



SEQUENCING RISK

Long-term investors who are saving for retirement can often afford to ride out the ups and downs of the stockmarket. But for those who are taking income the impact of investment returns can have a much greater effect.

RANGE OF RETURNS

The chart below shows the range of returns each year from the ABI UK All Companies sector average over the last 20 years, some years the return is as high as 32% and some years it has fallen 35%. If your client suffers losses in the early years, particularly when their fund value is high, it can be hard to recover and could result in a reduced income for your client in order to avoid running out of money.



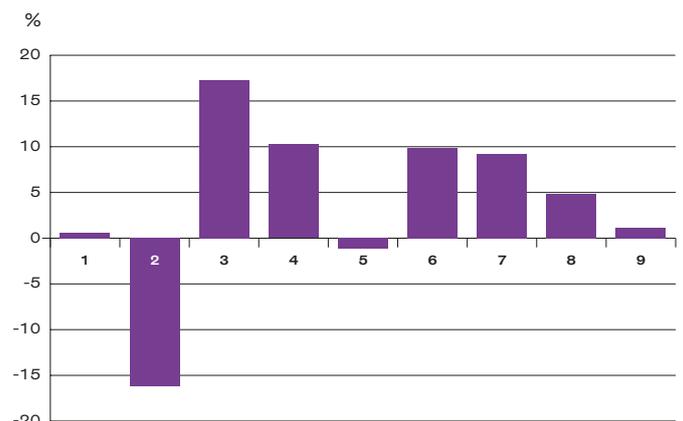
While it's important to understand the risks of any investment, it's also really helpful to understand the range of likely outcomes, particularly in the drawdown phase. Illustrations can help compare different options on a like for like basis but they have limitations. As they assume the same rate of return over the investment period they don't take into account the impact of different sequences of returns the customer will experience.

SEQUENCING RISK IN ACTION

The examples that follow show how two portfolios with the same average return can have very different outcomes. Here we start with £100,000 and take 5% income each year, paid at the beginning of the month. At the end of scenario 1, the pot is worth £79,580.

Scenario 1

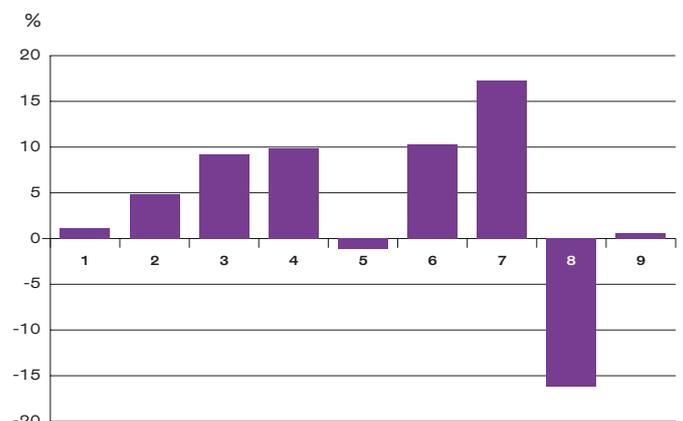
£79,580



Scenario 2

£88,018

In scenario 2 we have reversed the pattern of returns, and the fund value is now worth just over £88,000. By flipping the returns there is now a difference of almost £10,000.



Illustrating the effect of different return patterns can help your client understand the range of possible outcomes from their investment and decide on an appropriate target income.

HOW WE CAN HELP

We are a key player in the income drawdown market with a range of investment solutions and tools to help you understand your clients' goals in retirement.

Our Governed Retirement Income Portfolios (GRIPs):

- Are designed specifically for investors taking income.
- Are diversified across asset classes to deliver growth with reduced volatility in order to reduce the effect of sequencing risk.
- Have defined risk measures.
- Benefit from the governance of the Investment Advisory Committee (IAC).

Our Income Planning Tool helps you:

- Assess customer's attitude to risk and capacity for loss.
- Determine an appropriate amount of regular income, using a powerful stochastic model to illustrate risk.
- Choose a portfolio with an appropriate balance of risk and return.
- Understand the risks to customer's future income.
- Create a report to help explain those risks to a customer.

FURTHER INFORMATION

If you would like to find out more information speak to your usual Royal London contact or go to adviser.royallondon.com/pensions/investment



Royal London

1 Thistle Street, Edinburgh EH2 1DG

royallondon.com

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