

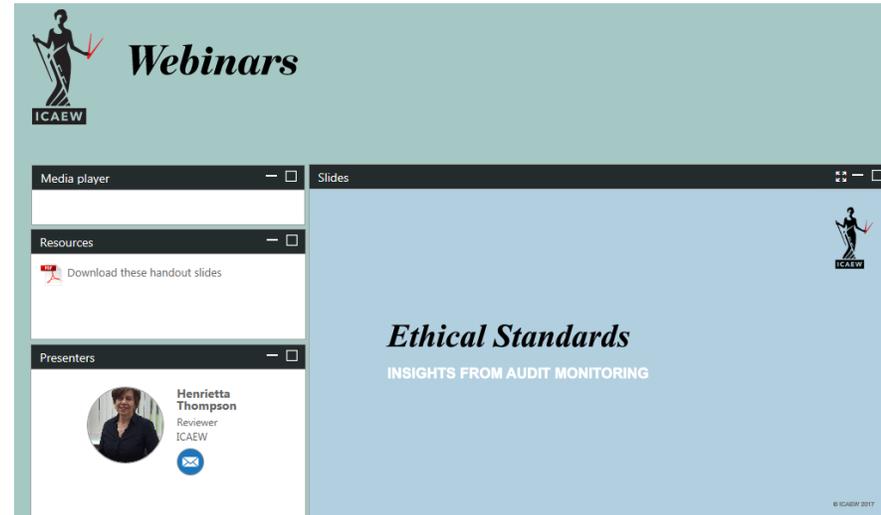


Investment risk and retirement income – the silent assassin

IN ASSOCIATION WITH PRUDENTIAL

FACILITATED BY JOHN GASKELL, HEAD OF PERSONAL
FINANCIAL PLANNING, ICAEW

- You can customise the webinar console, move and resize the widgets:



- You can also minimise and maximise the widgets by clicking on the icons. The icons are located in the dock at the bottom of the console:
- You can submit questions using the Q+A widget at any time during the webinar



Today's speaker



VINCE SMITH-HUGHES
DIRECTOR OF SPECIALIST BUSINESS SUPPORT
PRUDENTIAL

Investment risk and retirement income – the silent assassin

Vince Smith-Hughes – Director of Specialist Business Support



Important information

This presentation is for adviser use only and not for retail customers, and contains some forward thinking statements which should not be taken as fact. Information given is based on our current understanding of current taxation, legislation and HMRC practice, all of which are liable to change and subject to an individual's own circumstances. Terms and conditions of products are available on request. The level of charges may change in the future.

For webex presentations, the event may be recorded for training purposes.

No reproduction, copy, transmission or amendment of this presentation may be made without the written permission from Prudential.

This presentation contains past performance information which is not a reliable indicator of future performance. The value of investments can go down as well as up. Clients may not get back what they put in.

Any examples included are designed to represent a typical situation and are not related to any particular individual. They do not recommend that course of action.

“Prudential” is a trading name of Prudential Distribution Limited. Prudential Distribution Limited is registered in Scotland. Registered Office at Craigforth, Stirling FK9 4UE. Registered number SC212640. Authorised and regulated by the Financial Conduct Authority.

Important information for PruFund

The Expected Growth Rate (EGR) is the current annualised rate which will be applied daily to increase the unit price of the fund. They are set quarterly having regard to the expected long-term investment return on the assets of the fund; they are therefore subject to change for new and existing policyholders

Unit Price Adjustments (UPAs) can be made in the future, which will have the effect of increasing or decreasing a client's overall return

The PruFund range of funds are multi asset arrangements and as such should be regarded as a medium to long term investment. All PruFunds are invested in the With Profit Fund

There may be occasions where we have to suspend the smoothing process for one or more PruFund funds for a period of consecutive days. We may decide to reset the smoothed price of a PruFund fund to the unsmoothed price on a particular day, to protect the With-Profits Fund.

Learning objectives

To increase understanding of

- The advantages and disadvantages of annuity and pensions drawdown
- Why considering volatility and sequencing of investment returns is so important
- The different strategies to help manage these risks

Assess the Risk



Longevity risk



Investment risk



Mortality drag



Inflation



Changing circumstances



Regulation and
tax changes

Establishing the need



Key questions to answer

	What is your view now?	What do you think your view will be in your later years, say 70s and 80s?
What is your view on the risks and benefits of having an annuity?		
What is your view on the risks and benefits of having a flexible personal arrangement?		
What is your view on the certainty of income in retirement?		
You have outlined what additional amounts you will need in the future, over and above your regular income. Do you think there is the possibility that you will need to access further funds from a flexible personal arrangement? If so, please provide details		
What is your experience of, and attitude towards, paying for advice on investments so long as the funds last?		
What is your view on the limitations of access from an annuity (ie that you can have a tax-free lump sum and secure income but no further access or flexibility)		
Would you like to leave assets to your children? If so, how much? Does this include the value of your pension scheme? How important is this given that this will reduce the level of benefit you can have in retirement?		

Life expectancy – ONS plus

Your average life expectancy is 86 years

1 in 4



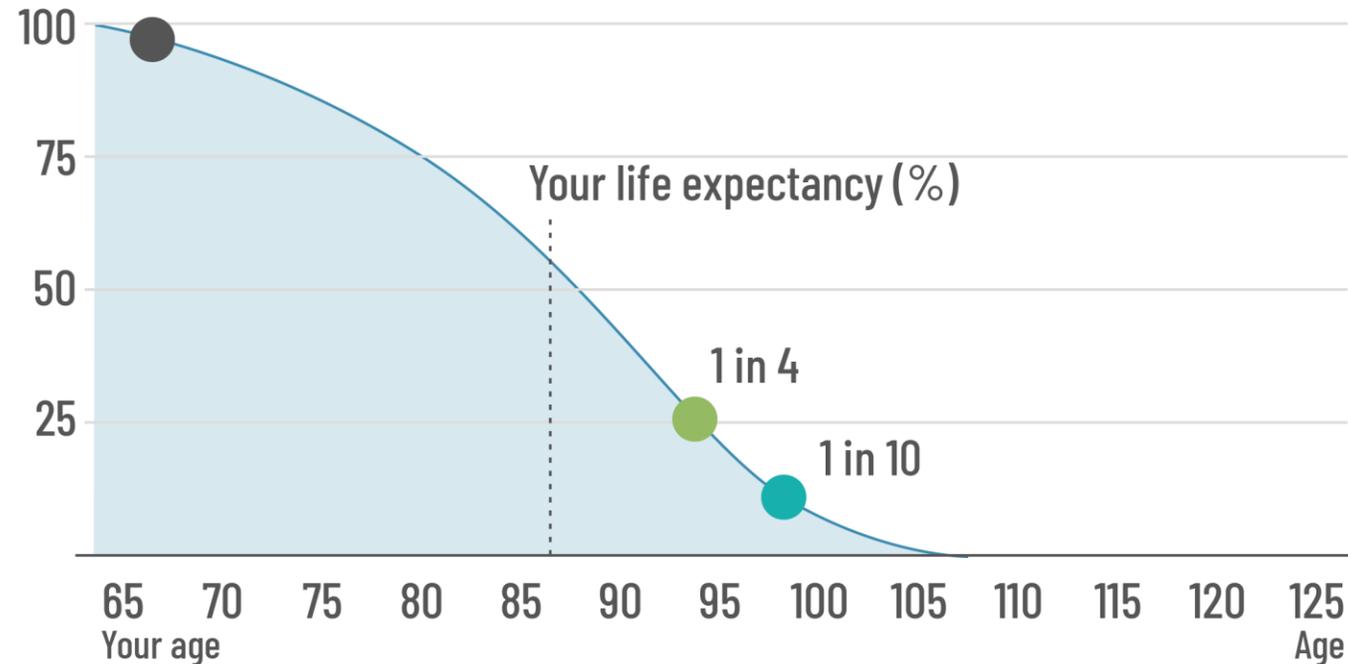
chance of reaching **94**

1 in 10



chance of reaching **100**

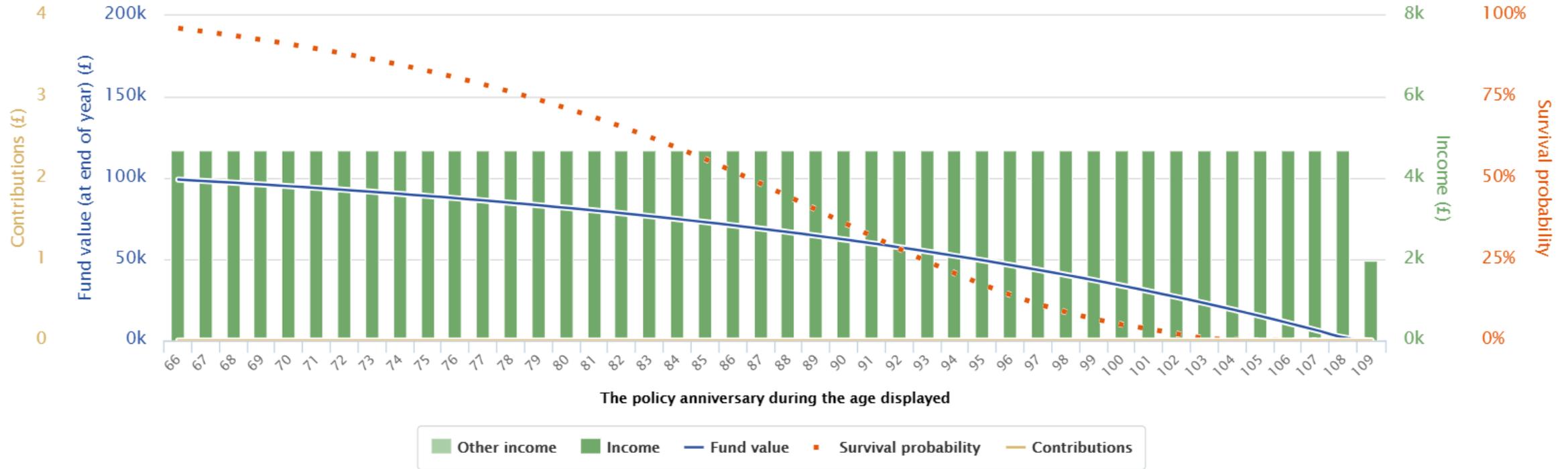
Chance of reaching age (%)



Annuity vs drawdown – what is the risk?

^ Fund value vs income

[Graph](#) [Table](#) [Share](#)

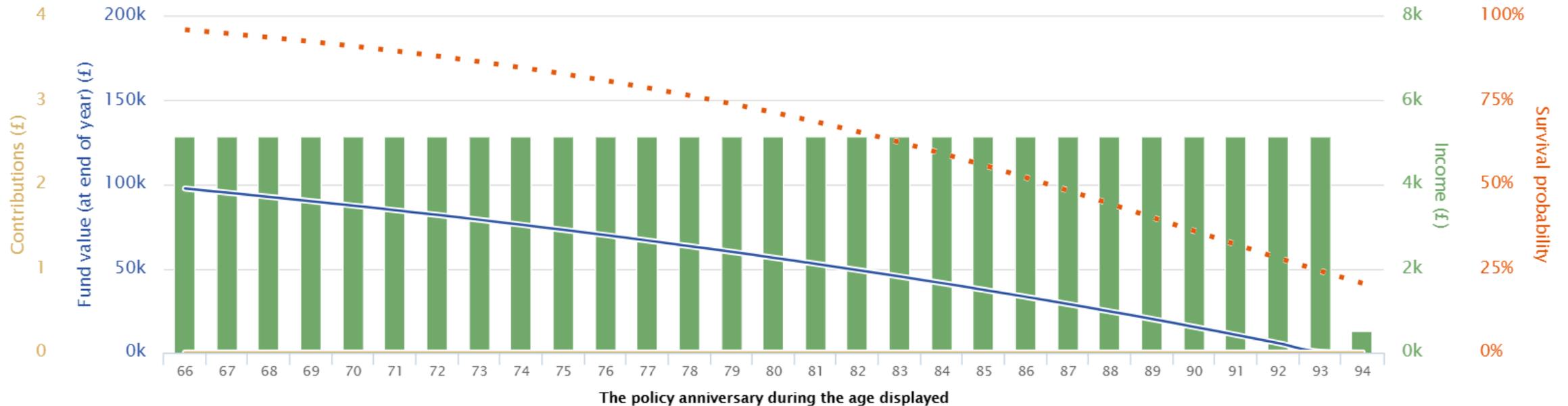


Source Prudential Retirement Modeller 5% growth modelled on typical annuity rate 65 year old

Annuity vs drawdown – what is the risk?

^ Fund value vs income

Graph Table



Source Prudential Retirement Modeller 4% growth modelled on typical annuity rate 65 year old + 10%

Sequence of Return Risk – the
silent assassin

In numbers.....

6 years ago the SIPP was £275,000 – No Income

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
A	£343,750	£360,937	£433,125	£368,156	£294,525	£279,978
B	£261,250	£209,000	£177,650	£213,180	£223,839	£279,978
C	£343,750	£326,562	£342,890	£274,312	£329,175	£279,978

6 years ago the SIPP was £275,000 – £250 per month

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
A	£340,357	£354,294	£421,837	£355,811	£281,985	£264,968
B	£258,331	£204,001	£170,651	£201,465	£281,985	£257,180
C	£340,357	£320,421	£333,362	£264,025	£313,514	£263,737

In numbers.....

6 years ago the SIPP was £275,000 – £250 per month

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
A	£340,357	£354,294	£421,837	£355,811	£281,985	£264,968
B	£258,331	£204,001	£170,651	£201,465	£281,985	£257,180
C	£340,357	£320,421	£333,362	£264,025	£313,514	£263,737

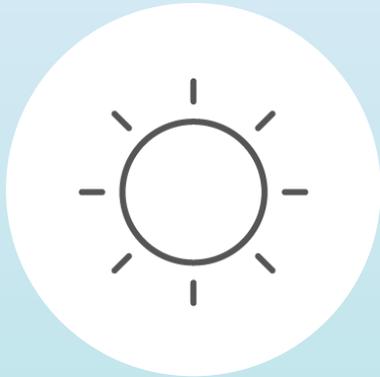
6 years ago the SIPP was £275,000 – £1,500 per month

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
A	£323,395	£321,081	£365,402	£294,090	£219,288	£190,815
B	£243,741	£179,009	£135,656	£142,892	£131,553	£144,087
C	£323,395	£289,717	£285,719	£212,591	£235,214	£183,430

Sequence of Return Risk

Lose lose situation

Today is going to be great



later...

Today was not great





How to manage sequencing of return risk

- Using a cash fund
- Using the 'bucket' approach
- Using natural income
- Using a smoothed fund
- None of these are mutually exclusive!

Using a cash fund for withdrawals

Advantages	Disadvantages
No potential for values to fall	Little or no return on investment

Using the 'bucket' approach

Advantages	Disadvantages
Can be used with previous cash strategy	Same issue with lack of return on cash
Gives the chance for more aggressive funds to perform	No guarantee each bucket will have performed at the right time
Strategy can be adapted if a bucket has performed unexpectedly well	

Taking natural income

Advantages	Disadvantages
Capital isn't eroded by income payments	Income will fluctuate which might not meet client needs
Portfolios can target high yield funds	

Using a multi asset smoothed fund

Advantages	Disadvantages
Some of the day to day volatility is reduced	No guarantee of ultimate performance
Diverse asset allocation can help to reduce volatility overall	Downwards adjustments of units can still take place at any time

- 
- What about not wanting to erode capital - can the risk be managed?

Historic maximum withdrawal rate without erosion of initial capital

Table shows maximum withdrawal rate, as % of initial investment, that can be taken without loss of initial investment at end of time period indicated

	Start 31 Jul 2009 (10 years)	Start 31 Jul 2010 (9 years)	Start 31 Jul 2011 (8 years)	Start 31 Jul 2012 (7 years)	Start 31 Jul 2013 (6 years)	Start 31 Jul 2014 (5 years)
IA Mixed Investment 0-35% Shares Sector	4.2%	4.2%	3.9%	4.0%	3.6%	3.7%
IA Mixed Investment 20-60% Shares Sector	5.2%	5.3%	5.0%	5.7%	4.8%	4.9%
IA Mixed Investment 40-85% Shares Sector	6.7%	7.0%	6.5%	7.9%	6.3%	6.8%
PruFund Cautious Pn Ser A	n/a	5.8%	5.7%	5.5%	4.8%	4.5%
PruFund Growth Pn Ser A	7.6%	7.7%	6.8%	6.8%	6.8%	6.9%

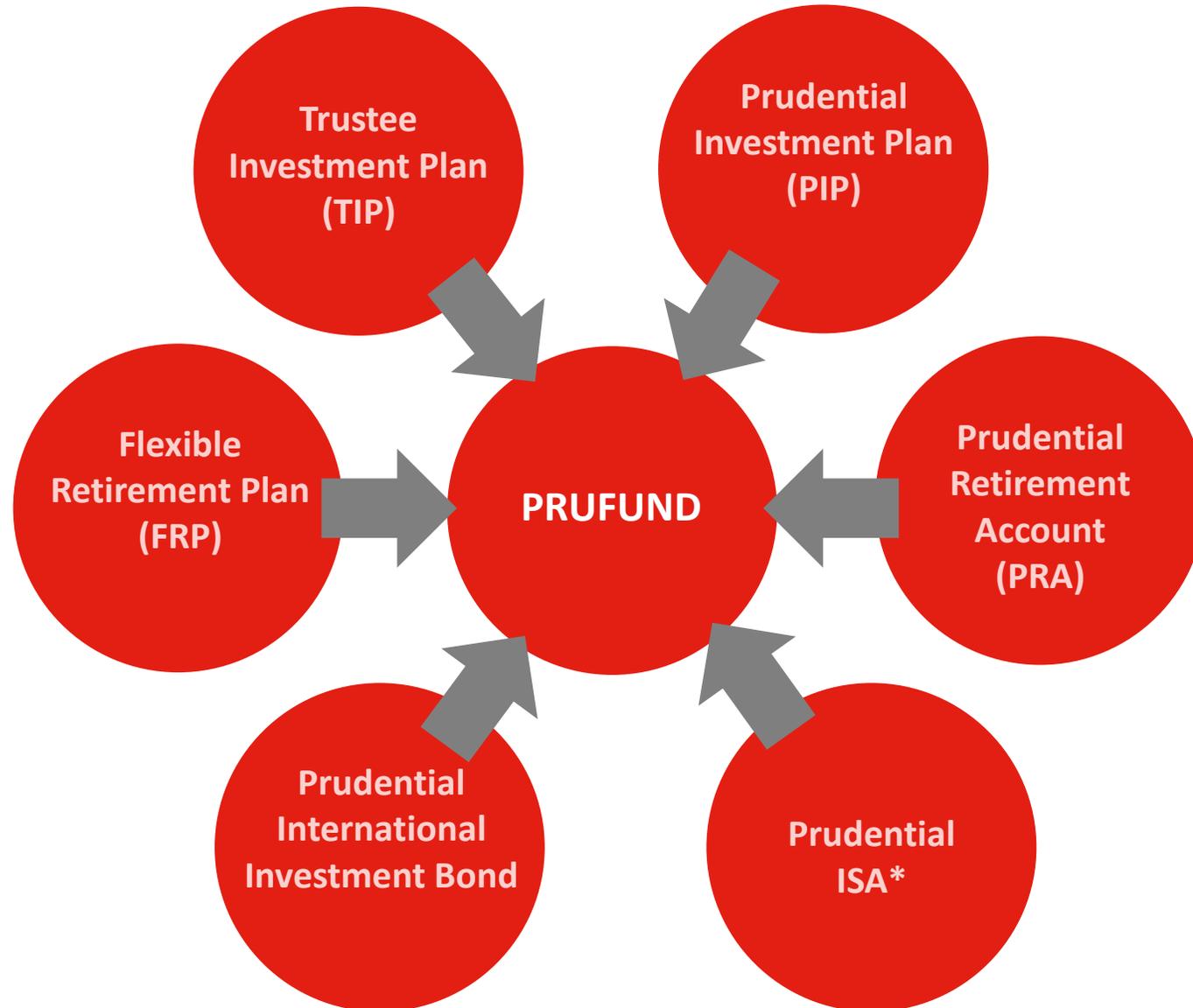
Figures for PruFund Growth Pension and PruFund Cautious Pension are gross of tax. Figures are over the time period shown to 31 July 2019. Initial investment of £100,000 and withdrawals taken at the end of the month. Past performance is not a reliable indicator of future performance. Both PruFund Growth Pension and PruFund Cautious Pension include a representative annual charge of 0.65% and any additional investment expenses, but not any product or advice charges, so the amount an investor would get back would be less than shown here. Some, if not all, of the funds comprising the IA sector averages are net of fund charges. This example represents a typical situation. It is not related to any particular individual and does not recommend that course of action. **The value of an investment can go down as well as up. Your clients may get back less than they have paid in.** Source: FE Analytics



What is PruFund?

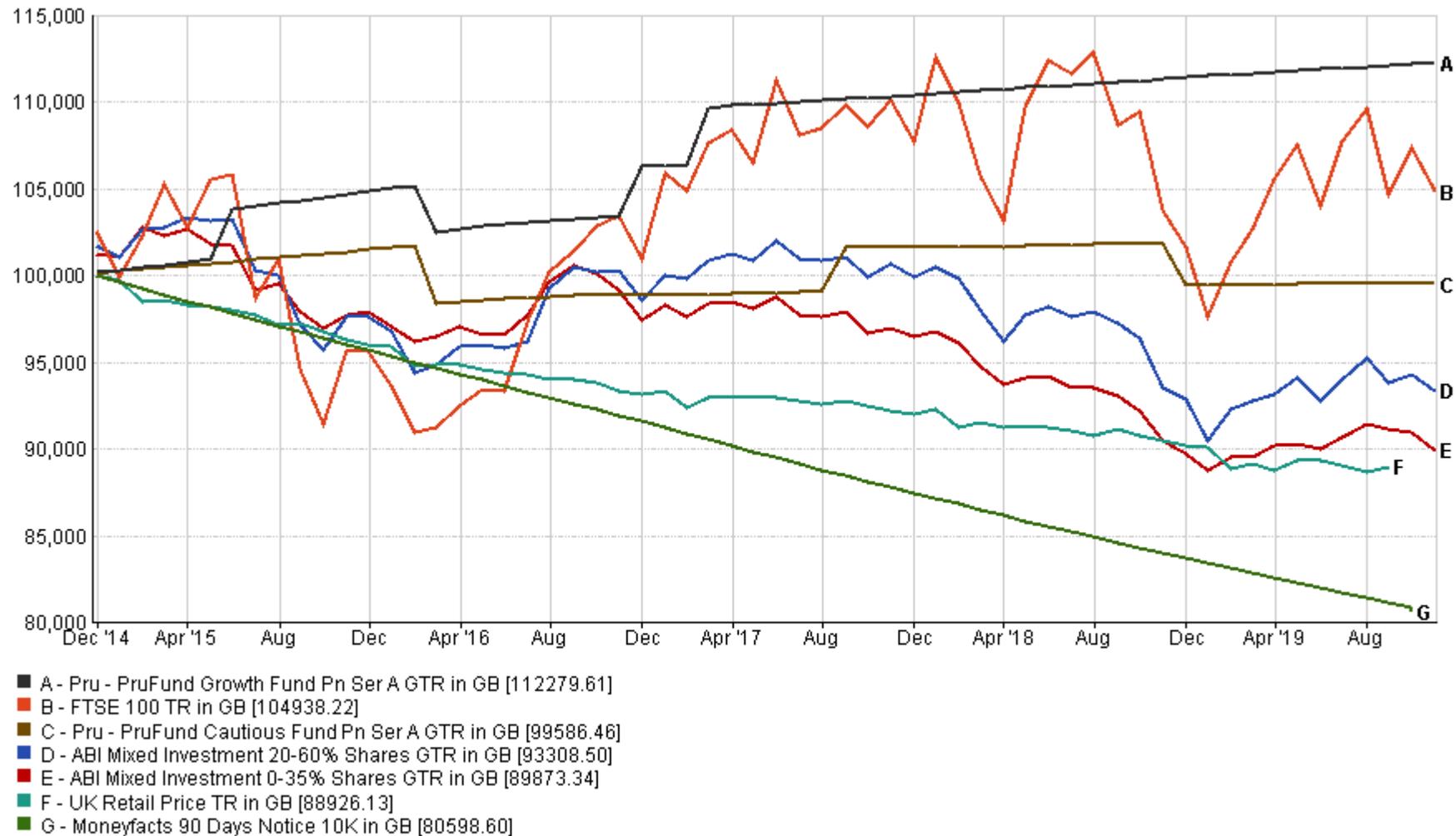
<https://www.pruadviser.co.uk/knowledge-literature/knowledge-library/prufund-explained/>

PruFund access



*Prudential ISA is provided by Link Financial Investments Limited who is the ISA Plan Manager.

Pricing Spread: Bid-Bid • Initial Investment: 100000.00 • Data Frequency: Monthly • Withdrawals Date: 1st of the Month • Withdrawals Amount: 0.43% Monthly • Currency: Pounds Sterling

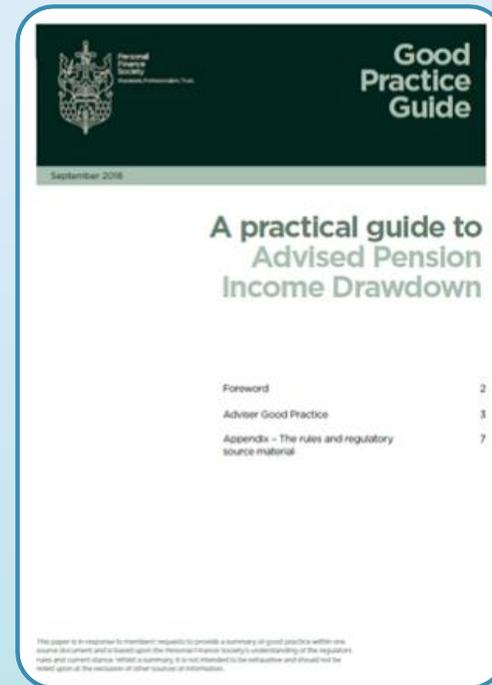
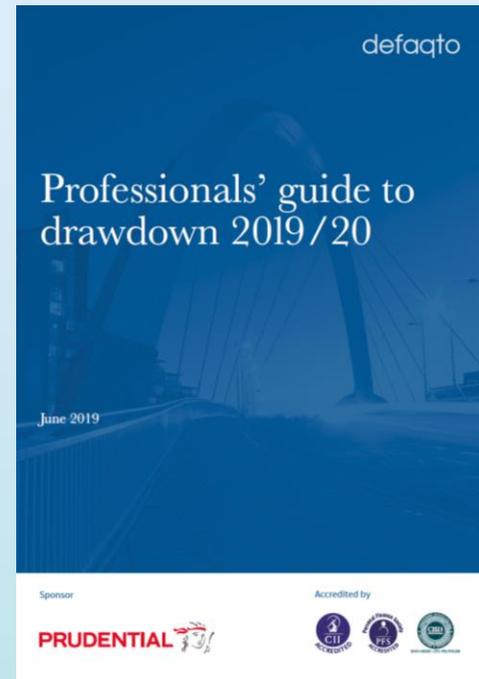


28/11/2014 - 31/10/2019 Data from FE fundinfo2019

Source of performance data: Financial Express (FE). Please remember that past performance is not a reliable indicator of future performance. The figures are intended only to demonstrate performance history of the fund over the period shown. The PruFund funds include a representative fund charge of 0.65% pa and any additional investment expenses. They take no account of product or advice charges. The application of charges will impact the overall performance. Please also note that our charges may vary in the future and may be higher than they are now. Fund Performance is based upon the movement of the daily price and is shown as total return in GBP with gross income reinvested. The value of your client's investment can go down as well as up and the amount your client gets back may be less than they put in. Some, if not all, of the funds comprising the ABI sector averages are net of fund charges. Performance is shown on a bid to bid price basis.



Supporting documents



Source: <https://www.pruadviser.co.uk/pdf/GENM416404.pdf>

Source: <https://www.thepfs.org/media/10120167/good-practice-guide-advised-pension-income-drawdown.pdf>

PFS Good Practice Guide

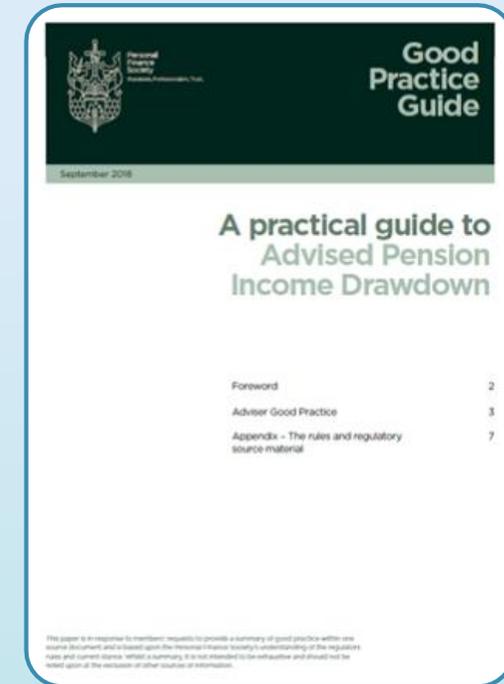
11. Building a robust review process

Critical questions;

- Is it meeting stated objectives, priorities & expectations?
- Is the chosen level of income still sustainable?
- Is the investment strategy still suitable?

Other questions;

- Clients health?
- Clients objectives still realistic?
- ATR & C4L?
- Annuity trade off against mortality drag
- Are the minimum income requirements still being met?
- Has the clients cognitive abilities deteriorated?
- POA in place?
- Expression of wish for death benefits 'hard wired'
- Changes in relevant legislation

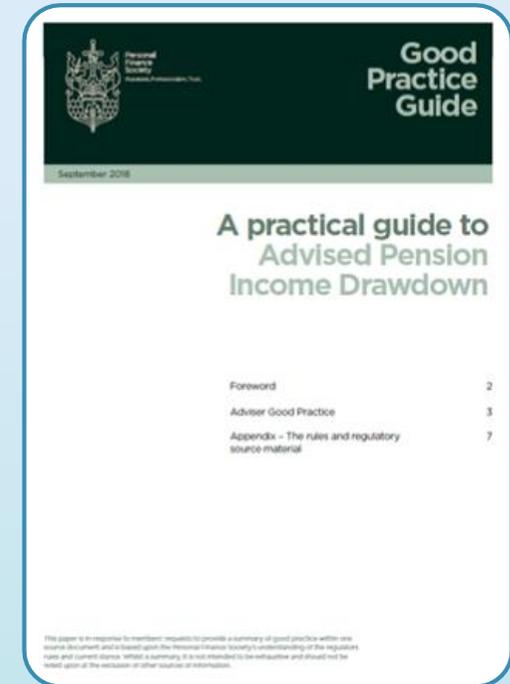


PFS Good Practice Guide

13. Use of Cash Flow Modelling

“Effective Cash Flow modelling should stress test various scenarios for the client to enable them to decide whether they are able to take the income they require and how it might be affected by certain effects, such as;

- The need to increase income taken from a portfolio
- The need for ad hoc withdrawals
- Inflation is higher/lower than expected
- Living longer than expected
- Future returns being lower than expected
- Unpredictable events – stock market crash, funding long term care etc.”



Learning objectives

To increase understanding of

- The advantages and disadvantages of annuity and pensions drawdown
- Why considering volatility and sequencing of investment returns is so important
- The different strategies to help manage these risks

Any questions?



Join the ICAEW Personal Financial Planning (PFP) Community



- Follow this link to join for free: www.icaew.com/pfp
- Free for all ICAEW members and other professionals
- Keep abreast of topics affecting the PFP sector.
- Access resources covering regulation, pensions, investments, estate planning and business & practice development.
- Book your place on our webinars, workshops and conferences.

- What did you think of this webinar?
- Let us know by completing our survey. Click the icon highlighted below.



- You can complete it now, or it will appear at the end of the webinar.
- Help us improve our digital services with your feedback, and choose whether to opt into any services from our partner.

