

/ The changing face of the retirement landscape.

What do Investors want in retirement?

Whether it's in the form of foreign travel or the purchase of a high-end luxury item, such as a second home, a new car or even a boat, it's only natural that Investors want to enjoy themselves in their retirement.

However, looking beyond these instant perks, in retirement Investors still require the guaranteed income to meet their essential spending, such as food, bills, household expenses and other basic costs.

For any Investor, that balance between enjoying retirement to the full while at the same time meeting basic living requirements is vitally important.

Neither of the current pension scheme options (Defined Benefits (DB) or Defined Contribution (DC)) successfully achieve this crucial balance. As you can see from the table below, DB guarantees incomes, but lacks flexibility and the access to extra funds, while DC risks income sustainability.

Investor need	DB	DC
1. Sustainable income	✓	✗
2. Access to extra funds	✗	✓
3. A legacy	✗	✓
4. Flexibility	✗	✓
5. Control	✗	✓

Introduced in 2015, Pension Freedoms have been beneficial in enabling Investors aged 55 or over to take control of their pensions pots and to access a higher degree of flexibility over their pension planning and retirement income.

The market is missing a solution that provides the ability to create the right blended portfolio for Investors

While more options are clearly beneficial, this increased flexibility has also added a fresh degree of complexity for Investors when making plans for retirement. This, in turn, requires Advisers to work closer with them when making decisions.

It also puts the onus on product providers to bring more innovation to the market, something that both the government and FCA have been asking for in the Retirement Outcomes Review (FCA MS16/1.3 Chapter 2). The market is missing a solution that provides the ability to create the right blended portfolio for Investors; one that provides guaranteed income for life so that the rest of the portfolio can be invested in a mix of assets with the potential to generate a higher return.

That's why Novia have introduced a new offering within our existing SIPP to deliver unique blended retirement income solution for Investors that require a guaranteed income and would welcome the opportunity to invest for potentially higher returns. This is achieved by investing part of the Investor's SIPP Drawdown into a new type of asset which guarantees to provide an income for the lifetime of the Investor, no matter how long they live and regardless of what happens to investment markets. By including a guaranteed income asset within the SIPP to delivery enough income to cover the essentials, the Investor can then choose if they wish to invest the balance of their portfolio in higher risk investments in order to seek higher returns.

Novia is the first UK platform to offer this innovative feature.

/ Product specifics

Guaranteed Income



One of the benefits of annuities has always been the guarantee of an income for life. Novia can now offer the opportunity to invest for a fully underwritten guaranteed income combined with a death benefit and cash in value. From the tools made available on-line you will be able to compare these rates to traditional annuity rates.

Underwriting – specific to the investor



One of the most important aspects in determining the cost of establishing a guaranteed income is the underwriting carried out before the investor invests. This is common to annuities, but has not previously been available for assets on platforms. The addition of underwriting means that both Advisers and Investors can be confident that the cost of securing benefits for each Investor is kept to a minimum and that the rate of income generated is specific to their individual situation as it is based on a personal assessment of life expectancy.

The two main pillars of underwriting are **Lifestyle** and **Medical**.

Lifestyle looks at a number of different factors such as height, weight, postcode, whether the individual is a smoker or drinker. Such factors can indicate the likelihood of developing medical conditions in the future and how well these might be managed and is therefore relevant when seeking to determine life expectancy.

Medical looks at the individual's actual history of disease and illnesses (if any), and looks to ascertain to what degree these might influence life expectancy going forward when considered alongside lifestyle factors.

Once the Investor's health and lifestyle has been assessed an income rate will be determined based on the underwriting and market rates at the time. As a guide, a 70-year-old client in reasonable health might get an income rate of c 7%.

Death Benefit



Unlike a standard annuity, the guaranteed income option available through Novia enables the Investor to plan their inheritance, and offers a cash death benefit for a fixed period. The death benefit is offered whilst maintaining a competitive level of guaranteed income.

The death benefit value and expiry date is set at the time the Investor first purchases the product. The death benefit is paid as a lump sum into the SIPP account so the Investor's beneficiaries can benefit free of inheritance tax.

The initial death benefit is defined by the provider as a given proportion of the initial premium and reduces over time to zero. The death benefit continues for a given period that is determined by the underwriting outcome for the individual Investor. The personalised quote will show the customer specific benefit.

Cash in Value



Investing for guaranteed income also offers the additional benefit of an initial 'Cash in Value' for the Investor. This provides additional flexibility and allows the Investor to cash in the product if there is a change in circumstances. This differs from a standard annuity, where benefits cannot be varied which can present many challenges if there is a change in circumstances.

At inception, the Cash in Value will be equal to the guaranteed death benefit, which is specific to each Investor and uses a calculation method set by the relevant provider. The amount available is subsequently dependent on when the client Investor wishes to take the lump sum and market conditions at the time (such as the prevailing interest rates). However even when the Cash in Value reaches zero the Investor can rest assured that the guaranteed income will continue for life.

/ Risk in Decumulation

Why and how is it different



Risk in decumulation is different to investment risk in accumulation and therefore must be considered separately. Investment growth in accumulation can benefit from greater volatility because the Investor is not taking a regular income, allowing them to better tolerate losses over time.

Whilst we would all like to continue to grow our investments in retirement, it is essential in this period of decumulation that the Investor is able to maintain a secure income for the remainder of their life, however long that is.

Without a framework to set sustainable income limits, there's a real risk people could spend too much too soon. The temptation to empty the pot (because you can) has led to some people running out of money.

Many Investors can underestimate the financial demands of retirement. The following issues need serious consideration:

Longevity: How long their savings and income have to last

Inflation: The effects of inflation on spending power

Investment: The need for real, but sustainable, investment growth

Asset Information:

Asset Type	Guaranteed Income
Minimum Age	55
Product Wrappers	SIPP Income Drawdown
Minimum (current providers)	£10,000
Maximum (current providers)	£500,000
Income receipt frequency	Monthly
Included Cash in Value	Yes
Included Death Benefit	Yes
Online application	Yes
Health questionnaire	Yes

/ How to get a quote and apply for guaranteed income

Advisers will be able to complete both the quote and apply processes through Novia Adviser Zone.

To get a quote, a health questionnaire will need to be completed, either by the Investor or by the Adviser on the Investor's behalf. The health questionnaire is a user-friendly online form provided and operated by third party provider, Spire Platform Solutions.

Once the questionnaire has been completed the user will be able to request a personalised quote which will enable the Adviser and Investor to fully consider whether adding guaranteed income to their SIPP would be appropriate. This quote will be valid for a set period stated on the quote.

/ How does Guaranteed Income work within the SIPP

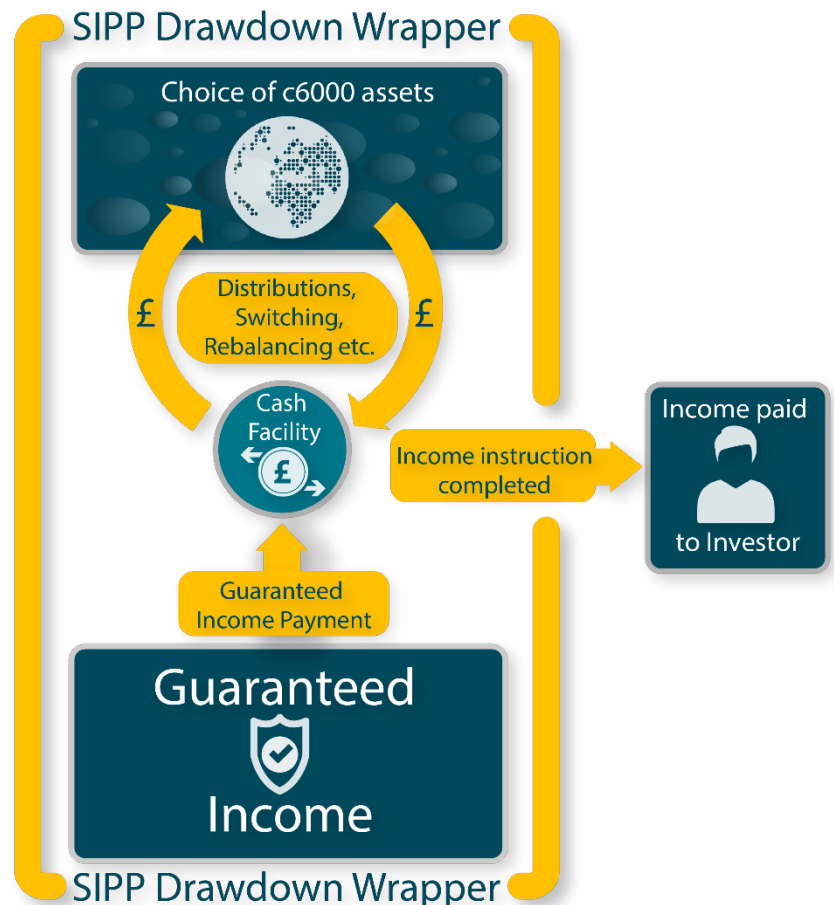
The **Guaranteed Income** asset will sit within the SIPP wrapper together with all of the other assets held within the portfolio.

The Guaranteed Income will be paid into the SIPP Cash Facility. It can then either be paid to the Investor as income as part of their SIPP withdrawal instruction or used for reinvestment into the other assets held within the SIPP.

This flexibility allows the Investor to decide if they wish to take all the income from the **Guaranteed Income** asset at the time it is paid or if they wish to use the income to invest in other assets for growth.

Over time, as needs change, the Investor can change how they will take their income to suit their lifestyle and investment objectives. Indeed, as an Investor ages, they may wish to invest more into Guaranteed Income as their focus on investing for longevity increases.

To find out more about how **Guaranteed Income** works within the SIPP speak to your Novia Regional Sales Manager or Account Manager for more information.



To find out more about Guaranteed Income contact your Novia Sales Manager today

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