Suitability Review II

Learning objectives

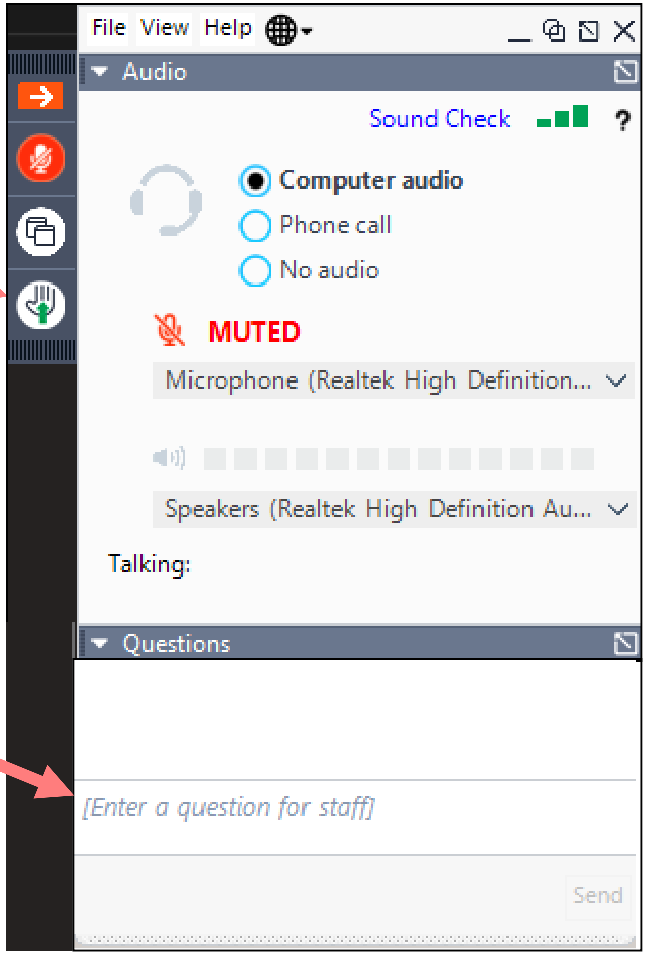
By attending today's event, delegates will be able to:

- Understand the key points of FCA 'Assessing Suitability Review II'
- Recognise the FCA's concerns regarding the retirement income market
- Understand biases that can influence the give and take between flexibility and security
- Discuss how to blend essential and discretionary income needs, via a platform

Welcome

To raise your hand in the webinar, click here

To ask a question, please type here. We will respond during the webinar or shortly afterwards



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Dear CEO...

Why financial advisers are a key FCA priority

"Consumers are being asked to take more responsibility for an increasing number of complex financial decisions.

Financial advisers have a valuable role to play in helping consumers navigate these choices and deliver the right solutions for their needs and objectives".

Debbie Gupta
Director of Life Insurance & Financial Advice Supervision, FCA, January 2020

Initial and ongoing advice

"The review will focus on initial and **ongoing advice** to consumers on taking an income in retirement.

This evolving market has changed significantly following the pension freedom reforms and we want to assess the outcomes consumers are receiving".

Debbie Gupta
Director of Life Insurance & Financial Advice Supervision, FCA, January 2020

What is the over-arching context of the January 'Dear CEO' letter?

What are the FCA’s main concerns?

What challenges does this present for advisers?

How do you balance flexibility and security?

Is there enough focus on the latter?

How big an issue is behavioural bias in leading to poor outcomes?

How is a CRP different from a CIP? What are the main strategies?

What sort of evidence should a firm have to show that a robust process is in place?

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.

Our registered address:

Just Group plc
Vale House, Roebuck Close,
Bancroft Road,
Reigate,
Surrey RH2 7RU

@Just_Adviser

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Investor’s perspective

- How do I ensure my essential spend is guaranteed for the whole of my life?
- How do I maximise/enjoy my discretionary spend and minimise the anxiety about running out of money?

Adviser’s perspective

- How do I deliver this two stage solution without damaging my operating model for both initial and ongoing advice.

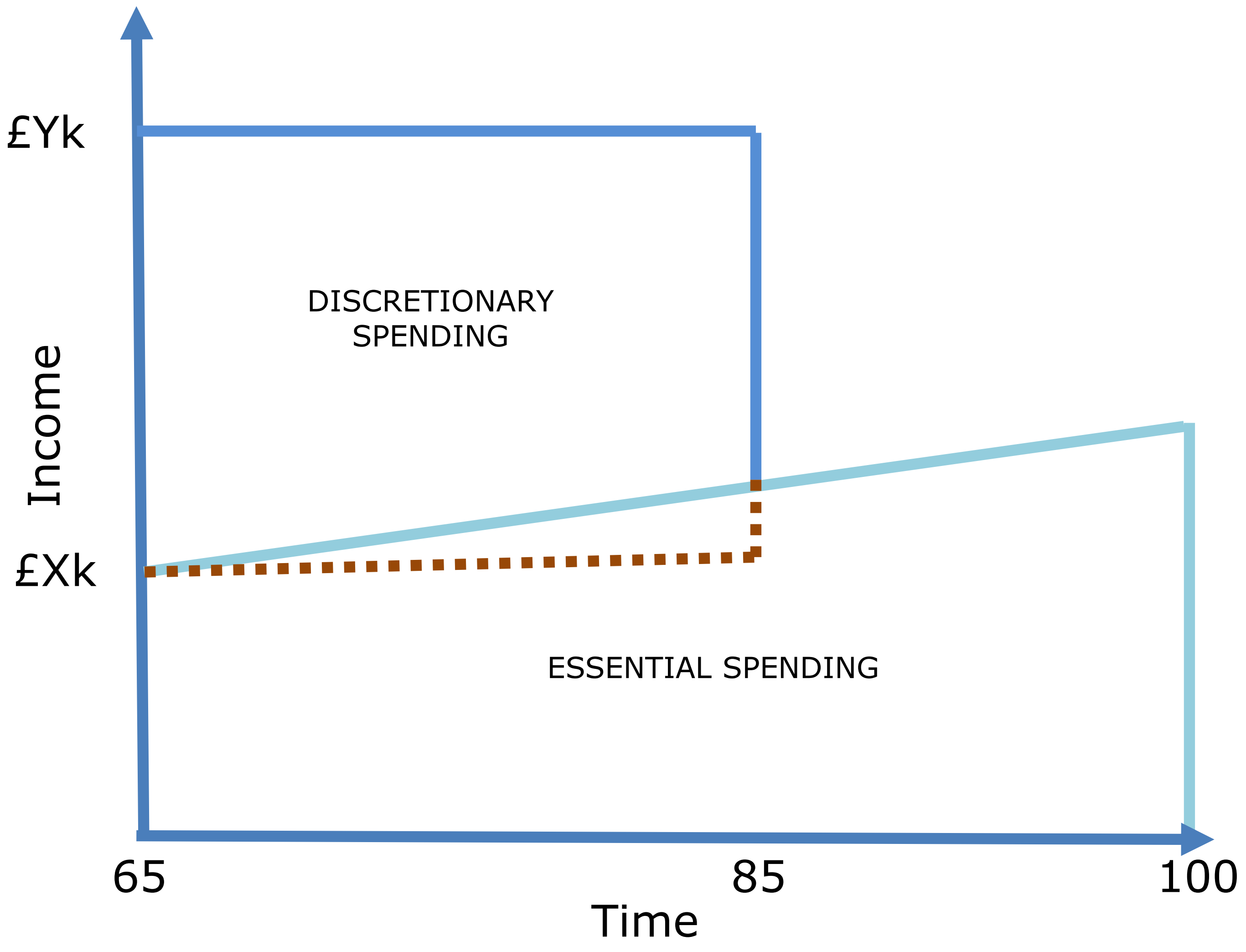
FCA Definition of Capacity for loss

By 'capacity for loss' we refer to the customer's ability to absorb falls in the value of their investment. If any loss of capital would have a ***materially detrimental effect*** on their standard of living, this should be taken into account in assessing the risk that they are able to take.

Not every pound of income has the same importance

The inability to be able to cover all essential spending throughout retirement would have ***"a materially detrimental effect on a retiree's standard of living"*** therefore, it can be argued that a retiree has no capacity for loss when it comes to providing income for their essential spending needs

Capacity for loss should be quantified and modelled



Essential spend secured

Best of both worlds

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How much capital required

Covering essential spent

Region	Annual Cost of being Retired*	State Pension shortfall	Example Guaranteed Income investment required to cover these needs on a regional basis. Age 65 Good health	Age 65 Average health	Age 65 Poor health
London (more affluent area)	£13,060	£4,293	£91,340	£89,280	£72,510
London (less affluent area)	£13,060	£4,293	£87,250	£83,250	£69,130
Scotland	£11,730	£2,963	£60,830	£58,170	£48,450
North West	£11,000	£2,233	£46,110	£44,100	£36,770
West Midlands	£10,280	£1,513	£31,800	£30,425	£25,260

*Source: Key, May 2019

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What to do with discretionary spend?

Portfolio construction techniques differ materially for decumulation strategies, relative to accumulation strategies. The key differences are summarised in the table below.

	Accumulation strategies	Decumulation strategies
Objective	Maximise portfolio value (& regular contributions invested) for given risk level	Ensure portfolio value (& regular withdrawals disinvested) is durable over time
Key risks (in order)	1 Inflation risk 2 Interest rate risk 3 Longevity risk 4 Sequencing risk	1 Sequencing risk 2 Longevity risk 3 Interest rate risk 4 Inflation risk
Portfolio construction technique	'Asset-optimised'	'Liability-relative'
In simple terms	Capital from Income	Income from Capital

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‘Safe Withdrawal Rates (95% confidence)’

To help Advisers comply with the proper consideration for retirement risks, we have prepared a table** of ‘Safe Withdrawal Rates’* (95% confidence) to match each of the eValue asset allocations.

Copia Retirement Risk Profile (RP)

Time Horizon (years)	1	2	3	4	5	
3	31.77%	31.16%	30.31%	28.85%	26.23%	3-10Y
4	23.73%	23.26%	22.56%	21.24%	19.23%	
5	18.88%	18.48%	17.83%	16.84%	15.20%	
6	15.17%	14.78%	14.28%	13.56%	12.26%	
7	12.99%	12.68%	12.24%	11.58%	10.49%	
8	11.46%	11.17%	10.77%	10.08%	9.10%	
9	10.23%	9.96%	9.58%	8.93%	8.03%	
10	9.23%	8.98%	8.60%	8.04%	7.15%	
11	8.06%	7.92%	7.57%	7.18%	6.42%	11-15Y
12	7.46%	7.27%	7.01%	6.59%	5.88%	
13	6.92%	6.75%	6.47%	6.03%	5.40%	
14	6.44%	6.30%	5.99%	5.52%	5.07%	
15	6.03%	5.89%	5.60%	5.18%	4.60%	
16	5.58%	5.44%	5.16%	4.80%	4.33%	6-20Y
17	5.30%	5.12%	4.91%	4.53%	4.09%	
18	5.05%	4.87%	4.67%	4.31%	3.89%	
19	4.79%	4.66%	4.43%	4.12%	3.69%	
20	4.59%	4.46%	4.25%	3.93%	3.54%	
21	4.30%	4.18%	4.00%	3.73%	3.40%	21-25+Y
25	3.76%	3.62%	3.46%	3.22%	2.99%	
26	3.65%	3.53%	3.38%	3.15%	2.87%	
27	3.54%	3.44%	3.32%	3.07%	2.76%	
28	3.45%	3.35%	3.22%	2.99%	2.69%	
29	3.35%	3.25%	3.15%	2.90%	2.61%	
30	3.24%	3.18%	3.04%	2.83%	2.55%	

The ‘Safe Withdrawal Rate (95% confidence)’ is the statistical maximum a portfolio can support such that the worst case (95th percentile) terminal value is positive at the end of the investment term.

The SWR is calculated based on initial portfolio size.

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Withdrawal Rates (50% confidence)

To help Advisers understand the estimates of likely returns, we have prepared a table of Withdrawal Rates (with 50% probability) to match each of the eValue asset allocations.

Copia Retirement Risk Profile (RP)

Time Horizon (years)

	1	2	3	4	5	
3	33.03%	33.26%	33.54%	34.02%	34.43%	
4	24.74%	25.00%	25.29%	25.74%	26.29%	
5	19.81%	20.08%	20.41%	20.85%	21.38%	
6	16.73%	16.99%	17.35%	17.70%	18.09%	3-10Y
7	14.41%	14.67%	14.96%	15.42%	15.74%	
8	12.66%	12.90%	13.20%	13.65%	13.99%	
9	11.31%	11.58%	11.90%	12.31%	12.66%	
10	10.23%	10.51%	10.84%	11.25%	11.63%	
11	9.56%	9.87%	10.11%	10.52%	10.74%	
12	8.84%	9.15%	9.43%	9.79%	10.06%	
13	8.22%	8.54%	8.87%	9.52%	9.45%	11-15Y
14	7.71%	8.04%	8.37%	8.71%	8.96%	
15	7.28%	7.63%	7.95%	8.27%	8.55%	
16	7.07%	7.38%	7.67%	7.95%	8.18%	
17	6.77%	7.05%	7.31%	7.65%	7.84%	
18	6.49%	6.76%	7.06%	7.37%	7.52%	-20Y
19	6.24%	6.52%	6.84%	7.09%	7.29%	
20	6.00%	6.31%	6.63%	6.89%	7.09%	
21	5.98%	6.29%	6.55%	6.70%	6.87%	
24	5.50%	5.80%	6.04%	6.22%	6.37%	
25	5.37%	5.65%	5.91%	6.09%	6.21%	
26	5.26%	5.52%	5.77%	5.96%	6.10%	21-25+Y
27	5.16%	5.41%	5.67%	5.84%	5.97%	
28	5.07%	5.31%	5.57%	5.75%	5.85%	
29	4.96%	5.24%	5.48%	5.66%	5.76%	
30	4.88%	5.15%	5.40%	5.58%	5.69%	

The Withdrawal Rate (50% confidence) is the statistical maximum a portfolio can support such that the likely median (50th percentile) terminal value is positive at the end of the investment term.

This means there is a 50% chance of the portfolio running out of money.

The Withdrawal Rate is calculated based on initial portfolio size.

Compliant Framework covering every scenario

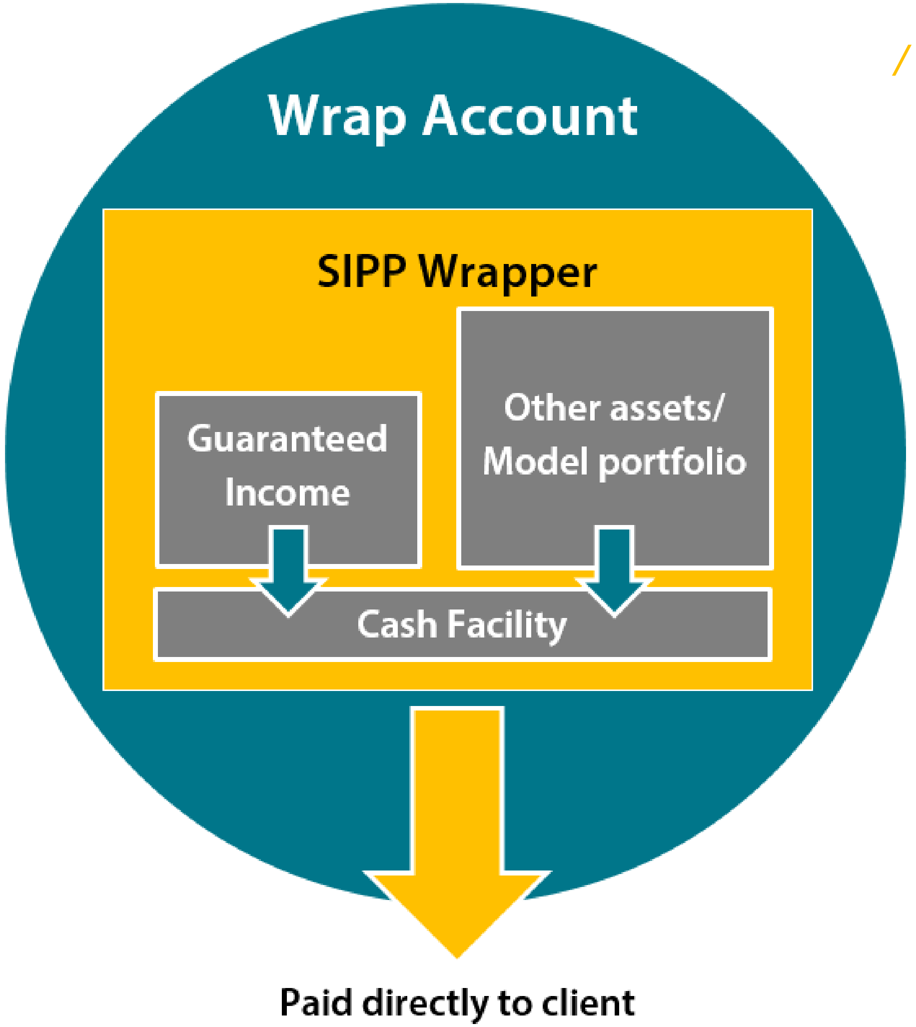
- Initial Advice
  - Decumulation risk profile with specific time horizon
  - Income Calculator
  - Safe withdrawal rate and average withdrawal rate

- Adhoc £x withdrawal – every consequence has an action – reduction in Safe Withdrawal Rate or reduction in time horizon

- Annual review – repeat process – current fund values, current state of health, one year older – new Safe Withdrawal Rate/Average Withdrawal Rate

Operational Efficiency

Structured for flexibility



- Secure income paid into SIPP cash facility which holds both Guaranteed Income and monies from investment account

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Operational Efficiency

- All online
  - Decumulation risk profile
  - Client specific illustrations
  - Execution of trade by switching assets
  - Consistent reporting
  - Repeat for review

Money and Mental health

Money and mental health are often linked. Poor mental health can make managing money harder and worrying about money can make mental health worse.

Source: Mind.org.uk

The [American Psychological Association]() reports that money is continually one of the top sources of stress in U.S. households, regardless of the economic climate.

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In summary

Client

- ✓ Peace of mind that essential income can be guaranteed for life
- ✓ Switch income on or off
- ✓ Control of taxation
- ✓ Ability to increase guarantees in the future

Adviser

- ✓ A modern way to meet client needs (essential and discretionary spend)
- ✓ Enables ease of administration (Illustration, Execution and Reporting)
- ✓ Assists with management of a Centralised Retirement Proposition (Underpin)
- ✓ Tax planning opportunities
- ✓ Flexibility
- ✓ On-going Adviser Fee continues to be paid based on the purchase price less income received to date

Paul Boston

Co-founder and Sales Director

Get in touch to find out more

enquiries@novia-financial.co.uk

0345 600 3055

@noviafinancial

www.linkedin.com/company/novia-financial

www.novia-iq.co.uk

Questions?

Final thoughts

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