Retirement Income Reviewed

Equip your business to answer the FCA's findings and guidance with this retirement income checklist and resource pack.

Your retirement planning cash flow checklist

In March 2024, the FCA published guidance on undertaking cash flow modelling to demonstrate the suitability of retirement-related advice.

Dynamic Planner is uniquely suited to answer all of the FCA's findings:

1. Firms relying on information without considering accuracy
2. Using justifiable rates of return
3. Planning for uncertainty
4. Consumer understanding
5. Consider the output

Find out more in the checklist contained in this booklet.

Resource pack

We have collected a pack of retirement income and cash flow related resources in our online resource centre. Scan the QR code to get access:

Finding 1: Firms relying on information without considering accuracy

Use correct data for inputs	✓	The Dynamic Planner solution
Check they have a reasonable basis for the estimated expenditure in the cash flow modelling, both at present and in future, taking into account the client's needs for the basic cost of living, desired lifestyle expenditure, discretionary expenditure and savings.		You can set three levels of expenditure within Dynamic Planner – "Must Do", "Like to" and "Dream of". You can also set your own increase rate for expenditures, or simply pick "Price inflation" if your expenditures are expected to keep in line with standard spending.
Check how the client's personal circumstances and lifestyle are likely to change throughout retirement and how this might affect future expenditure.		You can use Life Phases to link incomes and expenditures to different phases of life. For example, you may set up different expenditures to cover retirement spending, and have this anchored to the start of the retirement life phase.
Check they are using up-to-date salary information to calculate current net income and identify surplus / deficits in current household budgets.		Client Access enables you to collect current information on all incomes, expenditures, arrangements and goals. This can be reviewed and updated as often as is necessary.
Check the salary information takes proper account of the method for paying workplace pension contributions, eg net pay, salary sacrifice and relief at source.		Cash Flow directly supports the salary sacrifice and net pay methods, and we have a one page guide demonstrating how all three methods of paying for pension contributions can be entered into the system.
Check they have included all sources of income up to and throughout retirement, such as employment earnings, benefits including child benefits, property rental income, share dividend income, reliable bonuses and other sources of regular income and pensions, including a justifiable estimate of state pension.		Advisers can review all information collected through Client Access before accepting it onto the client record and using it throughout the system. This enables the adviser to enquire about missing items. State pension is automatically generated by the system in Cash Flow, starting at the correct State Pension age, but can be overwritten if full State Pension will not be achieved. State pensions that have not been overwritten are updated each year to the current value, and increased in line with price inflation.
Check they have used up-to-date market values of all investible assets in the projection.		You can link investible assets to the platform and providers through the use of valuations. Alternatively you can use our integrations with back office software to update the asset values.
Check they can justify any estimated figures used in the projection.		The adviser can make note of this on the system and in the report.
Check they have taken into account whether the advice is being given on a single life or joint life basis.		Cash Flow can be used on a single or joint life basis.

Finding 2: Using justifiable rates of return

Consider the potential investments	✓	The Dynamic Planner solution
Use future rates of return which are aligned with the investments which will be recommended.		We use different rates of return for each risk level. This ensures that investments are projected in line with their expected returns and volatility.
Be consistent across similar assets held in different wrappers.		Risk rating of investments is independent of the wrapper it is held in and based on the underlying asset allocation of the investment. Two similar asset allocations will likely result in the same risk profile being assigned to them.
Apply appropriate tax rate.		Cash Flow applies income tax and national insurance to applicable incomes (i.e. to incomes received pre-retirement, with only income tax applied to pension withdrawals. No tax is applied to incomes entered as "non-taxable").

Use justifiable future rates of return	✓	The Dynamic Planner solution
Should make assumptions about future rates of return which are not based solely on specific patterns of past returns.		Our entirely forward-looking asset model provides future expectations of real return and volatility for 75 underlying asset classes. These are combined together to create expectations of real return and volatility for 10 risk profiles.
May use constant rates of return for different funds or asset types, so long as there is appropriate stress testing (see below).		All forecasting within Dynamic Planner uses our stochastic Monte Carlo forecaster where market falls and uncertainty are inherently built in, therefore no further stress testing is required on different rates of return.
Should consider the differential between gross returns for different types of funds or assets, and inflation.		We provide real rates of return, where inflation is variable throughout the projections to enable the correlations and covariances between different asset classes to be captured accurately.
Should undertake regular reviews of the assumptions used, taking into account wider economic circumstances.		Our asset model and its assumptions are independently reviewed quarterly at our Investment Committee where external and internal experts covering academia, research, regulation as well as the investment industry both inside and outside the UK, update and approve all of the assumptions used within Dynamic Planner. The underlying returns and volatilities are then updated each quarter within the software. New assumptions take effect immediately so any subsequent forecast will be using the latest set of assumptions.

Should be careful about presuming their ability to predict variable future rates of return (and inflation) to avoid the impression of accuracy.		We present a range of results from the 5th to 95th percentile of the projections, with equal weighting presented to the 5th, 50th and 95th percentile results. This ensures that clients are aware of the range of results they might expect. We also highlight the 25th to 75th range where half of all results are expected to fall. We also allow individual simulated runs from the Monte Carlo forecast to be shown, visually demonstrating to the client how the variability of the investments may cause different outcomes as well as highlighting the monthly gains or losses they might experience.
Should be able explain to clients the justification for any assumptions and why they are reasonable.		All assumption changes are communicated on a Quarterly basis to ensure you remain aware of the assumptions used within Dynamic Planner.

Include all charges	✓	**The Dynamic Planner solution**
All foreseeable product and adviser charges. Product charges include platform fees, product/ wrapper charges, fund charges, fees for managed portfolio services such as discretionary fund management or centralised investment propositions and any other fees for custody of or access to funds.		Charges can be entered against each product and then used in projections.
The effect of the recommended solution's charges on how long funds are likely to last (sustainability).		All charges entered are used in projections, and the age at which money runs out is clearly presented both in software and in the Cash Flow report that is produced.
How they communicate the overall cost so that the client: • understands how the level of charges affects the sustainability of their funds and • can make an effective decision on whether to proceed		You can quickly demonstrate the difference in projections caused by charges within Cash Flow to enable the adviser and end client to make good decisions.

Finding 3: Planning for uncertainty

Use real terms consistently	✓	The Dynamic Planner solution
Illustrate net of tax income and expenditure in real terms (representing annual inflationary increases as a constant real amount).		Cash Flow presents income and expenditure in real terms throughout so that the client is seeing the purchasing power of their money at each point in time. The income chart and data tabs both show the net income values received each year. Increases entered as "price inflation" will be reflected as a constant real amount.
Check whether inputs are in nominal or real terms and ensure they convert any inputs made in nominal terms to appropriate real terms.		Client Access collects all figures in real terms.
Be clear whether quoted returns are gross or net of inflation.		All returns are shows as "real returns", net of inflation.
Review the rate(s) of inflation they use on a regular basis.		Inflation is assessed by the Investment Committee on a quarterly basis alongside the other investment assumptions to ensure it is consistent and appropriate.
Show the effect of alternative rate(s) of inflation to ensure clients understand the effect of inflation on their investment.		Cash Flow uses real returns, allowing for variable rates of inflation within the projections. A projection that performs well may reflect a high level of return and a low level of inflation, similarly a poorly performing projection may reflect a good level of return, but a very high level of inflation.

Plan beyond average life expectancy	✓	The Dynamic Planner solution
Remember that consumers generally underestimate their own life expectancy.		Advisers are free to set the end date of their Cash Flow plan, and this does not need to be based on life expectancy. As life expectancy is so varied we do not show this within Cash Flow.
Focus on the probability of survival rather than life expectancy, to address clients' misperceptions and the potential harm of running out of money.		We encourage advisers to plan for an appropriate life expectancy by allowing them to set the end date of their Cash Flow plan.
When advising couples, consider the probability of survival for both parties.		Cash Flow can be completed on a single or joint life basis.
Consider how income needs may change in later life.		With the use of Life Phases you can very quickly set different expenditure levels for each phase of life. These can be linked to the life phase so that the incomes and expenditures move in line with the life phase.
Only take account of limited life expectancy when there is strong evidence that it will be borne out in practice.		The adviser is free to set their own end date. This should reflect conversations with their clients.

Undertake stress testing	✓	The Dynamic Planner solution
Illustrating a rare but feasible fall in asset values at the start of any income withdrawal period, such as actual drops in benchmarks for the recommended investments.		Our 5th percentile returns can clearly be seen on the wealth chart, as well as in the "When will my money run out" section and in the reporting. This gives clients an indication of the asset values they should be prepared for in case of poor returns. You can also "show paths" to show how an investment journey may progress through time, alongside the monthly gains and losses that may be experienced. This is ideal when combined with a capacity for loss conversation. Our stochastic model runs monthly time steps to accurately reflect how clients move their money in reality and will highlight the sequencing of returns risk present in high risk / high reward investments.
Reducing net of inflation rates of return to show the impact on how long funds will last.		We present three outcomes at all times: • "Be prepared for this"– the 5th percentile result • "Plan for this" – the 50th percentile (median) result • "Be pleasantly surprised by this" – the 95th percentile result.
Highlighting the lower percentile outcomes in stochastic modelling output.		The "Be prepared for this" result can be shown on all charts and is highlighted in reports produced from our Cash Flow module.
Showing how higher withdrawals will deplete the fund sooner.		You can quickly increase expenditure in retirement and allow the system to disinvest from assets to meet this spending requirement. This gives you the ability to show how higher spending will deplete assets sooner. You can also make use of the three expenditure levels, "Must do", "Like to" and "Dream of" to quickly show the effects of these three spending patterns.

Finding 4: Consumer understanding

Consider consistency of communications	✓	The Dynamic Planner solution
Be aware of differences in communications and the impact on consumer understanding of those differences.		Our Cash Flow report has been fully researched and tested with both advisers and the general public who have received financial advice at one time in their lives. It is intended to contain all the information discussed with their adviser and can be read independently of the meeting. It can be presented in different colours and text sizes for accessibility purposes, and is entirely customisable by the adviser to tailor it to each client.
Explain why the cash flow modelling outcomes differ from those in other communications, including the inherent uncertainty in all projections.		The uncertainty of projections is described fully, alongside how our modelling is performed, so that clients can be well informed about their finances and their potential financial journey.
Indicate how far the scenario outcomes are aligned with the client's attitude to risk and capacity for loss.		One definition of risk is used throughout so that the client's attitude to risk can be reflected in their investment choices, and capacity for loss can be fully explored through the wealth chart to understand the types of losses a client may endure on a monthly basis as well as their overall capacity for loss in terms of reduction of spending required to ensure they do not run out of money.
Be able to explain why different communications appear to show the client's funds lasting for different amounts of time, if relevant.		We use consistent projections throughout Dynamic Planner.

Finding 5: Consider the output

Review cash flow modelling outputs	✓	The Dynamic Planner solution
Consider how long funds last under the base scenario.		The Cash Flow report clearly shows all outputs from the base scenario, including a focus on how long the client's portfolio will last. The report also includes a comparison of how long the portfolio will last under each of the alternative scenarios.
Review the stress testing scenarios and what they would mean for the client's income in retirement against their expenditure needs.		All scenarios created can be clearly displayed in the report as well as on screen. The report includes a clear display of the differences between the base scenario and the additional scenario in terms of inputs as well as outputs.
Consider how the model handles potential tax liabilities.		Income tax and national insurance is included in all projections where applicable. If further taxes are expected to be incurred throughout the plan then these can be entered as expenditures and reflected at the appropriate times.
Check how the software handles cases where expenditure is expected to increase in some years, for example for university funding or to meet specific expenses like mortgage repayment. The firm should consider whether there are surplus funds to meet such expenses. In particular, it should ensure the model does not presume the client can access pensions before the minimum pension age for these expenses.		Our model will not allow a pension to be drawn from until the client reaches 55. Expenditures can be entered in any format – one off, recurring and with a wide range of frequencies. Expenditures can also be entered as a "Planned goal or event" enabling the expense to be assigned an icon and be highlighted on all charting to help bring a client's finances to life.
Consider if there are benefits to the client paying more into a pension if affordable, for example to claim back child benefit, reduce their marginal rate of tax or to make early retirement more likely.		Contributions attract tax relief and therefore the reduction of an income through the use of contributions will result in a higher net income and an increase in pension funds as the contributions are saved. Through a "save more" scenario the effect of this can be easily displayed.
Review whether aims such as paying off a mortgage can be met more efficiently by using tax-free cash or income from UFPLS withdrawals, for example.		Scenarios can be used to display different approaches to withdrawals. The "Disinvest" button can be used to apply UFPLS to meet all required expenditure, alternatively withdrawals can be entered directly if an adviser would like to. The system is flexible and can adapt to the approaches you are trying to convey.

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