Income Risk Suitability Methodology

Supporting evidence
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Contents

Foreword

If there is one word that sums up the requirement for any financial advice, it's 'suitable'. The dictionary defines it as "right for a particular person, purpose, or situation." Of course, the concept of suitability is enshrined in the FCA's rules and regulations.

In March of this year, the FCA published their "Retirement Income Advice Thematic Review". The FCA identified concerns regarding the suitability of advice. In the accompanying "Dear CEO" letter, the FCA draws attention to its expectation that advice firms must take action in response to the findings — including failure to demonstrate advice suitability — and that there will be follow-up supervisory activity.

The FCA review did not take into account the requirements of the Consumer Duty since it was not in force at the time. However, they note that it's unlikely that most advice firms would comply with some of the Duty's requirements without taking appropriate action to address their concerns.

Advice firms cannot say that they haven't been warned about getting their house in order when it comes to demonstrating the suitability of their advice.

The purpose of this paper is to set out what EV believes 'good' looks like in terms of a methodology that demonstrates income advice suitability.

Understanding how risk affects consumers is fundamental

Starting with the basics, it's important to identify what the consumer's objectives are and understand what a failure to meet those objectives might mean for them. The failure to meet objectives is what we call risk. And the degree to which a failure to meet the objectives can be tolerated is what we call capacity for loss. Risk and capacity for loss are of course inextricably linked.

This area was another key one identified by the FCA for improvement:

> **"risk profiling was not evidenced, was inconsistent with objectives and customer knowledge and experience, or lacked consideration of capacity for loss".**

There are many risks in life, and in financial affairs, and it's easy to create a long and frightening list. Here are just a few financial risks: capital risk, concentration risk, counterparty risk, credit risk, currency risk, inflation risk, interest rate risk, liquidity risk, market risk, organisational risk, and political risk.

To try and communicate these risks to consumers and to construct investment solutions to match their tolerance to all these risks is an impossible task. So, as an industry, we have chosen something easy to measure and communicate – investment volatility. But, if we stop for a moment and reflect, we can see that volatility has nothing much to do with many of the above risks which are, by their natures, one-off. What is, however, common to all these risks is the potential they have to affect the outcomes that consumers achieve from their investments.

> **It's the failure of an investment to meet consumers' objectives, the reasons they invested, that is the real risk that consumers face.**

EV's risk suitability process has always focused on outcomes. Considering the wealth accumulation phase, our risk assessment process is forward-looking over durations that match consumer investment horizons:

- saving for a deposit on a home;
- funding education costs for children;
- paying off a mortgage;
- funding a comfortable retirement;
- or simply accumulating wealth during a working life.

So, when it comes to income drawdown and considering the associated risks, it's critical to start by defining what we mean by risk.

For income drawdown, the main priority is to deliver an income for life. There may, of course, be other goals such as special holidays and/or passing on wealth to the family but these are always likely to be secondary to having a sufficient income to live on in retirement. If they are not and are major objectives, they should be handled separately. However, for most retirees, the delivery of a sustainable income for life is pretty much a universal objective and focusing on that outcome is critical. For a retiree, the risk is running out of money and suffering hardship in old age.

It's also critically important to consider capacity for loss, as with the wealth accumulation phase. For retirees, given the financial criticality of being able to meet essential living expenses for life, capacity for loss is arguably an even more crucial consideration than during the wealth accumulation phase. While not the subject of this particular paper, it's important that any risk assessment and recommendations take full account of a consumer's capacity for loss.

Having established that sustainability of income for life is the paramount concern, then focusing on investment volatility is completely the wrong measure. This is seen most clearly if we think about what a risk-free or low-risk solution would be for a retiree. It's clearly an annuity or if flexibility over the income drawn is required, it's a bond portfolio and an income level based on expected longevity. When considering risk with drawdown, the level of income drawn has a huge influence on the risk that the income will be sustainable. Other things being equal, the higher the income drawn, the higher the risk.

Cash provides a good illustration of why we need a different approach when it comes to quantifying risk to income. It's simply not a good low-risk option for someone using drawdown. The interest earned has a major influence on the income that can be drawn and, as we all know only too well, interest rates will vary (sometimes very sharply).

A sustained fall in rates could have a major impact on income sustainability. Cash, as a long-term investment for drawdown, will almost certainly result in a lower income for the retiree and it offers no potential for inflation protection. Cash can be a short-term tactical option but is not a good option for a retiree wanting a low-risk income solution.

> **Clearly, an annuity or a bond portfolio is the right option for a retiree with a low-risk appetite.**

As we will demonstrate later in this paper, virtually all multi-asset funds or managed portfolio services fail to offer much or anything for the medium to low risk retiree using drawdown, particularly if there is a requirement for the income to keep pace with inflation.

Measuring risk to income

So, having established that a new measure of risk is required for income, how should we go about developing it?

When EV tackled this problem in 2020 – and featured it in our 2021 White Paper "Drawdown: The Mirror Image of Accumulation" – we started with a number of criteria which we felt a risk-rated methodology should ideally meet:

- a spread of risk benchmarks covering a complete range from high to low;
- the ability to map income solutions (funds and portfolios) to the results of a psychometric risk questionnaire focused on consumers' attitude to income risk;
- a risk measure which can be easily communicated to consumers;
- a simple process for advisers mirroring established practice for wealth accumulation;
- a clear objective which applies to most people drawing an income;
- a methodology that can work for level and inflation-linked income objectives;
- since the level of income drawn affects the risk of sustainability, a risk methodology which defines income and is largely independent of the age of the retiree; and

- a methodology that can work with income plans involving both drawdown and annuities.

> **These are demanding criteria, and it took EV nearly two years to develop its Income at Risk (IaR) methodology, which meets all of them.**

IaR measures the risk of a drop in the sustainable income (income for a duration matching life expectancy) over a 3-year period.

The sustainable income is calculated as the maximum income which can be drawn by a retiree over the balance of life. The investment (fund or portfolio) supporting the income is then projected forward for 3 years and deductions are made from the fund totalling the sustainable income drawn over this period. In 3 years' time, the retiree is 3 years older and, if everything has gone well, when the sustainable income level is recalculated, it will be the same or higher.

IaR, however, looks at the probability that sustainable income will fall and, if so, by how much. The diagram shows, for 5 risk levels (7 and 10 are also available), the minimum amount by which sustainable income might fall, on one in four occasions, over a 3-year period when it's reviewed.

A 3-year period has been chosen because, typically, retirees will have their income level reviewed periodically. Regular reviews can reduce risk by making adjustments to income levels.

Assuming that every retiree will have an annual review seems too optimistic and 5-yearly reviews increase the risk of a substantial reduction in income being required.

It's important, however, to remember that our risk methodology is designed to provide a benchmark to gauge the relative risk of different funds and portfolios of funds – and to match them to assigned retiree risk profiles from a psychometric income risk questionnaire.

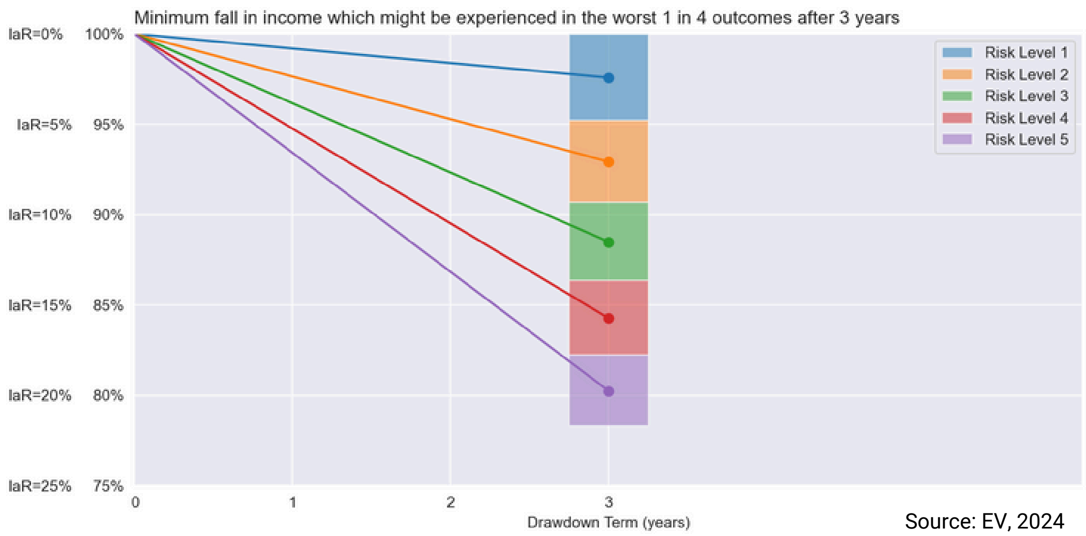
It's, of course, important to stress test any retirement income plan to confirm there is adequate capacity for loss before recommending a risk-rated fund or portfolio.

As illustrated in the chart (figure 1), the potential downside in sustainable income increases as risk increases. Also, usefully, the percentage downside is largely independent of age, making this a convenient way for risk rating drawdown investment solutions.

IaR works with not only funds and portfolios but also with combinations of annuities and other sources of secure income. It's flexible and works easily with established advice processes which identify consumer risk tolerances, often using a psychometric risk questionnaire, and make recommendations of suitable solutions which robustly match those risk tolerances.

> **EV produces two versions of IaR – one for level sustainable income and a second for real sustainable income (i.e. where the income increases with inflation).**

Figure 1



Source: EV, 2024

The importance of a transparent risk rating system

As noted, IaR results from nearly two years of painstaking work by EV. We recognised the need to find a methodology which is both administratively easy for advisers to adopt, but also completely transparent, with the ability for the compliance functions within advice firms to undertake their own due diligence.

These factors have become paramount with the introduction of the FCA's Consumer Duty requirements. Now more than ever, advice firms must ensure they assess their customers' risk tolerance and are confident that the funds and portfolios they recommend match and are suitable for these risk profiles. Achieving this requires absolute clarity in the risk analysis of drawdown investments.

The transparency of EV's risk rating methodology contrasts with other income risk rating approaches, which are opaque. As a result, advice firms are reliant on accepting income risk-rated solutions without any clear explanation of how they have been assessed or constructed.

In summary, the matching of the output from a risk questionnaire to a suitable investment, which has the risk characteristics described for the selected risk profile, is a critically important step.

A lot of scrutiny is given to risk questionnaires, and the methodology used in their construction, but little due diligence is done into the production of risk ratings. Few providers publish their detailed methodology, particularly for income risk ratings. There is almost no transparency, which gives rise to the suspicion that there is little being done beyond measuring the short-term volatility of the capital supporting the income.

This causes us concern. Capital volatility is not the right risk measure to use as it has only a partial influence on the risk to income. Indeed, worryingly, it appears that many advisers don't differentiate between accumulation and income when measuring risk and recommending investments. This is clearly wrong on two counts. Firstly, it's assigning to retirees concerned about income, a risk profile based on the wrong measure of risk (i.e. capital loss rather than income sustainability). Secondly, matching an income risk tolerance with investments based on their volatility is, if one is being really charitable, only a small part of the picture. The level of income drawn, the income generated by the investment, and its stability, will have a major impact on the income risk.

> **EV's risk rating methodology can be applied to all types of income solutions. It not only risk-rates them but also assesses their efficiency—that is, their ability to generate income.**

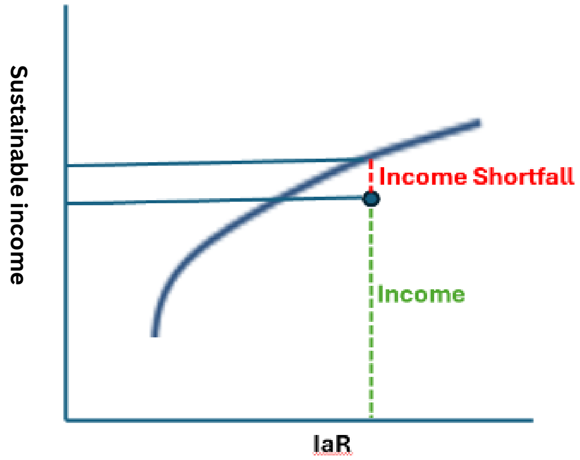
Using IaR to rate funds and portfolios for income and efficiency

So how good exactly are some of the currently available income solutions (funds and portfolios) at matching retiree risk preferences and delivering income?

With any risk assessment criterion, it's possible to create an "efficient frontier" which shows how the maximum return varies with risk. It's a well-accepted approach to use an efficient frontier to assess how well wealth accumulation products are delivering results. The ideal is for funds or portfolios to be on or close to the efficient frontier so that they are delivering the best return for the amount of risk exposure.

As with wealth accumulation EV's new income risk measure, IaR, enables an "efficient frontier" to be calculated which shows the maximum sustainable income that can be produced for any given level of income risk.

Figure 2



An "income efficient frontier" enables EV to publish another very important indicator in addition to a risk rating of funds and portfolios.

By considering the difference between the income that could be drawn by a retiree if the fund or portfolio is on the efficient frontier with the actual income that is likely to be generated, we can measure how efficient a fund or portfolio is at delivering income for the level of risk taken by the retiree.

Specifically,

$$\text{Efficiency} = \frac{\text{Income}}{(\text{Income} + \text{Income Shortfall})}\%$$

This useful measure can be applied to any investment vehicle, irrespective of whether it has been specifically designed for income or not. Other things being equal, after allowing for any difference in charges, an adviser should be inclined to recommend an investment vehicle with the highest income efficiency since this should provide a retiree with the highest income for the risk taken.

And this difference can be substantial. If we take two funds with the same risk, IaR, fund A may have an income efficiency of 85% and fund B 95%. This means that fund B will provide an income over 10% more than fund A. So, if the sustainable income for life from fund A is £30,000, then fund B would be expected to deliver £33,530 without exposing the retiree to any additional risk.

Figure 3

Source: EV, 2024

So, what does EV's analysis show about many of the investment vehicles frequently used for income drawdown. Well, generally they are inefficient at generating income – and some are spectacularly poor. EV has analysed about 170,000 funds, classes and portfolios with a focus on well-known multi-asset funds, particularly those tailored for providing income. We have also looked at whether the retiree's retirement income objective is to generate a level income or to deliver increases in line with inflation. This affects the investment strategy adopted and the efficiency of delivering income to meet these two different income requirements. This can be seen very clearly from the two following charts which plot the funds and portfolios against the efficient frontiers for nominal (fixed) and real (inflation protected) income.

So, what does good look like? The funds with red circles are the best available as they are closest to the efficient frontier. But they are not all available from a single fund manager. As can be seen for nominal income, there is a good spread of options across the risk spectrum. For lower risk levels, multi-asset funds give way to specialists mainly bond funds.

A good range of options from one manager is Aegon (yellow inverted triangles) with their WS Risk-Managed Accumulation range of 1 to 6. Also, the Embark Horizon Multi-Asset funds 1 to 5 (pink circles) look very good for providing a nominal income. Both these fund ranges are multi-asset funds which run from medium to high risk.

Also, at the very highest risk levels, the Timeline Classic Managed Portfolios (red hexagons) seem to be good. However, the efficiency of these appears to drop away dramatically as the risk level moves from very high risk to medium risk. This is less pronounced for Timeline's Tracker range (green squares). If a comparison is made between Timeline and Aegon, the income expected from Aegon's funds is considerably higher as can be seen from the tables (figures 4 and 5).

Figure 4

Portfolio/Fund	**Risk (IaR)**	**Efficiency**	**% increase in income compared to Classic 0**
Timeline Classic 0	14.2%	75.6%	-
Timeline Classic 10	14.0%	79.1%	4.6%
Timeline Classic 20	14.2%	82.1%	8.5%
Aegon Risk-Managed 3 Accumulation	12.8%	95.2%	25.9%

As can be seen, Aegon 3 is slightly less risky with an IaR of 12.8% compared to the Timeline portfolios but produces a massively higher expected income compared with Classic 0. In monetary terms Aegon 3 would be expected to support a sustainable income for life of £40,000 compared to only £31,771 from Timeline Classic 0. The three Timeline Classic portfolios all have, almost exactly, the same risk exposure, with Classic 20 being the best of the bunch.

Figure 5

Portfolio/Fund	**Risk (IaR)**	**Efficiency**	**% increase in income compared to Classic 0**
Timeline Tracker 0	11.0%	82.5%	-
Aegon Risk-Managed 2 Accumulation	10.5%	95.3%	15.4%

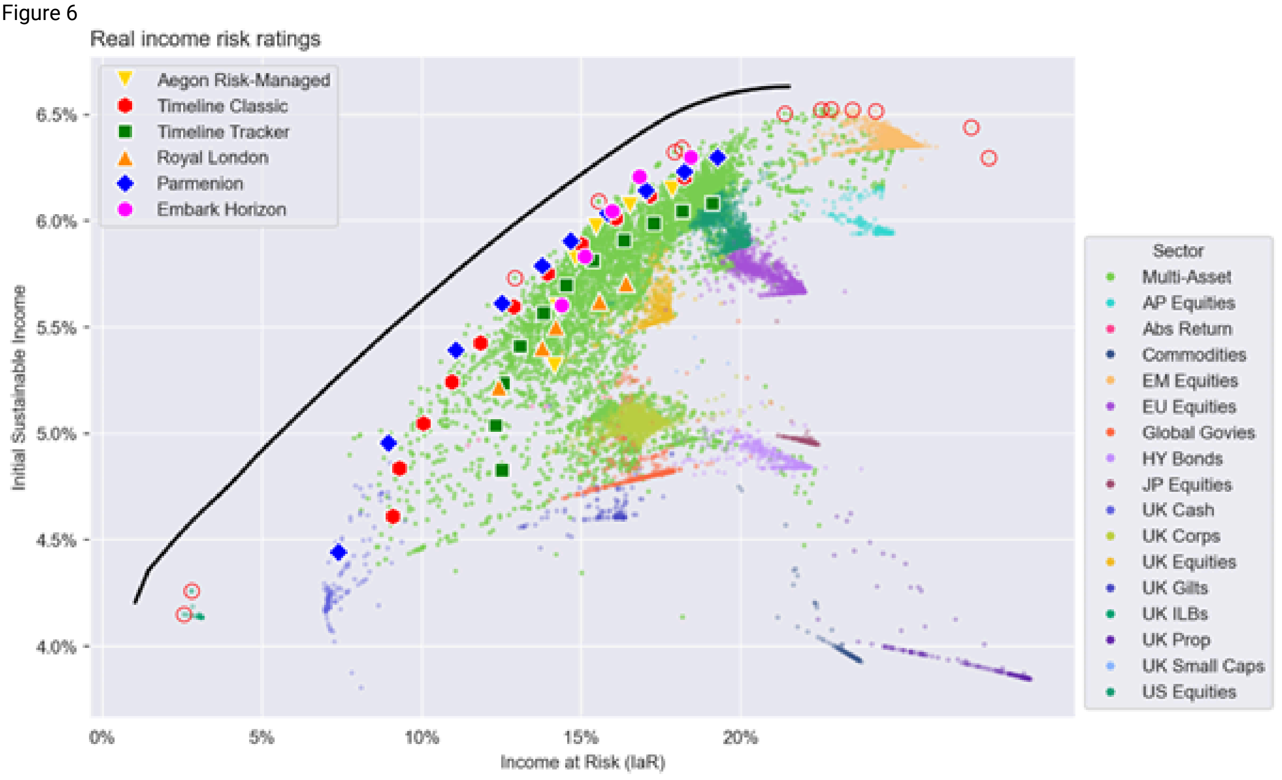
Timeline's Tracker portfolios generally outperform the Classic range in providing a fixed income for clients, except for those seeking high risk exposure where the Classic range excels the Tracker range at the top end of the income risk spectrum. However, the Tracker 0 portfolio is significantly less effective in sustaining income compared to Aegon's equivalent fund with a similar risk to sustainable income. Aegon 2 is expected to support a sustainable income for life of £40,000, while Timeline Tracker 0 supports only £34,662. This illustrates the importance for advisers using Timeline as a solution to understand both the risk exposure of the funds but also their relative efficiency.

Overall, other than for retirees with a high risk tolerance, the Timeline portfolios do not look very good for fixed retirement income. Since Timeline offers the same range of managed portfolios for wealth accumulation and for retirement income, it may be that they are better suited for consumers prior to retirement while they are accumulating their retirement wealth.

So, while Aegon's WS Risk-Managed Accumulation range seems good for retirement income, Timeline's portfolios do not look to be well suited for delivering a fixed retirement income.

It is important to point out that the above analysis (figures 4 and 5) does not take account of charges and performance, which are, of course, important considerations.

Figure 6



Source: EV, 2024

Where a retiree is looking for inflation protected income, there is a different efficient frontier and the requirements for a well-constructed fund also are very different. The chart shows very clearly the difference. As for fixed income, Aegon's range of Risk-Managed funds looks to be good for the higher risk levels. Royal London's range of GRIPs (orange triangles) also looks better for producing inflation protected incomes than they do for fixed income. Royal London's GRIPs also offer a spread of income risk exposure from medium to medium/high (there is nothing at the top end of the risk spectrum where, based on EV's experience, there is little demand). However, the star for delivering an inflation protected income and providing a good set of risk targeted choices are the portfolios from Parmenion (blue diamonds). These cover the range from high to medium/low risk exceptionally well.

Timeline illustrates a crucial distinction between the needs of consumers requiring a fixed income compared to those desiring an inflation protected income. Timeline's Classic range, which may seem inadequate for providing a fixed income for life, is actually the preferred choice for inflation protection income. Conversely, the Tracker range is unsuitable for those seeking an inflation protected income. The tables below (figures 7 and 8) compare these options to Parmenion, demonstrating the potential to improve income efficiency.

Figure 7

Portfolio/Fund	**Risk (IaR)**	**Efficiency**	**% increase in income compared to Classic 0**
Timeline Classic 0	9.1%	83.6%	-
Timeline Classic 10	9.3%	87.3%	4.4%
Parmenion PIM 2	9.0%	90.3%	8.0%

The data indicates that a 90% efficiency score is relatively low compared to what can be achieved by funds and portfolios designed for fixed income or higher risk portfolios designed for inflation protected income. Efficiencies of around 95% are attainable for both fixed and higher risk inflation protected incomes. This is partly due to the larger investment in long term inflation linked bonds in lower risk inflation protected portfolios. Translating efficiency differences into numbers, if the expected sustainable income from the Parmenion PIM 2 portfolio is £40,000, the Timeline Classic 0 portfolio would be expected to deliver just over £37,000.

For completeness, the comparison of the lowest Timeline Tracker portfolios is shown below (figure 8).

From the below analysis, it is clear that the Timeline Tracker series of portfolios is not a suitable solution for delivering an inflation protected income compared to Parmenion and Timeline's Classic range of portfolios. This emphasises the importance for advisers to identify whether their clients need fixed or inflation protected incomes and to choose the appropriate funds and portfolios accordingly. The risk and efficiency characteristics of funds and portfolios vary based on this choice.

The caveats mentioned above for nominal income, of course, apply to this analysis also. But some of the differences in the income producing efficiency of funds and portfolios are so large that differences in charges and anticipated performance would struggle to make up the difference.

The examples (figures 7 and 8) illustrate very powerfully why having a robust risk rating methodology is so important. By measuring how the investment objective (in this case sustainable income) increases with risk, it is possible to construct an "efficient frontier" and hence understand what a well-constructed portfolio should look like to deliver on that objective. Furthermore, it is intuitively sensible that a well-constructed fund or portfolio for delivering an inflation protected income would differ from one designed to provide a fixed income.

Using a poor proxy, like volatility, as a measure of risk, completely misses the risk that consumers are facing. In addition, investment volatility takes no account of the ongoing erosion of purchasing power resulting from inflation. Risk must be carefully defined to avoid creating suboptimal funds and portfolios. Wealth accumulation funds can be used, as shown in our analysis of Aegon's Risk-Managed Accumulation range, but due diligence is necessary. This Aegon range of funds is a good solution for retirees with a medium to high risk tolerance. However, for retirees with a lower risk appetite, Parmenion appears to be the answer for clients looking for an inflation protected income. Financial advisers must have access to this type of analysis to best serve their clients.

Figure 8

Portfolio/Fund	Risk (IaR)	Efficiency	% increase in income compared to Classic 0
Timeline Classic 0	12.3%	81.3%	-
Timeline Classic 10	12.5%	85.2%	4.7%
Timeline Tracker 20	12.6%	88.1%	8.4%
Parmenion PIM 4	12.5%	94.5%	16.3%

The Consumer Duty dimension

The FCA's Consumer Duty has clearly 'upped the ante' on providers and advisers to ensure that "consumers are sold and receive products and services that have been designed to meet their needs, characteristics and objectives".

To achieve this requirement, it's clear that the starting point must be with the product's design. Prima facie, a product designed for wealth accumulation would not be suitable for consumers whose "needs, characteristics and objectives" are for decumulation in retirement – the exact opposite. However, as we have seen from our analysis and the example of Aegon's Risk-Managed Accumulation range, not all accumulation funds are necessarily unsuitable for delivering income – but due diligence is essential.

EV's income risk suitability process can provide important support to an advice firm's due diligence. For most funds, adequate information is readily available to undertake a due diligence analysis. For managed portfolio services, the same cannot be said. While our analysis of Timeline's portfolios casts doubts about their suitability as income drawdown investment solutions for most consumers depending on their needs, information is not readily available.

> **We would suggest that all providers of managed portfolio services should be required to meet the same disclosure requirements as funds.**

Without this information to support a due diligence process, it's hard to see that advice firms would be meeting the cross-cutting rules of Consumer Duty, specifically to "avoid causing foreseeable harm" and to "enable and support retail customers to pursue their financial objectives".

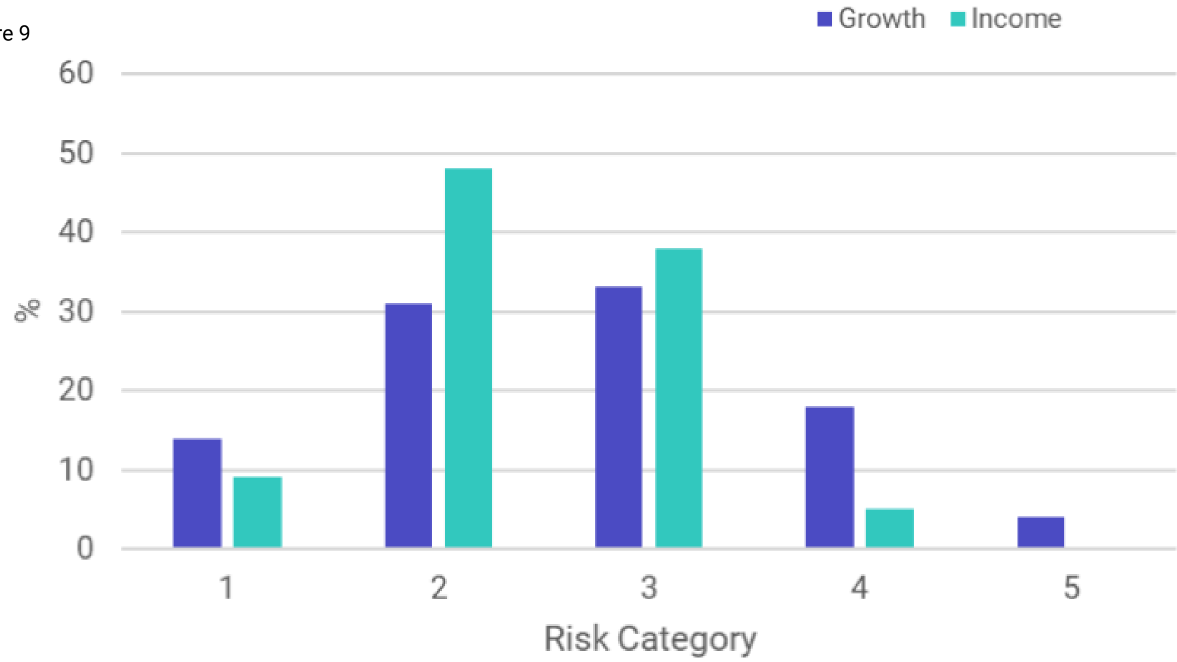
Catering for retirees with a lower risk appetite

As can be seen from the analysis, the risk spectrum is not well covered. Retirees with a low to medium risk tolerance, particularly those looking for an inflation-protected income, have very little choice, and this really matters.

EV has three psychometric risk questionnaires designed specifically to test consumers' attitude to income risk. The diagram (figure 9) shows the distribution of results compared with those from our growth risk questionnaires.

As can be seen, not only is the distribution of results different for income but there is a much greater concentration at low to medium risk profiles. Not, wholly unsurprisingly, consumers are less eager to take risks with retirement income than when accumulating wealth. A loss, when wealth is being accumulated, can be recovered – perhaps by postponing retirement.

Figure 9



Source: EV, 2024

There can be no way back with loss of income during retirement.

Given the lack of investment solutions suitable for low—to medium-risk consumers drawing an income, more attention needs to be given to providing solutions at this end of the income risk spectrum.

One potential solution for retirees with a lower risk appetite – annuity and drawdown blends

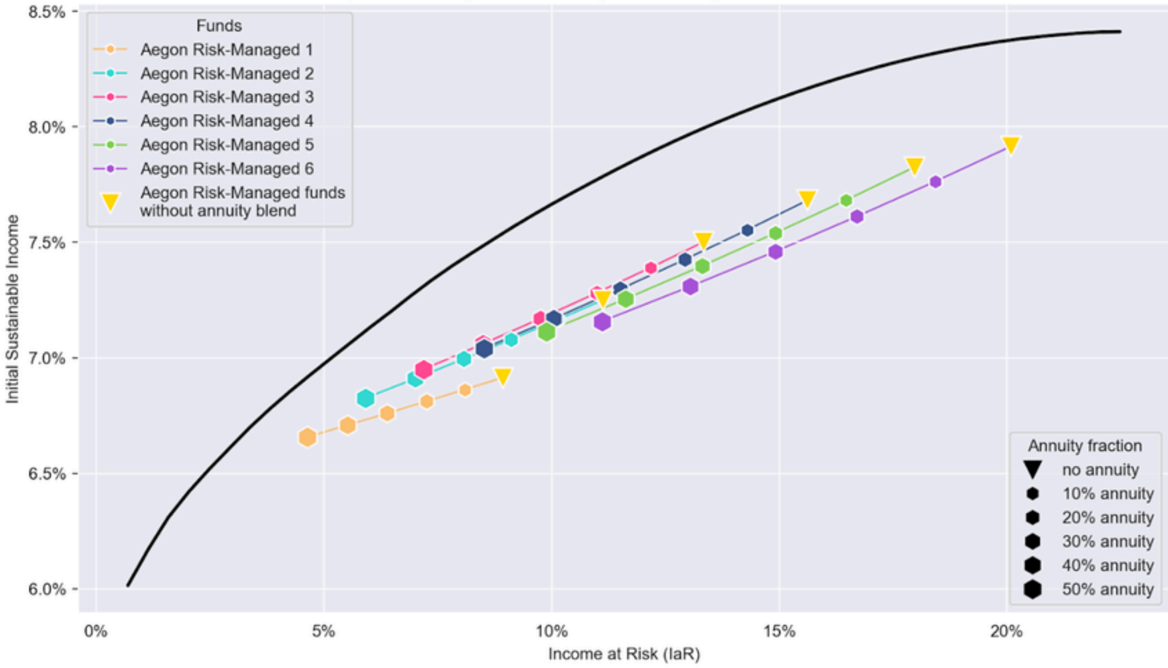
Since annuities are the 'no risk' option for income, a blend of annuity and drawdown can be used to fill the gap for retirees with a low to medium appetite for risk to their income. As part of its income suitability proposition, EV has built the capability to risk rate combinations of annuity and drawdown. Some examples are shown in figures 10 and 11 of annuity drawdown blends covering the full range of income risks. We have used, as an example, the Aegon Risk-Managed fund range for the income drawdown solution.

What we can see from the chart (figure 10) is that, for annuity blends of up to 50%, for nominal income, we can reduce IaR from 8.9% to 4.6% with a blend of 50% Aegon Risk-Managed 1 and 50% level annuity. As the chart shows, because the efficiency of the lowest risk Aegon fund drops away, the efficiency (i.e. a higher prospective income) would be available from a blend of annuity and other funds from the Aegon range. If allowance is made for charges (which these charts don't include) then the annuity blends would look better still.

Where the requirement is for an inflation-protected income, all the points made on in figure 10 for nominal income become more pronounced.

Figure 10

Nominal income risk for annuity blended Aegon Risk-Managed fund range



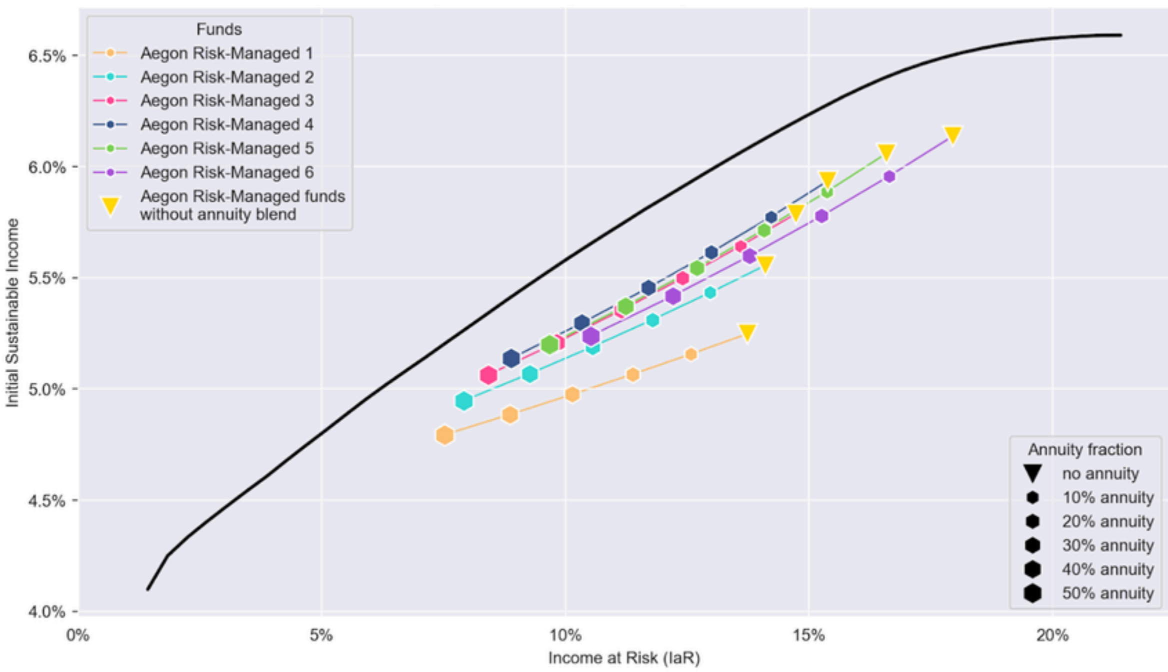
Source: EV, 2024

IaR can be reduced from 13.7% to 7.5% for the lowest risk fund with the same 50:50 blend and, because the efficiency of the Aegon range of funds drops away more sharply as risk reduces, blending can improve efficiency. For example, for the same risk as Aegon Risk-Managed 1, a blend of 90% of Aegon Risk-Managed 3 and 10% of an index linked annuity I will improve the prospective income by just under 8%.

While retiree preferences for flexibility over security are very important, annuities can play a very important role in reducing risk in much the same way as cash does for consumers during wealth accumulation. Cash investment is not efficient and quite risky as a means of delivering income.

Figure 11

Real income risk for annuity blended Aegon Risk-Managed fund range



Source: EV, 2024

It can be used tactically and does have a strong psychological appeal to users of drawdown but the strategy of maintaining a long term cash reserve is highly likely to result in a lower income for the retiree. Annuities for low risk retirees offer the most efficient way of delivering income and, of course, offer a measure of longevity insurance.

EV's income risk suitability process enables advisers to include annuity blends for lower risk retirees and to demonstrate how blends can be a more efficient way of delivering income.

The importance of catering for retirees with a lower risk appetite

The chart (figure 12) shows the latest results, using data collected between 2021 and 2024, for retirees using EV's income risk profile questionnaires. The results clearly show, over an extended period, that most retirees have a medium to low appetite for risk to their income.

For retirees requiring a real (inflation protected) income, the positions of the Parmenion PIM, Timeline Classic portfolios and Royal London GRIPs have been superimposed on the distribution of risk profiles to illustrate the coverage available.

The Parmenion portfolios are well positioned and cover a broad range of risk profiles. However, even with Parmenion, there are no suitable options for retirees with a low risk profile. Timeline and Royal London are slightly worse, as they offer nothing for retirees with a risk profile below 5 and 6 out of 10, respectively. Furthermore, due to the clustering of risks covered by the Classic 0 and 10 and GRIP 2 and 3, the positions of these portfolios could not be displayed in a straight line, resulting in income risk positions being stacked.

The chart underscores the need for promoting new funds for retirees who prefer the control and flexibility of drawdown over purchasing an annuity. Lower risk accumulation funds are not an efficient source of income due to their higher allocation to cash and cash equivalents. Many of these funds were found to be higher risk when used for income objectives and unsuitable for income generation on a fixed and inflation-linked basis. There is a need to develop specialist funds for drawdown users with low to medium risk appetites with a focus on bonds: government, corporate and inflation linked, with a good spread of terms.

Some key features of funds and portfolios that provide efficient drawdown investment vehicles include:

- avoiding unnecessary volatility, popularly known as "pound cost ravaging" (the opposite effect of "pound cost averaging");
- hedging currency risk to reduce the risk of volatility; and
- ensuring good diversification of income risk to reduce volatility.

Figure 12

Source: EV, 2024

Conclusion

No one doubts the importance of demonstrating suitability when it comes to providing financial advice. Through the publication of the FCA review, and the introduction of the Consumer Duty, a light is being shone on the suitability of advice in relation to retirement income. That light reveals what we believe to be some serious shortcomings.

This paper has aimed to demonstrate that:

- a new measure for risk is required for income;
- the importance of a transparent income risk rating system;
- the requirement to consider the efficiency of funds and portfolios; and
- new solutions are needed for lower-risk customers.

Advice firms that fail to properly account for these factors can expect to be the targets of the supervisory activity that the FCA has stated it will follow up on.

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