This document is for investment professionals only and should not be relied upon by private investors.

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[1]. 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. Advisers need to take a holistic view of retirement, managing and adapting their clients' plans as circumstances change. 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 2021/22, FCA, October 2022.

Adviser Solutions

Fidelity INTERNATIONAL

How much does a comfortable retirement cost?

At a glance...

- People are often consumed with how much they need for a comfortable retirement.
- Data suggests it can be challenging to meet the amount required.
- Yet there are different ways people may be able to retire in comfort.
- Our report demonstrates how to manage risk to make the most of retirement savings.

A 2019 report by Close Bros revealed that the number one worry for employees is funding retirement[1]. This broadly translates into 'Will I have enough to retire comfortably?' On the face of it, this question is straightforward to address. Calculate how much income is needed at retirement then, for drawdown clients, apply a safe withdrawal rate to the value of their pension pots and add other sources of income (state pensions, defined benefits, non-pensions savings and investments). But there's often a problem: a sizeable gap that needs filling.

A 65 year old couple with a £500,000 pension pot, taking the recommended safe withdrawal rate by Morningstar of 4%[2] would achieve an annual income of £20,000. Even with the State Pension added, this would fall significantly short of the £67,464 calculated by Retirement Living Standards for a comfortable retirement[3]. Yet often clients could take more than this. How do we ensure clients enjoy a comfortable retirement, while not exposing them to too much risk?

'How much does a comfortable retirement cost?' explores the impact of different risk factors and how retirees could manage these risks to make the most of their retirement savings.

Click on the thumbnails to view the full report on our website.

1. Financial Wellbeing Index 2019, Close Brothers.
2. The State of Retirement Income: Safe Withdrawal Rates, Morningstar, November 2023.
3. How to estimate likely retirement living standards, Pensions and Lifetime Savings Association, 2023.

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.

Click on the thumbnails to view the full report on our website.

The foundations of retirement planning – ten pitfalls to avoid

At a glance...

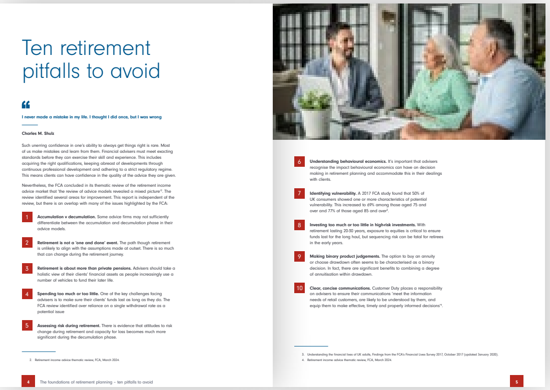
- The move from accumulation to decumulation is significant – switching the emphasis from building capital to using that capital.
- The challenge of planning the decumulation phase is exacerbated by the popularity of drawdown, where certainty of income is no longer guaranteed.
- Clients don't know how 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.

Click on the thumbnails to view the full report on our website.

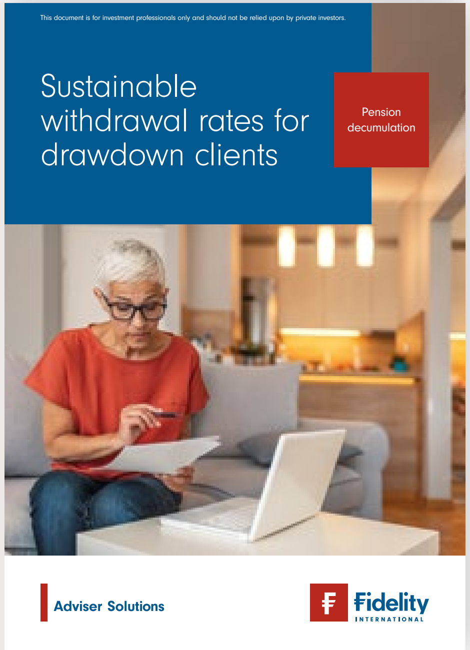


Sustainable withdrawal rates for drawdown clients

At a glance...

- Back in 2021, the highest starting safe withdrawal rate, based on an inflation-linked income with a 90% probability of lasting 30 years, was 3.3%. This has now risen to 4%[1].
- After accounting for charges and fees, analysis suggests this safe withdrawal rate should be reduced by 0.4%.
- The study suggests a 40% equity weighting is optimal from an asset allocation perspective.

1. Source: Morningstar, data as of September 2023.

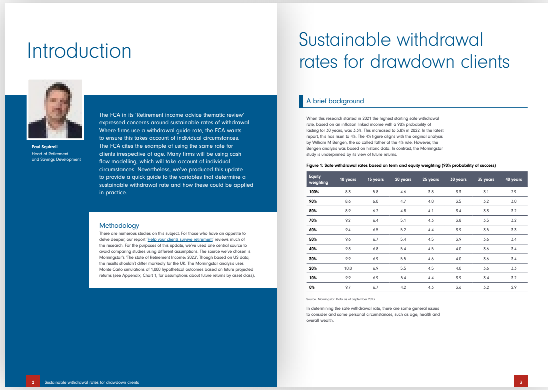


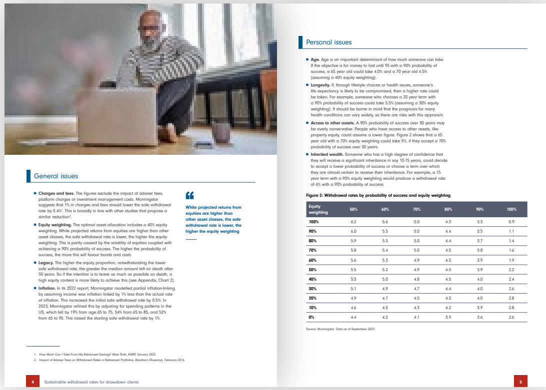
In its thematic review of retirement income advice, the FCA raised concerns about the blanket use of withdrawal guide rates without accounting for individual circumstances.

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.

Click on the thumbnails to view the full report on our website.

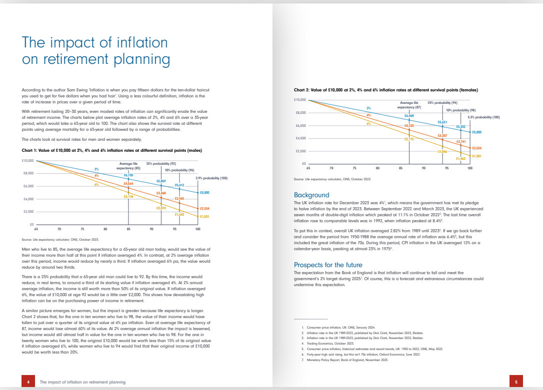




The impact of inflation on retirement planning

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.

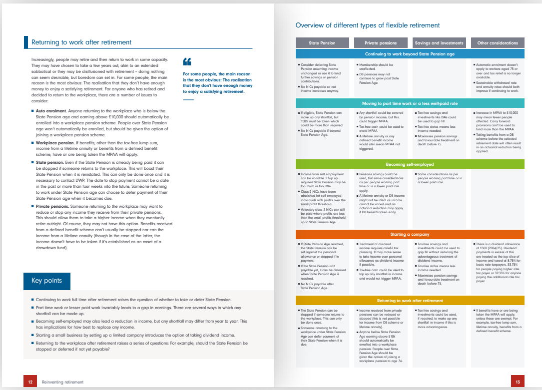
Our report considers all of these issues and draws on research and studies that show how inflation can affect the decisions retirees make at and during retirement. Inflation is a recurring issue for advisers and their clients. Our report brings this issue into focus to help you plan and develop retirement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

Click on the thumbnails to view the full report on our website.

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 transitionary 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 MPAA. 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.

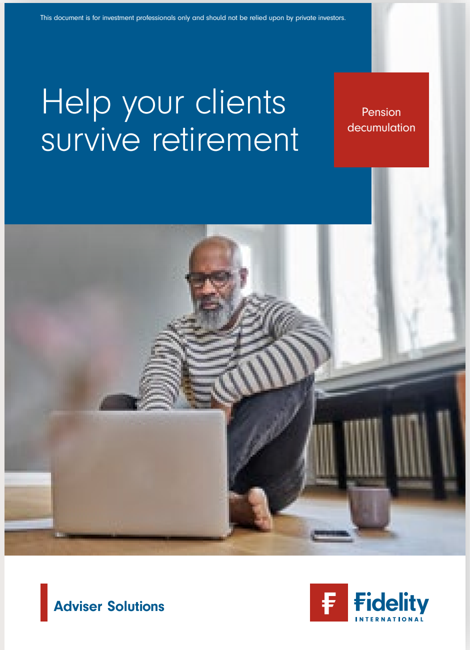
Don’t miss out. Read how these major changes to retirement could impact you and you clients.

Click on the thumbnails to view the full report on our website.

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[1]. Indeed, analysis has shown that over the last 140 years, 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[2].

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.

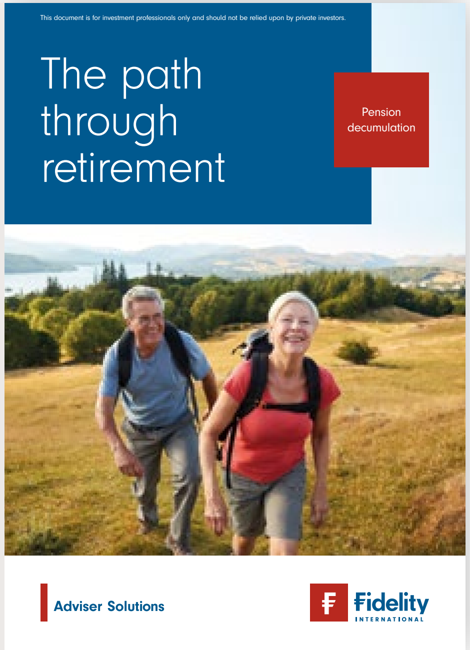
Click on the thumbnails to view the full report on our website.

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 and/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.

This report, along with all the others showcased in this document, can be viewed or downloaded from our website