Need-For-Risk must drive client decumulation, not attitude

In the run-up to retirement, advice and financial planning processes for most advisers' clients continue to rely on attitude-to-risk to determine the level of investment risk a client should take.

Rather than attitude-to-risk, it is client Need-For-Risk that demands evaluation. Need-For-Risk is significantly more crucial to financial security, particularly as clients move into retirement and then onwards to old age. As well as the usual issues of market volatility, returns and sequencing risk to contend with, advancing years bring additional likelihood of expensive care needs.

Generous corporate pensions are a thing of the past for Generation X

Baby boomers have generally benefited from generous corporate pension schemes, but the next generation to follow them, now advancing relentlessly towards retirement, have not had it so good. For many of Generation X, who entered into the post-industrial workplace of the Thatcher years, those corporate pensions provided by philanthropic employers fast became a thing of the past.

This generation was also the one invited to dive head first into the consumer economy; debt was good and successive governments wanted equity tied up in bricks and mortar to be released to flow joyfully around the economy. Unfortunately, all this enthusiasm did little to encourage Generation X to save and plan their finances for retirement.

Good news - life spans are increasing

People are living longer and that's fantastic. In 1950, the average male could expect to live to around 67 years old and females around 72 years old. By 2013, these expected life spans had increased to 78 years old for men and 82 years old for women. Generation X can expect longer periods of retirement and can continue to pursue the lifestyle they want in the early years. But a longer time spent in retirement inevitably risks increased likelihood of episodes of ill health that will only be compounded by Generation X's lower levels of pensions and savings. A few may benefit from inheritances arising from family property and business wealth but these are unlikely to be in the majority.

Life coaching - potentially intrinsic to a financial planning service

For most in Generation X, their challenge will be to maximise the return from their savings and pensions. Property downsizing or equity release may become a necessary step to release capital, as may part-time employment to supplement their retirement income. Professional advice and financial planning will be crucial. For a generation brought up and bought into the concept of enjoy today and don't worry about tomorrow, life coaching may well become a necessary, valuable and potentially intrinsic part of the financial planning service.

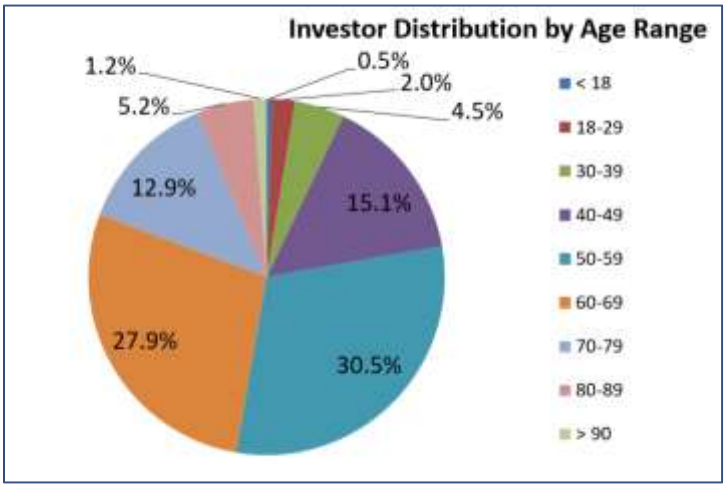
Need-For-Risk must drive decumulation strategies, not simplistic attitude-to-risk

In a world becoming ever more focused on clients heading into retirement, basing investment decisions on attitude-to-risk is at best a distraction and at worst a big mistake. Attitude-to-risk should be considered increasingly redundant to the advice process by financial planners as well as their clients. Client investment strategies for decumulation must focus on clients' Need-For-Risk. Solutions that focus on this guiding principle will empower financial planning firms to deliver much better investment advice to all clients, not only those in Generation X. They will also provide better benchmarks for compliance oversight, operational management as well as firms' investment committees.

Decumulation and Need-For-Risk – what Harbour data reveals

One aspect of Harbour's power lies in its insightful KPI and management information reports generated from data captured as part of the assessment process. In comparison, psychometric ATR tools have no such capacity and offer little of additional value to financial planning firms or fund managers.

Suitability processes that ask meaningful questions and provoke insightful responses are essential. Aside from more insightful assessments, one positive consequence is that one gains access to valuable data for compliance oversight and also demographic distribution and emerging trends - entirely for free.



To summarise the chart above:

- 22.2% of Harbour assessed investors in the age range 0 to 49 are in the accumulation phase of the investment life cycle;
- 30.3% are in immediate pre-decumulation phase of their investment life cycle;
- almost half of Harbour assessed investors (47.4%) are in the decumulation phase of their investment life cycle.

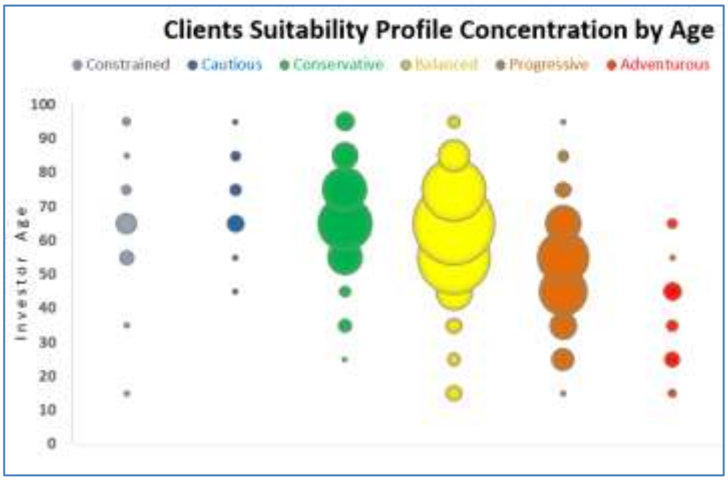
a whopping 78% of a typical financial advice and planning firm's clients are affected by decumulation

Clearly, with 47.4% of investors either in or entering decumulation, appropriate client and fund investment strategies geared to supporting those in retirement are not just relevant, but essential. Aggregate this retirement and immediate pre-retirement audience with those investors with less than a decade before retirement and the result is a whopping 78% of a typical financial advice and planning firm's clients who are affected.

Decumulation – the impact of client age on their investment strategies

Investor age has significant impact on their investment strategy in relationship to risk and volatility; however, there are, as always, exceptions to this general rule. For example, those in receipt of generous corporate pensions and with access to reasonable wealth, may rightly be advised to invest at a lower investment risk because they have no need for unnecessary risk to meet their objectives. Conversely, an individual may need to accept greater risk and investment volatility to meet their retirement objectives. Ultra-high net worth individuals may wish to maximise legacies to family or charities as their highest priority. One size most definitely does not fit all in a world where Need-For-Risk should drive financial planning.

Using data analysed from Harbour's assessment process, the following chart shows clearly the general correlation between the client and their suitability profile based on investor Need-For-Risk.



Thesis portfolios mapped to Harbour

Since 2015, Harbour has mapped its investor suitability profiles to Thesis Asset Management's seven portfolio mandates.

For more details on Harbour's mapping or for a copy of the Harbour / Thesis Asset Management mapping document contact David Roberts at Harbour or Matthew Hoggarth at Thesis Asset Management.