AKG

PLANNING GUIDE 2018

Retirement planning strategies in the post-pension freedoms era

IN ASSOCIATION WITH: Quilter Investors

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INTRODUCTION

This is an independent, practical and educational guide designed to encourage advisers, planners and paraplanners to look again, or look deeper, at core retirement planning considerations, processes and solutions with the benefit of considerations from the initial experience and developments post- pension freedoms.

As part of this AKG also felt that it was important to underpin the guide with fresh market research findings. A set of questions was designed which sought to ascertain adviser behaviour, approaches and thoughts on key items pertaining to retirement planning considerations and processes.

These research findings are discussed throughout the guide and provide a useful barometer for the retirement planning state of play.

There is a series of headline questions and themes that the AKG guide is seeking to address and explore, summarised as follows:

- Have you given your retirement planning proposition enough thought?
- Does your retirement planning proposition reflect the impact of pension freedoms on the market and the changing profile and requirements of customers?
- Are you giving due consideration to the regulatory direction of travel?
- Does the proposition differ from your accumulation approach?
- How does it deal with the transition between accumulation and decumulation?
- What are the core retirement planning and investment risks that you are trying to help your customers understand and mitigate?

The guide concludes with a summary of the opportunities, considerations and practicalities for intermediary businesses seeking to keep pace with market changes and take their retirement planning services to the next level.

CLIENT AND RETIREMENT PROPOSITION CHANGES

To understand the impact of the changes to the retirement landscape on advisers and clients, AKG was keen for its market research to ascertain how adviser's retirement planning propositions have changed since the introduction of pension freedoms.

How has your retirement planning proposition changed since the introduction of pension freedoms in April 2015?

Answer Choices	Percent
We have more clients in drawdown	69.6%
We spend more time advising clients at-retirement than previously	52.9%
We have more clients who are semi-retired and still working	51.0%
We have fewer clients in annuities	47.1%
We are seeing more clients consolidating pension funds	46.1%
We spend more time advising clients who are retired	35.3%
We spend more time advising clients and their partners	23.5%
It has not changed/does not need to change	19.6%
We have created a new retirement planning proposition	18.6%
We are now advising clients on transferring out of defined benefit pensions	17.6%
We focus more on clients who are in the accumulation phase	7.8%
We are in the process of creating a new retirement planning proposition	2.0%
We have more clients in annuities	0.0%
Don't know	3.9%

Source: AKG retirement planning adviser research (online survey)
Survey respondents were asked to select all options that apply from the list provided

More time being spent on retirement planning
The additional time being spent advising clients at-retirement is confirmed by the research. 52.9% of advisers surveyed by AKG spend more time advising clients at-retirement than previously and 35.3% spend more time advising clients who are retired.

In addition, 23.5% of advisers surveyed by AKG said they were spending more time advising clients and their partners. This is positive for these advisers as it brings into play considerations around financial planning at a family level, rather than just on an individual client basis, and presents associated intergenerational and tax planning opportunities.

This increase in retirement planning workload might present potential capacity/resource considerations for some intermediary businesses.

Matt Ward, Communications Director, AKG

Example of changing profile of retirement
Meanwhile, more than half (51%) of the advisers surveyed by AKG have more clients who are semi-retired and still working. This illustrates one of the changes in the profile of retirement with more clients continuing to do some form of work either through choice or necessity.

As a result, advisers will need to give more consideration to the impact of earnings on the shape and style of their clients' drawdown investment strategies.

Adviser proposition development
The research showed only 2% of those advisers surveyed by AKG are in the process of creating a new retirement planning proposition, while 18.6% say they have created a new retirement planning proposition. In comparison, 19.6% of advisers said their retirement planning proposition has not changed/does not need to change.

Given the fact that it is over three years since the changes were made, and taking into consideration some of the themes from the recent FCA report, it would be logical to have seen more active development of retirement planning propositions. The evaluation of existing propositions will be key to advisers demonstrating the roadworthiness of these services, post-pension freedoms, for clients nearing and in retirement.

Matt Ward, Communications Director, AKG

Product options in use

From a product solutions perspective, the marked change in fortunes for drawdown and annuities is underlined by the findings from the adviser market research exercise. The well documented fall in the use of annuities is illustrated by AKG's market research with advisers. None of the advisers said that they have more clients in annuities and 47.1% said they have fewer clients in annuities since the introduction of pension freedoms.

The ascendancy of drawdown post-freedoms is underlined with 69.6% of advisers reporting that they have more clients in drawdown.

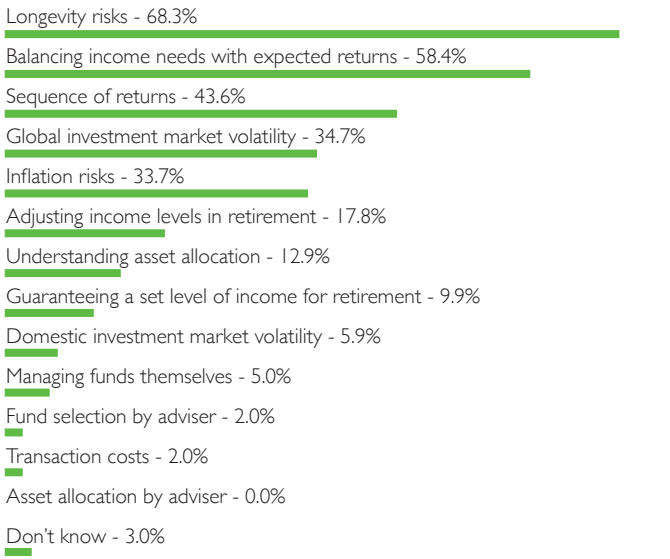
CORE RETIREMENT PLANNING AND INVESTMENT RISKS

In the new pension world, advisers need to be aware of the core retirement planning and investment risks they need to help their customers understand and mitigate. This will then highlight what will need to be considered when designing the asset allocation and risk profile of the client's drawdown investment portfolio(s).

KEY INVESTMENT RISKS FOR CLIENTS

The key investment risks for clients entering drawdown come through loud and clear in AKG's adviser market research results.

What do you regard as the top three investment risks facing clients entering drawdown?



Source: AKG retirement planning adviser research (online survey)

Longevity/Mortality

AKG's market research showed that '*Longevity risk*' is regarded as the top investment risk facing clients entering drawdown.

In England, life expectancy for men aged 65 years in 2012 to 2014 was 18.8 years, according to the ONS, while women at this age could expect to live for an additional 21.2 years. This means that a 65-year-old man could expect to live to almost 84 years, while a woman of the same age could expect to reach her 86th birthday.

It is also worth noting that while these referenced ONS statistics look at life expectancy outlook for customers from age 65, the FCA's Retirement Outcomes Review Report illustrates that many customers are now accessing their pension fund prior to age 65, again bringing into sharp focus the length of time that retirement resources might need to last.

Sequence of returns

Meanwhile, and although featuring in the top three, less than half (43.6%) of advisers surveyed in AKG's market research flagged '*Sequence of returns*' as a top investment risk facing clients entering drawdown. It is important that others recognise the importance of this issue, if it is not something that they have given due consideration.

The impact of loss in the early years of an income drawdown investment portfolio can be irreparable and similarly the sequencing of returns in a drawdown portfolio can have a major impact on the sustainability of withdrawals from the fund. Effectively the timing of withdrawals, if coinciding with investment downturns, can have the impact of crystallising losses in the fund which might in turn deplete the fund and its ability to sustain withdrawals more quickly.

This will remain a fundamental issue for financial advisers in their delivery of financial planning solutions to investors in the retirement income market. Hence drawdown investment solutions with some form of volatility dampening approach or mechanism, or clearly diversified asset allocation, might appeal to more cautious customers who wish to try to reduce the impact of sizeable investment market shifts on their retirement fund.

> *Sequence of returns is the increased risk presented by a fall in returns that comes early in a client's retirement as opposed to later down the line. While the order of return makes little difference for a client in the 'accumulation' stages of their retirement planning, the same can't be said for an investor in the 'decumulation' stage. For example, if two portfolios of £100,000 generate the same returns over five years – 25%, 15%, 0%, -15% and -25% - but in a different order, the portfolio that suffered its two worst annual returns at the outset could be almost £13,000 (22%) down on the other portfolio that experienced its two best years at the outset.*
>
> **Anthony Gillham, head of investments, Quilter Investors**

Balancing income needs with expected returns

AKG's market research shows that '*Balancing income needs with expected returns*' is regarded as another top investment risk facing clients entering drawdown.

To cover all eventualities customers are likely to want to preserve and grow their retirement capital while delivering regular income. Composing and delivering investment portfolios which can achieve this balance and delivery on each requirement is a challenge for the market, and part of this is understanding the impact of investment risks such as 'sequence of returns'.

Global investment market volatility

The behaviour of, and outlook for, global market volatility, is something which is covered regularly in the mainstream and trade press, and therefore any asset manager or discretionary fund managers (DFMs) worth their salt provides regular investment market updates as part of its core communications to the market and to customers. Advisers will often need to play the role of translator between such sources and the end client in terms of explaining key investment market developments, themes and trends and the potential effect on the client's drawdown investment portfolio.

Investment markets have been relatively benign in the period since the pension freedoms came into force. In spite of the short, sharp market falls seen so far in 2018, it will be interesting to see how well prepared some drawdown investment strategies are for a period of more prolonged market turbulence, if and when it comes.

Naturally, capital preservation plays a central part in many decumulation solutions. This means finding a portfolio manager who can implement active downside protection to stop any run on the portfolio's value and who can hedge key risks from the outset. Rising volatility also presents opportunities, but the best way to fully exploit these – and so meet the retirement planning needs of investors – remains a combination of detailed research, active management and proper diversification.

Anthony Gillham, head of investments, Quilter Investors

Inflation

AKG's market research shows that one-third of advisers recognise the risk of a client's buying power in retirement being potentially eroded by the impact of inflation. It is important that others recognise and reflect the importance of this issue as well if it is not something that they have given due consideration.

In terms of key economic indicators, the annual Consumer Prices Index (CPI) figure, considered to be the main measure of inflation in the UK, was 2.4% in September slightly lower than August's 2.7%, but still well ahead of the Bank of England's 2% target. With an average annual inflation rate of 2.8% in the decade to 2017, retirees need to bear in mind the effect this could have on their spending power.

Risk and reward trade-off

Having discussed longevity, sequencing of returns, investment market volatility and inflation what is clear is that most clients are likely to require varying degrees of equity market exposure and risk in order to power growth in their drawdown portfolio and deliver the sustainable income that they wish for.

It helps to have an unconstrained investment remit as decumulation requires diversification across the broadest spread of different asset classes – therefore be suspicious of any single asset class 'decumulation solution'. This means investors can also benefit from less correlated alternative asset classes such as infrastructure, property or hedge funds. However, this does require access to market-leading information, analytics and execution and extensive financial tools and modelling, in order to create a portfolio with a sustainable return profile. A decumulation fund should stay well clear of any market nadir and only aim to capture part of the upside when markets are rising, therefore plotting a very predictable course, generating sustainable levels of inflation-proof income.

Anthony Gillham, head of investments, Quilter Investors

When considering drawdown investment strategies these areas can bring further context to the discussions about attitude to risk and capacity for loss. For example, how prepared is the client to take risk to achieve their desired level of retirement income? And what level of growth would need to be targeted to achieve the client's desired level of retirement income?

Without wishing to scare customers about risk, it is clear one of the main roles for advisers supporting customers with their retirement planning is to address the key risk related areas of longevity, sequence of returns and inflation and revisit them on a regular basis. In its final Retirement Outcomes Report the FCA also stresses that it wants customers to be better equipped to understand and consider retirement risks.

Essentially this should be done at three levels:

1. *Boost awareness of, and to educate on, the risks presented to customers and potential effects on the customers' retirement resources and fortunes.*
2. *To appraise the customers attitude towards, and capacity for, exposure to these risks based on their specific retirement requirements and resources.*
3. *To build a plan and execute a product/investment strategy that can plot a retirement pathway through this risk minefield in order to meet requirements and achieve objectives for customers.*

Matt Ward, Communications Director, AKG

INVESTMENT STRATEGY DESIGN FOR DRAWDOWN

Given the range of risks that advisers are trying to recognise, and where possible mitigate, when designing retirement planning strategies for clients, AKG wanted to find out via the market research how advisers are approaching decumulation investment strategies.

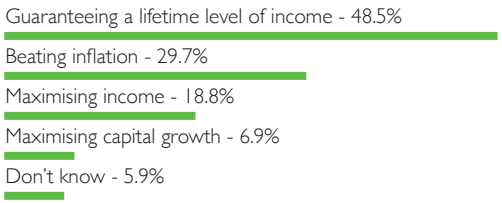
TOP AIMS FOR DECUMULATION INVESTMENT STRATEGIES

The research confirmed that advisers' top aim for decumulation investment strategies is '*Guaranteeing a lifetime level of income*'. And so, despite the fact that drawdown has replaced annuities as the most popular product choice since freedoms, there is still a key requirement to design solutions which aim to support delivery of a lifetime level of income for clients. Sustainability will therefore remain a key market discussion area and a challenge for retirement planning strategies.

'*Beating inflation*' also came through in the market research as one of the top aims for decumulation strategies. These two items are at the heart of the matter when it comes to designing retirement plans and decumulation investment strategies for clients. Advisers want to help clients deliver sustainable income and retain the real value of their income over time.

> *Inflation risk is fairly logical. Customers retire with a pot of savings, and as our retirements are lasting longer they need to make sure those savings keep up with inflation because otherwise their purchasing power will fall. Customers need solutions that explicitly address that risk through the investments, for example by investing in alternative assets with an explicit link to inflation.*
>
> **Anthony Gillham, head of investments, Quilter Investors**

What do you regard as the top aim of decumulation investment strategies?



Source: AKG retirement planning adviser market research (online survey)

ADVISER APPROACH TO INVESTMENTS

AKG's market research shows us that advisers see support with '*Investment strategy/approach*' as one of the top things that they do for their clients. It is therefore interesting to explore further how advisers go about the investment process and whether any changes have taken place in this regard since the pension freedoms came into force.

In-house or outsourced?

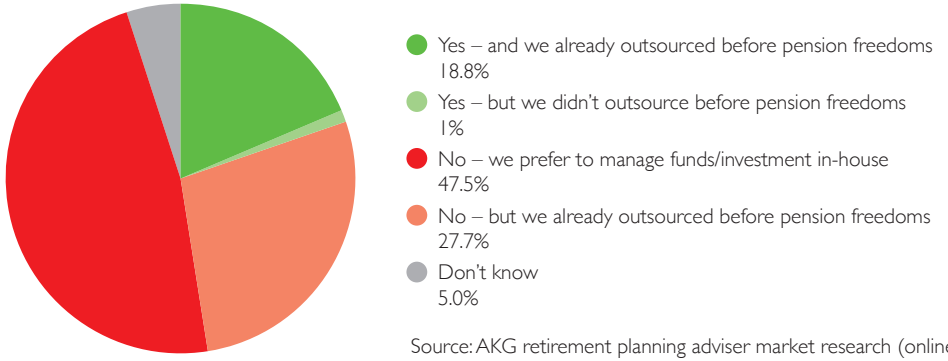
A great deal of work has gone on, post-RDR, relating to the development of Centralised Investment Propositions (CIPs) within intermediary businesses and a key consideration within this was whether some or all elements of the investment process should be retained in-house by the intermediary business or outsourced to third party investment specialists.

There has been growth in recent years in the number of intermediary businesses who are outsourcing investment duties to third party asset managers or DFMs and an associated growth in the availability of managed funds and portfolios designed to support advisers in this area.

AKG's research sought to gauge the impact of pension freedoms on the outsourcing of investment/fund management. Just under half (47.5%) of those surveyed stated that they prefer to manage funds/investment in-house.

Over one-quarter said they hadn't increased outsourcing but they already outsourced prior to the pension freedoms, while just under one-fifth said they had both increased this practice and had already outsourced before pension freedoms.

Have you increased outsourcing of investment/fund management since the launch of pension freedoms?



Source: AKG retirement planning adviser market research (online survey)

As we can see when looking at the risks presented to clients when considering drawdown, the investment requirements in decumulation are unique and challenging. Many drawdown funds will need to be worked extremely hard to produce all that a customer needs from them.

Many CIPs would have been designed prior to the pension freedoms changes coming into force and their original design may well have been more focused on accumulation rather than decumulation. It is worth advisers considering whether they should have separate versions of their CIP for accumulation and decumulation.

It is most certainly worth advisers pausing for thought and checking their investment proposition for drawdown customers remains fit for purpose post-pension freedoms. As part of this review process they should reappraise whether they have the appetite, resource and knowledge to deliver this in-house, and whether they need help with setting investment strategy, designing asset allocation framework and executing/managing investment portfolios.

Matt Ward, Communications Director, AKG

ASSET ALLOCATION APPROACH

Asset allocation is about setting the overarching framework for the direction of travel within an investment strategy, taking into account key factors including investment timeframe and risks, and trying to get the right proportions held in a diversified range of asset types.

With the risks outlined previously and the top drawdown investment aims in mind, AKG's adviser research wanted to see what has been happening with high-level asset allocation for clients entering the decumulation phase of retirement. We asked advisers whether their approach to asset allocation had changed and what type of asset allocation model they were using.

Has it changed?

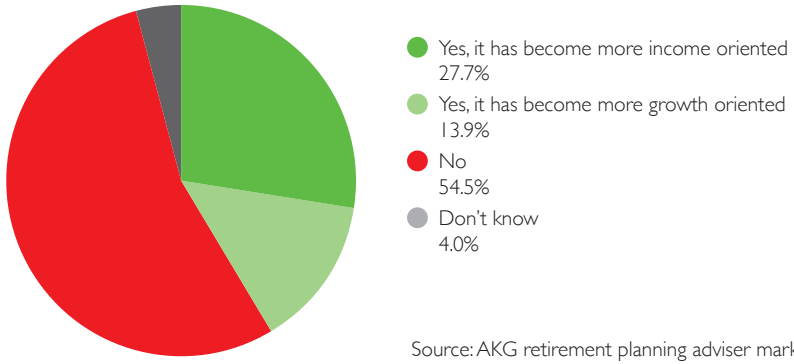
The research found that broadly the answer is no. Over half of those advisers surveyed (54.5%), reported there had been no change in the typical asset allocation for clients entering the decumulation phase of retirement.

For some advisers, and depending on who is in control of setting asset allocation framework and direction within their business, i.e. internal or external, the big question is, whether they are comfortable that this asset allocation approach is still appropriate. A key factor to consider is whether the asset allocation approach needs to change to reflect the new drawdown world.

Matt Ward, Communications Director, AKG

For those advisers who did report that the approach had changed, more than a quarter (27.7%), said that the typical asset allocation had become more income oriented, with 13.9% stating it had become more growth oriented.

Has the typical asset allocation for your clients entering the decumulation phase of retirement changed since pension freedoms?



Source: AKG retirement planning adviser market research (online survey)

What type of model are you using?

AKG's research presented advisers with a list of acknowledged naming conventions for asset allocation models and asked them to confirm what the typical asset allocation was for clients entering decumulation.

There was one dominant option with just over half of advisers (51.5%), stating that they are using an '*Income and growth*' asset allocation model. There is evidently some correlation here between asset allocation models and investment risk. When advisers were asked about the top investment risks facing clients entering drawdown, 'Balancing income needs with expected returns' came second.

When considering the potential risk profile of an '*Income and growth*' model one envisages that this would sit towards the middle of the risk spectrum. The other two asset allocations options that came through in the market research with a noticeable but lower level of support were '*Conservative*' (15.8%) and '*Cautious income*' (13.9%). Again, while these are high-level naming conventions and approaches, and definitions may vary, these suggest asset allocation frameworks for clients with a lower attitude to risk. This could potentially be as a result of how they have come through the risk profiling process and been matched to an associated asset allocation model.

The shape will clearly depend on individual client attitude to risk and timeframe. But a general consideration for advisers when reflecting on what an overarching asset allocation framework should be, is whether enough risk is being taken in order to deliver satisfactory returns to the client composed of both capital growth and income streams. Advisers also need to consider whether the asset allocation is diversified enough to counter some of the challenges faced.

Matt Ward, Communications Director, AKG

What is the typical asset allocation for your clients entering the decumulation phase of retirement?

Answer Choices	Percent
Income and growth	51.5%
Conservative	15.8%
Cautious income	13.9%
Equity income	5.0%
Growth	5.0%
Defensive	1.0%
Income	1.0%
Maximum growth	1.0%
No discernible allocation	1.0%
Aggressive growth	0.0%
Don't know	5.0%

Source: AKG retirement planning adviser market research (online survey)

Cash allocation

In terms of portfolio make-up, AKG's adviser market research sought to ascertain the allocation to cash in clients' portfolios at the pre-retirement and at-retirement stages. AKG's research indicated that cash was in relatively low proportions pre-retirement. As 31.1% said the typical allocation to cash was zero while 50% reported a cash allocation of between 1% and 10% in pre-retirement client portfolios.

However, the research indicated a change in that allocation to cash, with it noticeably increasing at-retirement. It showed 37.62% of advisers reported a typical allocation to cash as 1% to 10% while a further 36.63% reported cash allocations of 11% to 20%, and a further 12.87% of advisers reported allocation to cash of between 21% and 30%.

What is the typical allocation to cash in your clients' portfolios?

	Pre-retirement	At-retirement
0%	31.1%	3.96%
1% to 10%	50.0%	37.62%
11% to 20%	8.1%	36.63%
21% to 30%	6.8%	12.87%
31% to 40%	1.4%	1.98%
41% to 50%	2.7%	0.99%
51% to 60%	0.0%	0.99%
61% to 70%	0.0%	1.98%
71% or more	0.0%	2.97%

Source: AKG retirement planning adviser market research (online survey)

While the nature of these allocations to cash and the terms of the exposure to cash was not explored, for example some clients like to have a cash buffer to supply income or reserves for a period of time, these findings raise some questions.

In its Retirement Outcomes Review work the FCA looks at non-advised drawdown clients and their sometimes heavy exposure to cash in retirement and it raises some concerns about the impact of this cash exposure on the growth fortunes of their drawdown fund.

If advisers are stating in the research that 'Guaranteeing a lifetime level of income' and 'Beating inflation' are the top aims for decumulation investment strategies, then what role does an allocation to cash have in a client's drawdown portfolio? In particular, for how long is it being held and crucially at what percentage versus other asset types in the asset allocation?

Matt Ward, Communications Director, AKG

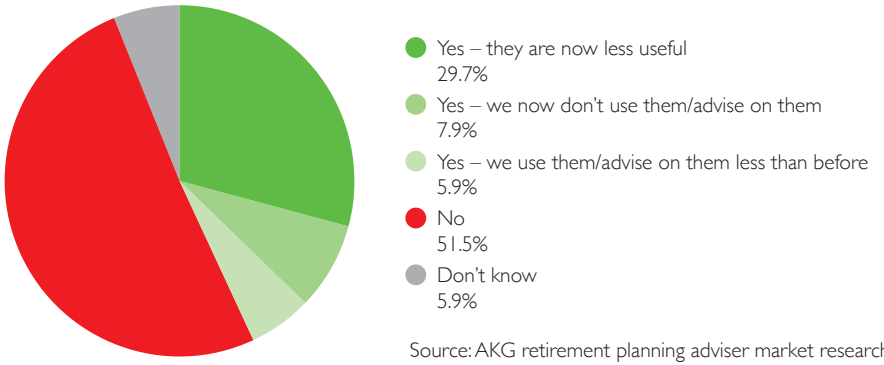
Approach to life styling

The concept of life styling typically came out of default funds and managed funds whereby in the approach to retirement, typically from five or 10 years prior, the fund would start diverting assets into larger proportions of fixed interest, gilts etc. to 'protect' the fund against losses and to effectively prepare for annuity purchase.

With the deeper level of client engagement that the adviser should be targeting, this is a process they should be looking to manage in a more hands-on manner with clients as part of their retirement planning and the design of their investment strategy in the transition into retirement.

The market research indicates that advisers understand and recognise investment approach/ strategy as one of the key things that they do for clients pre-, at- and in-retirement.

Has your attitude and/or use of life styling options changed since pension freedoms?



Source: AKG retirement planning adviser market research (online survey)

WORKING TOGETHER TO ACHIEVE BETTER RETIREMENT OUTCOMES

In this section, we highlight what gives clients cause for concern in retirement, what advisers are aiming for from decumulation strategies and what the industry is trying to deliver in terms of achieving better retirement outcomes for the end client.

WHAT GIVES CLIENTS CAUSE FOR CONCERN?

In order to better understand consumers and service their requirements in retirement we need to get a handle on the issues they are worried about. In consumer research carried out by AKG earlier in 2018 we asked about the things that gave them most cause for concern in retirement.

AKG's consumer research found that the biggest cause for concern in retirement is '*Running out of money*'. Many consumers were also concerned about '*Care costs in older age*'. The '*Impact of inflation*', '*Paying more tax than one might need to*' and concern about '*Political instability and changes in the law*' were also flagged.*

While all individual client situations, wherewithal and requirements are acknowledged as being different there is some commonality in terms of their high-level concerns and requirements.

WHAT ARE ADVISERS AIMING FOR FROM DECUMULATION STRATEGIES?

There is direct correlation between some of these customer concerns and what advisers are trying to achieve for customers. In research carried out by AKG to support the production of this guide, advisers confirmed that their top aim for decumulation investment strategies is '*Guaranteeing a lifetime level of income*', while '*Beating inflation*' came through as the second top aim.

WHAT IS THE INDUSTRY TRYING TO DELIVER?

No one is suggesting that these things are necessarily easy to achieve, but it is worth reinforcing what the industry and its stakeholders are trying to achieve when it comes to retirement. Broadly the industry should be trying to help clients achieve the following:

- **Sleep worry free at night in the knowledge that they are dealing with a trustworthy industry.**
- **Design a plan which manages realistic goals and expectations in retirement, acknowledging the broad requirement for delivering a lifetime level of income.**
- **Where possible allowing options on how time is spent in retirement and later life.**
- **Where possible to leave a legacy for dependents and children.**

These overarching retirement goals and objectives also serve to illustrate some of the value add areas for advisers/planners.

At a high-level the FCA's remedy package following its Retirement Outcomes Review, aims to:

- **protect consumers from poor outcomes**
- **improve consumer engagement with retirement income decisions**
- **promote competition by making the costs of drawdown clearer and comparisons easier.**

This also provides a framework within which the industry can operate in order to target better retirement outcomes.

*Source: AKG Pension Freedoms Paper 2018

DEVELOPING THE OPPORTUNITIES FOR YOUR RETIREMENT PROPOSITION

The pension freedoms changes have presented financial advisers with a fantastic opportunity to provide meaningful and valuable retirement planning support and services to customers. Here we summarise some of the key opportunities, considerations and practicalities emerging from this guide for advisers.

UNDERSTANDING AND REFLECTING CHANGING PROFILE OF RETIREMENT

The changing face and profile of retirement needs to be considered and reflected in retirement planning strategies. An example of some key changes:

- Customers now have more freedom at retirement than previously and the FCA's Retirement Outcomes Review Report shows that customers have been accessing these freedoms since the changes came into force.
- Customers are living longer in retirement than they used to, advisers and clients might regularly be considering 15, 20 or 25-year planning strategies.
- FCA statistics show that drawdown has become the preferred method of accessing retirement pots. Something backed up by AKG's adviser research with 69.6% reporting they have more clients in drawdown.

CONSIDERING DRAWDOWN CHANGES

Historically, drawdown business was conducted solely through intermediaries and with typical minimum product entrance requirements of c.£250,000. ABI data now points towards an average drawdown fund of under £70,000 while the FCA references a growth in non-advised drawdown business. More customers who might previously have fallen into the annuity camp are now likely to be considering drawdown.

Without the Government Actuary's Department (GAD) framework in place for withdrawals, it will be interesting to monitor exactly how drawdown is being used by customers. For example:

- Has it been accessed just to facilitate tax-free cash with no real consideration being given to the approach to drawdown and drawdown investments?
- Has it been picked just because it is perceived to be more flexible than annuities?
- Is it used to strip out cash, in a tax efficient manner, over the short-to mid-term?
- Is it used to provide income over the longer term, underpinned by an investment portfolio?
- Or is it a combination of these factors?

Designing retirement planning strategies, building sustainable withdrawal frameworks for clients and helping them to consider and make decisions around these items, i.e. how and when to access retirement funds and via which method, forms a crucial part of the adviser's role.

REFLECT ON YOUR RETIREMENT PLANNING PROPOSITION

AKG's research showed that not many advisers reported creating or working on the development of a new retirement planning proposition since the pension freedom changes came into force. Now would be a good time to reflect on this. Advisers need to continually appraise their retirement planning approach and proposition, against the backdrop of an evolving pensions/retirement market, to ensure that customer objectives and requirements are met.

The FCA published its Retirement Outcomes Review report earlier this year and has proposed a set of remedies. Advisers should reflect on this regulatory output, and some of the points brought through earlier in this guide, to ensure their approach to clients and their retirement planning proposition is in tune with the key messaging from the FCA.

CONSIDER THE PRACTICALITIES OF RETIREMENT

If, as AKG's consumer research found, the customer's biggest cause for concern in retirement is '*Running out of money*', it is clear that advisers will need to support their clients with retirement budgeting exercises. For example, establishing things that money will be spent on, and being realistic about what is/isn't possible will be a key factor in both the planning and investment process. Early consideration of how much risk the client is prepared to take to achieve their required lifestyle and spending objectives will also come into play.

There is a general acknowledgement that provider 'wake-up' packs are delivered to customers too late in the day. Advisers should not be wholly reliant on the material issued by providers and should consider their own approach to 'wake-up' to retirement material. Advisers need to continue to discuss and frame key retirement issues with their customers as early as is sensibly possible.

DESIGNING AND DELIVERING A FLEXIBLE PLAN

The design of a financial plan, agreed, delivered and monitored by the adviser/planner, will provide the retirement route map, to help someone achieve all, or as many as possible, of their future goals and aspirations. One of the customer concerns previously levelled at annuities was that once a decision had been made and an annuity had been purchased there was no opportunity to change products if a revision to the retirement plan needed to be made. There is now some additional flexibility in how some retirement products work and freedom, to a large extent, about how pension funds can be accessed. It would therefore seem sensible to build an element of flexibility into the planning process so that revisions can be made where necessary.

EXPLORING THE KEY RISK RELATED AREAS

Advisers need to ensure that the key retirement risks, as identified in the AKG research – '*Longevity risk*', '*Sequence of returns*', '*Balancing income needs with expected returns*', '*Global investment market volatility*' and '*Inflation risk*' – are being brought to the client's attention and that retirement planning and investment strategies continually consider their impact on the client and seek to manage/mitigate this impact where possible.

ENSURING CIPS ARE FIT FOR RETIREMENT

While the clear focus on investment strategy/approach is brought through in the research the consideration for advisers/planners and their investment partners (where applicable) is to ensure that the decumulation investment proposition differs suitably from their 'accumulation' approach in order to reflect the unique requirements of drawdown. Many CIPs will have been designed prior to the pension freedoms changes coming into effect. It is worth dusting these down and re-appraising the suitability of drawdown investment strategies.

CONSIDERING OUTSOURCED INVESTMENT INPUT AND SUPPORT

Reflecting on your CIP and its potential framework for drawdown investment strategies might also usefully incorporate consideration of how advisers put together and deliver the key investment components, i.e. investment strategy, asset allocation and fund selection. All or some of these elements can be retained in-house but advisers who wish to focus on other areas of value-add in the broader retirement proposition for clients may wish to consider outsourcing to third party specialists for additional resources and/or expertise.

Either way, a review of the approach taken should prove useful. AKG's adviser research showed for example that over half of advisers had not changed the typical asset allocation for clients entering the decumulation phase of retirement since pension freedoms.

SEEKING COMPETITIVE SOLUTIONS AND GOOD DEALS

Once advisers have alighted on the most suitable product and/or investment solutions to meet the client's retirement requirements they need to ensure they are seeking out competitive pricing and targeting value for money. The FCA is keen for customers to get good value for money in retirement amid concerns over the level of pricing seen in some drawdown solutions. The FCA also wants these charges to be transparent and made clear to the client.

IMPORTANCE OF REGULAR REVIEW AND REPORTING

The importance of regularly reviewing, and reporting on, the client's retirement planning strategy should not be underestimated. It is vital that advisers continue to monitor the performance of the client's retirement planning strategy against the objectives and goals agreed at outset.

The FCA states in its Retirement Outcomes Review final report that once a consumer has entered drawdown they still need information and support and furthermore that consumers should receive information from their provider annually, whether or not the customer is currently drawing an income. While this is aimed at providers, advisers will need to consider the frequency of their review and reporting service to clients and might also wish to target annual reviews. To a certain extent they can be guided by what the client requires and is prepared to pay for an ongoing service.

The FCA also states that consumers should be reminded annually of their chosen investment pathway and their ability to switch so that they are encouraged to consider whether the investment pathway is still appropriate for them. This is more likely to impact non-advised customers but again provides some read across for how advisers might go about reviewing and reporting in relation to investments.

COMPREHENSIVE PLANNING

For those customers with multiple pension and savings pots, and hence those most likely to engage with and benefit from financial and tax planning, there is a great deal of value that can be added by financial advisers in the effective organisation of these resources and the way and sequence in which these are accessed. There is also likely to be some read across for tax planning and intergenerational planning.

Pension freedoms have opened up the opportunity for pension wealth to be distributed down through generations of the family. Clearly the ability for an adviser to offer support here will depend on the total wealth of the client but it is another opportunity to provide valuable planning support including tax planning to the wider family.

DISCUSSING HEALTH AND WELLBEING

A change in health status might for example have an impact on withdrawal strategy, investment timeframe or dependent benefit planning. Also, the FCA states in the Retirement Outcomes Review final report that customers should be made aware of their potential eligibility for an enhanced annuity. The adviser can seek specialist support with this dialogue and the application process for some retirement products may already include some consideration of health status and medical conditions.

REGULATORY DIRECTION OF TRAVEL

FCA RETIREMENT OUTCOMES REVIEW

It is important for advisers to keep abreast of and give due consideration to the regulatory direction of travel in the retirement market. The FCA has been closely monitoring customer behaviour and market developments since pension freedoms came into force and has published a number of market updates.

In June 2018, the FCA published the final findings of its Retirement Outcomes Review, looking at how the retirement income market has evolved since the freedoms were introduced in April 2015 and as part of this the FCA has set out a package of proposed remedies to address the concerns identified.

While there is a clear focus on issues pertaining to non-advised customers in the FCA report there is certainly some read across to the advised sector and items of interest for the wider market. If they haven't done so already advisers and paraplanners should acquaint themselves with the final report and its key messages.

Some of the key sentiments are outlined here.

- **The FCA wants customers to be encouraged to, and supported in, shopping around for both annuities and drawdown solutions.**
  - **Adviser read across** - A key role for the adviser, once client circumstances, needs and requirements have been ascertained, is to source suitable product/investment solutions from the range available to them in the market.

- **The FCA wants customers to get a good deal and value for money from drawdown solutions. Concern is raised about the total level of cost that may be experienced and the potential impact of these costs on drawdown outcomes over time.**
  - **Adviser read across** - As part of the product/investment solutions sourcing process, advisers appraise and assess the relevant charging structures to seek a competitive deal for their client. Competitive forces in the drawdown market along with regulatory focus are likely to bring cost pressures to the drawdown value chain.

- **The FCA wants retirement risks flagged earlier and more clearly to customers and suggests associated changes to the retirement wake-up packs issued by providers.**
  - **Adviser read across** - A key role is in addressing key retirement risks for the client. Advisers might wish to consider how they do this earlier in the engagement process for clients.

- **The FCA wants customers to be better engaged with investment decisions and direction in drawdown.**
  - **Adviser read across** - Advisers place great store by working on investment strategy for clients. Whether working on their own investment proposition or in collaboration with third party investment specialists, advisers need to ensure clients are engaged in the investment process and its associated consideration.

- **The FCA is concerned about over exposure to cash in drawdown portfolios, particularly where customers have been defaulted into cash in the absence of engagement with investment decisions, and the subsequent impact on the investment performance of the drawdown portfolio.**
  - **Adviser read across** - Advisers should consider their approach to cash allocation for clients, its application where relevant and the potential impact on the drawdown portfolio.

- **Once in drawdown the FCA wants customers to continue to be supplied with information and support on a regular basis, including consideration and review of their chosen investment pathway.**
  - **Adviser read across** - Advisers need to ensure they have a strong ongoing review service for their drawdown clients including ongoing exploration of decumulation investment strategy.

ADVISER PERCEPTION – THE TOP THINGS YOU DO FOR YOUR CLIENTS

AKG wanted to get the adviser perspective on want they believe to be the top things they do for their clients. We posed this same question for three acknowledged retirement events/stages – pre-retirement, at-retirement and in-retirement – so that we could see where there might be commonality or differences.

PRE-RETIREMENT

What are the top three things you do for your clients pre-retirement?

- Investment strategy/approach - 60.8%
- At-retirement options - 45.1%
- Consolidating pension funds - 41.2%
- Asset allocation - 33.3%
- Fund selection - 33.3%
- Advice on investments outside pension funds - 31.4%
- Maximising annual allowance - 23.5%
- Inheritance tax advice - 15.7%
- Lifetime allowance - 7.8%
- Life styling - 5.9%
- Advice on cash saving - 2.0%
- Don't know - 2.0%

Source: AKG retirement planning adviser market research (online survey)

AT-RETIREMENT

What are the top three things you do for your clients at-retirement?

- At-retirement options - 70.6%
- Investment strategy/approach - 57.8%
- Consolidating pension funds - 39.2%
- Advice on investments outside pension funds - 28.4%
- Asset allocation - 27.5%
- Inheritance tax advice - 27.5%
- Fund selection - 18.6%
- Maximising annual allowance - 7.8%
- Lifetime allowance - 7.8%
- Advice on cash saving - 5.9%
- Life styling - 4.9%
- Don't know - 2.0%

Source: AKG retirement planning adviser market research (online survey)

IN-RETIREMENT

What are the top three things you do for your clients in-retirement?

- Investment strategy/approach - 69.6%
- Advice on investments outside pension funds - 48.0%
- Inheritance tax advice - 43.1%
- Fund selection - 35.3%
- Asset allocation - 34.3%
- Later life planning – wills, LTAs - 34.3%
- Advice on cash saving - 10.8%
- Maximising annual allowance - 6.9%
- Don't know - 2.0%

Source: AKG retirement planning adviser market research (online survey)

ASSOCIATED CONSIDERATIONS FOR PLANNING FOCUS ACROSS KEY RETIREMENT STAGES

Investment strategy front of mind

Probably symptomatic of the prevalence of drawdown (versus annuities) post-freedoms, the research shows that consideration of, and focus on, '*Investment strategy/approach*' dominates for advisers in terms of the top things they do for their clients pre-, at- and in retirement. As a key component part of this, there is also a strong degree of '*Asset allocation*' and '*Fund selection*' focus seen in the adviser research results across the three key retirement stages.

Given the great store placed on '*Investment strategy/approach*' by advisers there is clearly a great deal riding on the success, or otherwise of the client's retirement investment strategy.

A key question remains as to whether the adviser wants to specialise in the design and delivery of drawdown investment solutions themselves or whether they wish to enlist the support of third party investment specialists.

Focus on at-retirement options

45.1% of advisers surveyed by AKG gave (support with) '*At-retirement options*' as one of the top things they do for clients pre-retirement. This increased to 70.6%, and was the top thing that advisers do, for clients at-retirement. This should not be underestimated and is likely to be one of the biggest choices facing clients in their lifetime and a clear value-add support area for advisers/planners. Educating clients on the retirement options available to them, selecting the most appropriate path and sourcing competitive and suitable product/investment solutions will all form part of this process.

Advice on investments outside pension funds

31.4% of advisers surveyed by AKG ranked '*Advice on investments outside pension funds*' as one of the top things they do for clients pre-retirement. 28.4% selected this as one of the top things they do for clients at-retirement but the greatest percentage, 48%, selected this as one of the top things they do for clients in-retirement.

This is another area where advisers can add value to clients and might include consideration of assets such as property investments, ISA investments and other sources of (tax wrapped and non-tax wrapped) savings and investments. Those advisers who promote a comprehensive financial planning and wealth management service to clients will need to ensure that they are providing suitable support here.

Understanding that requirements may vary across different retirement resources

It is quite possible that, depending on the customer's objectives and goals for each of their retirement resources (whether these be pension or non-pension), they may well have different requirements from an investment perspective and hence their attitude to risk and capacity for loss may indeed vary across these different resources.

Time horizons and accessibility requirements may also vary, for example, more cautious customers who require certainty in their capital and/or income outlook might want to consider securing guarantees on some or all of these resources. Again, this may vary depending on their objectives and targeted outcomes for each resource. They may wish to create a balance or blend of certainty and speculation (via drawdown and annuity) for one of these resources or across them.

Pension consolidation continues

There is notable focus on the consolidation of pension funds. This came through strongly in the adviser research as one of the top things that advisers do for their clients. Ensuring that pension transfer and switching activities are executed in the best interests of the client should remain front of mind here and adviser businesses should have robust advice and suitability processes designed to support such activity.

APPENDIX

ADVISER MARKET RESEARCH QUESTIONS

Methodology
The market research was carried out on AKG's behalf by independent research agency Pollright.

Pollright interviewed 102 financial advisers using an online methodology between July 30th and August 21st 2018. A full list of questions posed in this market research exercise is provided here for reference.

Questions

Q1. How has your retirement planning proposition changed since the introduction of pension freedoms in April 2015?
Q2. What are the top three things you do for your clients' pre-retirement?
Q3. What are the top three things you do for your clients at retirement?
Q4. What are the top three things you do for your clients' in-retirement?
Q5. What percentage of your clients are taking a passive approach to investment in retirement?
Q6. What is the typical allocation to cash in your clients' portfolios?
Q7. Please select what you regard as the top three investment risks facing clients entering drawdown?
Q8. What do you regard as the top aim of decumulation investment strategies?
Q9. What is the typical asset allocation for your clients entering the decumulation phase of retirement?
Q10. Has the typical asset allocation for your clients entering the decumulation phase of retirement changed since pension freedoms?
Q11. Has your attitude and/or use of life styling options changed since pension freedoms?
Q12. Have you increased outsourcing of investment/fund management since the launch of pension freedoms?

RECOMMENDED READING AND RESOURCES FOR ADVISERS

FCA Retirement Outcomes Review
Advisers can read the FCA Retirement Outcomes Review at:

https://www.fca.org.uk/print/publications/market-studies/retirement-outcomes-review

Inflation trends and outlook
Advisers can read more about inflation trends and outlook at:

https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN02792.

Sequencing of returns
These issues are well defined and described in Moshe A Milevsky's 2006 academic paper, Retirement Ruin and the Sequencing of Returns.

Advisers can find further details at:
Retirement Ruin and the Sequencing of Returns, Moshe A. Milevsky, Ph.D
https://www.owrsfirm.com/wp-content/uploads/Milvesky-Sequecing-of-Returns.pdf

Longevity/mortality trends and outlook
Advisers can read more about longevity/mortality trends and outlook at:

Statistical bulletin: Life Expectancy at Birth and at Age 65 by Local Areas in England and Wales: 2012 to 2014
https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/lifeexpectancyatbirthandatage65bylocalareasinenglandandwales/2015-11-04

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ISSUED November 2018

IN ASSOCIATION WITH: Quilter Investors