

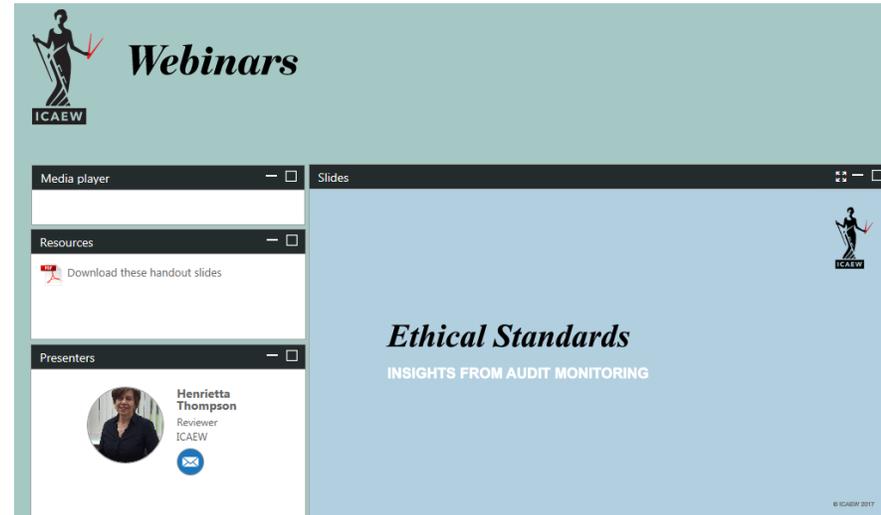


Maintaining income amid market turmoil

IN ASSOCIATION WITH PRUDENTIAL

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

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COVID-19: where will it all end?

<https://www.sciencealert.com/new-study-suggests-repeated-bouts-of-social-distancing-may-be-needed-until-2022>



(Kate Trifo/Unsplash)

HEALTH

Harvard Study Says We Could Need Bouts of Social Distancing Until 2022

AFP 15 APRIL 2020

Today's speakers



VINCE SMITH-HUGHES

DIRECTOR OF SPECIALIST BUSINESS
SUPPORT

PRUDENTIAL

Maintaining income amid market turmoil

Vince Smith-Hughes – Director of Specialist Business Support



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Learning objectives

To increase understanding of

- The strategies for managing sequencing of return risk
- Weighing up the options
- Recouping investment losses



31/03/2015 - 31/03/2020 Data from FE fundinfo2020



30/03/1990 - 31/03/2020 Data from FE fundinfo2020

Drawdown reviews – recovering from the market shock



Client contact

- Consider bringing forward?
- How does the client feel?
- How do they feel about resetting income?
- Fundamental change in strategy or temporary?
- Explain alternative.....annuity?
- Manage future risk, explain what it means
- Agree the way forward together
- The need for professional advice has never been greater!

Savers urged to stay calm....

1. Visit the Pensions Advisory Service website for guidance on how coronavirus may have impacted pensions.
2. If savers are aged 55 or over and considering drawing their pension, they can book a Pension Wise guidance session to fully understand their options.
3. Use a financial adviser to help you make the best decision for their own personal circumstances.
4. Be aware of how to protect themselves from pensions scams by visiting the ScamSmart website.



https://www.fca.org.uk/coronavirus



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Dear CEO: insuring SMEs - business disruption

Our Dear CEO letter to insurance firms on insuring SMEs during the coronavirus situation

Dear CEO: lending to small businesses

Our Dear CEO letter to banks on lending to SMEs during the coronavirus situation

Temporary financial relief for customers: our guidance

Range of targeted temporary measures designed as a stop-gap to quickly support users of certain consumer credit products

Additional primary market measures to aid listed companies

Measures to help these companies to raise new funding while retaining an appropriate degree of investor protection

Regulatory Considerations

FCA shelves suitability review to allow firms to focus on crisis



The problem with market falls and taking income

- Fund Value £100,000
- £5,000 pa Income = 5%

- Fund Value £75,000
- £5,000 pa income = 6.67%

- £100,000 - £75,000 = 25% fall
- £75,000 - £100,000 = 33.34% gain needed

Sequence of Return Risk

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

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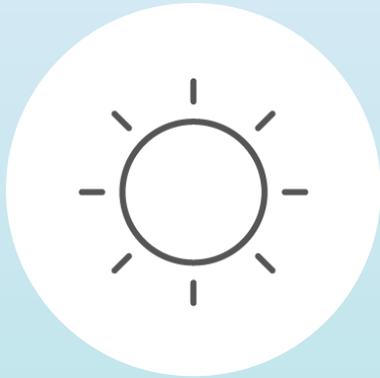
6 years ago the SIPP was £275,000 – £1,500 per month

	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

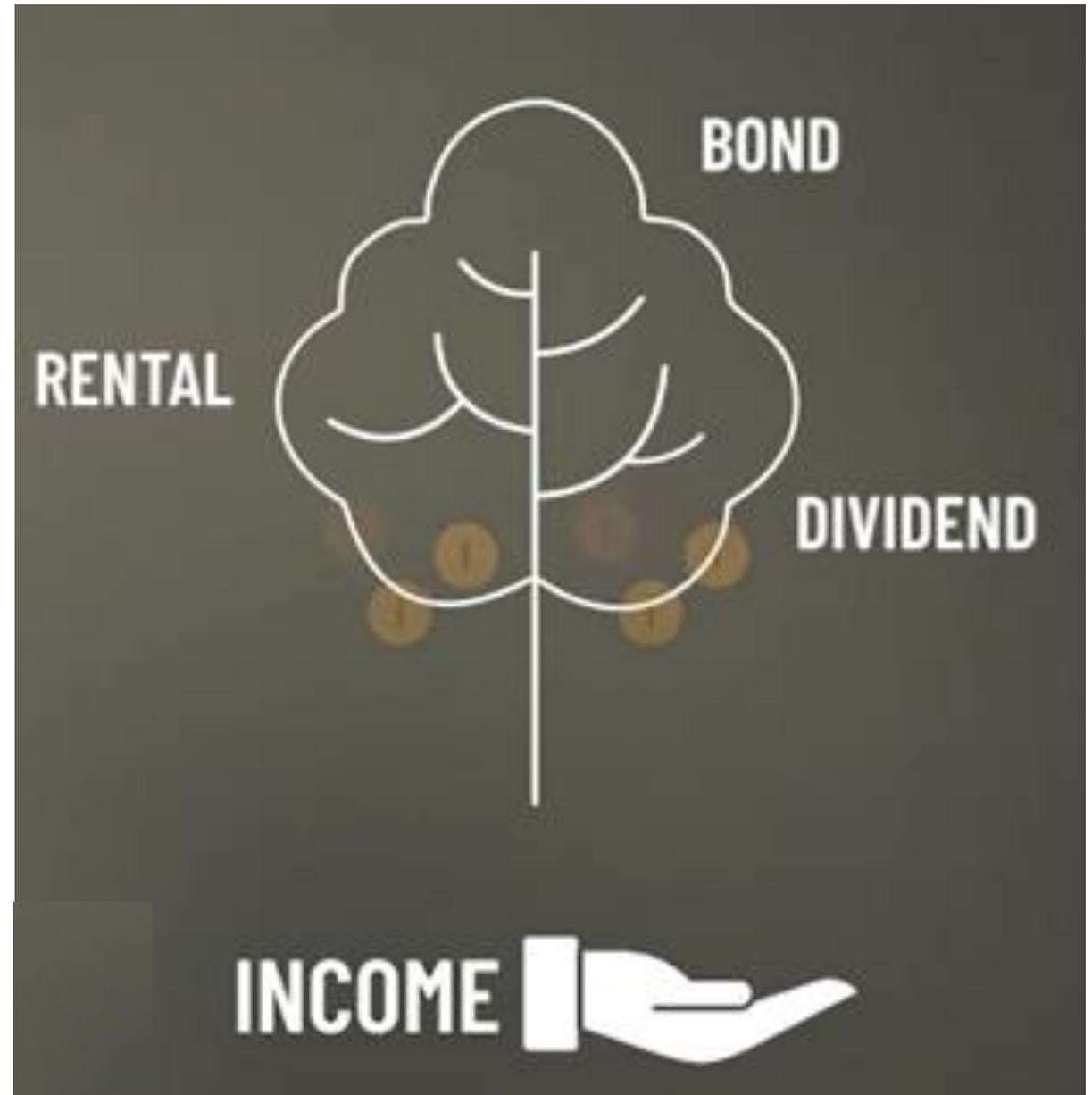


None of these are mutually exclusive!

The bucket approach



Using natural
income



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	Some companies are deferring dividend payments

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

A long, straight asphalt road with a white center line and yellow shoulder lines stretches into the distance, vanishing at a horizon line. The road is flanked by a vast, flat desert landscape with sparse, low-lying vegetation and small mounds of white material. In the far distance, there are low, rounded hills or dunes under a clear, pale blue sky. The overall scene conveys a sense of a long, open journey or a path leading to a distant goal.

The plan

A scenic view of a mountain landscape featuring a winding road. The road is paved and curves through a green, grassy slope. In the background, there are rugged, rocky mountain peaks under a cloudy sky. The text "The planning" is overlaid in white, sans-serif font in the center of the image.

The planning

Drawdown reviews – weighing up the options

Options:

1. Recalculate sustainable income

2. Stop/reduce income where possible

3. Utilise any cash holding

4. Consider other investments outside of pension wrapper

5. Consider changing income to funds that have fallen the least

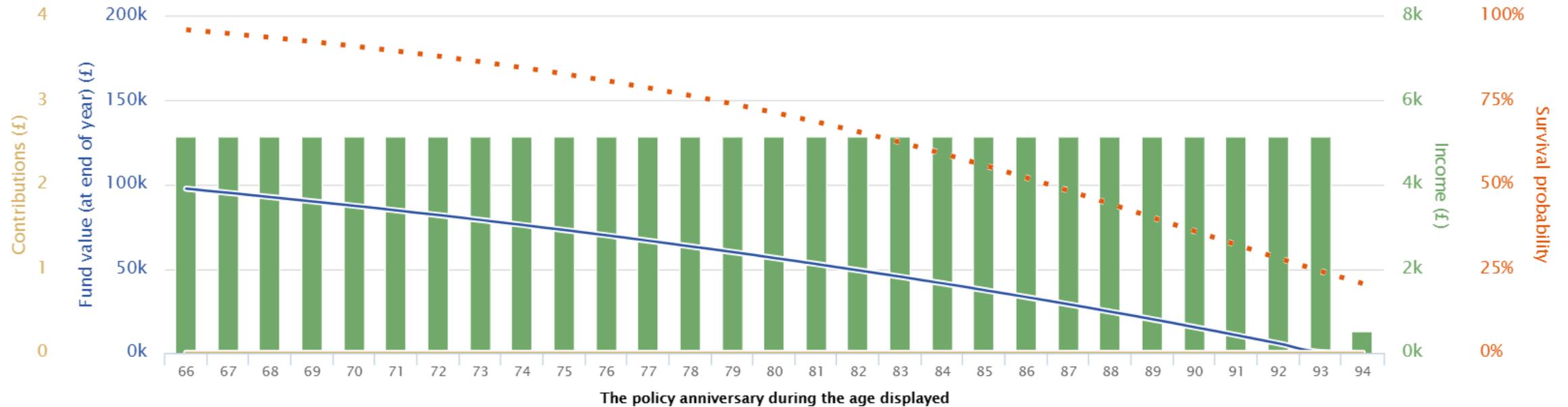
6. Can any losses be recouped with contributions (remember MPAA)?

7. Ensure file is documented – ATR/CFL etc

Remodel the modeller

^ Fund value vs income

Graph Table



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

Drawdown review – some considerations

Retail conduct risk outlook factors



Does the client understand:	
The effect of insufficient fund growth i.e. capital erosion	<input type="checkbox"/>
Annuity rates may be less in the future	<input type="checkbox"/>
High levels of income might not be sustainable and what happens if the fund falls and money needs to be taken from somewhere?	<input type="checkbox"/>
Investment returns maybe less than those shown in the illustration	<input type="checkbox"/>
The effects of inflation	<input type="checkbox"/>
Risk of legislative changes	<input type="checkbox"/>
Cost of charges and advice	<input type="checkbox"/>
Scam Risk	<input type="checkbox"/>



Has the client considered:	
Existing and prospective outgoings	<input type="checkbox"/>
Tax status now and in the future	<input type="checkbox"/>
Death benefit provision	<input type="checkbox"/>
Health status and view on longevity including family history	<input type="checkbox"/>
Future annuity rates and product design	<input type="checkbox"/>





Use of Tax Wrappers

Onshore Bonds

Offshore Bonds

ISAs

Pensions

Tapered AA – Income Limits

£90,000



“Threshold income” > £200,000

“Adjusted income” > £240,000

- Add up “total income” – employment income, dividends, interest, FULL bond gains etc etc
- Take off any relief on making a claim pension contributions and any other allowable STEP 2 reliefs

Add in

- Salary sacrificed for pension contributions after 8th July 2015

Deduct

- Any relief at source pension contributions.

Add in

- Any pension contributions deducted above
- Total Annual Allowance used (Pension Input Amounts)

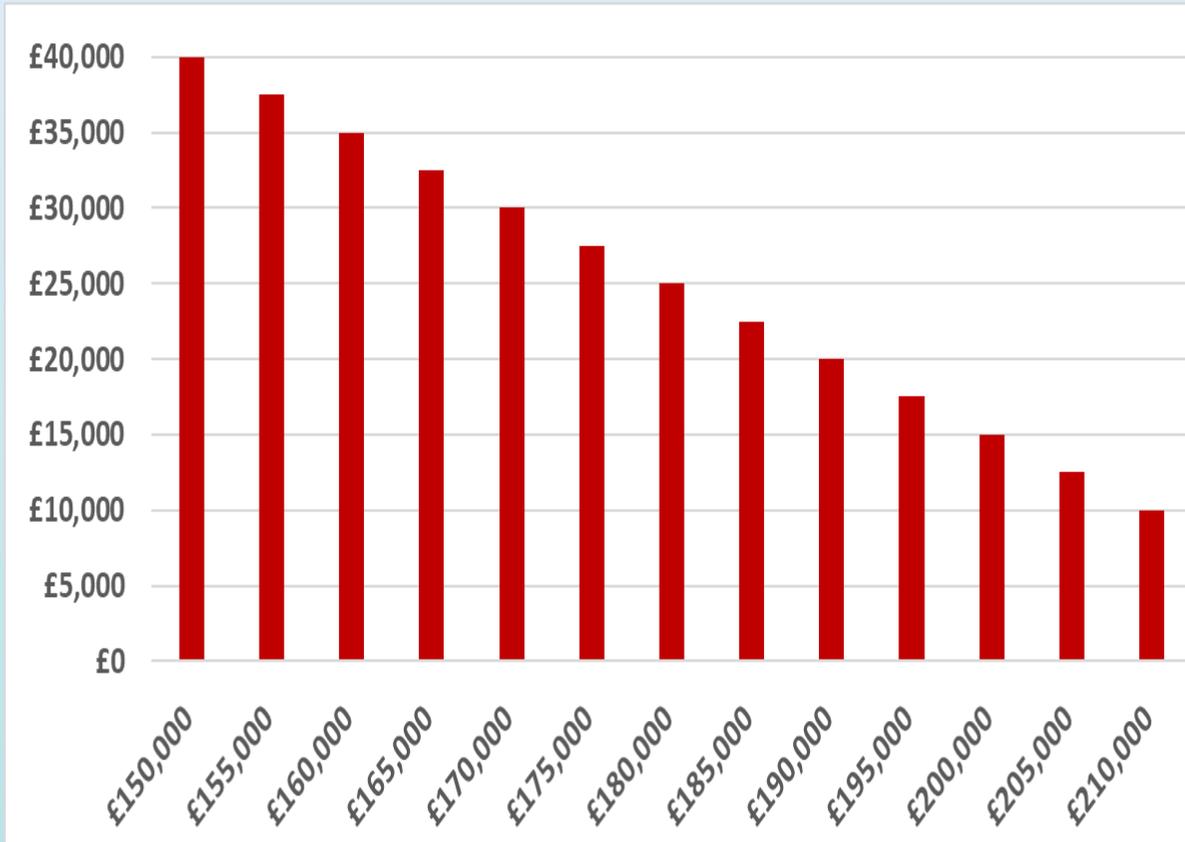
Deduct

- Value of individual’s relievable contributions

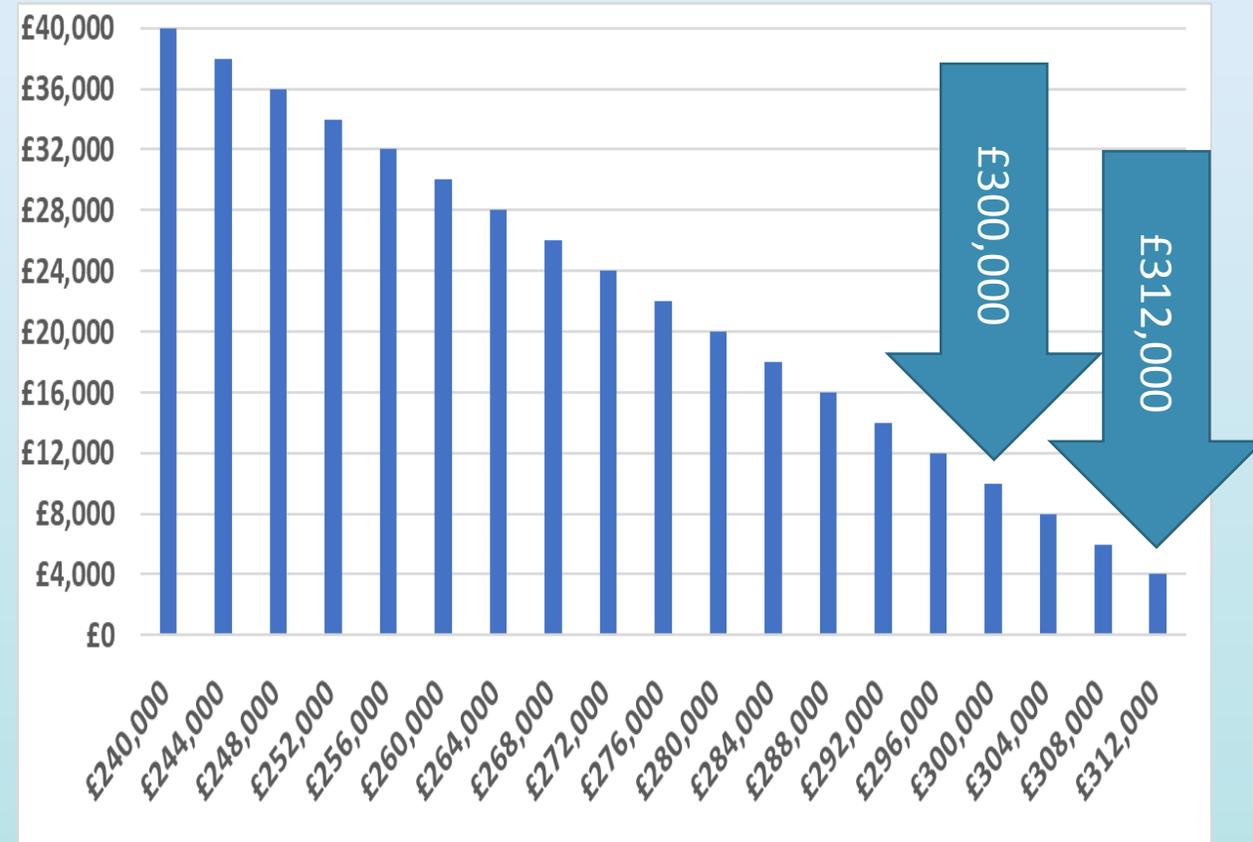
- Take off any taxable lump sum death benefits

Tapered annual allowance

2019/20



From 2020/21



<https://www.pruadviser.co.uk/knowledge-literature/professional-development/oracle-live/>

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If advisers would like more information on drawdown reviews please contact your account manager

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The need for professional advice has never been greater!



Thank You

Any questions?



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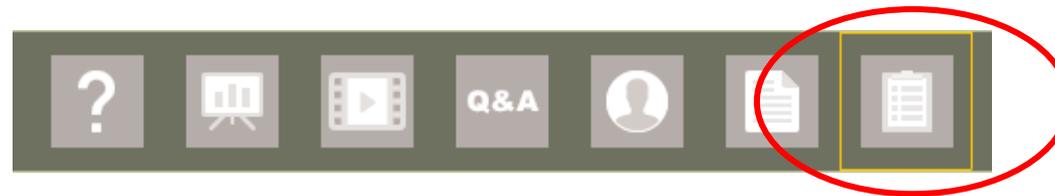
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- Keep abreast of topics affecting the PFP sector.
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- 11th May, 1-2pm ‘Managing your investments and savings during a period of uncertainty’ in partnership with Netwealth: <https://events.icaew.com/pd/16672/brexit-and-lockdown-in-the-eu-taxes-healthcare-and-legal-residency-for-uk-nationals?returncom=productlist>
- 14th May, 1-2pm ‘Brexit and lockdown in the EU: Taxes, healthcare and legal residency for UK nationals’ in partnership with Blevins Franks: <https://events.icaew.com/pd/16743/managing-your-investments-and-savings-during?txt=managing%20your&returncom=productlist&source=search>

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