

RATHBONES

Incorporating
Investec Wealth &
Investment (UK)

The Retirement Opportunity.

Helping your clients secure a long-term
income from their investments with a
Centralised Retirement Proposition.

Your Opportunity.

Over the next decade the rate in clients seeking retirement advice will grow exponentially. As a result, decumulation will be a significant opportunity for advice firms to both re-engage their existing clients and to win new ones. But it also means firms will need to be prepared for this growth by honing in their ability to help clients navigate the ever-changing retirement landscape.

£650bn

will move into drawdown over
the next decade*

1 in 5

An ageing population. By 2030 1 in 5
people will be aged 65+**

A Complex Retirement Landscape.

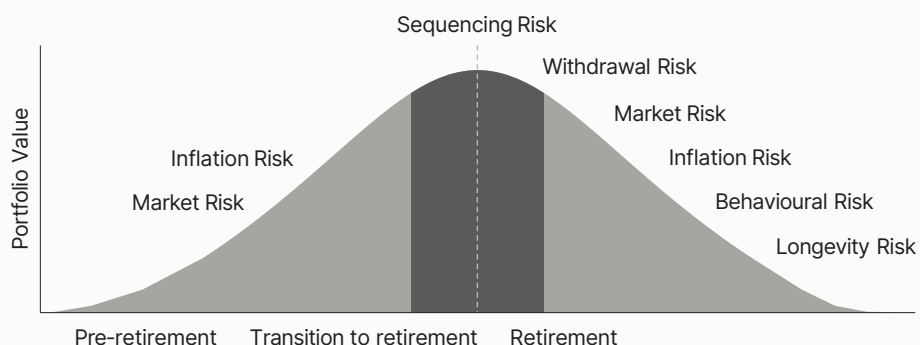
The challenging world we have been experiencing for the past few years has and will continue to have a direct impact on future retirement drawdown methodology and client incomes. These challenges around retirement also extend to advice firms.

Today, you need to take even greater responsibility for the approach you take to client income solutions, especially in the context of ensuring they offer sustainable withdrawal strategies. In addition, the increased regulatory risk from the FCA requires you to review how you structure retirement income advice. This in turn can lead to increased admin overhead to address the need for additional compliance record keeping and ongoing reviews, especially when adopting a bespoke approach to retirement planning. At Investec we can support both your requirements and those of your clients and help remove some of this burden and risk.

The Main Risks During Decumulation.

There are far more risks associated with a client's transition to retirement and during drawdown than there are in the accumulation phase.

- **Sequencing Risk** Facilitating long term exposure to growth assets and minimising withdrawals when investments may have fallen is key
- **Withdrawal Rate Risk** Consumers may exhaust their assets too quickly, advisers need to ensure clients maintain a realistic spending pattern through market cycles
- **Market Risk** Markets are inherently volatile and can expose investors to the possibility of loss in the short term
- **Inflation Risk** The investment strategy needs to hedge the fall in the purchasing power as the price of goods and services rise over time
- **Behavioural Risk** Some investors have a habit of undertaking the wrong action at the wrong time. Advisers need to maintain their clients' long term asset allocation through market cycles
- **Longevity Risk** An investment term of 20 years or more needs to be planned for as more and more retirees live longer.



Key themes to explore with clients.

Future clients in retirement will face increasingly complex decisions. Exploring key retirement themes with clients will be ever more important in ensuring firms offer suitable options to match their clients' objectives. Some of the key themes are as follows:

- Market volatility and its impact on retirement income
- Ways to avoid inflation eroding a client's pension pot
- Managing a sustainable withdrawal rate
- Reviewing a client's plan for later life care
- The importance of planning in helping minimise tax in retirement.

40% of withdrawals are at an unsustainable rate of >8%.*

Managing the Risks – the benefits of bucketing.

Managing the risks of volatile returns is key when planning retirement income. There are various strategies to achieve this, one, which is growing in popularity, is adopting a bucketing or 3-pot strategy. There are various strategies to achieve this, and research conducted by AKG in 2022** suggested the three most popular approaches adopted by Advisers are:

- The “bucketing approach”, whereby income is drawn from specific buckets within the portfolio
- The “natural income approach”, whereby income is generated from the portfolios natural income
- The “total return approach”, whereby units are encashed across the portfolio to generate the required income

Adoption of a bucketing or 3-pot strategy is growing in popularity. This approach, which at Investec we believe helps to mitigate against clients emotional responses to the various investment risks we've highlighted, would typically be comprised as follows;

1. Cash for a client's immediate income needs
2. A short-term portfolio of low-risk investments
3. A diversified portfolio of higher risk investments that can be left to grow on a long-term basis.

1-2 years

cash for immediate
income needs**

3-7 years

short-term portfolio –
lower risk investments**

8+ years

long-term
portfolio**

Investec's Centralised Retirement Proposition.

With pension freedoms providing customers with far greater choice and flexibility, a CRP framework can ensure a clear, consistent and repeatable advice process that deals with more complex decisions, and risks, as clients move from accumulating wealth to decumulation and generating a sustainable retirement income.

Investec offer both a Discretionary Fund Management Service built around the client's individual retirement goals and a Managed Portfolio Service (MPS) on Platforms that features a range of 8 investment strategies to suit clients varying needs and attitudes to risk.

Through the thoughtful design and implementation of an investment strategy that can cater for client income needs and risk profiles, both our Discretionary Fund Management Service and MPS on Platforms service can help advice firms achieve their client goals through a CRP. This enables them to plan for the life they wish to have in retirement.

Sources: *Financial Conduct Authority. Retirement income market data 2021/22

**AKG Research Briefing 2022 - Coming back to the table on CRPs

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