

Guided Retirement – investing your way to a flexible and secure retirement

➤ **Maiyuresh Rajah, head of investment strategy and proposition at Aviva, discusses how investments can play a part in guiding pension savers through their options at retirement**

Retirement is a complicated time for pension members. Many are unprepared and overwhelmed by the complexity of taking their pension and with the introduction of pension freedoms and the decline of DB pensions, members are struggling with the increased choice they have. There's a very real risk that the pensioners of the near future will run out of money before their retirement ends, without the appropriate guidance on all the decisions they need to make. And without the right decumulation solutions for retirees, it's likely this problem will get worse over time.

We've commissioned extensive research to help us understand how members feel at retirement as well as what their aspirations are. This is being used to help design our new Guided Retirement service. The proposition will

be a way for pension scheme members to budget for their entire retirement, giving them the flexibility they say they want early in retirement, and the security they will need as they enter the later part of retirement.

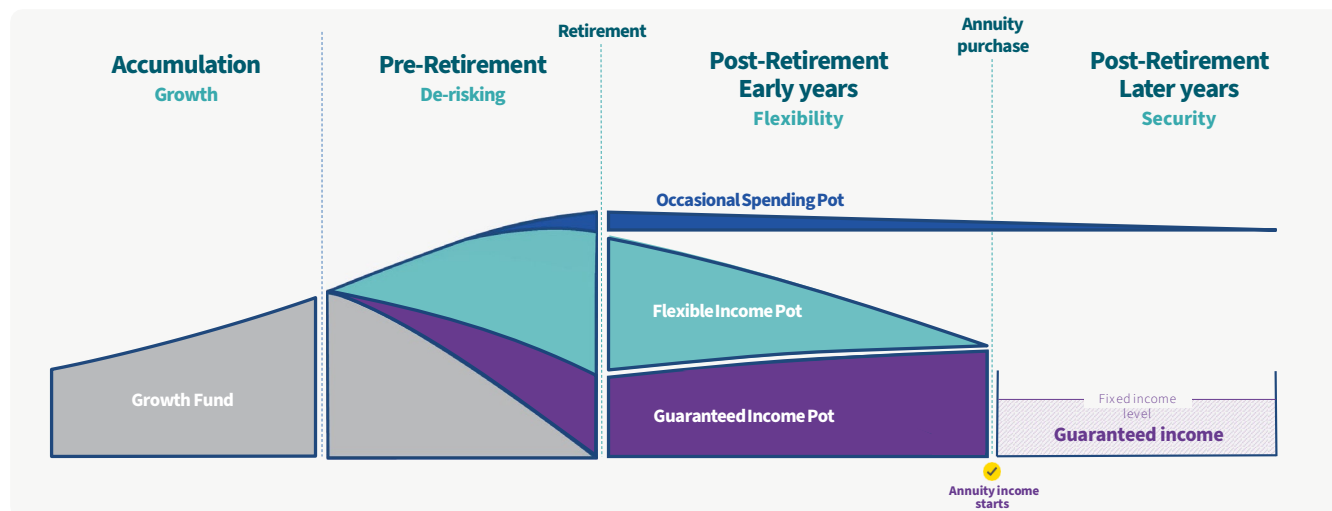
To achieve this, a member's money will be divided into three pots that come into play at different stages of their retirement:

- The **Flexible Income Pot** provides income via drawdown for a fixed term in the early years of retirement.
- The **Guaranteed Income Pot** is designed to be their pension for later retirement. The money remains invested to grow during the early years and can then be used to purchase an annuity in later life to ensure the member's income lasts as long as their retirement does.
- The **Occasional Spending Pot** sets aside cash for any ad-hoc expenses that can occur over the course of retirement.

The need for a guided retirement is clear, so our challenge has been to design an investment solution which supports the proposition. We know that customers can struggle with the complexity of retirement products, so our solution adopts a simple design, it's affordable, and it manages the risks inherent in drawdown products. The graphic below shows an example of the investment journey throughout the accumulation and decumulation phases.

Approaching retirement

Members will be able to select Guided Retirement at any point up to retirement. If a member opts in prior to de-risking, they will be entered into a dedicated glidepath which moves their money into the Guided Retirement funds as they approach retirement. At retirement, members will be able to choose how they split their money between the three pots, and at what age they'd like to purchase an annuity. A modelling tool will enable members to visualise their retirement spending, and an example pot split and annuity purchase age will be provided for guidance.



Flexible Income Pot

In the early part of retirement, we know that pensioners want flexibility to draw down their money as they see fit. They may want to spend more while they are able to enjoy leisure activities and travel more easily, or they may be easing into retirement while continuing to work, with little need for pension income at this point. With this in mind, the Flexible Income Pot will invest in the Guided Retirement Flexible Income Fund.

Unlike most drawdown funds, members will invest in this fund for a fixed term, with the intention that their money is exhausted by their selected annuity purchase age. During the drawdown period, members will be provided with a sustainable income rate, which predicts the amount they could afford to withdraw consistently to make their money last until their selected annuity purchase age. Members will be able to choose this as their regular withdrawal amount, or simply use it as a benchmark for their spending.

The Guided Retirement Flexible Income Fund seeks to balance return potential with the increased need for downside protection over a shorter investment horizon than a 'usual' drawdown fund, to provide a sustainable level of income over that fixed term. As with all of Aviva's pension solutions, it is made up of a diversified mix of assets, including UK and overseas equities, overseas government and corporate bonds, money market instruments and real assets. It also includes illiquid investments and has strong ESG credentials. We have incorporated our very best investment thinking into this fund to deliver the best possible level of return over the investment horizon, while minimising downside risk.

The Flexible Income portfolio invests in equities with regional preferences, utilising both passive and active strategies. The passive equity strategies provide global equity exposure through regional building blocks, allowing

allocation across markets based on long-term macro expectations. The portfolio also invests in active strategies such as Aviva Investors' flagship Global Equity Endurance Fund, which is a high conviction, low-turnover strategy with the distinctive characteristics of predictability, protection, and upside.

ESG considerations are integrated throughout, with active strategies benefitting from ESG input in all investment decisions, and passive strategies weighting investment towards companies with higher ESG scores. There are also allocations to specific climate transition funds (Aviva Investors' Climate Transition Global Equity Fund and Aviva Investors' Climate Transition Real Assets Fund). These funds invest in companies or real assets with a competitive advantage that drives financial and environmental performance - turning a sustainable focus into profitable growth whilst achieving positive climate outcomes.

The fund holds a variety of different fixed income and alternative assets, with allocations to growth-oriented credit such as emerging market debt and global high yield, but also invests in some more unique areas, including private markets, absolute return and cash optimisation strategies for liquidity.

An example of this is the Aviva Investors Global ReturnPlus Fund. This fund provides low volatility exposure to high quality and globally diversified credit spreads while maintaining liquidity in the portfolio. The combination of high credit quality and hedging interest rate risk allows the fund to offer a smooth return profile above cash. The fund has demonstrated this in practice, when compared with other sterling fixed income funds. ReturnPlus was almost entirely unaffected by the September 2022 gilt market falls.

These are just a few examples of the holdings within the flexible income portfolio. We continuously monitor

and manage the allocation dynamically to achieve the goal of providing an investment solution that gives the ability to drawdown a regular, sustainable income in the early years of retirement.

Guaranteed Income Pot

This will be invested first in the Guided Retirement Flexible Income Fund and will then gradually de-risk into the My Future Focus Annuity fund. This fund invests in an ESG-focused annuity aware fund predominantly comprising government and corporate bonds, to align with the sorts of assets that an annuity provider holds. It's the destination fund within the Guaranteed Income pot, meaning members will be fully invested in this fund at the time of their annuity purchase.

Occasional Spending Pot

This will be invested in a liquidity fund, seeking to achieve a positive return by investing in fixed interest and money market instruments. It's there to provide money for unplanned spending throughout retirement – if the car breaks down, for example, or for extra holidays

It's clear that people's needs during retirement are changing, and this needs to be reflected in the options available to pension scheme members. Many people are at their most vulnerable at the point of retirement, which is why we are designing the Guided Retirement service to provide the right tools and support to help retirees make the transition from saving to decumulation in a way that provides both flexibility and security.

To find out more, please reach out to your usual Aviva contact.



Aviva's head of investment strategy and proposition, Maiyuresh Rajah

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