

Briefing

The importance of regular drawdown reviews

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In contrast to the purchase of a lifetime annuity, placing your accrued pension fund into drawdown is not a 'once and done' exercise.

Whilst the former provides the annuitant with a known source of income for the rest of their life, a drawdown arrangement is a flexible financial planning vehicle that can adapt to changes in retirement income needs at different stages of later life. The need to maintain its 'fitness for purpose' – potentially over several decades – is therefore vital, and best achieved via regular reviews. We look at the key aspects to be considered at each review, and the reasons why.

Why are regular reviews important?

The concept of 'retirement' has significantly changed over recent years. The traditional 'cliff edge' scenario, where an employee ceased work on a Friday, often after working for the same employer for up to 40 years, and thereafter defined as a 'pensioner', has greatly diminished in frequency. In addition, the typical pension arrangement that supported this way of life – namely, an occupational defined benefit (or "final salary") pension scheme – are far less accessible nowadays; particularly within the private sector.

Instead, people are increasingly transitioning into retirement – sometimes over a period of several years – and utilising their overall assets, (for example, personal savings or residential property for equity release or buy-to-let purposes), as well as their pension fund, to finance their

income needs as their salary diminishes with a reducing working week. A flexible and potentially tax-efficient income stream over time is usually needed, which an annuity or scheme pension are not normally designed to deliver.

The introduction of the 'Pension Freedoms' in April 2015 ("the Freedoms") complemented this changing retirement lifestyle, as people can now take as much or as little of their pension fund, as and when required, and the perceived rise in Flexi-Access Drawdown ("FAD") as the 'default choice' of retirement option is testament to this.

Despite the focus on flexibility, most people in drawdown still need their pension fund to provide them with an income throughout their retirement, which – because of historical improvements in life expectancy – may need to last for a number of decades. A difficult concept to grasp is that life expectancy increases as you get older; in other words, the longer you live - the longer you are expected to live. The end point is therefore uncertain, and keeps shifting out as your age advances.

One of the key aims of a drawdown review, therefore, is to minimise the risk of the pension fund running out whilst the pension holder still requires income from it, by adapting the drawdown arrangement in response to changes in the individual's circumstances and requirements.

We would always recommend that you engage a regulated financial adviser to carry out the reviews with you, as an informed assessment of your overall financial position is usually key to determining the level of income to be drawn down from your pension fund over time, in light of any other sources of income that you either receive now, or will receive at some future point (for example, on attainment of your State Pension Age).

How regularly does 'regular' mean?

Even prior to the Freedoms, it was deemed good practice to review a 'Capped Drawdown' arrangement once a year, or certainly when the maximum amount that could be withdrawn in each drawdown year was due for recalculation under HM Revenue & Customs/Government Actuary's Department rules.

Nowadays, following the introduction of the Freedoms and the ability to draw an unfettered amount from the FAD arrangement at any time, there is arguably an even greater need to undertake reviews on at least an annual basis or possibly more frequently, depending upon the size of the pension fund under consideration and/or the complexity of an individual's financial circumstances.

What should be included within the review?

Fundamental Questions

1. Is the drawdown arrangement still meeting your requirements and objectives?

Prior to first going into drawdown, it is important to establish what your objectives are for utilising your pension fund, which will be dictated by your personal circumstances and monetary requirements. For example, you may just wish to take the tax-free cash sum from your pension fund and then go into 'deferred drawdown', where the fund remains fully invested until such time as an income needs to be drawn from it. Alternatively, you may wish to start drawing a tax-efficient income from your drawdown fund immediately; potentially to replace lost salary until another source of income commences.

Objectives and requirements can change over time – particularly during later life – and this may have an impact on how your drawdown fund continues to be utilised. Regular reviews will therefore address this fundamental question, to help ensure that your drawdown arrangement continues to work in harmony with your lifestyle.

2. Is the amount of income being withdrawn sustainable throughout your retirement?

Where a regular (taxable) income amount is being taken from your drawdown arrangement, it is crucial to ensure that the monetary amount being taken remains appropriate; based upon the size of your drawdown fund, the underlying investment performance of the fund (see below) and the length of time that an income will need to be drawn from the fund, (for which your anticipated life expectancy will play a part).

What constitutes a 'prudent' or 'reasonable' income withdrawal rate has been the subject of much conjecture by industry commentators over the years, with 4.00% a year often cited as a 'Safe Withdrawal Rate' ("SWR"). Deciding upon an SWR at the outset of taking drawdown income, however, may not allow for the effects of future economic 'shocks', unanticipated life-changing events and the ongoing management and performance of the underlying investment portfolio (see below). Regular reviews will, therefore, 'take stock' of what has happened since the last review, as well as looking at what may happen over the period to the next review, and what effect, if any, this might have on the amount of income to be drawn from the fund, going forwards.

Other Important Questions

1. Have there been any changes in your personal circumstances or health?

People's lives never stand still, and whilst there are likely to be important future events in a person's life that they plan to work towards, (for example, reaching their 'Normal Retirement Date' under an occupational pension scheme), that objective assumes that their health, and those of their immediate family, do not change.

The onset of illness or the unexpected death of a spouse can, therefore, significantly impact on your long-term goals and regular reviews provide you with the opportunity to discuss alternative ways forward with your adviser, and what impact this may have on the continuation of your drawdown arrangement, (for example, purchasing an enhanced annuity with some or all of the drawdown fund may become more appropriate).

2. Do your stated objectives remain realistic?

This follows on from the question above, although is not restricted to your state of health. There are a number of wide-ranging factors that can impact on objectives agreed at the outset of going into drawdown. A review therefore allows you and your adviser to 'stand back' and evaluate the continued appropriateness of those objectives, in light of events that have taken place since the last review; especially unanticipated ones.

3. Have there been any changes in your attitude to risk or capacity for loss?

We explored the concepts of 'attitude to risk' and 'capacity for loss' in another of our Drawdown Briefing Notes, which can be accessed [here](#).

These concepts serve to ascertain whether going into drawdown with some or all of your pension fund is appropriate; given your stated risk profile and the necessity to receive an ongoing minimum income amount throughout retirement, given that the drawdown fund is likely to remain invested in assets that could fall in value, as well as rise.



Once your attitude to risk and capacity for loss have been established, the ongoing and effective management of other risks associated with drawing down a pension fund over time can be carried out in conjunction with your adviser, as part of a robust review process. As well as inflation risk and longevity risk, these other risks include 'sequence of returns risk', where income withdrawals during a market downturn can precipitate a rapid fall in a pension fund's value, and 'volatility drag', where the underlying investment portfolio falls in value and then needs to work harder to return to its initial value.

4. Is it still appropriate for you to remain wholly in drawdown?

One of our other [Drawdown Briefing Notes](#) asks "How long should I stay in drawdown?" and can be accessed [here](#).

With reference to the considerations outlined in this briefing note, this is a question that should be considered in conjunction with your adviser at each review, as circumstances can – and will – change over time, which may serve to determine if some or all of your drawdown fund should be used to access another income-generating retirement option; for example, a lifetime annuity.

5. Has there been any deterioration in your cognitive abilities?

Now that legislation allows an individual to remain wholly in drawdown for the rest of their life, improvements in longevity have been accompanied by increasing numbers of people with some form of mental impairment that can range from mild cognitive decline to dementia.

Regular reviews will allow you and your adviser (and your GP) to assess your capacity for decision making over time, particularly with regards to the ongoing management of a drawdown strategy, and where there is evidence of a deterioration in capacity, outsourcing decisions to third parties – potentially via the use of an appropriate Power of Attorney - becomes increasingly important.

6. Have you completed an up-to-date Expression of Wishes Form?

This is a mandatory question to be asked by your adviser at every review, and following a life-changing event. The changes to the taxation of pension death benefits that were introduced at the same time as the Freedoms in 2015 significantly improved the tax position for drawdown benefits, (particularly where death occurs before age 75), as well as the range of potential recipients of the drawdown fund.

For this and other reasons, it is more essential than ever that a 'post-Freedoms' Expression of Wishes Form is completed by yourself, in connection with your drawdown arrangement, and then kept up-to-date as your circumstances change over time.

[Links to our Expression of Wishes Forms for our SSAS and SIPP arrangements can be found here.](#)

7. Do any changes in legislation since the last review impact on the drawdown arrangement?

Pension legislation changes frequently, and – as with the Freedoms in 2015 – bring with it far-reaching implications for both existing and new drawdown arrangements.

Regular reviews therefore provide an ideal opportunity to consider any changes in pension legislation that have occurred since the last review, and if so, whether there is a need for you and your adviser to amend the prevailing drawdown investment strategy and/or the amount of income that is currently being taken from the arrangement.

Could Barnett Waddingham carry out the regular reviews for you?

As the administrator of your drawdown arrangement, we will undertake any legislative requirements expected of us, such as re-calculating the maximum income that you can draw from your Capped Drawdown arrangement, when required, but we are not authorised to provide you with regulated financial advice in respect of your arrangement; for example, what level of income withdrawal is best for your personal circumstances.

However, we are happy to work with your existing adviser to implement any decisions that you have agreed, regarding, for example, future income withdrawal amounts and/or amendments to your underlying investment portfolio.

Reviewing your drawdown arrangement on a regular basis is important in ensuring that it remains in line with your circumstances, objectives and requirements, which are likely to change over the course of your retirement.

You will get the most value out of the pension fund that you have spent a long time saving for, by making informed decisions on how to invest your drawdown fund, if and when you withdraw income, how much income you withdraw and over what period of time. A regulated financial adviser is best placed to help you to make those decisions.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

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