

## Creating regular income throughout retirement

When you're drawing an income from your savings in retirement, we believe investing needs to work differently than it did when you were building your wealth. In retirement your goals change, the focus shifts from growing your savings to making them last and supporting your lifestyle.

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**Investing involves risk.** The value of an investment can go down as well as up which means that you could get back less than you originally invested when you come to sell your investment. The value of your investment might not keep up with any rise in the cost of living.

Premier Miton is unable to provide investment, tax or financial planning advice. We recommend that you discuss any investment decisions with a financial adviser.

For further information on the risks of investment and glossary terms please refer to the end of the document.

### Retirement a much more complex challenge

In accumulation, which is when an individual is working and ultimately building up the value of their investment through savings, the person's objective is fairly straightforward. They have a certain amount of capital (the money and assets they own) and a certain amount of savings capacity. They will generally be wanting to build their capital for a future spending need, typically retirement. Ignoring all the complexities of tax and product structures, the main focus during this stage is to grow their investment, in line with the amount of risk the individual feels comfortable taking over time which is why people choose investment propositions that match their personal needs.

Post retirement, individuals' needs can vary much more but typically fall into 3 broad categories: basic ongoing income needs, discretionary spending (typically in early retirement), and later life and legacy. This can make planning for retirement a more complex challenge. We will focus primarily on the ongoing income requirement.



### Consistent income

Providing a consistent income that grows in line with inflation (the rising cost of living) is, we believe, the single most important post-retirement challenge. There are two basic approaches to solving this problem and most individuals will end up with a blend of the two. One is a unit encashment/capital growth strategy, where income is created by selling units or shares from the investment portfolio rather than relying on the income the investments naturally produce, the other an income strategy. For the income strategy, people can choose between the certainty of annuities (financial products that offer a guaranteed income stream and are usually bought by retirees) or retain control of their capital via collective investment schemes (investment funds where investors' money is pooled together and managed by a professional to look to generate returns and income).

We believe that there is a significant issue with the capital growth strategy which can make it a less-than-optimal approach for generating income post-retirement. It often forms part of many people's portfolios simply because they need to draw capital, as their funds are insufficient to provide the income required otherwise.

We are all living longer and living healthier lives too. Therefore, your retirement pot needs to last longer. If you sell shares to get the regular income you need, there is the risk that you run out of shares and will not have any income to fund the rest of your retirement.

Furthermore raising capital out of a portfolio in weak markets can be hugely damaging. A period of negative returns can have a material impact on the longevity of your capital. Falls in the price of a individuals investment pot means that they have to sell more shares to receive the same amount of income, rapidly depleting their capital, this is often referred to as pound cost ravaging.

### **A simple solution**

This pound cost ravaging effect is one of the biggest challenges for post-retirement investing, but fortunately, there is a simple solution in the form of generating a natural income from your investments. The income from an investment portfolio tends to be more stable than its overall value. For example, the interest paid on a bond typically stays the same even if its price changes. Similarly, a company's dividend payments don't usually change just because the share prices move in the short term. So maximising the level of income from the individuals' portfolio may help reduce the risk that comes from share price movements. However, income is not guaranteed. Dividends can be reduced or stopped, and bond issuers may not always be able to meet their payment.

I am often asked what the appropriate level of income is to draw from a portfolio post-retirement? The reality is the answer is really a function of how much income that portfolio generates. Drawing a 5% level of income from a portfolio with no natural income can mean having to sell more of the investment itself.

If you want the amount of income you receive to be a specific amount, you may be concerned about potential fluctuating income from a natural income approach, as the income generated by investments can fluctuate over time. However, with some investment funds, particularly those with an income objective, the fund managers are focused on managing the income levels to generate consistent payments. Investors should be aware that both income and capital values can fall as well as rise, and the level of income received is not guaranteed. We are strong advocates of natural income; we believe that, as managers of an income fund, our role is to focus on delivering this income.

### **David Jane**

Premier Miton Macro Thematic Multi Asset Team

Glossary

### **Bonds (or fixed income)**

Types of investments that allow investors to loan money to governments and companies, usually in return for a regular fixed level of interest until the bond's maturity date, plus the return of the original value of the bond at the maturity date. The price of bonds will vary, and the investment terms of bonds will also vary.

### **Capital**

Describes financial assets, particularly cash, or other assets, such as shares, owned by a person or organisation.

## **Risks**

**Forecasts are not a reliable indicator of future returns.**

**In certain market conditions, companies may reduce or even suspend paying dividends until conditions improve. This will impact the level of income distributed by the fund.**

**The level of income paid may fluctuate and is not guaranteed.**

## Important Information

This is a marketing communication.

Whilst every effort has been made to ensure the accuracy of the information provided, we regret that we cannot accept responsibility for any omissions or errors.

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