



QUILTER CHEVIOT

Guide to Retirement

FOR FINANCIAL PLANNERS



SPECIALISTS IN INVESTMENT MANAGEMENT

Introduction

The retirement landscape has undergone significant transformation. Pension freedoms, evolving tax legislation, and the introduction of Consumer Duty have raised the bar for advisers to deliver good client outcomes, making decumulation more complex and more critical than ever.

Advisers must guide clients through an environment where market volatility, sequencing risk, inflation, and liquidity constraints are increasingly pronounced. In this context, a one-size-fits-all approach simply doesn't work. Personalisation is essential.

Quilter Cheviot's decumulation offering, the Tailored Income Service, supports advisers in delivering tailored investment strategies that align with each client's income needs and broader financial goals. It's designed to give clients confidence that their retirement income is both sustainable and resilient.

While today's retirees enjoy greater flexibility and control over their pension assets, they also face heightened responsibility. Successful decumulation requires a strategy that can adjust to life's inevitable changes while continuing to meet regular income needs:

- Market fluctuations
- Rising living costs
- Health issues
- Shifts in family circumstances
- Family milestones
- Travel opportunities
- Big purchases

To meet these challenges, advisers need robust processes that enable proactive monitoring and timely adjustments.



The goal is to help clients stay on track, ensuring their income plans can weather uncertainty, without compromising long-term financial security.

A changing landscape

Retirement advice is under greater regulatory scrutiny, with advisers expected to demonstrate:

- ✓ Suitability
- ✓ Consistency
- ✓ Ongoing value

This shift demands structured processes and personalised strategies that meet both the client's and the regulator's expectations.

Key drivers of change

Pension Freedoms (2015): These reforms gave clients greater flexibility in how and when they access their defined contribution pensions. Increased choice brought added complexity, especially around income planning and investment strategy. As a result, the need for sound financial advice is greater than ever.

FCA Thematic Review of Retirement Income Advice (2024): The FCA's review focused on whether firms are meeting clients' needs in decumulation and delivering suitable advice.

Key findings included the need for advisers to reassess risk profiles and capacity for loss as clients transition from accumulation to decumulation, identify client vulnerabilities, and provide ongoing reviews if clients pay for continuing advice.

The review also highlighted that cashflow modelling, when based on realistic assumptions, can help advisers add value and support informed decisions around income sustainability.

Advice Guidance Boundary Review & Targeted Support: The FCA is consulting on "targeted support" – a form of help that sits between general guidance and full advice. Advisers should monitor developments to understand any impact on their service and client communications.

Importance of a Centralised Retirement Proposition (CRP)



While many firms have established a Centralised Investment Proposition (CIP) for clients in the accumulation phase, it is less common to see a dedicated, retirement-focused framework for clients navigating decumulation. Given the heightened regulatory scrutiny from the FCA regarding the management of retirement income, implementing a well-defined and robust process tailored to each client type can help to **mitigate risk, enhance adviser efficiency** and support the delivery of positive **outcomes for clients**.

It is crucial to identify and address any potential vulnerabilities your clients may have as they begin drawing income from their investments. Their income must be structured to support them throughout their lifetime, while also accounting for major future expenses such as care costs.

The **sustainable withdrawal rate** - often linked to the 4% rule - was once a default guide for retirement income strategies. However, the FCA's thematic review highlights that relying on fixed rates without personalisation can lead to poor outcomes. Firms are now expected to embed a **Centralised Retirement Proposition (CRP)** that includes appropriate income solutions for different client segments, supported by either personalised withdrawal guide rates or robust cashflow modelling. This ensures income strategies are evidence-based, client-specific, and aligned with regulatory expectations.

The review found that **84% of firms use cashflow modelling**, but 12% use neither a guide rate nor cashflow modelling, which the FCA considers poor practice. Where firms apply a standard guide rate, this must not be applied uniformly without testing against client needs. Advisers should expect variability in retirement income needs and market conditions and use scenario-based planning - both deterministic and stochastic - to support sustainable outcomes.

Proportion of firms using standard rates



- Firms with no standard guide rate - 71%
- Firms using a standard guide rate - 29%

- 3% guide rate - 12%
- 4% guide rate - 72%
- 5% guide rate - 16%

84%

of firms use Cash
Flow Modelling

12%

of firms neither use a standard
rate or Cash Flow Modelling

Source: FCA Thematic Review of Retirement Income Advice.



Retirement Income Advice Assessment Tool (RIAAT): Developed by the FCA, this tool is designed to help firms check the suitability of their retirement income advice and disclosures. Advisers can use it to benchmark their advice processes and ensure Consumer Duty compliance.

The three unknowns of decumulation

1.

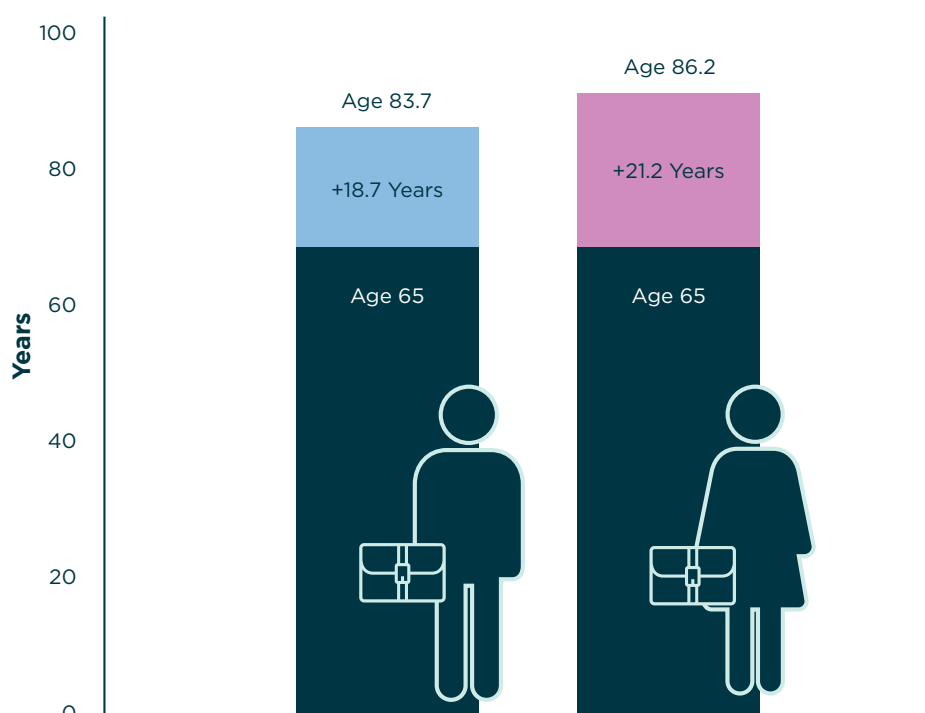


Longevity risk

A long duration of life can only be planned for based on averages and probabilities. Mortality tables go back as far as the 17th Century, when John Gaunt created one of the first life tables and Edmund Halley developed the first formal survival tables. There have been many iterations on the theme, but the premise remains the same: these tables are used to compute life annuities.

The average mortality rates for both men and women from age 65 currently sit at 83.7 and 86.2 years respectively.

How can we plan against an average, without factoring in the individualistic nature of a client's life journey? Plan too long and you risk leaving too much of the client's investments unenjoyed; plan too short and there could be challenges funding a future with an inability to correct with new investments.



Source: **National life tables - life expectancy in the UK: 2022 to 2024**

2.



Investment influences

Investment influences encompass three factors that can impact your client's investments.

Market returns can look at past years; however, tomorrow is a promise to no one. How can you model against what world leaders may say or do that impacts trade policy, heightens tensions between countries and investment performance? This can create sequence risk events and cause negative pound cost averaging at a time when the ability to correct any missteps is limited due to timing and available assets.

Negative pound cost averaging occurs when regular withdrawals from a portfolio during periods of market weakness make it harder for the portfolio to replenish capital when markets improve.

The UK aspires to keep annual inflation to 2%, however, we have not achieved this figure since 2021. High inflation erodes purchasing power, creates pressure on the value of savings and means increasing levels of risk may need to be considered, just to keep investments sustainable for clients at a time when there is limited scope to generate income beyond what their investments provide. High inflation may mean more investments will need to be cashed in to maintain the client's lifestyle.

Tightening taxation policy within the UK, specifically targeting savings and investments, has become a real challenge in wealth management, and continues to provide uncertainty at a time when planning needs clarity and surety. The pain of fiscal drag on frozen allowances for income and death taxes cannot be understated. Add to this the erosion of allowances for both dividend and capital gains, the erosion of the benefits of both Business and Agricultural Property Relief, and of course the upcoming changes to unused pensions – all of which can lead to corrections, panic planning and, potentially, for decumulation plans to be derailed.

3.



Spending needs

Cash flow modelling and regular reviews can play an important role when considering spending needs, but what is the reality?

The individual nature of our clients means that any decumulation strategy is unique to them. By their very nature, unforeseen events are impossible to model, and whilst 'what if' scenarios that demonstrate what could happen can be deployed, can you factor these into the client's plan with any degree of accuracy?

Also factor in the multi-layered approach to spending needs. Compare, for example, the more active parts of spending that may occur early in a decumulation strategy, with the less active and even care needs towards the later stages. Health, longevity and investment influences will also play a big part in the timing of such events and may end up bearing little resemblance to the client's reality.

Understanding your clients' needs

We believe financial planning enables more informed decisions to be made around portfolio structure and long-term sustainability. For many advisers, cashflow modelling is a central part of this process - helping to clarify income needs and accounting for variables such as:



By stress-testing different market scenarios and incorporating guardrails for sustainable withdrawal rates, you can help ensure your client's income remains resilient.

Where cashflow modelling is used, we value its outputs as a vital lens into your client's financial landscape. By incorporating all sources of income, we work in partnership with you, guided by your cashflow modelling, to understand your client's unique income requirements.



This enables us to construct a portfolio tailored to your client's needs, with regular monitoring to adapt as needed and protect long-term sustainability.

Where firms take a different approach, we work in close partnership to understand each client's unique goals, income requirements, and legacy objectives. Our aim is the same: to build resilient portfolios that adapt over time and support sustainable withdrawals.

Key takeaways for complex or high-net-worth clients

- ✓ Personalisation is non-negotiable
- ✓ Evidence-based planning is essential
- ✓ A defined CRP is now an FCA expectation
- ✓ Regulatory alignment is essential
- ✓ Ongoing reviews must be meaningful and documented
- ✓ Cashflow modelling should be standard practice
- ✓ Partnering with a discretionary fund manager can enhance flexibility, suitability and resilience.

Our Tailored Income Service

If your clients have complex needs or significant wealth, we can provide a tailored retirement income solution as part of their overall financial plan.

We take the outputs of your income withdrawal recommendations, whether through cashflow modelling or personalised planning approaches and apply a structured, research-driven approach, aiming to maximise returns, ensure tax efficiency, and support a sustainable income strategy.

To do this, advisers must understand the client's:

1 **Desired tax wrapper structuring**

2 **Which wrapper the regular income should be drawn from**

3 **Current rate of tax**

4 **Risk appetite**

5 **Capacity for loss**

6 **Capital growth requirement, including any expected erosion**

7 **Regular income needs and any short-to medium-term large expenditures**

8 **Whether income is fixed, variable, or ad hoc**

9 **Whether income is for spending or gifting/inheritance tax (IHT) planning**

10 **Investment time horizon**

11 **Sensitivity to sequencing risk and any expected changes to income or capital flows**

Once this information is in place, we will meet with you and your client to explore the most suitable approaches for managing their investments and income needs.

We offer three core approaches, all of which make use of our Discretionary Portfolio Service (DPS) models. Each approach offers distinct advantages depending on your client's objectives, risk tolerance, and income needs.

The minimum investment for the Tailored Income Service is £500,000.

How can our Tailored Income Service help your clients?

Unlike off-the-shelf solutions, our approach is tailored to your client's individual goals. Investment managers have the flexibility to adapt, blend or transition between the strategies to suit evolving client circumstances, ensuring the most efficient and sustainable income plan through retirement.

Liability matching

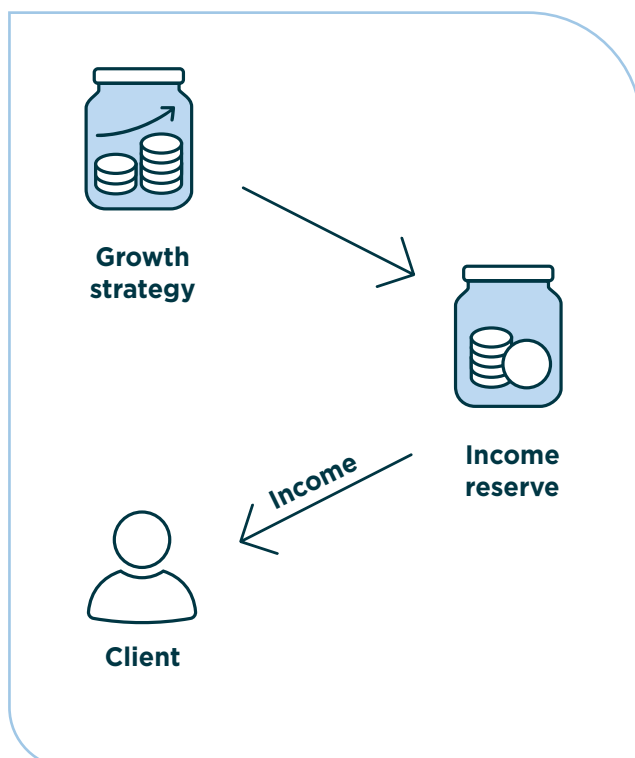
Where your client's investment manager aligns future cash requirements with bond maturity dates, locking in returns from when the bonds are purchased until the funds are required.

Income reserve & Growth strategy

This approach incorporates a flexible two-pot strategy, designed to provide both regular income and effective risk management.

Income reserve: This holds 2-3 years of expected withdrawals in low-risk, highly liquid assets like short-term government bonds or money market funds. This allows clients to meet regular or unexpected expenses without selling long-term investments during times of market volatility.

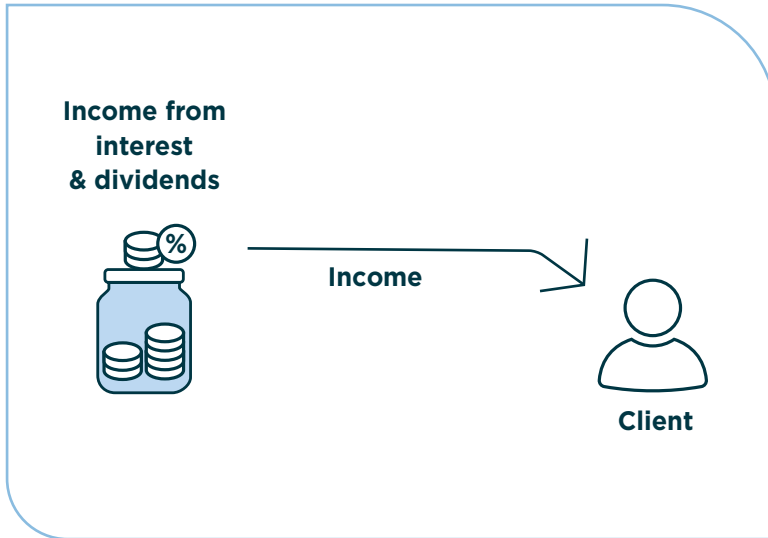
Growth strategy: This focuses on long-term growth and diversification, tailored to your client's risk profile and investment goals. It includes equities, fixed income, funds or alternatives to balance growth and volatility. Your client's investment manager will regularly replenish the income reserve, taking into account inflation, lifestyle, and changing objectives.



During adverse market conditions, this approach allows the flexibility to delay top-ups from the core pot for up to one year. This helps your client avoid crystallising losses by not selling growth assets in a downturn.

Natural yield

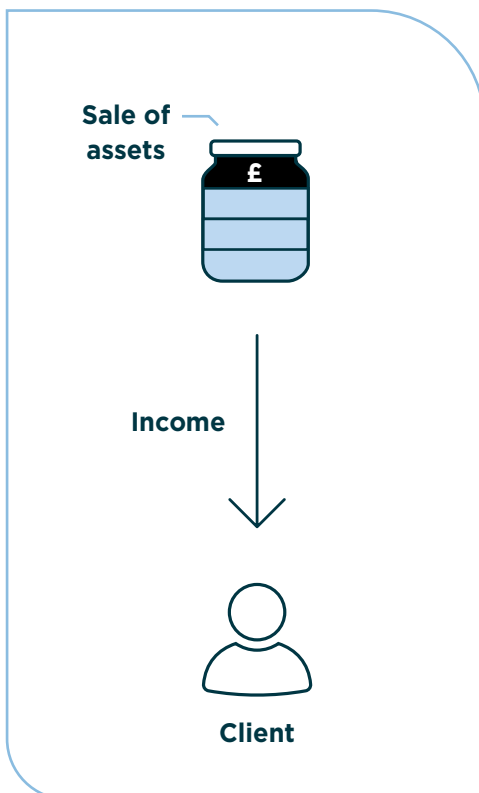
Income is generated from dividends and interest, providing clients with a steady income stream without the need to sell investments, thus helping to preserve capital. However, targeting excessively high income can lead to riskier investments and potential capital loss if dividends are reduced or defaults occur.



As these payments count as income for gifting, this method may also benefit Inheritance Tax (IHT) planning when gifting surplus income.

Encashment

Income can be taken by periodically selling investments via several approaches:



- Spending lower-risk assets like cash first, then fixed income, and equities last. This helps to maintain stability while giving growth assets time to recover.
- Matching assets to specific spending needs. For example, essential expenses such as bills and groceries might be covered by stable, income-generating investments, while discretionary spending like holidays is funded from more flexible parts of the portfolio.
- Investments are sold equally across the portfolio over time, keeping the investment mix stable but requiring regular review to ensure suitability.

Managing decumulation risks with our approaches

Approach	Longevity risk	Sequencing risk	Inflation risk
Income reserve & Growth strategy	Flexible top-ups and long-term growth support income sustainability	Liquidity pot avoids selling growth assets during downturns	Core pot actively managed to keep pace with inflation
Natural yield	Preserves capital by relying on income rather than selling assets	Can help to avoid forced sales during market dips	Yield may lag inflation - requires careful asset selection
Encashment	Depends on method - vertical slicing can extend portfolio life	Sale of assets must be carefully managed to avoid locking in losses	Must be actively managed to keep pace with inflation

Flexibility is at the heart of our service: we understand that your client's income needs will evolve as their circumstances change. Regular reviews with their investment manager mean that should any unexpected costs arise, or income requirements change, we can swiftly adjust the strategy to keep it aligned with their objectives, helping you deliver consistent, personalised advice. This is why we believe in-person access to your investment manager is so important.

About our Discretionary Portfolio Service

Quilter Cheviot's Discretionary Portfolio Service underpins our Tailored Income Service, providing the robust investment framework from which each client's income-focused portfolio is built. Drawing on our established DPS models and research-led investment process, we construct portfolios that reflect the client's individual circumstances, objectives, and risk profile. This ensures that selected approach remains both personalised and grounded in our proven discretionary management approach.



Bespoke portfolio



Dedicated manager



Investments from £250,000

Partnering for better outcomes

In this evolving landscape, partnering with Quilter Cheviot can help ensure that investment strategies remain suitable and responsive to each client's changing needs.

Our approach can integrate seamlessly with your CRP, providing consistency and suitability for your complex or high net worth clients. We help take the regulatory burden off advisers by aligning with best practice and supporting compliant, repeatable advice.

We offer you:

- **Transparency:** Clear communication and reporting.
- **Tailored portfolio design:** Approaches built around your clients' needs.
- **Collaborative approach:** Seamless integration with your advice process to deliver joined-up client outcomes.
- **Active portfolio management:** Regular reviews to keep portfolios on track as client needs evolve.
- **Income-focused alignment:** Portfolios aligned with income requirements.
- **Risk management:** Ability to adjust holdings in response to market conditions or changes in client circumstances.
- **Adviser support:** Providing robust reporting and governance to help you meet regulatory expectations and demonstrate value.



Our experts are here to help you

Contact us today to find out how we can support you.

- 1 Belfast
- 2 Birmingham
- 3 Bristol
- 4 Dublin
- 5 Edinburgh
- 6 Glasgow
- 7 Jersey
- 8 Leeds
- 9 Leicester
- 10 Liverpool
- 11 London
- 12 Manchester
- 13 Salisbury



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Investors should remember that the value of investments, and the income from them, can go down as well as up and that past performance is no guarantee of future returns. You may not get back what you invest.

Tax treatment varies according to individual circumstances and is subject to change.

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