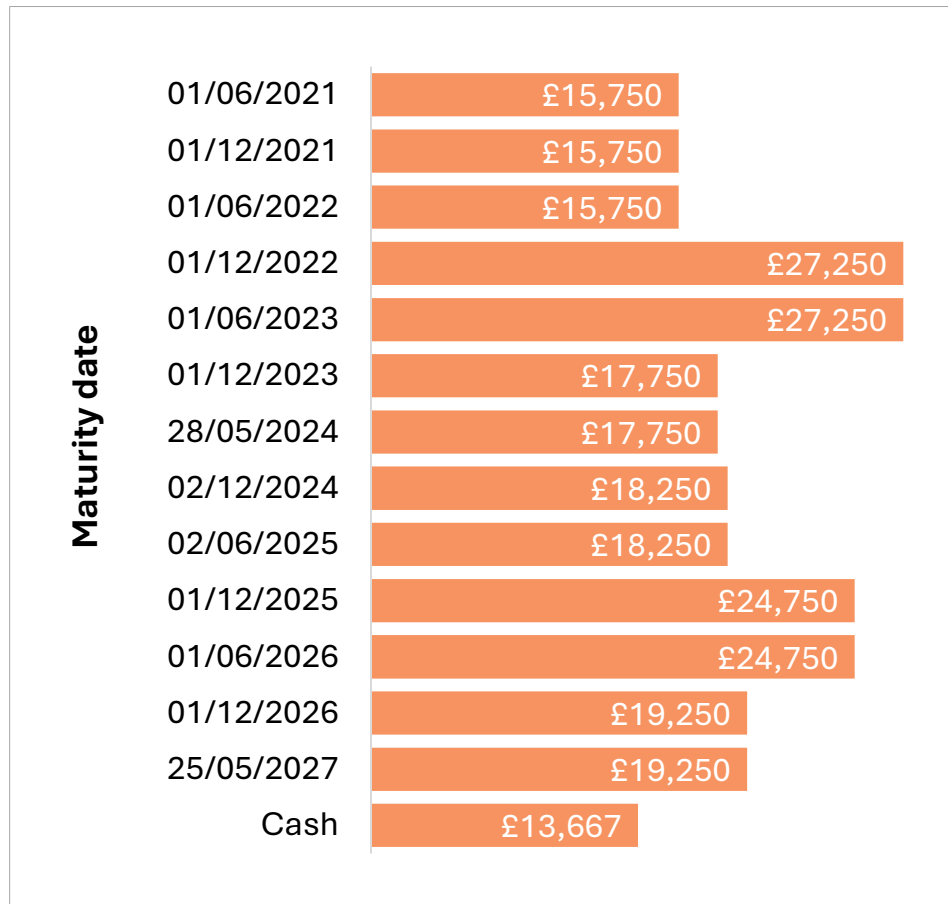
Innovative two-portfolio structure



Source: Brooks Macdonald. For illustrative purposes only

# Short-term portfolio – case study

Variable income | Aims to meet clients' income needs for the next seven years



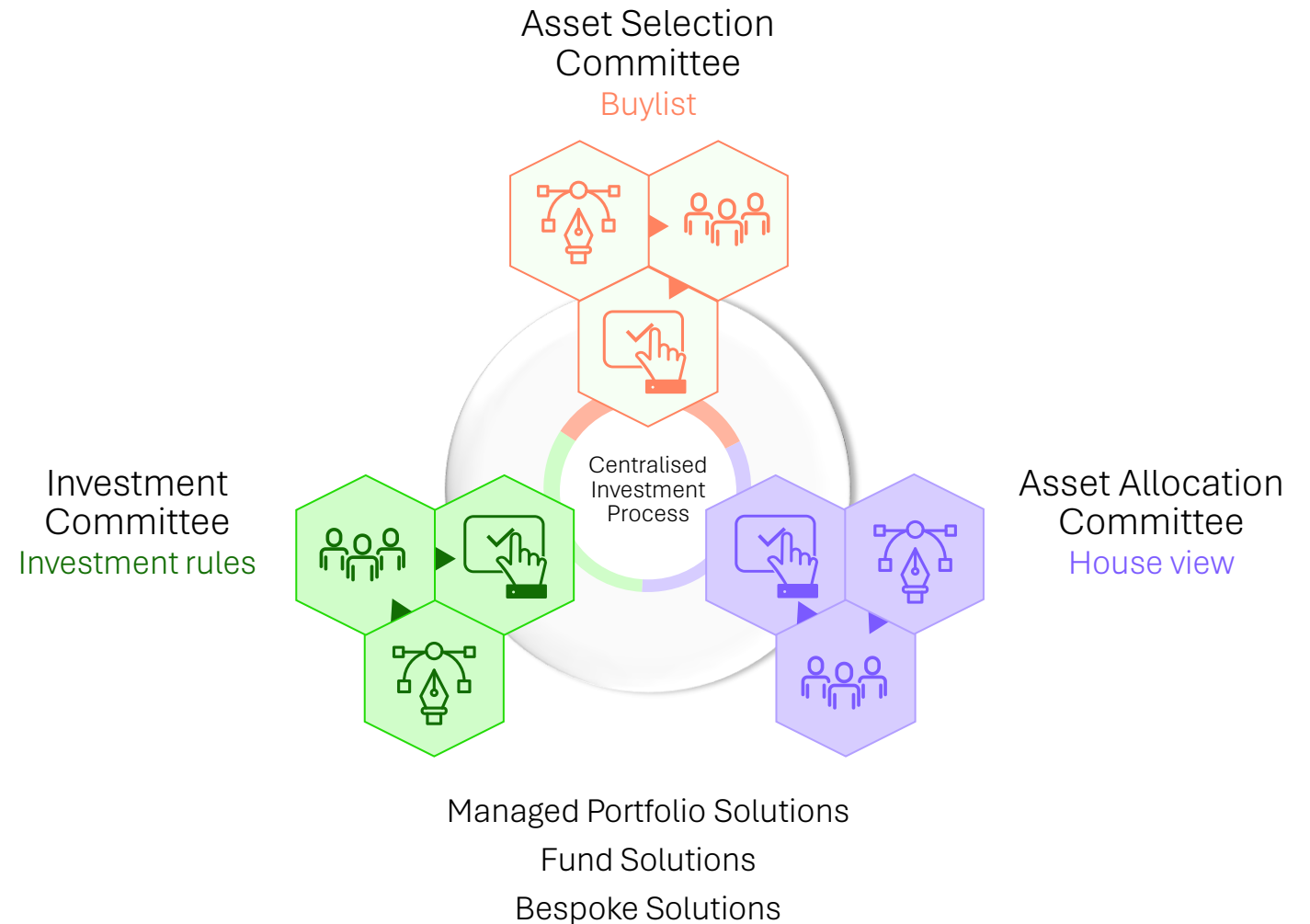
Source: Brooks Macdonald, May 2021. For illustrative purposes only.

# Our Centralised Investment Process (CIP)

CIP powers the services and products we provide to our clients

The portfolios are managed in accordance with the Brooks Macdonald Group's Centralised Investment Process (CIP)

CIP creates a robust framework for our investment professionals to work together, sharing ideas and challenging each other's views





# Important information

All data provided by Brooks Macdonald accessed as at 31 March 2024, unless otherwise stated. This document is intended for professional advisers only and should not be relied upon by any persons who do not have professional experience in matters relating to investments.

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