A simple approach to improving the sustainability of your clients’ retirement income

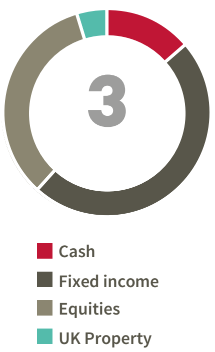
Risk-rated, multi-asset funds are popular within retirement portfolios. Typically, a fund is matched to the client’s risk profile (for example a balanced fund) and income is drawn from only that fund. But taking this approach could be affecting the sustainability of your clients’ retirement income over time – especially in volatile markets.

Minimise sequencing risk through pot investing

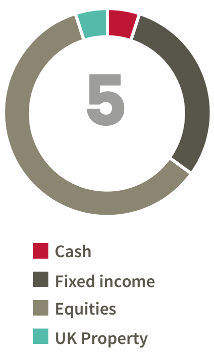
By combining funds with different risk profiles, drawing income from the lower risk fund and, applying a frequent rebalancing discipline, there is the potential to create more robust retirement portfolios for your clients.

In the example below, we assumed an initial investment of £300,000 and a fixed monthly income of 4%, rising by 2% per year to account for inflation. We ran 1,000 simulations considering different investment market movements to calculate the chances of a £300,000 investment lasting 30 years, providing consideration for longevity risk.

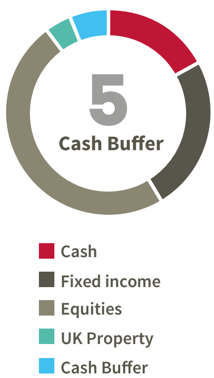
Here is what happened...



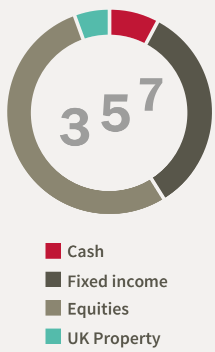
If your client invested in a low-risk model, they had a **77%** chance of their investment lasting 30 years.



If your client invested in a moderate risk model, they had an **87%** chance of their investment lasting 30 years.



If your client invested in a moderate risk model with two years of income as a cash buffer, they had an **86%** chance of their investment lasting 30 years.



If your client invested a third in risk profile 3, a third in risk profile 5 and a third in risk profile 7, then took income from the risk profile 3 fund (rebalancing quarterly to maintain the 33% split), they have a **94%** chance of their investment lasting 30 years.

By investing across different risk profiles and only taking income from the lowest risk profile fund, the probability of the client’s income lasting at least 30 years increased to 94%. That’s because in rising markets, the amount invested in the risk profile 3 fund is likely to be ‘topped up’ by better performance from the higher volatility 5 and 7 risk-profiled funds when rebalanced. In a downturn, the lower volatility risk-profiled 3 fund unit price is likely to fall less than the unit price of the more volatile risk-profiled funds in 5 and 7. And as income is taken only from 3, the effect of pound cost ravaging is reduced.

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Applying this strategy using The Retirement Account and ACUMEN Portfolios

The Retirement Account enables you to set this strategy up for your clients and automatically rebalance it on a regular basis, which ensures the percentage split between funds doesn't deviate over time. With access to over 2,000 market leading funds, you can choose your preferred mix of funds, including the ACUMEN Portfolios.

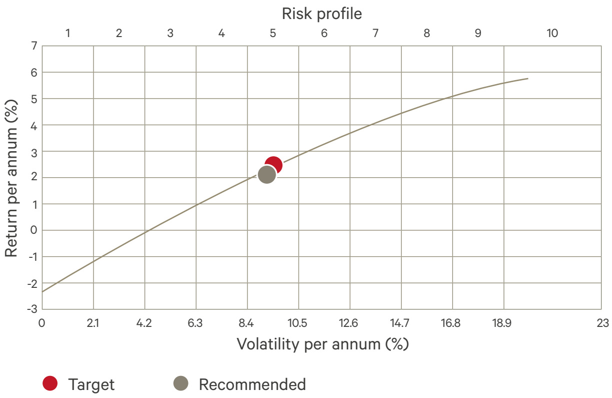
Below we show an example of the Canlife Portfolio Funds (which are risk targeted by Dynamic Planner) blended with the risk-profiled ACUMEN Portfolios.

This provides a risk targeted allocation across the clients' overall investment pot that matches a risk profile of 5 within Dynamic Planner.

Three simple considerations when applying a pot investment strategy

1. Take the income from the lowest risk fund
2. Rebalance back to the starting asset allocation (quarterly, bi-annually or annually)
3. Ensure the funds selected stay aligned to the risk profiling tool – Dynamic Planner

Fund	ISIN	Risk	%	OCF
Canlife Portfolio 3 TRA Pn	GB00BF77W025	3	33.3%	0.36%
Canlife Portfolio 5 TRA Pn	GB00BF77W249	5	16.7%	0.51%
ACUMEN Portfolio 5 X Acc	GB00B87LP737	5	16.7%	1.07%
ACUMEN Portfolio 7 X Acc GBP	GB00BZ3T3H63	7	33.3%	1.12%
Total			**100%**	**0.75%**



Cash (deposits)	
Cash (Money Markets)	9.06%
UK Gilts	3.78%
UK Index Linked Gilts	3.34%
Sterling Corporate Bonds	4.47%
Global Investment Grade Bonds	14.74%
Global High Yield Bonds	2.02%
Global Equity	
UK Equity	11.24%
Europe ex UK equity	5.52%
North American Equity	22.20%
Japanese Equity	5.77%
Asia Pacific ex Japan Equity	5.34%
Emerging Market Equity	4.59%
Property	2.52%
Commodities	5.41%
Absloute Return	
Unclassified	

It is important to note that the funds will need to be assessed on a regular basis since tactical asset allocation changes within the ACUMEN Portfolios may lead to short term fluctuations; however over the longer term the ACUMEN Portfolios will stick to their risk profiles.

Contact us

For more information, please watch our **short video** or visit **canadalife.co.uk/tavistock**.

For more information on The Retirement Account and your special terms, here is a handy **contact sheet**.

Past performance is not a guide to future performance. The value of investments may fall as well as rise and investors may not get back the amount invested. Currency fluctuations can also affect performance.

Source: Canada Life Asset Management and Morningstar. Figures are based on an equal weighted benchmark consisting of every primary share multi asset OEIC/Unit Trust which has been risk profiled or risk targeted by Dynamic Planner to 31/12/2020, split into each of their risk profiles. The simulation was based on a Monte Carlo Simulation using Brownian Motion, run a thousand times to assess possible outcomes of returns, using the 5-year return and standard deviation of the equally weighted benchmarks. Income was deducted monthly, after growth, for the month. Income was based on the initial sum and grew by 2% in value annually. The chance of the income running out was based on the number of times the simulation hit 100% in value, divided by 1000. The 357 Model is based on the same equally weighted benchmarks, using the same returns as the single benchmarks but with the investment split equally between benchmark 3,5 and 7. The 357 Model was rebalanced quarterly back to its initially weighting. The cash bucket used the same returns as benchmark 5 and utilised a cash holding of 2yr starting income, topped up annually to the initial percentage.

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