



INCOME SUSTAINABILITY

Helping your clients sustain a regular retirement income



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Sustainability

Income sustainability shows the probability of a client being able to sustain their income for the period required.

One of the key conversations you'll have with your drawdown clients is how sustainable is their income. And everyone's circumstances will be different.

Your client's **income sustainability** could vary due to:

- Income needs
- Level of retirement savings
- Personal tax circumstances
- Life expectancy
- Potential impact of investment returns
- Chosen investment approach – assets used, attitude to risk and capacity for loss
- Ongoing plan charges

There are a lot of factors that can impact on your client's income sustainability and keeping track of them all can be both time-consuming and costly for your business.

Our drawdown governance service can help

Our drawdown governance service has been designed to help you monitor the sustainability of your clients' income and see when things are heading off track.

Our drawdown governance service will:

- use the information you provide to calculate an income sustainability score for your clients
- proactively track your clients' progress against their score every quarter and highlight any changes
- provide the information you need to review your drawdown clients quickly and easily
- produce easy to read client reports.

And all of this comes at no extra charge

Understanding the income sustainability scores

Each quarter we use data from Moody's Analytics to update the drawdown governance service and your client's income sustainability scores. So you can be certain your client's sustainability score reflects the current market conditions.

Here are our current sustainability scores based on a range of terms and withdrawal rates. It's based on investment in Governed Retirement Income Portfolio 3 (GRIP 3) and a 1% total charge*.

		Income % per annum								
		2	2.5	3	3.5	4	4.5	5	5.5	6
Term years	15	100%	100%	100%	100%	100%	100%	98%	92%	80%
	20	100%	100%	100%	99%	96%	86%	69%	46%	24%
	25	100%	100%	99%	92%	78%	55%	29%	14%	5%
	30	100%	99%	93%	77%	55%	28%	13%	5%	1%
	35	100%	96%	84%	60%	33%	16%	7%	2%	0%

*As at May 2020.

All values calculated using a 1% AMC and using Governed Retirement Income Portfolio 3 (GRIP3).

HERE'S HOW WE CATEGORISE THE INCOME SUSTAINABILITY SCORE

Not sustainable



Our expert view is that the level of chosen income is unlikely to be sustainable and the client has a very low chance of being able to maintain it.

Moderately sustainable



Our expert view is that the level of chosen income is moderately sustainable and the client has a moderate chance of being able to maintain it.

Reasonably sustainable



Our expert view is that the level of chosen income is reasonably sustainable and the client has a reasonable chance of being able to maintain it.

Highly sustainable



Our expert view is that the level of chosen income is highly sustainable and the client has a very good chance of being able to maintain it.

Our current view is that **a 3.5% withdrawal rate is highly sustainable***.

*Based on a 25 year term, invested in GRIP3 and assumes a 1% total charge.

THE CLIENT CONVERSATION

Now you know more about our drawdown governance service and our income sustainability scores, let's look at how they can be used in practice with your clients.

MEET GEORGE



George is 65 years old



He has a pension pot of £100,000



He's invested in our Governed Retirement Income Portfolio 3



George would like to understand how long his savings might last if he was to use drawdown and run his fund down.

He'd also like to know what his income might look like if he was to use drawdown up to a certain age and then use his remaining retirement savings to buy an annuity or to leave to his dependants.

Option 1 – full drawdown to a target age

If George wanted to gradually use all his retirement savings from now up to a particular age, his income sustainability scores might look something like this:

	Moderately sustainable	Reasonably sustainable	Highly sustainable
Target age	50% score	75% score	85% score
85	£5,400	£4,900	£4,500
90	£4,600	£4,100	£3,800
95	£4,100	£3,600	£3,300

So if George wanted to take £3,800 each year up to age 90, his income sustainability score would be 85%. However, it would fall to 50% if he wanted to increase his income up to £4,600. This may not sound like much but it's an extra £20,000 of income in this period.

So what does an 85% score mean for George? It means at age 90, in 15% of our modelled scenarios George isn't able to take an income of £3,800 as his savings have run out.

Option 2 – drawdown with annuity purchase

If George wanted to explore using his retirement savings to take a regular income up to a set age, before buying an annuity with his remaining pension pot, his income sustainability scores might look something like this:

	Moderately sustainable	Reasonably sustainable	Highly sustainable
Age when George buys an annuity	50% score	75% score	85% score
70 years	£4,700	£4,400	£4,100
75 years	£4,700	£4,200	£4,000
80 years	£4,500	£4,000	£3,700

Remember that in this scenario we're modelling the likelihood of George being able to sustain his income for life by purchasing an annuity rather than to a target age – so the income amounts he can take will be lower as it's guaranteed to be paid for as long as George is alive.

All figures assume investment in Governed Retirement Income Portfolio 3 (GRIP 3) and a 1.00% total charge, single life, level annuity.

George's circumstances could change

Over time, George's income sustainability score might change if:

- He takes more or less income or an ad-hoc lump sum from his retirement savings
- His investments don't perform as expected or he changes his investment choice
- There's a significant change to the longer term outlook

We update our assumptions every quarter, so **your client's income sustainability score will always reflect current market conditions.**

SUPPORTING YOUR BUSINESS

What's clear is that there isn't a one size fits all solution. Regular reviews and active management of your client's evolving needs and income requirements can highlight even the smallest adjustment needed to help keep them on track.

We're a key player in the income drawdown market, offering a tried and tested product – Income Release – alongside a range of investment solutions designed for clients in drawdown.

Our range of tools bring together everything you need to conduct a cost-effective planning and review service for your clients. They're designed to:

- Save you time and money
- Enrich your client conversations
- Help you demonstrate you're providing a professional service by producing clear and engaging client reports
- Present opportunities to work with new clients
- Help you with your compliance requirements

To find out more, speak to your usual
Royal London contact or visit
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