JUST.

THE RETIREMENT SPECIALIST

RETIREMENT INCOME

"I SEE NO SHIPS"

Guy Anderson, Director
Retirement Income Distribution

Lord Horatio Nelson's demise in victory at The Battle of Trafalgar made him a national icon, with his body originally preserved in a barrel of brandy after that fateful musket shot in 1805. Earlier, during the Battle of Copenhagen in 1801, Nelson chose to ignore an order to withdraw from his commander, Admiral Hyde Parker, by putting his telescope up to his blind eye and allegedly saying "I see no ships".

This episode in history gave rise to the saying 'turning a blind eye', an expression now widely used when choosing to ignore something known to be real and significant.

Nelson chose not to see the approaching enemy ships as he believed he could defeat them. Today, out in the choppy waters of the capital markets, the dark destroyers of steady and sustainable income from a retirement portfolio — rampant inflation, rising interest rates, increasing volatility and diversification challenges — are all clear to see. So, the question for retirees and advisers is whether to turn a blind eye, either in hope or belief that a path through the storm can be navigated, or to seek shelter and protect your retirement boat for future journeys?

Most retirees riding out this real and significant macro-economic and geo-political storm, still require their portfolio of assets to deliver reliable and sustainable income, without jeopardising the sustainability of the portfolio. A big challenge, further complicated for the many who will actually need more income to counter the current effects of double-digit inflation. This is quite a balancing act!

It's just possible that when we look back on the data 30 years from now, the late 2021/early 2022 retiree will be shown to be the unluckiest cohort when it came to the sequence of returns they experienced. Only time will tell. In the meantime, turning a blind eye and hoping for the best may work. Alternatively, there are actions a retiree can discuss with an adviser which could create a higher level of sustainable income, reduce the volatility within their portfolio, help reduce the effects of inflation and dampen the potential impact of sequence risk.

In the United States, several businesses are now promoting the benefits and improved customer outcomes possible when guaranteed income products are incorporated into a retirement income plan. The binary choice between a guaranteed income product or a portfolio has been replaced with solutions that bring the two options together[1]. And the good news is the solutions are also available over here. For example, the often overlooked annuity or our Secure Lifetime Income (SLI), which is available through Novia and 7IM investment platform services.

But how can including guaranteed income into a holistic retirement plan deliver all the potential benefits of higher sustainable income, reduced portfolio volatility, inflation protection and dampening of sequence risk? Let's look at each one in turn:

1. **Higher sustainable income**
   Modern guaranteed income solutions use longevity risk pooling which gives rise to mortality credits. These two things enable an insurance company, such as Just, to provide guaranteed income for life at a lower capital cost than an individual carrying that longevity risk within their investment portfolio. This means lifetime income can be optimised and provided more efficiently for a given amount of retirement capital than relying totally on a portfolio of equities and bonds.

2. **Reduced portfolio volatility**
   Increasingly, positive correlation between the main asset classes of equities and bonds is leading to greater portfolio volatility. As a completely non-correlated income producing asset, incorporating guaranteed income into a retirement plan will reduce overall portfolio volatility.

3. **Inflation protection**
   Investment managers all agree that the main asset class an investor should hold if they want inflation protection over time are equities. Because guaranteed income requires less portfolio capital to provide a given amount of income, this reduces the strain on the equity content to provide income,

leaving more of it remaining in the portfolio to grow over time.

4. **Dampening sequence risk**
   Sequence risk is heightened by the amount of income being taken from a portfolio. With guaranteed income providing a given amount of income more efficiently, the remaining invested portfolio is under less strain to provide higher levels of income, reducing the need to sell growth assets at the wrong time.

Now history tells us that Nelson won the Battle of Copenhagen, but sadly his luck ran out four years later. Today, retirees are understandably feeling nervous and fearful of what the capital markets may have in store for them over their next four years. Will their portfolio run out of luck too if the decision is to turn a blind eye?

But advisers, both here and in the United States, who focus on income management in retirement as opposed to asset management don’t rely on luck. They use guaranteed income as part of a holistic advice solution because they see the benefits it can bring to the rest of a client’s retirement portfolio — in good times and bad. As this decade unfolds, with potentially even more six sigma events, the need to focus on income/liability management for retirees, in recognition of the greater planning complexities of decumulation compared to accumulation, will rightly become a growing talking point within the financial planning and wealth management communities.

If you’d like to know more, we’d love to talk to you. Please get in touch with your usual Just contact, or go to justadviser.com and search ‘meet the team’, call 0345 302 2287 or email support@wearejust.co.uk.

[1]**Examples** of these US businesses can be found via the links below:
https://www.wealthmanagement.com/retirement-planning/tragic-politicization-annuities
https://jerrygoldenretirement.com/rethink-retirement-60-40-portfolio/

FOR MORE INFORMATION

Call: **0345 302 2287**
Lines are open Monday to Friday, 8.30am to 5.30pm

Email: **support@wearejust.co.uk**
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