Solving the Decumulation Dilemma

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Who is IDAD?

IDAD
UK

IDAD
Funds

IDAD
International

IDAD
South Africa

✓ IDAD specialists in structured investments, including bespoke solutions for wealth management professionals.

✓ Experienced UK team - **100 years** experience.

✓ Market leading in design, distribution, and product management.

Who is IDAD? ✓ Proven Track Record!

IDAD has a reputation as a Structured Product powerhouse. We believe that we have a phenomenally successful track record of delivering excellent growth without compromising on capital security. Our approach is based on capital preservation first, with growth or income opportunities structured to suit different market conditions.

IDAD was founded in 2002 and has grown to become a recognised leader in the design and build of Structured Products and Deposits.

Over $4.37Bn of products issued mainly through regulated Independent Financial Advisers both in the UK and Internationally.

Over 3,100 products issued, operating with 40+ recognised banks with excellent credit ratings. Average Annualised Return of all matured Products 8.95% (Q1 2025)

Fully regulated by the UK Financial Conduct Authority.

Figures correct as of 31/03/2025. Source: IDAD

Learning Objectives

01 Understand the decumulation dilemma in the UK

02 Recognise the impact of market volatility on retirement income planning

03 Identify and analyse “sequence of return” risk

04 Evaluate the role of structured products and structured deposits to help mitigate sequence risk

05 Apply mitigation techniques in retirement planning scenarios

Decumulation Dilemma in the UK

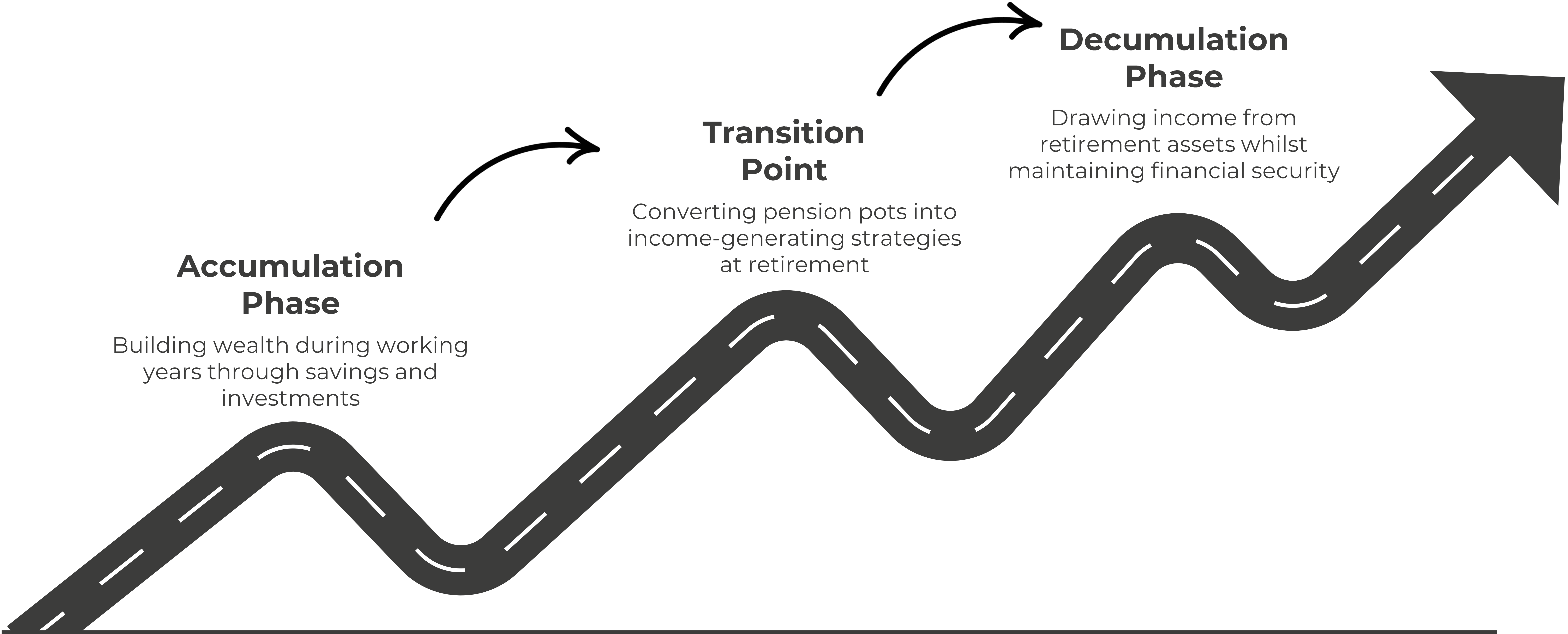
A shift from guaranteed to self-managed

- The UK pension landscape has transformed dramatically
- Traditional DB schemes provided certainty
- Today's DC schemes transfer investment risk to individuals
- Retirees must balance growth with security

Key challenges

- Generating reliable income
- Preserving capital
- Managing market volatility
- Planning for longevity

Pathway


Accumulation Phase
Building wealth during working years through savings and investments
Transition Point
Converting pension pots into income-generating strategies at retirement
Decumulation Phase
Drawing income from retirement assets whilst maintaining financial security

Key Challenges

Longevity Risk

The possibility of outliving your retirement savings.
Living longer than expected can strain financial resources.

Market Volatility/Sequence

Unpredictable market fluctuations can disrupt withdrawal strategies.
Downturns early in retirement pose particular dangers.

Inflation Impact

Steady erosion of purchasing power over time.
£1000 monthly income today may be insufficient in 20 years times.

Low Interest Environment

Reduced yields on fixed-income investments.
Annuity rates and bond returns may offer insufficient income

Longevity and Market Volatility

Ageing Population

UK retirees will increase by 23% by 2035. Many face 30+ years in retirement.

Market Volatility

Market corrections can devastate retirement portfolios. Recovery time is limited for retirees.

Sequencing Risk

Poor returns early in retirement create a permanent drag on income. This effect compounds over time.

The Retirement Investment Landscape

£107,300

Average UK Pension Pot

Based on 2024 data from ONS.

35%

Retirement Concerns

UK adults reporting retirement savings concerns.

21.9

Years in Retirement

Average retirement duration has increased significantly.

67%

Complex Planning

Retirees finding income planning increasingly complex.

Real-World Examples:

2008 Financial Crisis

37%

Market Decline

Peak-to-trough fall in the FTSE 100

50%

Portfolio Impact

Potential reduction in retirement income

5-7 yrs

Recovery Time

Period needed to regain previous values

Retirees who needed to maintain withdrawals during this period faced permanent damage to their retirement pots.

Real-World Examples:

The 2020 COVID-19 Pandemic Sell-Off

34%

FTSE 100 Decline

March 2020 crash

23

Trading Days

From peak to trough

£170k

Portfolio Loss

On £500k investment

4.5%

GDP Contraction

UK economy Q1 2020

The pandemic sparked the fastest bear market in history. Global lockdowns halted economic activity overnight. The FTSE 100 crashed 34% in just 23 trading days.

2022 Inflation and Interest Rate Hikes

Rising Inflation

UK inflation peaked at 11.1% in October 2022

Interest Rate Hikes

Bank of England raised rates from 0.1% to 3.5%

Energy Crisis

Russia-Ukraine war triggered energy price surge

Market Impact

FTSE 100 declined 11%, wiping £55k from £500k portfolios

The perfect storm of inflation, interest rate hikes, and geopolitical tension created sustained market pressure.

Visualising Sequencing Risk

Same Average, Different Outcome

Two investors can experience identical average returns yet end with vastly different results.

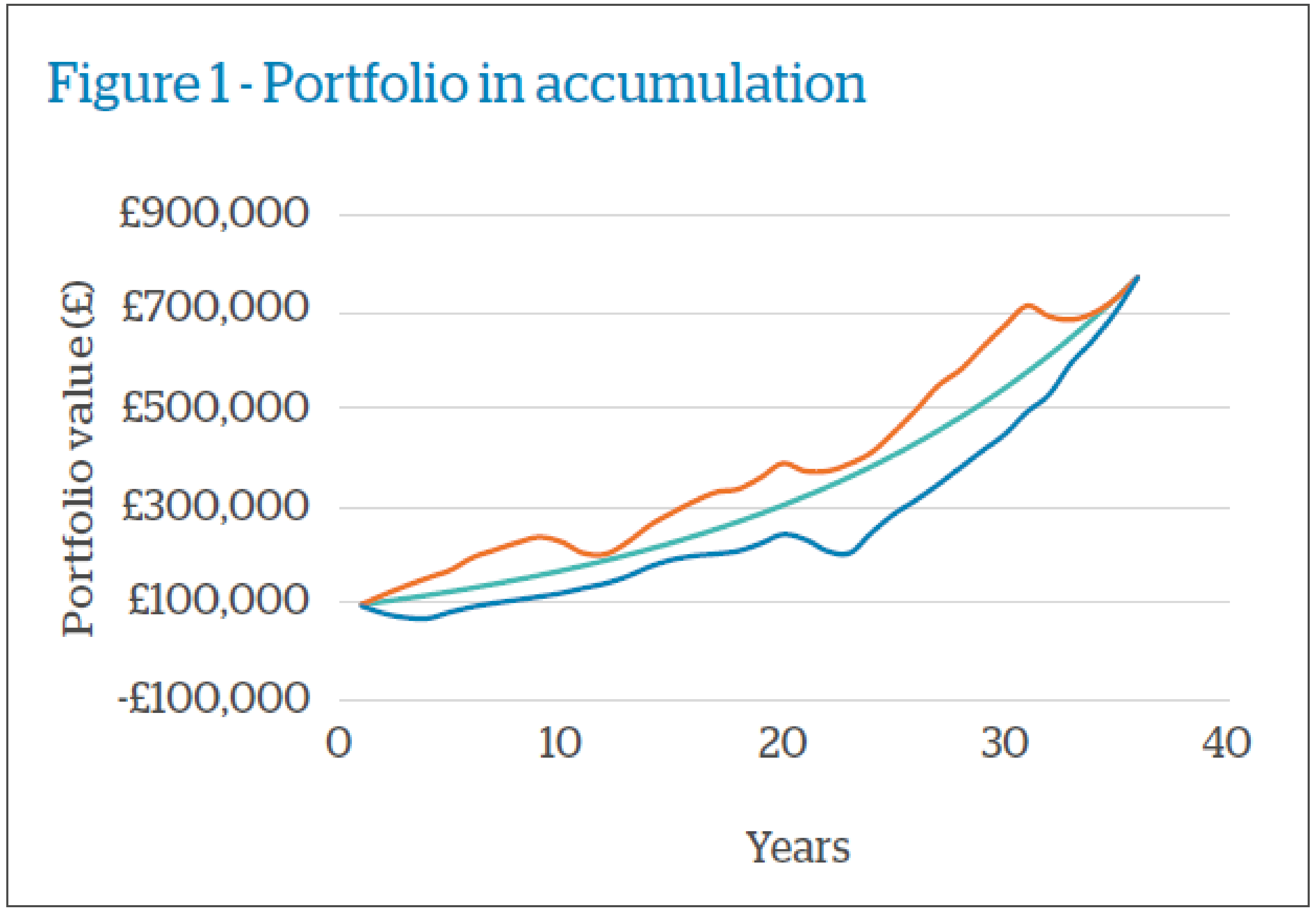
The sequence matters more than the average returns.

Withdrawal Amplifies Risk

Taking money out during downturns forces selling more shares to achieve the same income.

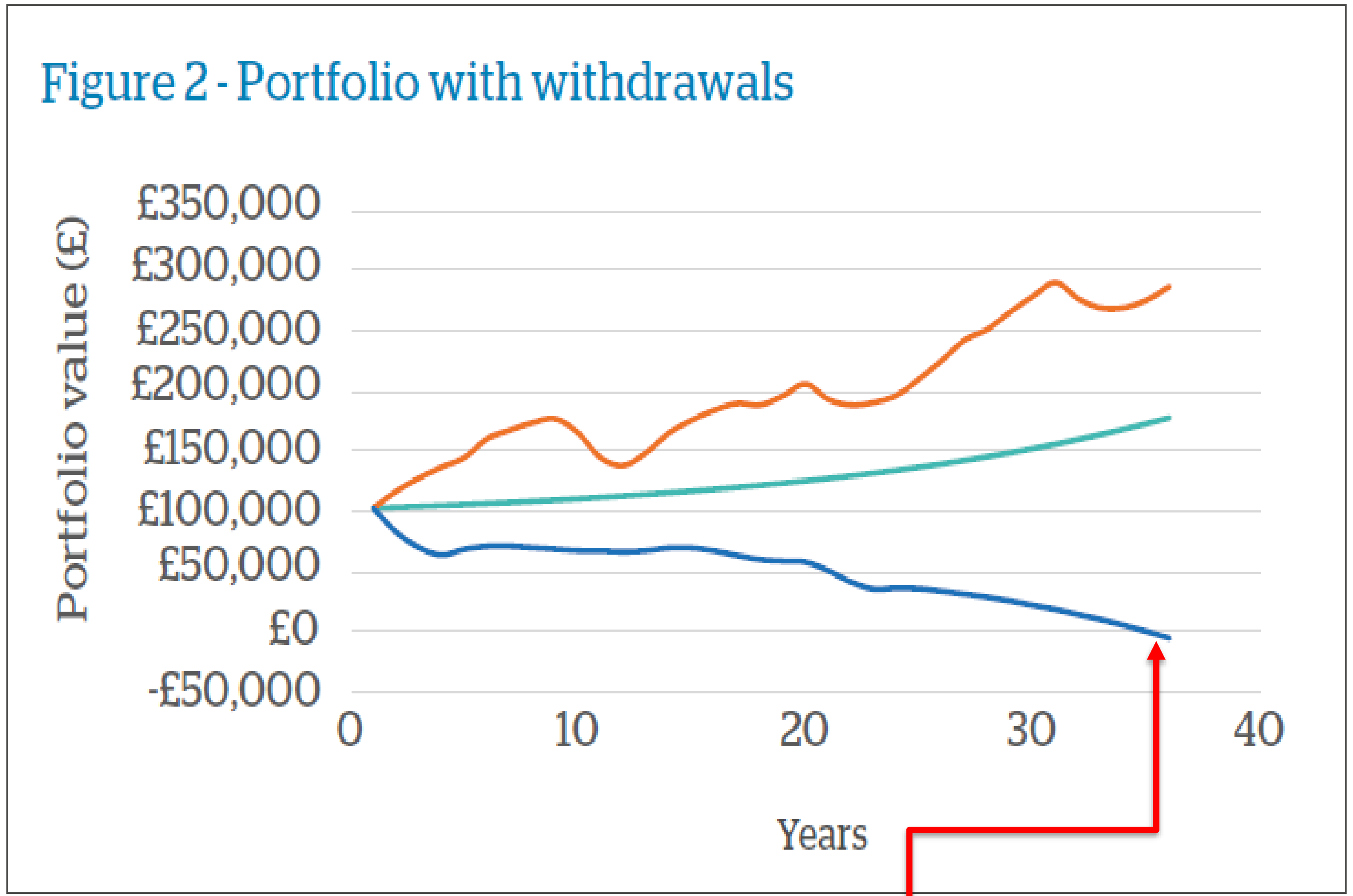
This creates a downward spiral that's difficult to reverse

Sequencing Risk: Accumulation Vs Decumulation



Strong performance at outset
6% annualised return
Portfolio in **accumulation**

Withdrawing £5,000 each year



Strong performance at outset
6% annualised return
Portfolio with **withdrawals Poor performance at outset**

Source: Brooks Macdonald, December 2020. For illustrative purposes only.

Double Impact of Withdrawal and Volatility

Market falls
Portfolio value drops in market downturn

Volatility Drag
A 30% fall requires a 43% recovery to break even.

Forced Selling
Withdrawal needs force selling at lower prices.

Compounding Losses
Fewer assets remain to benefit from future growth

Psychological and Financial Stress

Heightened Anxiety

Increased worry about retirement sustainability and financial future.

Lifestyle Reduction

Potential need to scale back planned retirement lifestyle and activities.

Savings Depletion

Risk of exhausting savings before end of retirement years.

Emotional Impact

Profound emotional toll from financial uncertainty in later years.

The Role of Structured Products in Retirement Income Planning

Diversification
Add resilience to retirement portfolios by reducing correlation.
Structured products behave differently from traditional investments during market stress.

Inflation Protection
Inflation-linked returns help maintain purchasing power throughout retirement.
RPI or CPI can be used as reference indices.

Tailored Solutions
Products can be selected based on risk appetite.
Options range from full capital protection to higher-return alternatives.

Income Generation
Regular, predictable pay-outs can supplement state pension and other retirement income.
Autocall products offer attractive yields.

Capital Protection
Designed to shield investors from market downturns.
Capital protection features limit losses during volatility.

Defined Returns
Clear outcome parameters give retirees certainty.
Returns are linked to market performance within set boundaries.

Structured Solutions

Capital-Protected Deposits

- 100% principal protection at maturity
- Fixed term with defined market exposure
- FSCS deposit protection up to £85,000

Autocallable

- Early maturity potential if markets rise
- Defined downside protection barriers
- Enhanced returns in flat/rising markets

Capital-at-Risk Notes

- Conditional protection against market falls
- Higher return potential
- Tailor features for specific needs

Key Features of Structured Investment Products

Feature	SCARPs	Capital Protected Products	Structured Deposits
Your Capital	**At risk** – might get back less than invested	**Protected** – guaranteed return of at least initial investment	**Fully protected** like savings accounts

Capital protection is a key differentiator between these products.

Know what happens to your principal investment before committing.

Combining Structured Products and Deposits: A Balanced Approach

Stable Core

Deposits provide guaranteed income for essential expenses. They ensure basic needs are always covered.

Growth Potential

Structured Products offer upside participation. They help portfolios keep pace with inflation.

Risk Management

Blending products creates diversification. Different maturity dates spread counterparty exposure.

Client Confidence

Known outcomes **reduce retirement anxiety**. Clients understand exactly what to expect.

Case Study:
Retirement Deposit Plan

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Retirement Deposit Plan

5.25% Annual Income
Regular payments regardless of market conditions

Bonus Payment Potential
Additional returns if FTSE 100 exceeds 90% of initial level

100% Capital Protection
Full principal returned at maturity

Case Study: Exceptional Six-Year Performance

62%

Total Growth

Achieved over six-year investment term

300%

Index Participation

Linked to FTSE 100 performance

100%

Capital Protection

Secured through Goldman Sachs

This plan set a new benchmark for structured deposits. It delivered exceptional growth while maintaining the security cautious investors demanded.

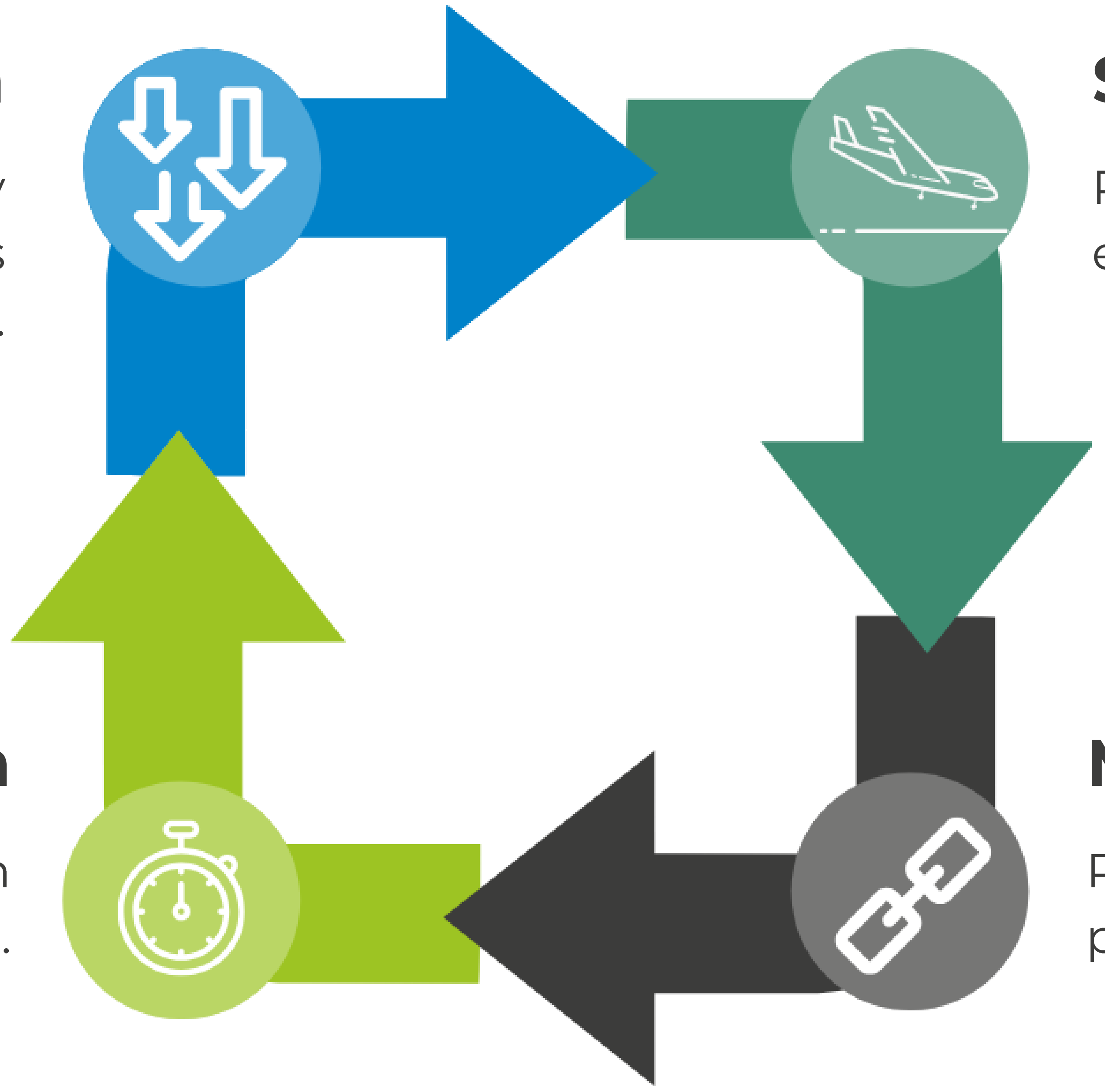
Structured Products: Capital Preservation

Downside Protection

Barriers typically protect against losses up to 30-40%.

Soft Landing

Potential for positive returns even in flat markets.



Fixed Term

Typically, 5-6 years with defined maturity dates..

Market Linkage

Returns linked to index performance (e.g. FTSE100).

Structured products offer a “safety net” during market turbulence. They provide pre-defined outcomes with downside protection

Structured Deposits:
Fixed Income Generation

01

Capital Protected
FSCS covered up to £85,000 per person, per bank
Principal fully returned regardless of market performance.

02

Predictable Income
Fixed or conditional income payments throughout term.
Typically 1-2% above standard fixed rate bonds.

03

Market Upside
Potential for higher returns if markets perform well.
Caps maximum return but provides income certainty.

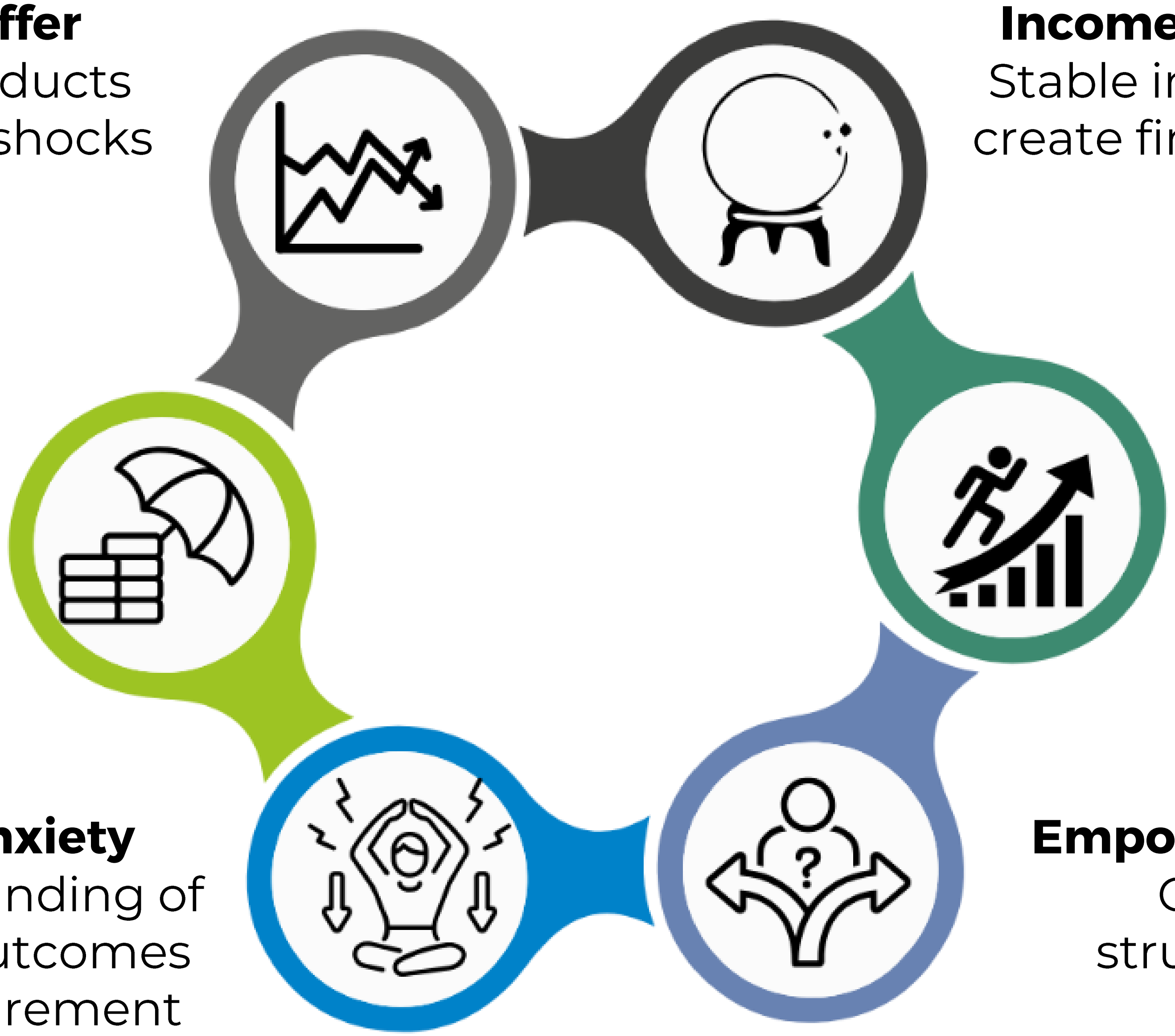
04

Sequence Risk Mitigation
Reliable income regardless of market direction.
Creates certainty during crucial early retirement phase.

Retirement:
Psychological Aspects of Investing in SP’s

Volatility Buffer
Structured products absorb market shocks

Income Predictability
Stable income streams create financial peace of mind



Capital Preservation
Principal protection ensures retirement savings remain intact

Increased Confidence
Greater certainty about future financial security

Reduced Anxiety
Clear understanding of investment outcomes decreases retirement stress

Empowered Decision Making
Clearer investment structures lead to better choices

Mitigation Techniques

Bucket Strategy
Divide assets into short/medium/long-term buckets

Flexible Withdrawal/Reduce
Reduce withdrawals – adjust spending based on market conditions

Diversification
Spread investments across other income producing assets – property/annuity etc.

Cash Reserves
1-2 years of expenses in cash. Prevents forced selling

Conservative Allocation
Higher bond to equity ratio during early retirement – does not always reduce portfolio volatility

Income Supplementation
Delay retirement/part-time work in early retirement to reduce withdrawals during crucial early period

Implementation Strategy

Portfolio Analysis

Assess sequence risk exposure in current portfolio holdings.

Staged Allocation

Gradually introduce Structured Products (20-30%)

Ongoing Review

Regular assessment and rebalancing of portfolios

Maturity Laddering

Stagger investments across different maturity dates

- Implementation should begin with a thorough analysis of sequence risk.
- Focus on withdrawal sustainability during potential market downturns.
- Gradual integration of structured products allow for comfortable adjustment and systemic monitoring.

- Laddering of maturities creates natural liquidity points.
- Approach maintains flexibility while providing enhanced protection during the early year retirement phase when sequence risk poses the greatest threat.

Practical Considerations for Advisers

Suitability Assessment

- Client risk appetite analysis
- Capacity for loss evaluation
- Time horizon assessment
- Liquidity requirements

Product Due Diligence

- Counterparty strength analysis
- Historical performance review
- Fee structure transparency
- Exit terms clarity

Client Communication

- Clear risk explanations
- Jargon-free documentation
- Realistic scenario planning
- Regular review schedule

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