



Guaranteed Income

A new asset class for platforms
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/ Bringing Guaranteed Income On-Platform

Novia now offers a product that makes it easier to increase the portion of a retirement pot that can provide a guaranteed income, over and above the State Pension. Inflation is a big concern for many, and spending is traditionally expected to follow a U-shaped curve in retirement later in life, these factors can trigger a desire to maximise growth from investment. However, aiming solely to beat inflation with the hope of creating a large pot right at the end of life could be a one-sided approach.

History suggests that when inflation is higher and more volatile, there is an increasing volatility for stocks and shares and furthermore, research data as detailed below actually indicates that the U-shaped pattern is generally a myth. This could argue for using more than just the State Pension as the guaranteed income portion, whilst still using the remaining portion for growth. This no longer needs to be done by splitting up the pot, with some of it sitting awkwardly in an annuity off platform.

/ Inflation and purchasing power: a common concern

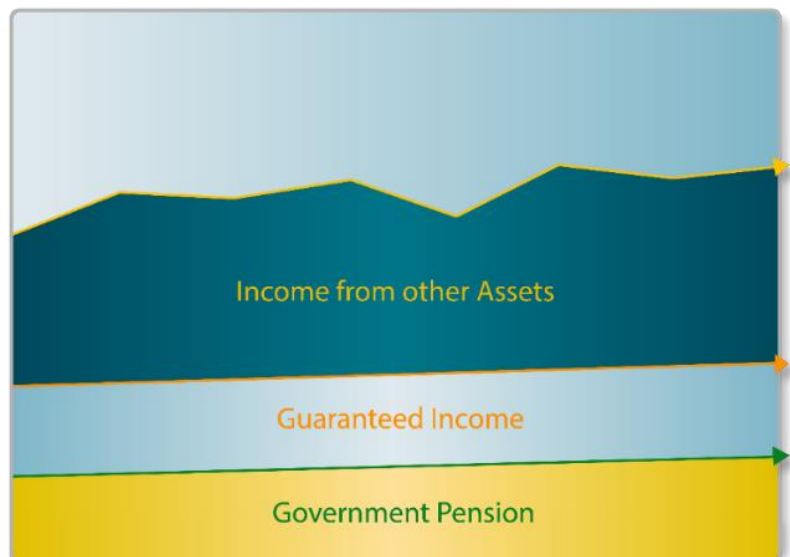
It is easy to understand why inflation is a concern for many, especially for those who have lived through periods of high inflation during the 1970s and 80s, the thought of having purchasing power eroded is a real fear. Indeed, for investors in the 65-74 age group, inflation is seen as the biggest retirement income concern, with many even being driven into semi rather than full retirement.

On reaching full retirement, investors have their state pension plus a finite pot of money to see them, and possibly their spouse, through their retirement years, and this could be a long period. While it's great news that people are living longer, it does present a financial challenge. A 65-year-old man now has a 50% chance of living until the age of 87 and a 65-year-old woman to the age of 90. So ensuring there is enough income to last throughout retirement is key.

/ The importance of a guaranteed portion in the pot

Whilst inflation is a real concern in retirement, it is important to ensure that there is a guaranteed ongoing income as well as protection against inflation. History suggests that when inflation is higher and more volatile, there is a correlating increase in volatility for stocks and shares. It is therefore very difficult to find inflation-resistant or inflation-protected assets in retirement to meet the needs of essential spending. This makes it even more important to secure a guaranteed income underpin that can supplement the State Pension to cover life's essentials.

Once the certainty of a state pension and a guaranteed income is secured, the wider investment portfolio can be invested to beat inflation according to the risk appetite of the investor. This blended approach means it is no longer necessary either to choose between an annuity or SIPP, or having to split investment across multiple providers – it is all available on one platform.



/ The blended portfolio

The State Pension – inflation linked

The State Pension is fundamental in providing Investors with a basic level of income designed to meet some of their essential expenses associated with retirement, such as housing, food, utilities etc.

The level of state pension rises every year by the highest of; 2.5%, 'growth in earnings' or Consumer Price Index (CPI) inflation. Since the inflation rate is lower than average wage growth, which was 2.6% in July 2018, it is wage growth that has determined the level of 2019's state pension rise. This means an above inflation increase for retirees.

	New state pension (weekly)	New state pension (annual)
6 April 2018 – 5 April 2019	£164.35	£8,546.20
6 April 2019 – 5 April 2020*	£168.60	£8,767.20
6 April 2020 – 5 April 2021	£175.20	£9,110.40
6 April 2021 – 5 April 2022	£179.60	£9,339.20
Change	+£4.40 per week	+£228.8 per year

Guaranteed Income – providing a secure income for life

Annuities have always been popular, especially before the Pension Freedoms, as a way of providing a guaranteed income for life. The issue with annuities is their inability to be held as part of a wider investment portfolio on a platform that can offer flexibility. Furthermore, the death benefits with a standard annuity can be restricting. With the Novia Guaranteed Income product the death benefits are available from inception and can be easily managed within the structure of the SIPP.

Now it is possible to include with the SIPP a fully underwritten Guaranteed Income offering which is combined with a death benefit and cash-in value. This allows the Adviser to aim to invest to beat inflation whilst also ensuring a base level of guaranteed income for life, all within one SIPP wrapper. Allowing the wider investment strategy to be updated as and when is needed, in conjunction with the Guaranteed Income product.

The combination of the State Pension and Guaranteed Income (stated below) meets the essential spending needs in retirement. With the essentials covered, an Investor can then make the choice to potentially invest the remainder of their SIPP for growth if they wish.

	Guaranteed Income	State Pension	Total Monthly Income	Monthly Costs	Surplus
Average Health	£575.5	£730.60	£1,232.90*	£1044^	£262.10
Smoker	£690.25	£730.60	£1,347.65*	£1044^	£376.85

*Based on a 75-year-old male investing £100,000. ^Costs for Over 75 age group provided by Office National Statistics (ONS) in 2018.

Completing the picture

Combining an inflation linked pension with a guaranteed secure income creates an underpin that allows the wider investment pot to be put to work meeting the needs of the investor. Whether that be aiming for growth in the early years of retirement to beat inflation or investing in DFM portfolios designed for those in retirement. With over 7000 assets and more than 70 DFMs available on the Novia platform the fear of having investment growth fall behind inflation can be addressed in a number of ways.

/ Spending in retirement

Office of National Statistics research data reported that in 2018-19 the average household headed by a 65 to 74-year-old spends £373 per week. With a couple each earning the full state pension of £168.60 per week we can see that the state pension covers around 90% of the household's day-to-day costs, including things such as transport and leisure.

This traditionally leaves investors with the choice of either investing for longevity to top up that pension shortfall or investing for growth. The decisions made at retirement have often been driven by the long accepted theory that Investors will experience a 'U Shaped path' in retirement. Meaning that their spending is expected to be relatively high at the beginning of retirement, then drop as they get into the next phase of retirement (mid 70s), and then increase again towards the end of retirement due to the costs associated with later life, namely care and support.

However, the International Longevity Centre's (ILC) "Understanding Retirement Journeys" report in 2018 has highlighted some key facts to consider:

- > A household headed by someone aged 80 and over spends, on average, 43% less than a household headed by a 50-year-old
- > Individuals aged 80 and over are saving, on average, around £5,870 per year
- > The age group 70-74 appears to be a tipping point. From this age, the average amount of time spent at home increases markedly, while the time spent with family/ and of friends falls

The Office of National Statistics annually collects data that estimates the levels, sources and distribution of pensioners' incomes. This too was supportive of the theory that spending decreases with age, again reinforcing that longevity of income is key rather than focussing on growth for increased spending in later years. The 2018-19 data highlighted:

	% retired	Weekly £ on transport	Weekly £ on Housing	Total Weekly £	% of income when compared to work
Ages 50-64	39%	£79.50	£59.50	£463.50	43%
Ages 65-74	94%	£55.50	£53.60	£373	48%
Ages 75 and over	98%	£24.10	£44.90	£241	45%

/ Achieving the balance over time

When looking at the evidence of both spending habits and increased longevity, the need for guaranteed income for life is more important than ever. No matter how an Investor's lifestyle and health changes over time, having the comfort of knowing essential spending can be covered at all the stages of their retirement journey is invaluable.

For those who wish to focus on beating inflation, the combination of the State Pension and Guaranteed Income allows the freedom to invest the remaining portfolio to suit an investor's risk appetite and their changing needs over time. Indeed, over time a greater proportion of the SIPP portfolio can be invested into Guaranteed Income as needs change.

If you wish to know more about the Guaranteed Income as part of a SIPP drawdown on the Novia platform, speak to your Regional Sales Manager or Account Manager.

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



T: 0345 600 3055

E: enquiries@novia-financial.co.uk