A GUIDE TO A RETIREMENT INCOME PORTFOLIO

2024

FINANCIAL ADVICE & WEALTH MANAGEMENT

ESTATE CAPITAL

Have confidence in your pension and peace-of-mind to enjoy your retirement.

- *Chartered Financial Advisers*
- *36 years professional experience*
- *Trusted, established and well resourced*

Co-ordinate your investments, grow capital and increase your income.

The decision to stop working and live off one's accumulated assets is one of life's most important. We would all hope that the choice to retire is one that suits your situation, having been planned well in advance, with sufficient capital assets to fund a comfortable later life.

Unfortunately, the decision over timing is not always yours alone as factors such as poor health, redundancy, a business sale, or a business closure can bring forward well intentioned plans.

Because we cannot ever be certain of the future, the need for a reliable retirement income cannot be left to chance. The capital cost of providing yourself with a comfortable income for thirty years or so is considerable. Therefore, the earlier the building of retirement savings starts the better prepared you will be.

Tax Relief

One great benefit of regular pension savings is that HMRC provides income tax relief on each pension contribution. This benefit means that a basic rate taxpayer only pays 80% of the cost of their retirement fund, while a higher rate taxpayer pays only 60%. In addition to this tax break, at retirement age, 25% of the accumulated pension fund can be taken free of tax.

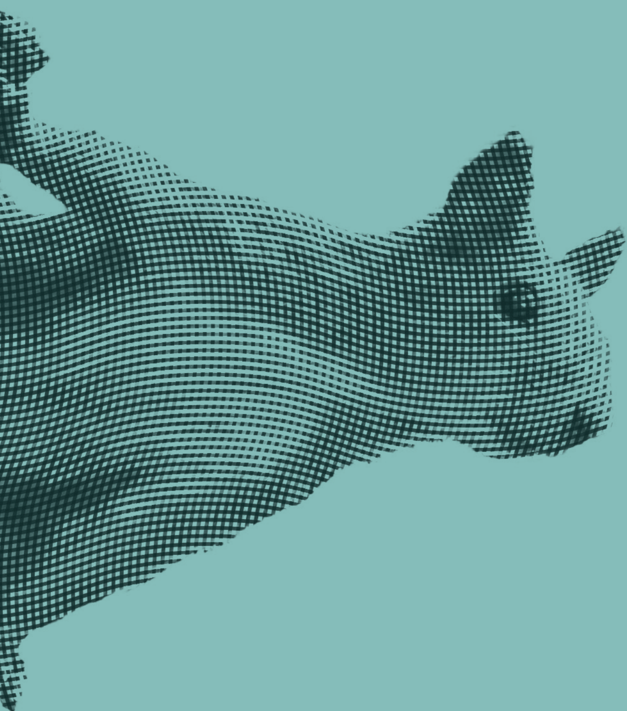
Employers that make pension contributions on behalf of their staff can claim full corporation tax relief on payments made into directors or staff pension schemes.

Tax free compounding growth

Contributions into pension funds can be invested into a wide range of assets, from stocks, shares, and investment funds to commercial property. The growth of these assets is aided by the fact that no capital gains tax applies to pension fund assets, meaning that pension fund growth is predominantly tax free.

Despite conflicting priorities in ones working life, the provision of a reliable and comfortable income in retirement should be a clear priority to all.

Make better informed retirement decisions that are right for you.



The decision over when to retire is made with several factors in mind and should be planned many years in advance through holistic financial planning, including investment reviews and cashflow forecasts based upon realistic assumptions.

Before the introduction of pension freedoms in April 2015, the majority of retirees were choosing an annuity over a pension drawdown. With the introduction of the new flexibilities with pension freedoms, income drawdown has become the retirement income option of choice.

Pension drawdown is a flexible way to access retirement benefits. The flexibility can be an advantage but it comes with more responsibility and risk as compared to an annuity.

If investments perform well then a growing income is possible through retirement, but if the opposite was to occur, you withdrew too much income too soon, or you live longer than expected, you could run out of money.

These are all factors to consider.

Income Requirements

The key objective is a consistent and reliable source of income at a level that makes retirement comfortable and attractive. There is a certain standard of living needed to make retirement meaningful. How achievable that level of income is, over the duration of one's life, is an important factor in deciding if retirement is feasible.

Retirement income may come from several sources. It could be provided by a scheme annuity, your Basic State Pension, or a defined benefit occupational pension. These types of schemes provide a fixed and known income for life. Income may be available from a company or private pension offering flexibility in the level and frequency of payments as well as some control over tax planning of income payments.

Capital Requirements

It is often a desire to use some of the tax-free cash from a pension fund to support some planned events like a holiday, to clear outstanding liabilities, or to gift money to children in order to help them. It is important to use one's life savings to reward oneself. These are all factors to be considered in the overall plan for retirement. If there are no specific reasons to take out the tax-free cash, then it can be saved for a future event or used as tax-free income.

Estate Planning

Private pension funds now have the added benefit of being transferred upon death to a dependent or successor. This means that a spouse can take over the pension fund and that children can also inherit from the fund too. These transfers are outside of any inheritance taxes so that pension funds are a unique tax efficient way to transfer capital assets down through the generations. It is for this reason that wealthy individuals may choose to delay or avoid taking an income from a pension fund when other assets are available first.

Health and Life Expectancy

The Office of National Statistics (ONS) predict that a man aged 65 can expect, on average, to live a further 19 years, while a woman could expect a further 21 years. Therefore, at 65, a male still has 20% of his life ahead of him while a woman has 25%. Life expectancy is a factor of both age and health. In order to plan for a comfortable and fulfilling retirement we are required to make some assumptions over life expectancy rates. The ONS provide life expectancy tables and, with an additional factor of 10 years, can be used as the basis of sound planning. The greater the duration of life expectancy, the greater the income demands are placed upon a pension fund.

Inflation

The need for long-term income to retain its full purchasing power throughout the life of a pensioner is a factor that places further demands upon a pension fund. Inflation erodes the real value of money as the cost of living rises each year. If inflation was maintained at an average of 2% per annum, which is the Bank of England's long-term inflation target, then the value of money would halve in 36 years. This also means that a retirement income would need to double every 36 years in order to keep pace with everyday costs.

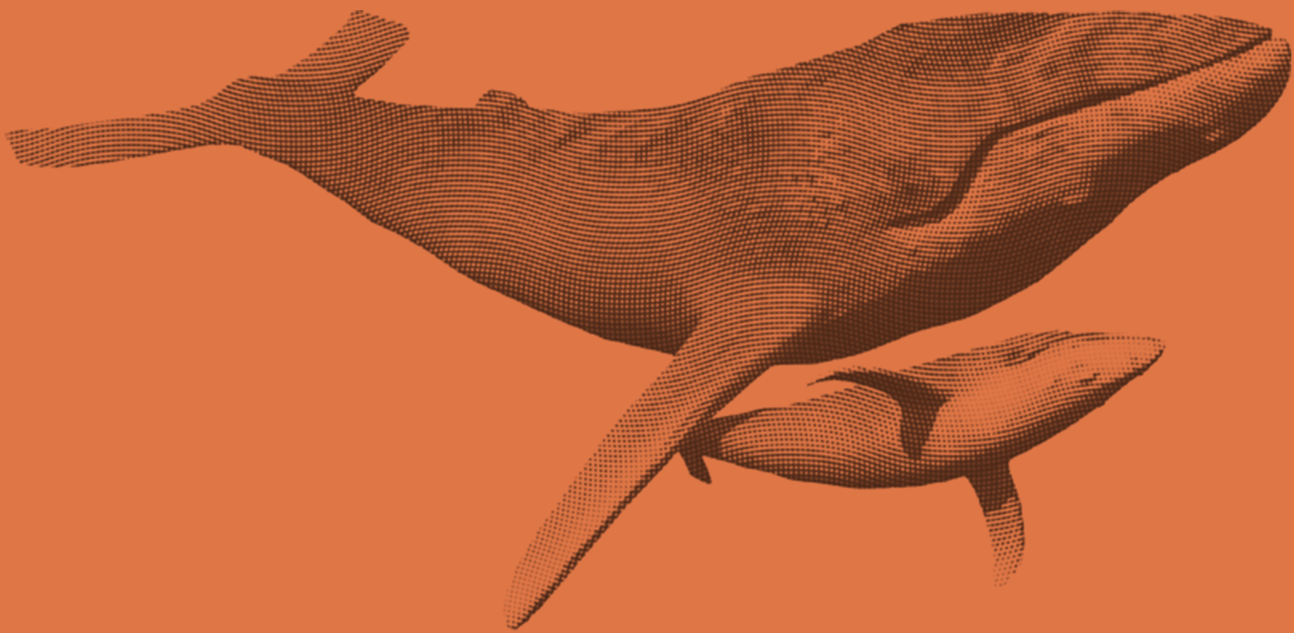
Life expectancy and inflation are two long-term factors to consider carefully in any retirement planning. For this reason, it is appropriate that pension fund assets are invested in real assets that can grow ahead of inflation such as equities and property.

Other Assets

Commonly a pension fund, built up over several decades of savings and supported by company or employer contributions, can grow to become a major or even the largest single asset of an individual. This position gives confidence for a sustainable and comfortable retirement. However, a pension fund may be one of many assets, including, for example, a business, investments, or properties all providing additional or alternative sources of income. Therefore, the level of and priority order of income from differing assets is part of overall retirement income planning that takes tax liabilities and estate planning into consideration.

The ability to really relax and enjoy retirement is influenced by health more than any other factor.

Successful investing is about managing risk not avoiding it.



When building a portfolio that can sustain long term income withdrawal needs, several factors should be considered. It is just as important to construct a suitable portfolio for decumulation of assets in retirement as it is to build a suitable portfolio to accumulate the assets in the first place. A retirement income portfolio has a focus on the withdrawal of a regular income, usually as a fixed monthly amount, and the reliability of this income for the life of the pensioner, making a decumulation portfolio different in construction.

Capacity for loss

When it comes to the provision of a regular retirement income needed to maintain a certain standard of living, sustained losses within a portfolio may lead to a partial or temporary impairment to the payment of income. Therefore, the capacity for loss, and the impact this may have on a reduction of income, needs to be carefully assessed. Income needing investors have to be fully aware of what investment underperformance may mean to them. It is only when this has been considered that the degree of risk a pensioner should take can be assessed and agreed. An investor with no or little capacity for loss is better suited to certain or defined forms of retirement income such as annuities and defined benefits.

Risk Tolerance

Any portfolio that is built of risk assets such as equities and property must be risk defined so that investors understand the expected average annual returns and the range of potential returns for any given risk rated portfolio. Risk is often measured as the level of volatility that a portfolio may exhibit. Measures of volatility can be compared against an appropriate benchmark, against an asset without risk, or the maximum percentage of loss an asset has experienced from the top to the bottom of a market fall.

The impact of volatility has additional influence within a retirement income portfolio. This is because lower levels of volatility are beneficial to the consistent payment of income withdrawals.

Once the level of risk has been assessed and agreed, a suitable asset allocation model can be selected that provides the investor with an indication of expected returns and the level of income withdrawals that could be sustained by such a portfolio.

Inflation

For any long-term investment portfolio to be able to maintain or beat inflation, the portfolio will need to be composed of real assets such as equities and property. Other assets such as gold and index-linked bonds can offer inflation-beating diversification.

Natural Dividends

Within the equity, bond, and property element of a diversified portfolio, investors are faced with the choice of seeking a natural income payment from the dividends, yields and rents of the underlying assets or focus on growth assets and simply surrender sufficient stock or units to pay a fixed monthly income. As income is often needed as a fixed monthly payment, the later method is the most common.

Natural dividends tend not to be consistent or paid monthly and vary through the year. Natural dividends have the advantage of maintaining stock or unit levels, but then also lead investors to over concentrate on specific, high-dividend paying stock markets of the world such as the FTSE 100 index. This may be attractive to income seeking investors that can accept a varying income.

Diversity

A suitable investment portfolio that seeks to provide a reliable source of income over several decades needs to be broadly based and spread across many asset classes, investment sectors, and geographic regions of the world. A diversified portfolio reduces risk and therefore can deliver more consistent returns. An overly concentrated portfolio puts greater reliance on less assets and can increase risk.

An investment strategy is expected to perform best if the portfolio is regularly rebalanced.

Sustainable Income

Much academic work has gone into the levels of income that can be sustained from a diversified portfolio, ensuring that the portfolio does not materially decline in value. For many years the sustainable level of income was set at 4% per annum for a typical 60% equity portfolio. It is felt that a 3% income is more sustainable.

This means that if an investor were to draw income in excess of 3% pa, there is a likelihood that the underlying assets may need to be sold off to support the income demands and in doing so the asset value may progressively decline. This may not be a concern to the pensioner whose priority is income and has assets available to spend.

Sequence of Return Risk

A factor that, at outset, is unknown but will have a meaningful impact on the long-term success of an income-paying decumulation portfolio, is the order in which future returns occur. If a portfolio that is paying out a needed monthly income enjoyed several early years of rising asset values that more than sustained the income taken, then the investor would have a far more positive experience to one where the portfolio in the early years was exposed to heavy market falls at the same time as income was being withdrawn. As we cannot predict with certainty the sequence of future returns or movements in markets, a strategy that minimises the impact of market volatility on a decumulation portfolio in the important early years is a factor that would improve the portfolios ability to deliver on its key objectives. The sequence of returns risk is an important factor in building a decumulation portfolio which has been demonstrated by much academic research. *(Suarez, Suarez, and Walz (2015) and Clare, Seaton, Smith and Thomas (2016)*.

Sequence of Returns Risk

Early negative or positive rates of return for an investment in withdrawal can have a lasting impact on both long-term capital values and long-term viability of income.

The tables below demonstrate the importance of the sequence of positive and negative rates of return on equivalent initial investments with the same average returns. Investment A and B also have the same yearly returns, but Investment B has the order of these returns reversed.

Example 1: Investments A and B have an average return of 5%. Investment A has positive initial returns while Investment B's initial returns are negative. With an initial investment of £800,000 and a yearly income of £30,000 the value of the investment after 10 years is £155,726 larger for Investment A than Investment B due solely to the sequence of the positive and negative returns.

Investment	£800,000	Yearly Withdrawl	£30,000.00

Investment A

Period	Initial Value	Return	Withdrawals	Final Value
Year 1	£800,000	20%	£30,000	£930,000
Year 2	£930,000	10%	£30,000	£993,000
Year 3	£993,000	12%	£30,000	£1,082,160
Year 4	£1,082,160	8%	£30,000	£1,138,733
Year 5	£1,138,733	6%	£30,000	£1,177,057
Year 6	£1,177,057	5%	£30,000	£1,205,910
Year 7	£1,205,910	5%	£30,000	£1,236,205
Year 8	£1,236,205	-8%	£30,000	£1,107,309
Year 9	£1,107,309	-3%	£30,000	£1,044,089
Year 10	£1,044,089	-5%	£30,000	£961,885

Investment B

Period	Initial Value	Return	Withdrawals	Final Value
Year 1	£800,000	-5%	£30,000	£730,000
Year 2	£730,000	-3%	£30,000	£678,100
Year 3	£678,100	-8%	£30,000	£593,852
Year 4	£593,852	5%	£30,000	£593,545
Year 5	£593,545	5%	£30,000	£593,222
Year 6	£593,222	6%	£30,000	£598,815
Year 7	£598,815	8%	£30,000	£616,720
Year 8	£616,720	12%	£30,000	£660,727
Year 9	£660,727	10%	£30,000	£696,799
Year 10	£696,799	20%	£30,000	£806,159

Investment A	
Final Value (end of year 10)	£961,885
Capital Growth	£161,885
Average return	5%
Total withdrawals	£300,000

Investment B	
Final Value (end of year 10)	£806,159
Capital Growth	£6,159
Average return	5%
Total withdrawals	£300,000

Difference (A-B)	
Final Value	£155,726

Example 2: Investments A and B have the same initial investment, the same yearly income withdrawal, and the same 5% return in every year except a loss of -15% in one year. Investment A incurs the loss in year 10 and Investment B incurs the loss in year 1.

With an initial investment of £800,000 and a yearly income of £30,000, Investment A is worth £66,159 more than Investment B, the equivalent of over 2 years of income.

Investment	£800,000	Yearly Withdrawl	£30,000.00

Investment A

Period	Initial Value	Return	Withdrawals	Final Value
Year 1	£800,000	5%	£30,000	£810,000
Year 2	£810,000	5%	£30,000	£820,500
Year 3	£820,500	5%	£30,000	£831,525
Year 4	£831,525	5%	£30,000	£843,101
Year 5	£843,101	5%	£30,000	£855,256
Year 6	£855,256	5%	£30,000	£868,019
Year 7	£868,019	5%	£30,000	£881,420
Year 8	£881,420	5%	£30,000	£895,491
Year 9	£895,491	5%	£30,000	£910,266
Year 10	£910,266	-15%	£30,000	£743,726

Investment B

Period	Initial Value	Return	Withdrawals	Final Value
Year 1	£800,000	-15%	£30,000	£650,000
Year 2	£650,000	5%	£30,000	£652,500
Year 3	£652,500	5%	£30,000	£655,125
Year 4	£655,125	5%	£30,000	£657,881
Year 5	£657,881	5%	£30,000	£660,775
Year 6	£660,775	5%	£30,000	£663,814
Year 7	£663,814	5%	£30,000	£667,005
Year 8	£667,005	5%	£30,000	£670,355
Year 9	£670,355	5%	£30,000	£673,873
Year 10	£673,873	5%	£30,000	£677,566

Investment A	
Final Value (end of year 10)	£743,726
Capital Growth	-£56,274
Average return	3%
Total withdrawals	£300,000

Investment B	
Final Value (end of year 10)	£677,566
Capital Growth	-£122,434
Average return	3%
Total withdrawals	£300,000

Difference (A-B)	
Final Value	£66,159

Volatility Management

Any portfolio that has an objective of paying out a much-needed income must protect itself from heavy losses and volatility particularly in the early years. The build-up of capital in the examples above that originally experienced positive returns allow for the portfolio to create a buffer for income that would be difficult to build if the portfolio suffered early losses.

There are several ways to manage volatility. Reducing the equity content of a portfolio may be the obvious one, but this option will limit the portfolios ability to achieve much-needed long-term growth.

There has been significant academic research which evidences that reducing the equity allocation in a retirement income portfolio by more than 10% and holding that allocation in cash does not improve the longevity of the portfolio. However, by replacing the bond allocation with cash, particularly if the income is taken from cash first, can improve portfolio longevity.

Diversity of assets is a useful strategy, as is trend following tactical trading which aims to maintain equity exposure but also reduce it at times of market weakness.

Taxation

After taking the allowed 25% tax-free cash from your pension fund, any further withdrawals are taxed as income through the PAYE system. No National Insurance payments are deducted from pension income.

Pension drawdown offers pensioners income flexibility so that each year you can manage withdrawals and tax liabilities to suit your circumstances.

The first time you withdraw income beyond the tax-free cash entitlement, it is usually taxed on an emergency tax code until the pension provider receives an updated tax code from HMRC. The new tax code will automatically adjust any overpayments.

Please remember that the value of an investment and the income received can go down as well as up. Past performance is not a guide to future returns.

Maximise your returns with a level of risk you're entirely comfortable with.

In order for a decumulation portfolio to fulfil all of its objectives then a combination of different strategies in a segregated portfolio makes sense. The overall portfolio should be split into three sections aimed at different objectives over varying time horizons.

Short-Term Cash Portfolio

The income requirements in the early years of retirement should be provided by a short-term cash section. This would comprise of two to three years of income placed into a cash only portfolio. Drawing income from this section will allow the other investment assets to grow without withdrawal in the sensitive early years. Cash is an asset class unlikely to match or beat inflation so is only appropriate for short-term use.

If a pension portfolio had a capital value of £800,000 and an annual income of £30,000 was required each year rising by CPI of 2%, then we would suggest £60,600 is placed in the cash section as a minimum.

Medium-Term Volatility Managed Portfolio

Research has suggested that sequence of returns risk for an income portfolio is most pronounced in the first two to three years but can be impactful for up to seven years. We believe that seven years of cash holdings is an inefficient use of capital assets which are needed for growth. An investment management strategy that minimises the volatility of a typical blended portfolio has an important place in the medium term section of a decumulation portfolio.

The medium-term section would be used to supply income for the eight-year period after the cash section has been exhausted. The investments in this section can be surrendered to cash just ahead of being withdrawn.

For this section we favour the use of low-cost index tracking funds as the underlying asset. The volatility management is provided through diversified asset allocation and the addition of trend-following tactical trading which can move positions between full, partial, and zero equity exposure depending upon several market momentum signals. The objective of such portfolios is to participate in rising equity markets but sell down to a basket of low-risk assets when markets are indicating losses. These strategies exhibit lower volatility, a reduction in sequence of returns risk, and more consistent investment returns.

The Crossing Point Investment Management's Guardian range of six risk related portfolios are specifically designed and managed in this way.

The combination of the cash section and the volatility managed section for the first ten years of income significantly reduces the risk to the impact of a poor sequence of returns. With lower levels of volatility, the portfolio is better able to sustain regular withdrawals.

For a pension portfolio of £800,000, we would suggest £240,000 is placed in the medium-term volatility managed portfolio for income and growth.

Long-Term Capital Accumulation Portfolio

With long-term capital growth an objective of a decumulation portfolio, the section that remains untouched for ten years is the long-term capital accumulation component. This section has a sufficiently long investment horizon so it is not affected by sequence of returns risk and can offer the portfolio the means to build a strong capital buffer.

This portfolio will be made up of a diversified portfolio of growth assets held in leading unit trusts, OEIC's or investment trusts. It is also worth considering holding a proportion of this section in a natural income focused equity portfolio where the dividends are reinvested for ten years prior to being needed as income by the pensioner.

The Crossing Point Investment Management's Passive, Growth and Heritage range of risk related portfolios are specifically designed for capital growth.

For a pension portfolio of £800,000 we would suggest £499,400 is placed in the long-term capital accumulation portfolio.

This three-section approach to a decumulation portfolio can deliver the required objectives to an income seeking investor. It can protect against the impact of early losses harming the long-term ability to pay income. It can deliver inflation beating returns and can be flexible in terms of income withdrawals and income tax planning. It can also allow an investor the option of having reduced their risk early on in their retirement while also having the potential for increased returns through increased risk for later years.

This combined portfolio has the capacity to cover income withdrawals so the beneficiaries of the pension fund do not inherit a diminished asset.

Our Retirement Income Investment Solutions.

We offer clients advice and access to a range of platform-based investment solutions that are designed to match the requirements of either capital accumulation, income taking decumulation, or ethical and sustainable investment. Our range of advised solutions are in the form of:

- Our internally researched and managed Estate Capital portfolios.
- Our semi-internally researched and managed Crossing Point portfolios.
- The whole of market access to external investment companies and insurance companies' products.

All of our investment solutions are researched from the whole of the market with each of the successful holdings meeting our due diligence and selection criteria. These criteria include performance, risk control, technical ratios, consistency, ratings, and cost. We will recommend, where appropriate, internal solutions in order to minimise overall costs to investors.

Estate Capital holds FCA investment advisory permissions and therefore these portfolios are managed on an advisory basis. Crossing Point Investment Management holds FCA discretionary management permissions and therefore these portfolios are managed on a discretionary basis.

The Estate Capital Investment Portfolios

The Estate Capital Investment portfolios were established in 2004 and have been continuously managed by Chris Davies. The portfolios comprise of six risk related strategies. The underlying assets are predominantly open-ended investment companies that are selected through thorough analysis of the leading funds in each asset class, geographic region, or industry sector. The strategies are updated, reviewed, and rebalanced every six months when a new edition of the portfolio is researched and published. All portfolios are benchmarked against the most relevant Investment Association (IA) national average.

Blended Portfolios

Are designed for capital accumulation through the blending of leading active investment funds and low cost index tracking funds across asset class, geographic region, and industry sector. There are five risk related Alpha strategies.

Crossing Point Investment Portfolios

Crossing Point Investment Management is the sister company of Estate Capital. Crossing Point was established out of a collaboration between Estate Capital and leading financial academics from Swansea University. The collaboration included unique academic research on trend-following momentum theory. Estate Capital supported this research from 2015 until 2020 which led to successful MSc and PhD submissions. Estate Capital is a major shareholder in Crossing Point, as are investment managers and academics Dr. Tomiko Evans and Professor Mike Buckle.

The Crossing Point portfolios were established in 2020 after 5 years of research. The strategies are managed by Tomiko Evans, Mike Buckle and Chris Davies and offer investors some unique and attractive investment portfolios. The differing solutions offered by Crossing Point complement the core offering from Estate Capital's internal portfolios.

Our aim is to provide effective low-cost discretionary portfolio management to our clients. Crossing Points fees compare favourably to other discretionary managers. Crossing Points charges are 0.15% or 0.3% pa depending upon the portfolio selected.

Each Crossing Point strategy is designed to deliver a specific investor outcome.

Guardian Portfolios

The Guardian Portfolios seek to protect capital assets and are particularly aimed at investors taking income from a pension fund. These portfolios move away from traditional buy and hold strategies by using advanced algorithms that monitor and signal when to buy, hold or sell a range of index tracking funds, thus allowing the portfolio through tactical trading, to participate in up markets and reduce or remove equity exposure in down markets.
The portfolios aim to provide a smoother, more consistent return at lower risk and lower cost. The portfolios are monitored daily but updated normally monthly if trading is signalled. During periods of market stress trades may be much more reactive and frequent. Guardian portfolios invest predominantly into low-cost index tracking funds from leading fund management groups covering all the major global markets. This portfolio range provides diversity of assets and seeks capital growth across global equity and bond markets at a low cost to the investor.
There are six risk related strategies. All portfolios are benchmarked against the most relevant Investment Association (IA) national average.

Passive Portfolios

The Passive portfolios are "buy and hold" model portfolios which invest only in low-cost index tracking funds. The portfolios use a traditional diversified asset allocation model that is further refined and informed through our unique research into trend and market sentiment indicators on a quarterly basis. There are seven Passive portfolios which bring together index tracking funds from leading fund management groups covering all the major global markets. This portfolio range provides a diversity of assets and seeks capital growth across global equity and bond markets at a very low cost to the investor. The Passive portfolios are designed to assist in efficient, reliable, very low-cost investment and pension accumulation strategies. There are seven risk related strategies. All portfolios are benchmarked against the most relevant Investment Association (IA) national average. The Passive Portfolios are our default recommendation range.

Growth Portfolios

The Growth portfolios bring together a blend of low-cost equity and bond index trackers as well as leading active investment funds invested on a "buy and hold" basis. The portfolios use a traditional diversified asset allocation model that is further refined and informed through our unique research into trend and market sentiment indicators on a quarterly basis. There are five Growth portfolios which bring together index tracking funds and active investment funds from leading fund management groups. This portfolio range provides diversity of assets and seeks capital growth across global equity and bond markets at a low cost to the investor.
The Growth portfolios are designed to assist in efficient, reliable, low-cost investment and pension accumulation strategies. There are five risk related strategies. All portfolios are benchmarked against the most relevant Investment Association (IA) national average.

Heritage Portfolios

Heritage Portfolios are capital accumulation strategies using the growth potential of closed ended investment companies, otherwise called Investment Trusts. Investment Trusts were first established in the Victorian period and have enjoyed decades, if not centuries, of investment success.
The Heritage portfolios bring together a blend of leading investment trusts and fixed interest funds invested on a "buy and hold" basis. This blend seeks to bring the best of low-cost passive and leading active management into one portfolio range to provide a diversification of assets focused on capital growth at a competitive price. The portfolios use a traditional diversified asset allocation model that is further refined and informed through our unique research into trend and market sentiment indicators on a quarterly basis. Investment trusts can trade at a discount to the underlying value of their holdings. There are four risk related Heritage portfolios. This portfolio range provides diversity of assets and seeks capital growth across global equity and bond markets at a competitive cost to the investor.

INVESTMENT PORTFOLIOS

Estate Capital therefore offers a central investment service that combines both the advisory managed portfolios of Estate Capital and the discretionary managed portfolios of our sister company Crossing Point Investment Management.

If clients have objectives that are not fully met by either the Estate Capital or Crossing Point range of investment portfolios, we will use our independent status to seek solutions from other providers, investment managers, and insurance companies.

We take responsibility for people’s life savings. A responsibility we take very seriously.

Financial Advice & Wealth Management

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ESTATE CAPITAL