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# Navigating the retirement maze

Post pension freedoms, more people choose drawdown for their retirement, many without advice, and often withdrawing at rates of income that may not last a lifetime<sup>1</sup>. What's more, retirement is increasingly a transition – it's not always obvious where work ends and retirement begins – while higher rates of inflation can have a profound effect on the finances of retirees. Investment risk is also a key consideration throughout retirement.

Advisers need to take a holistic view of retirement, managing and adapting their clients' plans as circumstances and the tax rules change. This includes the growing significance of inheritance tax and the treatment of pensions on death. Our range of reports look at these issues – and many of the FCA's concerns in its recent thematic review – to show how advisers can help their clients achieve a better retirement.

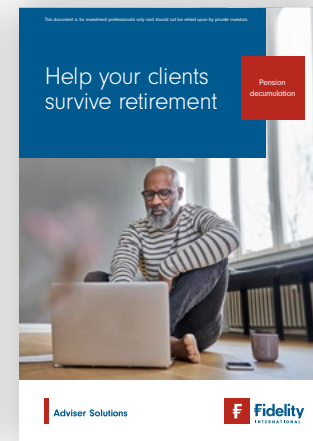
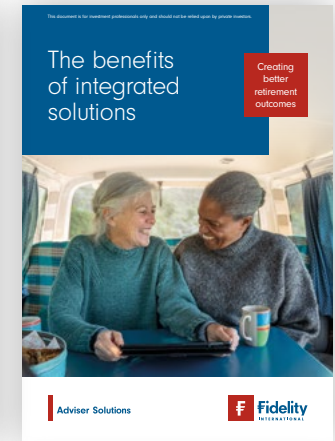
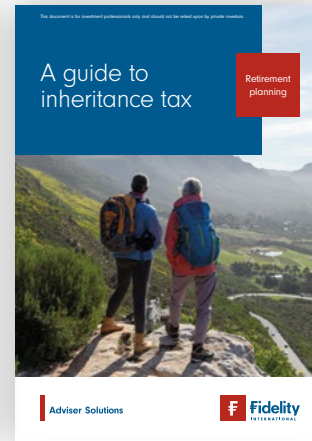
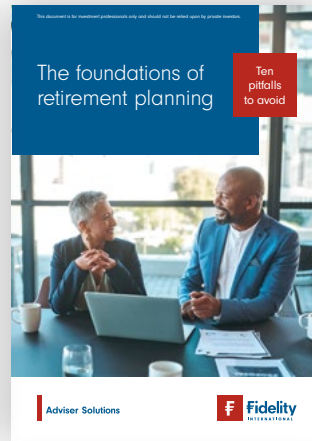
1. Retirement income market data 2023/24, FCA, September 2024.

**Adviser Solutions**



# Navigating the retirement maze

Click on a thumbnail to read a quick summary of each report. To read the full reports, visit [fidelityadvisersolutions.co.uk/technicalmatters](https://fidelityadvisersolutions.co.uk/technicalmatters) and search 'retirement strategies'.





# Countdown to retirement

## At a glance...

- When 5-15 years away from retirement, people may not understand how much is needed for a comfortable retirement.
- Where there's a shortfall, there are a number of ways people can address this.
- Where clients are keen and able to save more, which savings vehicle should they use?
- As retirement approaches, advisers should take a holistic view of the client's assets to create a comfortable retirement.



There are two important trigger points when people are preparing for retirement. Firstly, around 5-15 years before retirement when people have the motivation to increase their retirement savings and the means to act on it.

Earlier in their life, other financial issues often dominate and retirement can seem a long way off. Secondly, the period immediately prior to the start of their retirement journey when critical decisions need to be made about how to deploy their retirement savings.

This report considers the options available if a savings shortfall is identified some years out from retirement. The most common options are saving more or retiring later. In the case of the former, which products are the most effective? There are also other solutions available which can shore up retirement finances.

As retirement draws near, the report explores some of the challenges advisers and their clients might grapple with to achieve a comfortable retirement, highlighting some of the FCA's concerns.



# The foundations of retirement planning

## At a glance...

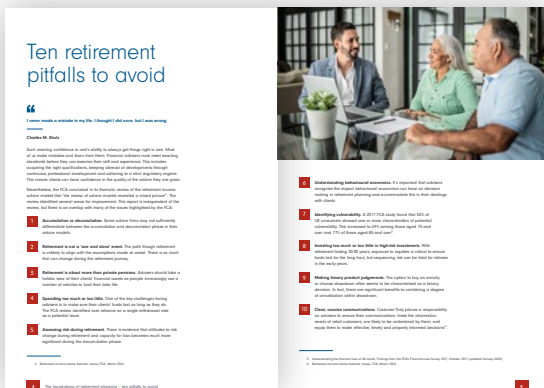
- The move from accumulation to decumulation is significant – switching the emphasis from building capital to using that capital.
- The challenge of planning the decumulation phase is exacerbated by the popularity of drawdown, where certainty of income is no longer guaranteed.
- Clients don't know how long their money has to last and this uncertainty is compounded by other unknowns, such as inflation and investment returns.



Today's financial advisers are well-qualified, highly-regulated professionals and this expertise is important when clients start the decumulation process. However, the FCA's thematic review of the retirement income advice market expressed concern that the needs of clients moving from accumulation to decumulation may not adequately be recognised by some firms.

This report explores some of the issues raised in the FCA's review, together with other potential pitfalls, to ensure retirement planning processes are robust.

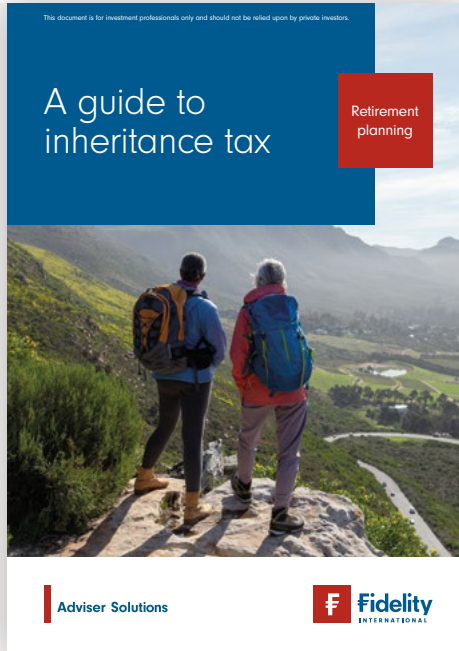
For many advisers, this report will be nothing more than an aide memoire; perhaps a checklist against which to validate their practices and processes. But none of us are infallible. It's important that, collectively, we do all we can to prepare and protect clients at this critical stage of their life.



# A guide to inheritance tax

## At a glance...

- Clients fortunate enough to be able to use non-pension assets to provide income and ringfence their pension savings for wealth transfer, may need to review this strategy.
- The IHT issue can be side stepped by using the spousal exemption, although just over 50% of people over age 65 in England and Wales are married or in a civil partnership.
- The IHT changes could lead more people to annuitise their pension savings or drawdown more aggressively. If this results in surplus income, this could generate interest in making regular gifts.



The plan to include unused pensions in the value of an estate for IHT purposes from April 2027 is likely to have a radical impact on retirement planning. While the absolute numbers of estates affected may be small, the relative number of advised clients liable for IHT is likely to be high.

This is a significant issue for advisers. It undermines the strategy of using other assets to provide retirement income (given the preferential treatment of pensions on death). These changes could flip that approach 180 degrees. Pensions may now be the first port of call to provide income in retirement.

Of course, the right strategy for any individual will depend on their personal circumstances. Nevertheless, retirement planning is likely to be more complex post April 2027. As such, this report acts as an aide memoir and a ready reference guide to inheritance tax planning.

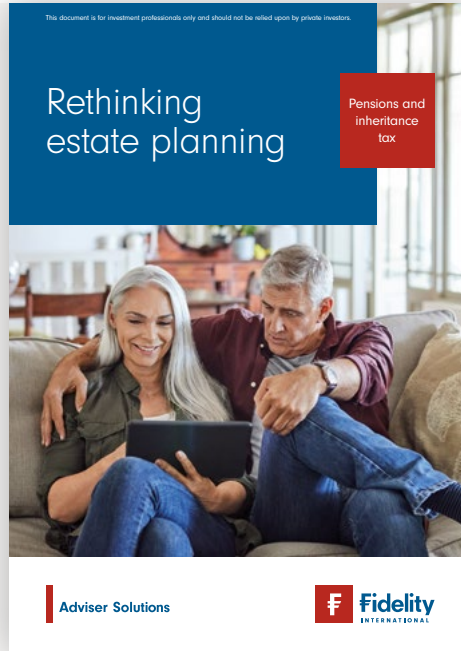


**A guide to inheritance tax for investors** is available for you to share with your clients. Click the thumbnail to access the report.

# Rethinking estate planning

## At a glance

- Most 65-year-olds will die after age 75 when both inheritance tax and income tax become payable. This could result in tax rates of 67% where the beneficiary is an additional-rate taxpayer.
- Clients should be encouraged to review their Expression of Wish forms now and after April 2027 to ensure that they still accurately reflect their objectives.
- Where applicable, the strategy of taking income from other assets and leaving the pension untouched needs to be reviewed. In some cases, the advice will be the opposite to the current position.



Making unused pensions and death benefits subject to inheritance tax is likely to have a significant impact on retirement planning. The conventional wisdom of leaving the pension untouched and taking income from other sources is unlikely to apply from April 2027. What's more, the imposition of income tax on death after age 75 exacerbates the focus on pensions.

Many of the people affected by this are likely to be advised clients. Anecdotal evidence appears to support this view and many advisers are reporting a surge in enquiries on this subject. This report explores the options advisers and clients should consider both now and after April 2027.





# Investment risk and retirement

## At a glance...

- Retirement appears to have a material impact on risk aversion and, as such, it's important that advisers assess attitude to risk and capacity for loss at and throughout retirement.
- Retirees value certainty, yet annuity sales lag behind drawdown sales. Drawdown provides flexibility, which is also highly valued, but it also introduces risk.
- Historically, retirees have faced a binary decision: annuity or drawdown. But an integrated solution can provide some certainty coupled with flexibility.



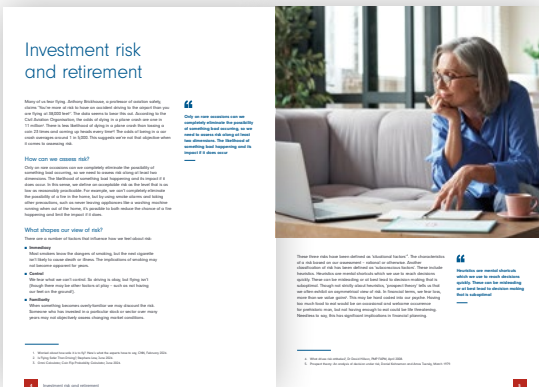
The FCA has emphasised the need for robust measures of risk capacity and tolerance at retirement. This is particularly important given the popularity of drawdown.

There's also evidence that suggests aversion to risk increases at retirement. Deprived of a regular earned income, people may be reluctant to take risks with their savings. However, given retirement often lasts 20-30 years, an overly conservative portfolio may not deliver the returns needed. Conversely, too great a reliance on high-risk assets can expose retirees to sequencing risk.

In this report, we seek to develop a deeper understanding of investment risk throughout retirement:

- How do we assess risk?
- What shapes our view of risk?
- Which characteristics define our perspective of risk?

We then evaluate how to manage risk during retirement, explore the pros and cons of different solutions, and look at the benefits of taking an integrated approach.



# Sustainable withdrawal rates for drawdown clients

## At a glance...

- Morningstar analysis<sup>1</sup> suggests that the highest starting safe withdrawal rate, based on an inflation-linked income with a 90% probability of lasting 30 years, is 3.7%. The study suggests a 20-40% equity weighting is optimal from an asset allocation perspective.
- After allowing for 1% charges and fees, analysis suggests the safe withdrawal rate should be reduced by around 0.4-0.45%.<sup>2,3</sup>

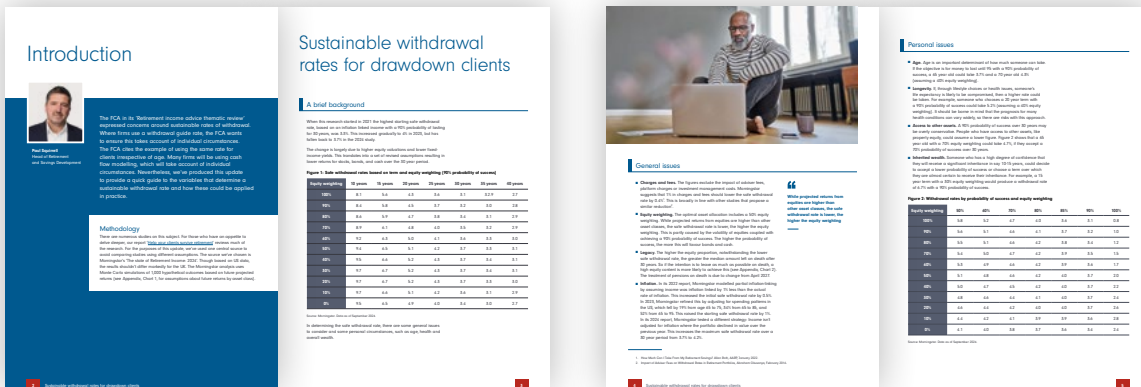
1. The State of Retirement Income: 2024, Morningstar, December 2024.
2. How Much Can I Take From My Pension Savings? Allan Roth, AARP, January 2022.
3. Impact of Adviser Fees on Withdrawal Rates in Retirement Portfolios,



In its thematic review of retirement income advice, the FCA raised concerns about the blanket use of withdrawal guide rates without accounting for individual circumstances.

Increasingly, cash flow models will support advisers' recommendations around withdrawals. Nevertheless, it is useful to understand the factors that underpin safe withdrawal rates. This new report examines the variables that determine a sustainable withdrawal rate and how these can be applied in practice.

It describes how rates could be modified to take account of general issues like charges, asset allocation, the desire to leave a legacy and inflation. It also considers personal circumstances like age, life expectancy, access to other assets (such as property wealth) and inherited wealth.



Abraham Okusanya, February 2016.

# The impact of inflation on retirement planning

## At a glance...

- As life expectancy increases, even modest levels of inflation can have a significant impact on income in retirement.
- During retirement, partial inflation linking can boost safe withdrawal rates.
- Analysis suggests that increasing annuities are fairly priced and will benefit people who enjoy a longer than average retirement.

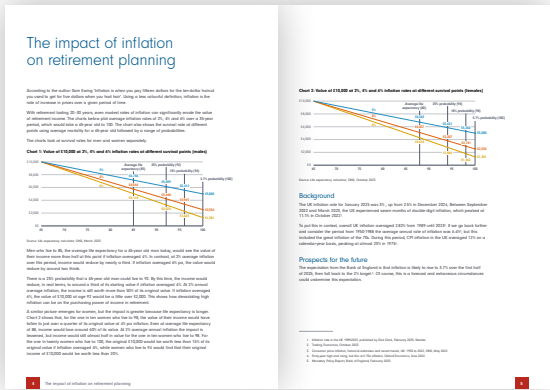


Inflation can have a profound impact on the finances of retirees and its influence is widespread. The obvious consequence is the erosion in the value of income over time, but inflation can have a far-reaching impact over many aspects of retirement.

Inflation rates at the start of retirement can influence sustainable withdrawal rates throughout retirement. And, if expenditure is assumed to decrease during retirement, should income be fully protected against inflation? If it isn't necessary to match inflation each year, what are the implications for withdrawal rates?

Annuities are impacted by inflation too. High inflation invariably leads to interest rate increases that usually result in higher annuity rates, while low inflation will commonly deflate annuity rates.

Our report considers all of these issues and draws on research and studies that show how inflation can affect the decisions retirees make at and during retirement. Inflation is a recurring issue for advisers and their clients. Our report brings this issue into focus to help you plan and develop retirement strategies to help your clients combat the risks posed by inflation.



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# Reinventing retirement

## At a glance...

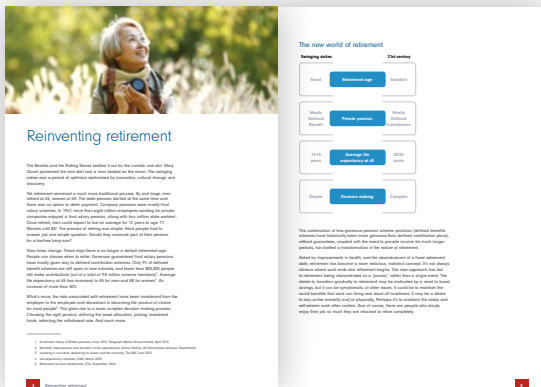
- Retirement is no longer a 'one and done' event.
- There can be many 'twists and turns' before outright retirement.
- Often income needs to be supplemented during this phase.
- 'Retirement reinvented' explores how to navigate this transition.



Historically, people stopped work one day and retired the next. Now, it can take several years to move to outright retirement. And some people never do. It's often no longer obvious when work ends and retirement begins though there is usually some sign: a reduction in working hours or a move to a less demanding role, that signals the transition has begun. What's more, a new word has entered the financial services lexicon, 'unretired'. It describes people who've left the workplace to retire and subsequently returned to work.

'Retirement reinvented' explores the challenges clients and their advisers face as they navigate this transitional phase. For example, how to supplement any shortfall in income? Does it make sense to take or defer the State Pension? Can tax-free cash be used effectively (beware the rules on recycling if pension contributions are continuing)? Alternatively, taking an income from drawdown over the tax-free amount could trigger the MPA. And what about other non-pensions sources of income (like ISAs for example)? We also look at the importance of a Centralised Retirement Proposition and review a case study to demonstrate the complexity of managing during this period.

Don't miss out. Read how these major changes to retirement could impact you and you clients.



# Help your clients survive retirement

## At a glance...

- The original Bengen analysis suggested 4% is a safe withdrawal rate over a 30-year period.
- Numerous studies over the years have refined the thinking on this subject.
- It may often be possible to take more than this in certain circumstances.
- Our report considers what factors influence withdrawal rates and the risks that arise.



William P Bengen, the architect of the original concept of the 4% rule, calculated that 4% is the correct level of withdrawal for US retirees over a 30-year period to avoid running out of money.

Bengen's analysis showed that, while there is no money remaining in the worst case scenarios at the end of the 30-year term, in 96% of cases all of the original capital is left<sup>1</sup>. Indeed, separate analysis has shown that over a 140 year period, US retirees, withdrawing at the rate of 4%, would have only a 10% likelihood of ending up with less than their initial capital after 30 years and a 10% chance that they would still have 6 times their original capital<sup>2</sup>.

There is the real possibility that people deny themselves a comfortable retirement, and perhaps even experience hardship, by being too conservative. Of course, the alternative is that an unconstrained approach could mean retirees run out of money during their lifetime. 'Surviving retirement' reviews the studies in this area and considers which factors influence how much can be taken and when more than 4% could be withdrawn, so long as the risks are considered and managed by advisers and their clients.

Check out 'Surviving retirement' and make sure you know what drives withdrawal rates to secure the best possible retirement for your clients.

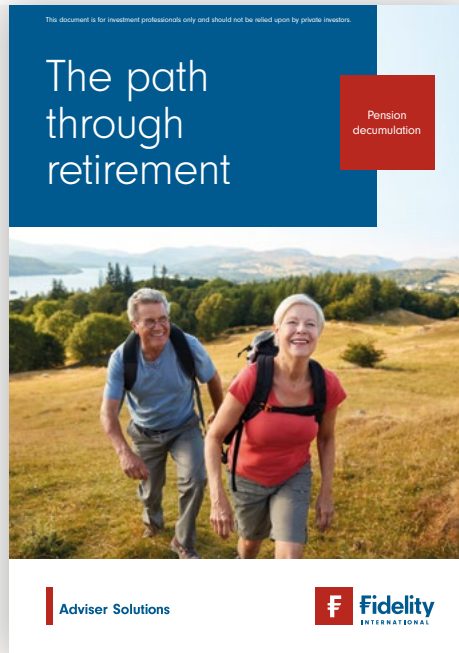
1. 20 Years of Safe Withdrawal Rate Research, Kitces Report, March 2012.
2. The Extraordinary Upside Potential Of Sequence Of Return Risk In Retirement, Michael Kitces, February 2019.



# The path through retirement

## At a glance

- Making the right decisions at the beginning of retirement is just the start.
- Advisers need to stay close to their clients and undertake regular reviews.
- Health issues, death and divorce, inheritance and vulnerability can all impact plans.
- 'The path through retirement' identifies the key issues that can arise and the implications.



Retirement these days is no longer a single event. The initial transition to retirement could involve several twists and turns and require regular reviews. During the course of a retirement, health issues, both mental and physical, can impact financial plans. Vulnerability is more pronounced among the elderly. Death and divorce can disrupt financial strategies and impact inheritance planning. And of course, the economic environment – inflation, investment markets and performance – all require regular monitoring.

Drawdown clients should also consider partial or phased annuitisation as they age or their health deteriorates. A change in physical health could qualify for enhanced rates or a decision to annuitise may be made to mitigate a decline in mental health that could impair decision making. Wills, Power of Attorney and Expression of Wish forms may also require updating from time to time. What's more, while we can identify the main factors that can derail the best laid plans, there is one unknown we can rarely define: the timing of any changes that may require plans to be reviewed and adapted.

Advisers today need to engage with their clients throughout retirement. 'The path through retirement' charts some of the issues that can arise and their possible impact. We've also included a checklist you can use to compare with your own process.



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