

PIMFA

Planning Considerations for Retirement Planning Post Thematic Review

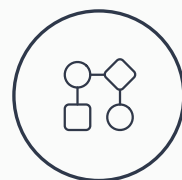
October 2024

Learning outcomes



A high-level overview of

Mitigating retirement income investment risks deliver good customer outcomes



The expectations on advisers following the FCA thematic review on retirement income advice



Discretionary Fund management

what is it, who is it appropriate for
how can it help mitigate retirement income investment risks / deliver good customer outcomes



The FCA Thematic Review

In the UK £700bn will move into drawdown over the next decade

Does this provide a new challenge for advisers ?

1 in 5

will be aged 65+
by 2030

£190k

average UK adult
pension pot size
(ages 65 – 74)

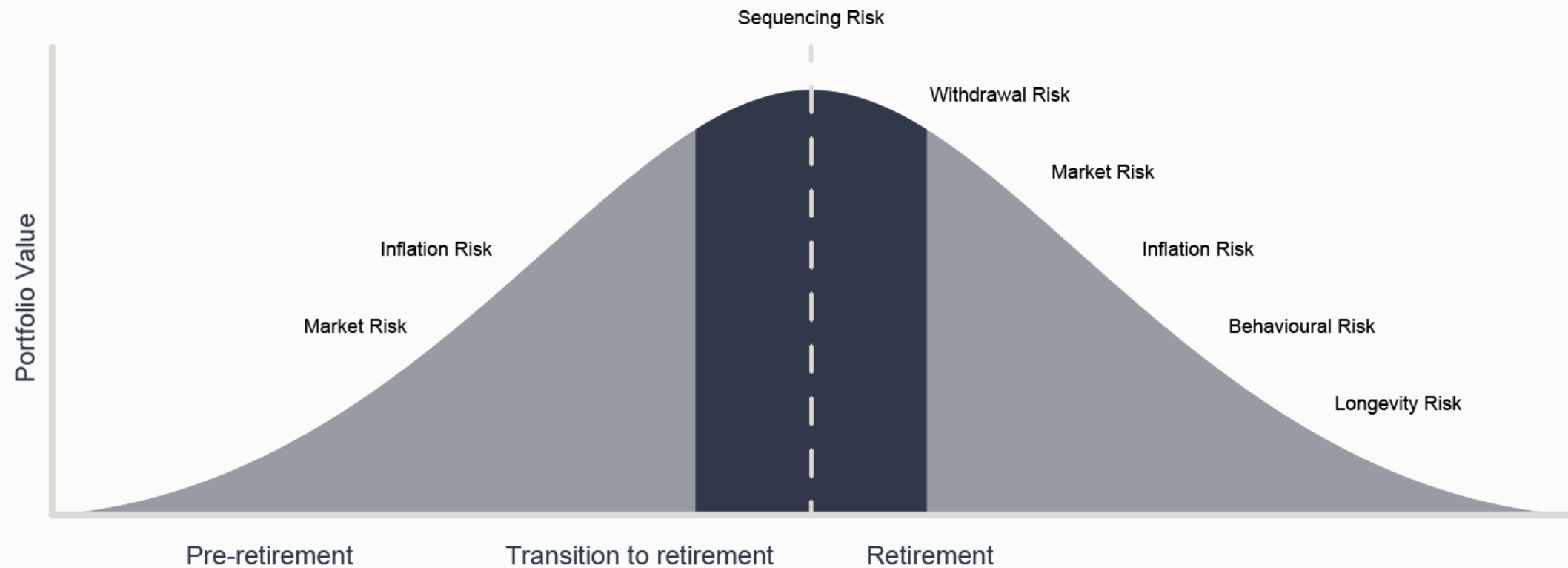


Increase in demand
for retirement income advice
following pandemic

Does this require different thinking when it comes to investing ?

The main risks which will need to be mitigated

Consumers have a habit of taking the wrong action at the wrong time



Handouts available - client guide for the investment risks associated with Investing for life in retirement

FCA Retirement Income Thematic Review - Concerns

TR24/1 March 2024

FCA Concerns



Decisions for customer approaching / at retirement complex



Potential for more risk



Level of income to draw and underlying investments to hold



Harm caused by poor advice – Particularly detrimental impact on consumers



Vulnerable clients

[*Instructions for Retirement Income Advice Assessment Tool \(RIAAT\) \(fca.org.uk\)](https://www.fca.org.uk/retirement-income-advice-assessment-tool)



Focused on income taken from retirement savings, which includes pension schemes, MiFID financial instruments and insurance-based investment products.

FCA Retirement Income Thematic Review - Improvements

TR24/1 March 2024

Areas for Improvement

- > Client Information
- > Risk Profiling
- > Cashflow modelling
- > Income Withdrawals
- > Periodic review of suitability
- > Control framework and management information
- > Record keeping
- > Conflicts of interest management

[Thematic review of Retirement Income Advice | FCA](#)



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20 March 2024

Dear Chief Executive

Thematic Review of Retirement Income Advice

We recently conducted a [review](#) of retirement income advice. I would like to share with you those findings, published today, and set out our next steps.

We recognise that the picture across different firms varies. Our review found examples of both good and poor practice across the market. Some firms showed they had considered their customers' needs and had designed their advice model in a way likely to lead to good outcomes. However, we saw that some firms may not be meeting the needs of their customers, potentially leading to poor outcomes.

Our findings relate to how firms provide retirement income advice. But they may also be relevant to firms providing personal recommendations on investments more broadly.

Pension reforms in 2015 introduced more flexibility about how and when consumers could draw defined contribution pensions. As you understand, decisions for consumers have become more complex and with the potential for more risks. They need to consider how to access their savings, what level of income to draw to meet immediate and longer-term needs and the underlying investments.

Advisers have an important role in helping consumers make the right decisions and secure good outcomes. We ask all firms to ensure their advice process complies with FCA requirements on information collection,

suitability and disclosures. They must also ensure they have adequate systems and controls and monitor customer outcomes.

FCA Retirement Income Thematic Review – good examples

TR24/1 March 2024

Cited Examples of good and bad practice

- > Advice models
- > Record keeping
- > Vulnerable customers
- > Income Withdrawal strategy
- > Risk profiling
- > Advice suitability

[Thematic review of Retirement Income Advice | FCA](#)

Ask for our aide memoir with the key highlights of the thematic review with examples of good and bad practice



Key takeaways from the FCA's retirement income advice thematic review

In March 2024, the FCA published its 50-page thematic review of how the retirement income advice market is working and whether consumers are receiving appropriate advice on meeting their income needs in retirement.

In the words of the FCA, "It is vital that consumers get good advice when they first access their pension savings and, where relevant, on an ongoing basis." The range of options at retirement is more complex than ever before, and the size of the defined contribution (DC) market – £1.41 trillion in 2022 – is rapidly catching up with the defined benefit (DB) market (£2.17 trillion).

Missteps in this area have significant consequences, including the possibility of individuals exhausting their pension savings before their retirement is over. Advisers are crucial, and poor advice may have a particularly detrimental impact.

In the thematic review, the FCA reported back on various examples of existing good practices they have found firms exhibiting, so that others may learn from them. We've summarised these recommendations below.

The eight information areas

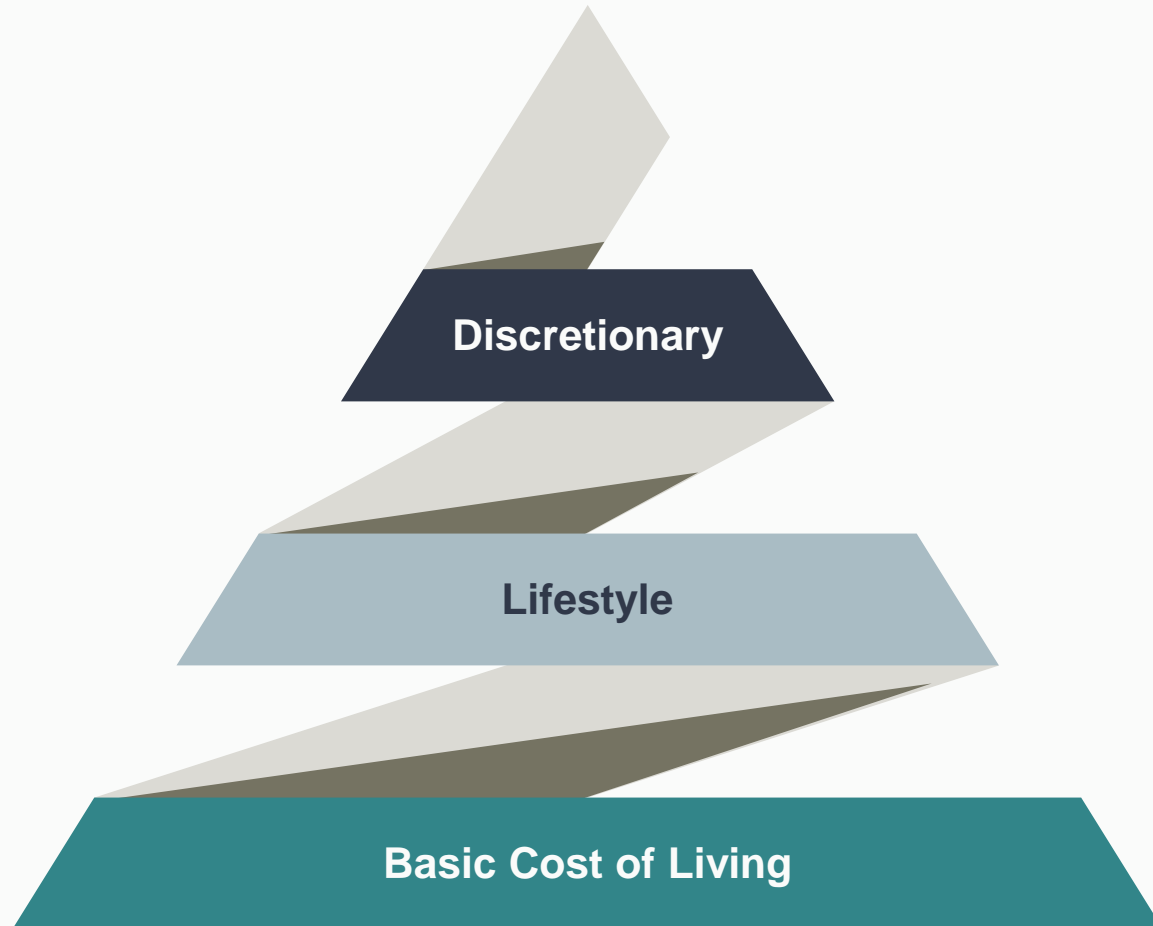
FCA assessors will ask up to 8 questions to assess file quality

- 1 Has the firm obtained the essential facts about the client ?
- 2 Has the firm obtained the necessary information regarding the client's investment and retirement objectives?
- 3 Has the firm obtained the necessary information regarding the client's investment risk profile?
- 4 Has the firm obtained the necessary information regarding the client's knowledge and experience?
- 5 Has the firm obtained the necessary information regarding the client's estimated expenditure throughout retirement ?
- 6 Has the firm obtained the necessary information regarding the client's financial situation?
- 7 (For **switch recommendations** only) Has the firm obtained the necessary information regarding the ceding scheme(s)?
- 8 Has the firm obtained the necessary information regarding the **proposed scheme(s) or solution(s)**?

[*Instructions for Retirement Income Advice Assessment Tool \(RIAAT\) \(fca.org.uk\)](https://www.fca.org.uk)

Information requirements

Consider client expenditure (Joint)



Discretionary expenditure / savings this is expenditure which is purely discretionary and could easily be cut back by the client at any time.

Lifestyle expenditure supports the client's expected standard of living, such as socialising, holidays and eating out. Many clients may not wish to compromise here.

Basic Cost of Living reflects the bills that the client must pay and which they would find very hard or impossible to reduce

The Suitability Assessment

The FCA assessor has a template which will challenge in the following areas:

1.	Is the recommendation suitable for how or when the clients intends to access their retirement savings ?
2.	Is the recommended withdrawal strategy suitable for the clients' objectives for their retirement savings ?
3.	Is the recommendation suitable given the clients health or lifestyle factors, or their partner's or dependants health ?
4.	Will the client incur, or are they likely to incur, unnecessary or excessive adviser or product charges ?
5.	Will the client incur, or are they likely to incur, an unnecessary tax charge or liability ?
6.	Will the proposed scheme require ongoing review and rebalancing - has this been explained and arranged.?
7.	Will the client be not willing to take the required risk associated with the recommendation ?
8.	Will the client have the capacity to bear the risk associated with this recommendation ?
9.	Does the client have the necessary knowledge and experience to understand the risks associated with this recommendation ?
10.	Will the client lose necessary safeguarded benefits or valuable features, or incur a penalty ?
11.	Are there any other reasons why the recommendation may not be suitable for the client's investment objectives or financial situation ?

[*Instructions for Retirement Income Advice Assessment Tool \(RIAAT\) \(fca.org.uk\)](https://www.fca.org.uk/consumers/retirement-income-advice-assessment-tool)

Best practices

Five findings and their suggestions for improvements



Firms relying on information without considering accuracy

Use correct data for inputs



Using justifiable rates of return

Consider the potential investments

*Use justifiable future rates of return
Include all charges*



Planning for uncertainty

*Use real terms consistently
Plan beyond average life expectancy*

Undertake stress testing



Consumer understanding

Consider consistency of communications



Consider the output

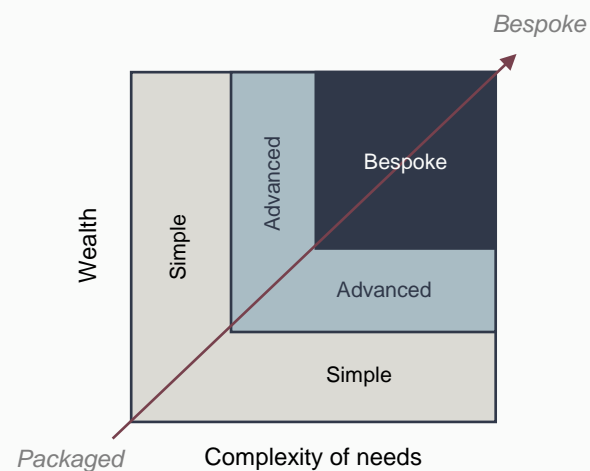
Review cashflow modelling outputs

Discretionary Portfolio Management

Develop a CRP

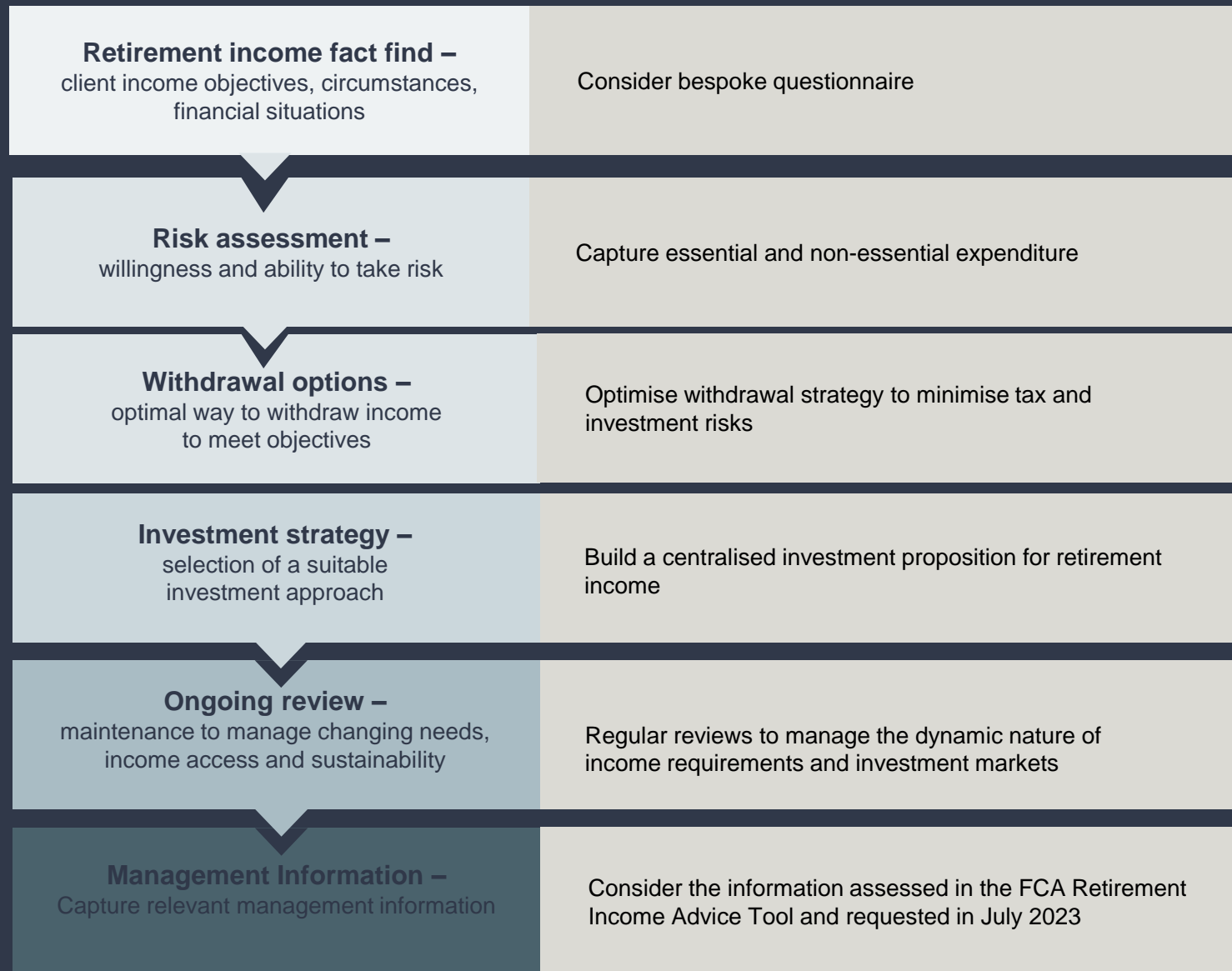
Segmenting income clients

- ✓ **Create groups**, such as by Objectives, Wealth, Complexity of needs and Experience/Attitude
- ✓ **Align segments to a service level and an investment approach:**



Source: [Developing a Centralized Retirement Proposition, 2022](#)

CRP building blocks



What is Discretionary Management



Portfolio can be tailored to client needs, accommodating:

- **Risk** requirements
- **Tax** preferences
- **Liquidity** preferences (income / withdrawals)
- **ESG** restrictions (or full ESG tailoring)
- **Currency** preferences
- Tilts for specific investment regions, sectors, themes or factors
- **Inclusion** only of specific types of investment
- **Exclusion** of specific types of investment or specific stocks

Service also tailored to client needs, accommodating:

- More frequent meetings where desired
- Additional reporting where required
- Voting on the resolutions of the companies in the portfolio
- Access to other wider investment services
- Access to marketing and client events

Bespoke & Managed/MPS Solutions are Different

There are differences to consider between Bespoke and Managed / MPS solutions

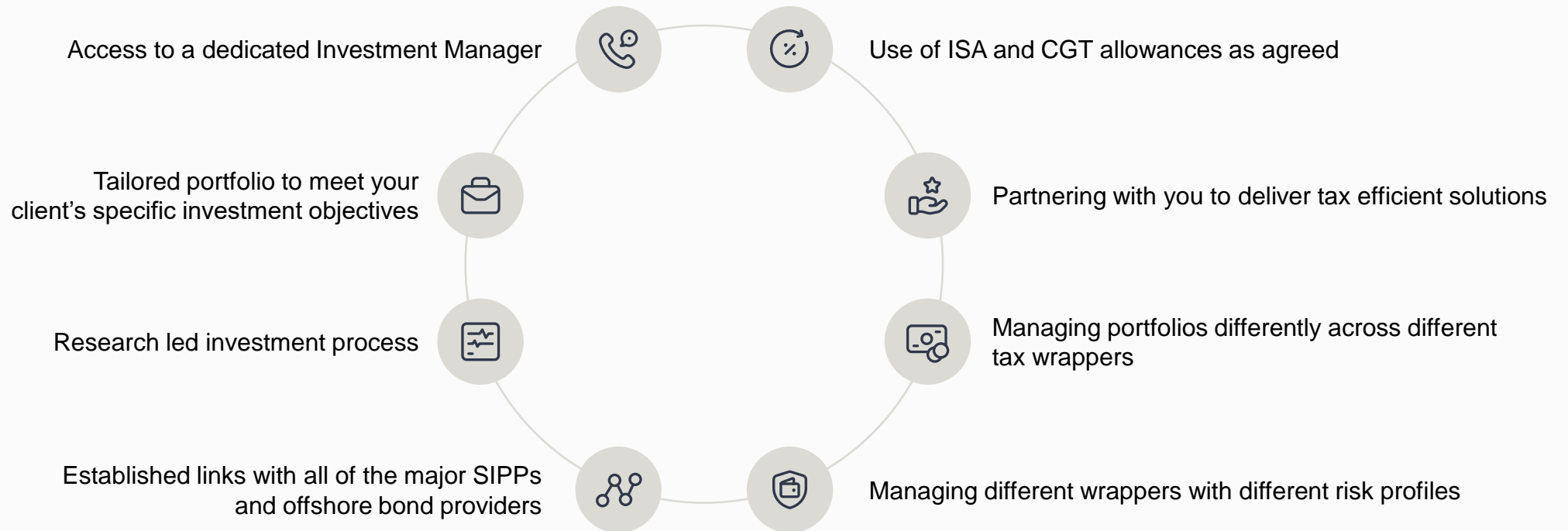
Feature	Managed / MPS	Bespoke
Ready-made range of risk-rated multi-asset investment strategies	✓	✗
Bespoke portfolio tailored to adviser and/or client	✗	✓
Core and focused investment portfolio options	✗	✓
Segregated investment approach	✗	✓
The benefits of intellectual investment approach	✓	✓
Ongoing active management of the portfolio	✓	✓
Personal service of dedicated IM and team for adviser and client	✗	✓
Meetings with the person managing your money	✗	✓
Proactive CGT management	✗	✓
Online valuation	✓	✓
ISA administration	✓	✓
Flexible Total expense ratio	✓	✓
Minimum investment	£?	£?

Roles and responsibilities

	Adviser as Introducer		Reliance on Adviser	
	Financial adviser	Rathbones	Financial adviser	Rathbones
Recommends Rathbone's discretionary investment management services to the client	✓		✓	
Establishes which investment mandate is suitable for the client based on their financial circumstances, investment objectives and attitude to risk		✓	✓	
Manages the client's portfolio in accordance with the investment mandate (and any other restrictions etc) agreed		✓		✓

Personal DFM – Adding value










There may be minimum values to consider



Adding Value To The Client

The power of partnerships

Sharing the responsibility

Adviser	DFM
 <p>Own the relationship and all communication with client</p>	 <p>Set the asset allocation and select appropriate stocks</p>
 <p>Identify the need for investment services during clients financial planning review</p>	 <p>Identify, research and monitor investment opportunities</p>
 <p>Appoint and manage relationship with discretionary fund manager</p>	 <p>Review the asset allocation strategy and underlying investment on an ongoing basis</p>
 <p>Assess and advise on a client's investment objectives, risk appetite and capacity for loss at onboarding and on an ongoing basis</p>	 <p>Create and manage an investment portfolio bespoke to your client's investment objectives and risk profile</p>
 <p>Understand client's needs and objectives according to their financial position and assess suitability</p>	
Market leading Partner	

Administration and reporting

What to expect from your DFM:

- ✓ Valuations
- ✓ Contract notes
- ✓ Investment reports
- ✓ Annual accountant's pack
- ✓ Capital/income statements
- ✓ Portfolio critiques
- ✓ Transaction histories
- ✓ "Helpful" service level agreements

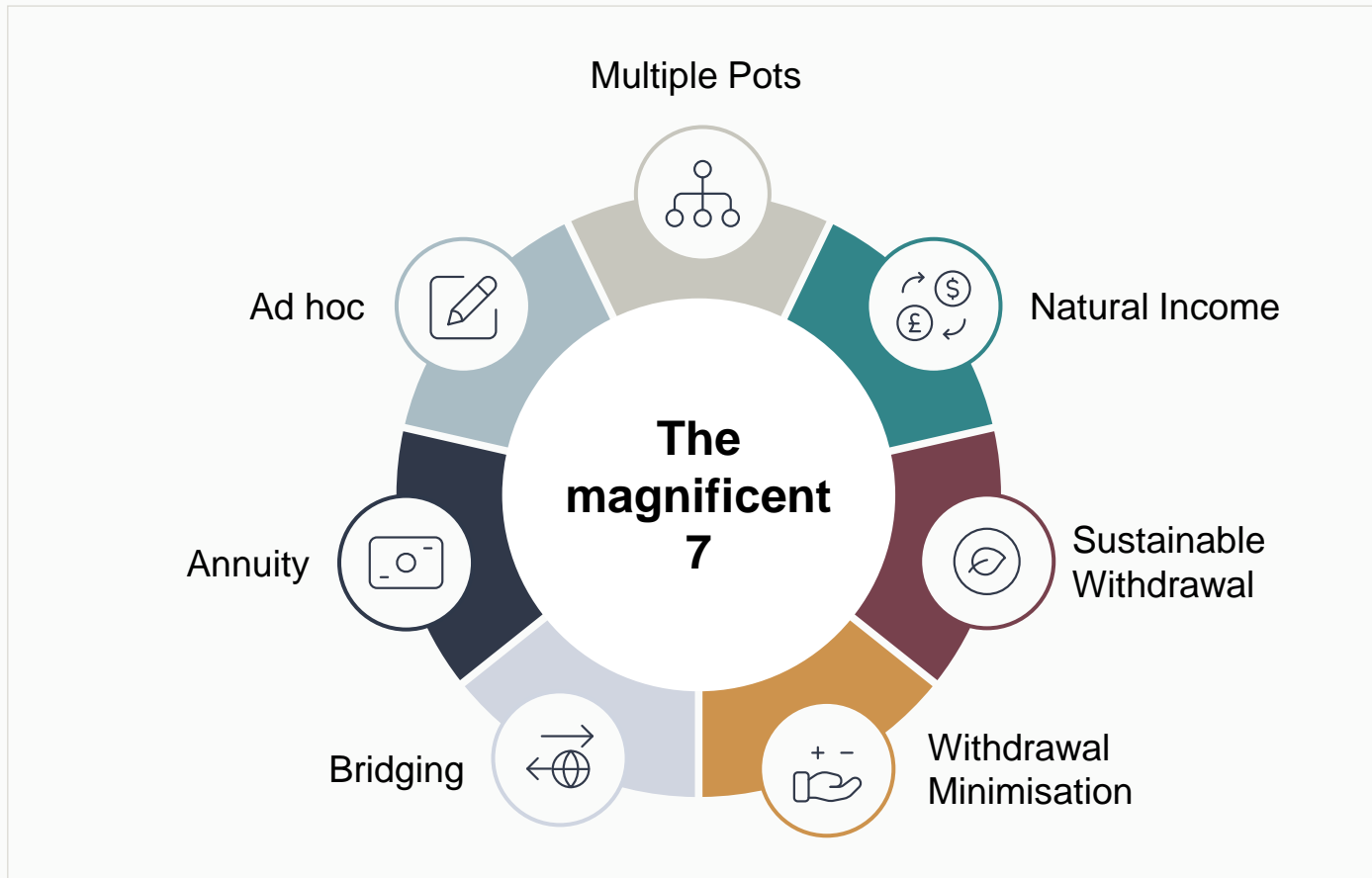


The DFM should communicate at a frequency and in a format you prefer

Dedicated and Local

Retirement Challenges & Case study

FCA Recognise the following income withdrawal strategies

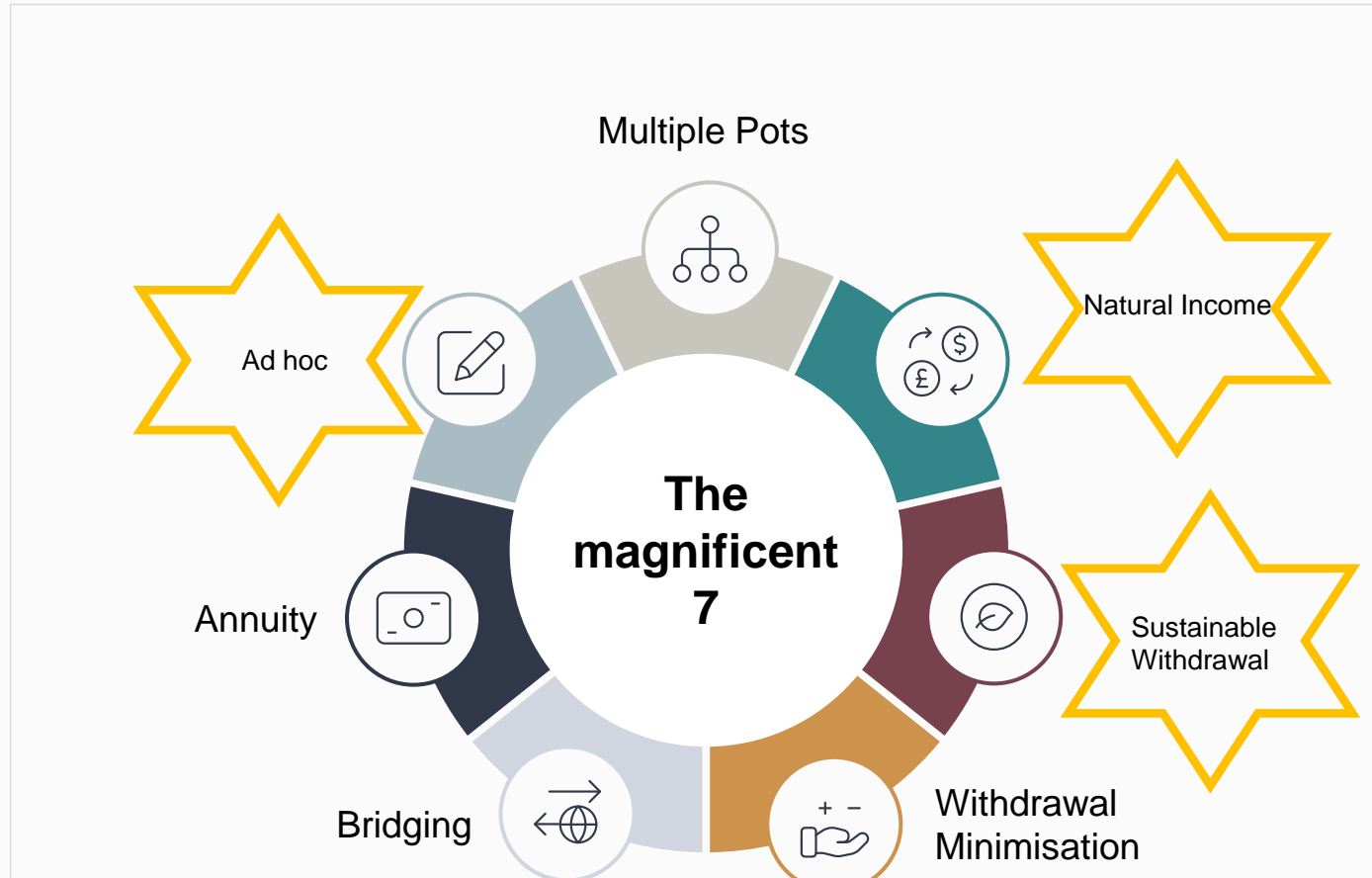


Several withdrawal strategies may be utilised by a firm to assist a client to achieve their objectives for retirement savings.

These are the common withdrawal strategies the FCA recognises.

*Instructions for Retirement Income Advice Assessment Tool (RIAAT) ([fca.org.uk](https://www.fca.org.uk))

FCA Recognise the following income withdrawal strategies



Factors to be considered include :

- ✓ The level of risk required and accepted
- ✓ Ad hoc withdrawals likely
- ✓ Match discretionary or essential expenditure
- ✓ Client(s) willingness and ability to vary income
- ✓ Client(s) predisposed to leaving an inheritance
- ✓ The impact of costs and charges

*Instructions for Retirement Income Advice Assessment Tool (RIAAT) (fca.org.uk)

Client case study

£500,000
Retirement Savings

Medium Risk Portfolio

Diversified Investment Approach

Active management

Bespoke portfolio approach

Historic asset class returns

- 18 rolling 20 yr. periods
- 3 market crashes – Covid, Dotcom & GFC

4% Annual withdrawal rate

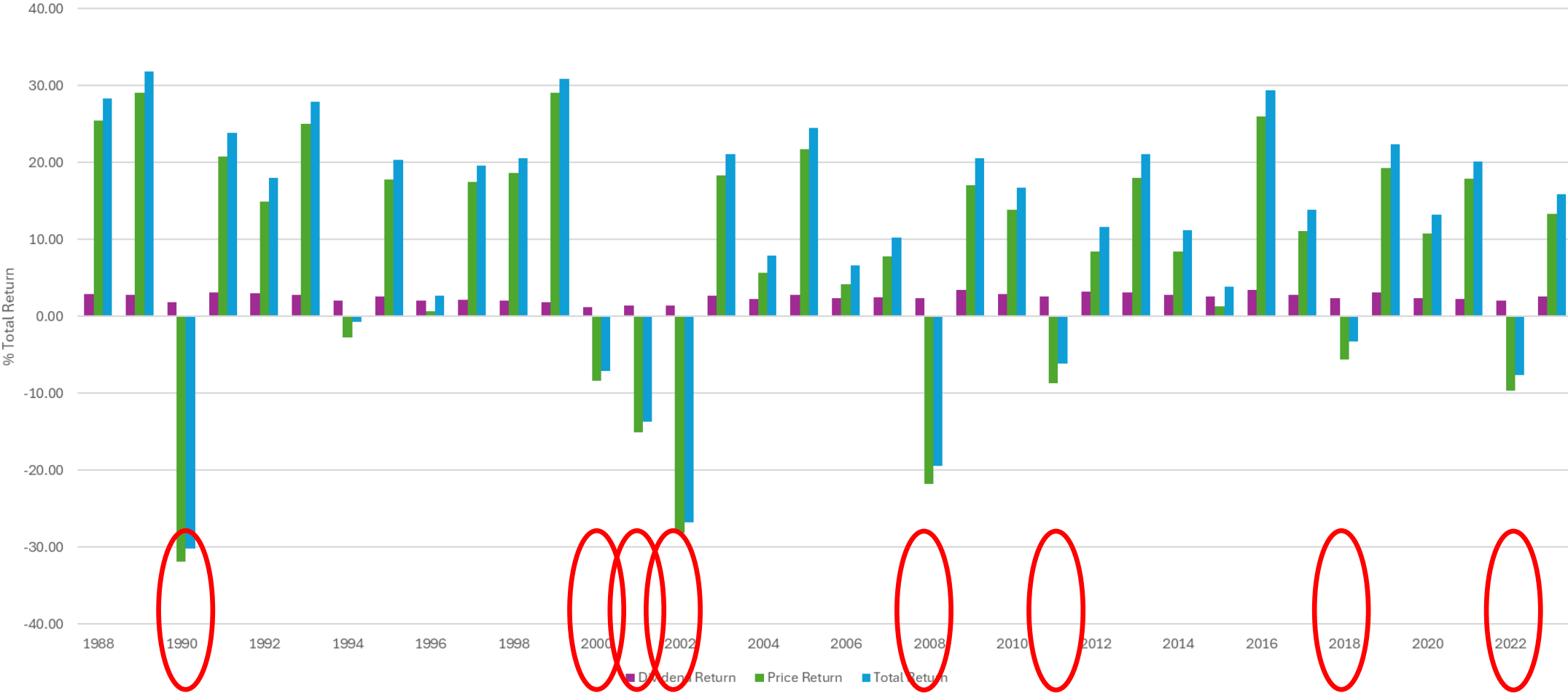
5% Annual withdrawal rate

6% Annual withdrawal rate



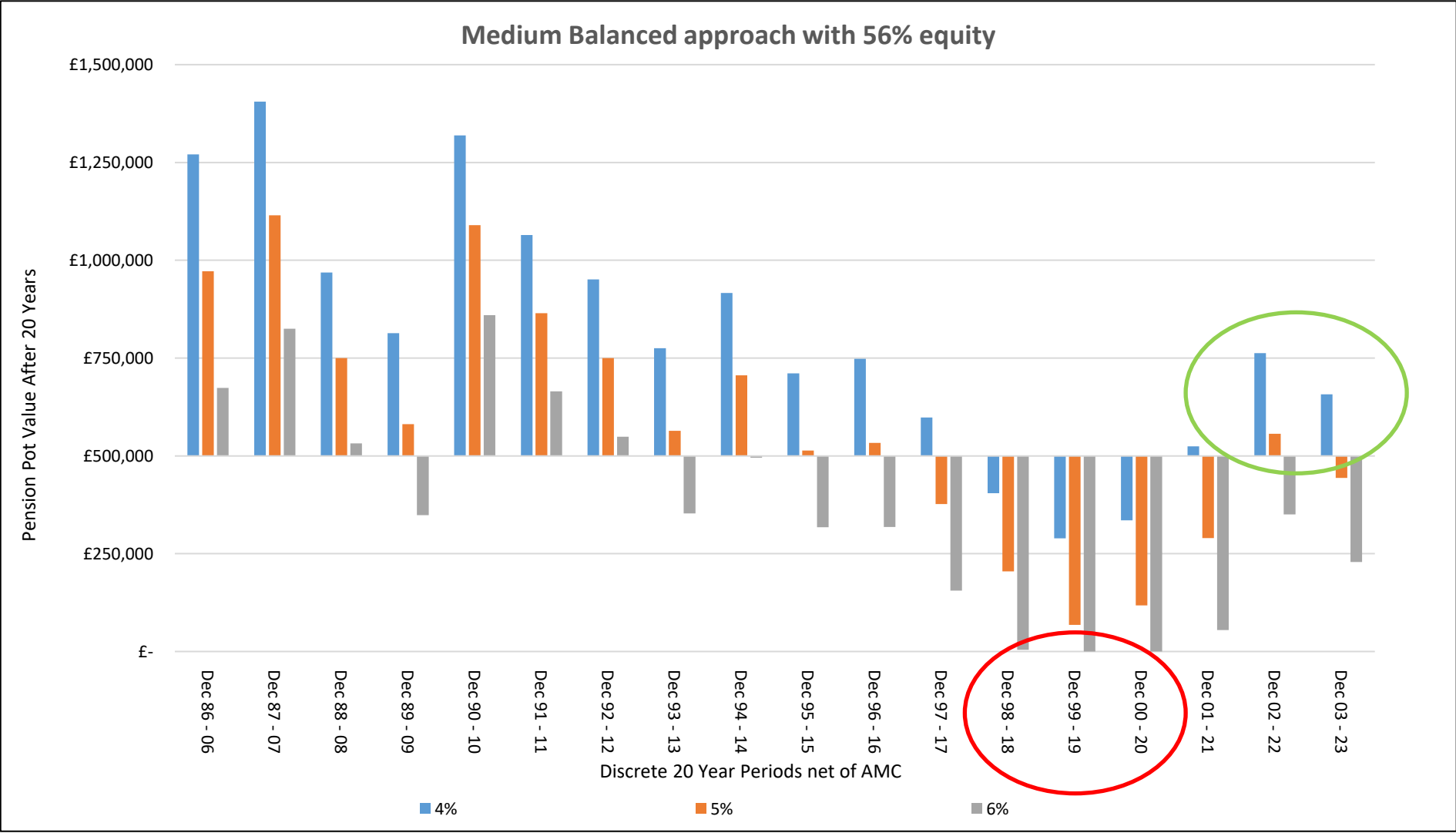
Dependable Natural Income

Global Equities



MSCI AC World Index – Dividend return & Total return

Long term withdrawal strategies



Rathbones – Investec Wealth & Investment UK

c.£100bn

Enlarged Rathbones Group funds under management and administration

675+

Investment managers

FTSE 250

Independent listed company under the Rathbones brand

250+

Financial planners/advisers and specialist support team



2024

Gold rating for our Discretionary Fund Management service



2013 - 2024

Five-star rating for our Bespoke Discretionary Fund Management service



2020 - 2024

Five-star rating for our Bespoke Discretionary Fund Management MPS on Platform service

Market leading -- Personal approach -- Support focused

Next Steps

How we will follow up

Follow up

01



Thank you email

We will follow up to thank you for your attendance

We will include copy slide pack

Follow up

02



Follow up email

We will provide supporting handouts by email

Follow up

03



Meeting

We would welcome the opportunity to meet and discuss how we can help.

Contact

Simon Taylor

XXXXXXXXXX

XXXXXXX

Learning outcomes



A high-level overview of

- investment risks associated with investing for life in retirement
- Client takeaways



The expectations on advisers following the FCA thematic review on retirement income advice



Discretionary Fund management

- what is it, who is it appropriate for
- how can it help mitigate retirement income investment risks / deliver good customer outcomes



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