Investment Choices For Clients Entering Drawdown

Andrew Morris | Product Specialist | Q3 2021

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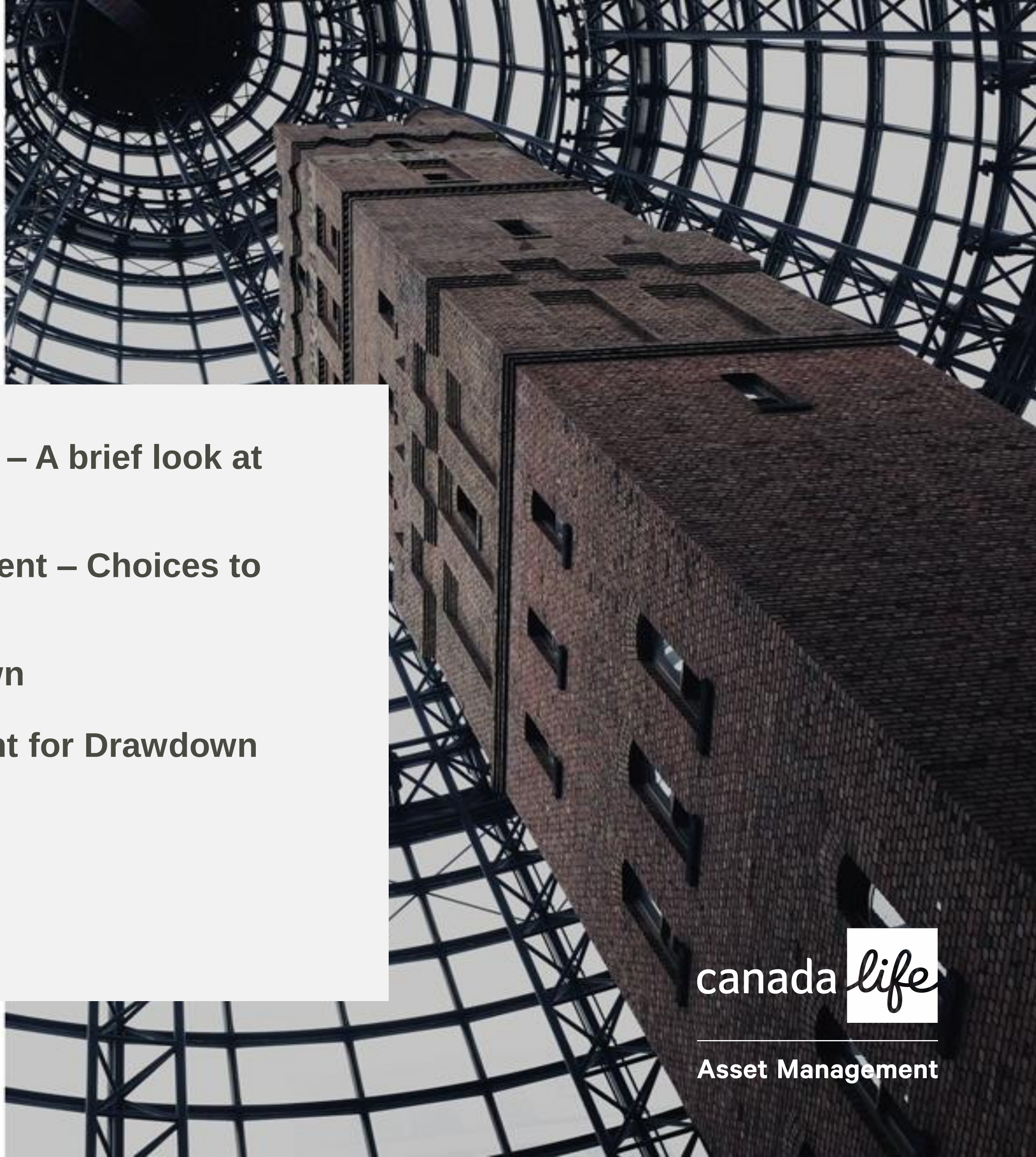
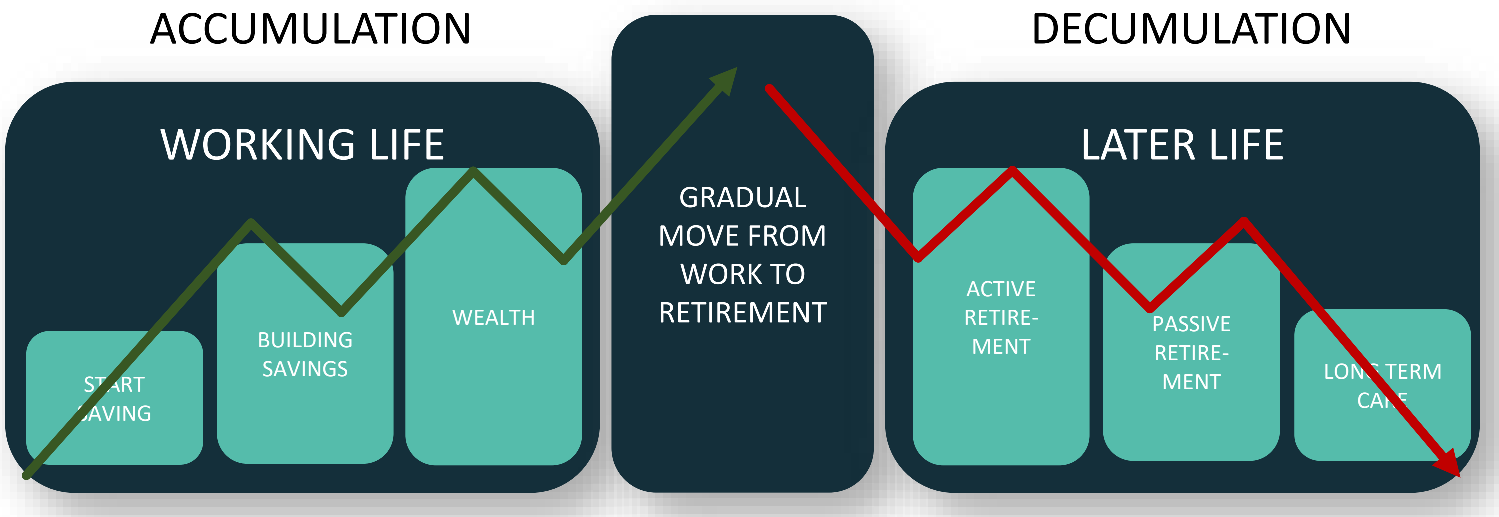
Learning Objectives

- Investment themes during the stages of retirement – A brief look at Accumulation
- Transitioning between Full Time Work and Retirement – Choices to consider depending on the clients needs
- Key Investment Risks for clients entering drawdown
- Choices at retirement – Key strategies to implement for Drawdown clients



Differentiating Accumulation and Decumulation



MAXIMISING GROWTH WITHIN THE CLIENTS SCOPE OF RISK

RISK OF RUNNING OUT TOO SOON

 Source: Canada Life

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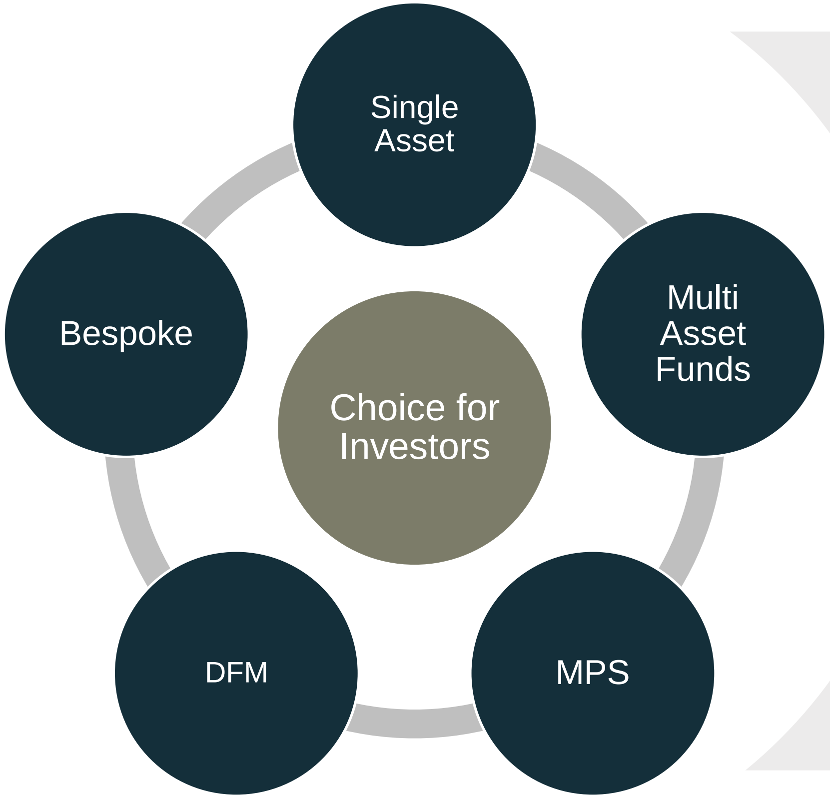
Accumulation: Investment Proposition for Funds



MAXIMISE RETURNS TO THE CLIENT

ALIGNMENT TO THEIR RISK PROFILE

FLEXIBILITY TO MARKET CHANGES

MINISING OVERALL COSTS

70%

Advisers using risk profiling tools

1 → 10

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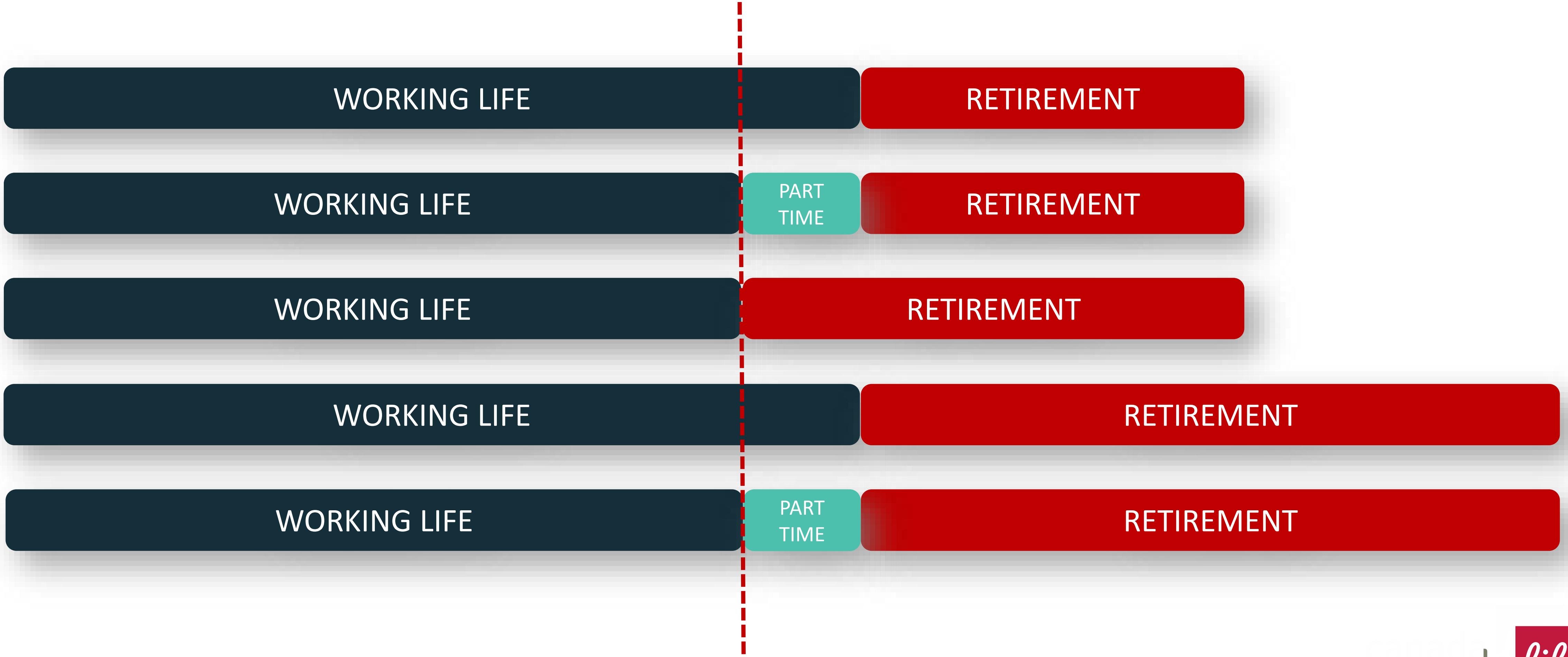
 Source Platforum as at 20/09/2019

Shift from Work to Retirement



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Investing Between Accumulation and Decumulation

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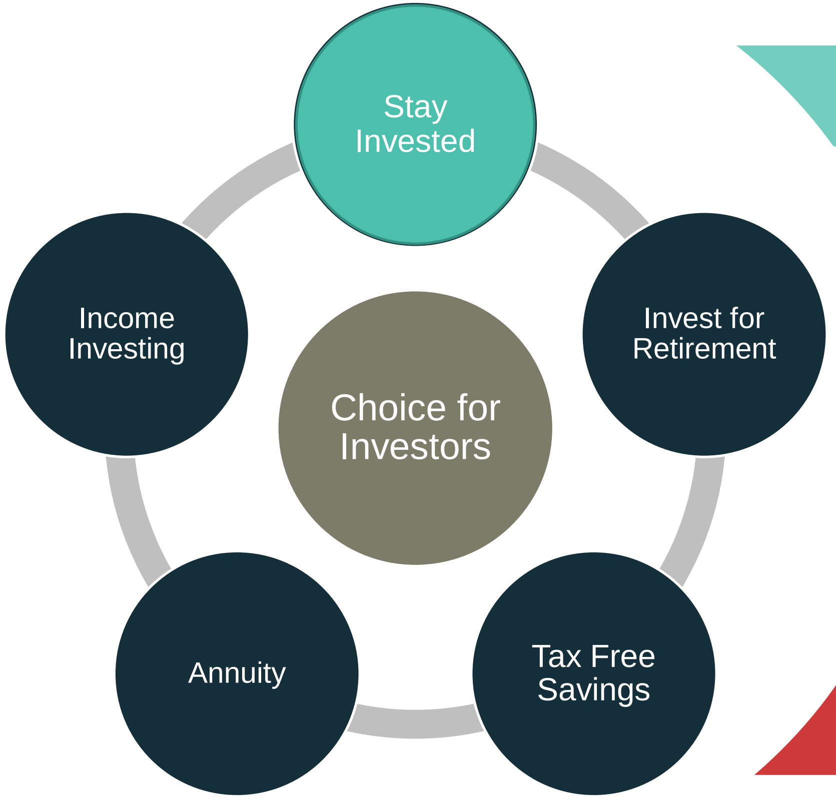
Investing Between Accumulation and Decumulation



- SIMPLEST TO MANAGE
- MAXIMISING GROWTH
- ALIGNMENT TO RISK PROFILE
- NO NATURAL INCOME PATH
- CIRCUMSTANCES HAVE CHANGED

Is there an Income Need?

No | Yes

Yes → Decumulation Risks

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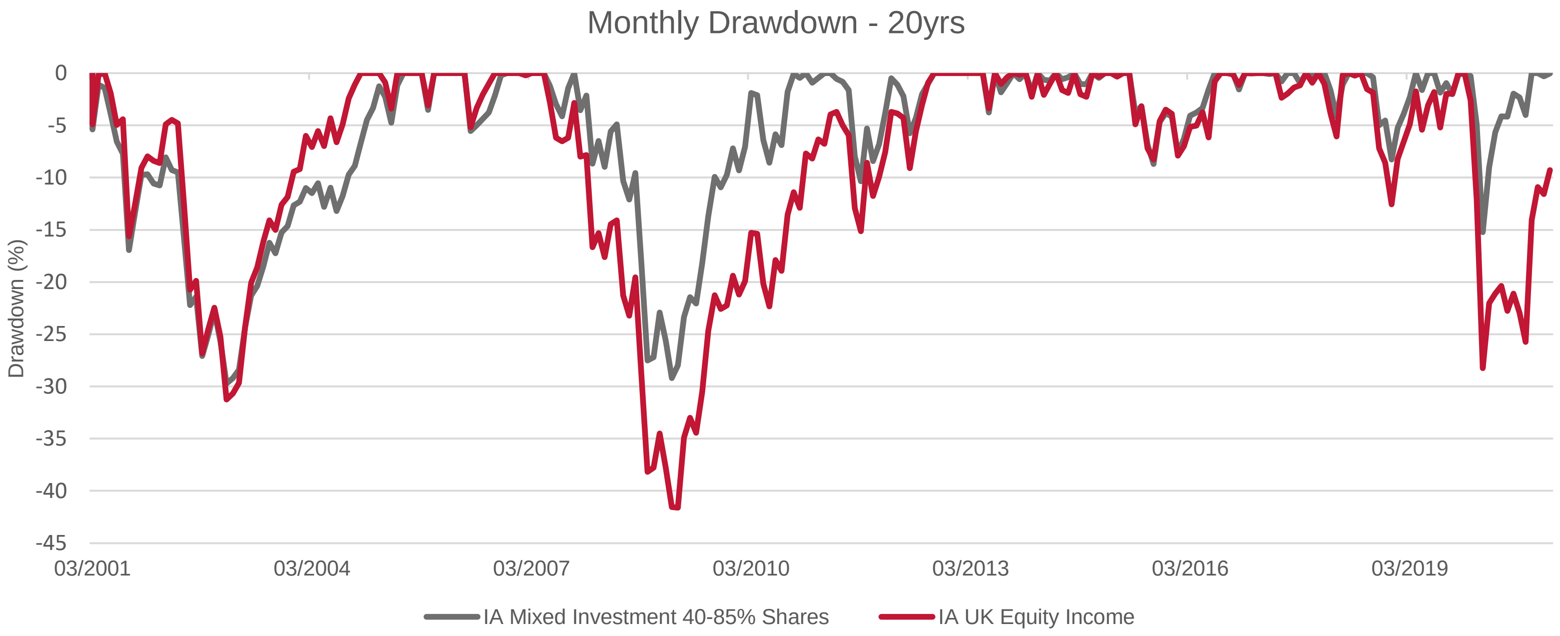
Risks at drawdown not found during accumulation

Decumulation Risks

Drawdown

- When a large fall occurs in markets
- Unpredictable
- Loss of client confidence in markets



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Past performance is not a guide to future performance. The value of investments may fall as well as rise and investors may not get back the amount invested. Income from investments may fluctuate.

Source Morningstar to 28/02/2021.

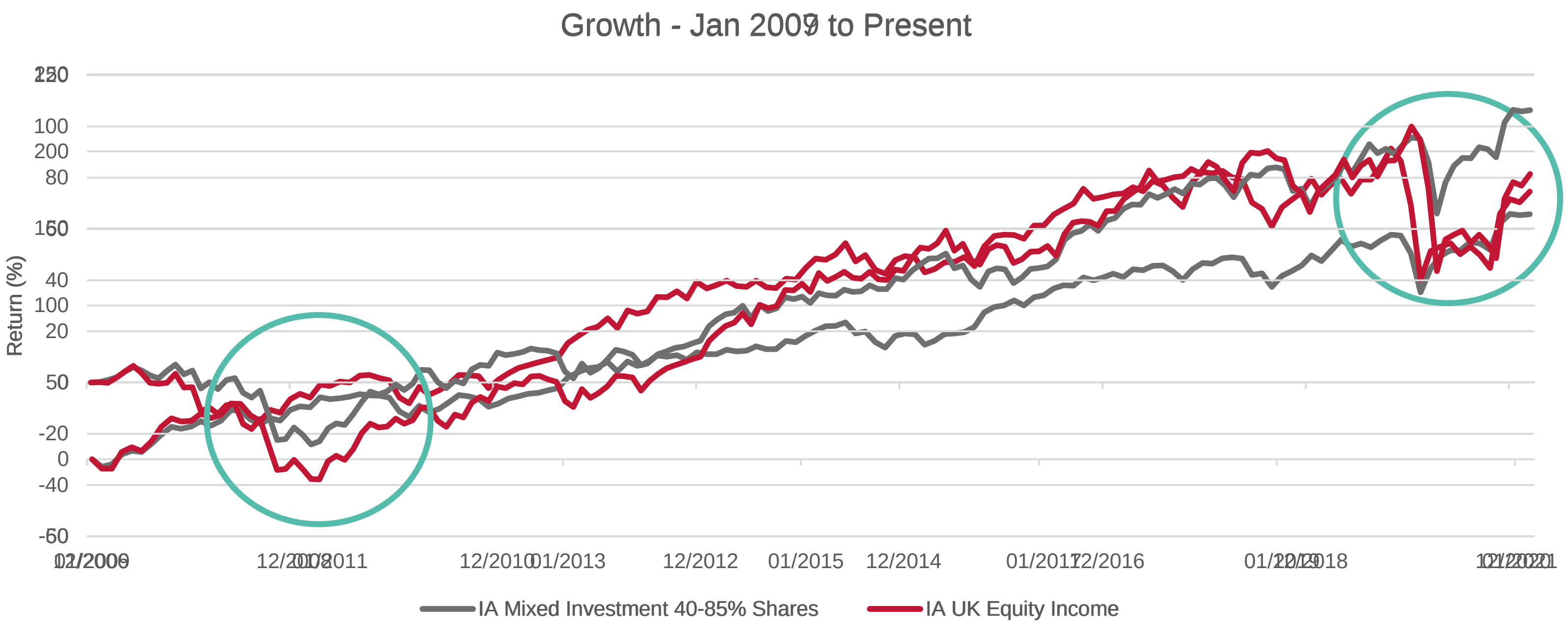
Risks at drawdown not found during accumulation

Decumulation Risks

Drawdown

Sequencing Risk

- At your most vulnerable when the pot is the largest
- The greater the volatility, the bigger the effect



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Source Morningstar to 28/02/2021.

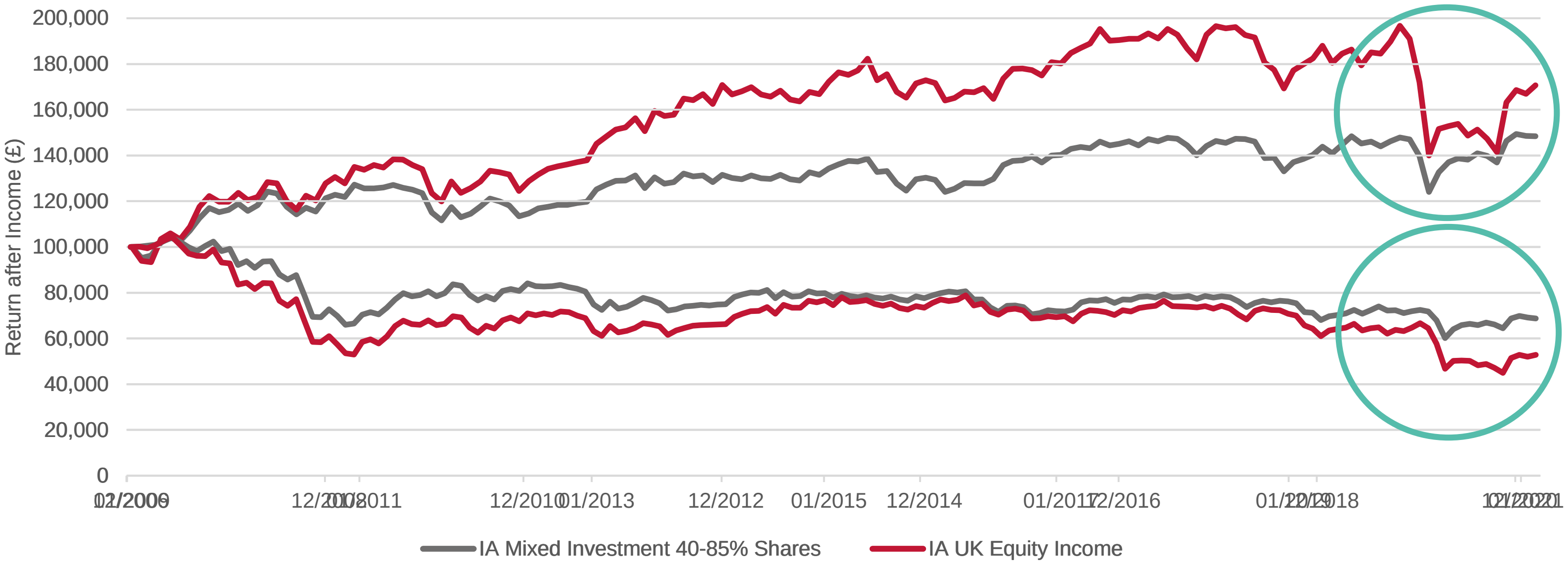
Risks at drawdown not found during accumulation

Decumulation Risks

- Drawdown
- Sequencing Risk
- Pound Cost Ravaging
- Longevity

- As markets fall, you are selling off more units for the same level of income
- The greater the income, the bigger the effect

Return from £100,000 with £500 Income Monthly - Jan 2009 to Present



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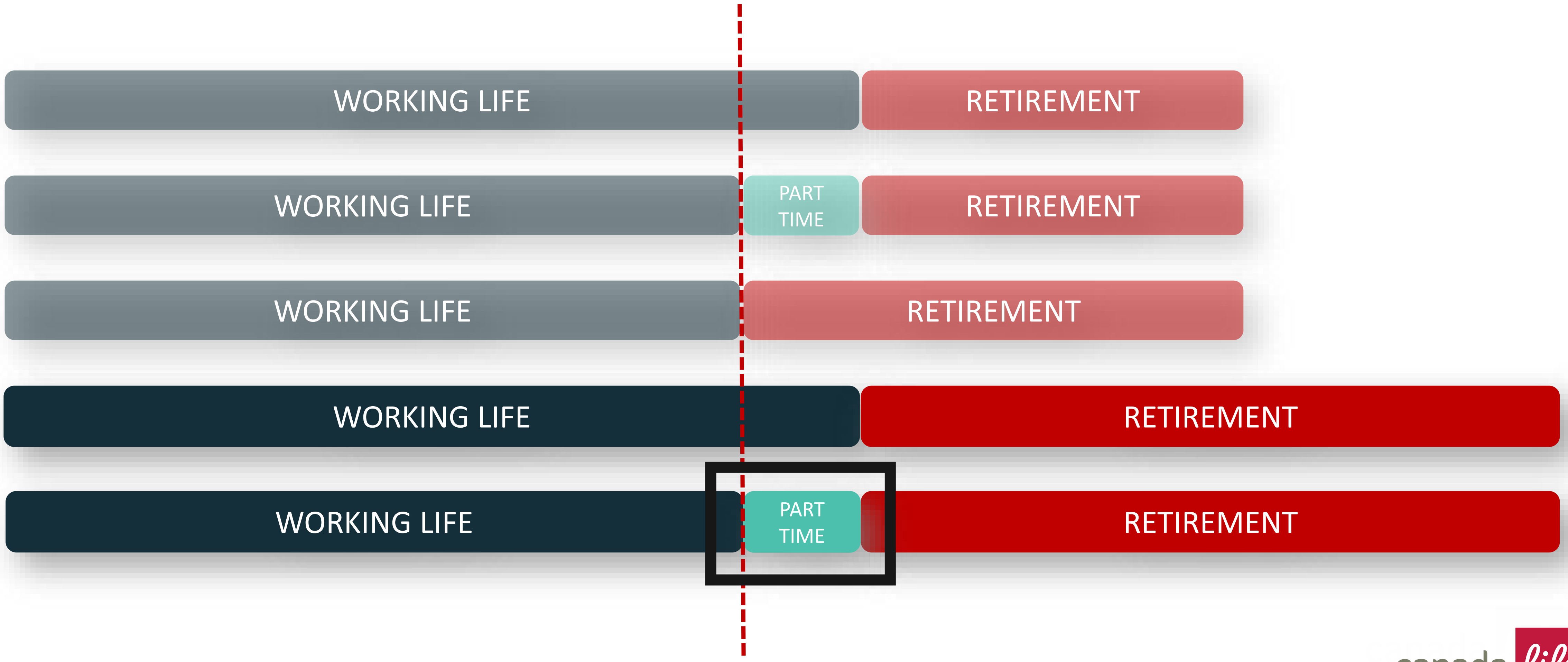
Source Morningstar to 28/02/2021.

Longevity



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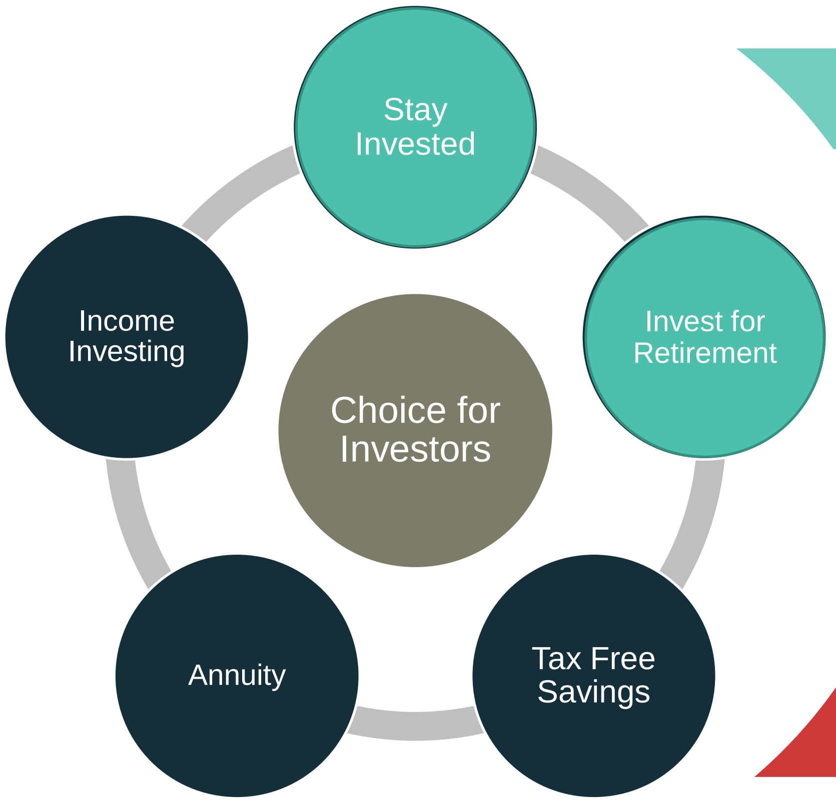
These figures are based on simulated performance for illustration purposes

Investing Between Accumulation and Decumulation



- NEED FOR AN INCOME
- CLIENTS NEXT PHASE OF LIFE
- MANAGE DECUMULATION RISK
- EXTENDS RETIREMENT
- INCREASES THE CHANCE OF MONEY RUNNING OUT

	Chance of Running Out of Investment Pot Over 30 Years	Chance of Running Out of Investment Pot Over 40 Years
	5% Starting Income	5% Starting Income
3	83.7%	91.5%
5	39.5%	47.1%

Past performance is not a guide to future performance. The value of investments may fall as well as rise and investors may not get back the amount invested.

Source: Canada Life Asset Management & Morningstar. Figures based on an equal weighted benchmark consisting of every primary share multi asset OEIC/Unit Trust which has been risk profiled or risk targeted by Dynamic Planner to 31/12/2020, split into each of their risk profiles. The simulation was based on a Monte Carlo Simulation using Brownian Motion, run a thousand times to assess possible outcomes of returns, using the 5 year return and standard deviation of the equally weighted benchmarks. Income was deducted monthly, after growth for the month. Income was based on the initial sum and grew by 2% in value annually. Chance of running out was based on the number of times the simulation hit -100% in value, divided by 1000. 357 Model based on the same equally weighted benchmarks, using same returns as the single benchmarks but with the investment split equally between benchmark 3,5 and 7. 357 Was rebalanced quarterly back to its initially weighting.

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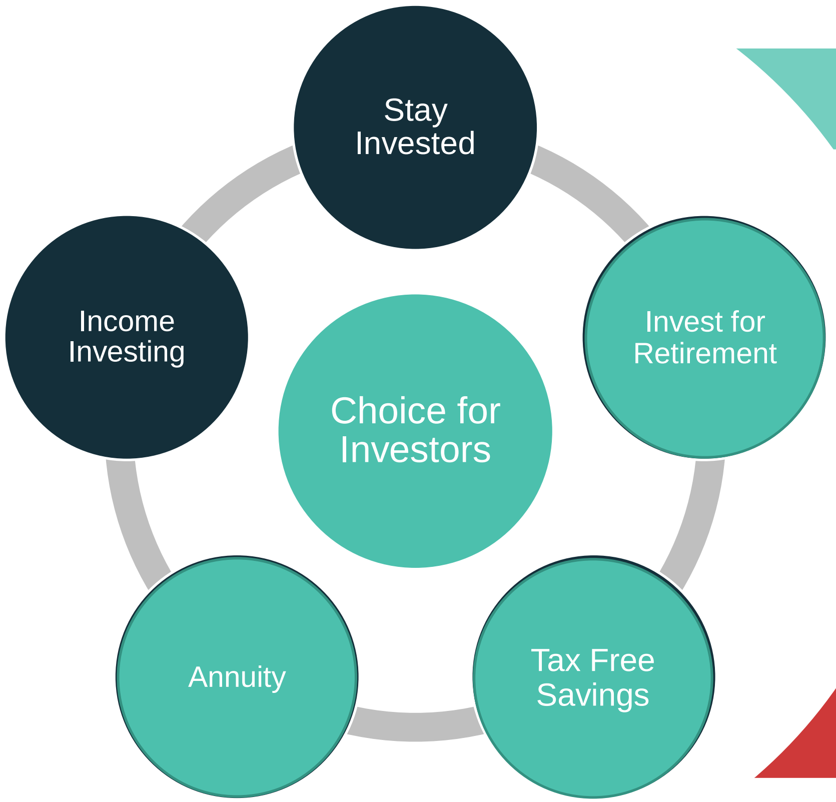
Investing Between Accumulation and Decumulation



- SPLIT RETIREMENT & PRE-RETIREMENT
- GREATER TRANSPARENCY
- GREATER CERTAINTY
- REDUCES RETIREMENT POT
- FUTURE INCOME AFFECTED

Chance of Running Out of Investment Pot Over 30 Years

	4% Starting Income	5% Starting Income
3	22.9%	83.7%
5	12.6%	39.5%

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Source: Canada Life Asset Management & Morningstar. Figures based on an equal weighted benchmark consisting of every primary share multi asset OEIC/Unit Trust which has been risk profiled or risk targeted by Dynamic Planner to 31/12/2020, split into each of their risk profiles. The simulation was based on a Monte Carlo Simulation using Brownian Motion, run a thousand times to assess possible outcomes of returns, using the 5 year return and standard deviation of the equally weighted benchmarks. Income was deducted monthly, after growth for the month. Income was based on the initial sum and grew by 2% in value annually. Chance of running out was based on the number of times the simulation hit -100% in value, divided by 1000. 357 Model based on the same equally weighted benchmarks, using same returns as the single benchmarks but with the investment split equally between benchmark 3,5 and 7. 357 Was rebalanced quarterly back to its initially weighting.

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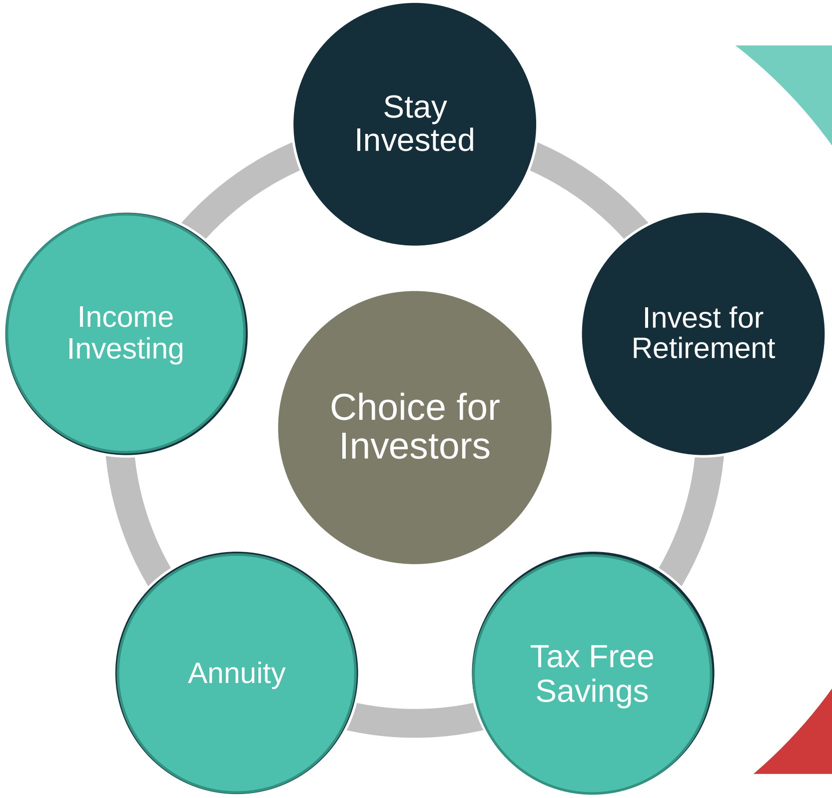
Investing Between Accumulation and Decumulation



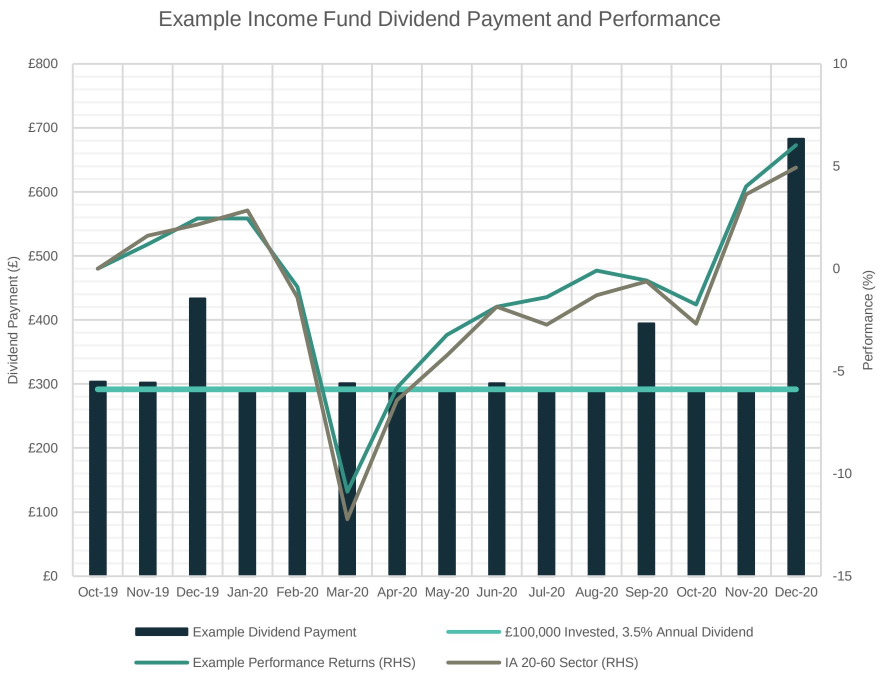
FULLY INVESTED

PROSPECT FOR GROWTH

TARGET DIVIDEND FOR INCOME

GREATER RISK OF VOLATILITY

INCOME NOT GUARANTEED



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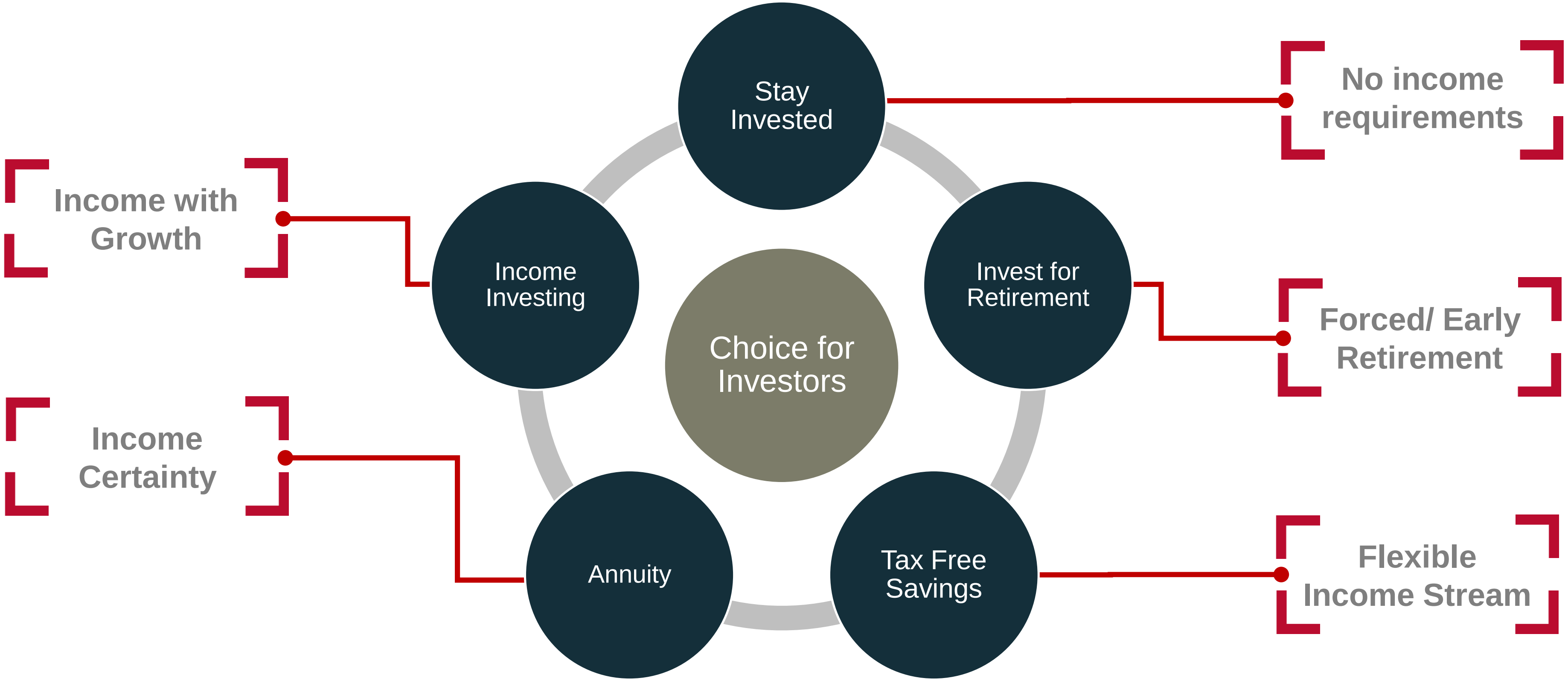
Past performance is not a guide to future performance. The value of investments may fall as well as rise and investors may not get back the amount invested.

Source: Chart – Morningstar. Dividend payments data since first monthly payment of the LF Canlife Diversified Monthly Income Fund to month end 31/07/2021. Performance since inception to month end 31/07/2021 price return in £ sterling.

Investing Between Accumulation and Decumulation



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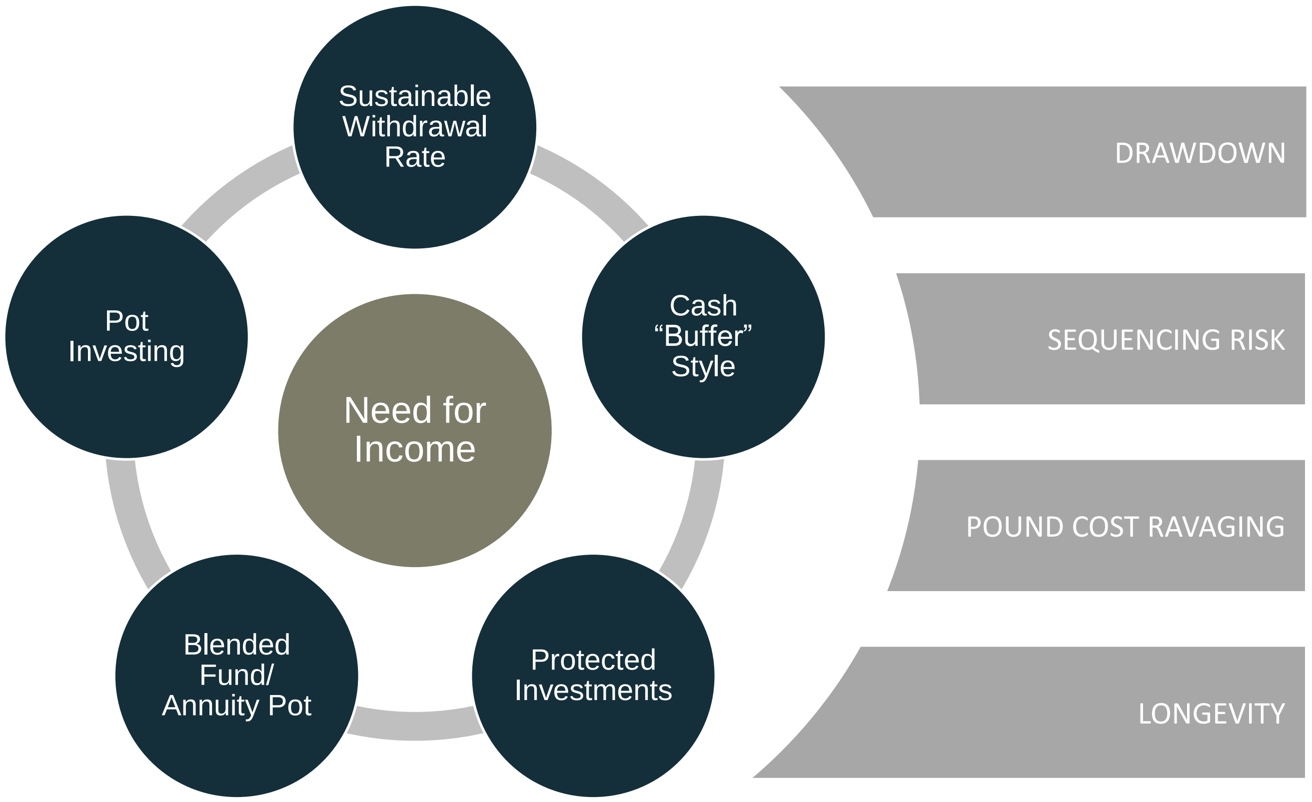
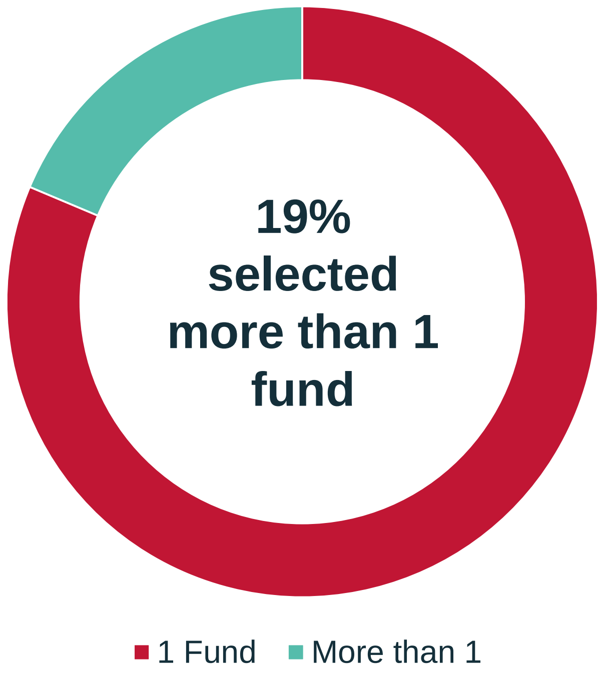
The Options for Decumulation

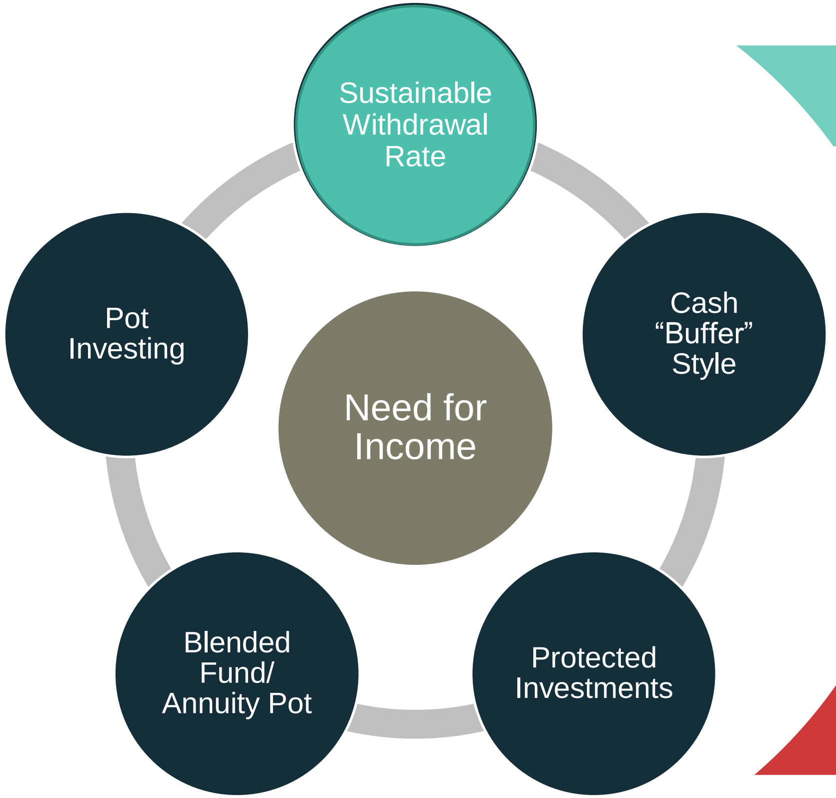


Canada Life Retirement Account
Number of funds selected



 Source Data from Canada Life

The Options for Decumulation



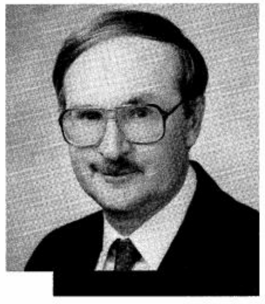
EASIEST TO IMPLEMENT

WIDEST CHOICE OF INVESTMENT

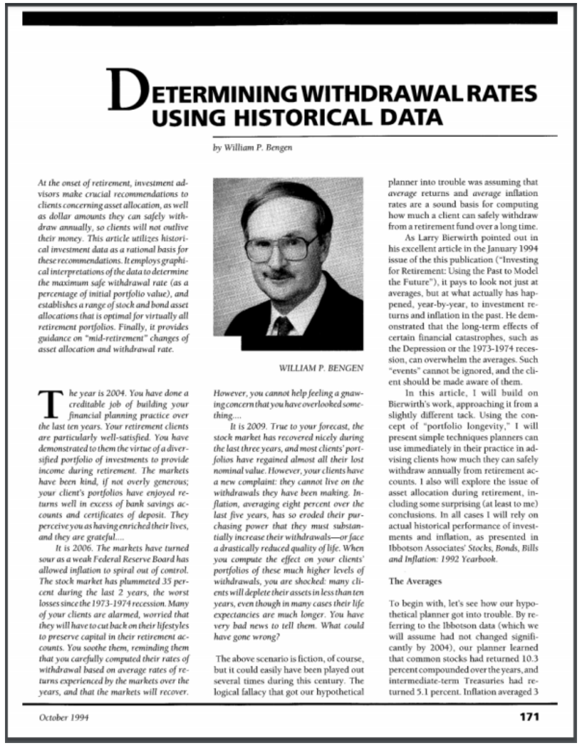
FOLLOWING YOUR CIP

THE SUSTAINABLE RATE CHANGES

LIMITED TO THAT INCOME LEVEL



WILLIAM P. BENGEN



DETERMINING WITHDRAWAL RATES USING HISTORICAL DATA

by William P. Bengen

At the onset of retirement, investment advisors make crucial recommendations to clients concerning asset allocation, as well as dollar amounts they can safely withdraw annually, so clients will not outlive their money. This article utilizes historical investment data as a rational basis for these recommendations. It employs graphical interpretations of the data to determine the maximum safe withdrawal rate (as a percentage of initial portfolio value), and establishes a range of stock and bond asset allocations that is optimal for virtually all retirement portfolios. Finally, it provides guidance on "mid-retirement" changes of asset allocation and withdrawal rate.

WILLIAM P. BENGEN

The year is 2004. You have done a creditable job of building your financial planning practice over the last ten years. Your retirement clients are particularly well-satisfied. You have demonstrated to them the virtue of a diversified portfolio of investments to provide income during retirement. The markets have been kind, if not overly generous; your client's portfolios have enjoyed returns well in excess of bank savings accounts and certificates of deposit. They perceive you as having enriched their lives, and they are grateful....

It is 2006. The markets have turned sour as a weak Federal Reserve Board has allowed inflation to spiral out of control. The stock market has plummeted 35 percent during the last 2 years, the worst losses since the 1973-1974 recession. Many of your clients are alarmed, worried that they will have to cut back on their lifestyles to preserve capital in their retirement accounts. You soothe them, reminding them that you carefully computed their rates of withdrawal based on average rates of returns experienced by the markets over the years, and that the markets will recover. However, you cannot help feeling a gnawing concern that you have overlooked something....

It is 2009. True to your forecast, the stock market has recovered nicely during the last three years, and most clients' portfolios have regained almost all their lost nominal value. However, your clients have a new complaint: they cannot live on the withdrawals they have been making. Inflation, averaging eight percent over the last five years, has so eroded their purchasing power that they must substantially increase their withdrawals—or face a drastically reduced quality of life. When you compute the effect on your clients' portfolios of these much higher levels of withdrawals, you are shocked: many clients will deplete their assets in less than ten years, even though in many cases their life expectancies are much longer. You have very bad news to tell them. What could have gone wrong?

The above scenario is fiction, of course, but it could easily have been played out several times during this century. The logical fallacy that got our hypothetical planner into trouble was assuming that *average* returns and *average* inflation rates are a sound basis for computing how much a client can safely withdraw from a retirement fund over a long time.

As Larry Bierwirth pointed out in his excellent article in the January 1994 issue of the this publication ("Investing for Retirement: Using the Past to Model the Future"), it pays to look not just at averages, but at what actually has happened, year-by-year, to investment returns and inflation in the past. He demonstrated that the long-term effects of certain financial catastrophes, such as the Depression or the 1973-1974 recession, can overwhelm the averages. Such "events" cannot be ignored, and the client should be made aware of them.

In this article, I will build on Bierwirth's work, approaching it from a slightly different tack. Using the concept of "portfolio longevity," I will present simple techniques planners can use immediately in their practice in advising clients how much they can safely withdraw annually from retirement accounts. I also will explore the issue of asset allocation during retirement, including some surprising (at least to me) conclusions. In all cases I will rely on actual historical performance of investments and inflation, as presented in Ibbotson Associates' *Stocks, Bonds, Bills and Inflation: 1992 Yearbook.*

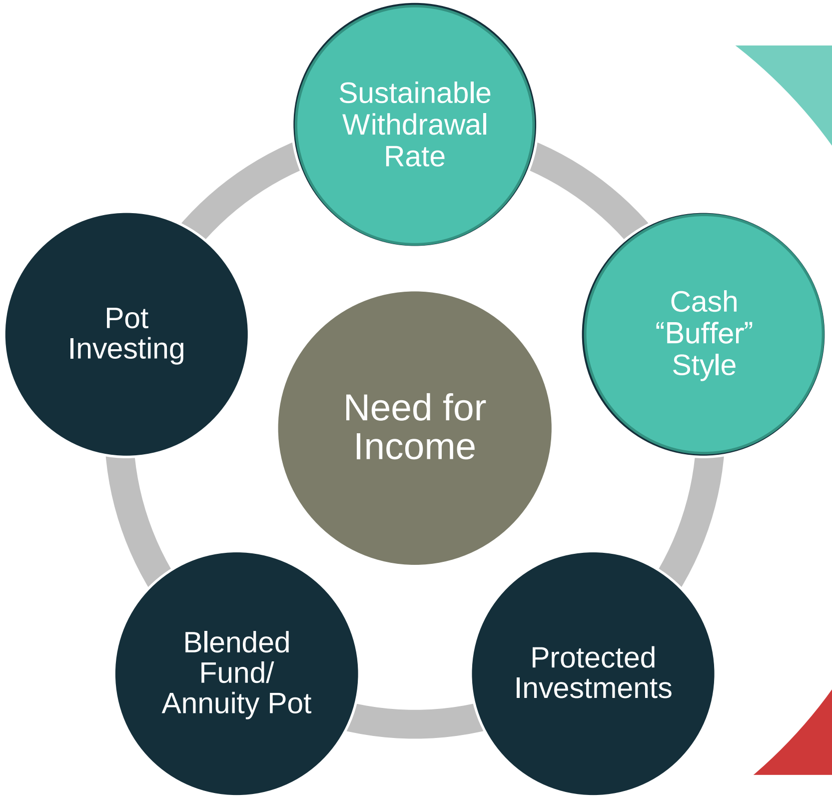
The Averages

To begin with, let's see how our hypothetical planner got into trouble. By referring to the Ibbotson data (which we will assume had not changed significantly by 2004), our planner learned that common stocks had returned 10.3 percent compounded over the years, and intermediate-term Treasuries had returned 5.1 percent. Inflation averaged 3

 Source *Bengen, William P. (October 1994). ["Determining Withdrawal Rates Using Historical Data"](#) (PDF). Journal of Financial Planning*

These figures are based on simulated performance for illustration purposes

The Options for Decumulation



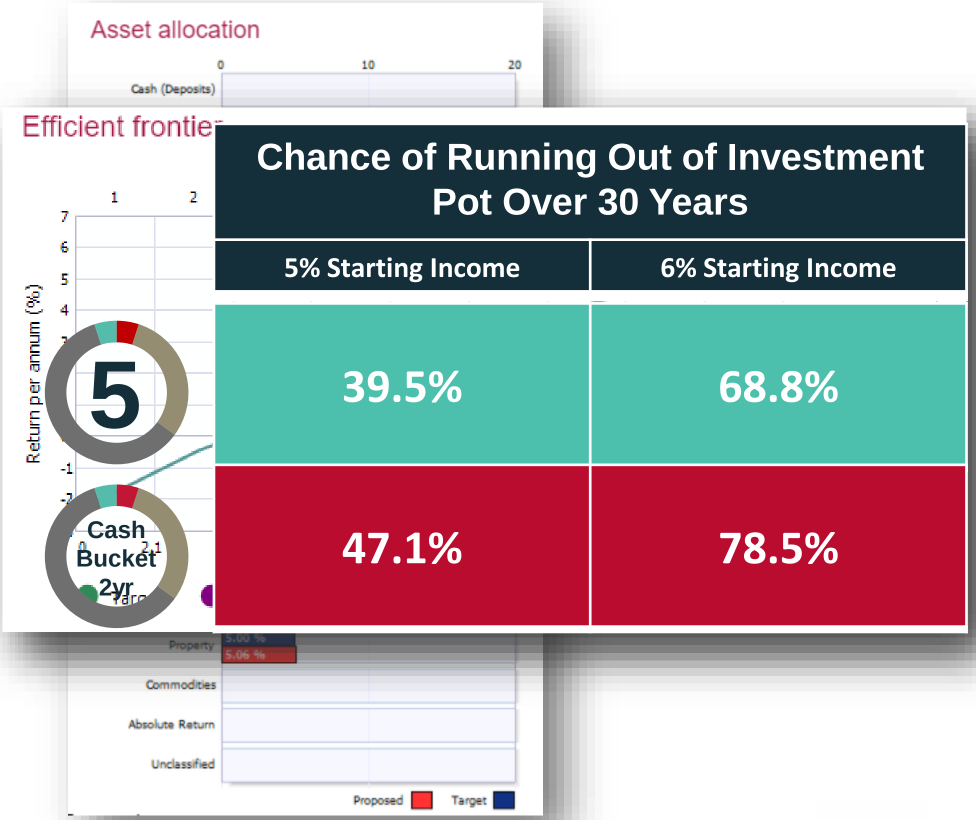
SEGREGATES THE RETIREMENT POT

X YEARS OF INCOME ALWAYS AVAILABLE = ADDED CERTAINTY

FOLLOWING YOUR CIP

CASH DRAG

OVERALL POT NEEDS TO BE CONSIDERED FOR CLIENT RISK



Chance of Running Out of Investment Pot Over 30 Years

	5% Starting Income	6% Starting Income
5	39.5%	68.8%
Cash Bucket 2yr	47.1%	78.5%

Past performance is not a guide to future performance. The value of investments may fall as well as rise and investors may not get back the amount invested.

Source: Asset Allocation and Efficient Frontier – Dynamic Planner Risk Profile 4. Canada Life Asset Management & Morningstar. Figures based on an equal weighted benchmark consisting of every primary share multi asset OEIC/Unit Trust which has been risk profiled or risk targeted by Dynamic Planner to 31/12/2020, split into each of their risk profiles. The simulation was based on a Monte Carlo Simulation using Brownian Motion, run a thousand times to assess possible outcomes of returns, using the 5 year return and standard deviation of the equally weighted benchmarks. Income was deducted monthly, after growth for the month. Income was based on the initial sum and grew by 2% in value annually. Chance of running out was based on the number of times the simulation hit -100% in value, divided by 1000. Cash bucket used the same returns as benchmark 5 and utilised a cash holding of 2yr starting income, topped up annually to the initial percentage

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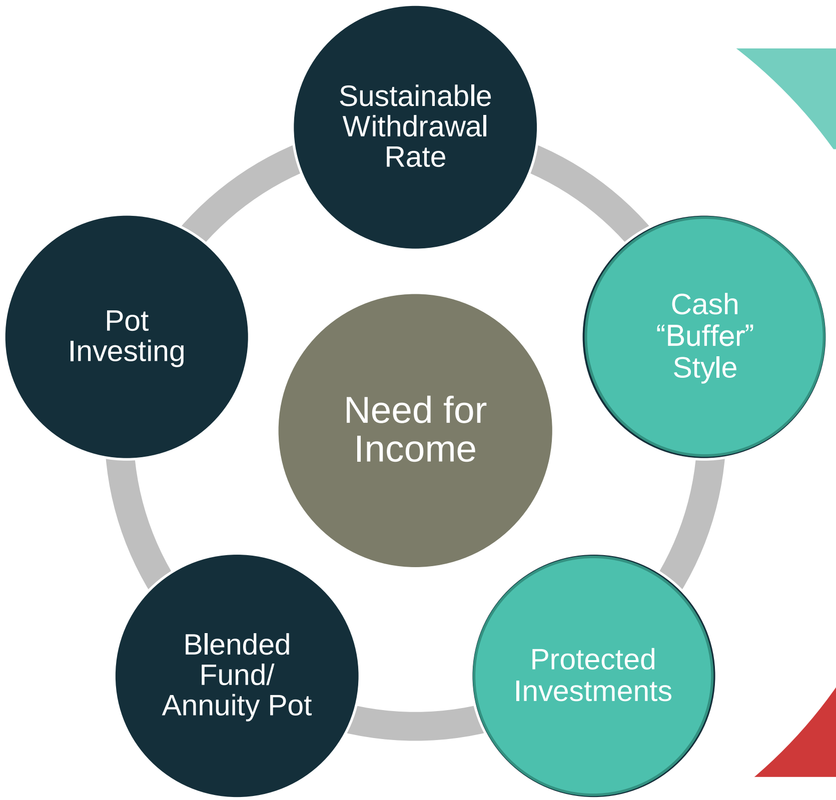
The Options for Decumulation



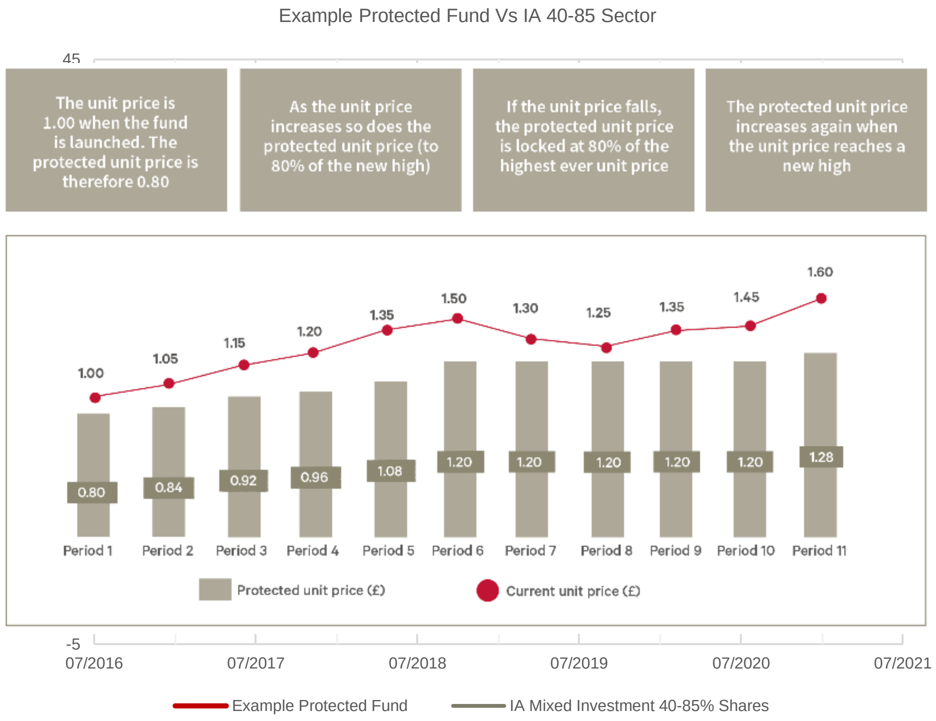
ADDS PROTECTION

MANAGES DOWNSIDE LOSS

UPSIDE GROWTH

CASH DRAG/ DIFFICULT TO "BOUNCE BACK" FROM A LOSS

COUNTERPARTY RISKS



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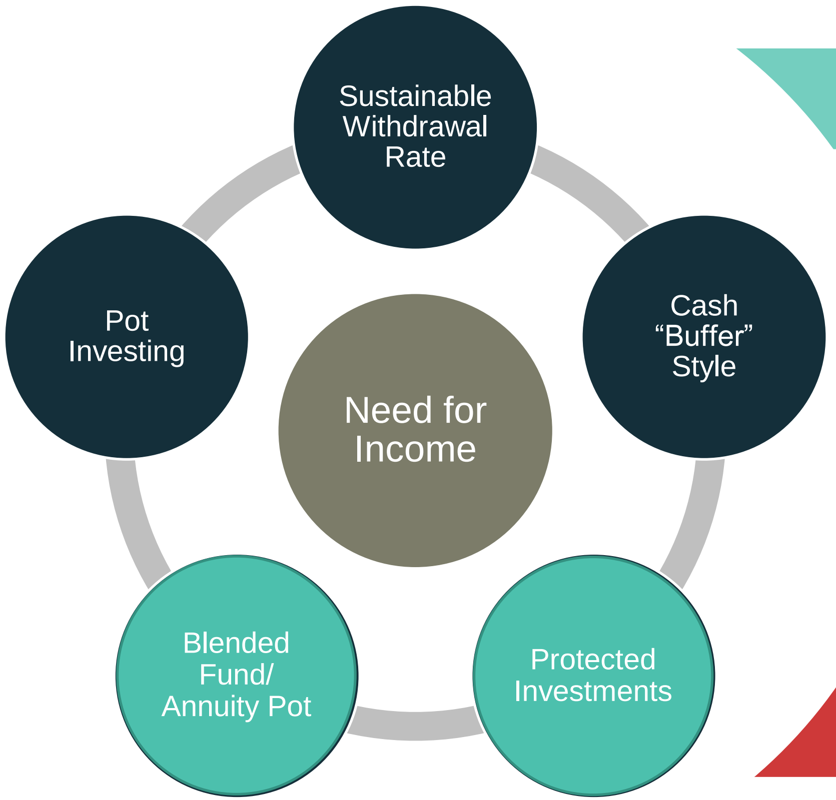
Source: Chart1 – Canada Life as at 31/07/2021. Chart 2 - Morningstar. 5yr data to month end 31/07/2021. Bid to bid with net income reinvested rebased in £ sterling.

The Options for Decumulation



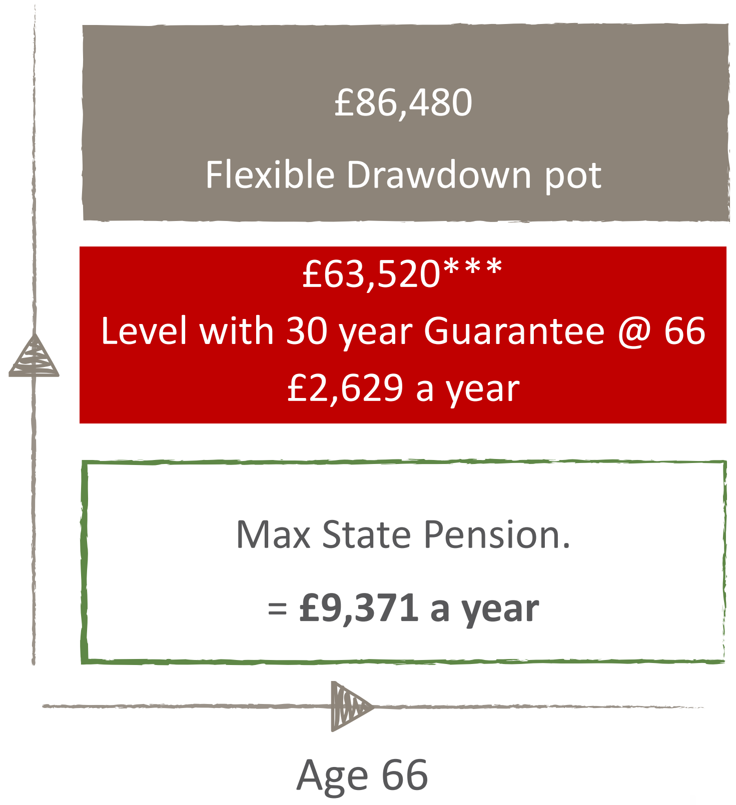
GUARANTEE PARTIAL INCOME

ADD GROWTH

REINVEST UNUSED INCOME

SACRIFICING PART OF THEIR POT

SUSCEPTIBLE TO ANNUITY RATES



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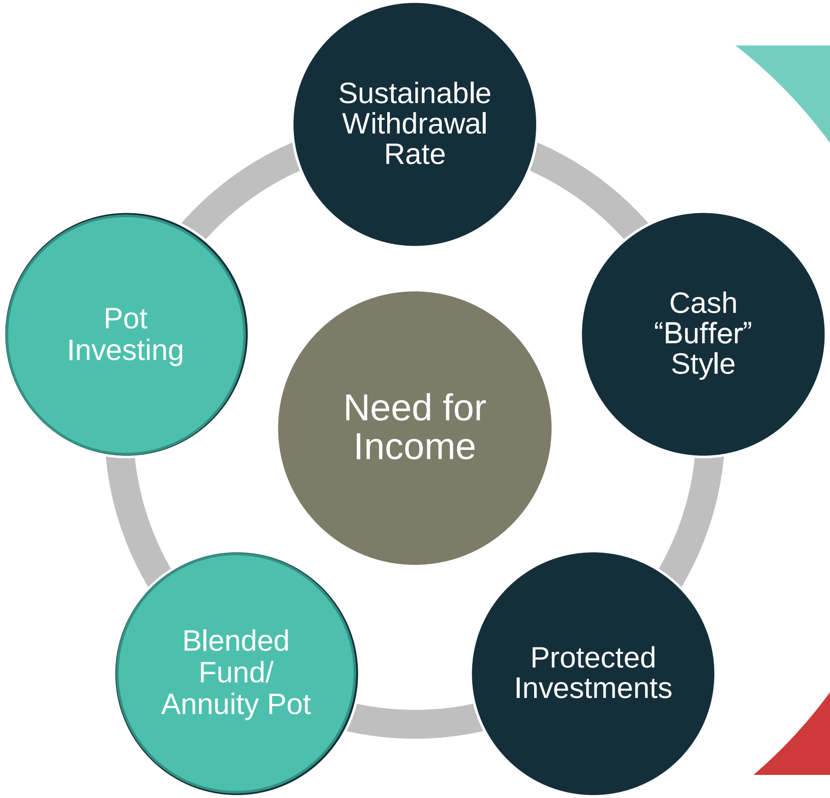
The Options for Decumulation



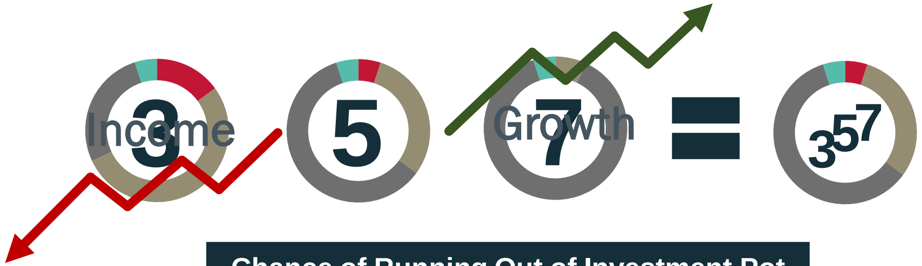
SEGREGATES THE RETIREMENT POT

UTILISE YOUR CIP WITH A TWEAK

REMOVES CASH DRAG

REQUIRES REBALANCING

REQUIRES REVIEWS TO MATCH RISK PROFILE



Chance of Running Out of Investment Pot Over 30 Years	4% Starting Income	5% Starting Income
357	6.2%	27.8%
5	12.6%	39.5%
Cash Bucket 2yr	14.1%	47.1%

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Source: Canada Life Asset Management & Morningstar. Figures based on an equal weighted benchmark consisting of every primary share multi asset OEIC/Unit Trust which has been risk profiled or risk targeted by Dynamic Planner to 31/12/2020, split into each of their risk profiles. The simulation was based on a Monte Carlo Simulation using Brownian Motion, run a thousand times to assess possible outcomes of returns, using the 5 year return and standard deviation of the equally weighted benchmarks. Income was deducted monthly, after growth for the month. Income was based on the initial sum and grew by 2% in value annually. Chance of running out was based on the number of times the simulation hit -100% in value, divided by 1000. 357 Model based on the same equally weighted benchmarks, using same returns as the single benchmarks but with the investment split equally between benchmark 3,5 and 7. 357 Was rebalanced quarterly back to its initially weighting. Cash bucket used the same returns as benchmark 5 and utilised a cash holding of 2yr starting income, topped up annually to the initial percentage

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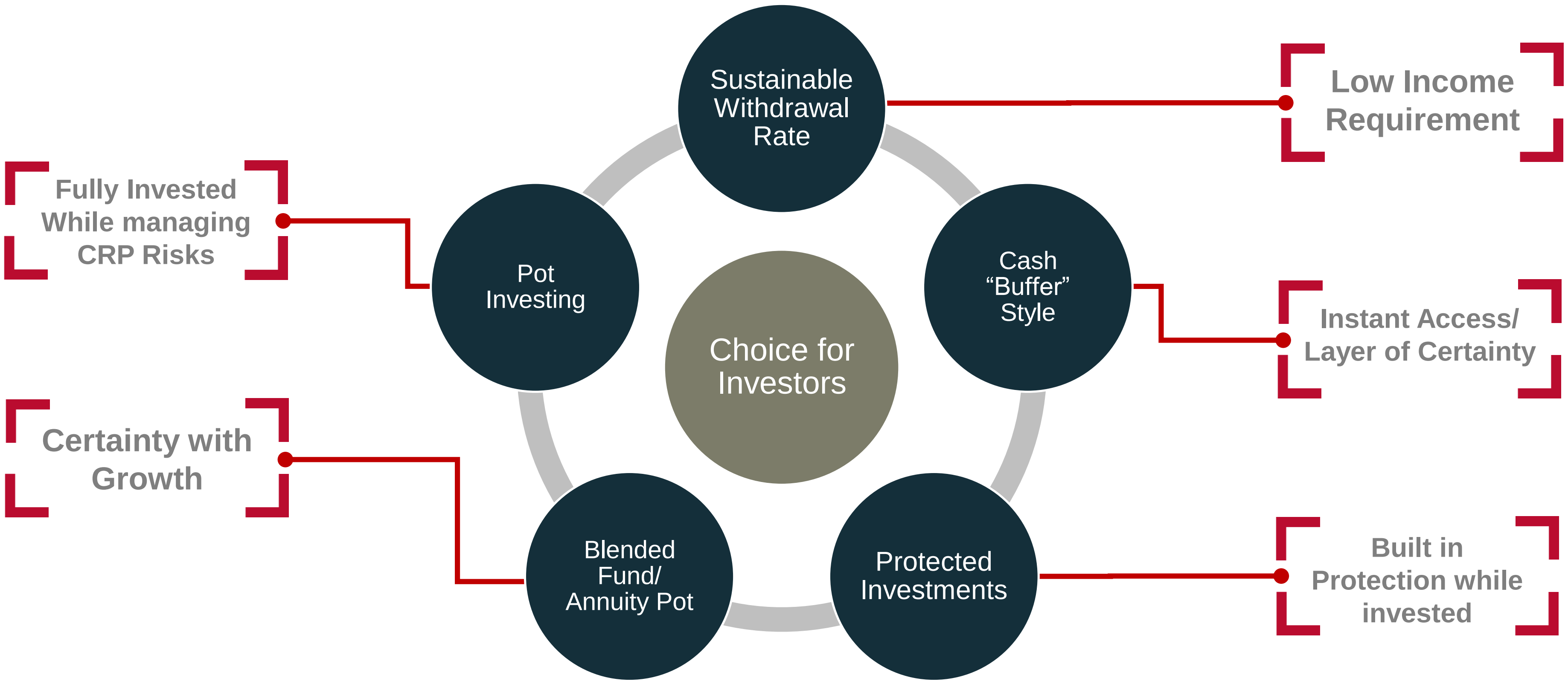

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Moving forward – the choice for clients in retirement - CRP

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Learning Outcomes

- Describe the current options and risks at and before retirement
- Understand the different fund strategies in drawdown
- Demonstrate the benefits of a basket of fund strategies for clients at retirement

The Canlife Retirement Account

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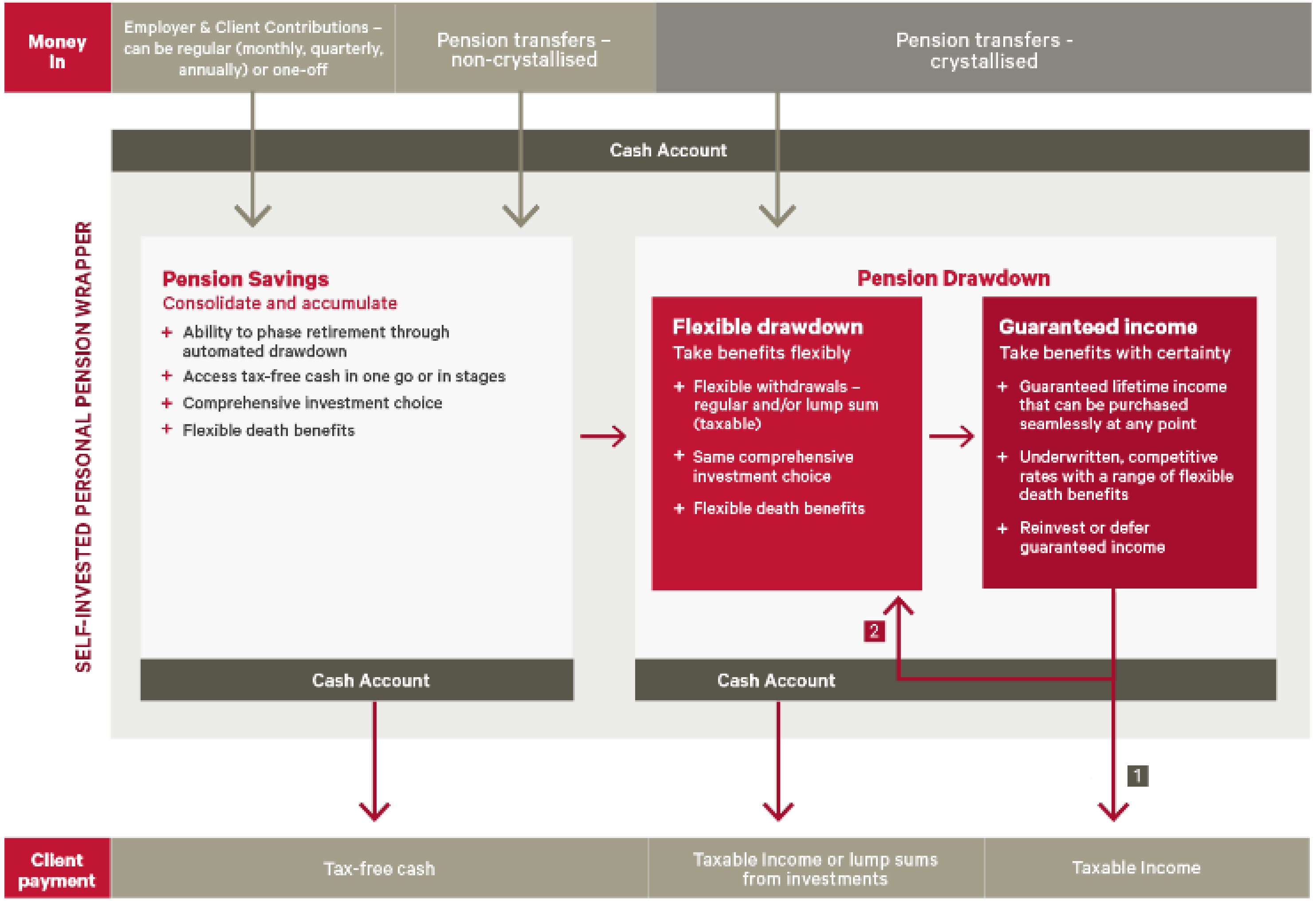
The Retirement Account – Product Structure



With guaranteed income, you can:-

1 Take income (taxable)

2 Reinvest income*

* Guaranteed income can be seamlessly reinvested in Pension Drawdown through any of our investment solutions or left in the cash account. No tax payable until the income is paid out.

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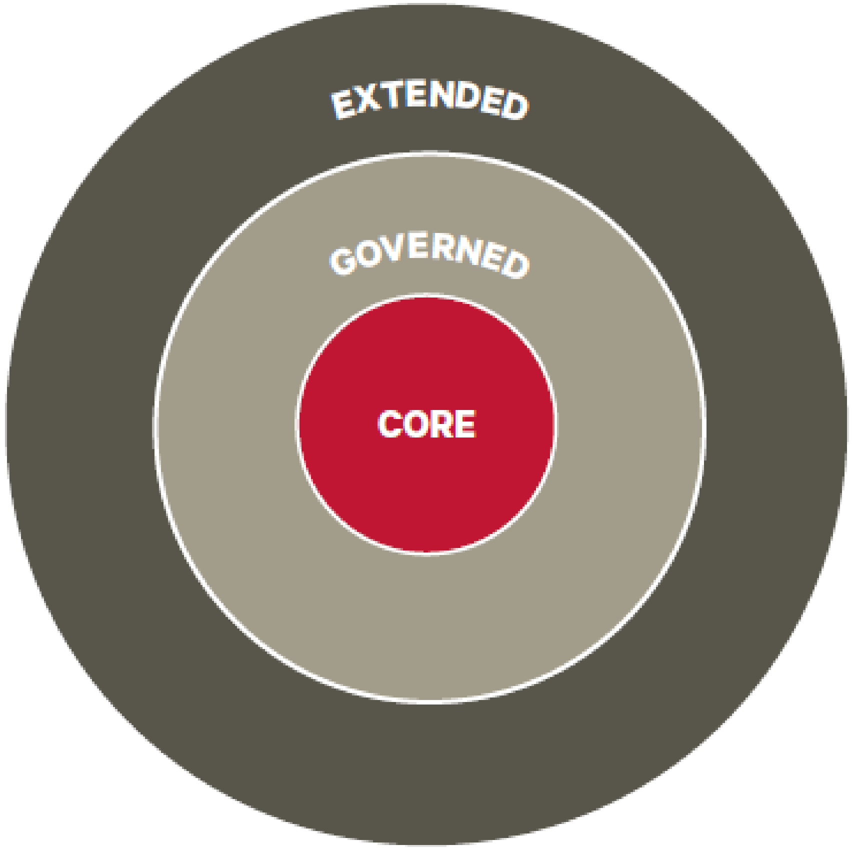
 Source: Canada Life

The Retirement Account Fund Range

Access to three distinct fund ranges, all with specific objectives and potential uses



Select funds from anywhere in the three ranges with complete freedom, and the product fee is the same irrespective of which funds you choose (you aren't restricted to one fund within a range either).

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 Source: Canada Life

LF Canlife Funds

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LF Canlife Portfolio Funds Summary

5 Risk Targeted Fund of Funds

- Expected level of return based on their expected risk profile

Globally Diversified

- Fixed Income
- Equity
- Property
- Cash

Continual Asset Allocation Review

- Reviewed daily and adjusted when needed to keep alignment

Rated by Independent Risk Profiling Companies

DYNAMIC PLANNER | SYNAPTIC RISK | FinaMetrica | DYNAMIC PLANNER® PREMIUM FUND | defaqto 2020 Risk Targeted Fund Family

Craig Rippe
Head of Multi-Asset

David Marchant
CIO, Canada Life Limited, MD, Canada Life Asset Management Limited

Fund Range Facts

Fund Managers

- Craig Rippe & David Marchant

Fund Inception

- 28 November 2013

Fund Range Size

- £688.5m (as at 18/01/21)

Number of Funds

- 5

Charges

- **OCF: From 0.75% (C Acc)**
- AMC: 0.45% (C Acc)

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Cost effective investment solutions

	THE RETIREMENT ACCOUNT Ongoing Charge Figure (OCF)	OEIC FUNDS (C Share class) Ongoing Charge Figure (OCF)	LIFE FUNDS (Life Series 5 Acc) Ongoing Charge Figure (OCF)
Portfolio III/3	0.36%	0.78%	0.49%
Portfolio IV/4	0.43%	0.76%	0.54%
Portfolio V/5	0.51%	0.77%	0.60%
Portfolio VI/6	0.57%	0.80%	0.67%
Portfolio VII/7	0.61%	0.86%	0.72%

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As at 31/07/21. The Ongoing Charge Figures for the life and pension funds shown above includes the Annual Management Charge and all other expenses for running the fund. It does not include any product fees. The OCF for the life/pension funds shown includes the Investment Management Fee charged by the fund manager and other expenses for running the fund. Other expenses include, but are not limited to items such as auditor, depository, custodian and regulatory fees. The OCF does not include any product specific charges, please refer to product details for more information on these charges.

LF Canlife Diversified Monthly Income Fund Summary

defaqto EXPERT RATED

Targeting steady income with monthly dividends

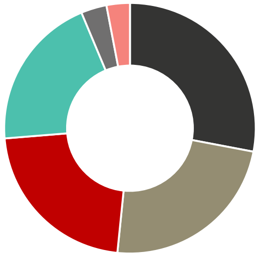
- Fund to deliver a generous yield – Targets 4%+
- Aim for a relatively steady monthly dividend payment
- Prospect for capital growth

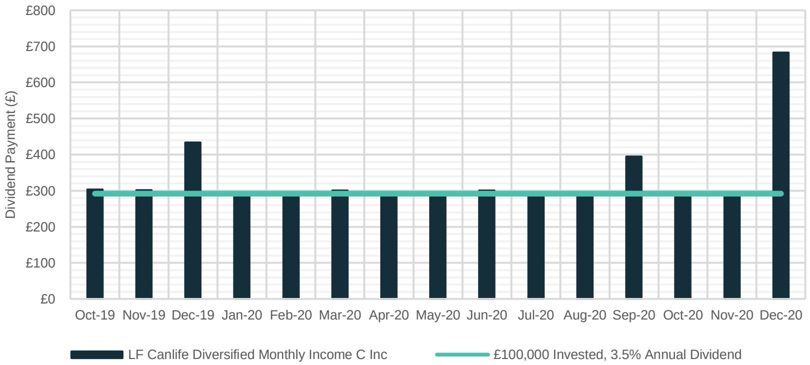
Targeted Monthly Income per unit: **£0.0029**

Directly Invested Multi Asset Allocation

- Yield to be well supported
- Invest in quality investments – no excessive risk

Diversified





Fund Facts

Fund Managers
- Craig Rippe

Fund Inception
- 1 July 2019

Fund Size
- £30.0m (at at 31/01/21)

Sector
- IA Mixed Investment 20-60% Sector

Number of Holdings
- 95

ISIN
- GB00BK5BDK84

Charges
- **OCF: 0.65% (C Acc share class)**
- AMC: 0.50% (C Acc share class)

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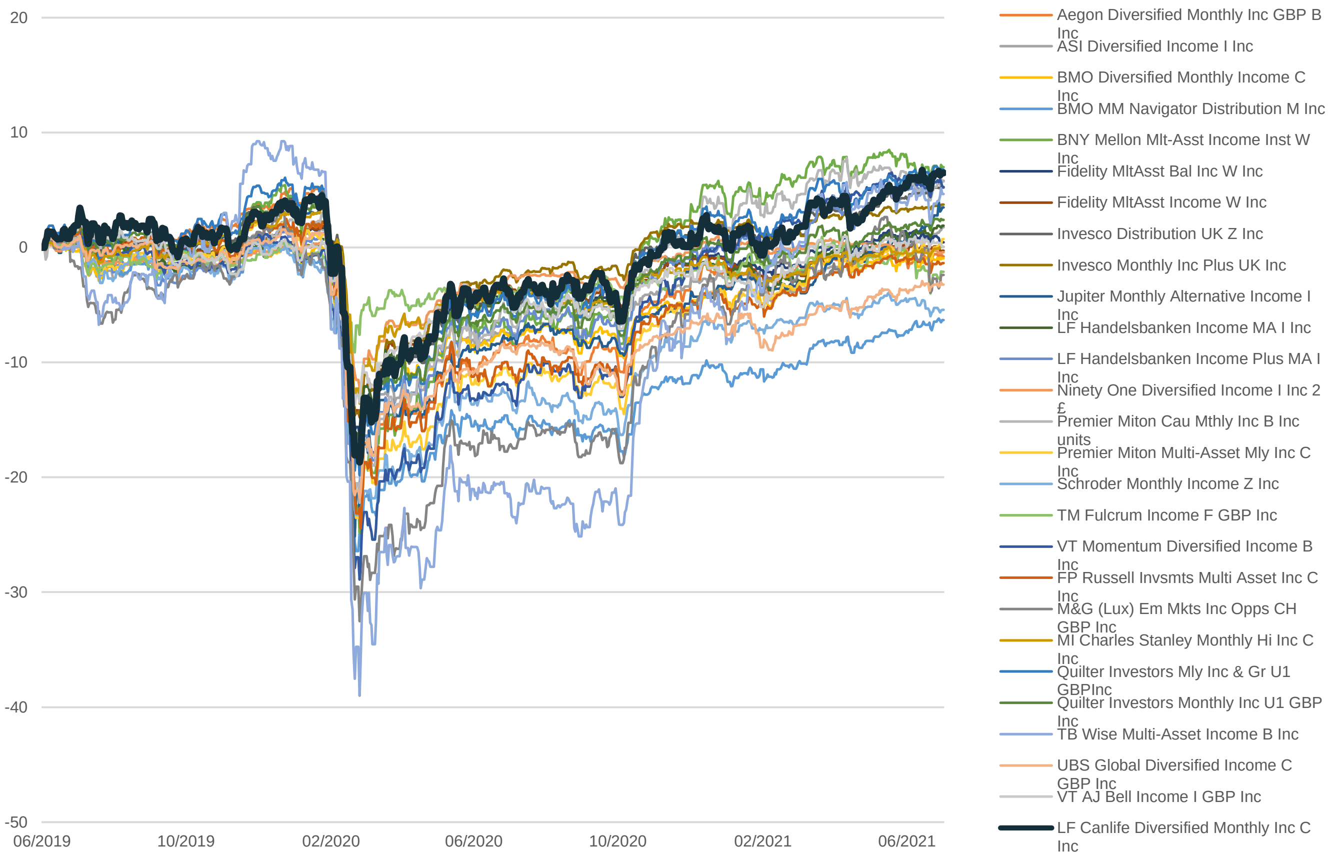
Past performance is not a guide to future performance. The value of investments may fall as well as rise and investors may not get back the amount invested.

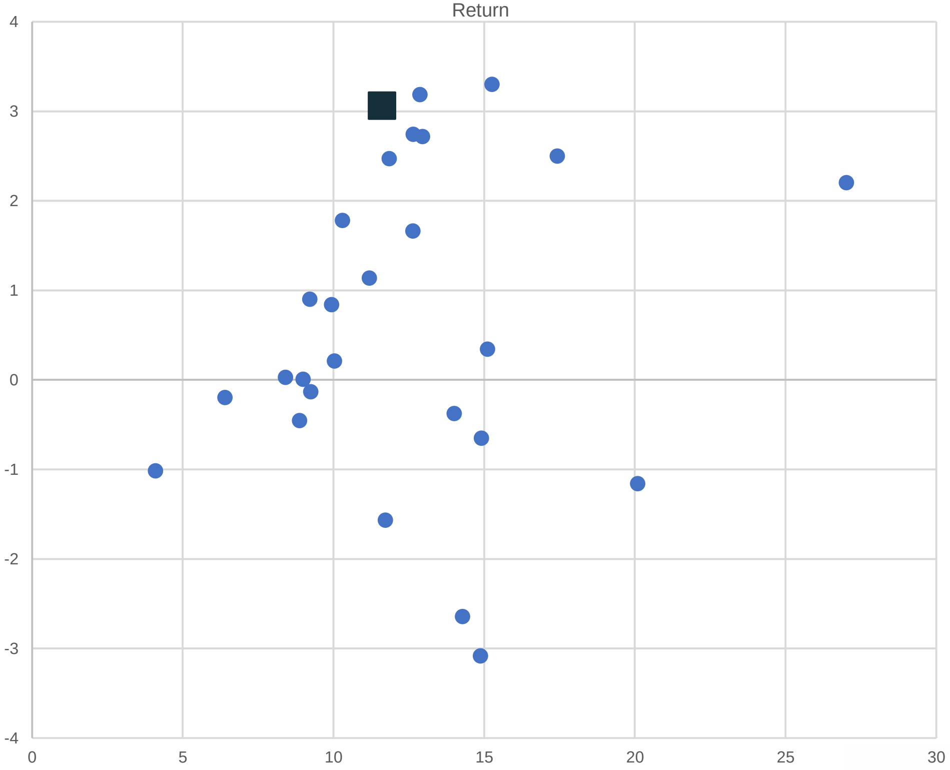
Source: Chart – Morningstar. Dividend payments data since first monthly payment of the LF Canlife Diversified Monthly Income Fund to month end 31/07/2021. Performance since inception to month end 31/07/2021 price return in £ sterling.

LF Canlife Diversified Monthly Income Fund vs All Monthly Paying Funds

Performance since Inception of the LF Canlife Diversified Monthly Income Fund – Price Return



Risk/Return Since Inception of the LF Canlife Diversified Monthly Income Fund – Price Return



32 **Past performance is not a guide to future performance. The value of investments may fall as well as rise and investors may not get back the amount invested.**

Source: Chart – Morningstar. Data from inception of the LF Canlife Diversified Monthly Income Fund to Month end 31/07/21. List derived from all IA Mixed Asset funds paying a monthly dividend with 12 month yield excess of 3%

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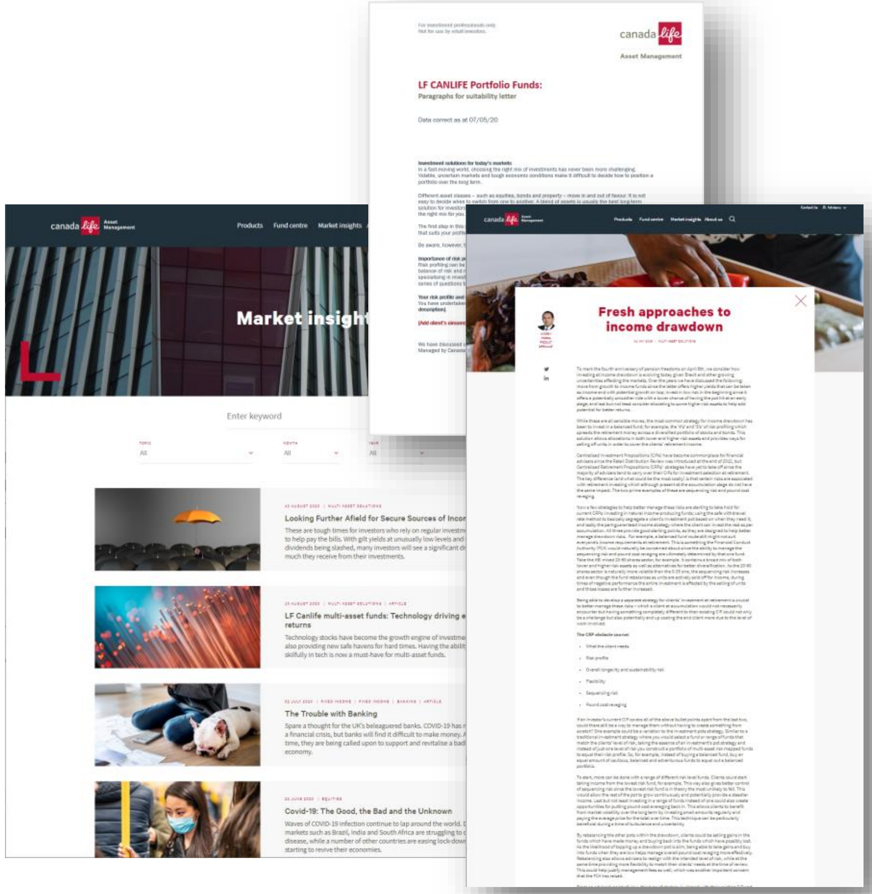
Support and due diligence

MI & Reports Available	Online	Hard Copies
Monthly performance updates	✓	✓*
Monthly factsheets	✓	✓*
Adviser sales aid	✓	✓*
Suitability letter	✓	✓*
Online latest prices and performance	✓	✘
Fund Manager insights	✓	✘
Ad hoc Fund Manager blogs & webinars	✓	✘
Access Advice monthly fund comparison	✓	✘
Underlying fund information	✓	✘

* Available on request



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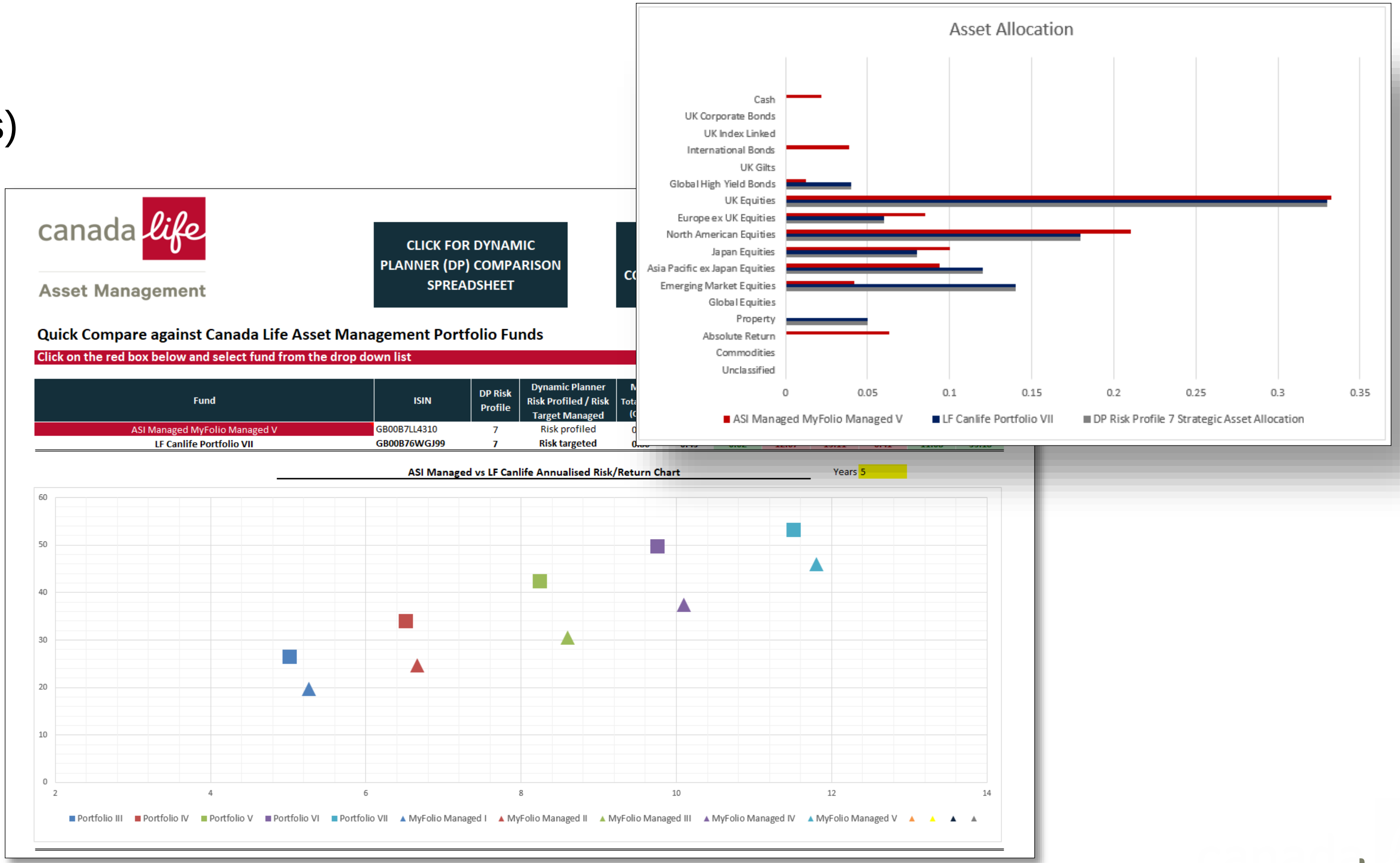
Comparison calculators available

- Pension & OEIC fund versions available (500+ Multi-Asset funds)
- Includes Asset Allocation
- Provides family risk/return scatterplot chart
- Performance data
- Easy to use format



The above charts are illustrative examples only.

Past performance is not a guide to future performance. The value of investments may fall as well as rise and investors may not get back the amount invested. Income from investments may fluctuate. Currency fluctuations can also affect performance.

Source: Canada Life Asset Management research using Morningstar , bid to bid, with income re-invested for TRA series to 31/01/2021. Risk and return chart to 31/01/2021.

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[Thank you]

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IMPORTANT INFORMATION

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