

Overcoming the pitfalls of the drawdown review process

Is a new process needed for the
zero income drawdown client?



Steve Martell,
Director, Development,
Intermediary Sales



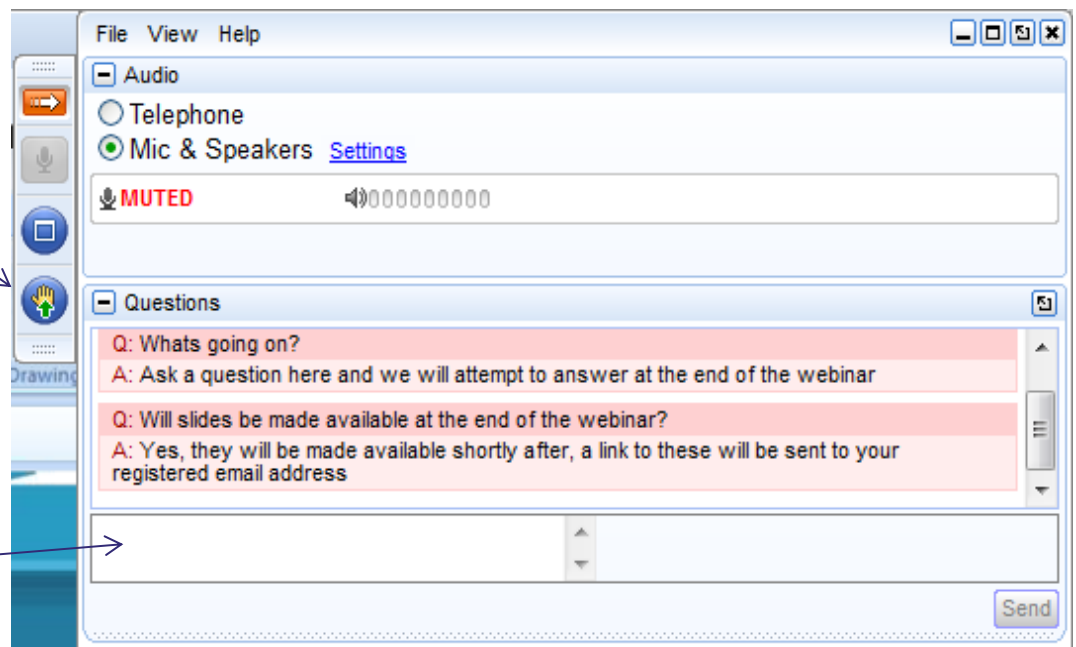
@retirementwhizz

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On the top right of your screen you will have a dashboard which enables you to ask questions throughout the webinar.

To raise your hand in a webinar click here.

To ask a question, please type here and we will respond to your question either in the webinar itself, or shortly thereafter.



#jrwebinar

Agenda

- The reasons for going into drawdown and the customer profiles
- The drawdown review process for the new breed of drawdown client taking just their tax free cash
- Simplifying reviews for the new breed of drawdown client
- Drawdown reviews for your traditional clients and meeting their needs as they age in drawdown.
- Poll questions and your chance to put your questions to our experts

Learning objectives

Understand the reasons why your client may go into drawdown

Evaluate the review process for lower net worth zero income drawdown clients

Investigate how you can incorporate a lighter touch process for the new breed of drawdown client

Understand how traditional drawdown reviews can be undertaken and the issues to be addressed as clients age in drawdown

Reasons for going into drawdown

Traditional client

Control of capital

Flexibility of income

Death Benefits

New breed of client

Control of capital

Zero income - takes PCLS

New breed of drawdown client – a word of caution



£50k
Age 65
£2,891pa*

£50k
Age 65
£3,319pa**

£50k
Age 70
£3,314*

Source * Iress The Exchange single life, monthly in advance no guarantee, RH2 7RT post code

** Just Retirement single life, monthly in advance, no guarantee, client with type 2 diabetes and high blood pressure taking 2 medications RH2 7RT post code

Drawdown customer profiles

Traditional client

- Demonstrates capacity for loss
- A pool of other assets
- Some appetite for investment risk
- A long term financial planning client
- Regular review meetings

New breed of ZIDD client

- May not demonstrate capacity for loss
- A much smaller pool of other assets
- Less appetite for investment risk
- Not a long term financial planning client
- Review meetings if required

Intermediary poll 1

Which of the following applies to you?

Please click on all that apply.

Most of my drawdown clients are traditional clients who will die in drawdown

Most of my drawdown clients are traditional clients who will look to exit

I have some “new breed” drawdown clients

I have many “new breed” drawdown clients

The drawdown review process for these customer profiles

Traditional
client



New breed of
ZIDD client

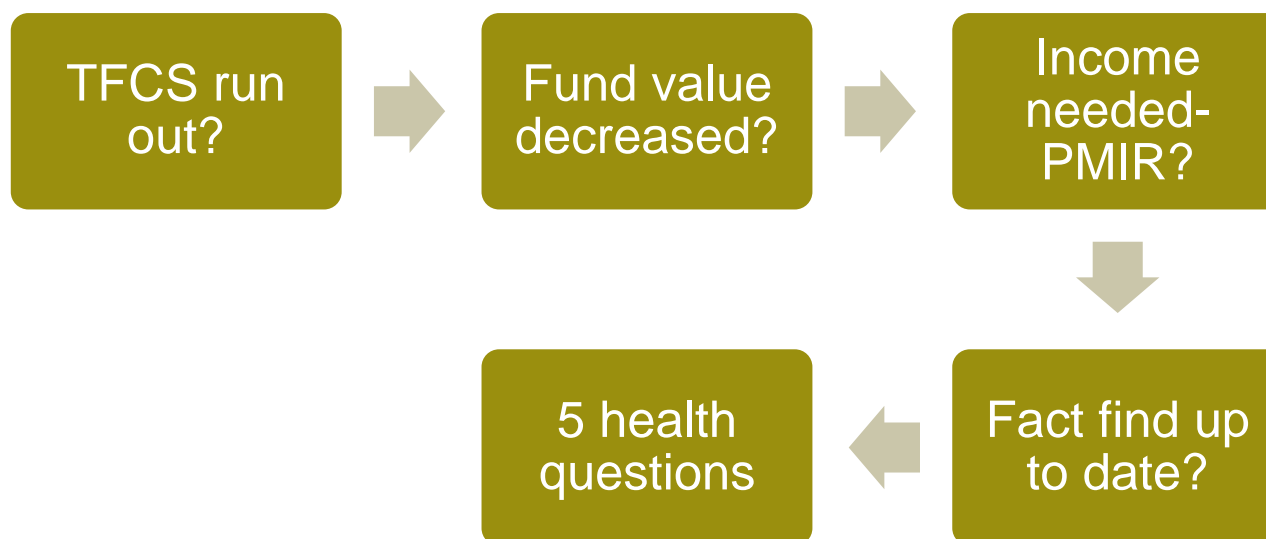


New breed of client – the drawdown review process



New breed of client – the drawdown review process

Review triggers



5 health questions – identifying the correct benchmark income

Could you get more in retirement?

Completing this questionnaire is an important part of the drawdown process.

If you answer yes to any of these questions it may mean that you qualify for an enhanced annuity rate – and that could mean a higher rate of income that is guaranteed for life. It's important in helping your financial intermediary to establish your relevant critical yield calculation.

| | | |
|---|---------------------------------|--------------------------------|
| Are you currently a regular daily smoker, or have you been in the last five years? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| Are you currently taking daily prescribed medication for a diagnosed medical condition? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| Have you ever received hospital treatment for a diagnosed medical condition? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| Does your height to weight ratio put you in the amber zone, using the table on page 27? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| Do you regularly drink alcohol on a weekly basis? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |

Your health and lifestyle can have a positive impact on your retirement income and it is important that this is discussed at your next review, especially if you answered 'yes' to any of the questions in the checklist. A helpful tool to help you collate your health and lifestyle information is the Retirement Health Form (RHF). Your financial intermediary can provide more details.

Height to weight ratio

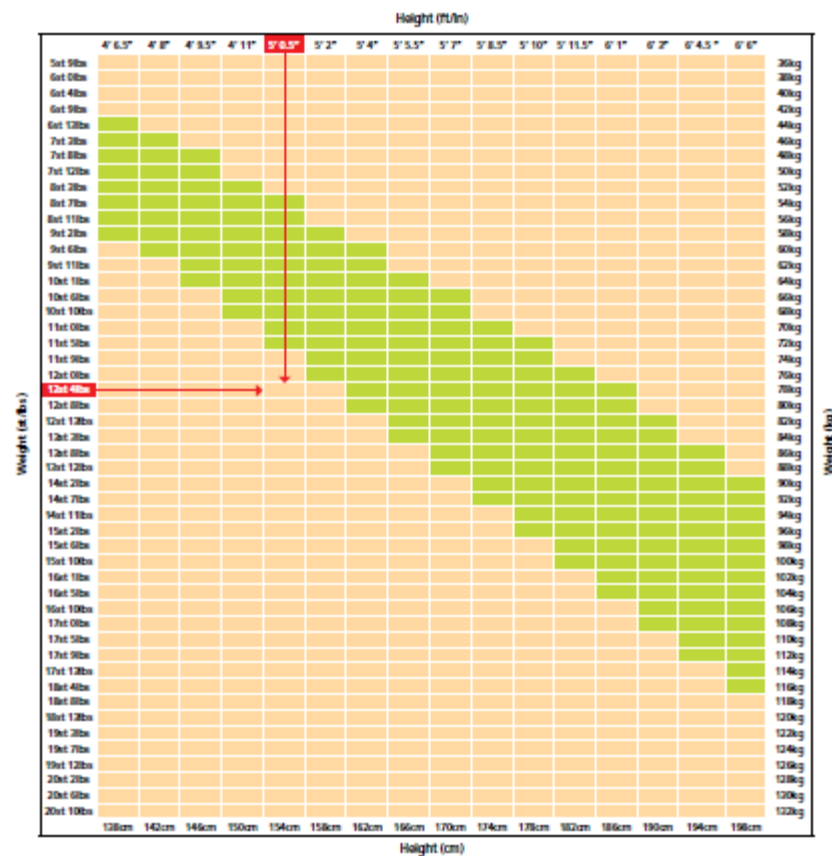
If you match your height with your weight and the cell of the table is amber, you may qualify for an enhanced annuity.

Step 1

Find your height

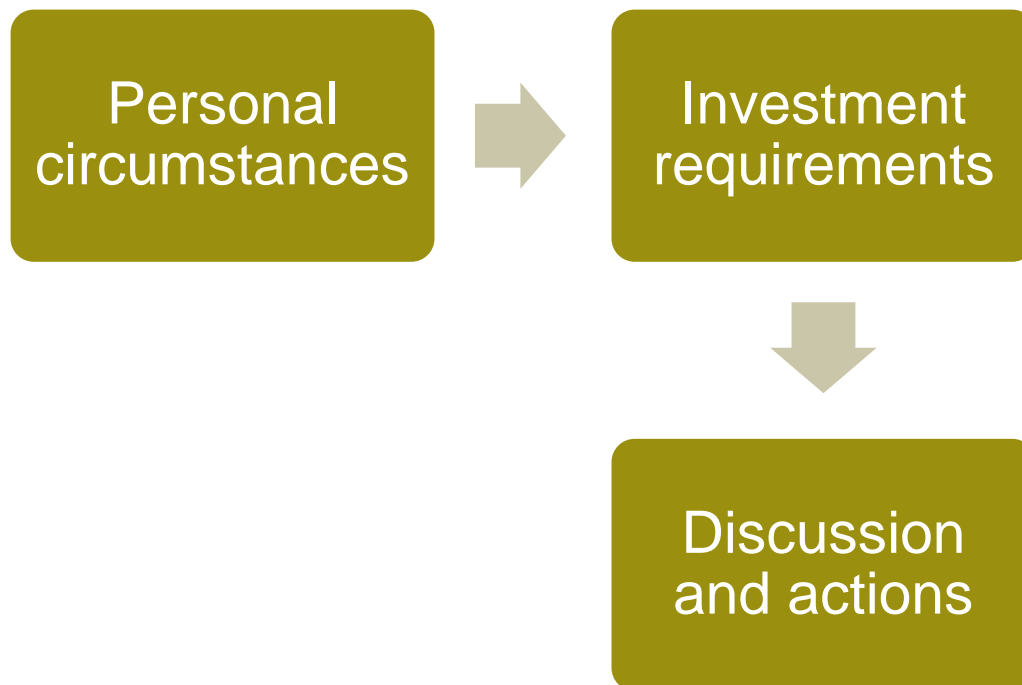
Step 2

Find your weight

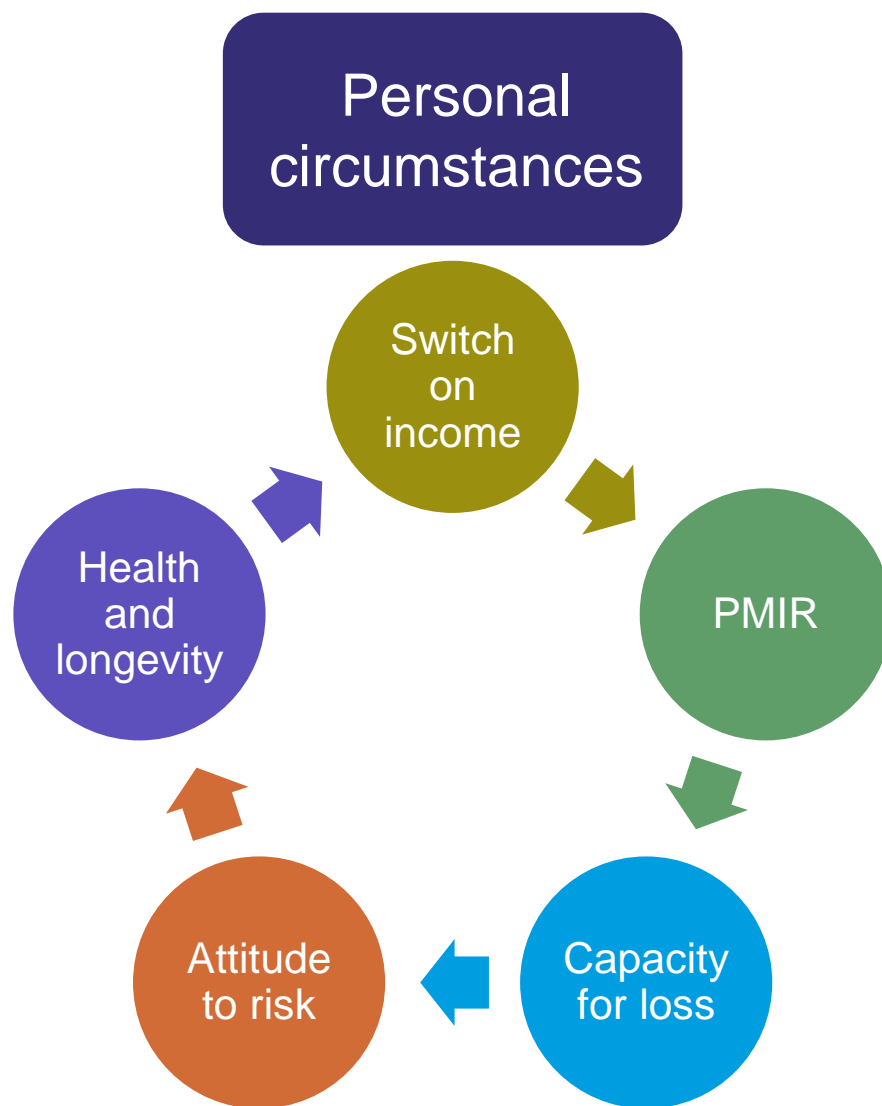


<http://www.justadviser.com/Documents/1031655%20Drawdown%20Question%20set.pdf>

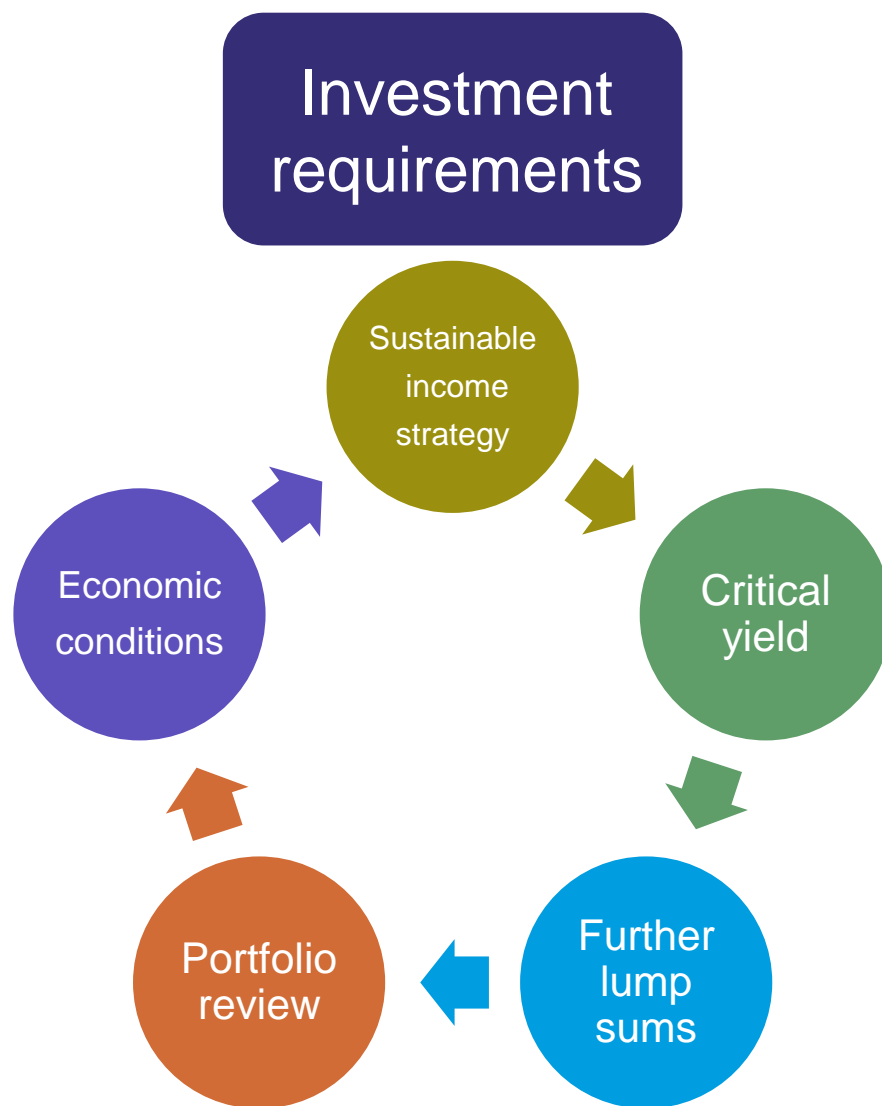
The review



New breed of client – the drawdown review process

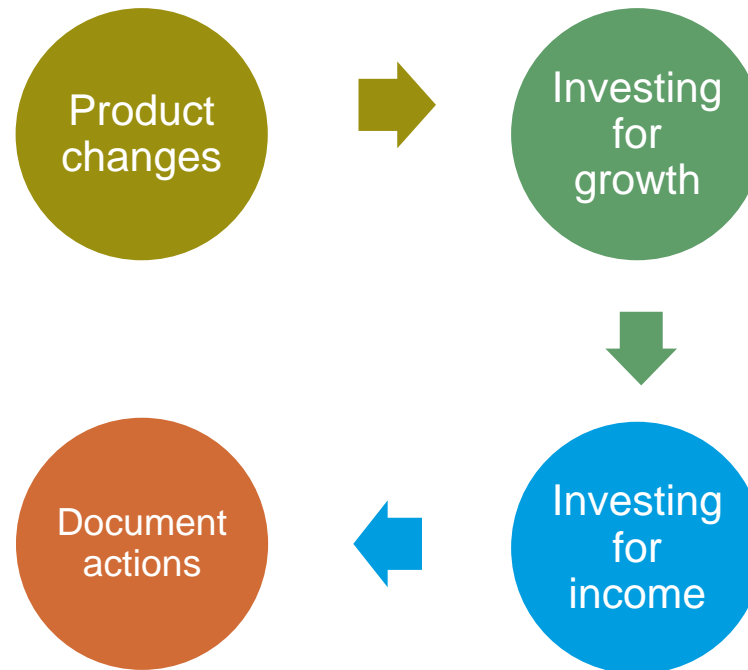


New breed of client – the drawdown review process



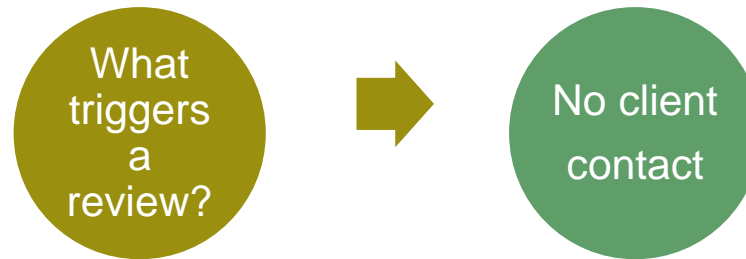
New breed of client – the drawdown review process

Discussion
and action
points



New breed of client – the drawdown review process

Post review
process



It's complicated! How can you simplify things?



Retirement Income triage – 7 key questions



1. Would you now like to take an income from your drawdown plan?
6. Are you happy to keep your money invested in a drawdown plan, and continue with the exposure to investment markets?
7. Would you like to make any changes to your investments?

Retirement Income triage – 7 key questions



1. Would you now like to take an income from your drawdown plan?
2. To what extent would you like this to be guaranteed for the rest of your life?
3. Are you suffering from any health or lifestyle conditions? (You can use the Drawdown question set sales aid here)

5 health questions – identifying the correct benchmark income

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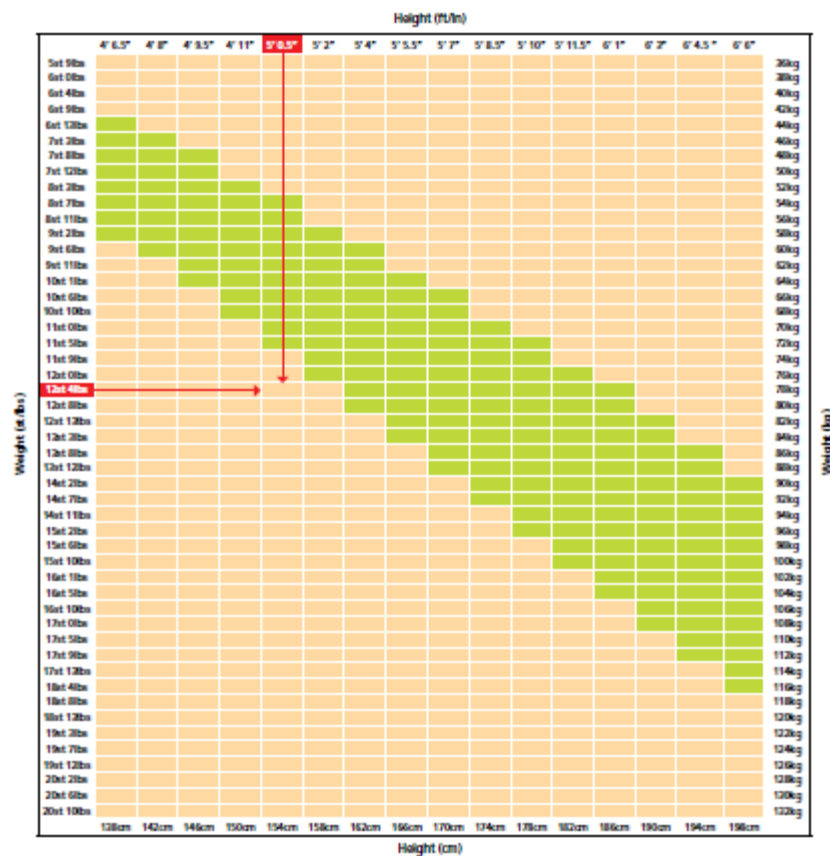
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Find your height

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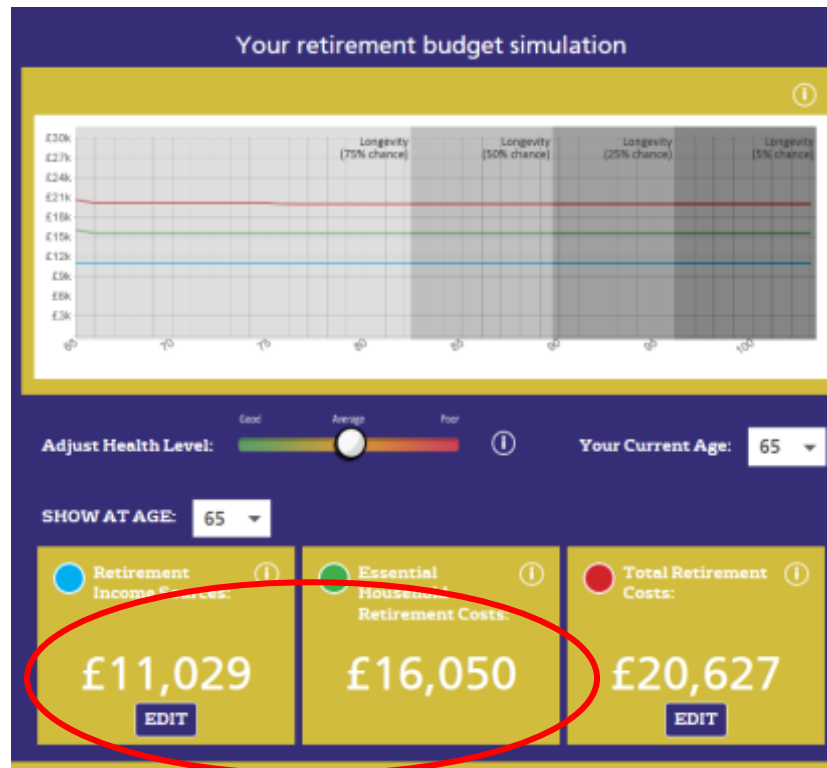
<http://www.justadviser.com/Documents/1031655%20Drawdown%20Question%20set.pdf>

Retirement Income triage – 7 key questions



1. Would you now like to take an income from your drawdown plan?
2. To what extent would you like this to be guaranteed for the rest of your life?
3. Are you suffering from any health or lifestyle conditions (You can use the Drawdown question set sales aid here)
4. What is your personal minimum income requirement to meet your essential expenditure?

Determining the personal minimum income requirement



Retirement Income Sources

Show Annual Show Monthly

Enter or edit your income sources in retirement (including partner 2 if required)

| Total | Earned income | Pensions/investments |
|-------------------------|---------------|----------------------|
| £11,029pa | £0 | £5,000pa |
| State benefits £6,029pa | | |

SHOW AT AGE: 65

| Retirement Income Sources | Essential Household Retirement Costs | Total Retirement Costs |
|---------------------------|--------------------------------------|------------------------|
| £0 | £16,050 | £20,627 |

BACK TO RESULTS GRAPH

Outgoings in your retirement:

Show Annual Show Monthly

Enter or edit your outgoings in retirement. Any further cost increases or decreases are shown in the graph.

| Total | Household expenses | Housing |
|--------------------|------------------------|--------------------------|
| £20,627pa | £7,100pa | £1,800pa |
| Insurances £900pa | Leisure £6,100pa | Other financial costs £0 |
| Transport £2,750pa | Utility Bills £1,977pa | |

Retirement Income triage – 7 key questions



1. Would you now like to take an income from your drawdown plan?
2. To what extent would you like this to be guaranteed for the rest of your life?
3. Are you suffering from any health or lifestyle conditions (You can use the Drawdown question set sales aid here)
4. What is your personal minimum income requirement to meet your essential expenditure?
5. Are you worried about outliving your retirement savings?

Longevity Tool

The Longevity Tool interface consists of three input sections on the left and a results panel on the right.

What's your gender?

☒ Male ☐ Female

How young are you?

50 55 60 65 70 75 80 85

How healthy are you?

Good Health Average Health Poor Health

Your indicative results

| | |
|--|----|
| There is a 3 in 4 chance you will live to the age of | 83 |
| There is a 1 in 2 chance you will live to the age of | 90 |
| There is a 1 in 4 chance you will live to the age of | 96 |

<http://www.justadviser.com/Tools/Calculators/Longevity-tool/>

Retirement Income triage – 7 key questions



1. Would you now like to take an income from your drawdown plan?
2. To what extent would you like this to be guaranteed for the rest of your life?
3. Are you suffering from any health or lifestyle conditions (You can use the Drawdown question set sales aid here)
4. What is your personal minimum income requirement to meet your essential expenditure?
5. Are you worried about outliving your retirement savings?
6. Are you happy to keep your money invested in a drawdown plan, and continue with the exposure to investment markets?

Drawdown risk calculator



Drawdown risk calculator

This calculator is for illustrative purposes only and we strongly recommend you seek financial advice.

Gender



Male



Female

Retirement age



65



Current health



Good



Average



Poor



Drawdown pension fund



£100,000.00

Guaranteed annual
income (Annuity)



£5,610.00

Drawdown annual income



£5,610.00

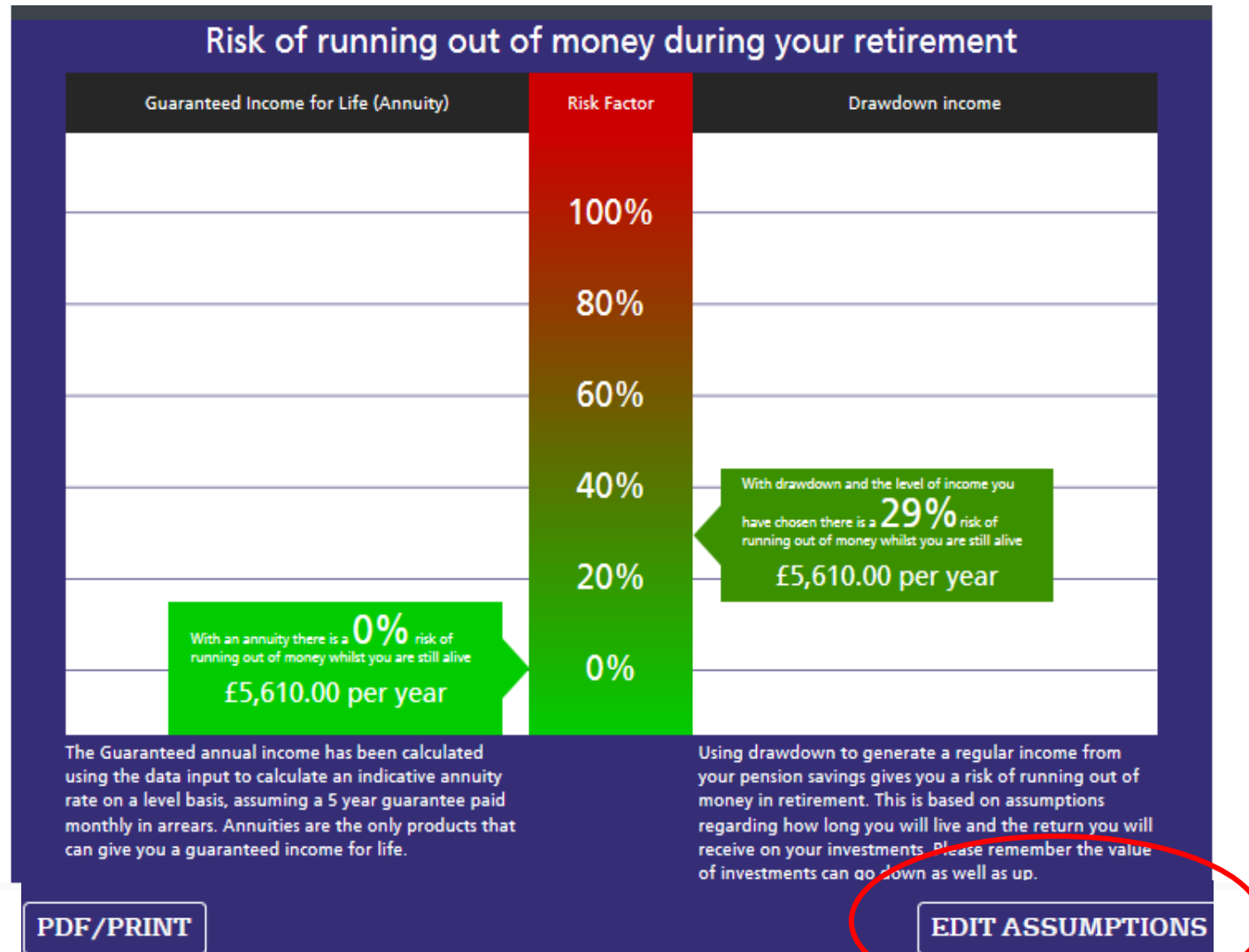
Increasing or decreasing this amount will impact your risk of running out of money

CALCULATE RISK

<http://www.justadviser.com/Tools/Calculators/Drawdown-Risk-Calculator/>



Drawdown risk calculator



<http://www.justadviser.com/Tools/Calculators/Drawdown-Risk-Calculator/>

Retirement Income triage – 7 key questions



1. Would you now like to take an income from your drawdown plan?
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4. What is your personal minimum income requirement to meet your essential expenditure?
5. Are you worried about outliving your retirement savings?
6. Are you happy to keep your money invested in a drawdown plan, and continue with the exposure to investment markets?
7. Would you like to make any changes to your investments?

Intermediary poll 2

What's your view of our retirement income triage questions for the new breed of drawdown investor ?

Please click on just one option.

It may be helpful

I think I'll use it for all of my new breed of drawdown customers

I will do a full review for this type of client so it's of limited use

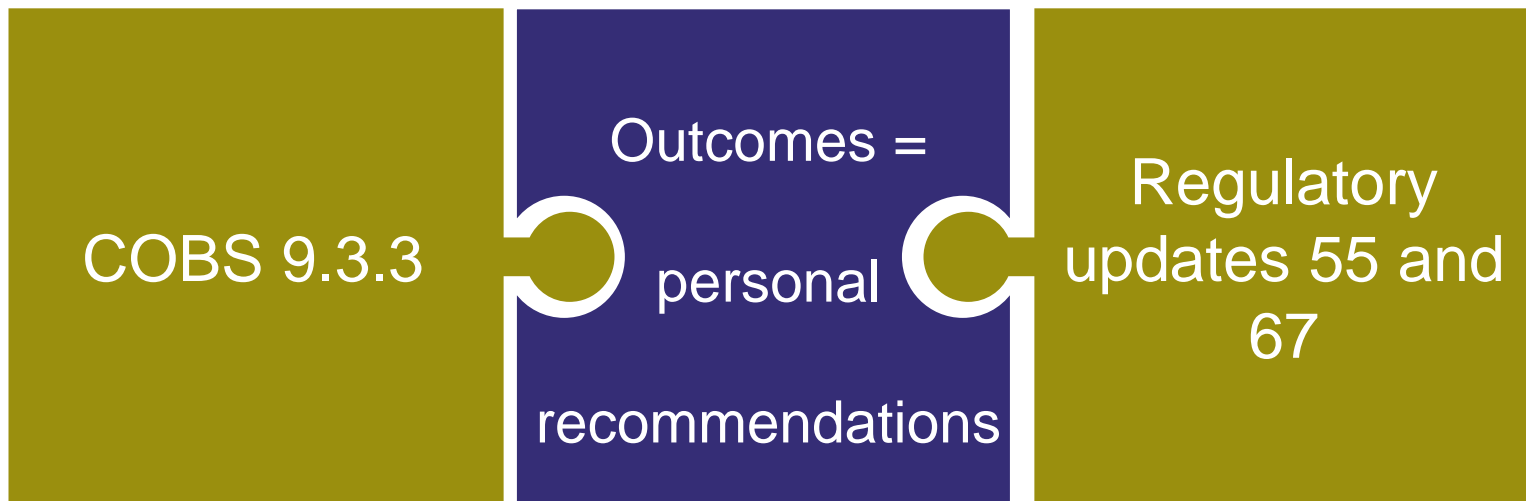
I don't have clients of this type

Drawdown reviews for the traditional client

Traditional client

- **Demonstrates capacity for loss**
- **A pool of other assets**
- **Some appetite for investment risk**
- **A long term financial planning client**
- **Regular review meetings**

FCA rules for drawdown reviews

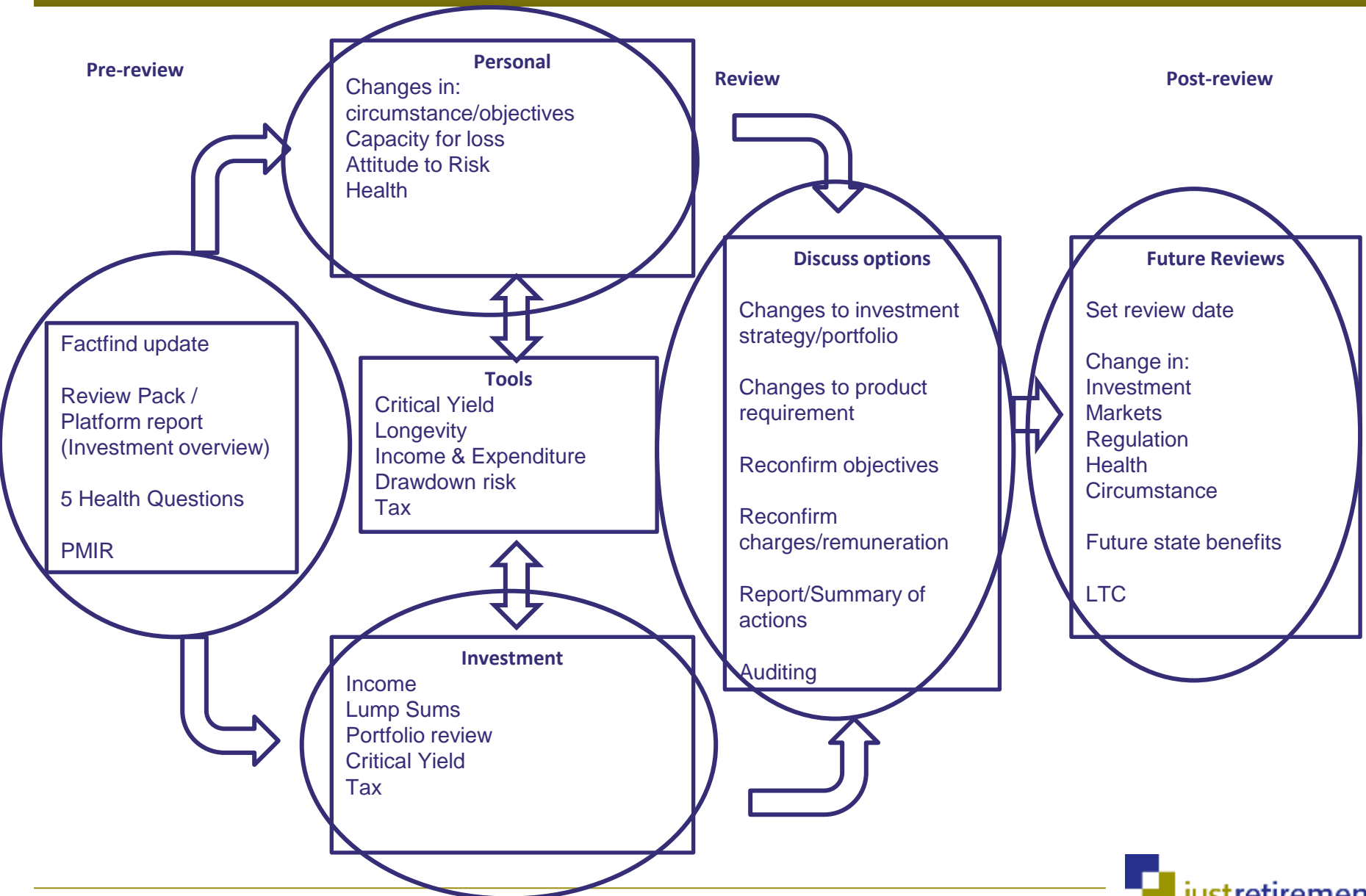


Best practice for Drawdown reviews – COBS 9.3.3

- “When a *firm* is making a *personal recommendation* to a *retail client* about *income withdrawals* or purchase of *short-term annuities*, it should consider all the relevant circumstances including:
- (1) the *client's investment* objectives, need for tax-free cash and state of health;
- (2) current and future income requirements, existing pension assets and the relative importance of the plan, given the *client's* financial circumstances;
- (3) the *client's* attitude to risk, ensuring that any discrepancy is clearly explained between his attitude to an *income withdrawal* or purchase of a *short-term annuity* and other *investments*.

COBS 9.3.3

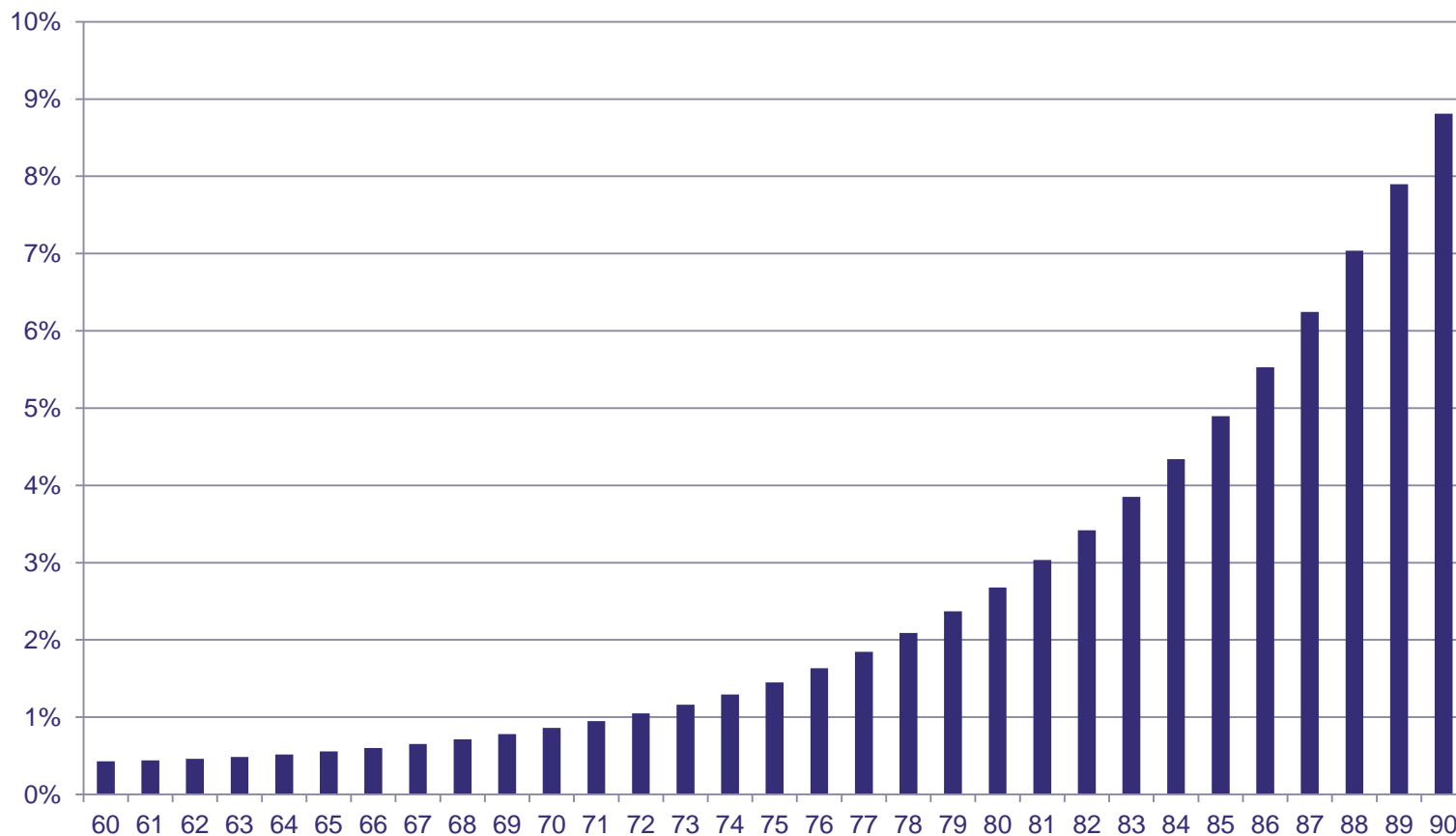
Review process for traditional drawdown clients



Ageing clients in Drawdown



Drawdown becomes progressively less suitable over time



Annual Mortality Subsidy based on age of buying GIfl provided by a pension annuity

A rising critical yield – client aged 65

Please enter your assumptions below:

| | |
|------------------------------|-----------|
| Current Age | 65 |
| Assumed Age of Annuitisation | 85 |
| Fund Value | £100,000 |
| Client's chosen income pa | £6,000.00 |
| Initial Adviser charge | 0.00% |
| AMC | 0.75% |
| Ongoing Adviser charge | 0.50% |
| Enhancement | Moderate |
| Type of drawdown arrangement | Flexi |

Type A Critical Yield

| | |
|-----------------|--------------|
| Quoted Income: | £6,000.31 |
| Critical Yield: | 5.82% |

A Type A critical yield is the annual investment return required to maintain a drawdown income equal to the annuity income you could buy today and leave enough money at the end of the plan to buy an annuity of the same amount.

Guaranteed income for life (GIFL) rates ,provided by a pension Annuity are based on Just Retirement rates payable monthly in arrears, single life, level, no guarantee period or value protection and based on a RH2 7RT postcode. The GIFL rates are based on a £100,000 purchase price net of PCLS and adviser charge pro-rata based on the fund value entered. Moderate: Based on an individual who has Type 2 Diabetes which was diagnosed one year ago, currently prescribed one daily medication and has provided a diabetic control reading.

Accessing the enhanced critical yield calculator

<http://www.justadviser.com/Tools/Calculators/>

The screenshot shows the 'Tools/Calculators' page on the Just Retirement website. On the left is a vertical sidebar with the following links: 'Lifetime mortgage Calculator', 'Early repayment charge calculator', 'Indicative Lifetime Mortgage Tool', 'Longevity Calculator', 'Pension Taxation Calculator', 'Retirement Budget Planner', 'Drawdown Risk Calculator', 'Quick Income Builder', and 'Your Feedback'. The main content area displays eight calculator tools in a grid. Each tool has a calculator icon, a title, and a brief description. The 'Enhanced Critical Yield Calculator' is circled in blue. To the right of the grid is a 'Webinars' section featuring a laptop icon with a play button, the text 'Unique insights into the retirement market', and a 'Click here' button with a right-pointing arrow.

| Calculator Name | Description |
|---|---|
| Pension Taxation Calculator | Calculate how much income tax is payable by your client if they take their pension fund as cash. |
| Quick Income Builder | Our Quick Income Builder tool enables your client to see all their sources of retirement income in one place. |
| Drawdown Risk Calculator | Calculate your client's risk of running out of money if they opt for a flexible income through drawdown. |
| Escalation and Deferral Calculator | Explore the effect of choosing a level versus an escalating annuity income and delaying retirement for one year. It's recommended you obtain some indicative quotations before using this calculator. |
| Annuity Deferral Calculator | Explore the effect of delaying retirement for one year. It is recommended that you obtain some indicative quotations before using this calculator. |
| Enhanced Critical Yield Calculator | Our enhanced critical yield calculator can help show sample critical yields for the specific scenarios that you select. |

Webinars

Unique insights into the retirement market

Click here

A rising critical yield – client aged 73

Please enter your assumptions below:

| | |
|------------------------------|-----------|
| Current Age | 73 |
| Assumed Age of Annuitisation | 85 |
| Fund Value | £100,000 |
| Client's chosen income pa | £6,000.00 |
| Initial Adviser charge | 0.00% |
| AMC | 0.75% |
| Ongoing Adviser charge | 0.50% |
| Enhancement | Moderate |
| Type of drawdown arrangement | Flexi |

Type A Critical Yield

| | |
|-----------------|-----------|
| Quoted Income: | £7,529.13 |
| Critical Yield: | 6.76% |

A Type A critical yield is the annual investment return required to maintain a drawdown income equal to the annuity income you could buy today and leave enough money at the end of the plan to buy an annuity of the same amount.

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A rising critical yield – client aged 75

Please enter your assumptions below:

| | |
|------------------------------|-----------|
| Current Age | 75 |
| Assumed Age of Annuitisation | 85 |
| Fund Value | £100,000 |
| Client's chosen income pa | £6,000.00 |
| Initial Adviser charge | 0.00% |
| AMC | 0.75% |
| Ongoing Adviser charge | 0.50% |
| Enhancement | Moderate |
| Type of drawdown arrangement | Flexi |

Type A Critical Yield

| | |
|-----------------|-----------|
| Quoted Income: | £8,033.86 |
| Critical Yield: | 7.06% |

A Type A critical yield is the annual investment return required to maintain a drawdown income equal to the annuity income you could buy today and leave enough money at the end of the plan to buy an annuity of the same amount.

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5 health questions – identifying the correct benchmark income

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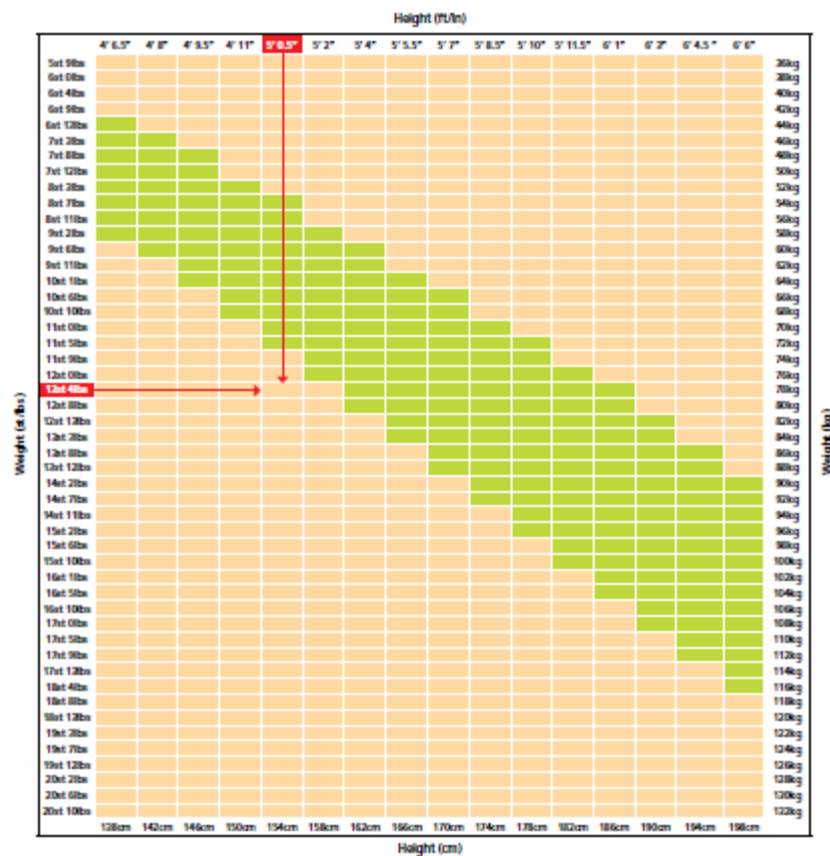
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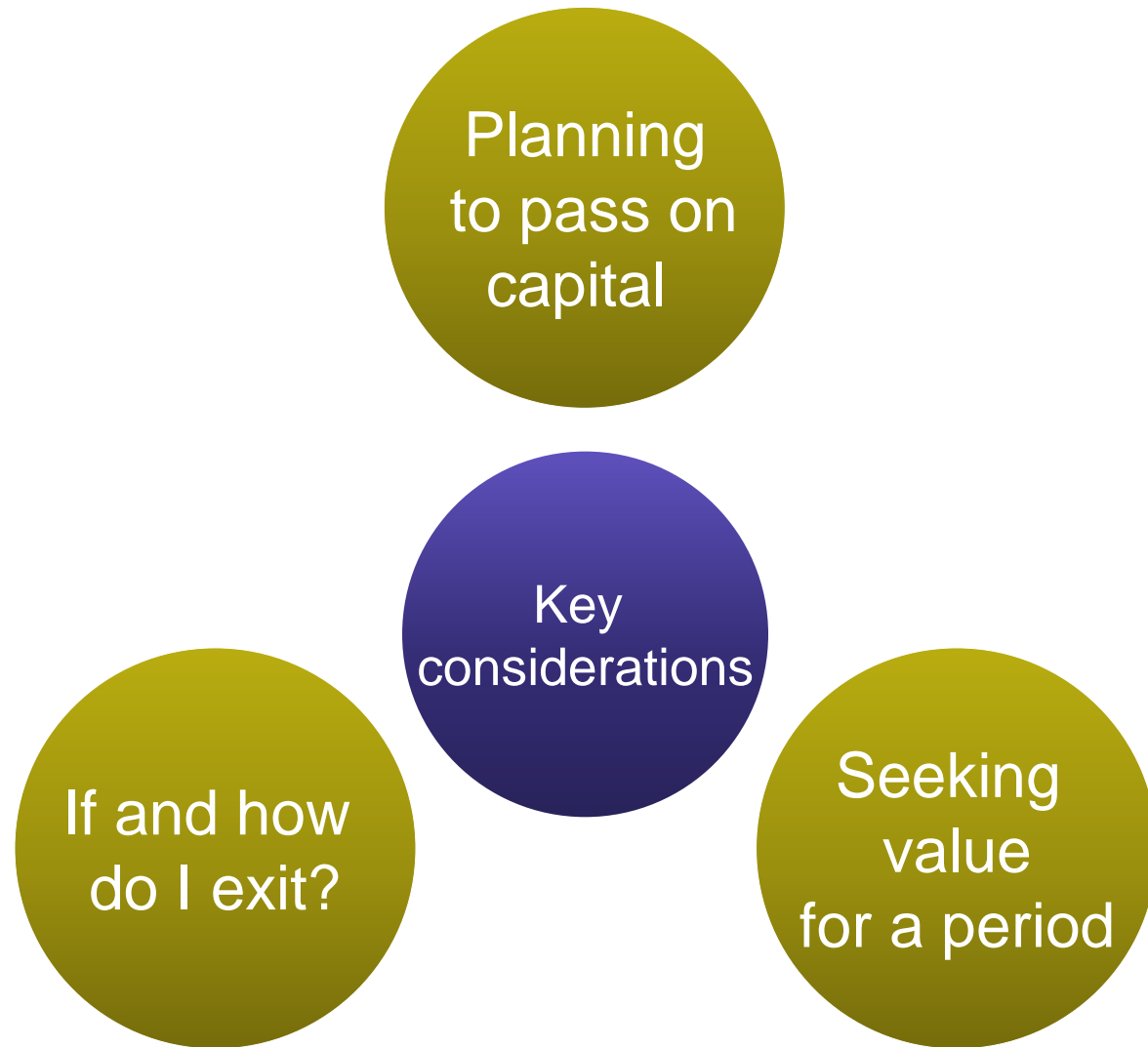
Step 2

Find your weight



<http://www.justadviser.com/Documents/1031655%20Drawdown%20Question%20set.pdf>

Important considerations for all maturing drawdown clients



Important information

It is our intention that the information contained within this presentation is accurate. We have taken all reasonable steps to ensure that it is up-to-date and where relevant, reflects the current views of our experts. However, we do not accept any liability for errors or omissions in the information supplied and if you require clarification on anything, our recommendation is that you contact us at the address below for verification, or call 0345 302 2287.

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www.justadviser.com

Calculators, literature library,
marketing material



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Calls may be monitored and recorded and call charges may apply.

Your questions with:

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