

An adviser's guide to retirement investing.

Preparing client portfolios as they step back from full-time work



Introduction

Clients and regulators are increasingly expecting Advisers to provide comprehensive retirement advice services. As your clients enter this new phase of life, they are confronted with a new set of investment challenges. It is imperative that you are able to pivot the services you provide to meet these new needs.

This paper reveals the three investment objectives that you must consider for clients in, or approaching, retirement. It provides a clear and simple framework for building a holistic retirement advice proposition, and demonstrates how to identify investment portfolios that are well suited for individuals in the post-work phase of their life.

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Author



**Hugo
Thompson**

Lead UK Product
Strategist, MPS
BlackRock



A retiree today is

3x

more likely to live to one hundred
years-old than a retiree was in 1980

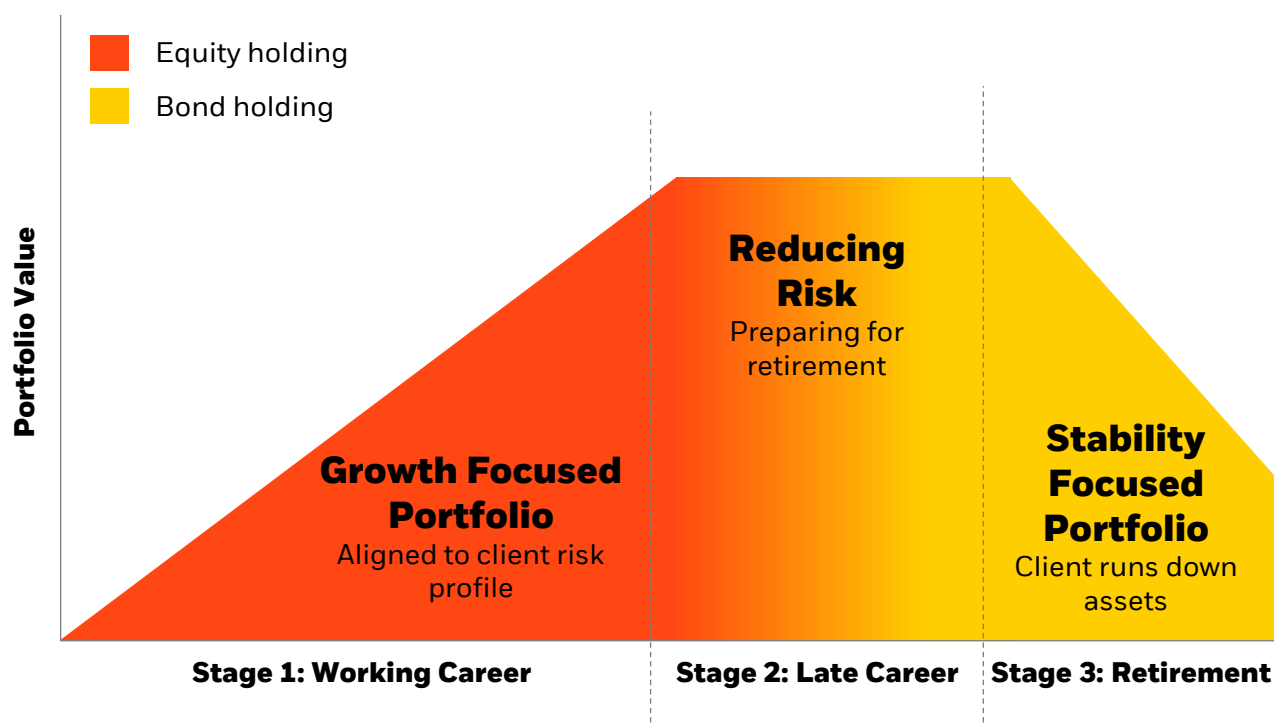
Section 1: Guarding against longevity drift

Guarding against longevity drift

For most people, one thing stands between them and early retirement: the fear of running out of money. This is a highly rational concern. Aiming to manage and, as much as possible, mitigate that risk is the first new objective that individuals acquire approaching and during retirement. You should place managing this 'longevity drift' front and centre in your retirement advice proposition.

It wasn't long ago that the strategy for investing during retirement was very simple. As a client approached the end of their career, they would be advised to gradually adjust down their allocation to high risk, growth focused funds. The objective of this 'traditional approach' was for portfolio holdings to entirely transition into low-risk funds (e.g. government bonds) a few years before retirement. This created a stable portfolio, well suited for clients drawing cash to fund their spending. We have illustrated this traditional approach below.

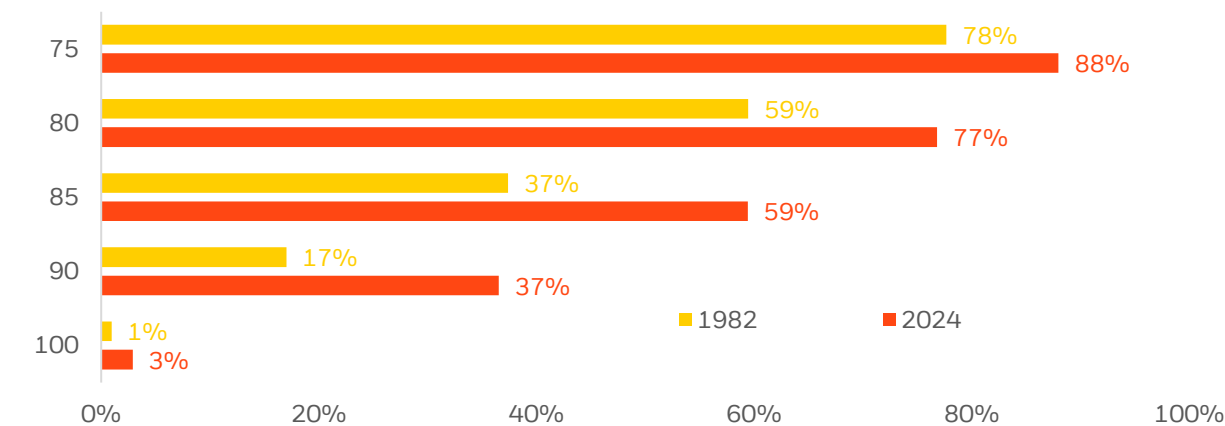
Traditional approach: advisory client portfolios



Source: BlackRock, as of 31 August 2026.

However, over the past couple of decades, retirement has changed. Life spans have materially increased, and people spend longer in retirement. Health spans has also extended, raising the proportion of time people can enjoy ‘high spend’ activities such as travelling. Finally, the moment of retirement has become less distinct. With many people choosing to gradually exit the workforce, reducing hours, consulting, or continuing ‘side hustles’ before fully retiring.

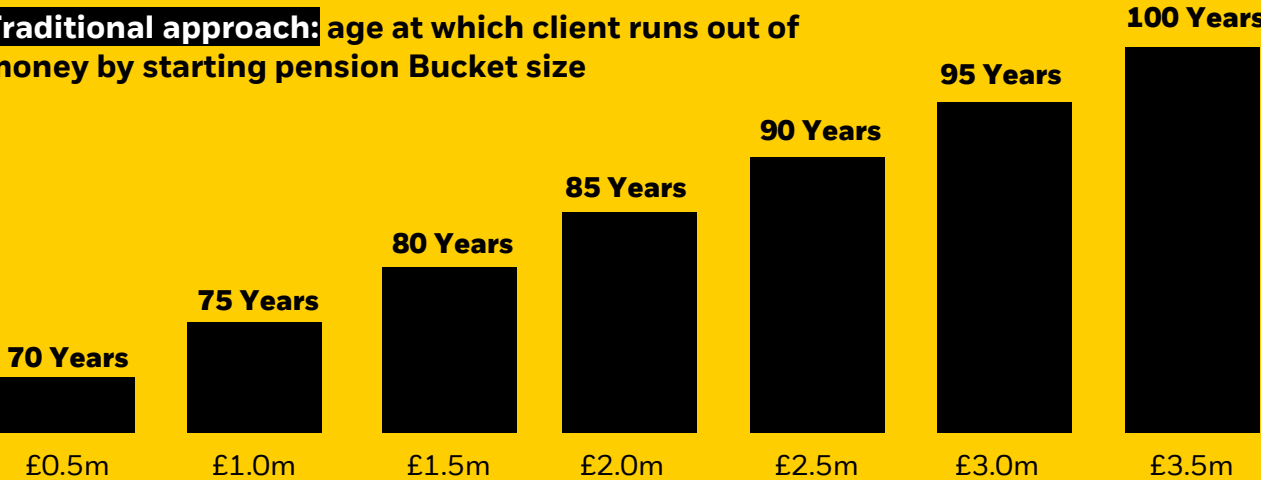
The probability of a 65 year old living to a given age



Source: 31/03/2026 ONS Life Tables

These changes undermine the traditional pension investment strategy described earlier. A low risk approach will struggle to generate sufficient return to see clients through their now extended retirements. Below we demonstrate the longevity of a low risk pension investment, starting at 65 years old, and assuming £100,000 of withdrawals per year, rising with inflation.

Traditional approach: age at which client runs out of money by starting pension Bucket size



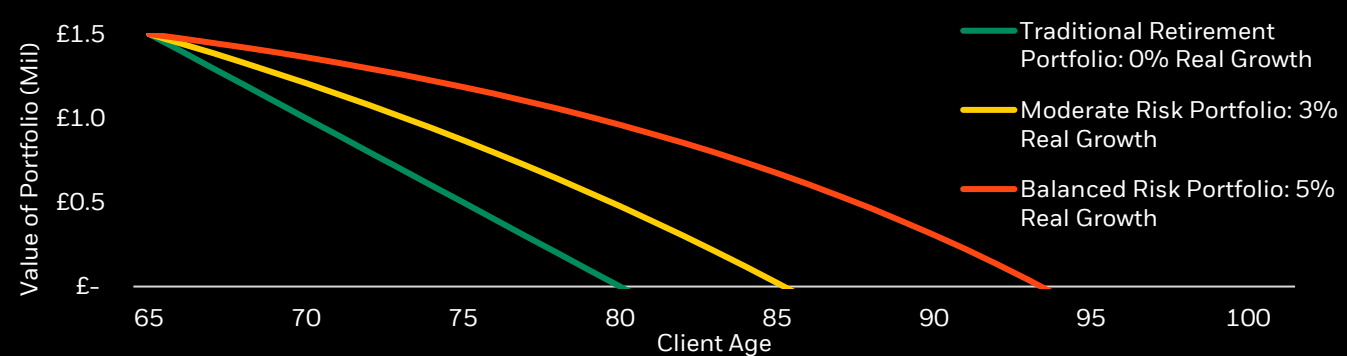
Conclusion: for clients with less than £2m in their pension Bucket, a traditional retirement investment strategy doesn’t sufficiently mitigate longevity drift

Source: BlackRock, 31 March 2026. Pension Bucket calculation assumes returns for low risk portfolio are in line with inflation: 2% per annum, and client retires at 65 years old.

The Solution: use growth focused portfolios to reduce longevity drift

The simple solution to managing longevity drift as clients live longer is to employ capital growth focused funds in your retirement proposition. As outlined below, this can materially extend the life of the portfolio.

Portfolio longevity analysis: £1.5m starting value, £100k p.a. withdrawals



Source: BlackRock, as of 31 August 2026.

However, a balance must be struck: when clients are no longer working, their risk profile might reduce, so the ability to adjust the risk of a retirement portfolio is needed. As such, your retirement proposition should contain a panel of growth focused portfolios each targeting a different level of volatility.

Client portfolios can be moved between these solutions as they progress through retirement. Additionally, this approach affords flexibility, allowing you to tailor portfolios for individual client needs, and account for nuances such as the phase of part-time work many clients now enter prior to full retirement.



A 15% loss in early retirement
can reduce investment lifespan by

15Yrs

versus the same loss at the
end of the period¹

Section 2: Managing sequencing risk

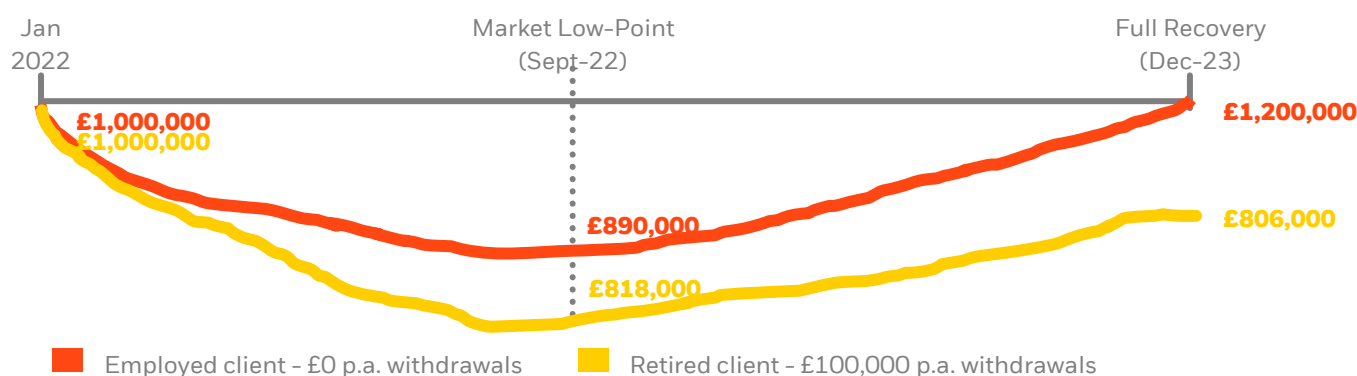
Source: BlackRock, as of 31 August 2026. ¹Assuming a £1m pension Bucket, with £40,000 drawn each year, a 3% p.a. growth rate but with 5 consecutive years of -3% growth.

Managing Sequencing Risk

One of the ways in which advisers add-value for clients in the accumulation phase of their investment journey is coaching them to stay invested through periods of market volatility. This same approach cannot be used for your clients in retirement: they need to take withdrawals regardless of what is happening in markets.

As a result, falls in the value of a retiree's portfolio are much more serious than for clients still working, even if those falls prove to be short-lived. The below chart provides a real life illustration of this principle.

Case study: portfolio value during the 2022 War in Ukraine



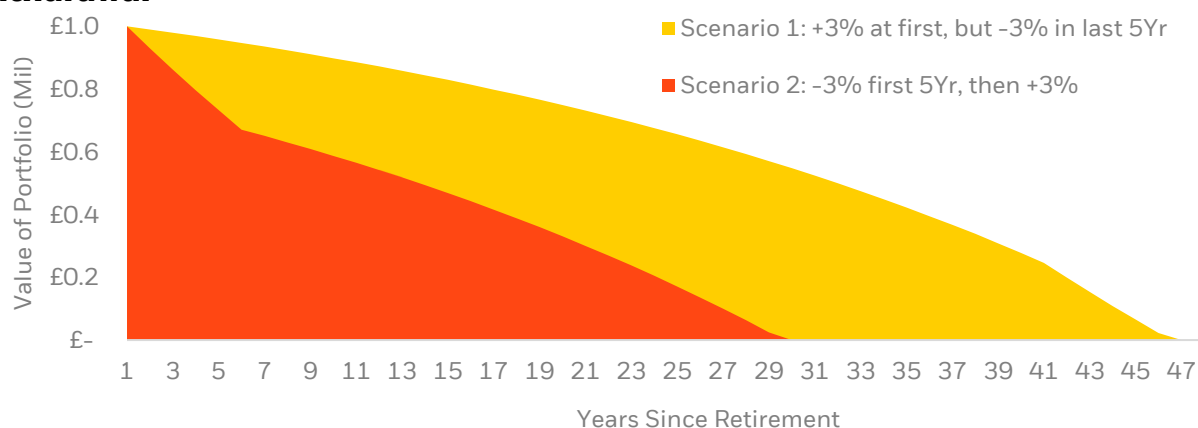
Past performance is not a reliable indicator of future returns. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

Between January and September 2022 the market fell by 11%, but by the end of 2023 it had fully recovered. An employed client, who remained invested for the full two year period, would have actually seen modest growth in their portfolio. The path for a retired client, taking monthly withdrawals from their portfolio would look very different. Because they were crystallising losses during the 9-month market drawdown, even though the market more than recovered over the subsequent 13 months, their portfolio remains well below its starting value. This is a unique dynamic, only experienced by retirees: sequencing risk.

Source: BlackRock, as of 31 August 2026. Graphic is for illustrative purposes only. Values calculated based on returns of a portfolio 100% invested in MSCI All Country World Index in GBP between 31/12/2021 and 31/12/2023.

Sequencing risks are most potent early in retirement. Below we examine two scenarios in which a client is withdrawing from their portfolio. In the first, losses are concentrated at the end of the period, and in the second they are concentrated at the start. Note that the annual rate of return is identical for the portfolios in each scenario. But due to the client being in drawdown, the timing of the losses materially influence how long the client's pension Bucket lasts.

Pension Bucket sustainability across return sequences – £40k p.a. withdrawal



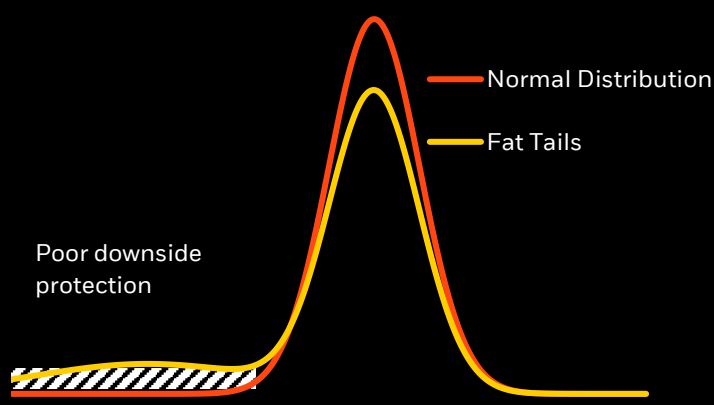
Source: BlackRock, as of 31 August 2026.

The Solution: focus on portfolios with robust downside resilience

Mitigating sequencing risk is all about reducing short term losses. For retired clients, you should look at investment solutions that have been built with downside resilience in mind. For example, fund managers that employ active asset allocation to tilt their portfolios away from underperforming parts of the market.

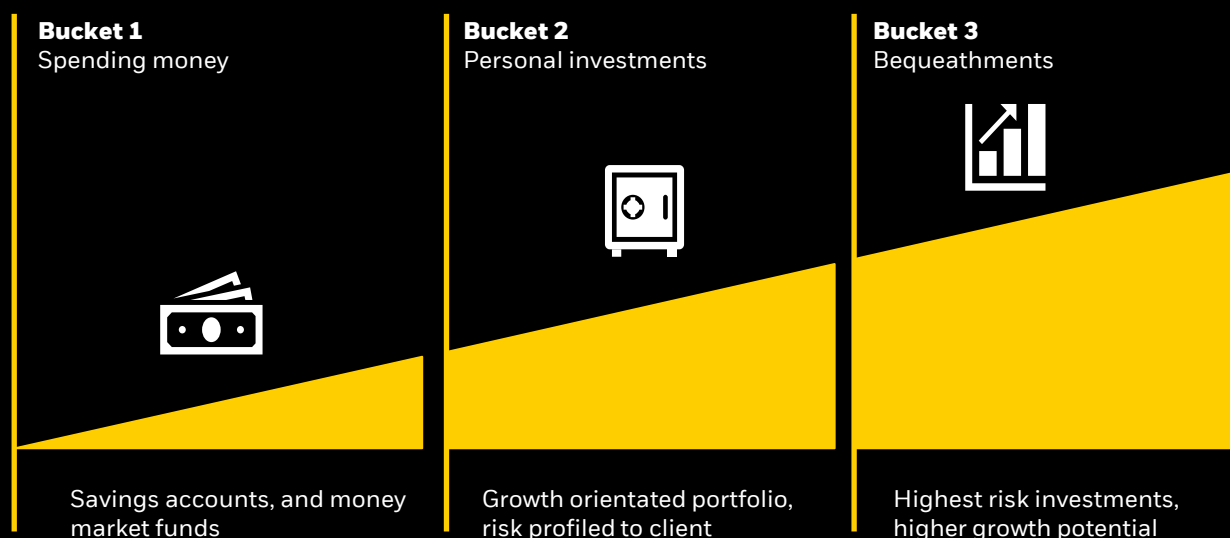
Downside resilience can also be improved through thoughtful **asset allocation** decisions. You should avoid portfolios with outsized allocations to asset classes that tend to have **fat tails**. For example, high dividend equity or high yield bonds tend to perform well when markets are stable, but suffer disproportionality when markets fall

Asset class return distribution matters



Another way of mitigating sequencing risk is building a retirement advice proposition that incorporates a ‘bucket-based’ approach to investing. With Bucket 1 holding 12-18 months worth of spending money, Bucket 2 representing the majority of the client’s assets, and Bucket 3 what they plan on leaving their heirs.

A Bucket-based investment approach: what should go where?



This approach allows advisers to shield their clients’ portfolios from redemptions when markets have sold-off. For example, implementing a simple rule such as:

“ *If the value of the client’s portfolio has fallen by more than 10% over the past 12 months then payments should be made from their cash bucket rather than their investments.*

The percentage fall as well as the lookback period can be customised depending on individual circumstances. Adopting this bucket-based approach could significantly reduce sequencing risk, while ensuring flexibility, allowing each of your clients a tailored service.

At retirement, the average
household requires

£75_k

of income p.a. to maintain
pre-retirement standard of living¹

Section 3: Replacing income from salary

Source: BlackRock, House of Commons Library, 31/03/2026. ¹Calculated based on average earnings for a 65 year old, assuming a household comprises of two full time employed adults of 65 years of age.

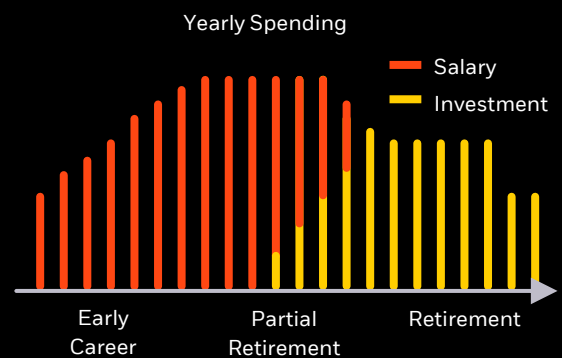
Replacing income from salary

Finally, you need to think about funding day-to-day spending for clients in retirement. Most people, while working, will rely on their salary to meet their regular expenses. However, after retirement, advisers are called on to replace the lost salary income with payments from investments.

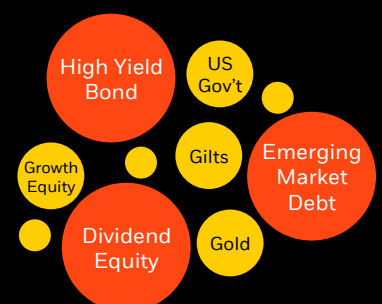
At first it might seem that the obvious solution is to shift your retired clients into investment solutions that explicitly focus on generating income. However, there are hidden foibles in this approach. Income solutions, by design, shift portfolios away from the efficient frontier – reducing the portfolio's expected return and raising the likelihood of longevity drift.

Additionally, to deliver on their yield objectives, income solutions tend to over-allocate to 'high carry' asset classes such as dividend equities, or high yield bonds. As discussed earlier¹, these investments have poor downside characteristics and can therefore increase portfolio sequencing risk.

Source: BlackRock, as of 31 August 2026. ¹See reference of investments with 'fat tails' on bottom section of page 9.

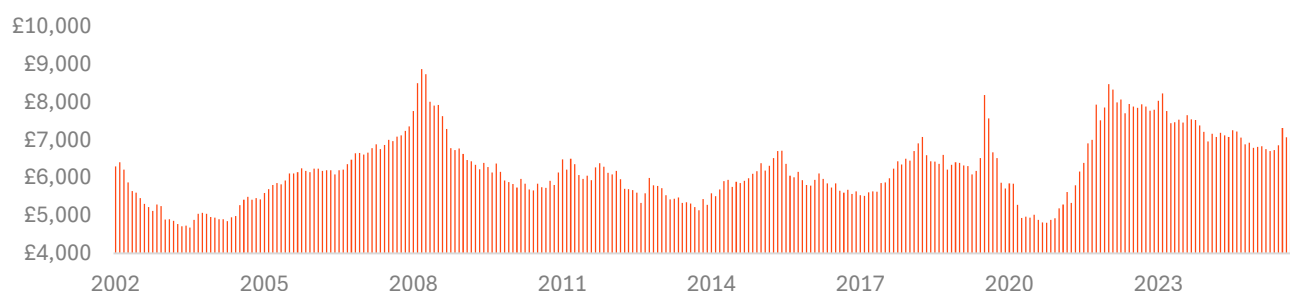


Income Portfolios' Asset Class Preferences



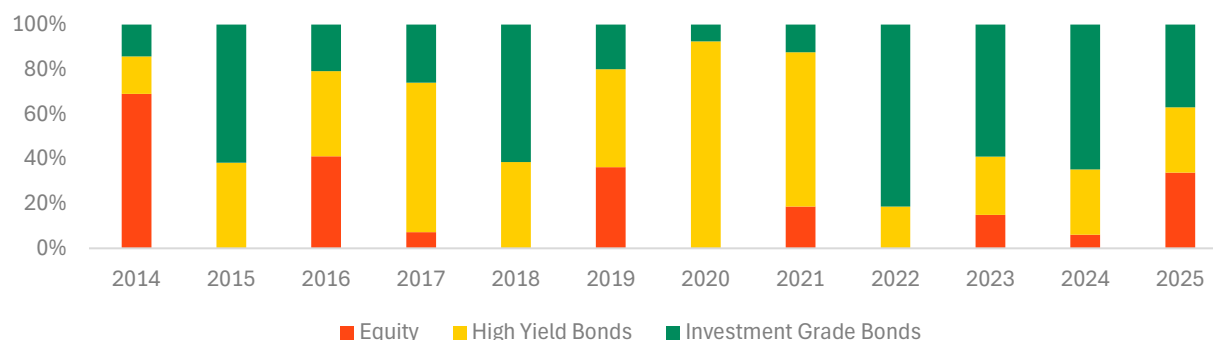
While these trade-offs might seem manageable in exchange for a reliable stream of income, in reality the distributions from income funds are often highly irregular. In the example below, the monthly income delivered by the portfolio has varied by as much as £4,000.

Monthly income generated from £1m investment in balanced risk income portfolio



The reason for this variability is that the distributions from income portfolios are determined by the prevailing yield in markets, which is itself a function of central bank interest rates – a variable outside of the control of any portfolio manager. Some funds purport to stabilise their yield by adjusting their asset allocation as interest rates change. However, the degree of portfolio turnover required to achieve a stable yield is unpalatable for both clients and investment managers.

Asset allocation required to meet 4.5% yield target



In reality, yield stabilisation is usually accomplished through a combination of modest asset allocation adjustments, income retention in fertile periods, and payments from capital in fallow periods.

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. The 'Paper Portfolio' referred to in this presentation is intended to provide only an example of the potential of the investment strategy to be employed and do not take into consideration actual trading conditions and transaction costs. The figures are for illustrative purposes only and results cannot be guaranteed. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

Source: Refinitiv, as of 31 August 2026. Data covers 31/08/2002 – 31/07/2026. Income Portfolio: 30% MSCI ACWI Income Index in GBP, 40% Bloomberg Global High Yield Index GBP Hedged, 20% Bloomberg Global Aggregate Bond Index GBP Hedged, 10% FTSE NAREIT Developed Index in GBP. Chart shows the natural income generated by the portfolio.

The Solution: create stable income by using unit encashment

Given the drawbacks of using investments that explicitly target income production, what is the best way of funding your clients' day-to-day spending during retirement? The easiest solution is to use capital growth oriented funds, and employing unit encashment to deliver regular payments. In addition to avoiding the investment pitfalls of income funds, this approach has several practical advantages for clients:



Consistency: payments can be set at a static nominal amount, ensuring clients know exactly how much money is coming in each month



Flexibility: payment levels can be adjusted as the client's situation evolves, without the need for a change to the investment portfolio



Cost efficiency: income portfolios often command a pricing premium, which can be avoided through this approach



Inflation protection: payments can be adjusted in line with inflation, guaranteeing client's their standard of living, rather than just an income

Source: BlackRock.



Summary

It is clear that clients' needs change after retirement. There is an increased focus on portfolio longevity, the avoidance of sequencing risk, and the delivery of regular payments on which to live. Meeting these new objectives is unlikely to require a wholesale change in investment strategy, however it is important to be able to clearly document and articulate how investment solutions are addressing these newly acquired needs.

Retirement Objective	Portfolio requirement
Avoid Longevity Drift	1. Continue to focus on growing client assets 2. Have several volatility levels available
Manage Sequencing Risk	1. Dynamic asset allocation to smooth bumps 2. Employ a 'pot based' approach
Provide regular income	1. Avoid income biased portfolios 2. Deliver income through unit encashment

Source: BlackRock, as of August 2026.



Risk Warnings

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

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