Centralised Retirement Proposition

SAMPLE

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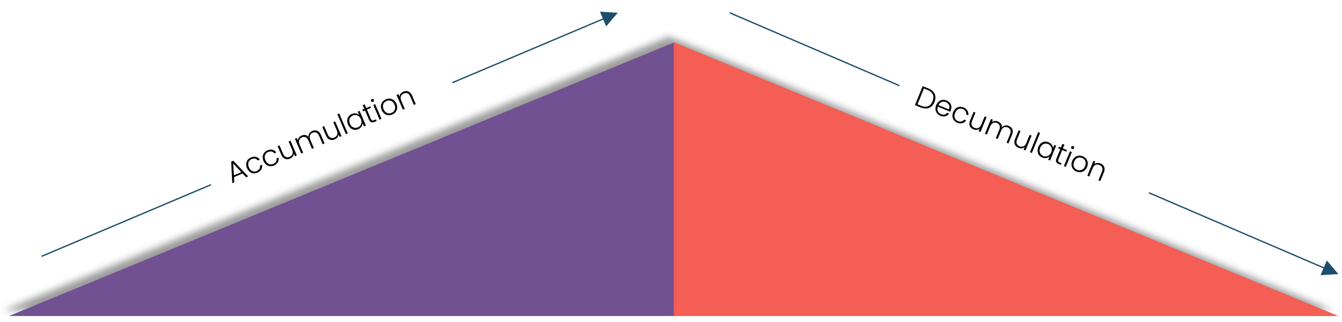
Contents

Introduction

The purpose of this document is to outline potential retirement income strategies available and determine which are most suitable for the clients of Northfield Wealth.

This document sits alongside our Centralised Investment Proposition (CIP), which focuses on clients accumulating their wealth. Our Centralised Retirement Proposition will focus on decumulation, where more complex decisions and risk considerations must be taken into account in arriving at a suitable withdrawal strategy.



CIP – Pre-Retirement

CRP – Post-Retirement

Client Segmentation

Our client segments, as per our PROD exercise, are as follows:

Young Professionals

- Multi-Asset Fund Panel (Active /Passive / ESG)

Saving for the Future

- Multi-Asset Fund Panel (Active /Passive / ESG)

Approaching Retirement

- Multi-Asset Fund Panel (Active /Passive / ESG)

Retired

- Multi-Asset Fund Panel (Active /Passive / ESG)

Our centralised retirement proposition will apply only to clients who are retired and approaching retirement.

Fact Finding

For clients wishing to start taking a regular income in their retirement, or partial retirement, we have additional fact finding elements to ensure a suitable solution is reached.

When would you like to retire?

This is typically the starting point for our retirement discussions, and one which has become increasingly varied since the introduction of the Pension Freedoms in 2015. We are finding that more and more clients are wishing to phase their retirement by taking a small amount of pension income alongside reducing their working hours rather than working full time one day, and retiring fully the next. The State Pension age, and the additional income that is due both on and beyond that date, still forms a critical point for discussion.

Do you require a lump sum from your pension?

Pensions typically offer 25% of the fund value free of tax. Clients looking to retire may have lump sum needs (travelling, home refurbishment / adaptation) whereas others may wish to leave the funds invested for a higher level of income.

What is your required level of retirement income?

Establishing a clients retirement income need, or a rough estimate of their needs, assists in the budgeting process. We typically start our discussion based on their current income and expenditure levels, and discuss areas which are likely to change when the client stops working, or reduces their hours.

Do you wish to leave a legacy?

Pension freedoms of 2015 introduced flexible death benefits which, in combination with pension funds sitting outside a clients estate for IHT purposes, provide a valuable wrapper in which to bequeath funds following death. This is an important area of discussion for those who have financial dependents.

Risks

Clients in decumulation are exposed to significantly more risks than clients who are accumulating. When formulating a retirement plan for our clients, we take the following additional risks into consideration:

Longevity Risk

The risk of a client living longer than their retirement income can provide for.

Investment Risk

Funds invested in the stock market are subject to volatility risk, which gives rise to sequencing risk and 'pound cost ravaging' where income is taken at inopportune moments in the market.

Mortality Drag

Where invested funds must deliver higher and higher returns to maintain an income equivalent to an annuity as a client moves further into retirement as their invested pot dwindles in size.

Inflation Risk

The Bank of England's inflation target could effectively reduce a clients income by 2% per annum.

Circumstantial change

The level of required income and expenditure may change throughout a client's retirement, which can be problematic if an unplanned increase in essential expenditure arises.

Regulatory and tax changes

These can be sudden and have wide-ranging impacts on the options available to those looking to retire, or in retirement.

Cashflow

As part of our retirement discussions, we will prepare a cashflow analysis, using CashCalc software, in line with our service for Portfolio and Key clients. Bespoke clients may request a basic cashflow analysis for an additional fee. As part of our analysis, we will consider the following factors:

Capacity for Loss

Accurate assessment of a clients capacity for loss is crucial in the decumulation process to ensure they do not have to make unacceptable changes to their standard of living. As part of our CRP process, we will assess a client's capacity for loss before their attitude to investment risk in order to establish their need for growth.

Establishing Essential Income and Expenditure

The first stage is to assess the clients essential expenditure, including necessities such as household bills, groceries and transport. This will form the minimum level of income we will look to cover as part of our cashflow process as any shortfalls here would likely not be tolerable by the client. Judging how important 'discretionary' spending is to the client will influence how much risk is necessary to take with securing the essential income.

Shortfalls

Where a client's guaranteed income (State Pension, Defined Benefit, Lifetime Annuity) is not sufficient to cover their desired level of expenditure, there is potential for an income shortfall as the maintenance of income then relies on investment performance, which is by no means guaranteed. Where a shortfall is likely, we will look at the possibility of increasing their level of investment risk where the client has an appetite for this, otherwise we will recommend they consider reducing their level of non-essential expenditure in order to increase the longevity of their funds.

Cashflow

Attitude to Risk

Attitude to investment risk takes on a different angle when it comes to decumulation. At Northfield Wealth, we use the Evalue risk profiling tool, which our investment fund panel maps directly to.

Following on from a capacity for loss analysis, each client's attitude to risk is assessed when they are looking at starting to take a regular retirement income, regardless of whether they are an existing client and have a risk profile in place.

Where a client has a high natural appetite for risk, but their income need is achieved comfortably met throughout their retirement and there is little chance of running out of money, we will recommend investing in line with a lower level of risk.

Where a client has a low attitude to risk but they run a marginal risk of running out of money, then we may recommend a strategy slightly higher that their natural level of risk in pursuit of potentially higher returns in order to maintain their desired level of income. This may be alongside a suitable cash / pot strategy to help mitigate against the sequencing risks of such an approach.

Other Assumptions

Inflation Rate

Will be set in line with the Bank of England's long-term target of 2% per year.

Assumed growth rate

The agreed client risk profile will help ascertain a realistic investment growth rate, for drawdown clients, when preparing a clients cashflow analysis to provide income expectations that are in line with their risk level.

Scenario modelling

We will produce variations of a clients cashflow analysis that include the impacts of market crashes and timings on their income levels

Retirement Options

Clients will have two primary options available to them at retirement depending on the outcome of our retirement income discussions:

Purchase an annuity

This will typically be recommended to clients with little to no capacity for loss, or little to no appetite for investment risk in their retirement. A suitable annuity will be researched at the time of retirement, considering options from their existing provider and on the open market.

Enter drawdown

This will typically be recommended to clients who have sufficient funds, sufficient capacity for loss and appetite for risk. Our overarching strategies are detailed on the following pages. The precise drawdown strategy will be dependent on the clients tax situation, and their income and lump sum needs.

We are also aware of certain products on the market which can offer a hybrid of the two solutions. While they will not form part of our centralised proposition, we will consider them as part of any open market research for clients where our centralised solutions are not suitable.

Annuity

We will look to recommend an annuity where:

- A client has no capacity for loss (or very little)
- A client has a shortfall in their essential expenditure
- A client has no appetite for investment risk
- A client has no requirement to take on any investment risk

Annuity

There are numerous factors we take into consideration when selecting a suitable lifetime annuity:

Guarantee Periods

The income can be set to be paid for a set number of years, regardless of the annuitants death. This means that, should the client pass away early into their lifetime annuity, then some value will be preserved by the continued income payments to their nominated beneficiary.

Escalation

The income in payment can be set to escalate each year, typically in line with a particular index (RPI / CPI) or a set percentage. Where lifetime annuities are purchased by clients in early retirement, it is generally in their best interest to select an escalating income in order to preserve the value of the income over the long term.

Spouse’s Annuity

Where the annuitant has a financially dependent spouse, then the annuity will typically be recommended with a spouse’s annuity option, which will continue to pay the income (or a proportion of) to the deceased’s spouse for the duration of their lifetime.

In some cases, for instance where a client only requires a certain level of guaranteed income for a limited period of time (i.e. to cover periods of early retirement where there is an income shortfall until the client is in receipt of their State Pension) then we may recommend a Short-Term annuity considering the same factors as above, as well as the timeframe required.

We will always conduct research on the open market to select the highest level of income possible at the time we make our recommendation. Owing to the current low interest rates and subsequent low annuity rates, it is highly unlikely that we will recommend an annuity to our clients currently and in the near future.

Platform Drawdown

We will look to recommend drawdown via a platform where a client has:

- Other investments held on a platform (Investment bonds, ISA, GIA)
- Sufficient capacity for loss
- Their essential expenditure covered by some form of guaranteed income
- Some appetite for investment risk
- A need to take on some investment risk to grow their portfolio throughout their retirement to maintain their income

Platform Drawdown

Sequencing Risk

The key area of risk for a flexible drawdown strategy is sequencing risk, where the timing of withdrawals can have a significant impact on the longevity of income. The early years of a clients retirement are crucial, as the effects of withdrawing capital from the investment funds during this time can mean a portfolio can struggle to recover from a market downturn. For instance, a bull market in early retirement can at least partially offset the early withdrawals, meaning a much larger portfolio will benefit from subsequent investment growth. In contrast, a bear market in early retirement combined with taking an income will deplete the accumulated fund relatively quickly, meaning any periods of subsequent growth will apply to a reduced amount of capital.

Managing Sequencing Risk

We maintain a panel of multi-asset funds covering all Evalue risk levels for their medium- and long-term investment horizons to ensure a suitable solution for our clients in drawdown. The funds are reviewed quarterly and mapped directly to Evalue. Our investment preference is to maintain clients in accumulation funds for growth, as opposed to specific funds for drawdown and / or income generation. Further information is included in our Centralised Investment Proposition.

Cashflow forecasting, amended at least annually, helps both ourselves and our clients visualise their finances throughout their retirement to ensure their spending is sustainable. Our forecasts always include stress-tests, which show the effects of market crashes on client portfolios and the level / longevity of their desired income. The timing can be adjusted to highlight how sequencing risk specifically can affect income. The magnitude of the market crashes will be proportional to the client's risk profile.

For clients drawing down their pensions, we will recommend they make regular monthly withdrawals from their invested funds by encashing the required number of units only rather than withdraw a year, or multiple year's worth, of income. By following this method, and by leaving as much of our drawdown clients funds invested as possible, this will give the greatest scope for recovery following a market downturn. This is as opposed to the risk of having to encash a significant proportion of a clients retirement fund if their income review point falls shortly after a market downturn, with a much reduced scope for recovery. As a result of the typical client we work with at Northfield, most are quite happy to deplete their pension pots by the time they reach 70-75 years' old, and to rely on their State pension income from that point onwards as their expenditure requirements naturally decrease with their reduced levels of activity.

Pension drawdown will take place via Aviva, our core platform. Aviva can facilitate regular monthly, quarterly or annual withdrawals as well as ad-hoc withdrawals. In addition, phased drawdown is also an option for clients with no requirement to take their tax-free lump sum.

Platform Drawdown

The Review Process.

Annual Review

Clients in drawdown will have at least one face-to-face annual review. As part of these reviews, we will cover:

Any changes in the client's circumstances (objectives, personal, financial, risk, LTA, tax status)

Whether the current level of income is sufficient for their desired lifestyle

Whether the current / desired (if wishing to increase) level of income is sustainable

Whether the investment strategies have performed to expectations and whether a change may be necessary

Conclusion

We have researched and selected decumulation strategies that align with the needs of the relevant client segments we currently work with and expect to attract going forward.

Our drawdown strategy will be actioned through the Aviva platform. We will keep our process under review and provide a formal update on an annual basis (unless material change occurs in the interim).

As an Independent Financial Adviser (IFA) firm, we will always use our independent to ensure the client accesses both an investment strategy and a platform (if applicable) appropriate to their needs. We will consider bespoke whole of market solutions if options outlined in this document are not suitable.

Our next formal CRP review will be undertaken in March 2026.