The new *retirement reality*

Karl Heap / November 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

BM

Retirement income

The Brief

Advice

Who is the advice aimed at?

What is being recommended?

Where is being recommended?

adding in...

Planning

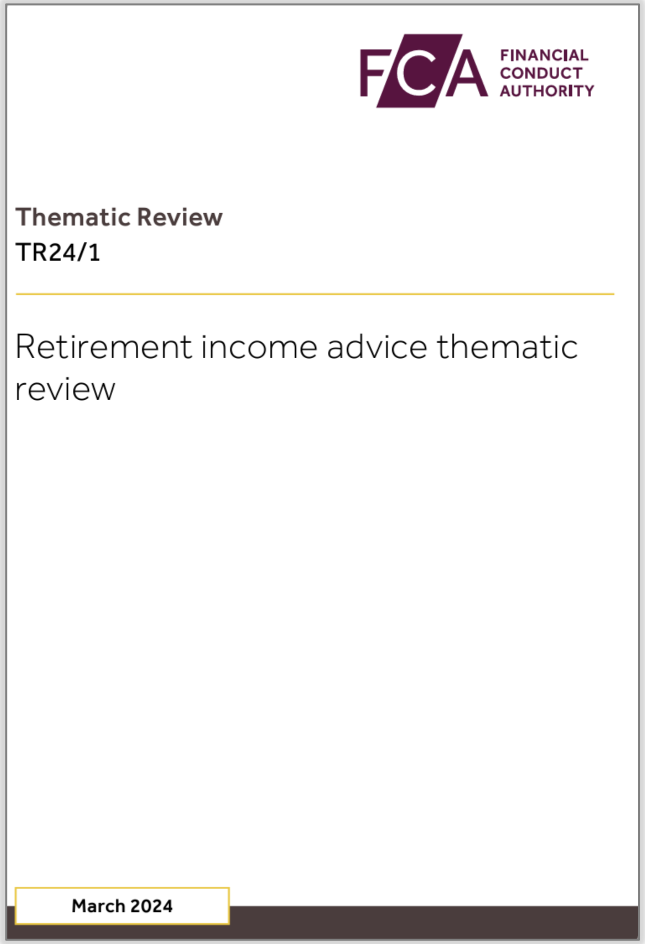
Why specifically this advice, at this time?

How will this ultimately help achieve their goals and objectives?

The FCA's findings

- Better approach to determining income withdrawal levels
- Improvement in risk profiling
- Better know your customer
- Periodic suitability reviews
- Better control framework

Retirement income advice review


FINANCIAL CONDUCT AUTHORITY

Thematic Review
TR24/1

Retirement income advice thematic review

March 2024

- **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 decider 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	A conversation about risk
Platform availability	The client's wider holdings
Price	Investing time horizon

BM

Rating companies - due diligence

defaqto
INCOME DRAWDOWN RATED

RISK CONTROLLED
Powered by
HYMANS ROBERTSON

defaqto
DFM Bespoke 2024
EXPERT RATED

DYNAMIC PLANNER PROFILED 3

DYNAMIC PLANNER®
RISK TARGET MANAGED

ev

defaqto
DFM MPS Direct 2024
EXPERT RATED

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

Health

- Physical disability
- Severe or long-term illness
- Poor mental health
- Addiction
- Low mental capacity or cognitive impairment

Life events

- Caring responsibilities
- Bereavement
- Relationship breakdown
- Domestic abuse
- People with non-standard requirements such as people with convictions, care leavers, refugees
- Retirement

Resilience

- Low or erratic income
- Over indebtedness
- Low emotional resilience

Capability

- Low knowledge or confidence in managing finances
- Poor literacy or numeracy skills
- Poor or non-existent digital skills
- Learning impairments
- No or low access to help or support

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The CRP building blocks

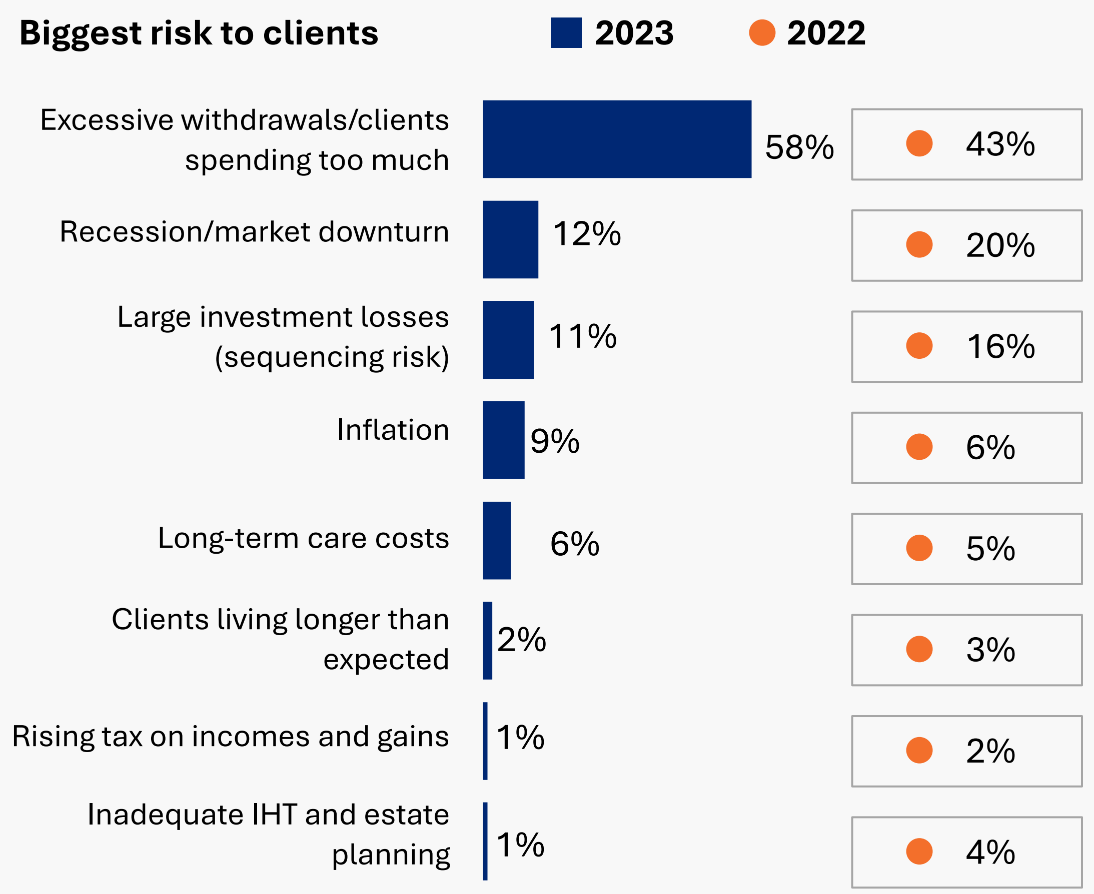
- Adapting to suit your business, process and proposition

Introduction → Segmentation → Factfinding → Risk assessment → Cashflow → Retirement options

Managing the risks

Risk in drawdown – Platforum feedback

Biggest risk to clients



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

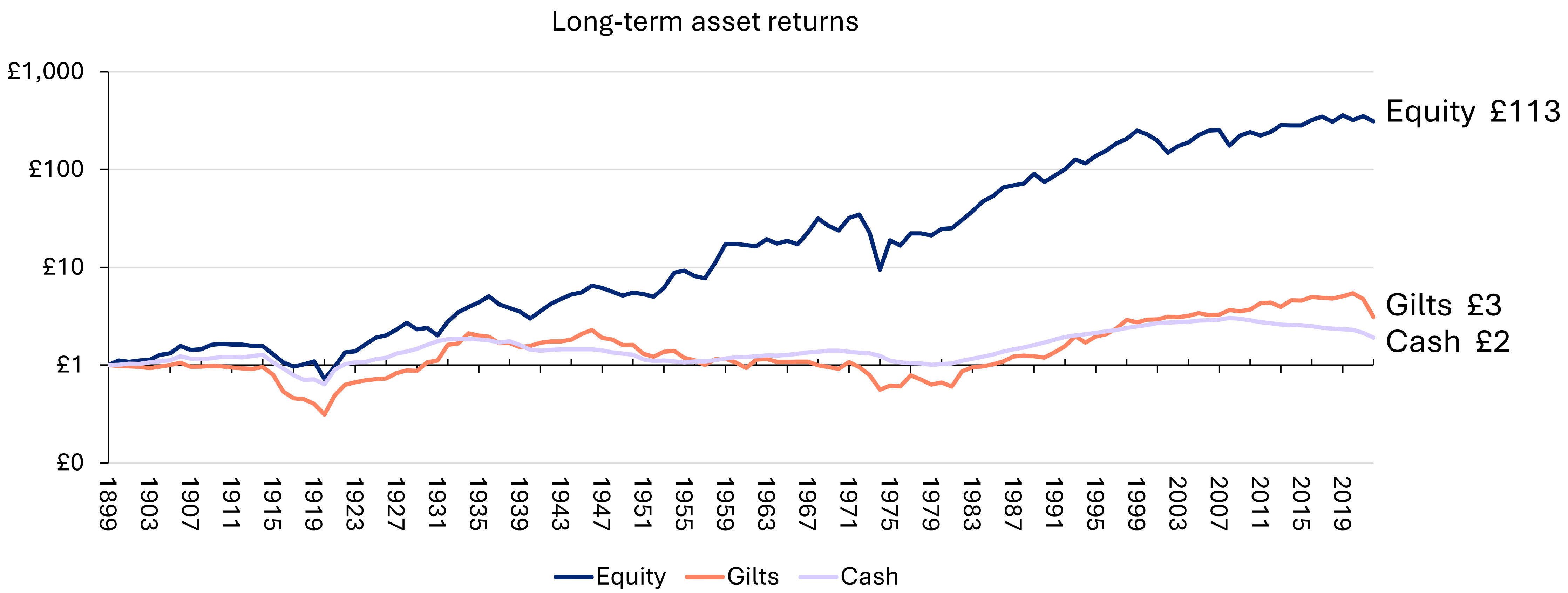
Source: Platforum, December 2023. What are the biggest risks to your clients' long-term financial plans in retirement? Please rank the top three in order of importance. Base: 2022: 291 advisers; 2023: 321 advisers

Decumulation: what are the risks?

- Sequencing
- Investment
- Longevity
- Inflation

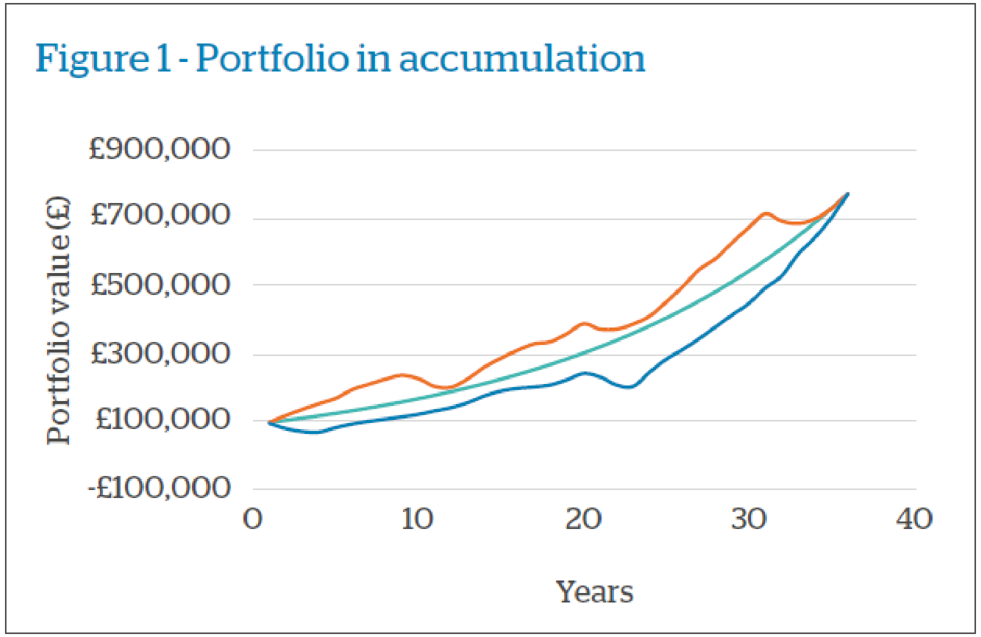
The evolution of the investment based solutions

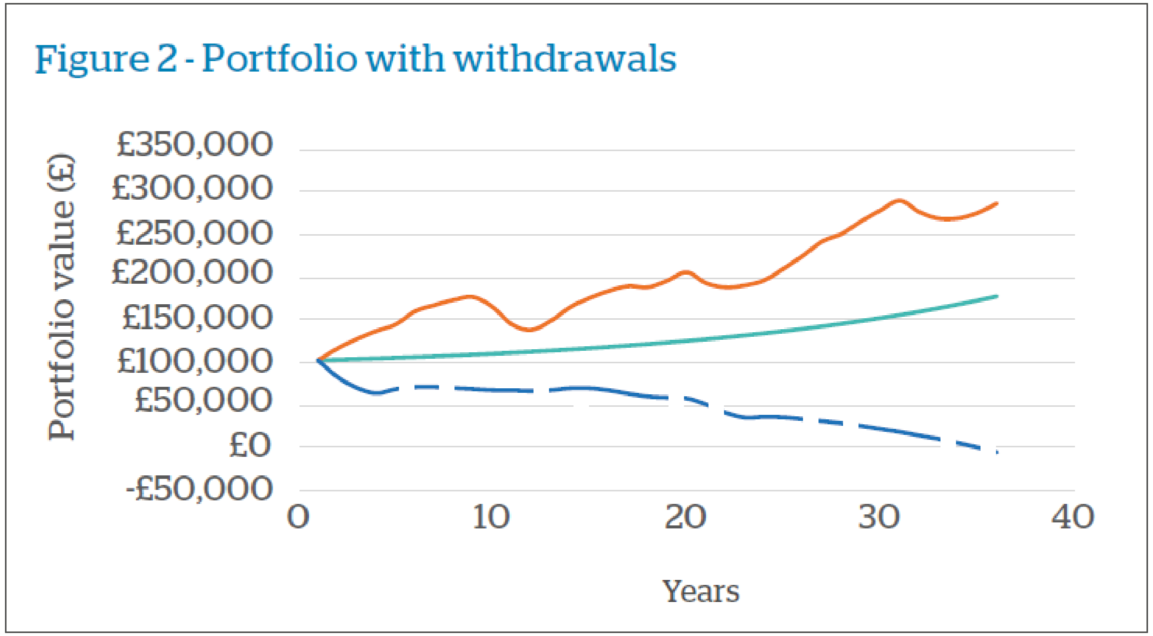
Remember the long run… equities over time outperforms cash and bonds



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





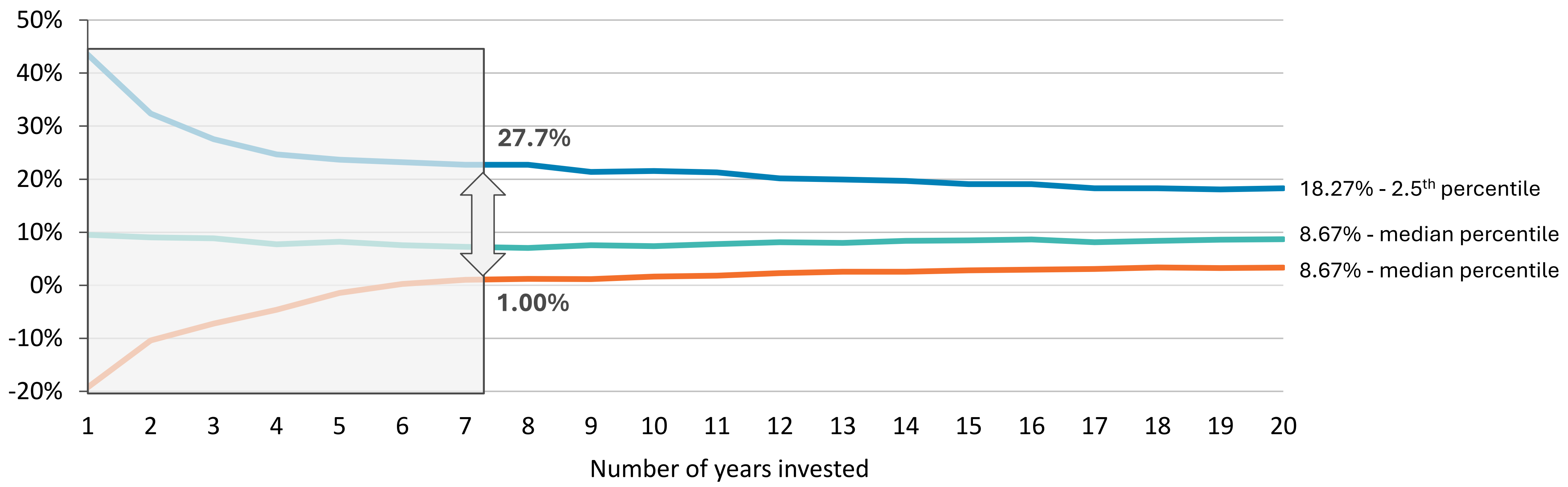
Strong performance at outset
6% annualised return
Portfolio in **accumulation**

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[1] from a Medium to High risk portfolio[2] 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

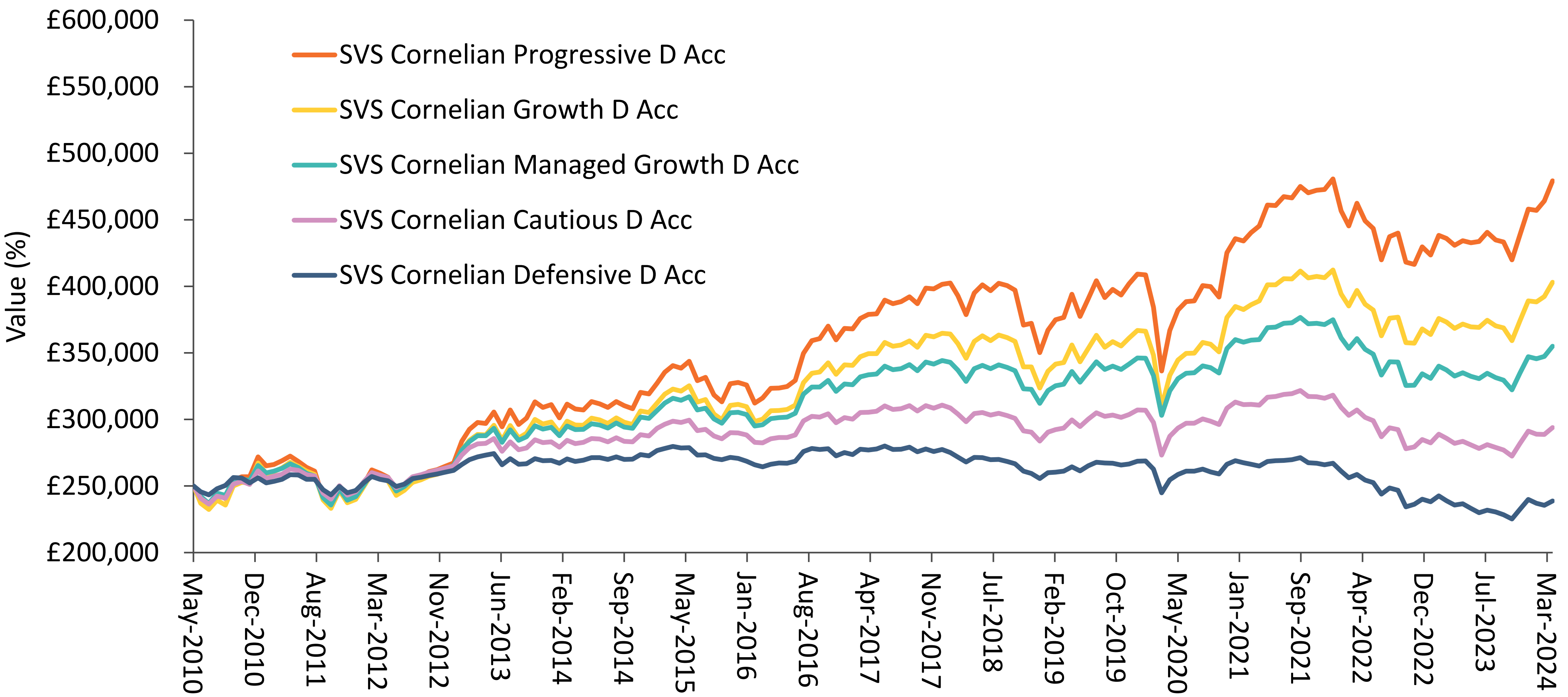
Stable, predictable, recurring long-term income

Limit capital volatility and drawdowns

Generate long term growth in capital and income over time

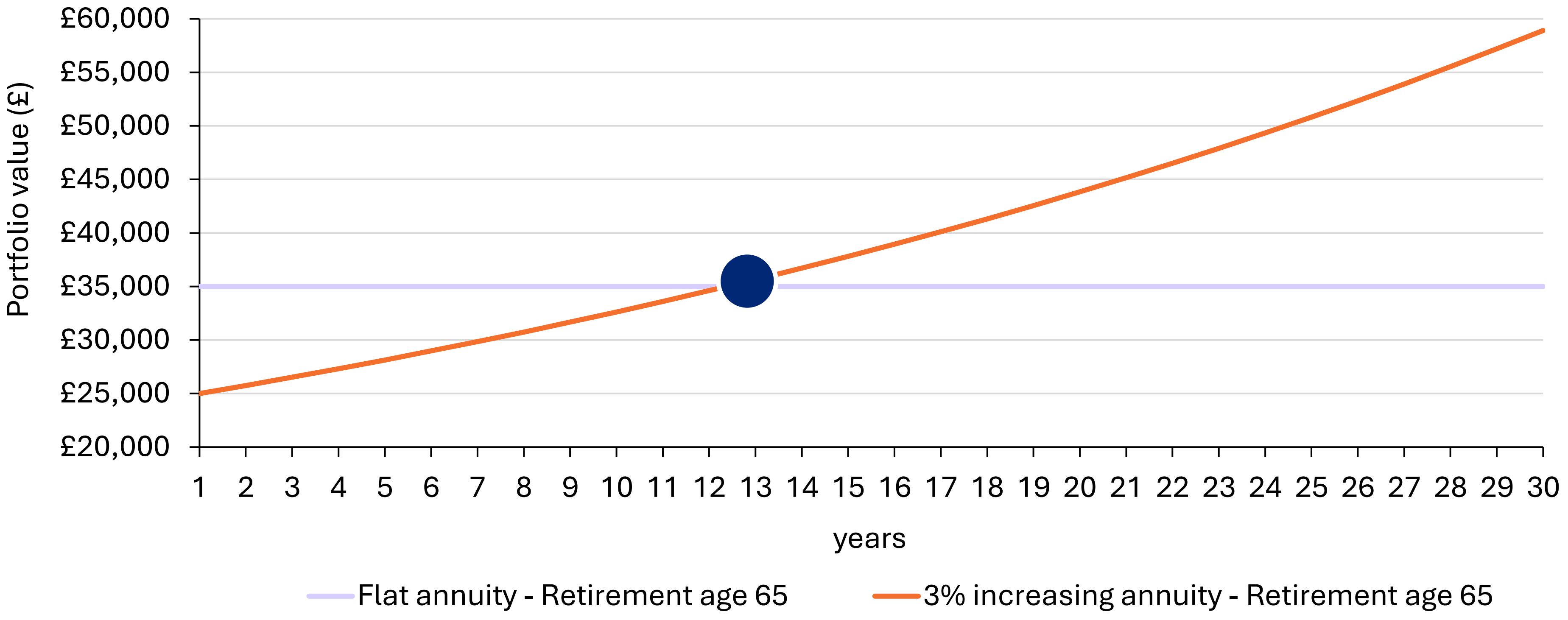
- ✔ Mandated maximum risk limit
- ✘ Mandated lower risk limits
- ✘ Strategic asset allocation
- ✘ Fixed or minimum allocations

£250,000 initial investment – withdrawal



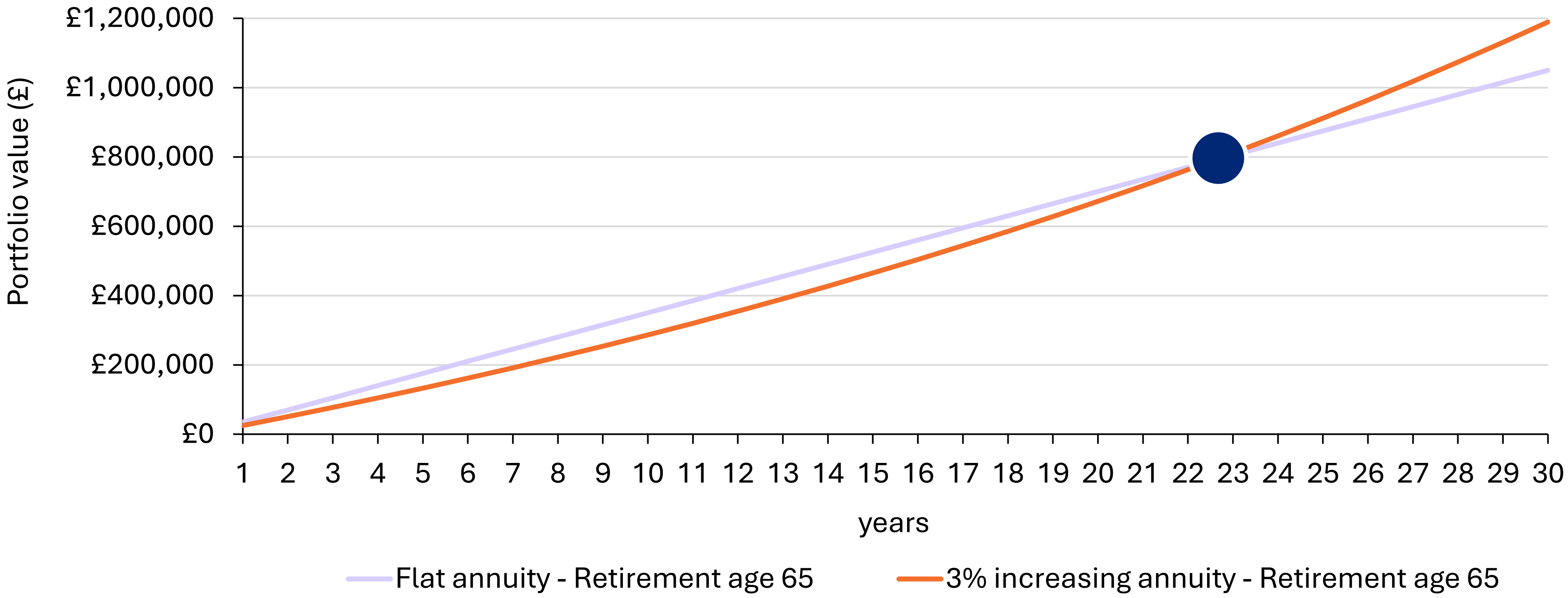
Past performance is not a reliable indicator of future results.
Chart shows the performance of a £250,00 initial investment with a £830 withdrawal made each month, from 4 May 2010 to 31 March 2024.
Total withdrawal is £138,610. Source: Morningstar, 31 March 2024. Net total returns in GBP

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



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Source: ARC private client indices, 31 March 2024

Brooks Macdonald integration – user experience

Proposed portfolio structure

Income requirement - 3.5% | **Risk rating** - Balanced

Cash	Moderately Cautious	Balanced	Moderately Adventurous
Cash Pot	Short term	Medium term	Long term
£28,000	**£42,000**	**£196,000**	**£134,000**
7.00%	10.50%	49.00%	33.50%

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

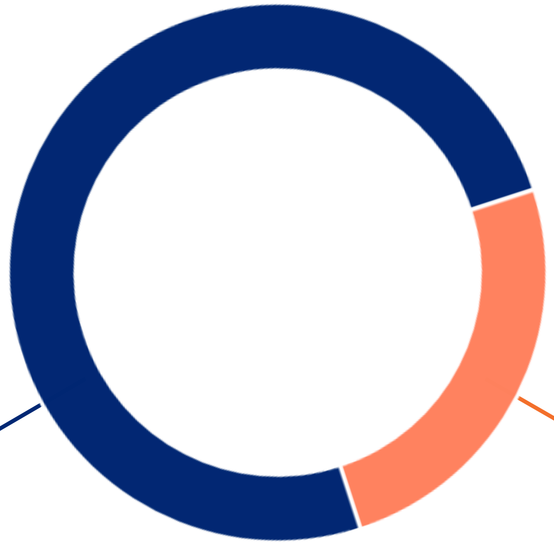
Understood the difference between a Centralised Investment Proposition (CIP) and Centralised Retirement Proposition (CRP)

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



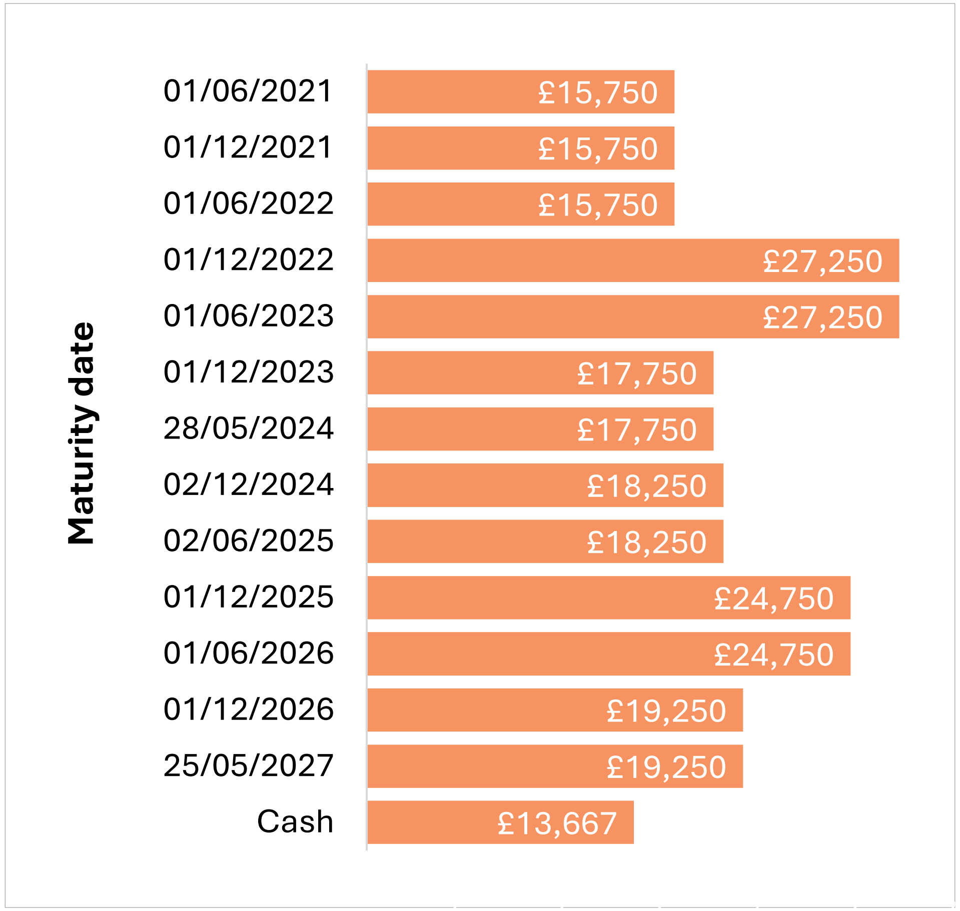
Long –term portfolio
A diversified and carefully selected collection of assets aiming to generate long-term growth

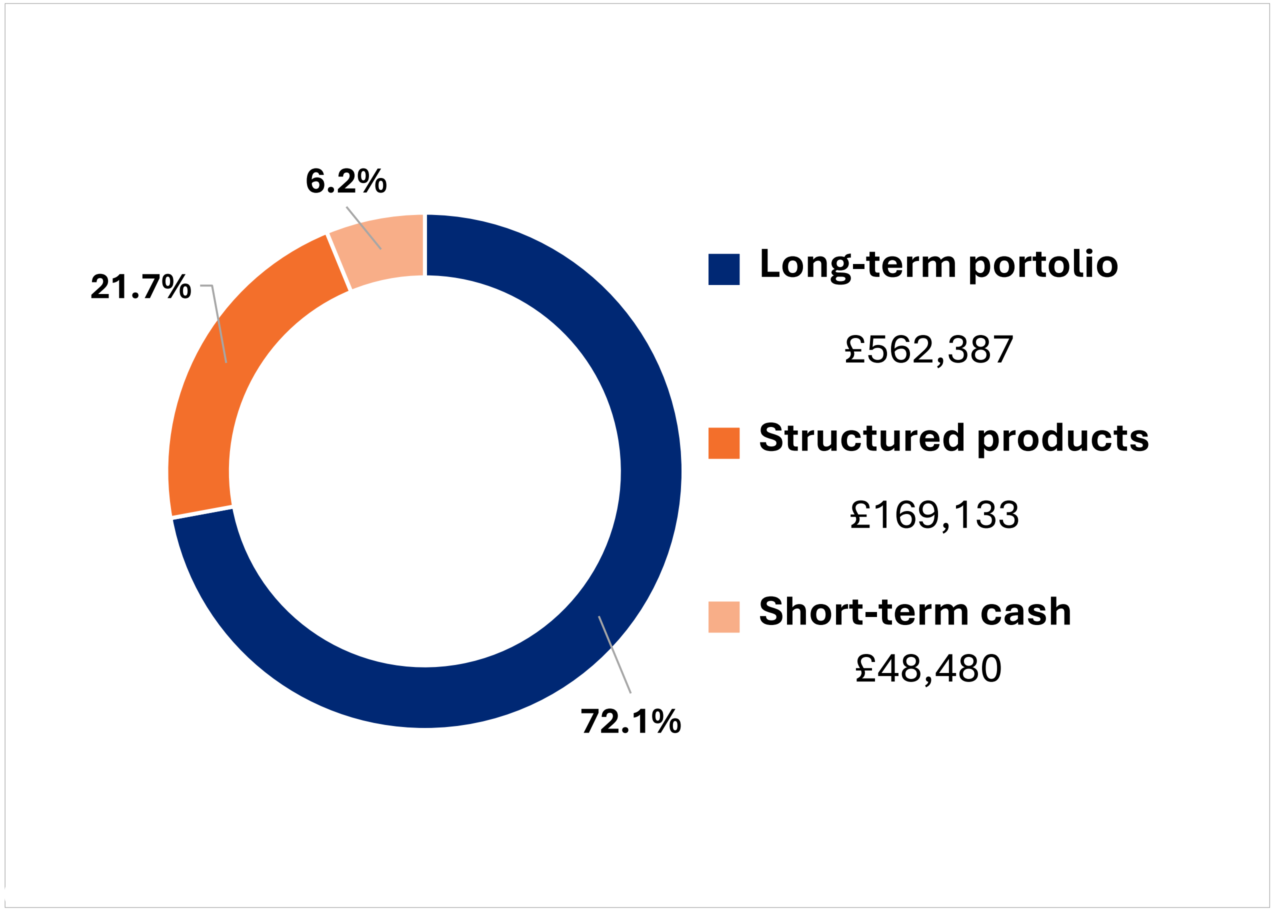
Short-term portfolio
Varying combinations of cash, structured products and gilts covering individual client income needs for up to seven years

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





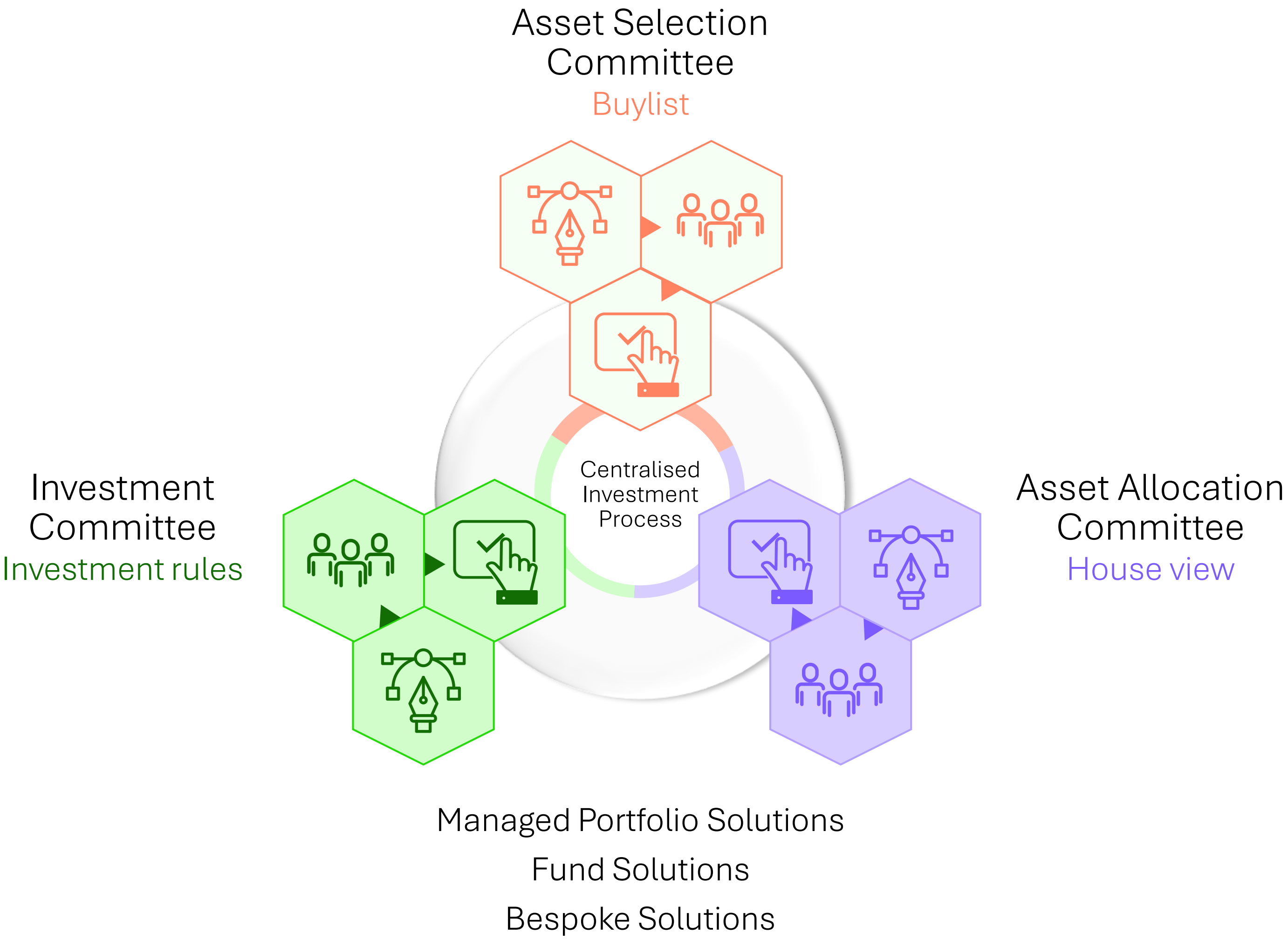
Source: Brooks Macdonald, May 2021. For illustrative purposes only.

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

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