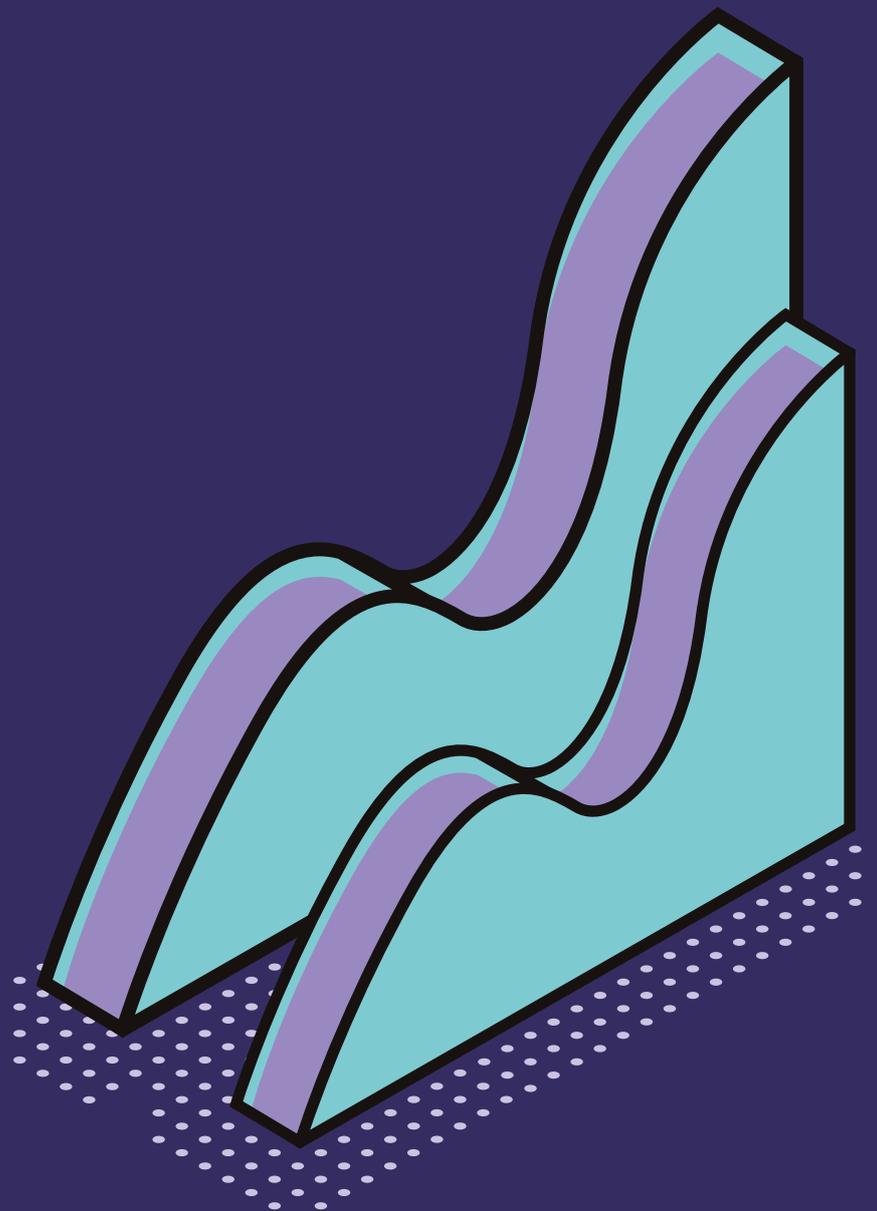




Will I run out of money?

timelineapp.co





Reaching the summit

Since Edmund Hillary became the first person to reach the summit of Mount Everest in 1953, around 5,000 more people have followed in his footsteps.

Unfortunately, around 300 people have also died on those slopes over the years, many after reaching the summit first.

The mix of high altitude, lack of oxygen, and extreme cold – not to mention the treacherous terrain – has done for many climbers who only hours previously had been celebrating the achievement of literally standing on top of the world.

As one veteran mountaineer put it: “Getting to the summit is optional, but getting down is mandatory.”



How do you get down the mountain without slipping off?

The best way to get back to base camp safely is to recruit a Sherpa. These expert guides will carry the kit, recognise when the weather is turning, and know the terrain better than even the smartest climber.

Navigating a successful retirement is a lot like descending a mountain. You’ve done the hard work, and earned the right to enjoy the view from the top, but now you need to prepare for the second leg of the journey.

And for this, instead of a Sherpa, you need a financial planner. Their job is to guide you safely from the summit of your working life, through the pitfalls, ravines and avalanches of the financial market, into a comfortable retirement with an income that meets – or even exceeds – your lifestyle goals.

Which is what this guide is about.

So if you’re thinking about or are already drawing income from a drawdown pot or other kind of investment, please read on. It will help you understand the specific risks involved, and how to make sure your money lasts a lifetime.



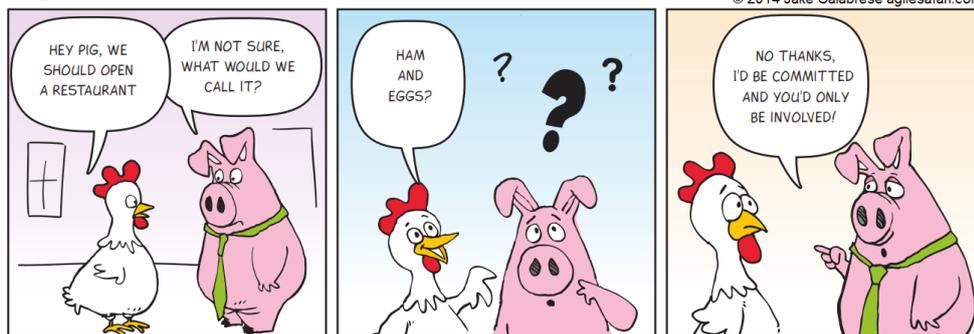
But before we start, CONGRATULATIONS ON YOUR RETIREMENT! Take the time to enjoy the view from the top, and when you’re ready, let’s figure out how we’re going to get safely off the mountain together.

What are your key retirement risks?

Agile Safari

PIG & CHICKEN PART 1

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Throughout your working life, you are the chicken, laying your eggs and watching your basket grow. And when you retire, you transition from chicken to pig. No longer will you see your basket steadily grow with each monthly statement. In fact, now you need to trim away at it to pay your bills, fund your lifestyle and enjoy your newly found freedom.

Which means it's time to stop thinking like the chicken, and get into the mindset of the pig.



So what changes when you lose your feathers?

Less earning flexibility.

Once you retire, your earnings have peaked. And with no other income beyond your financial assets, it's important to take less risk with what you have.

Decreasing cognitive abilities.

Research shows that as people age, their financial decision-making becomes impaired by around 1-2% a year. And it's no easy thing to manage withdrawals from a drawdown portfolio.

In fact, it's a full-time job in itself, and requires specialised qualifications and experience to recognise the risks and rewards of each decision.

Inflation deflates your spending power.

A major challenge is preventing inflation from depleting the buying power of your income through decades of retirement. For instance, a yearly income of £1,000 in 1990 had the buying power of £476 by the end of 2020 – a reduction of over 50% over a 30-year period using the Consumer Price Index (CPI).

You might live for decades.

Nobody wants to think of their death, but the reality is that a healthy adult in the UK born around 1960 has a 10%-15% chance of living to be a hundred. This poses a different kind of problem; how do you ensure your retirement pot will last you for your whole life? Especially when you don't know how long you'll live.

A robust withdrawal plan will ensure you've got money right through to those twilight years. The goal isn't to precisely predict how long you may live. The goal is to address the risk that you outlive your wealth.

Heightened sequence risk.

Poor returns early in retirement can cause untold damage to your prospects of a decent income for life. Sequence risk is often confused with market volatility, a traditional measure of investment risk.

Capital markets deliver good returns over the long term, but when you start withdrawing from your investments, it becomes trickier to maintain those returns. And where you are right now, at the start of your retirement journey, sequence risk is the biggest problem you face.

The best way to mitigate all of the above risks is to approach them in a scientific way. And that's where a financial adviser comes into their own.



A note on sequence risk

Getting it wrong could prevent you maintaining a lifetime income from your portfolio.

What is sequence risk?

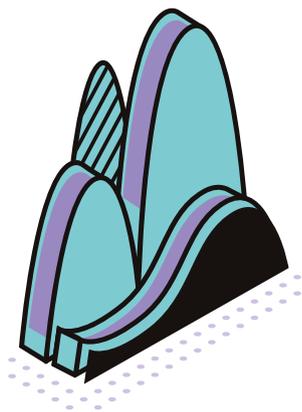
Put simply, it's the risk of receiving unfavourable returns from your portfolio, caused by withdrawing money from your assets.

When is the danger of sequence risk at its highest?

The first years of your retirement is when sequence risk can bite the hardest.

Research shows that returns during this period will have a disproportionate effect on your overall financial outlook, regardless of long-term returns over your entire retirement period.

Get good returns in those early years, and you're unlikely to run out of money. Get poor or even mediocre returns early on, then you may have a problem.



Is sequence risk related to market volatility?

No, these are different things, though they are often confused, even by some financial professionals.

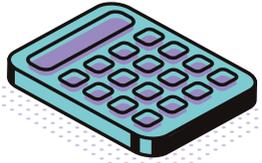
Volatility is the day-to-day movement in your portfolio. It's measured using standard deviation, which is the amount your portfolio return deviates from the average over any given time period.

Sequence risk, on the other hand, relates to the order of portfolio returns.

A good financial planner will help you contend with volatility, but they will also protect you from the dangers posed by sequence risk.

With so many factors in play, what's the best way to plan your retirement income?

This is a question that has challenged financial experts throughout the modern era. Noted economist and Nobel Laureate William Sharpe calls it the 'nastiest, hardest problem in finance.'



Don't be fooled by retirement calculators.

While any of the commonly available retirement calculators you might find in your own research are valuable for calculating cashflow projections, they are generally based on the false assumption that your expected rate of return will be the same each year. The real world doesn't operate like this, now more so than ever.

Using historical data is the gold standard.

In recent decades, financial experts have turned to the wealth of historical data we have available about market conditions over the last century.

Noted US financial advisor Bill Bengen proposed modelling a retirement fund through the turbulent market conditions of the 1900s, to find what is known as a 'Sustainable Withdrawal Rate (SWR)'. This figure, when adjusted for inflation, can be withdrawn from your retirement fund each year, and give you an income that will last for decades.



This method has become known as the 4% rule.

The 4% rule in practice.

If you had £1million pounds worth of investments in your retirement pot, you could withdraw 4% of that money, which is £40k, in the first year.

In the following years, you take out the same amount, adjusted for inflation.

In theory, this would offer you strong reassurance that you will have enough money to last for thirty years, regardless of the changes to your portfolio value as time goes on.

Sounds easy, right? So why bother to engage a financial planner if all they're going to do is tell you to take 4% of your portfolio as income each year? Well, as it happens, the 4% rule is a good rule of thumb, but it isn't perfect...

The 4% rule isn't the full story

While Bengen's ideas are useful, simply applying the 4% rule to your retirement fund withdrawals isn't a good idea, for several key reasons:

- Your portfolio is likely dissimilar to the one used in Bengen's research, and this makes a big difference to the sustainability of your withdrawals.
- After thirty years, with your assets depleted, you might find you're actually still alive and well.
- Investment fees and taxes will be incurred during your retirement journey, something this model doesn't account for.
- The money you spend during retirement isn't static in real terms. It may go up or down for various reasons, depending on your circumstances.

Ultimately, the 4% rule is a one-size fits all solution to a problem that needs a personal approach.



Which is where a forward-thinking financial planner can help. By using cutting-edge technology such as Timeline, they will create a highly personalised – and adaptable – strategy that suits your specific lifestyle goals and requirements.

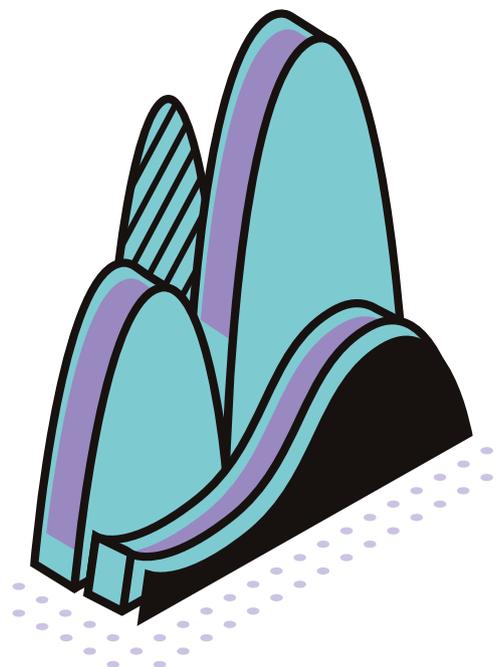
Hope for the best, plan for the worse.

The 4% rule is designed to give you financial security that would see your portfolio withstand any number of catastrophic events from the last century, including both major wars, the Great Depression, and the more recent financial crisis we have experienced.

However, there's more to financial planning than just asking: 'What is the worse that could happen?'

After all, there's a decent chance you'll live through good times, too.

The trick is to balance out the best and worst case scenarios and calculate the 'success rate' of your portfolio.



How can you calculate your success rate?

This is where probability comes into play. It's used by professionals in many fields, from surgeons with lives in their hands, to insurance actuaries and football managers. It boils down to being able to say how likely a plan is going to stay on track, and if it does veer off course, being able to correct your approach down the line.

When an expert in financial planning has access to vast amounts of empirical data from a century or so of investment history, they can develop a withdrawal strategy for you that offers an 80%-90% chance that you will see the returns you desire, with minimal chances of poor returns early on.

This means that 80-90 times out of 100, your withdrawal strategy would be successful during your retirement.

What if you don't meet your success rate?

Retirement planning is an ongoing process. This means you might need to make course corrections along the way, such as reducing your withdrawal rate, or changing your asset allocations. Of course, the higher your success rate is, the less chance the need for this will occur.



Rule-based withdrawal strategies

Rule-based strategies offer you a higher withdrawal rate, and use set rules, also known as safeguards, to stop you running out of money.

Typically, these rules involve adjusting your spending gradually downwards if you face poor returns early in retirement.

See examples of rule-based strategies opposite.

➤ Cap & Collar

Under this approach, you set an upper (cap) and lower (collar) inflation limit. You adjust your withdrawals each year for inflation.

➤ Guyton Inflation Adjustment

This approach involves adjusting your withdrawals for inflation each year except after a negative portfolio return.

➤ Guardrails

You can reduce or increase what you spend based on a pre-defined percentage of your initial withdrawal rate.

Of course, each strategy has pros and cons. A good financial planner will advise you on what approach will work best, using complex modelling to present clear visualisations on how these strategies might fare under a wide range of market conditions.



You are unique, and so is your retirement journey

Every person is different, and your retirement needs will not be the same as the next person, or couple.

Which is why it's important not to apply a one-size-fits-all solution to managing your retirement wealth.

What you need is a highly personalised, and tailored approach, one that takes into account things like:



How you want your money.

What level of income do you desire from your portfolio? Have you got one-off lump sum withdrawals in mind above these needs? And how prepared are you to make adjustments should market conditions be less favourable?

Your longevity.

How long are you likely to live? Although if you could tell us that, you probably wouldn't need our help.

Fees and taxes.

When Benjamin Franklin said nothing was certain in life, except death and taxes, he forgot to mention fees. These include the likes of income and capital gains taxes, advisory fees and other investment costs.

Investment strategy.

Do you want a cash buffer? What are your asset allocations? What order will you liquidate your assets and wrappers? How comfortable are you with risk?

Your legacy.

Do you want to leave money to your loved ones? Or make a donation to a cause you care about once you've gone?

If you don't know the answer to these questions: DON'T WORRY!



This is where a financial adviser, who will take the time to establish what your exact needs are, can help. They will create a robust and reliable strategy that is highly personalised to you, rather than expect you to change your needs to fit a more linear and one-size-fits all approach.

And best of all, no matter how complex this process is for your adviser, they can use Timeline to present clear and straightforward information that allows you to fully understand how your choices will impact your financial wellbeing during your retirement.

Agreeing a withdrawal strategy that works for you

After deciding with your adviser the best approach to withdrawing money from your portfolio, it is then written out in a Withdrawal Policy Statement (WPS). This document lays out the guiding principles for how your retirement portfolio will be managed. It will include:

- Your income objectives.
- Any legacy requirements.
- Definitions of the parameters you wish to guide future withdrawals and adjustments.
- A method for assessing whether your plan is still on track to deliver your objectives at each stage of your retirement journey.

Your WPS will also record how you wish to approach unexpected changes in the financial landscape. Nobody can anticipate every market condition – not even a financial planner – but with a WPS in place you will have a reassuring framework for what steps should be taken should the market change rapidly.

Can you proceed without a WPS?

You can of course withdraw from your investments without a WPS in place. However, if you don't know all the risks, this can be dangerous, and have a direct impact on your financial security. Having a WPS agreed up-front with your adviser makes the process more secure, and easier to manage.

On the following pages are two case studies that show how a financial adviser helps clients maintain financial security, and still meet their personal income goals.

Case study: Janet Sample

After 30 years in the music industry, Janet Sample is looking forward to a slower pace of life, doing some travelling and spending more time with her grandchildren.

At 63, and with the house paid off, Janet has managed to build up a total of £1m in her pension pots and ISA.

She'd like an income of £38,500pa after tax, drawn from her portfolio. And once she turns 66, this will be topped up by her £8,500pa state pension. Janet also wants to leave her house to her grandchildren, alongside a legacy of £50,000 to a mental health charity that supported her when she was younger.

Janet is an experienced investor and has always spread her portfolio equally between global equities and bonds, which she expects to continue to do.

The outcome: Before an adviser's recommendations.

Based on her stated intentions, Janet's financial adviser calculated that her current portfolio only has a 73% success rate, meaning she'd need to make significant adjustments to her plan in 27 out of every 100 annual reviews, or risk running out of money.

While these aren't terrible odds, her adviser is concerned that in the event of a poor sequence of return early on, the portfolio would likely run out around her 87th birthday. And of course, in that scenario, she wouldn't be able to meet her wish to leave a legacy to her favourite charity.

With this approach, the probability of success for meeting Janet's income goals rises to 91%.

And with a small chance of needing adjustments along the way, her portfolio will last until she's at least 95. Janet can also be sure of meeting her goal of leaving a legacy to her favourite charity, even in less favourable market conditions.



After detailed analysis, her financial adviser proposed a number of changes to improve the situation:

- Janet's withdrawals will increase in line with inflation, less 1%. This means that her income will rise, but at a slower pace than inflation. There is extensive research to suggest the people tend to spend progressively less as they get older.
- Adjusting her portfolio mix to 60% equities, instead of the current 50%. The rest is put into global bonds with a small proportion held in near-cash assets.

Case study: Jake & Jo Miggins

The Miggins have just sold their business and home in Essex and are retiring to Cornwall. They are both 66 and can draw their state pensions of £8,500 each. After buying a new retirement home, they expect to have £600k left in their ISAs and pension pots.

To meet their lifestyle goals, they require a joint income of £45,000 after tax, which would include their £8,500pa state pensions.

The Miggins are comfortable with equity risk and are prepared to hold as much as 70% of their portfolio in equities, with the rest in bonds.

The Miggins recognise that flexibility with their income is the price they'll have to pay for the high level of withdrawals they want to make. They're happy to fall back on their property if they need to.

Leaving wealth to their relatives is not a priority, as they have spent much of their lives supporting their children, and now simply want to enjoy their own lives.

The outcome: Before an adviser's recommendations.

Based on their current intention, analysis suggests a 38% probability of success.

This means the Miggins will likely run out of money in 62 of every 100 scenarios unless they make drastic adjustments to their plan.

And most likely, with their current plans, their portfolio will only last until Jake's 82nd birthday. With good odds that at least one of them could reach their 90s, this isn't workable.



After detailed analysis, their financial adviser suggested significant changes to their withdrawal plan:

The Miggins will start with an initial income of £45,000pa after tax and fees on the understanding they will have to make changes should market conditions demand it.

These changes will be guided by the following rules:

- If their withdrawal rate goes above 7% within the first 20 years of retirement, they reduce their spending by 5%.
- If their withdrawal rate drops below 3% within the first 20 years of retirement, they can increase their spending rate by 10%.
- Their total net income in any one year will not fall below £30,000, in today's terms.

By setting a minimum £30k withdrawal per year, and being prepared to adjust their income, the Miggins family are accepting a certain amount of risk, and covering themselves with a minimum income.

However, should the market conditions be favourable, they'll enjoy an increased income, perhaps even higher than their desired £45k.

And most importantly, the plan they established under the guidance of their financial planner significantly reduces their risk of running out of money. In fact, if they stick to this plan, the Miggins are unlikely to run out of money at any point up to their 99th birthday, and probably not even then.

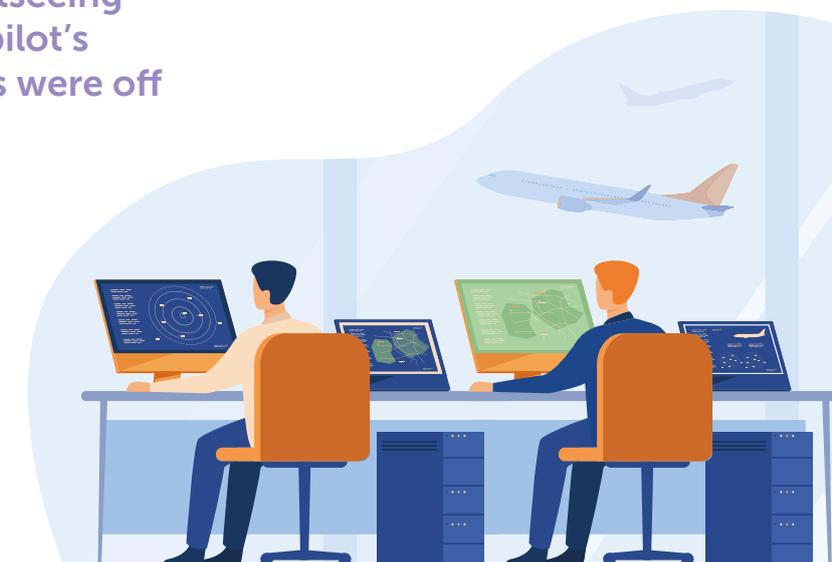


Small course changes can make a huge difference.

In 1978, a passenger jet with 257 people on board left New Zealand for a sightseeing flight to Antarctica. Without the pilot's knowledge, the flight coordinates were off by a mere two degrees.

Air navigators use something called the 1 in 60 rule. This states that for every degree a plane veers off course, you'll miss your destination by a mile for every sixty miles you fly. And the longer the journey, the further away you end up from where you want to be.

In this case, that tiny two degrees error resulted in the aircraft veering 28 miles off its intended course.



As the plane descended to give passengers a better view of the Antarctic landscape, the pilot still had no idea they weren't where they should be. All he could see were white clouds and white snow, and everything looked the same. As far as he was concerned, they were flying over flat ground.

Tragically, they were fast approaching an active volcano, and when the pilot finally realised, seconds before impact, there was nothing he could do. There were no survivors.

Things would have been very different if that tiny two-degree error had been identified before the journey began.



Navigating an effective withdrawal strategy.

The point here is that managing a withdrawal strategy effectively isn't a set-and-forget approach. It requires regular review, and a financial planner who can recognise if course corrections are required, to ensure you enjoy a fulfilling and financially secure retirement.

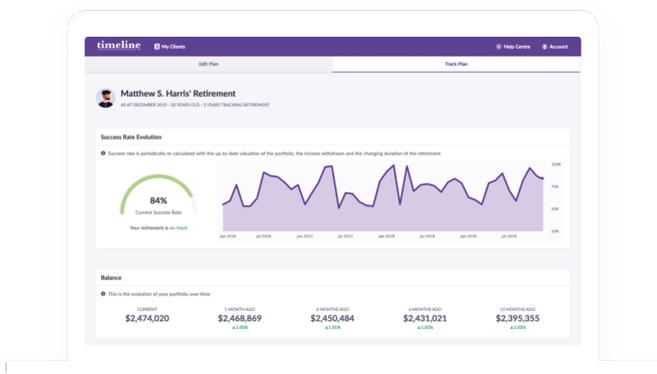


Like pilots, financial planners need a trusty co-pilot.

In modern times, airline pilots, and their co-pilots, have a host of technology available to ensure they remain on course, and make corrections where necessary. Passengers are now safer than ever before.

And as it happens, modern financial planners also have co-pilots, and access to a next-level technology that enables them to support clients like you in ways that move beyond the limitations of traditional retirement planning.

The reality is, traditional retirement plans have always had a fundamental flaw. They're out of date the minute they are created and aren't able to reflect the reality of ever-changing market conditions. To use the flying analogy, traditional plans aren't great at spotting volcanoes on the horizon.



Meet our dynamic co-pilot

We use Timeline Livetrack, which automatically tracks and monitors your retirement plan on a weekly basis. Should market conditions affect your plan in any meaningful way, we are alerted instantly.

If things need to be adjusted to ensure your retirement journey remains on course, we can then review our agreed plan, consider what changes might be required, and discuss them with you before getting things on track.

As Dwight Eisenhower once said: ***'Plans are worthless, but planning is everything.'***

And thanks to the guidance of your financial planner, with the support of a co-pilot like Timeline Livetrack, you can expect to fly high for a long time to come.

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