

## SECURE LIFETIME INCOME

# Technical guide

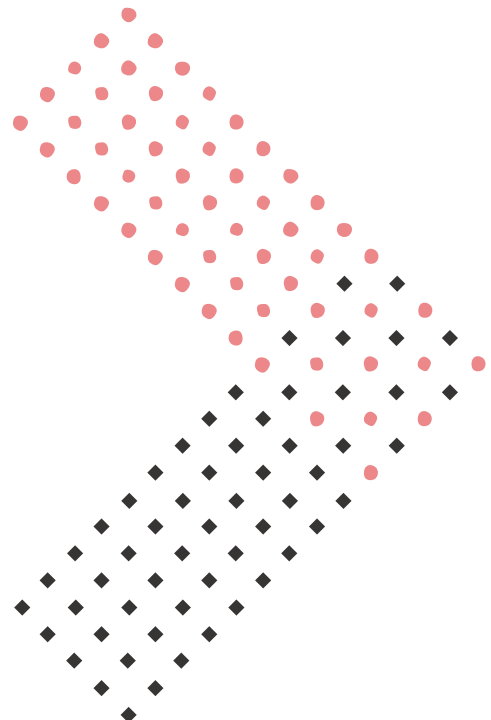
The purpose of this guide is to help regulated financial advice and planning businesses meet their regulatory due diligence responsibilities when adopting Secure Lifetime Income within their retirement income proposition.



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# Introduction

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**As a retirement specialist, we've designed Secure Lifetime Income for clients in retirement who need to draw income from their invested portfolio. Secure Lifetime Income gives financial planners more options to help improve client outcomes as part of a holistic, tax-efficient retirement income strategy incorporating flexi-access drawdown.**

Secure Lifetime Income is a guaranteed income producing asset, that is held alongside the drawdown portfolio, within the Self Invested Personal Pension (SIPP). It's designed with today's financial planning environment, where technology seamlessly links planning software, asset managers, practice management systems, clients and numerous third parties.

If you're responsible for your firm's regulated retirement advice policy and standards, or a financial planner advising retail clients, this technical guide provides information to help you incorporate Secure Lifetime Income into your retirement income advice proposition.



The purpose of this guide is to assist regulated financial advice and planning businesses in meeting their regulatory due diligence responsibilities when adopting Secure Lifetime Income as part of their retirement income advice proposition to appropriate client segments.

# Plan benefits at a glance

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Investment strategies which include an allocation of our Secure Lifetime Income guaranteed income producing asset could enable higher long-term portfolio values and/or higher levels of income to be drawn, as well as improving sustainability.



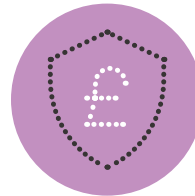
## Secure Lifetime Income complements your client's existing investment strategies

An alternative low risk asset that can be used when configuring drawdown portfolios to help enhance client outcomes



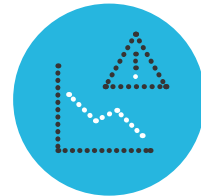
## Business efficiency

A fully digital solution keeping set-up and ongoing costs to a minimum



## Alternative option to traditional defensive assets

A solution that doesn't require you to compromise long term growth to mitigate sequence and longevity risk



## Personalisation

Offers new opportunities to enhance client outcomes by tailoring solutions to individual client objectives

# Why Just?

**Just Group is a leading and established provider of retirement income products and services to individuals and corporate clients. The Group is publicly quoted on the London Stock Exchange and listed on the FTSE 250.**

## Our financial strength

We know that generating great customer outcomes is the priority for financial planners.

When Secure Lifetime Income is purchased on behalf of your client we provide a guaranteed monthly income which is paid into their SIPP. We provide the guaranteed income regardless of the performance of the capital markets. This ensures a proportion of your client's income is protected against sequence risk and longevity risk.

Your client benefits from protections delivered by the UK insurance regime which includes the close financial regulation of our business by the Prudential Regulation Authority (PRA) who are part of the Bank of England.

All insurers are required by the PRA to hold solvency capital to ensure companies such as Just can meet our liabilities to plan holders with 99.5% certainty, which is equivalent to a one in 200-year extreme event.

Secure Lifetime Income is protected by the Financial Services Compensation Scheme (FSCS). Secure Lifetime Income holders can claim 100% compensation in the unlikely event we are unable to meet our obligations. To find out more, visit the [Financial Services Compensation Scheme](#).

## Solvency II capital coverage ratio

Our Solvency II capital coverage ratio was 197% at 31 December 2023\*.

## FTSE 250 listed

Just Group are a FTSE 250 listed company, so our shares are publicly traded. Please see the [London Stock Exchange](#) for more information.

## Rated by Fitch

Fitch Ratings, the global ratings and research agency, has affirmed the Insurer Financial Strength (IFS) Rating of Just Retirement Limited, our principle insurance subsidiary, at 'A+' (Strong, outlook stable) at November 2023.

The ratings continue to reflect Fitch's very strong assessment of Just's capitalisation and leverage, and asset-liability management. The ratings also consider the Group's strong business profile, earnings and investment risk and indicate that Fitch had a low expectation of ceased or interrupted payments and believe that we had a strong capacity to meet plan holder and contract obligations.

\* This figure includes a formal recalculation of TMTP, and is estimated.

# ESG and our investment portfolio

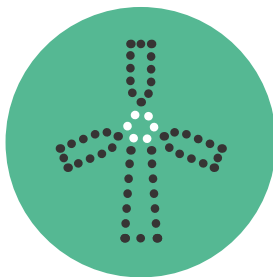
Our investment portfolio consolidates the premiums from defined benefit and individual retirement income plan holders. We consider environmental, social and governance factors in all investment analysis and decisions. This helps to ensure assets are sustainable and could help to generate long-term financial returns so we can meet the obligations of the policies we issue.

We were the first UK insurer to issue a Green bond and the first UK insurer to become a signatory to the United Nations Principles for Responsible Investment as an asset owner. We're a constituent of the FTSE4Good Index Series.

Signatory of:



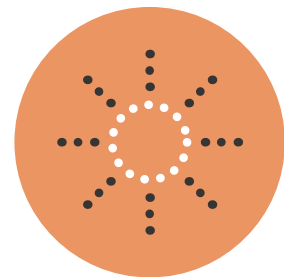
## Some notable ESG investments



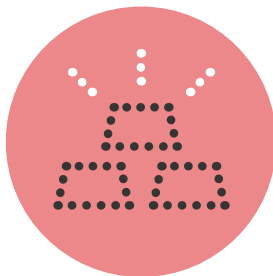
**£371m**  
wind farms



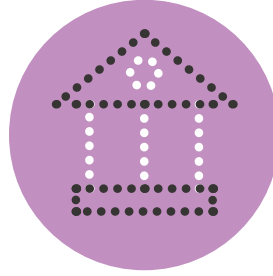
**£1,142m**  
social housing



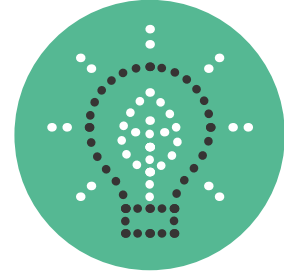
**£387m**  
solar energy



**£123m**  
emerging market  
social finance



**£196m**  
local authority  
loans



**£250m**  
green bond issued  
October 2020

Values are IFRS valuations at 31 December 2023.

## Our approach to asset and liability management

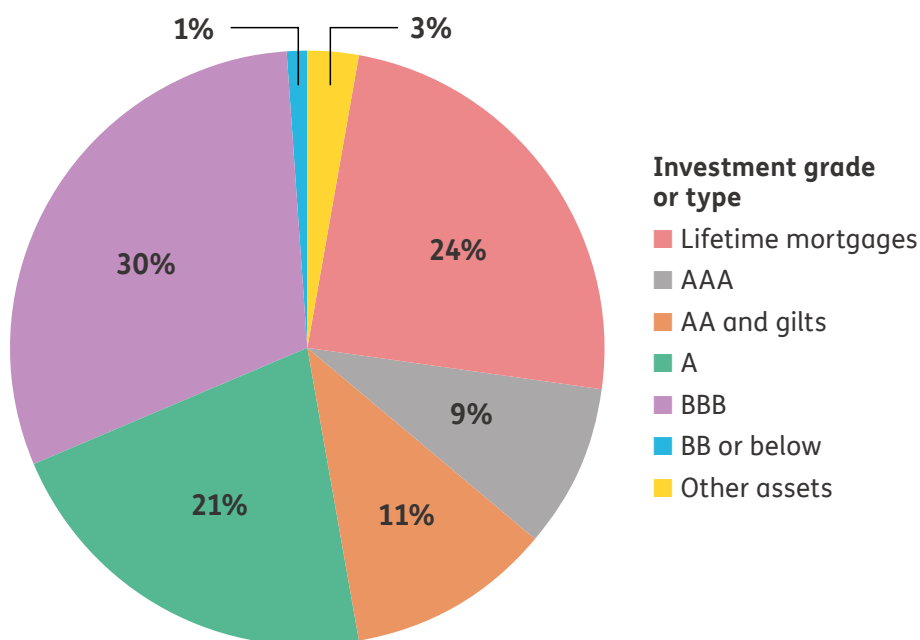
Our investment team are responsible for asset sourcing and investment management. They ensure that cash flows from our asset portfolio are secure, sustainable and sufficient to meet the payment obligations arising from the Group’s wholesale and retail retirement income policies.

We match the longer duration liabilities with lifetime mortgage loans, infrastructure and other investments

and the shorter duration liabilities with bonds and UK sovereign debt. This is a cashflow driven investment strategy.

The investments we hold are regulated by the Prudential Regulation Authority and are invested to ensure the matching of assets to liabilities whilst risks are managed.

## Breakdown of our £23.9bn investment portfolio by rating, as at 31 December 2023



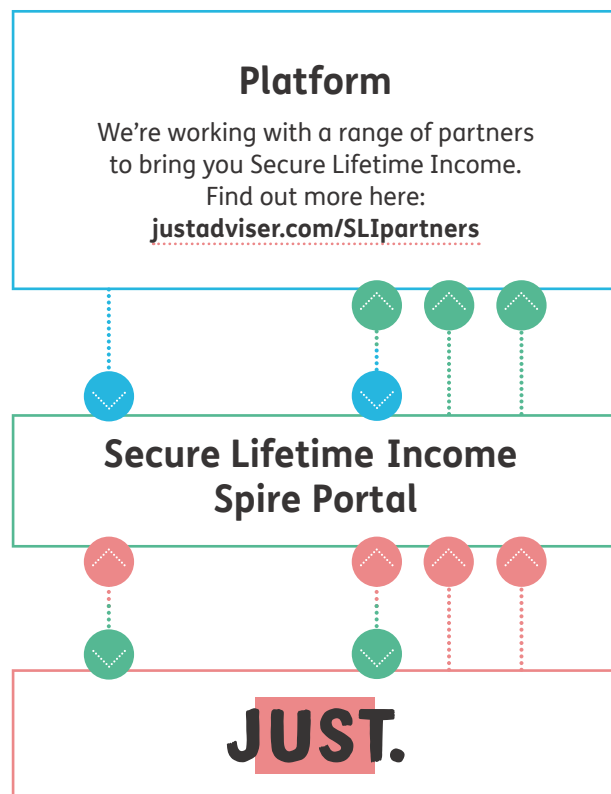
# Our relationship with Spire Platform Solutions



Just has partnered with Spire Platform Solutions (SPS) to provide the functionality to interact with SIPP platforms.

SPS develops and implements innovative financial services products and technology solutions to improve outcomes for clients and firms.

The SPS portal enables users of investment platforms to easily access products that are only offered by insurance companies. SPS's experience and in-depth understanding of both sectors of the market ensures their highly configurable technology 'translates' each party's requirements into a language that the other immediately understands to deliver a seamless end-to-end journey.



Secure APIs enable SSO, digital trading, real time valuations, and cash reconciliations which seek to replicate existing processes

The existing APIs that Spire operate with Just remain unchanged as new platforms integrate with Spire



# Proposition overview and who it's for

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**Secure Lifetime Income is a guaranteed income asset purchased by the trustee of a platform-based SIPP on behalf of its clients.**

Secure Lifetime Income is designed to complement existing drawdown investment strategies. It can be used as an alternative low risk asset when configuring drawdown portfolios, which can help to improve client outcomes.

Secure Lifetime Income is available to clients aged 55 to 90 who have flexi-access drawdown funds within a platform based SIPP.

The core market is those aged 65 to 75, with retirement funds of between £100,000 and £1,000,000. It's for clients that need to take income from their drawdown portfolio to meet their expenditure in later life as part of a holistic, tax-efficient retirement income strategy.

Clients may be looking to generate more retirement income from their drawdown portfolio than their attitude to risk and capacity for loss can support, seeking to improve legacy provision, or create a more sustainable retirement income plan.

We anticipate a slightly older mix than seen for traditional annuities as clients use Secure Lifetime Income alongside their drawdown portfolio to support their longer term income and legacy needs once in receipt of state pension.

## **Who Secure Lifetime Income is not intended for**

Secure Lifetime Income is not a substitute for traditional pension annuities or for clients intending to use a high proportion of the drawdown portfolio to purchase a guaranteed income. Clients who have accumulated enough money to meet their overall spending, while leaving their assets largely intact to pass on to their family, are also not the target market for Secure Lifetime Income.

## **Where is Secure Lifetime Income available?**

Secure Lifetime Income is available in SIPPs on platforms that have adopted the proposition, currently 7IM and Wealthtime.



# How Secure Lifetime Income works

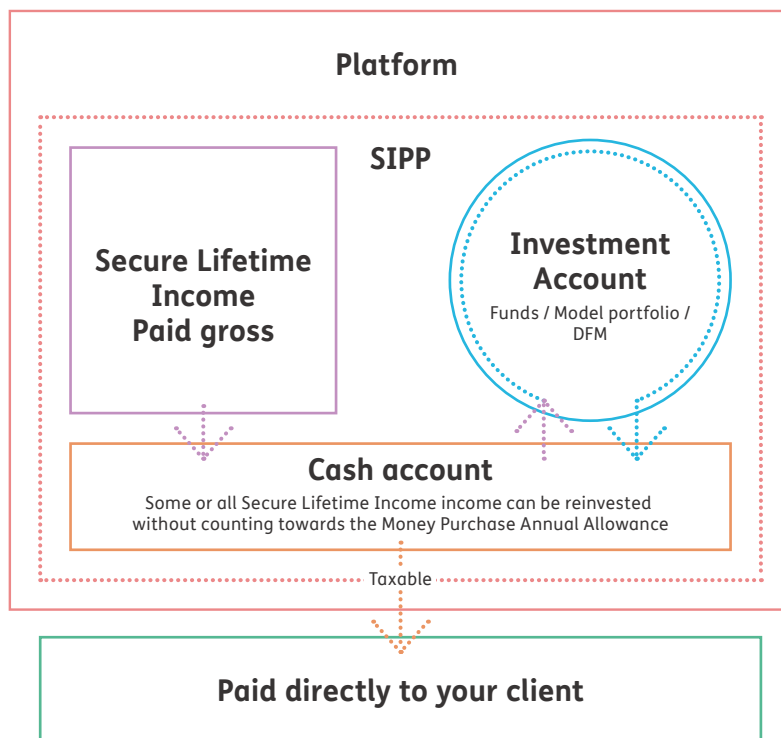
## Eligibility

- Aged between 55 – 90
- UK resident at the time of application for the plan
- Platform based SIPP assets between £100,000 – £1,000,000

## Structure

- Secure Lifetime Income is a Trustee Investment Plan within a trust-based, UK-registered pension scheme which provides your client with a guaranteed income for life

- This structure makes Secure Lifetime Income suitable to hold as an asset of the scheme
- Secure Lifetime Income is 100% covered by the Financial Services Compensation Scheme (FSCS)
- We'll pay monthly income payments into your client's SIPP cash account, where you and your client can choose to:
  - withdraw some or all of the income
  - retain the income in the cash account
  - invest some or all of the income in other assets held in the SIPP
- Income tax only becomes payable if the income is withdrawn from the SIPP



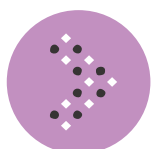
# Overview of the client journey

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## Accessing Secure Lifetime Income

- To access Secure Lifetime Income log on to the SIPP platform, select the relevant client account and open the Secure Lifetime Income portal where personal, health, lifestyle and financial details can be entered
- Secure Lifetime Income is accessed via a streamlined online journey which collects information interactively



## Obtaining a quote

- Once the information has been entered, you can request a quote by entering the annual income required or the purchase price to invest
- The plan income or purchase price is guaranteed for 35 calendar days from, and including, the date the quote is calculated. Once we receive an application this is extended to 45 days
- To accept a quote, an online application needs to be completed and there must be sufficient money in the client's SIPP cash account to fund the purchase price
- Once a quote is accepted, the SIPP platform will typically ring fence the purchase price to avoid it being used for any other purpose
- If a quote is not accepted during the 35 day period, it will expire and a new quotation will be required



## Application

- Secure Lifetime Income offers a simple online application process which uses an 'e-signature' capability to send applications and associated data
- The purchase price will be paid to Just by the SIPP platform

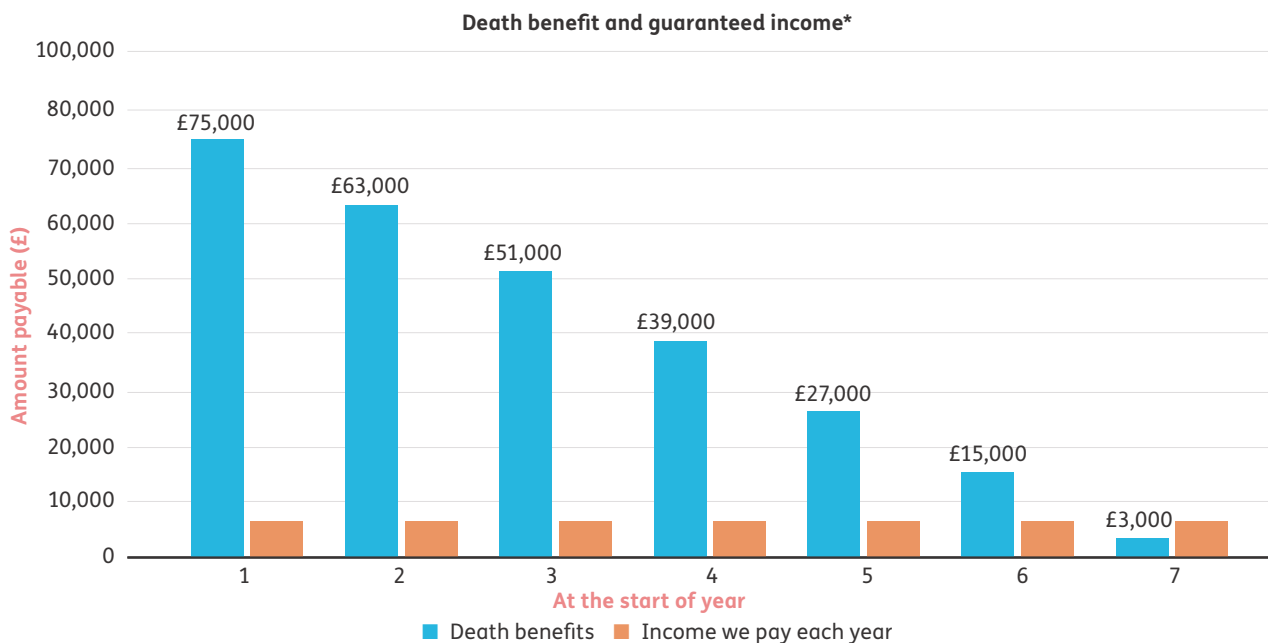
# Plan features

## Income

- Secure Lifetime income will pay your client a guaranteed monthly income into their SIPP cash account for the rest of their life
- We'll pay income on the first day of each month, starting from the initial payment date
- Your client's initial payment date will be the first of the following month if Secure Lifetime Income is purchased before the published cut-off date, otherwise it will be the first of the month after that
- Additional income may be secured by purchasing more Secure Lifetime Income in the future, subject to the terms and conditions at the time

## The death benefit

- In addition to helping to enhance a client's overall legacy provision, Secure Lifetime Income provides automatic protection against death early in retirement by offering an automatic lump sum death benefit for a set period
- The death benefit starts at 75% of the purchase price and reduces by twice the income payments due until it reaches zero
- The value and expiry date of the death benefits are calculated at outset and included in your client's Personal Quotation
- If the death benefit is applicable, it will be paid as a lump sum, via the trustees, into your client's SIPP cash account
- The lump sum will be distributed to your client's beneficiaries in line with the SIPP's scheme rules



\*Example based on £100,000 purchase price and £6,000 annual income



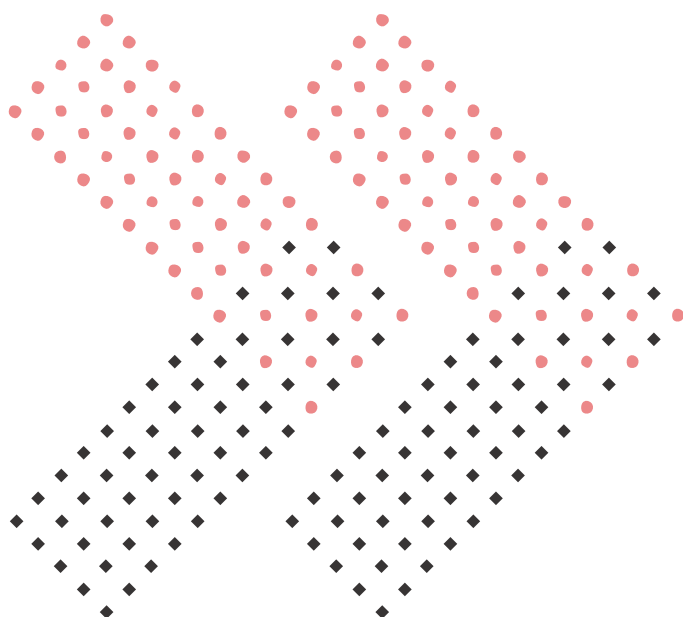
## The cash-in value

- The cash-in value offers your client the option to exchange their entitlement to future income payments and a death benefit for a one-off lump sum should their circumstances change significantly during the set cash-in value period
- At the start of the plan, the cash-in value is equal to the death benefit
- The guaranteed death benefit reduces by twice the amount of each monthly income payment due, until it reaches zero. The cash-in value will never exceed the death benefit
- As the cash-in value is linked to the income payable, the period for which the cash-in value is available can be different for each client
- The value and expiry date of the cash-in value available at the start of the plan are calculated at outset and included in your client's Personal Quotation



## How the cash-in value is calculated

- The cash-in value is calculated on a daily basis, taking into account market conditions. It is also limited to be no more than the death benefit
- We also carry out an internal valuation of the Secure Lifetime Income, applying the principles within the regulations that govern our capital requirements as an insurance company, and allowing for market conditions at the time
- We compare this internal valuation with the cash-in value of the Secure Lifetime Income at outset
- If this shows a greater proportionate reduction in value than the death benefit we'll reflect this in the cash-in value. This is most likely to happen when long term interest rates have increased since the start of the Secure Lifetime Income
- The cash-in value for each policy is provided daily to the relevant SIPP provider, and can be displayed on platform



## How we work out the cash-in value if market conditions remain the same

If market conditions remain the same the cash-in value will be the same as the death benefit.

The following example uses 66-year-old client with a £100,000 premium, who receives £6,000 per year in income, the following steps describe the process.

### Step 1

First we work out the initial cash-in value which is simply 75% of the purchase price.

**£100,000 purchase price x 75% = £75,000 initial cash-in value**

### Step 2

The client's cash-in value then reduces by twice the amount of income due.

The income is £6,000 per year divided by 12 months = £500 monthly income.

**Starting with the initial cash-in value of £75,000 at the start of month one, we take off twice the monthly income (£500 x 2) = £1,000. This gives us a cash-in value at the start of month two of £75,000 minus £1,000 = £74,000**

### Step 3

The cash-in value will continue to decrease by twice the monthly income until it reaches zero when the cash-in value will no longer apply.

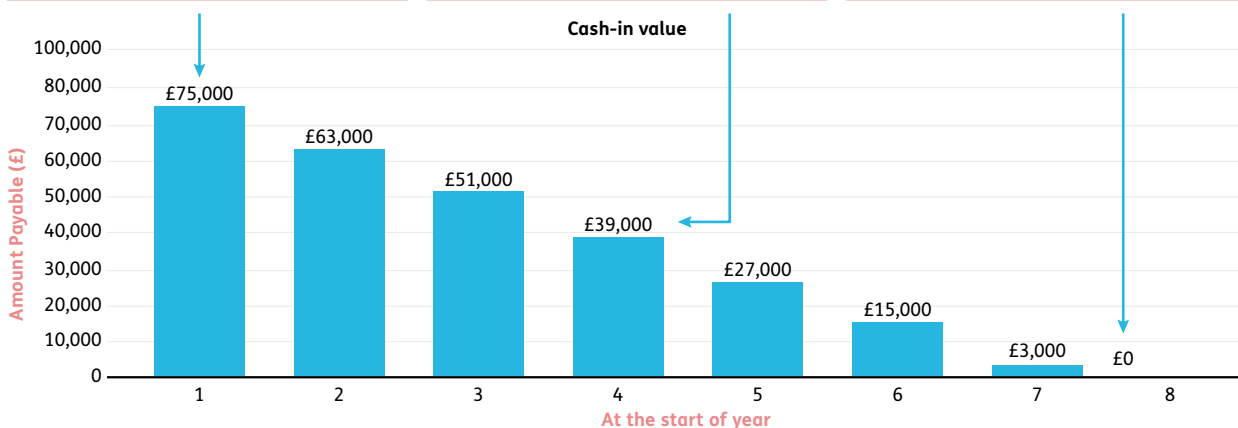
**In this example the cash-in value will no longer be available after six years and three months**

This graph shows what the cash-in value looks like on an annual basis.

The cash-in value is derived from the guaranteed death benefit. At the start of the plan the cash-in value is £75,000 – 75% of the £100,000 investment

After three years of income (£18,000) has been paid, the maximum available cash-in value based on the guaranteed death benefit value would be £39,000 i.e. £75,000 – £36,000 (2 x £18,000)

After six years and three months of income has been paid, the cash-in value is £0 but the guaranteed income continues for life



## How we work out the cash-in value if market conditions change

The table below uses the same scenario as in the previous example to show how the cash-in value would react if market conditions change and the interest rates used to value all future payments increased by 1% annually or 3% annually on the day after purchase, and remained at the increased level from then on.

The interest rates we use are based on the yields available on the assets we expect to buy in order to back our liabilities and reflect the regulations which govern our capital requirements. These assets are mainly corporate bonds and lifetime mortgages. The approach we follow in complying with the capital regulations is independently overseen by the Prudential Regulation Authority. At any point in time, we use the same interest rates for determining cash-in values as we use to calculate the capital requirements we assume in pricing new Secure Lifetime Income business.

In general, an interest rate change is likely to have a bigger impact for plans with longer cash-in value periods.

A personalised example is available in your client's Personal Quotation.

The reason for this pattern is that interest rate changes affect our valuation of the Secure Lifetime Income, with increased interest rates reducing the assessed value of the future income and death benefits. However, as the death benefit reduces by twice the amount of the income due, this will usually be lower than our valuation of the Secure Lifetime Income once a sufficient period of time has passed. Therefore, the later cash-in value amounts are less likely to vary in response to changes in market conditions than the earlier ones.

## Could anything else affect the cash-in value?

Yes. As described earlier in this guide, the cash-in value depends on the value of the Secure Lifetime Income policy, which is affected by regulations applying to Just. If those regulations, or the way we are required to implement them, change then that could affect the cash-in value. For example, if the regulations specified a change to the way in which we apply long-term interest rates when calculating our capital requirements, this could impact the cash-in value.

At the start of year	Cash-in value assuming no change in interest rates	Cash-in value assuming interest rates increase by 1% annually	Cash-in value assuming interest rates increase by 3% annually
1	£75,000	£68,735	£58,608
2	£63,000	£63,000	£55,389
3	£51,000	£51,000	£51,000
4	£39,000	£39,000	£39,000
5	£27,000	£27,000	£27,000
6	£15,000	£15,000	£15,000
7	£3,000	£3,000	£3,000

# Representing Secure Lifetime Income on platform

- The platform provider may display the client's cash-in value on platform
- The plan will be represented on the platform by a unit holding and a unit price
- The unit holding has two 'unit classes' attached to it
- One unit class pays the guaranteed income and these units are known as the 'income units'; the other unit class reflects the cash-in value and these units are referred to as the 'value units'

## Customer agreed remuneration

- All adviser charges are facilitated by the platform
- The Secure Lifetime Income is an asset of the SIPP and the cash-in value may be included in the calculation of any ongoing adviser charge
- Your platform will be able to confirm what options they offer

## SIPP charges

- A platform or SIPP charge is likely to apply to the Secure Lifetime Income (for example, to the cash-in value) as it would to any other SIPP asset
- Charges may also be applied to income reinvested in the SIPP
- The platform will confirm the details of any charges

## Our charges

- All our costs for providing Secure Lifetime Income are included in the product and allowed for when we calculate your client's guaranteed income
- We will not apply any further ongoing charges, either on death or cash-in

## Income units

- The income units are present to pay the income from Just to the SIPP Trustees and have no ongoing value
- The units are created with an income distribution of £1.00 per month which pays out monthly on the first day of the month, starting on the first payment date
- The client's SIPP receives the number of income units equal to their guaranteed income, for example, if the client is due an income of £520.12 per month, they will receive 520.12 units
- On notification of death, the income units are cancelled for no value. Should the client sell their value units to access the cash-in value, the income units are also cancelled for no value

## Value units

- The value units are present to reflect the cash-in value and not to pay any income
- The client's SIPP receives a number of value units equal to the initial level of the death benefit and cash-in value, for example, if the client decides to invest £100,000 in a Secure Lifetime Income plan the cash-in value at the start of the plan is £75,000. The client's SIPP would therefore hold 75,000 value units priced at £1.00 per unit
- The number of cash-in value units held in respect of a client can be adjusted each day to reflect the daily calculation of the cash-in value
- The adjustment to the number of value units described above is performed by crediting units to or cancelling units from the plan, with no associated cash transaction. It is not a sale or purchase with associated cash flow
- If the cash-in value is shown on the platform the value displayed will be based on the previous business day's valuation of the plan and may not be the amount payable when Just receive an instruction from the Trustees to pay the cash-in value





## Standard asset

- Secure Lifetime Income offers expeditious asset transfer so that it complies with the readily realisable requirement to be considered a 'standard asset' in terms of SIPP Capital Adequacy



## Transfers and assignments

- Secure Lifetime Income can be transferred in specie between SIPPs that offer Secure Lifetime Income



## Technical value

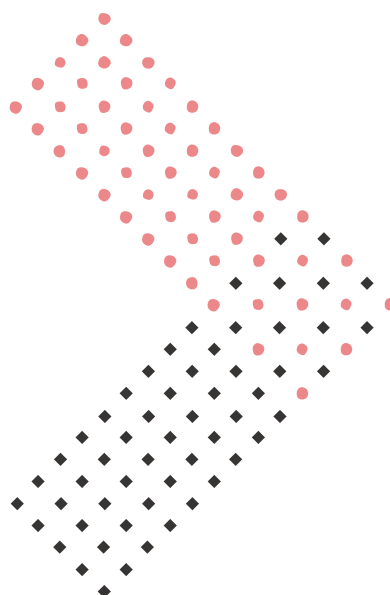
- In the event of a pension sharing order being issued by the court, we will provide a 'technical value' of the Secure Lifetime Income plan to calculate the cash equivalent transfer value (CETV). The relevant percentage of this value will be allocated to your client's SIPP to enable the scheme administrator to comply with the order
- The technical value represents the expected present day value of future payments under the contract and is different from both the cash-in value and the death benefit, as income may still continue after these have reduced to zero



## How the technical value is calculated

The technical valuation is determined using the following criteria:

- We calculate what Just expect to pay out in income payments and death benefits at each future time point based on the probability that the client is alive at that point and including an appropriate allowance for expenses
- These expected payments are discounted using interest rates (our best estimate yield curves) that are reflective of the return on the investments that back the contracts. This discounting process gives us the present value of each expected future payment that we think we would make
- These discounted payments are then added together to get the expected present value of the whole contract which is the technical valuation
- The mortality we use to determine the probability of making the payments will differ for each client because it is dependent on each individual's health and medical status



# Our approach to modelling retirement income outcomes

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**Throughout our Secure Lifetime Income literature we use our own modelling to provide examples of the client outcomes that could be achieved by including a proportion of Secure Lifetime Income into a holistic retirement income plan.**

We use a stochastic investment model that works by calculating a simulation set of 1,000 future outcomes for each asset class in annual steps. Our model is currently based around a yield curve at the calibration date, adjusted for each asset class by adding a modelled excess yield with a defined volatility and with an imposed covariance between asset classes.

The data used within the model was calibrated to instruments sourced using Thomson Reuters data stream, all of which satisfied both of the following criteria:



Reasonable expectation of behaving in the same way as the referenced asset class.



Length of historical data likely to include a number of market cycles.

The gilt curve plus average observed historical excess return was used to set the 'mean' expected returns by asset class.

They were simulated to show the risk (volatility) observed historically and correlated random numbers were used to embed the asset classes with the same average correlation observed in the past. The gilt curve itself was derived from the Bank of England website.

The core reason behind building the model this way is to create a model which reflects the current interest rate curve and historic relationships between asset classes, but which takes no particular theoretical view about how future returns 'should' evolve.

The Secure Lifetime Income rates used within the model are based on a Secure Lifetime Income purchase price of £50,000. Other purchase amounts are handled by scaling.

It's important to note that the investment simulation engine was not tuned to give any particular message.

# JUST.

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## Our partners

We're working with a range of partners to bring you Secure Lifetime Income.

Find out more here: [justadviser.com/SLIpartners](https://justadviser.com/SLIpartners)

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## For more information


Call: **0345 302 2287**

Lines are open Monday to Friday, 9.00am to 5.00pm

Email: [SLIenquiries@wearejust.co.uk](mailto:SLIenquiries@wearejust.co.uk)

Or visit our website for further information: [justadviser.com](https://justadviser.com)

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January 2024

**FT** ADVISER

