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SECURE LIFETIME INCOME

Mitigating retirement risk beyond investment risk

As clients transition into retirement, the focus shifts from investment risks to more complex retirement risks, notably the risk of outliving savings. This guide outlines these risks and highlights why a different approach from traditional investment strategies is necessary for retirees.

Secure Lifetime Income (SLI) is a strategic solution that delivers a guaranteed income producing asset alongside drawdown SIPP portfolios. In a wide range of circumstances it improves long-term portfolio outcomes by effectively mitigating retirement risks.

- **Longevity risk:** The guaranteed lifetime income that SLI provides reduces the risk of outliving savings. It can also enable lower withdrawal rates, allowing more savings to stay invested longer.
- **Sequence of returns risk:** SLI helps protect against the timing of withdrawals, crucial during market downturns.
- **Balanced risk mitigation:** Unlike traditional drawdown products, SLI allows for a blended portfolio approach that can effectively address both longevity risk and sequence of returns risk.

Comparing solutions that can help mitigate retirement risks

Risk	Guaranteed Income for Life (GIfL) provided by annuity	Traditional drawdown SIPP portfolio	Blended SLI/ drawdown SIPP portfolio
Investment/market risk – The risk of investment value fluctuation due to market movements. GIfL and SLI element of the blended drawdown portfolio solutions lock in rates while traditional drawdown portfolio solutions are directly exposed.	✓	✗	✓ Partially
Sequence of returns risk – The risk of early negative returns depleting a portfolio quicker than if they occurred later. This does not apply to GIfL.	✓	✗	✓
Longevity risk[1] – The risk of individuals outliving their savings. GIfL provides a guaranteed income for life. A Blended SLI solution provides a guaranteed income and allows more assets to remain invested, therefore further mitigating this risk.	✓	✗	✓
Long Term Legacy risk – The risk that an individual's estate value might decrease significantly. Traditional drawdown may be subject to higher market risks, affecting the estate value. Blended SLI/drawdown solutions provide stable income, allowing more of the portfolio to remain invested, helping to preserve more of the estate value for inheritance.	Varies	✓ Partially	✓
Premature death risk – The risk of dying early and not fully utilising the invested capital or benefits. In the blended SLI/drawdown solution's early years, should the investor die, the decreasing death benefits mean heirs will receive less than the SLI's initial investment. This balance is necessary for SLI to offer competitive rates and address sequence of returns and legacy risks effectively.	Varies	✓	✗

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Risk	Guaranteed Income for Life (GIfL) provided by annuity	Traditional drawdown SIPP portfolio	Blended SLI/ drawdown SIPP portfolio
Inflation risk – Risk that inflation will erode the purchasing power of income over time. GIfL may offer escalation options to mitigate this risk. Drawdown and blended SLI/drawdown solutions invest into growth assets which should outpace inflation over the long-term.	Varies	✓	✓
Interest rate risk – The risk associated with changes in interest rates affecting investment values. GIfL and the SLI element of the blended SLI/drawdown portfolio solutions lock in rates. The cash-in value of SLI is impacted by interest rates[2].	✓	✗	✓ Partially
Liquidity risk – The risk of not being able to access funds when needed. It's higher with GIfL due to their fixed nature. With the blended SLI/drawdown solution, once the cash in period has passed for the SLI element it cannot be redeemed.	✗	✓	✓ Partially
Health risk – The risk of facing health-related expenses impacting financial planning. GIfL and SLI element of blended SLI/drawdown solutions can offer enhanced terms through medical underwriting.	✓	✗	✓
Psychological risk – The risk of making poor financial decisions based on emotions or misconceptions. The solutions which include guaranteed lifetime income can reduce anxiety and bring peace of mind.	✓	✗	✓ Partially

[1] While traditional drawdown portfolios can be adjusted to manage sequence of returns and longevity risks, they often struggle to balance these effectively. A shift towards low-risk assets to mitigate sequence risk limits growth potential, while a focus on high-growth assets to combat longevity risk increases exposure to market downturns. A blended SLI/drawdown strategy helps balance these risks. SLI reduces pressure on other assets, allowing them to remain invested longer, managing both sequence of returns and longevity risks.

[2] SLI offers a decreasing cash-in value in the early years.

Strategic implications of the retirement solutions

Different retirement solutions offer various benefits and trade-offs:

- **Annuities (GIfL):** Provide stable, predictable income, directly addressing longevity risk but lacking investment flexibility and potential growth.
- **Drawdown:** Offers flexibility and potential for higher growth but exposes retirees to market and sequence risks. Active management and careful withdrawal planning are essential.
- **Blended SLI/Drawdown:** Combines the security of guaranteed income with the flexibility and growth potential of drawdown. SLI provides stability, reducing longevity and sequence risks, allowing for potential asset growth and legacy planning.

By integrating SLI into retirement planning, you can offer clients enhanced financial security and satisfaction, effectively addressing the specific risks retirees face.

For more information about Secure Lifetime Income head to: **justadviser.com**

For more information

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Or visit our wesbite for further information: **justadviser.com**

We're working with a range of partners to bring you Secure Lifetime Income.

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