Adviser Home
DEVELOPMENT PLATFORM

RETIREMENT ADVICE - THE WAY FORWARD

An Adviser Home Guide

In association

Fidelity INTERNATIONAL | Adviser Solutions

INTRODUCTION

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The notion of retirement has undergone a radical transformation in the UK. Gone are the days when retirees would receive a carriage clock and immediately settle into a life of leisure. Instead, today's retirees are more likely to phase out of work gradually, reducing their working hours over time until they eventually stop working altogether. This shift reflects a broader change in societal attitudes towards aging and work, as well as economic and demographic trends.

The numbers bear this out. ONS stats indicate that there are more than 1.4 million workers in the UK aged over 65, many of whom will be transitioning into retirement. This trend is driven by various factors, including increased life expectancy, a desire to stay active and engaged, and financial considerations. As a result, the traditional concept of retirement is being replaced by a more flexible and individualised approach. From a customer choice perspective, this change has also been influenced by the introduction of pension freedoms which came in 10 years ago.

Considering the evolving patterns of retirement, receiving tailored advice has never been more crucial. As retirees navigate the complexities of this transition, expert guidance can help them make informed decisions about their financial planning, health management, and social engagement, ensuring they maintain a fulfilling and secure lifestyle. Personalised advice allows for the development of flexible strategies that accommodate the unique needs and goals of each retiree, thereby empowering them to embrace retirement with confidence and purpose amidst economic and demographic changes.

This guide seeks to explore the broad picture of this changing market, considering different aspects of the challenges that both advisers and their clients now face. It is also intended for advisers to use as a practical sense check of where their own advice processes are. It also gives a brief overview of the many choices, options and retirement income sources there are available, including relatively new options such as smoothed pension funds and guaranteed lifetime income products within drawdown.

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STATE PENSION

Let's look at where the State Pension currently sits, having previously been the bedrock of many retirees plans for retirement income.

The current UK State Pension system is designed to provide a basic level of income for retirees. It also benefits from the triple lock mechanism. This was introduced in 2010, which is a guarantee designed to ensure that the UK State Pension increases annually by the highest of three measures: inflation, average earnings growth, or a flat rate of 2.5%. This policy aims to protect pensioners from the erosion of their income due to rising living costs and to maintain the real value of the State Pension over time.

While it has been widely welcomed for providing financial security to retirees, it has also faced criticism due to its fiscal impact, particularly amidst economic pressures and an ageing population. The Triple Lock remains a subject of ongoing debate, as policymakers weigh its benefits against the need for sustainable public finances. It is certainly possible that the guarantee will be altered down at some point in the future.

Despite the triple lock guarantee, the reality is that the State Pension falls short in delivering sufficient financial security on its own, considering the rising costs of living, particularly in housing, healthcare, and daily expenses.

The full amount you will receive for the 2025/26 tax year will be £230.25 a week for 35 qualifying years of National Insurance contributions. Many will receive less than this though as they won't have the sufficient national insurance record, may have previously been in contracted out schemes or retired before the new State Pension was introduced in 2016.

One of the primary reasons the State Pension is insufficient is the gap between the pension income and the actual cost of living for retirees. According to the Retirement Living Standards research from the Pensions and Lifetime Savings Association the MINIMUM income which covers only basic needs with a small amount left over is £13,400 or £21,600 for a couple. By comparison, these numbers become £31,700 and £43,900 for a moderate income, and £43,900 and £60,600 for a comfortable income.

Continue

Living Standard	Annual Income Needed	State Pension Amount (assumes full entitlement)	Shortfall to Cover
One-person household			
Minimum	£13,400	£11,973	£1,427
Moderate	£31,700	£11,973	£19,727
Comfortable	£43,900	£11,973	£31,927
Two-person household			
Minimum	£21,600	£23,946	£0 (surplus £2,346)
Moderate	£43,900	£23,946	£19,954
Comfortable	£60,600	£23,946	£36,654

As even the minimum income is higher than the maximum annual State Pension income of approximately £12,000 (based on the 2025 rate), it starts to become apparent that for many the decision to continue working in later life is a necessity. This discrepancy forces many retirees to rely on additional sources of income, such as private pensions, savings, or part-time work, to bridge the financial gap, as highlighted above.

Moreover, the State Pension does not take into account individual circumstances and varying financial needs. Factors such as health conditions, caregiving responsibilities, and regional cost of living differences can greatly affect the financial requirements of retirees. As a result, a one-size-fits-all approach to retirement income is increasingly seen as outdated and inadequate. Comprehensive financial advice that includes private pensions, investments, and other savings is essential for many in ensuring a secure and comfortable retirement that addresses personal needs and goals.

Most advisers will encourage clients to get a full State Pension forecast as a starting point to assess their future income.

Check your State Pension forecast →

In short, whilst the State Pension can be an important component of a retiree's income, relying on it in isolation is likely to lead to penury in retirement.

CONSIDERING NON-PENSION ASSETS
in Retirement Planning and diversifying income sources

Whilst using pension arrangements is normally regarded as the most efficient way of accumulating retirement funds, advisers often need to explore using various non-pension assets to bridge the gap between the pension income that a client's fund can produce and their actual living expenses.

Matthew Hinchliffe, Associate Director and Chartered Financial Planner at Smith & Pinching Financial Services commented:

"Increasingly diversification isn't just an investment principle, it's a retirement planning essential. Financial resilience in later life relies on blending different income sources, not just different asset classes. Whether it's drawing from ISAs, pensions, bonds or property, a diversified retirement income strategy helps manage sequencing risk, tax efficiency, and client peace of mind"

Before we start examining the multitude of options with pension assets, let's have a look at other potential sources of income.

→ **BUSINESS** ASSETS

One of the most significant non-pension assets for some clients is their own business. Indeed, the classic phrase often used by business owners is 'my business is my pension'.

However, though many individuals hope to sell their businesses upon retirement, expecting this transaction to fund their retirement can be a dangerous strategy. The market conditions at the time of sale in any industry can significantly impact the business's value, and there is no guarantee that a buyer will be found at the desired price. Additionally, the business's ongoing profitability without the business owner being at the helm can affect the sale prospects. Therefore, business owners should have contingency plans and consider other income sources to mitigate the risk of relying solely on the sale of their business.

Business owners also need to consider the taxation aspects of selling a business. Though various reliefs are available, the tax landscape in the UK is constantly evolving and it could be that the net proceeds after tax realised at the time of sale are somewhat short of what is expected.

In short, business owners relying on their business for their pension feels like going on a cruise where the ship has no lifeboats. It might be OK…. but it might not.

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→ USING THE VALUE IN RESIDENTIAL PROPERTY TO CREATE AN INCOME

The reality for many clients that advisers see who are about to retire is that they will have insufficient savings and pensions to provide enough income for them in retirement. Given the demographics within the UK for many people the only really viable option is to use their home to help create an income for them, albeit this obviously comes at a cost in terms of leaving an inheritance. There are several options that are available.

Firstly, simply downsizing your property can release equity which can be used by the adviser to help fund required income. Many retirees choose this option as they perhaps don't need the same size property anymore, and this then also suits their lifestyle. However, with the costs of moving and stamp duty factored in as well as potential difference in costs if the new property is in a more expensive location, it often doesn't release as much capital as first anticipated.

Other options include a lifetime mortgage where a loan is secured against the value of a client's home. The loan provides the client with a lump sum which can be used as an income source. Some providers offer a drawdown lifetime mortgage which allows a series of payments to be made so the cash can be drawn in stages. The loan accumulates compound interest so the ultimate amount repaid can be significantly higher than the cash released. Generally speaking, the older the client, the higher the loan they can take.

Home reversion plans offer a slightly different solution in that part or all of the home is sold to a specialist company in exchange for a lump sum, with an agreement that the client can continue to live in the property rent free.

Given the past history of problems with equity release a safeguard is now in place in that any scheme approved by the Equity Release Council has a guarantee that the estate will never owe more than the property is worth when it is sold.

Equity release is a specialist area all of its own, and it is becoming increasingly important for advisers to factor this into their advice proposition, whether this is in house or referring to an external specialist.

INDIVIDUAL SAVINGS ACCOUNT (ISA)

ISAs are a popular choice for retirement planning due to their tax-efficient nature. Whether to save for retirement into a pension or an ISA is often debated, thought there is certainly scope for both types for many people. It is commonplace for advisers to recommend both for clients who are accumulating, where for example the pension annual allowance is already exceeded, or the client may potentially need access to the funds prior to 55.

With the obvious ability of ISAs to produce tax-free income, it is a simple and straightforward to take either ad hoc or a regular income stream from ISAs, without it impacting the income or capital gains tax situation of an individual. This flexibility can be beneficial in managing cash flow and covering unexpected expenses, and can often be an additional or alternative income source as suits.

Another advantage of using ISAs for retirement income is the variety of account types available, catering for different investment preferences and risk tolerances. Cash ISAs, though unlikely to keep pace with inflation in the long term offer a safe and stable option with no risk to capital which can be appropriate for income either needed in the short term or as an 'emergency' option. This could be used by advisers as a temporary income source if for example income is being taken from assets where the asset value has dropped due to market movements.

Finally, with there being no age restriction on ISAs its possible for advisers to continue to recommend them later in life – for example it may be that the PCLS is taken from a pension arrangement and placed in an ISA to avoid a tax penalty on death prior to 75, with the ISA value able to be transferred upon death to a spouse or civil partner using the additional permitted subscription. In many cases advisers will also use the ISA allowance in retirement to move other investments into a more favourable tax regime.

INVESTMENT BONDS

Investment bonds are another valuable non-pension asset. These allow advisers to invest a lump sum in a range of assets on behalf of their client, providing a diversified portfolio that can generate income during retirement. The table below gives a simple comparison of the tax position of both onshore and offshore bonds.

Continue

	Onshore Bonds	Offshore Bonds
Taxation	20% corporation tax payable on interest, rental income and capital gains (but dividends are exempt).	As registered in a tax-favourable jurisdiction, has the benefit of 'gross roll-up' of gains and income. Withholding tax may be deducted at source and cannot be reclaimed.
Withdrawals	Part surrenders of up to 5% of accumulated premiums can be taken without any immediate tax charge. Withdrawals are tax deferred rather than tax free.	Part surrenders of up to 5% of accumulated premiums can be taken without any immediate tax charge. Withdrawals are tax deferred rather than tax free.
Gains Gains on bonds are triggered by chargeable events, normally one of the following: • Full encashment of the bond. • Part-encashments in excess of 5% pa of the original premium. • Transfer of legal ownership in return for monetary value. • Death of the last life assured.	Gains treated as savings income and the highest part of income and taxed as follows: • Basic-rate client - no further tax on the gain. • Higher-rate client - subject to 20% tax on the gain; additional-rate client - subject to 25% tax on the gain. If a gain pushes client into a higher tax bracket, top-slicing relief may help to mitigate this.	Gains treated as savings income (before dividend income) and can be set against the personal allowance, starting rate for savings, and/or personal savings allowance where available. Then taxed at basic (20%), higher (40%) or additional rate (45%). If a gain pushes client into a higher tax bracket, top-slicing relief may help mitigate this.

Both onshore and offshore bonds allow for withdrawals up to 5% of the invested amount each year without immediate tax consequences. The cumulative nature of this allowance also applies. This can be exceptionally useful in retirement planning, particularly where income can be altered in the year of encashment to reduce or potentially eradicate any tax liability. In short, the 5% tax deferred income allowance from a bond can create an attractive income stream for advisers' clients, particularly where additional capital is available after allowances for ISAs and pensions have been used.

Both onshore and offshore investment bonds can have a place in retirement planning, and the attractiveness of both will depend on individual circumstances. Other considerations such as inheritance tax and intergenerational planning can also make investment bonds an attractive option for advisers to use with their clients. Whether the ultimate tax paid by the client will be more or less than in a GIA is a debatable point and will depend on the individual client circumstances.

Continue

→ **GENERAL INVESTMENT ACCOUNTS** (GIAs)

GIAs are flexible investment options that do not have the tax advantages of ISAs but are obviously unrestricted in terms on inputs. GIA investment options include OEICs, ETFs, investment trusts, and individual stocks and shares, providing a diversified source of income during retirement. While the returns from GIAs are potentially subject to capital gains tax, advisers can strategically manage them to optimise returns and minimise tax liabilities and provide a steady income stream. Advanced software is available through different sources so advisers can help to manage the tax liability on behalf of their clients.

Many advisers use a GIA on behalf of their clients which forms a critical part of their CIP or CRP, moving assets to other tax wrappers such as ISAs as and when allowances allow.

Given the recent reduction to the CGT allowance some advisers are also now choosing to utilise multi asset funds rather than a number of individual funds such as within an MPS as part of their client proposition. This can help reduce the number of capital gains liabilities that have been driven by investment decisions within a portfolio, potentially enabling the adviser to manage the CGT position more tactically. Conversely, it can be argued that multi asset funds limit the adviser's ability to manage CGT gains and don't 'use up' the CGT allowance automatically. Many advisers will use both strategies dependent on the client circumstances.

Whatever the type of fund that is held within the GIA, a real benefit that advisers can add is the use of other planning mechanisms to limit or even eliminate gains on funds held in the GIA. These can include using allowable losses, Bed and ISA planning and the use of two CGT allowances when advising both the client and their spouse or partner.

→ **CASH DEPOSIT** ACCOUNTS

Deposit accounts, such as savings accounts and fixed-term deposits, offer a low-risk option for retirees to grow their wealth. Although the longer-term returns on deposit accounts have less potential for growth compared to investment in real assets, they provide security and liquidity, making them a reliable source of emergency funds or unexpected expenses.

Advisers quite rightly point out though that deposit accounts in isolation are unlikely to keep pace with inflation, thus making this an unattractive option in the longer term other than for the extremely cautious who cannot afford to see their capital eroded in real terms.

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→ **DIVERSIFYING INCOME** SOURCES

In reality, many clients' advisers see have been unable to save enough into their pension funds for these alone to provide a sufficient level of income. Diversifying income sources is therefore crucial for many adviser's clients in the UK to ensure a secure and comfortable retirement. While the State Pension provides a foundation, it is usually insufficient to cover all living expenses. Incorporating non-pension assets such as business assets, investment bonds, ISAs, GIAs and deposit accounts can provide additional income streams and tax benefits.

PLANNING FOR HEALTH & LONG-TERM CARE COSTS
for Retirees in the UK

As individuals approach retirement, it becomes increasingly crucial for advisers to discuss health and long-term care costs, as well as providing an income source in retirement. The National Health Service (NHS) provides a foundation, but it often will not cover all the expenses associated with long-term care, particularly when it comes to specialised services and residential care. Therefore, advisers should consider additional measures to mitigate the financial impact of health-related expenses.

With only a relatively nominal sum of capital and savings (for example £23,250 in England and Northern Ireland) individuals will often be expected to provide substantial out-of-pocket expenses, which can erode their savings and compromise their overall financial security. By proactively addressing these potential costs, advisers can help ensure these costs are catered for in the overall financial plan.

Without this proper planning, retirees may exhaust their financial resources quickly, leaving them vulnerable to financial instability. By exploring all the options advisers' clients can better prepare for these substantial expenses and maintain their quality of life, independence and dignity. Importantly, prior planning can also alleviate the burden on family members who might otherwise be expected to provide financial support or caregiving.

Looking in detail at the various mechanisms to provide care is beyond the scope of this guide, but here is a brief summary of the main strategies.

Paid for directly

Available cash and income from deposits/investments can be used to contribute towards care costs. An advantage of this option is that on death any leftover funds fall to the estate. However, given the cost of care, funds can become exhausted quickly.

Continue

Equity Release

In a similar way to helping to provide sufficient income for their client, an adviser can consider equity release as a way to fund care costs by using the value in a client's residential home. Again, this can either be through a lifetime mortgage or a home reversion plan. Either method can lessen the value of a client's estate for inheritance tax, but also significantly impact the inheritance received.

Deferred Payment Agreement

This is another method for using the value of a client's home to pay for care fees. In this situation a client's local authority agrees to help pay for your care costs but uses their home as collateral subject to certain conditions.

Immediate Care Plans

These plans pay your care fees or part of the care fees for the rest of your life. The client makes a one-off policy payment and in return the care provider will be paid an agreed tax-free amount regularly to meet care costs. Premiums will vary by age, state of health and the level of increase assumed. It can provide the client and their family with peace of mind and is probably underused as an option.

Letting the client's property

This can be an effective solution or partial solution to care fees funding. However, the net proceeds of any rental payments after tax combined with the costs of renting often means the income is insufficient to meet care fees.

Given the complexity and specialist knowledge required to recommend one or more of these scenarios many advisers will either specialise in these areas or refer to advisers who do.

CONSULTATION ON APPLYING INHERITANCE TAX (IHT) to Pensions

On 30th October 2024 HMRC launched a consultation on bringing unused pension funds and death benefits payable from a pension into the IHT regime from 6th April 2027. A technical consultation was launched and closed on 22 January 2025. On the 21st July 2025 draft legislation was issued broadly in line with the consultation, albeit with some amendments as detailed below.

The key points of the draft legislation are as follows:

- From 6 April 2027 most unused pension funds and death benefits will be included within the value of a person's estate for IHT purposes. All death in service benefits payable from a registered pension scheme will remain out of scope for IHT.

- As part of these changes, from 6 April 2027 personal representatives (rather than pension scheme administrators as originally proposed) will be liable to report and pay any IHT due on unused pension funds or death benefits.

Defined Contribution pension benefits that potentially come into scope upon death if the draft legislation is implemented include the following, - drawdown and flexi-access drawdown, dependant's drawdown and flexi-access drawdown, nominees' and successor's flexi-access drawdown, uncrystallised funds lump sum death benefits and annuity value protection lump sums.

It is important to remember however that when the first person in a marriage or civil partnership dies, anything left to their partner is not normally subject to IHT, as per existing rules. However, there may be a liability at a later point when the inheritor dies.

From an advisory perspective, the draft legislation requires financial advisers to carefully assess their clients' overall financial position, considering both the technical aspects of IHT regulations and the client intentions in respect of leaving a legacy. Furthermore, they should discuss potential implications with their clients, such as how changes in IHT policies might affect the distribution of pension benefits and overall estate planning strategies.

Continue

In short, if as looks likely the draft legislation becomes law, it could reverse many financial plans with pensions becoming the first port of call for retirement income rather than in many cases one of the last. Some would argue this is indeed what pensions and the associated tax advantages are in place to achieve.

Advisers need to take a view as to what advice they need to give now, and when is the right time to give advice pending the new rules. This will depend on individual circumstances. However, one thing seems certain – the assumption that death benefits can pass tax free down the generations is highly unlikely to be correct in the future.

Matthew Hinchliffe of Smith and Pinching commented:

"I'm having more and more conversations with clients about the government's proposed changes to include pensions within the estate for inheritance tax from April 2027. Now we have the draft legislation we have more certainty over what the eventual rules will look like. However, with the implementation of the final rules still some time away it remains predominantly about staying informed and preparing to respond, not reacting prematurely".

The draft legislation can be accessed here

It is important to remember there may also be further changes to the legislation before it is implemented.

THE VIEW FROM THE FCA
on retirement income advice

Probably the most important update recently in relation to retirement income advice were published on the 20th of March 2024 in the Retirement Income Advice Review TR24/1. Alongside this important update the FCA also published:

- **A dear CEO letter** asking advisers to review their processes for retirement income
- A separate **article on cashflow modelling** highlighting their concerns in this area
- The launch of the **Retirement Income Advice Assessment Tool**.
  This has been used by the FCA to review files, and it appears they will continue to do so. Advisers can also use this to assess their past advice. It covers Information gathered, Suitability, Insistent Clients, Disclosure provided and Consumer Duty considerations.

Retirement income advice is a primary concern for ongoing guidance.

Link to the FCA thematic review →

It is interested to note that chapter 5 of this documented concerned Consumer Duty, and it seems obvious that retirement income advice is at the forefront of the FCAs attentions in this regard.

The Dear CEO letter →

The cashflow modelling article →

Further information on the RIATT →

Continue

Below is a high summary view of the key points of the review and associated releases.

Thematic Review

- Lack of necessary client information
- Income withdrawals under drawdown not being given appropriate consideration
- Risk profiling inconsistent or not evidenced
- Capacity for loss (CFL) not given due consideration
- Periodic reviews not taking place that the client has paid for
- Inaccurate or no records of client reviews
- Missing information such as details of minimum income guarantees that may be present in existing policies

What client information is required

Advisers should review their 'at retirement' fact find to ensure that the necessary client information is captured.

- Why is the client taking benefits (if not for retirement)
- Full analysis of expenditure to calculate income requirements
- Other income sources being drawn/able to be drawn
- Any Guaranteed Annuity Rates available from existing pension arrangements
- Any lump sum requirements
- Consideration of Equity Release
- Do any spouse/partners requirements need to be considered and planned for?
- What is the client and any spouse/partners health?
- Is a power of attorney in place?
- Is a will in place and up to date?
- Is this also reflected in the pension scheme expression of wish?
- Is life cover in place to cover any IHT liability?
- Has the client's ATR been assessed?
- Has the client's CFL been assessed?

Cashflow modelling

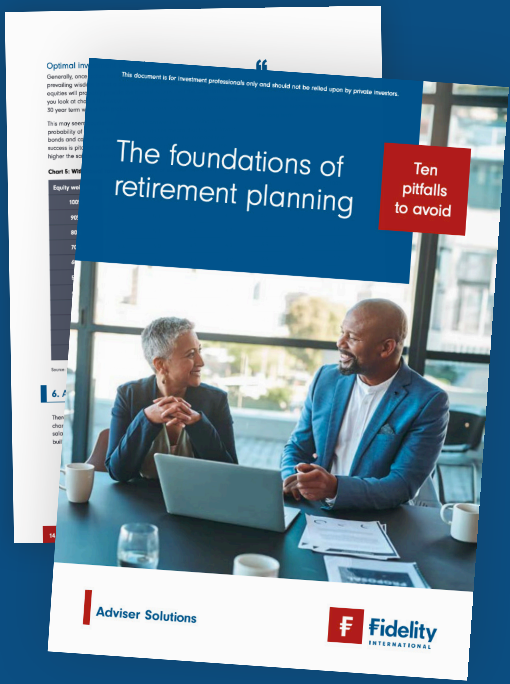
Cashflow modelling though not mandatory is now widely used. Given this, the FCA have made a number of 'suggestions' as to how cashflow modelling should be used.

- Correct inputs are used as per the FCA checklist
- Returns should be justifiable, reasoned and reasonable. This should not solely be based upon past performance, but a reasonable assessment of what asset returns for the investments recommended could deliver. Many fund managers produce capital market assumptions for example
- Charges should be taken into account at a realistic level
- Tax should be taken into account
- Only assets that can realistically be used for income purposes should be modelled
- Results should be stress tested, for example with different growth and inflation rates and also taking into account an early drop in investment values
- Inflation should be taken into account
- The effects of unplanned withdrawals should be taken into account

TEN RETIREMENT PITFALLS

Fidelity Adviser Solutions have explored the thematic review further to look at ten common retirement pitfalls.

The document explores the ten pitfalls of retirement, and how to avoid them.



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> *I never made a mistake in my life. I thought I did once, but I was wrong*
>
> *Charles M. Shulz*

ONGOING ADVICE SERVICES

On 24th February 2025 the FCA published their findings on ongoing financial advice services from the information they have gathered from 22 large advice firms.

Ongoing financial advice services (FCA) →

Though the findings didn't point to a systemic issue, the FCA reminded firms they should consider whether they can evidence:

- If they have delivered all the services they were required to deliver to the client going back to 2018
- What remedy is required if not

Highlighted issues included:

- Client contracts lacking clarity
- Failing to provide an understanding of services that have been provided, including availability of MI
- Inadequate processes, controls, and monitoring mechanisms that hinder adherence to contractual obligations and regulatory requirements

THE RISKS OF RETIREMENT INCOME
and how advisers can deal with them

Another key aspect for advisers when considering appropriate advice models is to start by how the adviser addresses the risks in retirement. The key risks are as follows:

- **Longevity** risk
- **Inflation** risk
- **Sequencing of return** risk
- **Investment** risk

Here we cover the key points on each.

LONGEVITY RISK

The purest risk in drawdown is simply an individual may outlive their retirement savings, thus leaving them with an insufficient income to meet even essential income requirements.

As life expectancy continues to increase, this risk becomes more pertinent for retirees who must ensure that their funds last throughout their lifetime. Longevity risk necessitates careful initial and ongoing planning by the adviser and consideration of various income sources as detailed above. Retirees must balance the need for long-term growth with the preservation of capital to sustain their standard of living over potentially many decades.

The FCA cover this in their cashflow modelling article discussed above and stressed the importance of planning beyond average life expectancy. The FCA made the valid point that half of consumers will live longer than average. Advice firms should therefore build this into their cashflow modelling forecasts, and also use a calculator such as the ONS life expectancy calculator which shows the probabilities of the client surviving to older ages. The FCA confirmed the calculator takes account of how this might change for people born in different years. For example, a 65-year-old male has an average life expectancy of 85. However, they have a 1 in 4 chance of surviving to age 92 and a 3.1% chance of reaching 100. The figures are higher for a female of the same age.

Continue

The FCA confirmed that advice firms should take account of the following:

- Remember that clients generally underestimate their own life expectancy
- Focus on the probability of survival rather than life expectancy, to address clients' misperceptions and the potential harm of running out of money
- When advising couples, consider the probability of survival for both parties
- Consider how income needs may change in later life
- Only take account of limited life expectancy when there is strong evidence that it will be borne out in practice

To address longevity risk, retirees can consider solutions such as annuities, which provide a guaranteed income stream for life. This can help ensure that they do not outlive their savings. Additionally, maintaining a diversified investment portfolio that includes growth-oriented assets can help counteract inflation risk. Both of these are discussed further below.

INFLATION RISK

Inflation risk is the danger that rising prices will erode the purchasing power of retirement savings. Over time, even moderate inflation can significantly reduce the value of a fixed income stream, making it harder for retirees to maintain their lifestyle. This risk underscores the importance of including assets in a retirement portfolio that have the potential to grow and outpace inflation. Investments such as stocks, real estate, and inflation-protected securities can provide a hedge against inflation and help ensure that retirees' income keeps pace with rising costs.

Unfortunately, statistics have also shown that pensioners usually suffer a worse rate of inflation than the rest of the population. This is because pensioners typically consume a higher percentage of goods that have a higher inflation rate, such as fuel and some food items. This is sometimes referred to as 'silver inflation'. This makes it even more important for advisers to make realistic inflation assumptions in their retirement cashflow modelling and was covered in the thematic review mentioned above.

Obviously index linked annuities can also provide a solution here, though many are discouraged by the perceived lack of value and lower starting income. However, once again they can form part of a solution.

The impact of inflation on retirement planning can be explored further in this report.

Download

William Burrows, founder of the Annuity Project and financial adviser with Eadon & Co commented on retirement risk:

"During retirement, people face many risks; risk of running out of money, investment risk, inflation risk and perhaps more importantly the risk their personal circumstances such as health may change. No one product can adequately hedge against these risks, but a combination can help reduce the risks.".

Continue

SEQUENCING OF RETURN RISK

Sequencing of return risk, also known as sequence risk or 'negative pound cost averaging' refers to the impact that the order of investment returns can have on a retiree's portfolio when in drawdown or in investment portfolios held elsewhere.

Negative returns early in retirement can be particularly damaging, making it difficult for the portfolio to hit the growth rate required to sustain withdrawals. This risk can be mitigated through a number of strategies such as:

- Maintaining a diversified portfolio
- Using a smoothed fund which helps iron out day to day volatility
- Relying on the 'natural income' of a portfolio
- The bucket method
- A fixed income adjusted on an ongoing basis to allow for changing market conditions and circumstances
- Using a guaranteed solution such as an annuity for the income requirement to cover 'essential' expenditure

Let's look at these solutions in more detail.

Diversification

This needs little explanation as advisers will be very familiar with the advantages of spreading your risk by investing across a broad range of asset classes and geographical areas. Perhaps the greater debate is whether multi asset funds or advisers building their own portfolios are preferable, though these two strategies need not be mutually exclusive.

Multi-asset funds offer a convenient and streamlined approach for advisers who seek to provide their clients with diversified investment portfolios. These funds incorporate a mix of asset classes, including equities, bonds, and possibly alternative investments, within a single investment vehicle. The key advantage of multi-asset funds lies in their simplicity and ease of management; they relieve advisers from the complexities of asset allocation and rebalancing, which are handled by the fund managers. This can be particularly beneficial for advisers with clients who prefer a hands-off approach to investing or who may not have the expertise to manage a diversified portfolio themselves.

Continue

On the other hand, building bespoke portfolios allows advisers to tailor investment strategies specifically to their clients' individual needs, preferences, and risk tolerances. This will normally be in line with an advice firm's centralised investment and retirement propositions. This customisation can lead to a more personalised investment experience, where advisers can select assets that align with their clients' financial goals. Creating bespoke portfolios also enables advisers to respond to changing market conditions and adjust the asset mix accordingly, offering a level of flexibility that multi-asset funds may not provide. Moreover, bespoke portfolios can be structured to address specific tax considerations (possibly important for portfolios held outside of a tax wrapper), liquidity requirements, and ethical investment preferences, thereby enhancing the overall client relationship.

However, the choice between multi-asset funds and bespoke portfolios is not always clear-cut. Advisers must weigh the benefits of simplicity and professional management that multi-asset funds offer against the tailored approach and flexibility of bespoke portfolios. For some clients, a combination of both strategies might be the optimal solution, leveraging the strengths of multi-asset funds for broad-based diversification while using bespoke portfolios to address particular financial objectives. Ultimately, the decision should be guided by a thorough assessment of the client's needs, investment horizon, and risk profile, ensuring that the chosen strategy aligns with their long-term financial plan.

→ Using smoothed funds

Using smoothed funds can be an effective strategy to mitigate some of the sequencing of return risk when income is being taken from an investment portfolio. Smoothed funds address this issue by smoothing out some of the day-to-day market volatility, thereby reducing the likelihood of experiencing large reductions in asset values due to market fluctuations just at the point when income is being taken. These funds use techniques such as averaging out returns or buffering against sharp market declines, which can help maintain a steadier income stream and preserve the principal value of the investments.

Furthermore, smoothed funds can offer retirees peace of mind by offering a level of predictability and reliability in their income. Instead of being subject to the volatile swings of the market, the income generated from smoothed funds is designed to be more consistent, thereby reducing the stress and financial uncertainty that can come from relying on traditional investment funds. By incorporating smoothed funds into their retirement strategy, advisers can provide their clients with a more balanced approach that combines the benefits of capital growth and stable income.

Continue ▶

One of the disadvantages of using smoothed funds is that in the same way that the performance of the fund can lag a falling market, it can also lag a rising market. Also, falls in values when they do come can appear relatively large. It is also worth mentioning that ultimately the long-term performance of the fund will be determined predominantly by the success of the investment managers, rather than the smoothing mechanism itself.

Natural Income

Many advisers often recommend 'natural income' from a portfolio to help create an income stream. This is typically dividends and interest from shares and bonds or associated vehicles. This strategy focuses on investing in assets that naturally produce income, rather than relying on the sale of investments to generate cash flow.

This natural income may come from a GIA, but the same principle applies to investments hold in other vehicles, such as ISAs or pensions.

The main advantage of natural income is that it provides a regular stream of income, which is particularly beneficial for retirees who need stable and reliable sources of funds to cover their living expenses but without reducing the number of units or shares held. By investing in a diversified portfolio of collectives typically holding a wide range of dividend-paying stocks and interest-bearing bonds, clients can achieve a steady income while also having the potential for capital growth. This method allows them to maintain their investment principal, which can continue to appreciate over time, thereby enhancing their overall financial security during retirement. Additionally, dividends from foreign companies can provide exposure to global markets and further diversify a retiree's portfolio.

Capital values could still be eroded by market falls but, as the assets aren't realised, they have more potential to recover. The key attraction of this strategy is that capital is preserved. The obvious disadvantage is that income will vary year by year and many retirees would prefer a more stable or 'known' income. It is therefore often used as part of a solution rather than a sole solution.

Continue

→ The bucket method

The bucket method of investing is a strategy familiar to many financial advisers. This approach involves dividing a client's overall portfolio into distinct 'buckets,' each allocated for a specific time horizon and purpose. For instance, 'short-term buckets' usually hold more liquid and stable investments, such as cash or short-term bonds to meet immediate income needs and provide a safety net during market downturns.

'Intermediate-term buckets' might include a mix of bonds, dividend-paying stocks and perhaps smoothed funds, aimed at generating income and moderate growth over a five to ten-year period. A 'long-term bucket' could be invested in higher-risk, higher-reward equities, which have the potential for significant appreciation but require a longer time horizon to weather market volatility.

A simple example of a bucket strategy can be demonstrated here:

Cash

Cash holding for typically first 1-2 years of income requirement

Investment 3-10 years

Investing for growth & income with minimal volatility

Investment >10 years

Higher risk investments which can produce longer term growth

Sequencing of return risk can be managed by implementing a withdrawal strategy that uses the lower risk assets first, but the strategy can be flexible and responsive to market conditions.

Retirees might also hold a portion of their portfolio in cash or short-term bonds to cover several years of expenses, reducing the need to sell assets at a loss during market downturns.

By employing the bucket method, financial advisers can tailor investment strategies that align with their clients' risk tolerance, income requirements, and financial goals. This method not only helps in managing market risks by ensuring that funds needed in the near term are not exposed to the same level of volatility as long-term investments, but it also provides a systematic way to rebalance the portfolio as time progresses. Regularly reviewing and adjusting the allocations between buckets allows advisers to adapt to changing market conditions and the evolving needs of their clients, ensuring that the financial plan remains robust and responsive.

Continue ▶

One of the advantages of this strategy is the flexibility inherent within it to adopt to changes in the value of different buckets. For example, if one has done particularly well, a short-term decision could be made to crystallise some of the gain and take income from this source. One of the disadvantages is as we have seen several times in the recent past, on occasions values across all asset classes fall simultaneously due to global events.

Many advisers either as part of a 'bucket' strategy or in conjunction with other methods may also elect to hold a reasonable amount in cash only, to accommodate short term income requirements, say over one or two years. This avoids the requirement for taking income on assets where the possibility you are crystallising losses if the market falls is regarded as too big a risk.

→ Fixing a sustainable income level

This is common practice for advisers, who may feel a sustainable income at a given level is a suitable way to mitigate sequencing risk, with the ups and down in asset values in theory levelling out the sequencing risk.

Determining a suitable percentage for a client to withdraw as income from their retirement portfolio is a nuanced and challenging task for advisers. Traditionally, the 4% rule served as a reliable guideline, suggesting that retirees could withdraw 4% of their portfolio annually, adjusted for inflation, without running the risk of depleting their funds prematurely. However, the financial landscape has changed significantly over recent years, with prolonged period of low interest rates, increased market volatility, and extended life expectancies. Many therefore now regard the 4% rule as having been largely debunked. Consequently, advisers are more likely to adopt a more individualised approach that takes into account the unique circumstances and goals of each client. In effect, many advisers now calculate their client's own personal sustainable rate based upon individual circumstances, rather than rely on one simplistic return

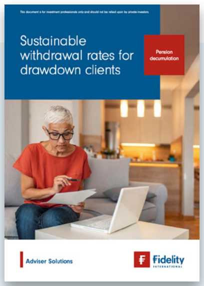
This rate will depend on various factors such as the client's risk tolerance, investment horizon, age and overall financial situation. For example, a more conservative client who prioritises capital preservation may find a sub 4% withdrawal rate more appropriate, ensuring their portfolio remains robust against market downturns. Conversely, a client with a higher risk appetite and a diversified portfolio might be comfortable with a rate closer to 5% or higher, balancing the need for income and accepting the risk to capital. This tailored approach requires advisers to conduct thorough assessments and ongoing reviews to adjust the withdrawal rate dynamically as needed, ensuring it aligns with the client's evolving needs and market conditions.

One other important aspect is the willingness of the client to reduce capital over time. Many advisers and their clients will make the call that it may be appropriate to take higher income earlier in a client's retirement at the expense of eroding capital, as their spending needs will reduce over time.

Continue ▶

Sustainable withdrawal rates including probability measures can be explored further in this report.

Download



The following table from this document gives an example of withdrawal rates by probability of success and equity weighting:

Withdrawal rates by probability of success and equity weighting

Equity weighting	50%	60%	70%	80%	85%	90%	100%
100%	5.8	5.2	4.7	4.0	3.6	3.1	0.8
90%	5.6	5.1	4.6	4.1	3.7	3.2	1.0
80%	5.5	5.1	4.6	4.2	3.8	3.4	1.2
70%	5.4	5.0	4.7	4.2	3.9	3.5	1.5
60%	5.3	4.9	4.6	4.2	3.9	3.6	1.7
50%	5.1	4.8	4.6	4.2	4.0	3.7	2.0
40%	5.0	4.7	4.5	4.2	4.0	3.7	2.2
30%	4.8	4.6	4.4	4.1	4.0	3.7	2.4
20%	4.6	4.4	4.2	4.0	4.0	3.7	2.6
10%	4.4	4.2	4.1	3.9	3.9	3.6	2.8
0%	4.1	4.0	3.8	3.7	3.6	3.4	2.4

Source: Morningstar. Data as of September 2024

Continue

Using a conventional annuity

Prior to the introduction of pension freedoms ten years ago it was much more commonplace for annuities to be used as the sole retirement income vehicle, particularly for more modest funds.

The advantages of conventional annuities are straightforward and well known, - a guaranteed income for life, the ability to add a spouse or partner to guarantee income for them too, as well as the ability to select a guaranteed period for the income to be paid. Some providers now allow this guarantee to be paid for up to 30 years.

Annuity value protection allows a lump sum (after tax if applicable) to be paid on the death of the annuitant, which can also satisfy a client's desire to provide death benefits.

The maximum amount (before tax) that can be paid under value protection is the annuity purchase price minus the total amount of the annuity payments to date of death (ignoring any tax deducted on the annuity payments).

Example

Trevor purchased a value protected annuity with his £100,000 pension fund at retirement. His annuity payment is £5,500 per annum. Unfortunately, Trevor died five and a half years later. How much will be paid by the annuity provider to his estate following his death?

Purchase price		= £100,000
Less		
Gross Annuity paid to date of death	£5,500/12 * 66 monthly instalments	= £30,250
Maximum value protection		**= £69,750**

Currently this amount is paid tax free for death prior to 75 and taxed at the recipient's marginal rate for death of the member post 75. However, this is likely to be subject to inheritance tax from April 2027 if the draft legislation is confirmed.

Continue

The main drawbacks perceived by both advisers and their clients when interest rates are low is the lack of flexibility and lower starting income than retirees would like. Over recent years in a generally higher interest rate environment this has reversed somewhat, and they are now regarded as more attractive than they were say immediately post pension freedoms. Despite this, the FCA in the thematic review referenced above highlighted that advisers didn't always adequately consider annuities.

Importantly, advisers should also remember that annuitisation whether whole or partial remains an option for clients who have initially gone down the drawdown route. As client circumstances change and they get older, the option to annuitise can sometimes become more compelling. One example being for example a spouse or partner predeceasing the holder of the pension, thus meaning a more expensive joint life annuity no longer need be bought.

On this note it is also important for advisers to consider whether an annuity purchase is attractive as they conduct reviews for income drawdown clients.

→ Mix and match to manage sequencing risk

For varying reasons none of these strategies are 100% effective, but nor are they only able to be used in isolation. Many advisers will use a combination of two or more of these strategies as required as appropriate for their clients. Importantly, for many advisers the mechanics of how this can be achieved have been greatly eased by the ability of some solutions to have various options under one proposition or platform. This saves time, money and makes the whole overall retirement solution easier to understand for the client.

INVESTMENT RISK

Perhaps this risk is the one advisers feel the most comfortable explaining to clients and dealing with, as they be assessing this for all clients with investible assets, not just those at retirement. Assuming it is appropriate for advisers to build portfolios for clients rather than say buy a guaranteed stream of income, investment risk encompasses the various uncertainties associated with investing, including the potential for losses due to market volatility, economic changes, and other factors.

Fundamental to managing investment risk is the adviser's ability to correctly assess and put in place a recommendation appropriate for the client's Attitude to Risk (ATR) and Capacity for Loss (CFL).

These two phrases are often confused but are very distinct – particularly for those drawing an income from their portfolios.

Attitude to risk refers to an individual's willingness to take on risk in their investment portfolio. This encompasses their comfort level with market fluctuations, potential losses, and their overall perception of risk. It is a psychological measure that can vary significantly based on personal experiences, financial knowledge, and emotional responses to market changes. Essentially, it reflects how much risk an individual is prepared to accept while aiming for potential returns.

Capacity for loss, on the other hand, is a more objective measure. It assesses the ability to endure financial losses without compromising one's financial goals or lifestyle. This includes evaluating an individual's financial situation, time horizon, and the necessity of certain assets for living expenses. While ATR is about willingness, CFL is about financial resilience. It determines how much loss one can bear without derailing their retirement plan.

In retirement, these two concepts become particularly crucial. Retirees must balance their desire for growth with the need for stability. A retiree with a high attitude to risk may prefer a more aggressive investment strategy, seeking higher returns. However, if their capacity for loss is low, such a strategy could jeopardise their financial security. Conversely, a retiree with a low attitude to risk but a high capacity for loss could theoretically take more risk than they are prepared to.

A Financial adviser role is to harmonise these aspects. They can help retirees understand their own ATR and accurately assess their CFL. By doing so, advisers can craft a balanced investment strategy that aligns with both the psychological comfort and financial reality of the retiree. This approach ensures that retirees can enjoy a stable income while also having the potential for their investments to grow, providing peace of mind and financial security throughout retirement.

Continue

Advisers have numerous tools and questionnaires to assess both of these criteria for a client. It is only once this has been done that an adviser will be able to assess what the correct level of investment risk is appropriate, and how to build a portfolio or select suitable investment options for the client.

Cashflow modelling will also be a core part of this process to demonstrate to clients the range of outcomes that could happen as indicated above. This can make it real for clients to see both potential upsides and downsides. Finally, it is important that both ATR and CFL are recorded, reviewed and updated as necessary. It should be noted that both a client's ATR and CFL can and indeed are likely to change over time.

Investment risk in retirement is explored further by Fidelity in the following guide.

Download

OTHER RETIREMENT OPTIONS

Having discussed income drawdown, annuities and other methods to provide retirement income it is worth briefly mentioning other strategies that an adviser can and will use as appropriate.

→ UNCRYSTALLISED FUND PENSION LUMP SUM (UFPLS)

This is not a retirement product in itself but rather a flexible mechanism for accessing pension savings without committing to either annuitisation or full income drawdown. Under UFPLS, individuals can withdraw lump sums directly from their pension fund (either in whole or in part) without transferring the entire pot into a crystallised account. Each withdrawal consists of two components: 25% of the lump sum is tax-free, while the remaining 75% is taxed at the individual's marginal rate of income tax. This feature allows advisers to manage their client's tax situation efficiently while accessing funds as needed, though the strict 75/25 split is inflexible and may not suit individual client circumstances. It is a simple method of withdrawing funds, though one caveat is that the scheme itself must allow this feature- and some older arrangements do not.

→ PHASED/DRIP-FEED DRAWDOWN

This I not a different solution per se, but rather a subset of income drawdown itself.

Phased drawdown allows advisers to recommend gradually withdrawing portions of their client's pension pot, allowing a combination of tax-free cash and income each year to provide the required income. Only the amount needed to provide the income is moved into income drawdown, the balance remains uncrystallised.

This approach allows for tax-efficient planning, as clients can withdraw smaller sums to stay within lower tax brackets while leaving the remaining funds invested for potential growth. Tax free cash is effectively taken as part of a client's 'income. Assuming the client doesn't require the maximum permitted tax-free cash at the start, this combination provides maximum flexibility.

Where it is put in place on an automated basis it is sometimes referred to as drip-feed drawdown. This allows for much more flexibility than UFPLS say, as the taxable/tax free elements can be adapted to suit the client's tax circumstances, for example ensuring the client doesn't cross into the higher rate or additional rate income tax band.

Continue ▶

→ USING A COMBINATION OF ANNUITY & DRAWDOWN

It is becoming increasingly common, although arguably still less common than it should be for advisers to recommend a combination of both conventional annuity and drawdown rather than treating them as a binary decision. After all, securing a stable income and maintaining the potential for investment growth ticks a lot of boxes for many retirees. Put simply, if clients were presented with a simple choice of flexibility, certainty or somewhere in the middle, I suspect a lot of clients would opt for the last option pending receiving any further information.

Ideally the annuity can be used alongside other guaranteed sources of income such as the State Pension to cover fixed and essential expenses, ensuring a steady income floor which can meet essential income requirements. Meanwhile, the remaining funds can be allocated to the income drawdown arrangement, providing an opportunity for continued investment and the potential for growth over the longer term. This blend not only safeguards against the risk of the client outliving their savings but also offers the flexibility to adapt to changing financial needs and market conditions. Regular reviews with a financial adviser can further ensure that the strategy remains aligned with the retiree's goals and risk tolerance.

Of course, it is also possible to dynamically manage the split by gradually moving from drawdown to annuity as and when appropriate based on market conditions and personal circumstances.

One of the issues that has possibly stopped advisers from considering a 'portfolio' of retirement products previously has been that for many retirees they haven't had a big enough pension fund to realistically secure their retirement income needs with an annuity, and then leave enough funds to provide a pot big enough for a meaningful drawdown arrangement for the remainder. For larger funds though starting off with a split that may predominantly favour drawdown allows the adviser to manage both the timing and style of annuity being purchased on an ongoing basis in the future.

Case study

David has **a fund of £400,000** after taking his tax-free cash and ideally wants an income of £25,000 p.a., with an absolute requirement of £10,000 p.a. to meet his core expenditure.

Even annuitizing the whole fund would only provide David with an income of £20,000 p.a. – below his ideal income level.

David's adviser recommends David uses half his fund to secure his core income of £10,000 p.a. The remaining £200,000 is placed into a drawdown arrangement which allows David to draw income as and when required, but in the knowledge his basic bills are covered.

Continue ▶

William Burrows commented when considering blended retirement solutions:

"In my experience, for those clients with above average pension pots, a solution that comprises of more than one product produces a better outcome than a single product solution.

There are many reasons for this but perhaps the most important is that in most cases there is a strong case for each product so a combination should provide people with a combination of guaranteed income and flexibility thereby avoiding making the mistake of having all eggs in one basket".

INCORPORATED SOLUTIONS

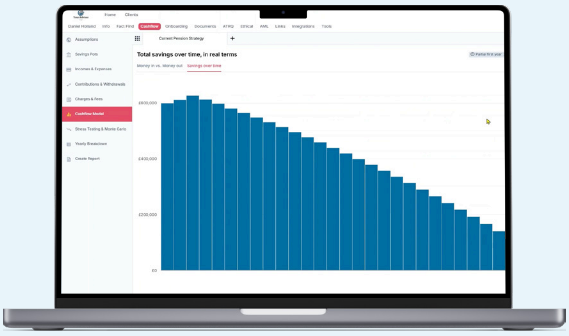
Recent initiatives have come to market which allows the guaranteed lifetime income source to actually sit within a drawdown arrangement. This has several advantages for the client, most noticeably that the income can be paid into the client's drawdown plan and also any income tax liability only arises when the client withdraws income from their drawdown plan. The core benefits of an annuity are retained such as the guaranteed income and optional death benefits, but with the adviser and the client having control of if as and when income is drawn.

Fidelity are pleased to offer a guaranteed income solution as part of their proposition. The advantages of this approach are covered here.

Find out more

The advantages of this, and how it can be demonstrated to the client with cashflow modelling can be seen in this video.

Watch video



Continue

→ FIXED TERM ANNUITIES

Beyond conventional annuities and drawdown, retirees have several other options to consider for securing their financial future. One prominent alternative is the fixed-term annuity, which provides a guaranteed income for a specified period, rather than for life. As this solution falls under the drawdown rules, it offers not only predictability but also flexibility, as retirees know exactly how much income they will receive and for how long. At the end of the term, the adviser has the opportunity to reevaluate their client's financial situation and choose a different retirement solution based on their needs at that time. Fixed-term annuities may be particularly suitable for clients who anticipate changes in their financial circumstances or who prefer to keep their long-term options open. As with the annuity and drawdown 'incorporated solutions' highlighted above this allows the income and the maturity value to be chosen within limits, thus allowing further tailoring to a client's individual circumstances.

→ OTHER SOLUTIONS

Other solutions have previously been available for advisers to use such investment linked annuities and drawdown with a guaranteed element. However, at present there seems little appetite for either of these solutions probably due to a combination of restricted flexibility and/or cost.

BEST PRACTICE FOR RETIREMENT ADVICE
and creating a Centralised Retirement Proposition

Given the complexities of retirement planning many advisers have taken the decision that in order to ensure consistency and best practice a Centralised Retirement Proposition (CRP) is necessary.

This is likely to sit alongside and be complementary to the adviser's Centralised Investment Proposition (CIP), but though there are likely to be many similarities between the two, by necessity there will also be some differences to help manage the risk and provide suitable advice for all of their clients. The ultimate goal is that a CRP helps advisers provide more consistent, compliant, and scalable retirement advice, benefiting both the firm and their clients. It ensures a clear and repeatable advice process, addresses the complexities of retirement income, and demonstrates a firm's commitment to managing the risks clients face during retirement. Interestingly it has been suggested by some that the use of firms using a formal CRP has increased significantly since the finding the thematic review were released in 2024.

A firm's CRP is likely to vary firm by firm to fit in with their target market and client segmentation base. However, there are a number of overarching themes that an advice firm should ensure the CRP addresses and adheres to. Let's look at each of these in turn.

→ FACT FINDING

Fact Finding should be detailed and specific for clients at retirement. There are several ways of doing this – for example some advisers choose to have a separate at retirement client information questionnaire. Others are now using AI to capture the relevant information needed, perhaps during a client video conversation. Whatever the method though the needs of individuals pre and post-retirement is different. A critical starting point for advisers is to analyse client expenditure, in order to establish a hierarchy of spending needs to establish essential and preferred income requirements. The health of the client should also be established to enable accurate longevity modelling.

Additional points to capture are highlighted in the table below.

Continue ▶

RISK ASSESSMENT

A firm's strategy for client's risk assessment should be consistent. Given the numerous risk profiling tools available on the market, it may be tempting for individual advisers within a firm to use different tools/mechanisms, but this is likely to lead to inconsistency if the firm don't have a stated policy.

A consistent approach to establishing capacity for loss is also a critical part of a successful CRP.

CASHFLOW MODELLING

This was extensively covered by the FCA in the thematic review as per above, and these findings should be reviewed as this is likely to be a core part of the CRP if the firm uses cashflow modelling.

Incidentally it's probably worth mentioning that this doesn't mean a firm needs to nail its 'colours to the mast' on whether they use stochastic or deterministic modelling tools, - the FCA are completely neutral on this. Many firms are now using a combination of the different methods to provide the best combination of client understanding and stress testing. Obviously, the assumptions used should be consistent where the same investment portfolios are recommended, and these assumptions should be reviewed regularly.

→ MANAGING THE RISKS OF RETIREMENT

This is covered extensively earlier in this document, but the CRP should include processes for minimising all of these risks. The actual solution will depend on client circumstances, but having a table explaining the firm's approach is worth considering.

A simple example might look like this:

Key Risks	**How risk is assessed at outset**	**Strategy** (ies) **for dealing with risk**	**Flag to identify risk crystallising/ potentially crystallising**	**Strategy** (ies) **for dealing if risk crystallises** *(as prepared and planned for and identified under column 3)*
Longevity risk	CM to include longevity modelling based on historic market data	SR to highlight need for regular reviews using CM slow risk of fund exhaustion using current market data	Annual review with CM to slow risk of fund exhaustion using current market data	Reduce income, consider purchase of annuity, take money from cash buffer outside of portfolio
Inflation risk	CM to include adjustment for current inflation	CM estimating inflation with determine income	Remodelling of inflation at review, where model shows existing income is insufficient to keep pace with inflation	4.1 Adjust income in DD, supplement income from outside of DD
Investment shortfall risk	CM to include multiple projections of future growth and suitability stress tested	Use of bucket system to target when fund, should be drawn on, use of multi asset fund to reduce volatility of return	Funds underachieving target growth rate for defined period of time	CM at review to identify reduced income level which may need to be supplemented by income from outside of DD
Sequencing of return risk	CM to include potential volatility for market falls	SR to include cash buffer held within portfolio to take income from over short term, SR	Market falls by a predetermined amount, volatility of portfolio	Consult client review immediately with updated CM, take money from cash buffer

Drawdown = **DD** | Cashflow model = **CM** | Suitability report = **SR**

Continue ▶

→ PRODUCT CHOICE

Shoehorning all clients into some kind of drawdown investment portfolio is unlikely to cut it from either a client outcome or regulatory perspective. In this regard due consideration should be given in the process to a range of products and solutions, with a combined approach (such as guaranteed solutions and drawdown) also considered. The consistency should be in the process, not the products chosen. Ultimately the withdrawal strategy will be led by the client needs and goals.

→ REVIEWS

Given the importance of maintaining client suitability and the FCA scrutiny in this area it is imperative that firms have a considered, consistent and demonstrable process for client reviews. This should include the ability to produce comprehensive MI from the reviews, - including when they are due, when they took place and if they didn't, why not. For reviews that are paid for but didn't happen the advice firm should have a process for how to deal with these and refund all or part of the ongoing fee where appropriate. This is likely to be influenced by the reason for the review not taking place. Reviews should include a review of client circumstances and reassessing the clients ATR and CFL.

→ VULNERABLE CLIENTS

There are many forms of vulnerability. It is important that awareness of whether a client is considered vulnerable is factored into advice both at the start of advice for a client at retirement and also on an ongoing basis. Consideration should be given as to the mechanisms to help deal with this, - for example power of attorney and whether a trusted family member needs to be included in conversations with the client.

→ LEGACY PLANNING

It is important to establish what importance the client attaches to leaving wealth for their heirs as this can significantly affect the recommendation. Is it a 'must do' or a 'nice to have'? For older clients it may well be that it is appropriate to bring other members of family into the advice loop. This can not only be good for generational planning but of course can protect the adviser firm asset and client base.

Continue ▶

GOVERNANCE, COMPLIANCE & MI

The CRP should be supported by a strong governance framework with the appropriate compliance controls, which should be revisited on a regular basis. Some firms feel it is prudent to have independent oversight of the process, particularly where the size of the firm does not allow a separate compliance function.

Just as importantly, MI should be available across a range of client outcomes, which could be used as part of Consumer Duty board reporting. The MI that could be collected will be individual to each firm but could include for example:

1. Number of clients in different types of propositions – i.e. drawdown, annuity, fixed term annuity etc
2. Number of clients where objectives met/not met at review
3. How situation was remedied
4. Number of clients where risks highlighted have crystallised and strategies used to deal with them
5. Number of client complaints

CHECK YOUR PROCESSES

Below is a list of some additional considerations that should be collected for clients at retirement in addition to the firm's normal fact find. Individual advice firms will need additional questions based upon their own specific client segments

Additional fact-find questions for clients drawing benefits	**Included/other comments**
Is client fully or partially retiring?	
If not retiring, why are benefits being taken?	

Continue

Additional fact-find questions for clients drawing benefits	**Included/other comments**
What are other income sources and how much is this likely to be?	
What other assets need to be taken account of in advice?	
What is the clients State Pension entitlement and how is this factored into recommendation?	
Are there any requirements for lump sums in the future - e.g. deposit for children’s house purchase/ weddings/holidays etc	
What is the client view on equity release?	
Does the client understand what level of income can be achieved through an annuity?	
What is the client’s state of health and state of health of spouse/partner?	
What is the history of longevity for client and spouse/partner?	
Has a power of attorney been established?	
Has the client got an up to date will and does this reflect their wishes?	
Has the client got an up-to-date expression of wish/form of nomination for their pension scheme?	
Does the client understand all of the initial and ongoing costs of the recommendation – i.e. product/platform/investment/adviser fees?	
Does the client understand the risk of scams, and that before any action is taken involving third parties they should refer back to their adviser?	

Continue

It is also important to consider the following, when reviewing your CRP.

Does your CRP include the following	**Included/other comments**
A full analysis of client's income expenditure, both essential and aspirational?	
Does your process consider securing essential income requirements with guaranteed options?	
A full analysis of client's spouse/partner's income expenditure, both essential and aspirational upon the death of either of them?	
A process for dealing with equity release – e.g. referral to in house specialist/external specialist etc?	
A process for dealing with potential long term care funding?	
Analysis of client and spouse/partner health and family health to gauge potential longevity?	
Has a full ATR and CFL analysis been conducted at point of retirement and is this automatically reassessed at review?	
A review of your cashflow modelling process in line with the FCA release in March 2024, including appropriate stress testing?	
The use of the full range of products available including guaranteed options to meet the client's core income requirements?	
A playback from the client to show they understand the risk they are undertaking?	
A breakdown of the risks in retirement and how the CRP deals with them?	
A full analysis at review of circumstances, health, needs, objectives, sustainability of income, fund performance, risk profile, capacity for loss, portfolio realignment, tax planning etc?	
An explanation of what is included as part of an ongoing service, and a discussion with the client as to what parts of the service are required/desired?	

Continue

Does your CRP include the following	**Included/other comments**
Is annuity purchase revisited as part of the ongoing service for drawdown clients, taking account of the client's health and circumstance at that time?	
Does the firm review the CRP on a regular basis, to take account of market conditions, change in legislation etc	
Is it clear in the advice whether the client or the client and their spouse/partner are being advised?	
A full analysis of the client's desire to pass on a legacy and has that translated across to wills and expression of wishes?	
Is it desirable/necessary to bring heirs/other family members into the conversations?	
Has an analysis been done of what death benefits are allowed under their existing pension arrangements?	
Has the requirement for spousal bypass trust been explored?	
Has the client access to any guaranteed annuity rates or other guaranteed benefits through existing arrangements?	
A recommendation to have a power of attorney in place?	
If used, is cashflow modelling conducted in line with FCA recommendations?	
A consideration of all retirement products available on the market?	

Continue

Other considerations.

Consideration	Comments
Are all advisers in the firm using the CRP?	
Is appropriate MI being gathered to show the effectiveness of the process and where any improvements can be made?	
Is their provision within the CRP to include advice around long term care?	

RETIREMENT – THE FUTURE

The retirement landscape is undergoing profound transformations, driven by shifting lifestyles, global events, legislative adaptations, and evolving attitudes toward aging and retirement itself. Modern retirees are redefining what it means to retire—embracing active lifestyles, pursuing second careers, or delving into passions they might not have explored during their working years. At the same time, world events such as economic volatility, pandemics, and geopolitical uncertainties have introduced new complexities into retirement planning. Longevity is another pivotal factor; as people live longer, their financial plans must account for extended periods of retirement, ensuring they can sustain their desired quality of life for decades. These changes highlight the need for a forward-looking approach to retirement that aligns with the realities of today's world.

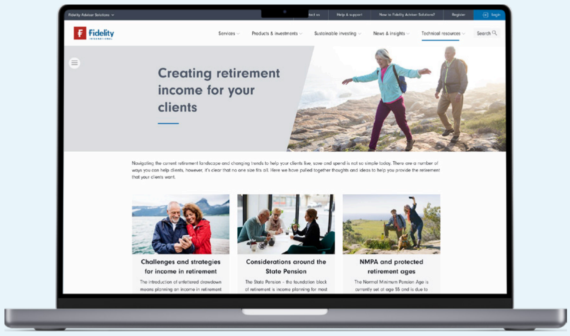
In this intricate environment, financial advisers play a vital role in guiding individuals through their retirement journey. Advisers must possess the expertise to navigate complex financial landscapes and tailor strategies that integrate clients' health, circumstances, and aspirations. They help clients evaluate key considerations, from annuity purchases and pension arrangements to legacy planning and the incorporation of heirs into decisions. Moreover, advisers must remain vigilant about shifting legislation and market conditions, ensuring that their clients' plans adapt to external changes without compromising their financial goals. This demands not only financial acumen but also an empathetic understanding of the unique challenges and dreams of each client.

Continue

However, the duty of advisers extends beyond providing expert guidance; they must refine their own processes to meet evolving demands. Consistency in service delivery is paramount—not only to build trust but also to comply with stringent and changing regulatory requirements. Advisers are accountable for ensuring their advice is clear, thorough, and reflective of their clients' individual circumstances, including spousal considerations and long-term desires like passing on a legacy. A robust approach to internal processes, from regular reviews of client retirement plans to detailed analyses of death benefits and the options to pass on a legacy is essential. Ultimately, a skilled and diligent adviser ensures that clients achieve their financial needs and aspirations while navigating the complexities of retirement in an ever-changing world. The message for future retirees is a simple one, advice is king.

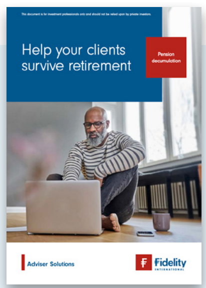
Fidelity our sponsor for this guide have given some further insight into creating retirement income for your clients and the associated strategies that can be adopted.

Find out more



Further information on how you can help your clients survive retirement.

Download



A platform designed to meet the needs of all your pre- and post-retirement clients

The Fidelity Adviser Solutions platform provides a state-of-the-art investment and retirement administration system for advisers while offering clients choice, flexibility and value. This digital-first, market-leading proposition supports multiple products while providing a single view of clients and their holdings.

The platform offers a broad package of retirement solutions for both the accumulation and decumulation phase. Wrappers include a flexible pension – including options at retirement – ISAs, Investment Accounts and Bonds. Over 7,500 investments can be held within these wrappers, including a range of cash options. Advisers have total freedom to build bespoke portfolios, use models, or outsource to a DFM.

INNOVATIVE NEW SOLUTIONS

Fidelity entered into a strategic partnership with Standard Life in 2024, which was formed to facilitate innovation in the retirement market. This allows Fidelity to offer advisers the following solutions exclusively through their platform:

The Standard Life Guaranteed Lifetime Income plan

Designed to address the challenge of ensuring retired clients have sufficient income over their lifetimes, it pays a monthly, guaranteed income for life into the client's drawdown account. Any income tax liability only arises when the income is withdrawn from the account. Clients can choose a Value Protection death benefit option at outset to potentially provide a lump sum for loved ones when they die.

The Standard Life Smoothed Return Pension Fund

A savings and decumulation option for clients seeking less short-term volatility from their investment. This risk-rated multi-asset fund managed by Fidelity features a smoothing overlay designed to cushion the daily ups and downs of the market in a way that a traditional multi-asset fund cannot.

Both products can be integrated with all other platform investments, allowing advisers to change and personalise a client's retirement journey as appropriate.

In addition to these two initiatives with Standard Life, Fidelity are about to introduce a new Flexible Retirement & Investment Strategy facility. This will allow advisers to segment strategies for investment, fees & decumulation strategies, with online management and control.

Continue

A COMPREHENSIVE RANGE OF SUPPORT SERVICES

Advisers are supported through numerous additional services, including:

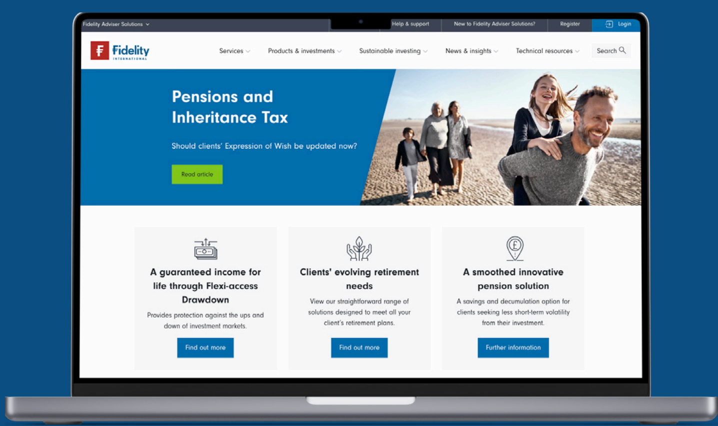
- A fee administration service which allows advisers to manage their fees from clients' investments
- A wide-ranging collection of reports giving access to client and business MI
- A back-office integration service that allows firms to incorporate the platform into a range of back-office software systems.

INDUSTRY RECOGNITION AND AWARDS

Fidelity Adviser Solutions are very proud to have received a number of accolades and top ratings in recent years. These include 5-star ratings from Defaqto for the platform, pension, and drawdown plus two Gold service awards for the platform and pension, as well as a platinum rating from FE AdviserAsset for a tenth year in a row.

Find out more about a platform built around your business

Visit →



This Guide is written and edited by

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ABOUT

Vince has been in the financial services profession for over 40 years. He has most recently worked at M&G, but also has experience at AIG, Clerical Medical, Winterthur Life and as an adviser.

Vince has vast experience of working in the professional adviser market, using different methods of communication.He has extensive experience of working with sales, technical, regulation, marketing, PR and media.

Adviser Home
DEVELOPMENT PLATFORM

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