

Managing Lifetime Wealth: retirement planning in the UK

Charting the course of retirement advice
through a global pandemic, market
volatility and continued regulatory change



Foreword from Aegon

Retirement advice continues to be a key driver for financial advice firms. Demand has been particularly high since the introduction of the pension freedoms and advisers have seen this rise further during the coronavirus pandemic. Advisers have once again shown how well positioned they are to help their clients through the pandemic, supporting changing priorities and navigating stock market volatility and a changing regulatory landscape.

As was the case last year, the pandemic provides the backdrop to this research. However, moving into 2022, there is further uncertainty around the economic outlook, with inflation rising to levels not seen since the early 1990s and the Bank of England responding with two consecutive interest rate hikes with more likely to follow. The research shows advisers are concerned about the effects of this on the financial markets, but they will have an important role in helping assess the impact for clients.

Responsible investing is also expected to be a big theme this year, with advisers playing a key role in building a wide variety of customer attitudes towards green and sustainable investing into their suitability assessments. The report builds on this regulatory focus and explores the extent that ESG funds and solutions are being considered for retirement clients.

Aegon is delighted to continue its partnership with NextWealth on this report and is committed to offering valuable insight to advisers and the wider retirement advice community through these uncertain times.

The report, the fourth in the series, offers a well-established benchmark on current practices and approaches to managing lifetime wealth and highlights the biggest trends shaping the retirement industry. It charts the impact of the pandemic on adviser firms, people's hopes and fears, the tools and techniques used to support advice, the approach to structuring retirement portfolios, and the investment products recommended. It also offers insight into the defined benefit advice market now it's over a year since the FCA's latest rules came into force.

We hope you find this report both engaging and informative. For more focused adviser insights and research, please visit Aegon's Advice Makes Sense hub at www.aegon.co.uk/advisers/advice-makes-sense.html

Ronnie Taylor,
Chief Distribution Officer at Aegon



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Introduction

Over the four years that we have worked together on this study, Richard Parkin and the team at NextWealth have charted the continued rise in demand for retirement advice. This rise has come against a backdrop of a collapse in the DB transfer market, continued regulatory disruption and a global pandemic.

This report defines current practices and approaches to managing lifetime wealth for clients, allowing financial advice professionals to benchmark their own approaches against those of competitors. We continue to see growing sophistication in the use of planning tools to support safe withdrawal strategies and streamlining of the investment proposition to simplify the advice process. These are good signs.

More progress is needed. We've been blessed with over a decade of fairly steady and rising markets. The outlook for the coming few years is mixed. We are sure to see higher rates of inflation and interest rates – both of which might put pressure on equity prices. The robustness of financial plans and modelling will be put to the test. A periodic review is therefore essential.

We are grateful to the team at Aegon for their continued support for this research and welcome suggestions for topics to explore in next year's update: enquiries@nextwealth.co.uk.

Heather & Richard

Methodology

The report findings are based on quantitative and qualitative inputs:

- Online quantitative survey of 212 financial planners conducted between 29 November and 9 December 2021
- In-depth qualitative interviews with 10 financial planners, conducted between 1 December and 7 January 2022
- Comparisons are offered to January 2021, January 2020 and July 2018 versions of this report which were also based on a similar approach of qualitative and quantitative methodologies with respondent numbers as follows: 212 in 2021, 227 in 2020, 267 in 2018.

The profile of respondents is similar to those in past reports covering a range of firms by size (measured by assets under advice, number of client-facing financial advisers) and the average value of investable assets.

Executive summary

Retirement advice trends

Impact of Covid

Demand for retirement advice continues to grow. Almost half of financial advisers (47%) say that demand for retirement advice has increased more than usual due to the pandemic, an increase of 7% compared with last year.

Just over a third (35%) of financial advisers changed their business model or processes for delivering retirement advice.

Those who say demand for retirement advice has increased more than usual



Impact of potential tax changes

Almost two thirds of advisers (65%) are very or moderately concerned over the reduction of the Lifetime Allowance.

Among potential changes to taxation, pension tax relief is the second largest concern. Over half of advisers (59%) say this is a significant concern.

Services offered

Most firms offer advice on claiming State Pension benefits and over a third advise on social care funding and coaching for broader financial wellbeing. We also note that 58% refer clients to a 3rd party for wills and trusts, with only 19% saying they don't offer this service at all.

Retirement advice approach

Use of cash flow planning

Cash flow plans are always used by 76% of advisers for clients who have completed or are considering a DB transfer. Their second highest use case is for clients who have high income requirements relative to their retirement assets.

Minimum income requirements

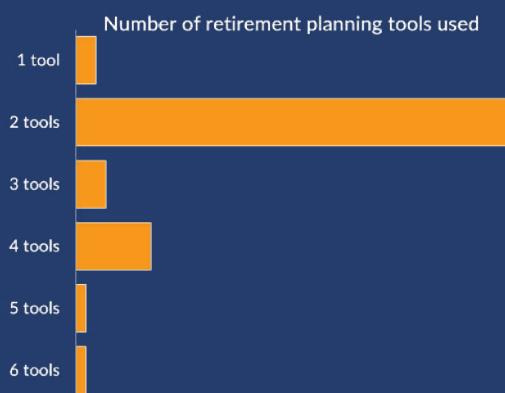
Over three quarters (86%) of advisers have at least some clients with minimum income requirements. Modelling minimum income requirements using stochastic modelling tools is the primary method used to deliver these, the secondary method being ring-fencing specific assets to invest for minimum income.

Withdrawal strategy

Since 2018 there has been a significant shift away from using fixed rates towards using a modelling tools. This year is the first year that the majority (51%) of advisers stated that they are using a modelling tool to determine a safe withdrawal rate.

Retirement planning tools

Most advisers using retirement planning tools use at least two. The most popular are cash flow modelling tools, CashCalc and Voyant. Advisers say that ease of use is the number one priority when selecting a tool with reporting, functionality and value for money as significant secondary factors of consideration.



DB transfer

Approach to DB transfer advice

Less than one quarter of advisers offer a DB transfer service, down from 56% in 2018. Just over 10% of advisers who don't offer DB transfer advice themselves use an informal referral to another adviser.

Abridged advice

Nearly 60% of adviser firms providing DB transfer advice make use of abridged advice, up from just over 50% last year.

Executive summary (cont.)

Retirement advice clients

Client retirement

Trends indicate a shift in client base towards full retirement. The need to start planning early is reflected in the status of our respondents' client base. Over 40% are still fully employed down 5% from the previous year.

Client assets

61% of clients have less than £250,000 of retirement assets but this proportion has fallen slowly over the last 3 years from 67% in 2020.

Client hopes and fears

Clients continue to prioritise maintaining the same standard of living in retirement but are increasingly concerned about running out of money before they die.

Client objectives

This year sees a rise (11%) in clients who want to use savings to create a sustainable lifetime income while preserving capital.

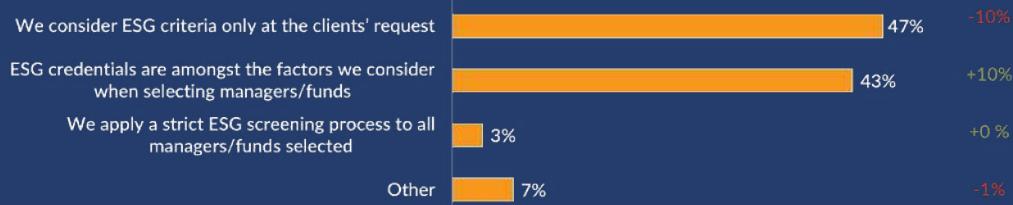
Investing in retirement

Approach to structuring portfolios

Using a total return strategy remains the most popular approach for structuring retirement portfolios. A 'bucket' approach is the second most popular and continues to show a growth in popularity over the last 3 years. Income-driven is the least popular approach and has continued to decline in usage over the last few years.

Use of ESG funds

The share of advisers saying that ESG credentials are amongst the factors in selecting managers and funds increased from 31% to 43% this year. The other half consider ESG criteria only at the client's request.



The top advice business challenges for 2022 include:

- regulatory and legislative change,
- financial market stability,
- the pandemic, and
- business and operational challenges.

1. Demand for retirement advice

An ageing population, the introduction of Pension Freedom and increasing complexity of managing retirement income has driven up demand for financial advice and is having an impact on the structure and focus of financial advice businesses. These changes continue to permeate the industry as we work through the implications of a global pandemic.

All this falls against a backdrop of slow growth in the number of financial advisers and the expectation among some of our interviewees that these numbers may shrink as a result of an ageing adviser population. Our interviewees for this research hypothesised that demand will rise for quality financial planning, taking into account all the complexities that entails.

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“A lot of firms are not understanding that retirement is not one homogenous phase of life.”

”

“So if you’re near retirement and not Chartered, you’re more likely to want to retire, I guess. Whatever the reason is, there seems to be more demand for the IFAs that are left. So, our plan is expansion.”

In this section we explore the impact of the Covid-19 pandemic on retirement advice and the growing importance of retirement advice to financial advice businesses.

1.1 Covid-19 impact on retirement advice

‘The great resignation’ and ‘Covid retirees’ were terms coined in the pandemic referring to changes to the labour force as we grappled with remote working and people re-evaluated priorities. The Institute for Employment Studies’ November 2021 Labour Market Statistics revealed that there were 310,000 fewer older people in the workforce compared with pre-pandemic estimates¹. The desire to reduce days at work or retire early is fuelling demand for financial planning. Our research confirms that demand for retirement planning advice is up along with the number of advised clients looking to retire early.

- Demand for retirement advice continues to grow. Half of financial advisers (47%) say that demand for retirement advice has increased more than usual due to the pandemic, an increase of 7% compared with last year. Only 17% disagree that demand has increased more than usual.
- Covid has encouraged some to retire early. 51% of financial advisers have seen an increase in the number of clients looking to retire early, compared to 20% who disagree.
- Client interest in tidying up their finances, through wills and trusts, grew according to 60% of financial advisers, compared to only 8% who disagree.

This increase in demand was reflected in our in-depth interviews with financial advisers:

“

“Of all the clients that we do Voyant with, we’ll probably have half of those where we’ve been looking at different scenarios for whether they carry on working, or if the pandemic conditions continue.”

”

“I’ve seen clients focusing a bit more on inheritance, thinking about just assessing things a bit more, because they’ve seen things happen in other families, and I think they’re thinking about succession a lot more.”

¹ <https://www.employment-studies.co.uk/resource/labour-market-statistics-october-2021>

One interviewee suggested that some of these early retirees may return to work:

“

“I thought more people were like, life's too short. And this is a kind of scary wake up in terms of how short life could be. But it's been the opposite. More people are like, well, I can't really do the things that I imagined doing when I retire, like travel the world, so I don't want to retire for that reason. And we've also had a few people who had a lot more time on their hands during the lockdown. And I think that that was a little bit of a wake up in terms of, when you retire, it's an awful lot of time to fill.”

Another big change this year is that client acquisition is getting easier. Last year we reported that acquiring new clients was more difficult for financial advisers as a result of social distancing rules. Face to face meetings are seen as more important for first-time clients. Relaxing of social distancing rules and our growing ease at doing business online have made it easier to bring in new retirement advice clients. Last year, 57% of advisers said that it was more difficult to acquire new clients during the pandemic, that has now dropped to 32%.

Figure 1: Covid-19 Impact on Business – year on year comparison

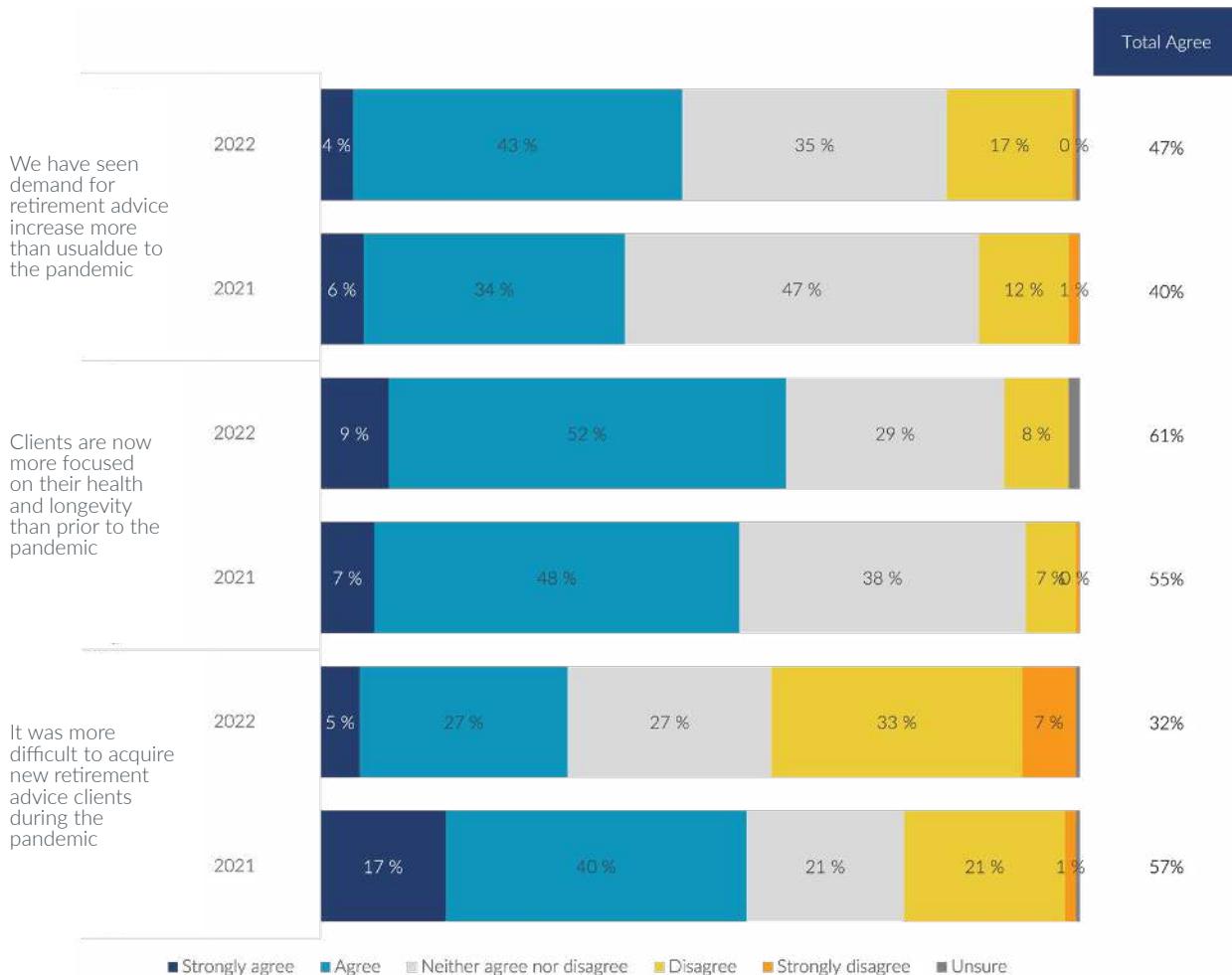


Figure 2: Covid-19 Impact on Business

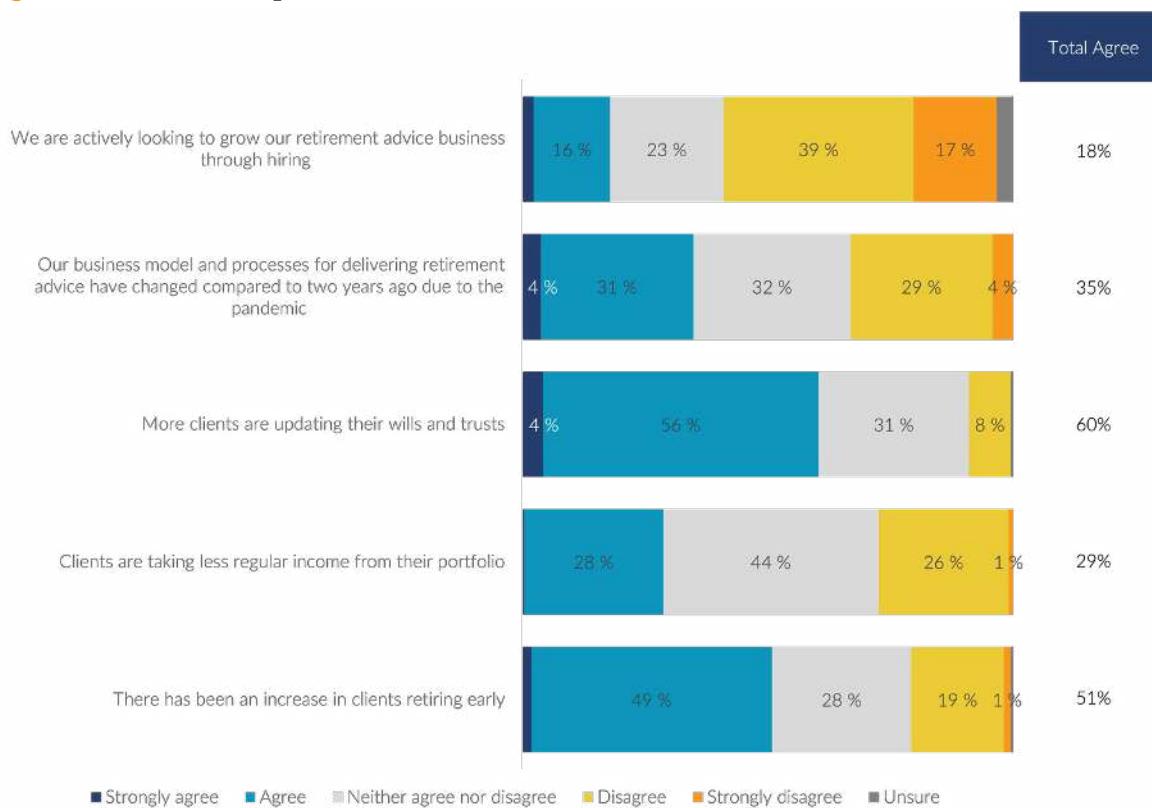


Figure 2 illustrates that just over a third (35%) of financial advisers changed their business model or processes for delivering retirement advice. In our interviews, financial advisers told us that the modelling tools and assumptions used pre-pandemic seemed less relevant given greater economic uncertainty and vast changes in client spending behaviour.

“

“Trying to get an accurate picture of their expenditure, at the moment, they have been really struggling to do that. Because for the last year or so, they've not been able to go out very much, lots of holidays haven't happened. So it's actually quite difficult for them to get a handle on their expenditure. And then at the same time, they're being told they should worry about increasing costs for everything as well. So that's probably the biggest challenge at the moment, helping them with that.”

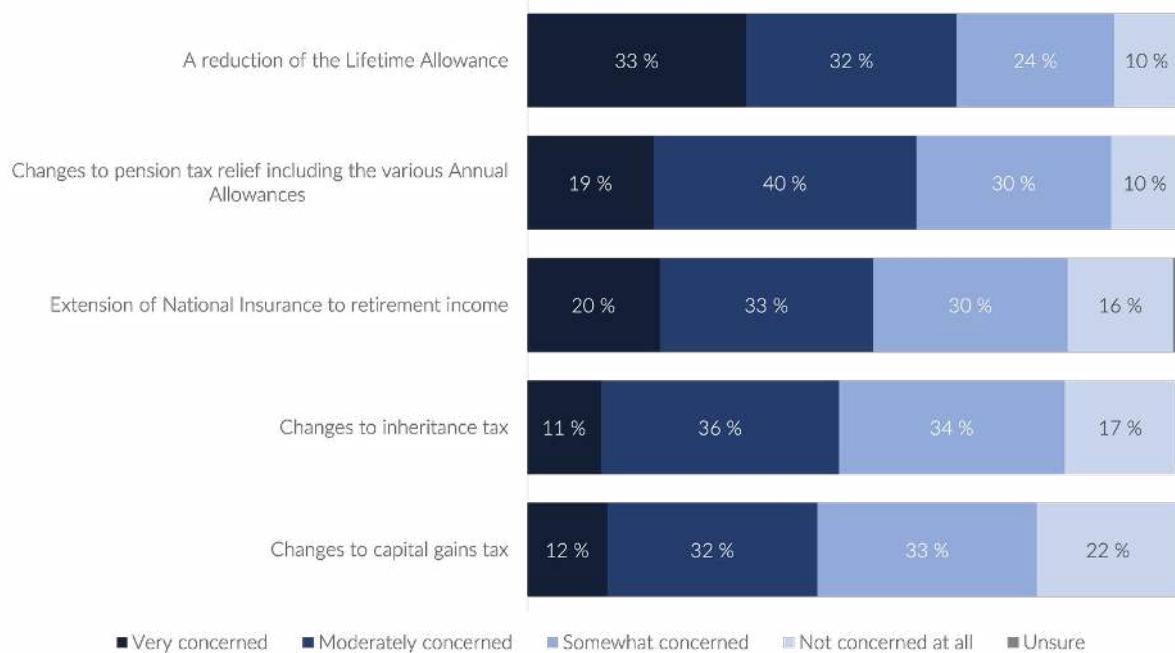
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“Well, I certainly saw a number of cases where the clients were just not spending what they thought they would in retirement. Either they've been retired for a while, and obviously, Covid hit the spending on their holidays and things like that. Or they changed the importance of what they wanted to spend money on. So, I think a lot of people have just reduced their spending either to maintain their capital or just change their plans. And I don't know if that's going to be reduced and never upped again, or I think it's a push towards more cash flow modelling and then wanting to understand what it would mean to reduce their withdrawals and things like that.”

1.2 Tax changes and impact on retirement clients

While we've seen a steady rise in demand for retirement advice, there are potential tax changes that could negatively impact advised clients. We asked about five potential tax changes and the area of biggest concern was a reduction in the lifetime allowance.

Figure 3: Concern about potential tax changes in terms of impact on retirement clients



The lifetime allowance is the amount an individual can hold in their pension while enjoying full tax benefits. Exceeding the lifetime allowance can result in penalties. The lifetime allowance peaked at £1.8 million from 2010 to 2012. It has since decreased steadily to £1,073,100, where it is meant to stay until 2026. Aegon has a helpful FAQ on their website here: <https://www.aegon.co.uk/support/faq/pension-technical/lifetime-allowance.html>.

Decreases to the lifetime allowance are likely top of mind for financial advisers because of recent rule changes. From 2018/19 onwards, the intention was for the lifetime allowance to increase each tax year broadly in line with the Consumer Price Index. However, in the March 2021 budget, it was announced that the lifetime allowance will remain at £1,073,100 until 5 April 2026.

Closely related is the second biggest concern for financial advisers, continued tinkering with pension tax relief. An FT Adviser article put the issue in stark terms, saying that "Data from HM Revenue and Customs showed the estimated cost of pension tax relief in 2020/21 is £42.7bn, split between £22.9bn in income tax and £19.8bn in National Insurance contributions."²

But Aegon Pensions Director, Steven Cameron notes that this headline figure is misleading. He says that pensions in payment are subject to income tax in payment. He also points out that the figure combines employer and employee contributions.

Tax changes are very much on the radar for our interviewees and firms are taking steps to prepare their clients:

² <https://www.ftadviser.com/pensions/2021/12/15/temptation-for-govt-as-pension-tax-relief-rises-to-42-7bn/>

“

“I am quite nervous about potential tax changes. I think there is a good chance that there will be higher tax rates hitting retired clients at some point in the future, partly because they've had such a good time of it for the last 15, 20 years or so. It's a bit of wait-and-see. We have clients who are living on probably £60-70,000 a year, paying the few £100 of tax? I'm not sure that's going to carry on forever. It's really just a preparation, a question of thinking, 'okay, we've had it very good investment-wise for the last year or so. But actually, you might need some of that money for additional tax.' ”

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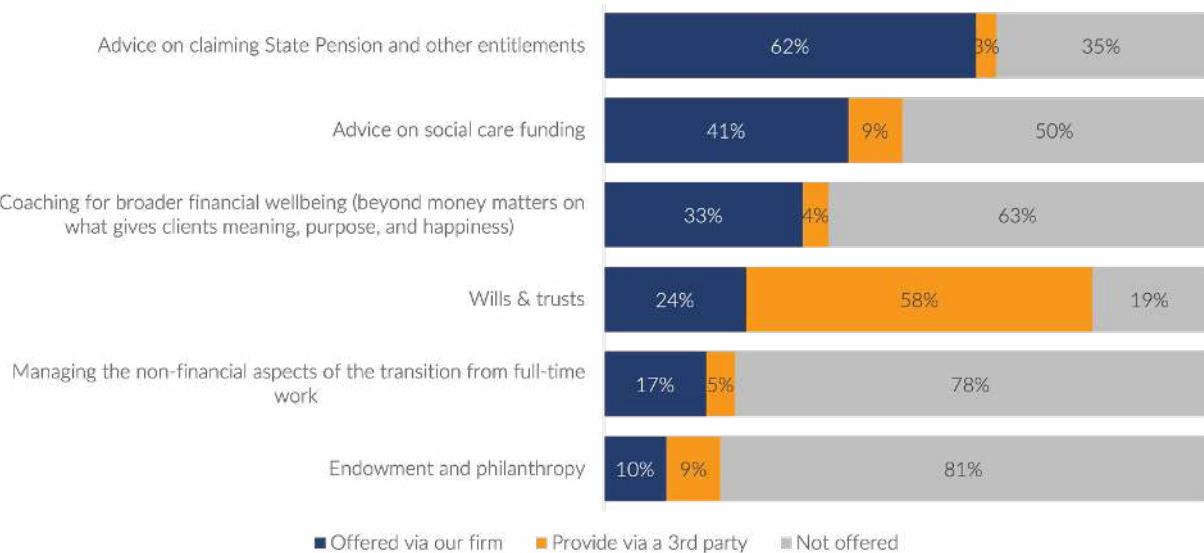
“CGT rates are an obvious target in next year's Budget. We've reacted to that by trying to realise gains, within reason. Where we've got portfolios that are holding serious gains, we did it before the Autumn statement, we did it before the last Budget as well, just in case there is a CGT rate change.”

Financial advisers offer an important service to clients in helping them avoid unnecessary penalties. Vanguard's Adviser Alpha paper quantifies advice on tax allowance as adding up to 32bps in value add to clients each year³. Further tax changes will no doubt add to the complexity, further fuelling demand for and value of retirement planning advice.

1.3 Scope of advice offered

The scope of advice offered varies by firm and while all survey respondents offer retirement planning advice, approaches for other types of advice around retirement planning varied.

Figure 4: Services offered within a retirement planning service



³ <https://www.vanguard.co.uk/professional/adviser-support/advisers-alpha>

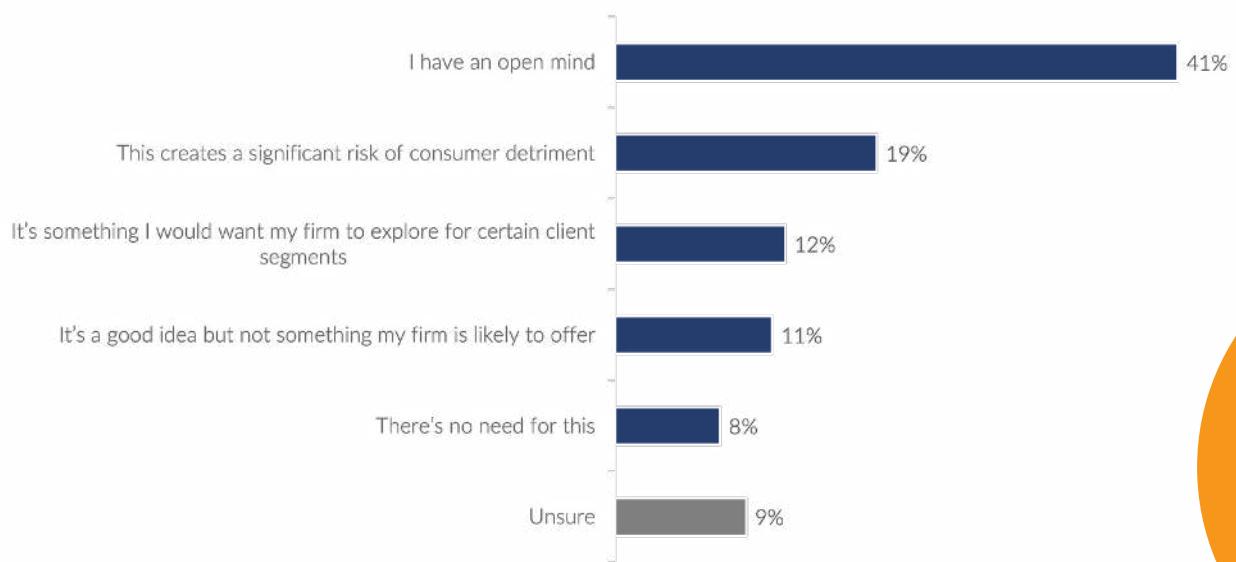
Most firms offer advice on claiming State Pension benefits and over a third advise on social care funding and coaching for broader financial wellbeing. We also note that 58% refer clients to a 3rd party for wills and trusts, with only 19% saying they don't offer this service at all. While our survey reveals that financial advisers tend to be focused on the financial aspects of retirement planning, increasingly we hear that supporting clients in the transition to retirement is a critical component of the support offered. Often our identity and social lives revolve around work. Ensuring the decision to retire is considered from all angles can be an important value add.

Our in-depth interviews with financial advisers confirmed this need to help clients think about what they are transitioning to when they leave work as well as the various phases of retirement:

“A lot of firms are not understanding that retirement is not one homogenous phase of life. So you need to plan for the various phases. I think you need to recognise that at the beginning of retirement.”

The regulator is actively considering options to improve access to financial advice, particularly for savers and investors with lower portfolio values. One proposal is a more personalised form of guidance with lower regulatory requirements than advice. We asked financial advisers what they thought of this proposal and the most common response, from 41%, was 'I've an open mind.' The second most common response was that this 'creates significant risk of harm,' selected by 19%. Clearly this shows the detail of where the FCA proposes going with this will be key.

Figure 5: Views on potential for FCA to introduce a more personalised form of guidance with lower regulatory requirements than advice



1.4 Funding social care

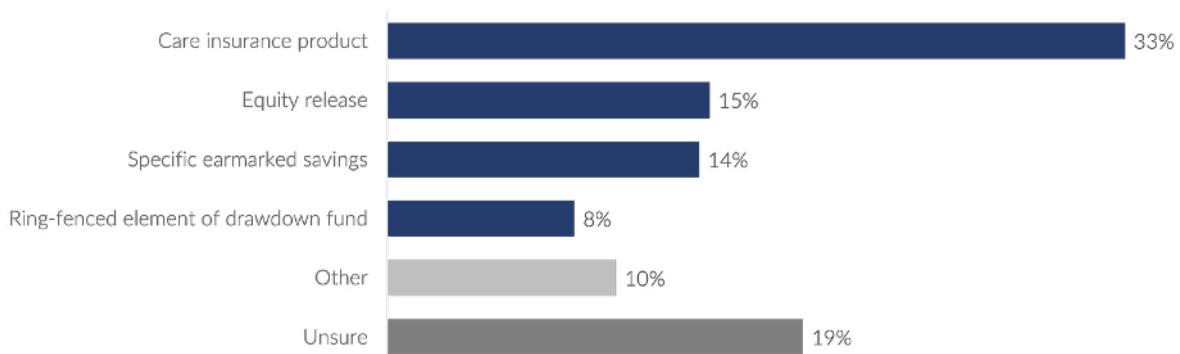
Earlier we reported that only half of financial advisers offer advice on social care funding, either through their own firm or through referrals to third parties. According to Aegon's global retirement study, social care barely registers as a funding priority for end clients – the study found that only 7% of UK consumers view putting money away to fund possible future social care needs as a priority⁴.

Our survey was fielded in December, after the government announced a proposed cap on lifetime care fees for England. The announcement of the cap for England is helpful but people will still need to plan ahead to pay up to £86k toward the cost of personal care. Daily living costs, including room and board, are also not included in the cap.

The cap gives individuals clarity on what the Government will pay and what individuals will be expected to pay themselves, based on their wealth. It goes a long way to ensuring that individuals who need lengthy care won't face catastrophic costs which could wipe out hundreds of thousands of pounds of lifetime savings.

We asked financial advisers their views of the best way to fund social care. The most common option was a care insurance product. The second most popular option was 'unsure', reflecting the degree of complexity and confusion on this topic. The cost of care was prominent in the press at the time the survey was fielded.

Figure 6: Best way to help clients fund the costs of social care



10% of respondents said 'other'. Suggestions were mainly for a combination of approaches along with tax rule changes:

“

“Combination of ringfencing an element of perhaps all asset as a % to it is a fair amount for all or the option of a care insurance product funded by Tax or NI.”

”

“Have a 'care pension' you can fund from age 45 (bit like a LISA for house purchase). Works same as a pension or LISA, except no tax if withdrawn for care purposes. Taxed if not at half IHT.”

“

“Using Drawdown to directly fund LTC Provider care without personal taxation - like tax-free Care Insurance.”

⁴ https://www.aegon.co.uk/content/ukpaw/news/funding_social_careisahugenationalprioritybutindividualsremainre.html

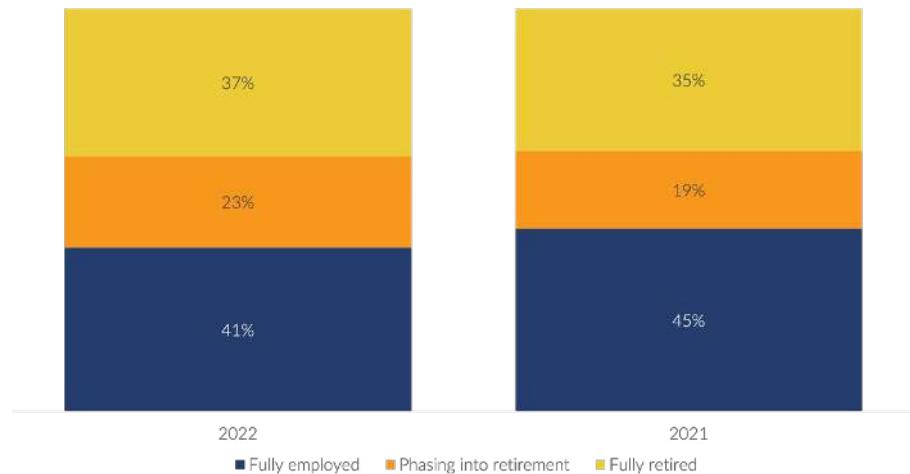
2. Client Profile

Effective retirement planning begins long before a client is even thinking about life after work. Indeed, many advisers see their role increasingly as helping their clients visualise what retirement could look like for them. As one adviser told us:

“

“Retirement is a ‘from’ and a ‘to’ and too many people haven’t got a ‘to’, they’ve only got a ‘from’. Every financial planner will tell you about the process of being able to say to somebody, right, you don’t have to work again, you don’t have to go into the office tomorrow. We all have these conversations, and they’re great conversations. But then you ask the follow-up question of how many of those clients stop at that point, how many don’t go in the office? And the answer is almost none of them. Because what hasn’t happened? We’ve not built ‘to’s.”

Figure 7: Status of retirement advice clients

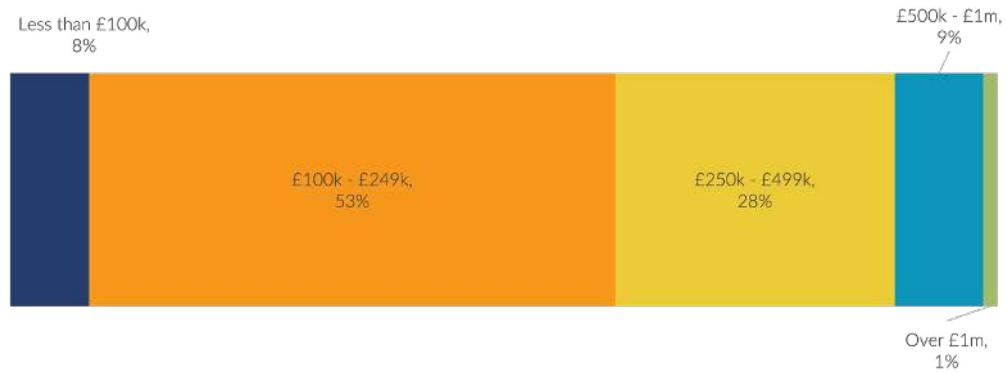


This need to start planning early is reflected in the status of our respondents' client base. Just over 40% are still fully employed. This is down from 45% last year which is consistent with the feedback that more clients are retiring earlier than we saw in the last chapter. These data also reflect the now well-established reality that retirement is a transitional period not a point in time with nearly a quarter of clients phasing into retirement. This move towards a phasing of retirement makes advice hugely beneficial. It provides flexibility in planning that can help reduce risk and optimise returns for clients and creates significant opportunities for advisers to add value through tax planning by structuring withdrawals to minimise income and other taxes.

2.1 Typical value of retirement portfolios

We asked advisers to tell us the typical value of investable assets their clients hold for retirement.

Figure 8: Typical value of investable assets for retirement advice clients



Over 60% of clients have less than £250,000 of retirement assets but this proportion has been falling slowly over recent years.

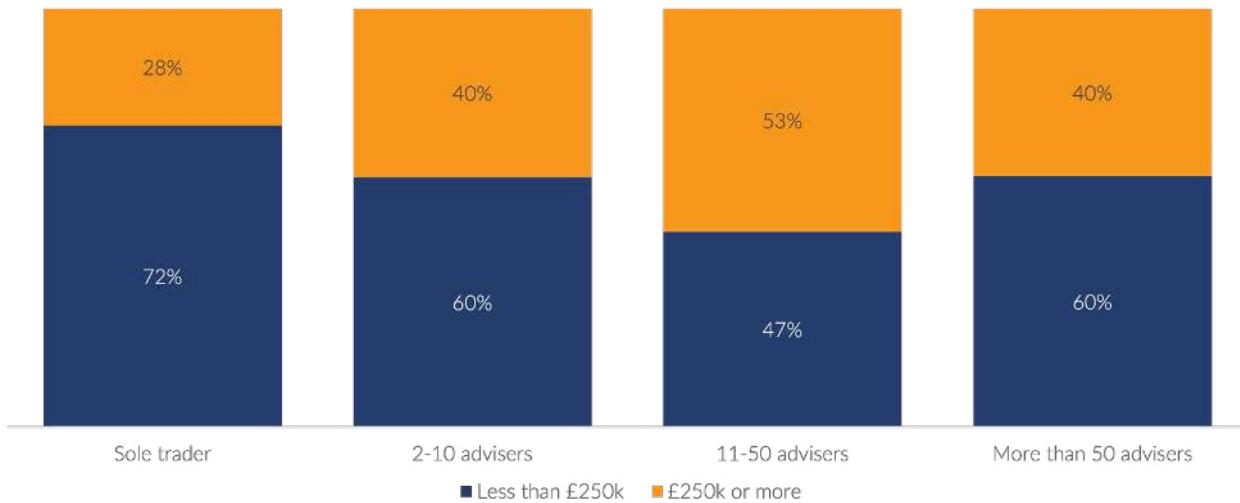
Table 1: Typical value of investable assets for retirement advice clients by year

Year	Less than £250k	£250k or more
2022	61%	39%
2021	64%	36%
2020	67%	33%
2018	57%	43%

With regulatory and other costs rising, and continuing pressure on capacity, advisers can and will inevitably focus on clients with more to invest. However, with defined benefit transfer activity slowing and defined contribution savings still relatively low, a growing number of individuals with less to invest will need help with their retirement planning. A number of workplace schemes, particularly master trusts, have introduced low-cost advice and it will be interesting to see whether this becomes a complement to existing advice channels or starts to encroach on the traditional adviser's business.

There are some variations in typical client size across firm types. Restricted advisers typically have more clients with less to invest. 77% of restricted advisers told us their typical client had less than £250k of investable retirement assets compared to 59% for independent advisers. Also, firms with fewer advisers tend to have clients with lower levels of investable retirement assets as shown below.

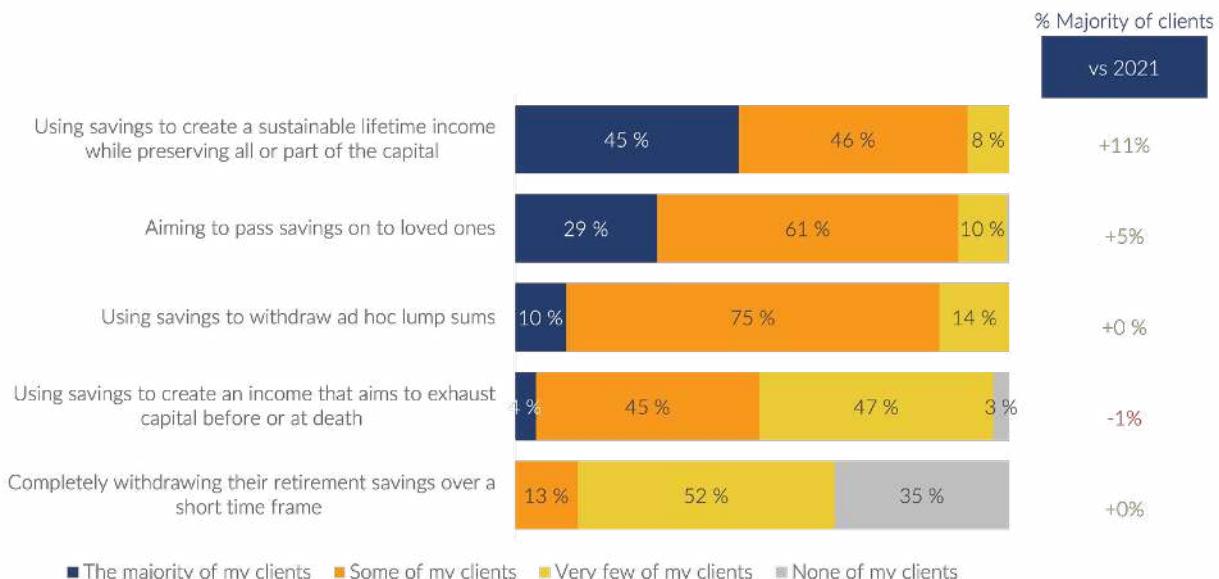
Figure 9: Typical value of investable assets for retirement advice clients by firm size



2.2 Client objectives in retirement

We saw in the last chapter that the pandemic has resulted in clients focusing more on their health and longevity and more clients updating their wills and trusts. When looking at client objectives for their retirement assets, we see a corresponding increase in the number of advisers who tell us that passing on savings is a priority for most of their clients.

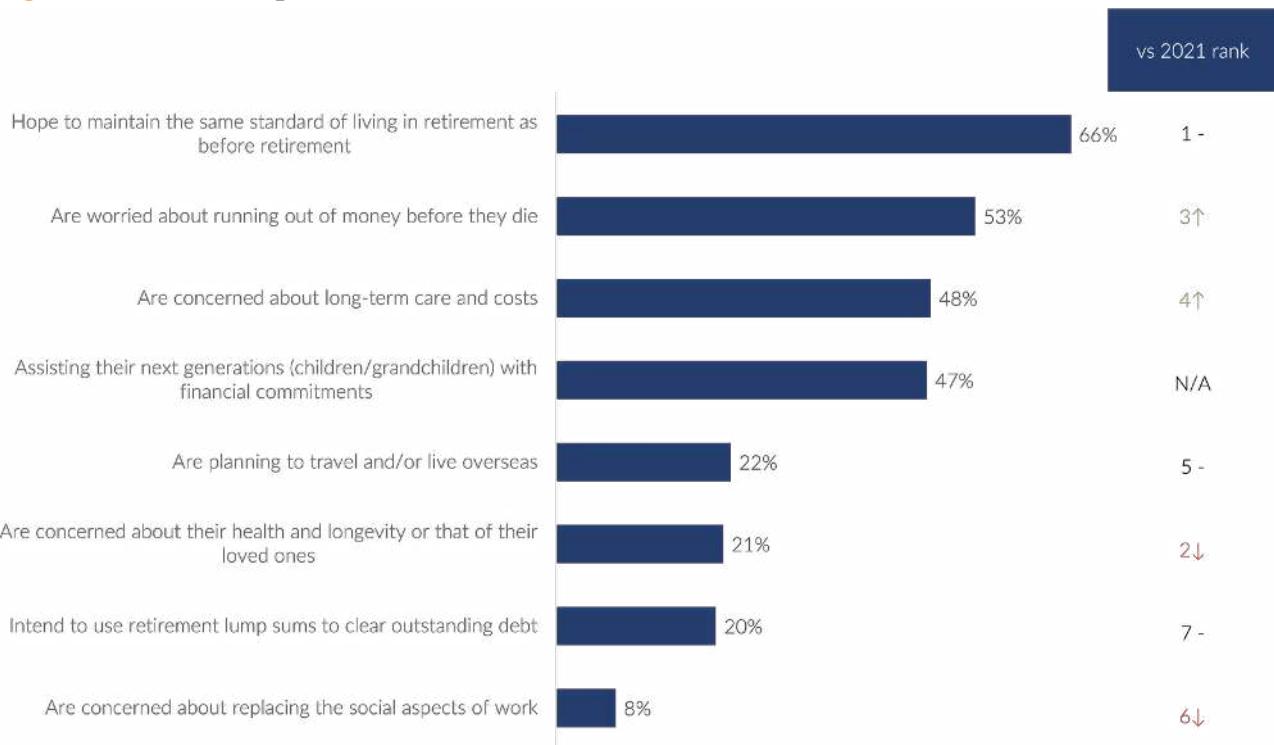
Figure 10: Client objectives with retirement savings



Beyond this, advised client objectives are broadly similar to last year although we see an increase in advisers saying clients are prioritising preserving capital while taking income, presumably to pass on to loved ones. Given advisers tend to focus on clients with more to invest it's perhaps not surprising that few are focused on clients who are looking to exhaust capital. This may also reflect the tax efficiencies of passing on pension capital at death since it may be more efficient to fund retirement income from other sources including equity release than drawing down on retirement savings.

2.3 Clients' hopes and fears

Figure 11: Client hopes and fears in retirement



According to financial advisers, clients' biggest hope is that they can maintain their standard of living in retirement. This was unchanged from the previous year. The biggest fear is running out of money, which has risen above concerns over health and longevity compared to the previous year. Perhaps receding concerns about the risks posed by Covid has helped assuage these worries. However, clients remain concerned about long-term care and the cost of providing it, despite the government's announcement on capping care costs.

As with last year, there are some interesting insights from looking at adviser responses based on the typical value of investable retirement assets their clients hold. As we might expect, the hope of assisting the next generation or to travel or live abroad is lower for clients who have less than £250k of assets than for those who have more. Similarly, those with less to invest are also more likely to worry about their health and longevity or to use retirement lump sums to clear debt than those with more savings. However, the desire to maintain living standards and the concern about running out of money are broadly similar across both groups.

3. Retirement advice approach

In earlier reports we tracked the proportion of firms who operate a Centralised Retirement Proposition (CRP). We defined this as:

A common and consistent approach to retirement advice that is followed by the whole firm and will typically cover investment and withdrawal strategy but may also extend into fact finding, assessing attitude to risk etc.

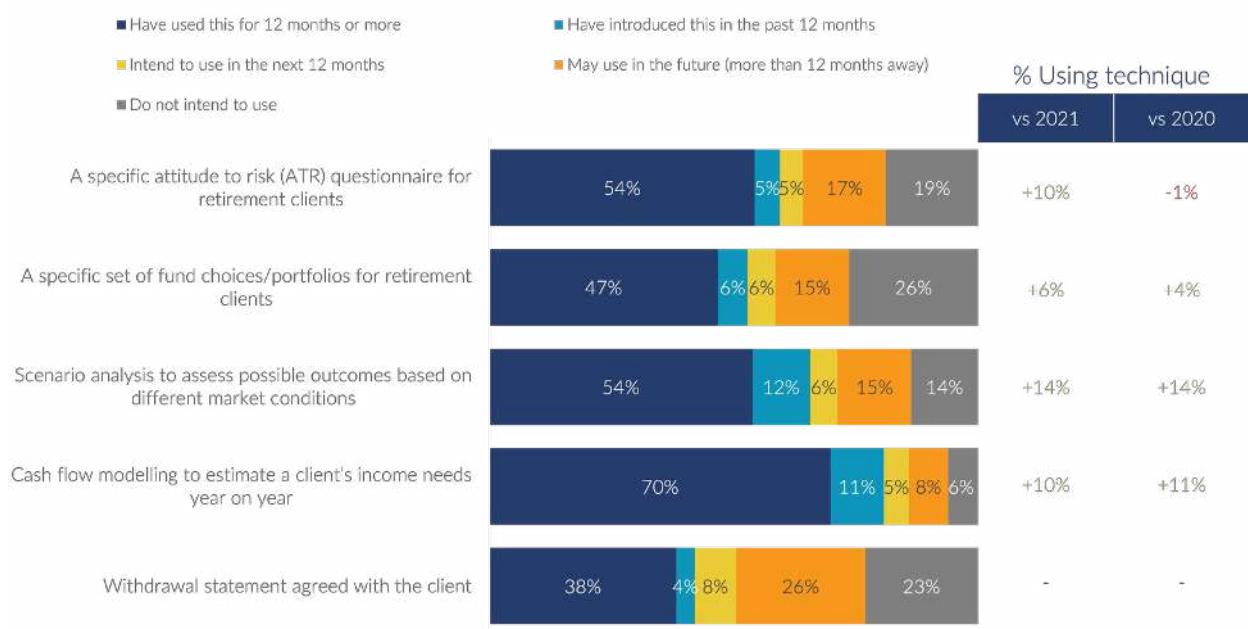
While some advisers will say they have a CRP in place, many point to the huge variation in client needs and adviser preferences to argue that a single approach for all clients across an entire firm is either unachievable or so nuanced that it is, in effect, a collection of many different approaches.

However, even where advisers say they do not operate a CRP, many will use different tools and techniques for decumulation clients from those they use for clients in accumulation.

3.1 Retirement advice techniques

We find that advisers are continually reviewing their retirement advice processes as regulatory expectations shift and new tools, products and capabilities emerge. Indeed, we have met few who believe they have found the perfect retirement advice process. For this reason, we track not just what advisers are doing today but their intention to develop their process in the future.

Figure 12: Use of retirement advice techniques



Across the four techniques we track we can see that the proportion of advisers using each technique today is almost exactly equal to the proportion using them at the start of 2021 plus the proportion who said they'd adopt the technique during the coming year. At a high level we can therefore characterise 2020 as a year where advice processes stood still but 2021 as the year where advice firms followed through on their intentions. This is not surprising given the need for advisers to prioritise keeping their businesses running as the pandemic changed the way we all work. It is heartening to see development resume and we are keen to see if this pace of development continues through 2022.

The techniques that are gaining traction most quickly are the use of cash flow planning and scenario analysis tools. We look at how these tools are used in more detail later in this chapter, but their increased use reflects the need to at least attempt to model the complexity of retirement planning. Regulatory expectations around income planning, at least for DB transfers, have been clarified during 2021 through the FCA's very practical guidance in FG21/3: Advising on Pension Transfers. We expect that many of the principles in that guidance will be seen as equally relevant across all areas of retirement income planning. Similarly, the use of stochastic models and scenario analysis to assess sustainability of income is a good step forward in assessing drawdown risk.

We do see an increasing dissonance between the traditional approach to assessing attitude to risk and how it needs to be considered in a retirement context. The FCA has pointed to this in its work on DB transfers underlining the need to assess willingness to take on any uncertainty of outcome rather than just what level of uncertainty a client can accept. We expect that assessment of risk will move more towards assessing the risk of achieving client objectives rather than just an assessment of attitude towards investment risk. This is also very much in line with the forthcoming Consumer Duty.

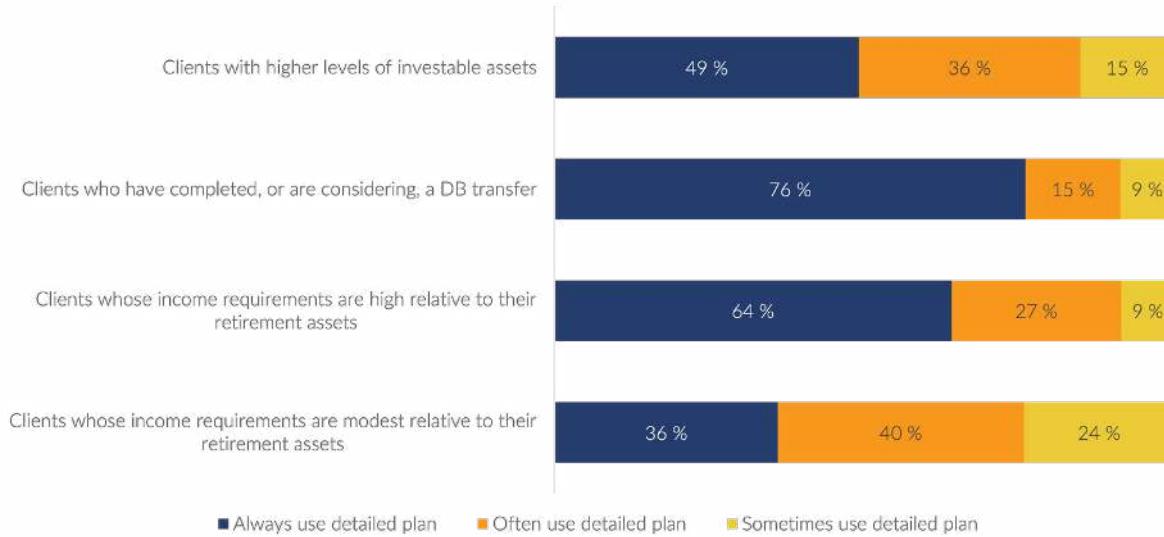
Allied to this we find it surprising that such a large proportion of advisers use the same portfolios for accumulation and decumulation. Arguably, decumulation portfolios need to be more attuned to managing downside risk than accumulation portfolios given the now much better understood concept of sequence of returns risk. While cash buffers can help manage some of this downside risk, we suggest that advisers need to look beyond this to the core portfolios to assess the risks being taken. Some of the fund rating agencies have now started to assess downside risk when helping advisers identify suitable funds for retirement and we expect this trend to gain ground quickly.

3.2 Use of cash flow planning

One thing that quickly becomes clear when discussing the realities of retirement planning with advisers is that there is a gulf between the clarity most clients have of their retirement needs and the level of detail that regulators expect advisers to get into. It is often a big ask to get clients to articulate what they might need over the next few years let alone trying to build a lifetime income plan. Even if clients can give some idea of longer-term needs these will inevitably change by the time they come around.

It seems many advisers have a bit of a love-hate relationship with cash flow planning. They see its benefit in helping illustrate the achievability and sustainability of income needs but resent the time it takes to deliver what are often spurious levels of accuracy. As a result, advisers are very pragmatic about how and when they use detailed planning.

Figure 13: Use of detailed cash flow plans



Intuitively, a detailed cash flow plan will be less necessary when the income requirement is modest relative to the value of the client's retirement assets, and this is confirmed by our respondents. Similarly, advisers told us that wealthier clients are less likely to need detailed planning, no doubt because their income requirement is low relative to their wealth and because they will usually have greater flexibility and capacity for loss.

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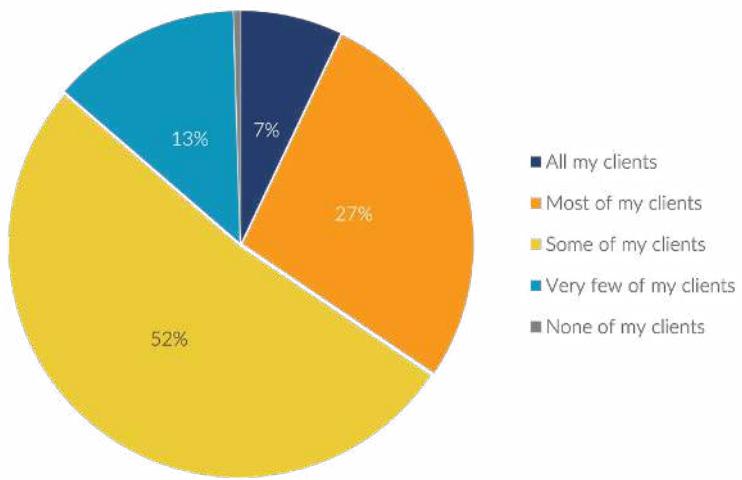
“Weirdly, we don't lead with cash flow modelling. We do it behind the scenes where people are taking income because we want to test those scenarios. I've literally just come off a call reviewing a retired couple. Their income requirement is well below, I hate the phrase natural income but for brevity, the natural income of their portfolio. So do I need to do a cash flow model for them? No.”

Detailed planning is very relevant for DB transfers where advisers need to be meticulous in demonstrating if and how a transfer would deliver the client's income needs. The other group where detailed planning is more prevalent is where income requirements are high relative to assets. Where clients are trying to maximise their income rather than leave a legacy, agreeing a detailed spending plan and investing to deliver that is essential and will require greater management of downside risk as discussed above.

3.3. Meeting minimum income requirements

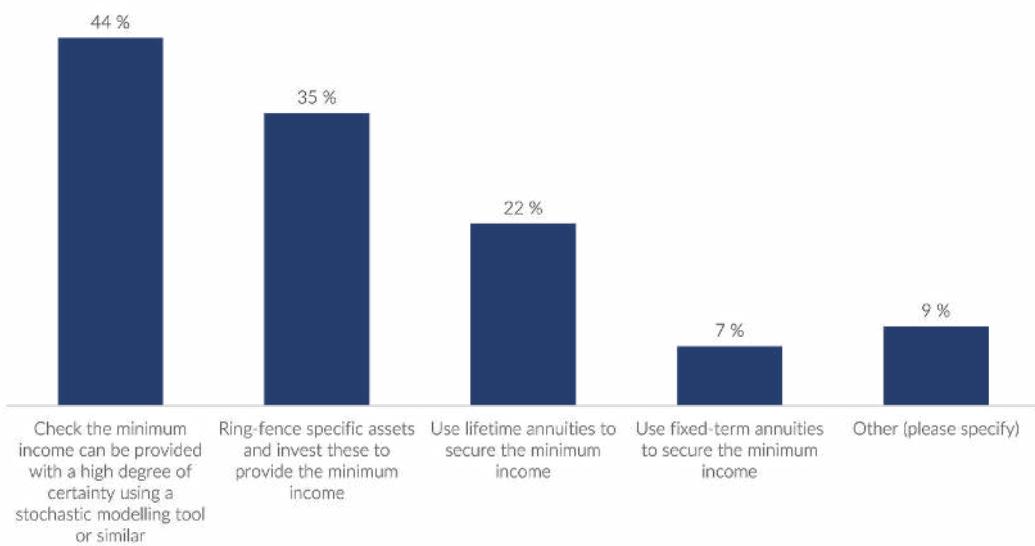
The issue of managing risk becomes incredibly important when thinking about delivering a client's minimum income requirements and our discussions with advisers suggested very different approaches to managing this.

Figure 14: Clients needing to generate a minimum income from advised assets



Many advised clients will have defined benefit pensions which, together with their State Pension, will be sufficient to meet their day-to-day living expenses. However, the chart above suggests that most clients will have some form of minimum income requirement from their advised assets. This may just be to meet essential expenses such as food, clothing and shelter but recent FCA guidance encourages advisers to think beyond this to what income is needed to maintain a desired standard of living or, in their words, lifestyle income. The implication is that for some, if not many, clients this lifestyle income should be thought of as the minimum income requirement when thinking about risk and capacity for loss.

Figure 15: How advisers secure minimum income requirements



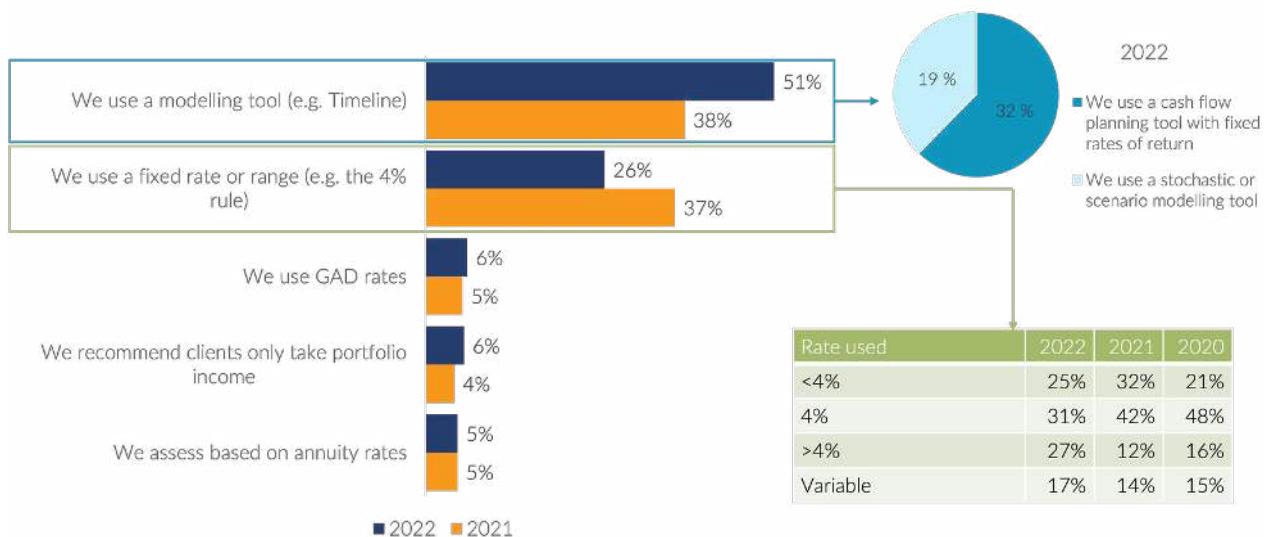
We asked advisers how they typically ensure client portfolios will deliver the minimum level of income. The majority do this by satisfying themselves that the income can be supported by the portfolio with a high degree of confidence using a stochastic modeller. Just under a third prefer to use the certainty delivered by annuities. Between these are strategies that aim to match assets and income requirements commonly referred to as time-segmented or 'bucket' strategies which we come back to in the next section.

The trade-off between certainty of income on the one hand and the flexibility and potential for upside on the other was a clear area of focus for the regulator in its review of DB transfer advice. It is easy to see how this focus could extend to a client's minimum income needs and advisers will need to continue to demonstrate that they have considered this trade-off carefully.

3.4. Withdrawal strategy

The fundamental challenge of retirement income planning is determining how much income a client can take today while minimising the risk that assets won't be exhausted earlier than planned. This is often referred to as a client's 'safe or sustainable withdrawal rate.' We have been tracking how advisers determine this safe withdrawal rate since our first survey in 2018 and it is the area of retirement advice where we have seen one of the biggest changes in approach.

Figure 16: Methods used to determine a safe withdrawal rate



Since 2018, we have seen an inexorable shift from advisers using fixed rates such as the oft-quoted but equally misunderstood 4% rule towards using modelling tools. (The 4% is a rule of thumb to help investors determine a sustainable withdrawal rate and setting out that investors can withdraw 4% of their retirement savings a year without risk of running out of money for at least 30 years⁵). In 2021 we saw the proportion using modelling tools edge above that using fixed rates. This year it has stretched even further with over half of advisers saying they use a modelling tool against just a quarter now using fixed rates.

For the first time we asked advisers to tell us whether the modelling tool they were using was a stochastic tool such as Timeline that generates a range of market outcomes or a "deterministic" cash flow tool using fixed rates of return. We were somewhat surprised to see that the majority were using deterministic tools rather than modelling a full range of scenarios, but the data suggest that some advisers will use both types of tools in the planning process. Indeed, the distinction between cash flow planning tools and scenario modelling tools has blurred considerably and many of the leading tools allow advisers to model income using fixed rates of return or using a stochastic model.

⁵ <https://www.investopedia.com/terms/f/four-percent-rule.asp>

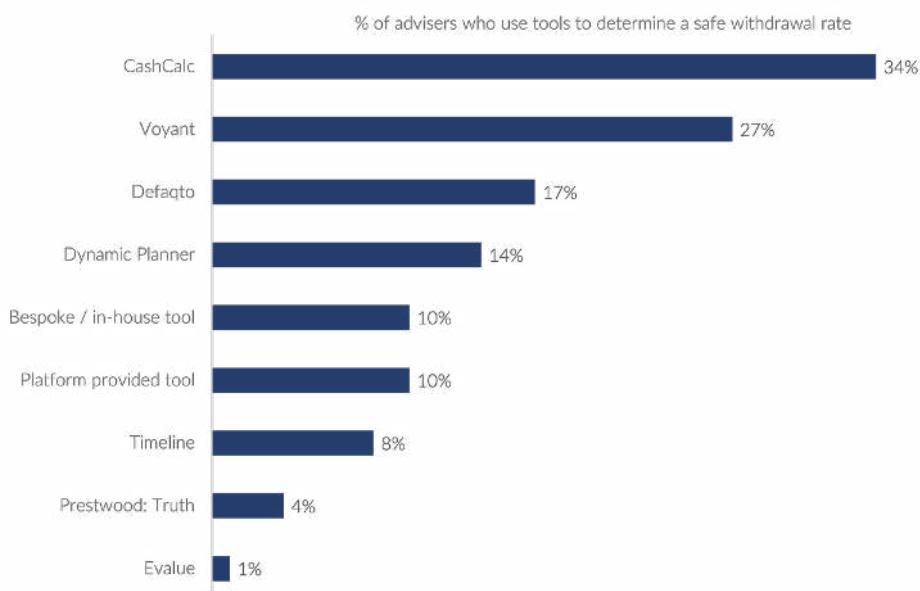
What is surprising is that, while the proportion of advisers using a fixed rate or range has fallen again, where they are there seems to have been a shift upwards in the rates typically used following a fall last year. Last year's fall may have been due to the uncertain economic outlook at the end of 2020, but typical rates are now higher than they were before the pandemic. While no advisers were suggesting rates much above 5%, many commentators have suggested even 4% was too aggressive given the economic outlook.

Advisers told us that they are worried about future market conditions and the potential impact on being able to deliver their clients' income requirements. However, the rapid recovery from the sharp market fall in 2020 has helped support the notion that market corrections if not rare, are relatively short-lived. This may have led some into believing the arguments for a cautious approach to sustainable income given the potential for sequence of returns risk have been overdone. Only time will tell if they are right.

3.5 Use of retirement planning tools

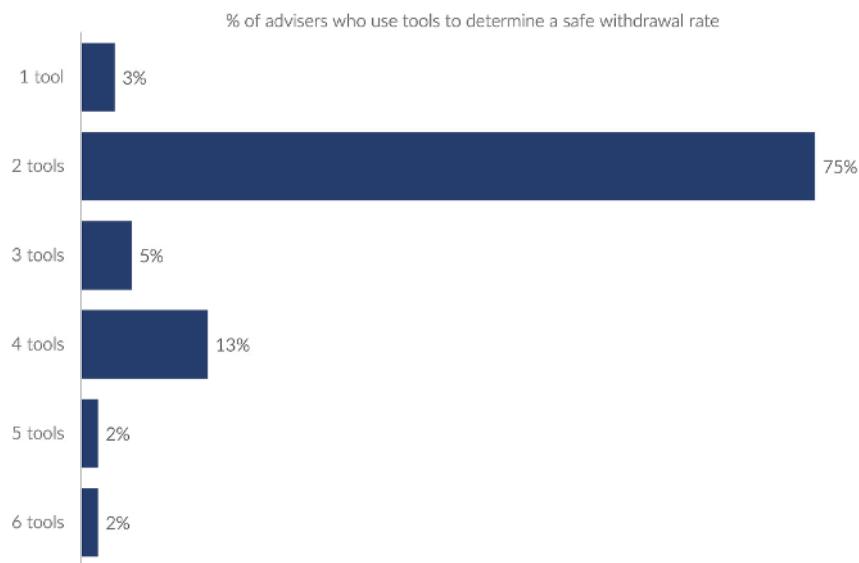
With so many advisers now using tools to determine sustainable income we wanted to understand which tools were being used and what features advisers find most valuable.

Figure 17: Retirement planning tool use



The chart shows which tools advisers use either as a stochastic modelling tool or simply as a cash flow planning tool when setting income withdrawal strategies. CashCalc and Voyant are significantly ahead of their competitors but it's important to recognise that many advisers make use of multiple tools as we can see in the chart below.

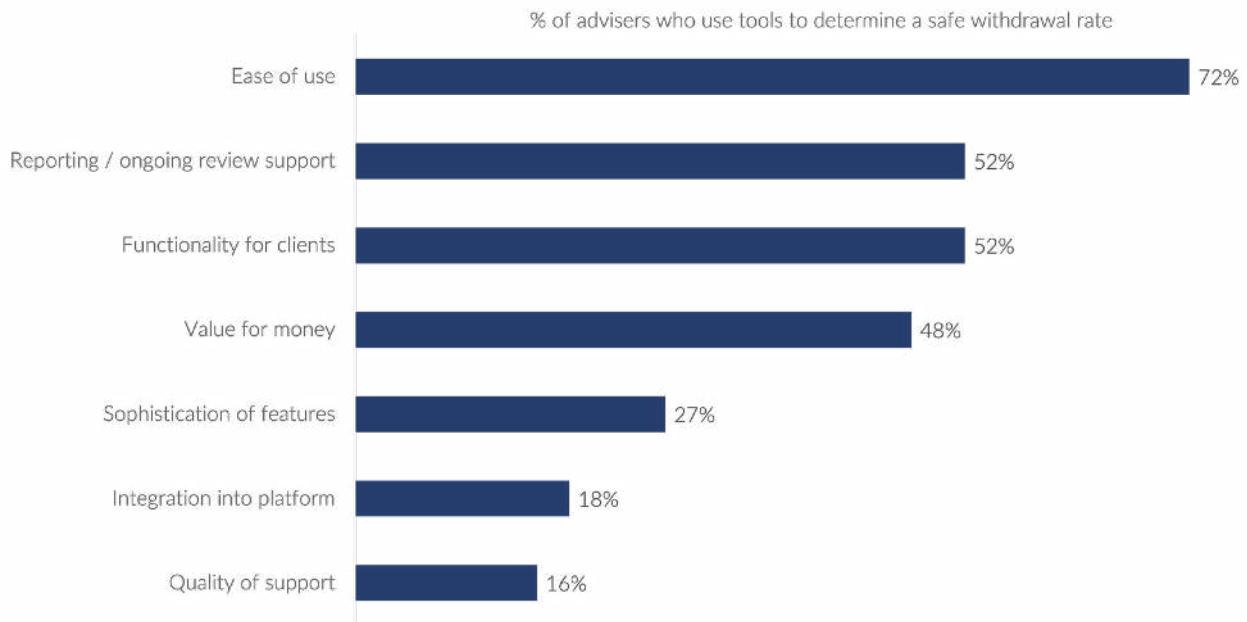
Figure 18: Number of retirement planning tools used



It's not clear whether different tools are used for different clients or whether advisers must use multiple tools for single clients. Ideally, advisers will be able to use a single tool for capturing objectives, creating a cash flow plan, stress testing this plan and identifying a suitable investment approach. This is clearly the destination for some of the leading tool providers with Defaqto having built their drawdown workflow, Timeline integrating Betafolio into the tool and CashCalc integrating with its new parent company's capabilities.

Finally, we asked advisers to give the top three features they look for when choosing retirement planning tools.

Figure 19: Key features when selecting retirement planning tools



Given the complexity of what these tools are trying to achieve, it's not surprising that ease of use is the most important feature. Being able to build a meaningful plan quickly but accurately is essential. Client functionality and reporting also score highly underlining the importance of being able to use these tools to add value to client discussions both at the outset and on an ongoing basis.

4 Investing in retirement

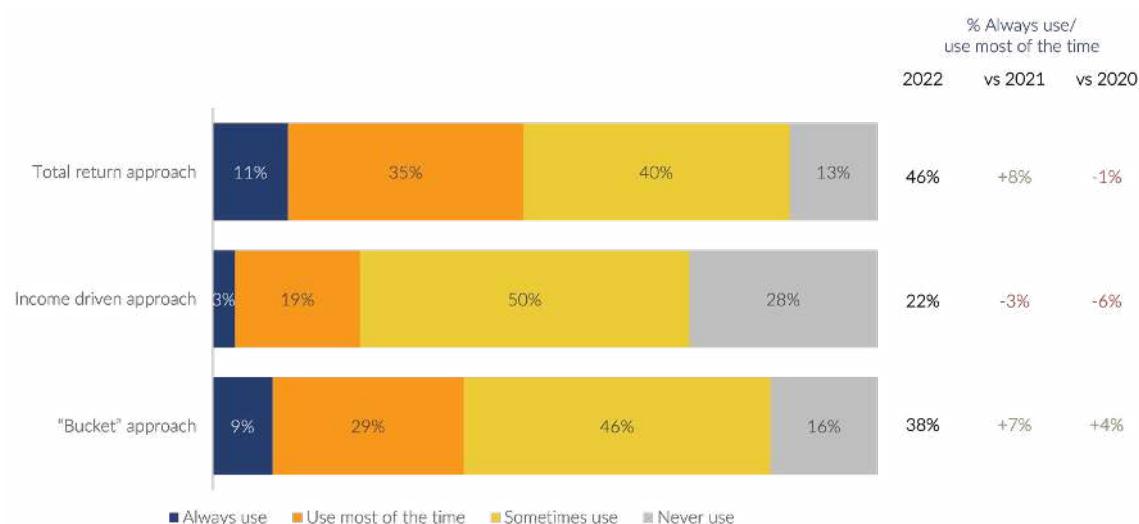
4.1 Structuring portfolios for retirement income

Each year, we ask financial advisers how they approach investing for clients who are looking to take a regular income. The three main approaches to this are:

- Total return approach – invest for total return with income payments funded by selling investments
- “Bucket” or time segmentation approach – dividing account into short, medium, and long-term components to match future income needs
- Income-driven approach – income payments made from income paid on investments and perhaps topped-up by selling investments

The chart below details the extent to which our respondents use each approach.

Figure 20: Approach to structuring investment portfolios for retirement income



The total return approach remains most popular, used ‘most of the time’ or ‘always’ by 46% of financial advisers. Only 13% say they never use this approach. Second most popular is the bucket approach with 38% always or often using this approach. The income-driven approach remains the least popular. Financial advisers tell us that it has not been possible to meet client income expectations solely from natural investment income. With interest rates rising and bond yields improving, we may see renewed appetite for the income approach in future surveys.

Our discussions with advisers also tell us that many are attracted to the “bucket” approach but find it difficult to implement. In particular, understanding when and how to rebalance between buckets is a challenge. Certainly, simply rebalancing on a regular basis undermines the main principle that underlies this approach which is to avoid having to realise losses at depressed market prices.

The results confirm that advisers take a variety of approaches, tailoring their advice for each client. For example, only one in 10 ‘always use’ the total return approach.

4.2 Investment products used for retirement clients

Given that the 'total return' approach is favoured, it makes sense that multi-asset funds and model portfolios, particularly those managed in-house, are the two products advisers are most likely to recommend to clients in retirement. Nearly half (46%) of financial advisers recommend multi-asset funds 'always' or 'often' to clients in retirement and 42% 'always' or 'often' recommend model portfolios managed in-house. These have remained the favoured approach in each of the last three updates to the research.

Figure 21: Likelihood to recommend for clients assets in drawdown

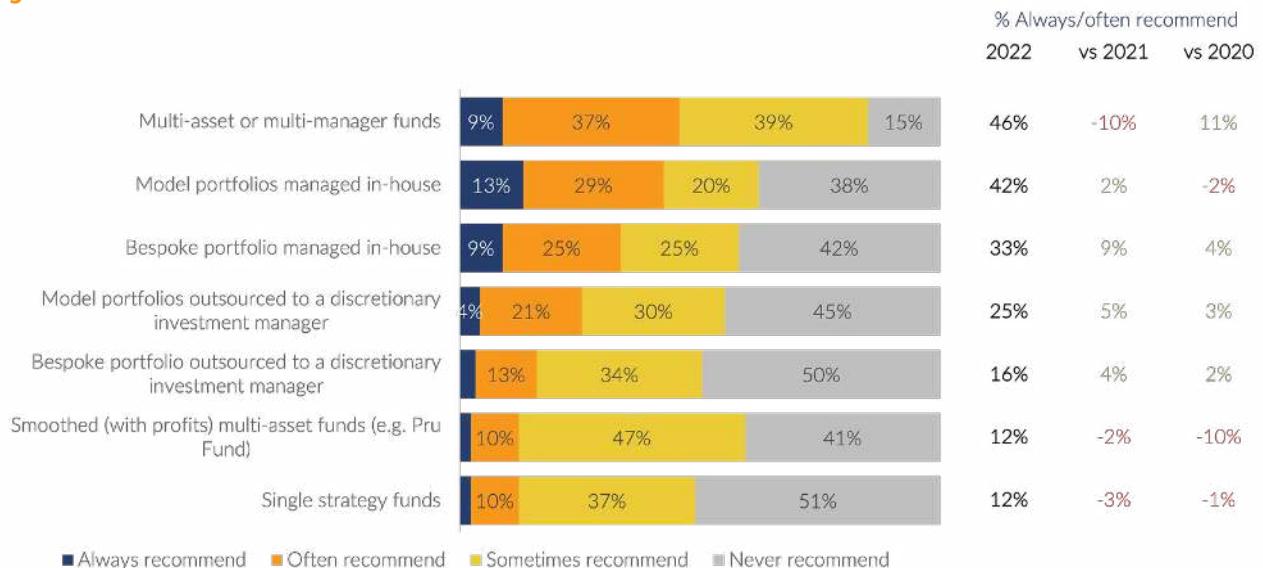


Figure 22: Likelihood to recommend for client's assets in drawdown in 3 years

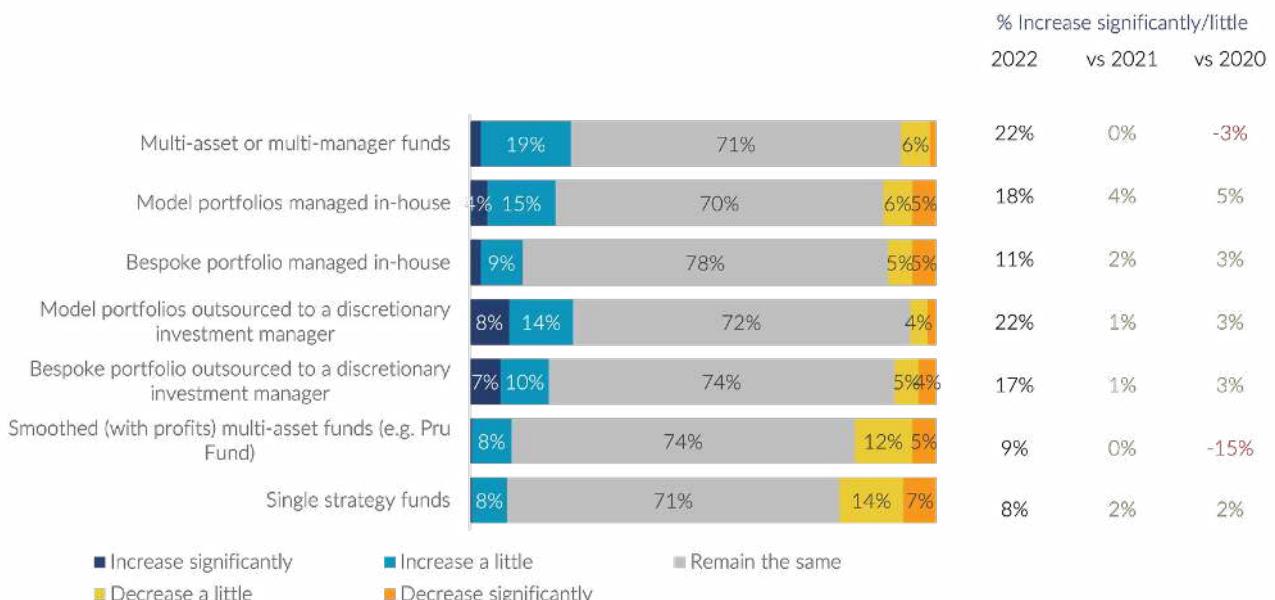
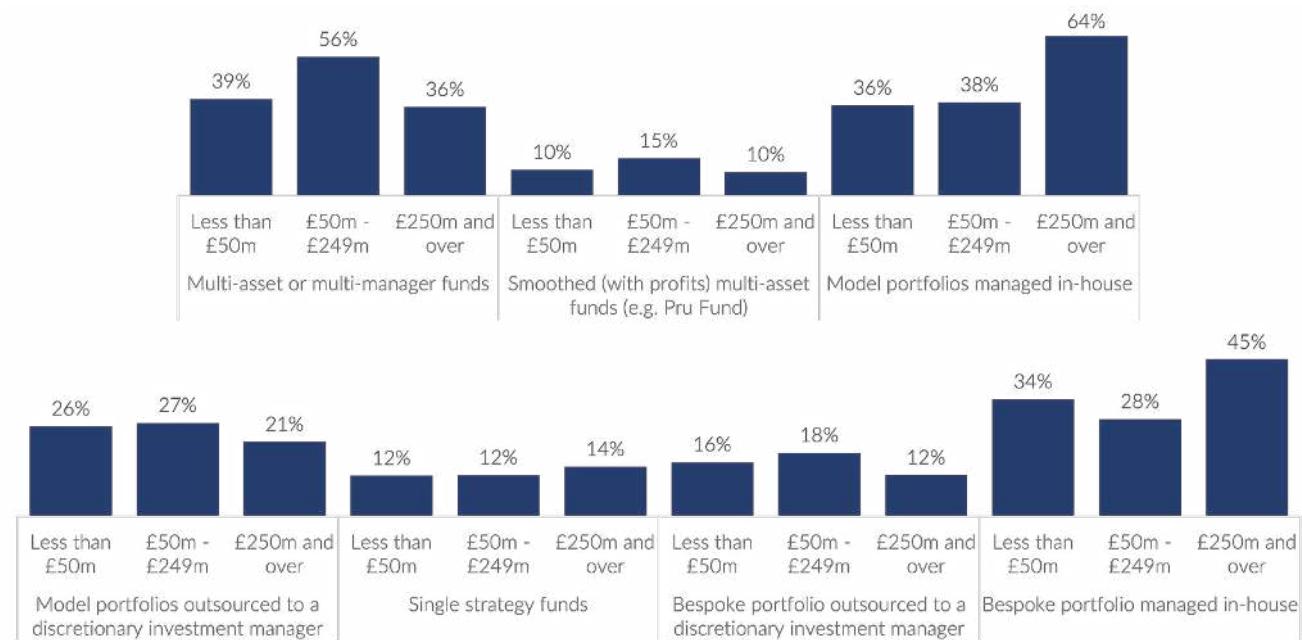


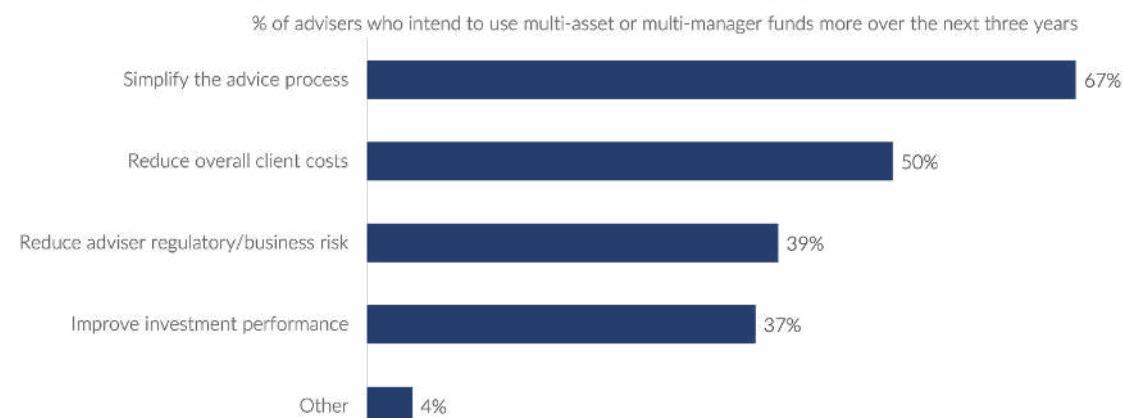
Figure 23: Likelihood to recommend for clients' assets in drawdown, by firm AUA 2022



4.2.1 Multi-asset funds

Use of multi-asset funds dropped back down in 2022 after a jump last year. The big change was in the share of advisers saying they 'always' use multi-asset or multi-manager funds – down from 23% to 9%. The share 'always' using these funds is up compared to 2020, but down from the extraordinarily high figure in last year's report. One fifth say they plan to increase use in the next three years, though most of these plans to increase use only 'a little' (Figure 22).

Figure 24: Reasons to increase use of multi-asset or multi-manager funds in the next three years



The main reasons to increase use of multi-asset or multi-manager funds were to simplify the advice process, cited by 67% of financial advisers, closely followed by a desire to reduce overall client costs.

One financial adviser commented:

"We use multi-asset funds for asset allocation and CGT benefits."

“

4.2.2 Smoothed multi-asset funds

The share of financial advisers recommending smoothed (with profits) multi asset funds continued to decline. 41% say they never recommend these products and a further 47% recommend them only 'sometimes'.

4.2.3 Discretionary MPS

NextWealth research confirms that assets in model portfolios outsourced to a discretionary fund manager (discretionary MPS) continue to climb. Yet, there remains a solid share of the adviser population (45%) that 'never' use discretionary MPS for clients in retirement. One fifth (19%) of advisers this year said they plan to increase use of discretionary MPS, the highest level since we first published this survey in 2018. But most of these already use the solution for retirement clients.

We asked financial advisers that 'rarely' or 'never' recommend outsourced MPS the reasons. As illustrated below, 45% chalk it up to a perception among clients of added cost. Nearly one third say that DFM's are not part of the firm's centralised investment proposition (CIP) for clients accumulating wealth. For these advisers the issue isn't about retirement per se, but about the approach of the firm overall.

"There is no evidence that they produce better long-term outcomes for the client compared to such as Vanguard Life Strategy Funds."

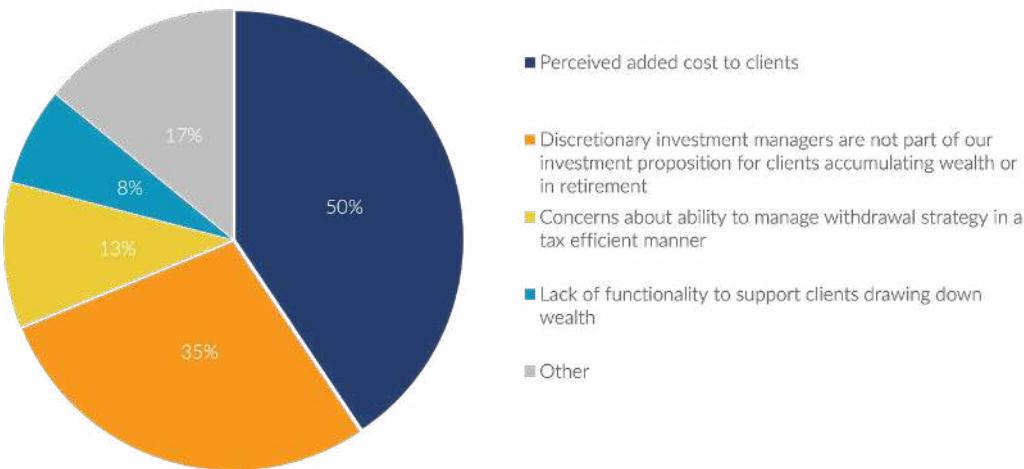
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"Returns often poor and lack of control."

"Obfuscates our offering to clients."

"It doesn't add any value at all to our client proposition."

Figure 25: Reasons for not/rarely using outsourced portfolios



4.2.4 Adviser managed model portfolios

Risk rated model portfolios managed in-house are a popular choice with 42% of financial advisers saying they recommend them 'always' or 'often' for clients in retirement. Financial advisers at larger firms are much more likely to recommend this solution, as illustrated in Figure 22. Two thirds of financial advisers in firms with over £250m under advice use adviser managed models compared to the average of 42% across all firms. Larger firms tend to have an in-house investment team to run models and are also better set up operationally to manage models on an advisory basis.

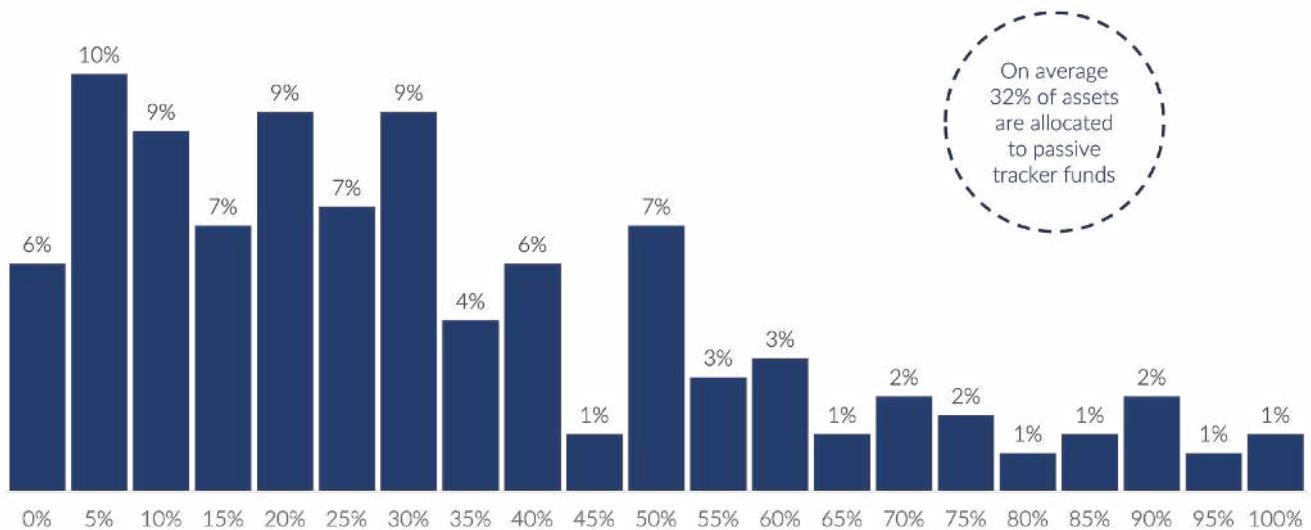
We asked respondents that said they intend to reduce use of in-house portfolio management the main reasons. The sample size was small but among those responding, the top reason was to simplify the advice process.

4.3 Use of passive tracker funds

Financial advisers told us that clients hold an average of 32% of assets in passive tracker funds or solutions. The share of assets in passive tracker funds varies significantly, as illustrated in Figure 26.

The results vary significantly by size of firm. Respondents in firms with over 50 client-facing financial advisers say that only 17% of client assets are allocated to passive tracker funds or solutions.

Figure 26: Share of client assets in passive tracker funds by respondent

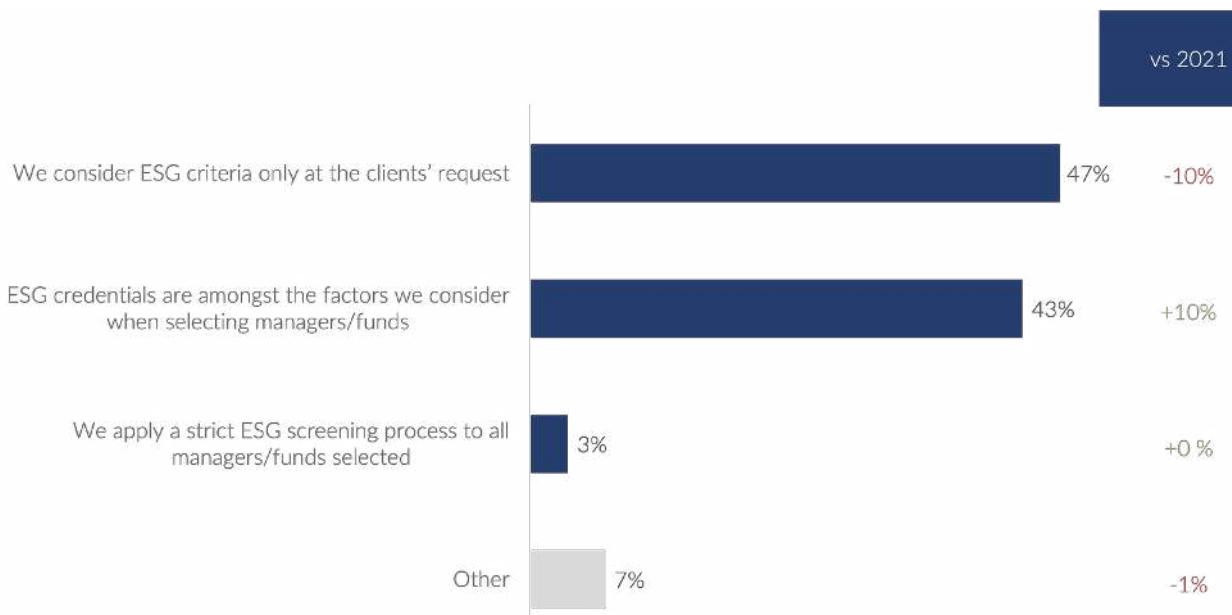


4.4 Use of ESG funds and solutions

ESG is a popular topic of discussion that has garnered much media attention in recent months. Our survey suggests a mixed approach to evaluating portfolios for ESG credentials. About half said that ESG credentials are amongst the factors considered when selecting managers and funds and half said they consider ESG criteria only at the client's request.

The share of advisers saying that ESG credentials are amongst the factors considered increased from 31% to 43% this year.

Figure 27: Extent that Environmental, Social and Governance (ESG) issues are considered when building portfolios for retirement clients



“

“We have ESG options if of interest and ask all clients.”

“We do consider ESG...but as these are difficult to compare easily between funds, and the reporting standards of different funds varies so widely, it is often very difficult to accurately assess / compare funds to their peers...it's a bit of a mess at the moment!”

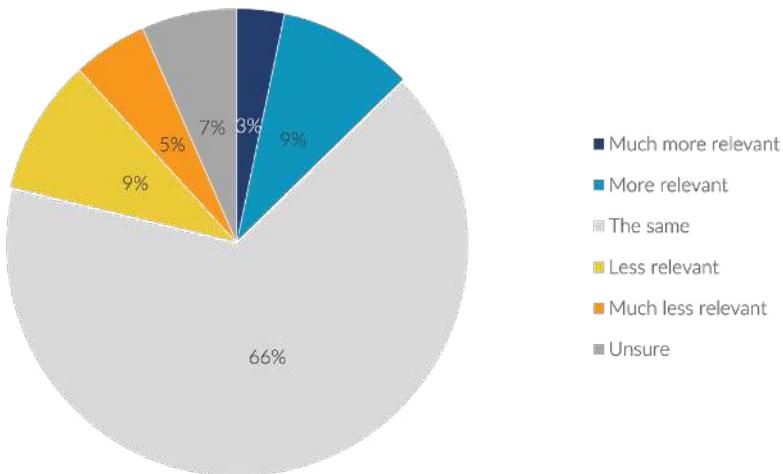
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“We utilise a DFM service where all equities are ESG screened and factor this into exposure.”

We wanted to understand if appetite is different among clients seeking retirement advice than average. As illustrated in Figure 28, two thirds said it is the same.

Figure 28: Preference for ESG investing for retirement advice clients compared to other clients



“

“From a returns point of view, I think some of the older clients, maybe that have been interested in their investments in their portfolio for a longer time, still have a perception that sustainable investing is going to cost them a lot more, which is not the case anymore. And also, that it's some of the older players have a sort of perception that it's hard to invest in certain areas, and therefore have a properly diversified portfolio if you want to go ethical.”

“My sense is that there is no real discernible difference between age groups. It's not the case that all young people want to invest sustainably, and the older people are not interested. That's certainly not my experience, my experience is that they're equally interested, regardless of age.”

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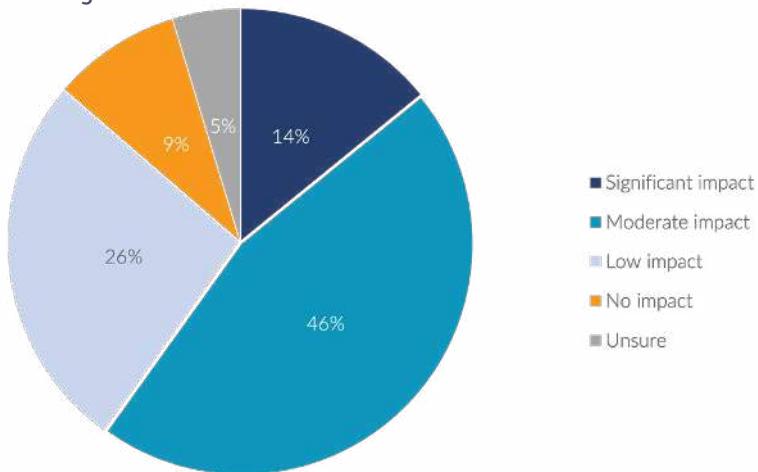
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“I think in the last year the number of people who are raising it has increased hugely. I've always asked people about where they want to exclude certain things or invest in particular things. And the answers are coming back much more strongly as a yes, at the moment.”

Assets in ESG, ethical, impact and sustainable funds have been increasing steadily over the past two years. NextWealth's ESG Tracker Study has reported an increase in advised client assets in ESG, ethical, impact and sustainable funds from 7% in 2019 to 12% in 2020 and 21% in 2021.

Many expect that regulatory reform will push even more client assets toward ESG integrated funds and solutions. The NextWealth ESG Tracker study suggests that much of the rise in assets has already happened and the survey for this report supports that. Figure 29 shows that about 81% of advisers say there will be no or only moderate impact on future advice if regulation were introduced requiring advisers to consider client attitudes to sustainable investing. 14% expect a significant impact.

Figure 29: Impact on advice of regulation requiring advisers to consider clients' attitudes toward sustainable investing



"Probably we haven't talked about ESG at every review. But going forward, we are. We're in the process of auditing it at the moment. And what's triggered us to think about this, again, is that the FCA is bringing in labelling for funds. I don't know when, maybe quarter four this year [Q4 2021] or Q1 [2022]."

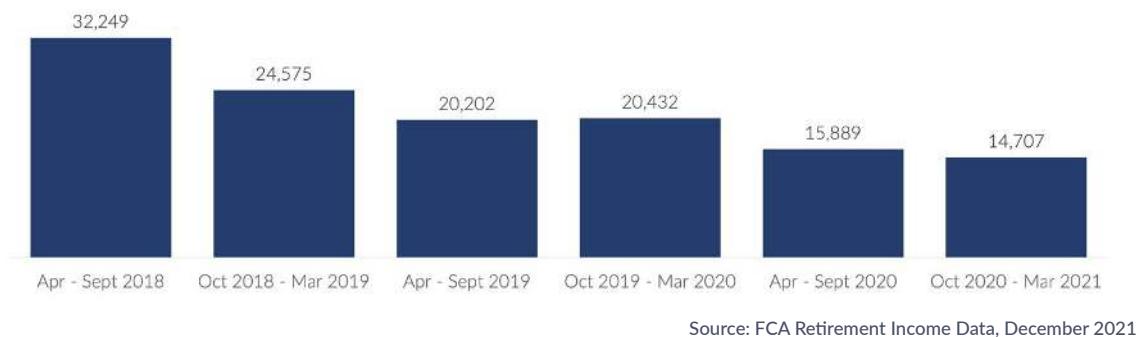
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5. Defined benefit pension transfer advice

When we produced our last report, the FCA's ban on contingent charging had just come into effect. Many expected it to have a significant impact on transfer activity as clients balked at the prospect of having to meet advice costs directly should the advice be not to transfer.

While the FCA introduced the concept of abridged advice to identify clients for whom a transfer was unlikely to be suitable without full advice, uncertainty remained as to whether this would be sufficient to counter the potential fall in demand.

Figure 30: Number of DB to DC transfers



Source: FCA Retirement Income Data, December 2021

The latest data set from FCA show that transfer volumes during the first six months after the ban's introduction were only marginally lower than those over the previous six months. While significantly down from the peak of a few years ago, we have yet to see the collapse of activity that some had predicted. This may yet come but, as we see later, many are using relatively affordable abridged advice services to identify clients for whom a transfer is clearly unsuitable which will mitigate the impact of the contingent charging ban to some extent.

5.1 Firms offering defined benefit transfer advice

Perhaps one of the biggest contributors to the slowdown in defined benefit transfer activity is the reduction in firms offering this advice. When we first produced this report in 2018, 56% of our respondents offered DB transfer advice but this had fallen by over half to 22% in last year's report.

Figure 31: Approach to providing DB transfer advice



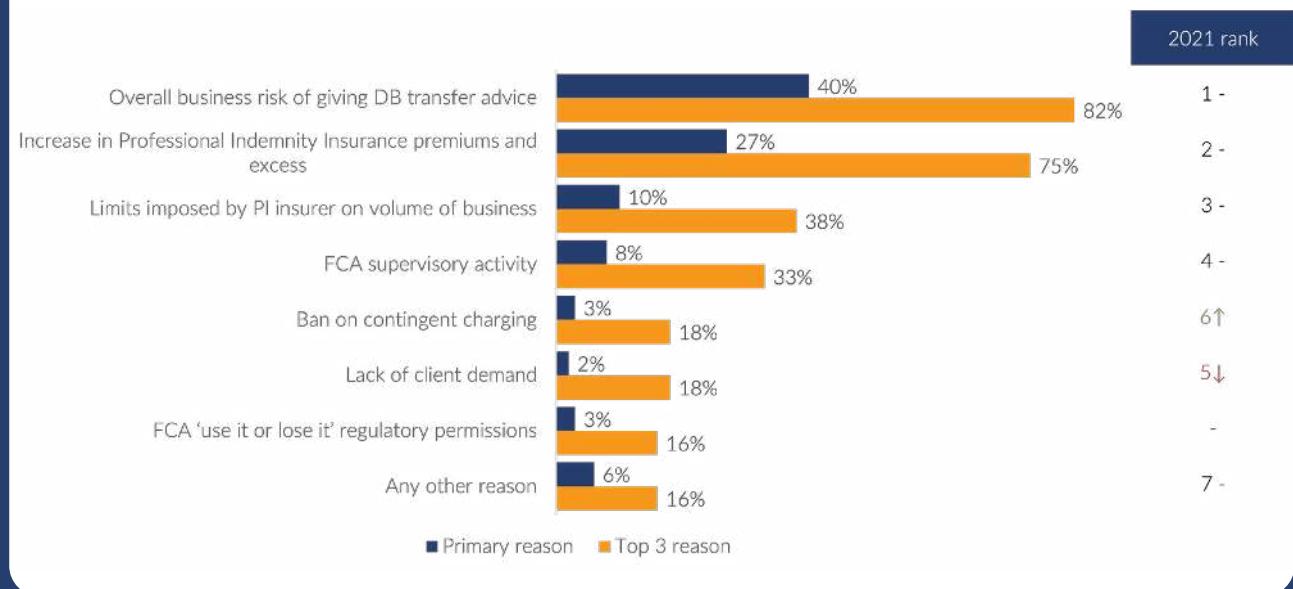
This year's data suggest that the decline in the availability of transfer advice is starting to stabilise with 25% of adviser firms telling us they offer this service. However, over a third of advisers who are still offering DB told us they intend to stop offering transfer advice or significantly reduce the volume. A very small number told us they intend to enter the market and the FCA has reported that new firms are applying for the necessary permissions.

Of course, our figures don't include firms that have failed, and these are on the increase as DB transfer complaints are being worked through. With FOS having a significant backlog of complaints, and FCA proposing a redress scheme for British Steel Pension Scheme transferees, it seems inevitable that there will be more firm failures in the coming years.

5.2 Reasons for ceasing to offer DB transfer advice

The stabilisation of the adviser population offering DB transfer advice means that we've seen little shift in the reasons for stopping or reducing transfer advice.

Figure 32: Reasons for ceasing or reducing volume of transfer advice (weighted ranking)

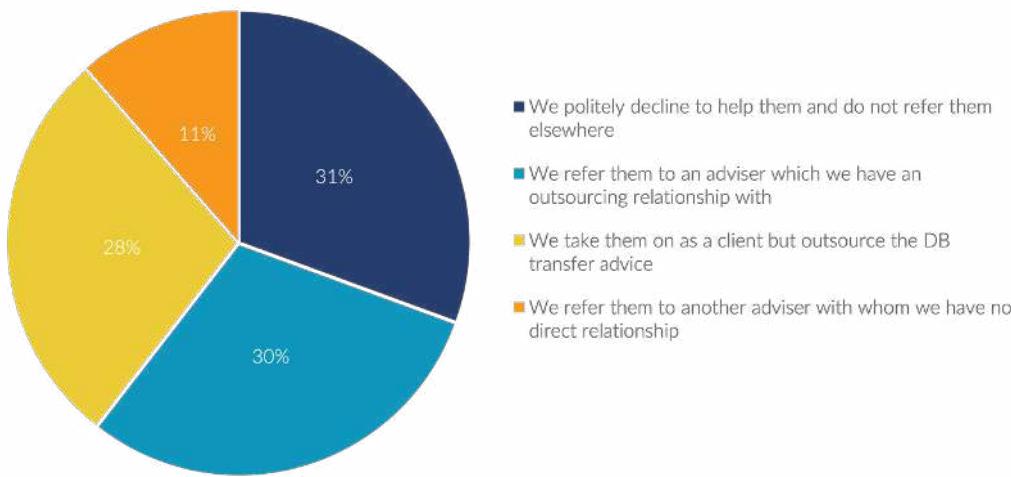


The overall business risk of giving defined benefit transfer advice remains the main reason for firms getting out of this market. With a high FOS compensation limit and, some would argue, shifting regulatory views on what constitutes suitable advice, many feel that the impact of losing a complaint case is too high. This is, of course, aggravated by the availability and cost of professional indemnity insurance which continues to figure highly as a reason for not doing DB transfers. Interestingly, the contingent charging ban figures relatively low on the list although it was a factor for nearly 20% of adviser firms.

5.3 Arrangements for providing DB transfer advice

Firms who don't provide DB transfer advice themselves will often be happy to help clients with other aspects of their retirement planning. Indeed, many will be happy to advise on the ongoing management of a transferred DB pension but not the transfer itself.

Figure 33: How those not offering DB transfer advice help clients who want it

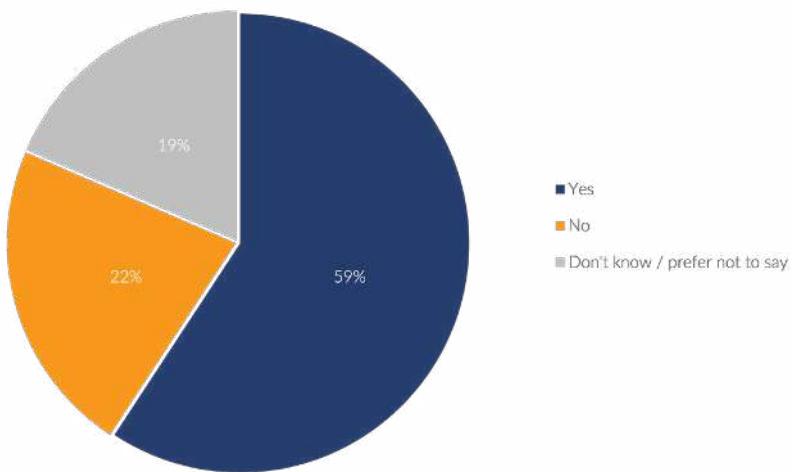


Just over 10% of advisers who don't offer DB transfer advice themselves use an informal referral to another adviser. The remainder either have an outsourcing arrangement, a formal referral arrangement or simply decline to take the client on in equal measure. Given the benefits of managing a client's retirement assets holistically, one might reasonably expect that advisers will want to retain the client even if they are not prepared to offer DB transfer advice themselves. It may be that the regulatory focus on DB transfers is leading some firms to be particularly cautious at the moment but, as the regulatory regime stabilises, we expect to see more firms outsourcing to specialists.

5.4 Abridged advice

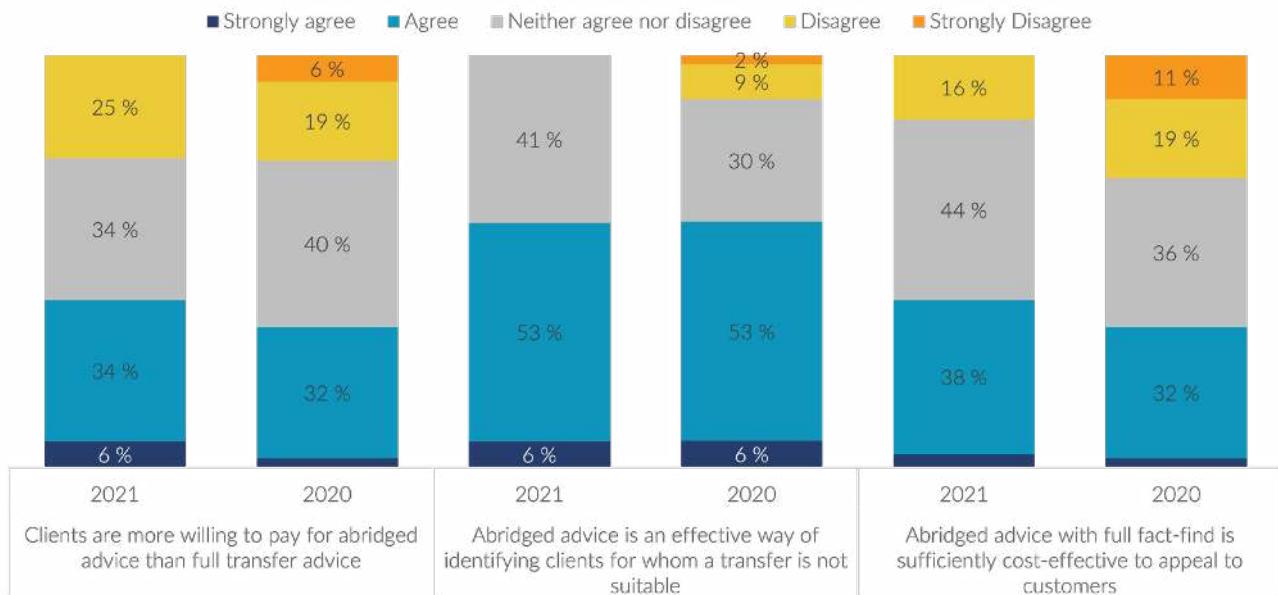
Abridged advice was introduced by the FCA from October 2020 to allow advisers to identify clients more quickly for whom a DB transfer was likely to be unsuitable. The motivation for this was a concern that the removal of contingent charging would mean that many clients wouldn't seek transfer advice lest they had to meet the full cost of that advice from their own pocket should a transfer not be suitable, and the cost of advice could not be met from the transferred funds. We asked those advisers who do still offer DB transfer advice whether they have chosen to offer abridged advice.

Figure 34: Availability of abridged advice



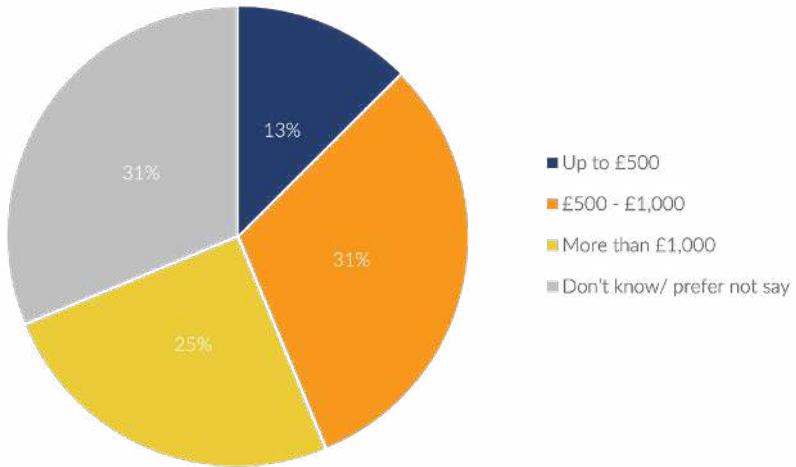
Nearly 60% of adviser firms providing DB transfer advice offer this service, up from just over 50% last year. This suggests that many see some value in the approach and attitudes towards abridged advice have certainly improved over the past 12 months.

Figure 35: Attitudes to abridged advice



When we first looked at abridged advice in our 2020 report, ahead of its introduction later that year, 20% of advisers didn't think it would be an effective way of triaging defined benefit transfer clients. Two years on those objectors seem to have disappeared though 40% of advisers remain agnostic. Many advisers are still sceptical whether clients will want to pay for abridged advice if they may then also have to pay for full advice. Even if they do, 16% of advisers believe abridged advice may still be seen as too expensive by clients.

Figure 36: Cost of abridged advice



Not all advisers were happy to disclose the fee they charge for abridged advice but, of those who were, just under two-thirds charge less than £1,000. While this is still a lot of money for most people it is arguably affordable given the potential saving of the full advice fee or the benefit of knowing that keeping the DB pension makes sense.

6.1 Adviser business challenges

As we look forward over the next 12 months, there is much to be hopeful for. While we cannot say we've fully dealt with Covid yet, we are learning to live with it and starting to get back to the things we enjoyed before the world was turned upside down. While some Adele fans may not be too happy, live music is back in business with Abba on tour, athletics fans have the Commonwealth Games coming to Birmingham this summer and the Queen celebrates her Platinum Jubilee (anyone remember the street parties of 1977?).

While there is much to look forward to, challenges remain for financial advisers and their clients, particularly due to turbulent markets and expected legislative and regulatory changes.

The top retirement advice business challenges for 2022, according to our survey are:

- Regulatory and legislative change: Consistent with past surveys, regulatory and legislative change is top of mind among challenges facing financial advisers offering retirement advice. 37% of respondents said that the cost of regulation, continued tinkering with the pension system and expected tax changes to the lifetime allowance in particular, are key challenges for 2022. Some advisers pointed to the impact on the cost to clients of increasing regulation.

“

“Regulation, PI and advice costs increasing.”

“Significant changes to retirement legislation (LTA, Tax relief, AA etc).”

“The work involved with the advice in terms of compliance.”

- Financial markets: A decade of relatively steady markets came to a crashing halt in March 2020 and market volatility has been a feature since with experts offering wildly differing projections of inflation and market returns for the coming year. It is no surprise therefore that one quarter of financial advisers listed concerns relating to financial markets as their top

6. Looking ahead

retirement advice challenge for 2022. Specific concerns were mainly around inflation, market volatility, sinking markets and several financial advisers specifically expressed concerns about delivering on client income requirements as a result of the markets.

“

“Ensuring clients chosen income levels are sustainable throughout their lifetimes.”

“

“Ensuring the small pension pots some clients have last for as long as possible with potentially lower returns in the market.”

“Client perceptions of high returns being the norm.”

- Pandemic: A further 13% cited Covid – and many of these had specific concerns about the impact of the pandemic on stock markets.
- Business and operational challenges: 16% of financial advisers mentioned business or operational issues with recruitment and time-management / coping with work volumes being particular standouts. Some of these comments suggested that the regulatory burden and service from providers is hindering efforts to work more efficiently and service more clients.

“

“Appointing the right calibre of staff.”

“

“Managing the current number of clients we already have.”

“

“Having sufficient time to look after my current clients whilst taking onboard new clients.”

A lucky few, 10% of respondents, said they face no challenges to their retirement advice business in 2022.

Looking further ahead, 3-5 years out, the proportion concerned about regulatory and legislative changes increase while concerns about markets and the Covid pandemic in particular decrease. Interestingly, looking ahead to the medium term, there were more financial advisers concerned about finding new clients and the arrival of low-cost competitors. Several also mentioned concerns about recruitment, specifically to replace retiring financial advisers.

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“Being able to offer advice on a continued basis in a cost-effective manner.”

“Increasing the number of clients whilst ensuring we can still provide an excellent service to all.”

“Sustain client numbers and how to increase them.”

“Having the time to look after the clients due to excessive regulation requirements.”

influence on how the retirement advice market develops. The proposed redress scheme for British Steel Pension Scheme members will have a knock-on impact across advisers and will no doubt lead to more firm failures and high compensation bills for some years to come. While the FCA is looking at how it might reform compensation arrangements, the reality is that much of the damage of poor advice has already been done and will take several years to unwind.

The ongoing review of DB transfer advice has been difficult, but we are arguably at a point where advisers (and the regulator) have a much clearer view of what the regulator expects from retirement advice. The Suitability 2 review may have been shelved for the time being but has not gone away. We expect that, when it returns, it will echo many of the themes of the DB transfer review including a clear understanding of client objectives, a more holistic understanding of risk in retirement and some tough questions on the suitability of complex and costly investment solutions for relatively inexperienced investors.

Despite this rather gloomy outlook, we must not lose sight of the fact that retirement advice is, and will remain, one of the most rewarding areas of financial services for years to come. Good retirement advice can have a profound impact on people's later lives and there is huge scope for advisers to demonstrate the value they bring to their clients. While no one can pretend retirement advice is easy, the rapid development of new techniques, tools and propositions make it an exciting part of the market to be working in. While retirement planning may not be happening in the metaverse any time soon, it will continue to evolve rapidly, and we look forward to keeping you informed of developments over the coming years.

6.2 Reasons to be cheerful?

Our interviews with financial advisers for this research and a review of the comments on the survey forced us to think that the process and output of retirement advice might change radically in the next five years. Concerns about operational efficiency to support a larger client base came up repeatedly as did the desire to underpin a practice with technology solutions to power human advice.

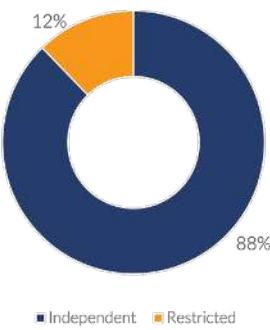
Advisers are increasingly using technology solutions such as cash flow planning and scenario modelling in their retirement advice process. However, as we noted in last year's report and as seen again in this year's data, advisers are having to use multiple tools to support their advice. This is not only cumbersome operationally but also increases the risk of inconsistencies within the advice due to different tool providers taking slightly different approaches. We are seeing more and more technology providers looking to build end-to-end retirement advice solutions, but this is no mean feat with such a variety of client needs.

Regulation will clearly continue to have a significant

Respondent profile

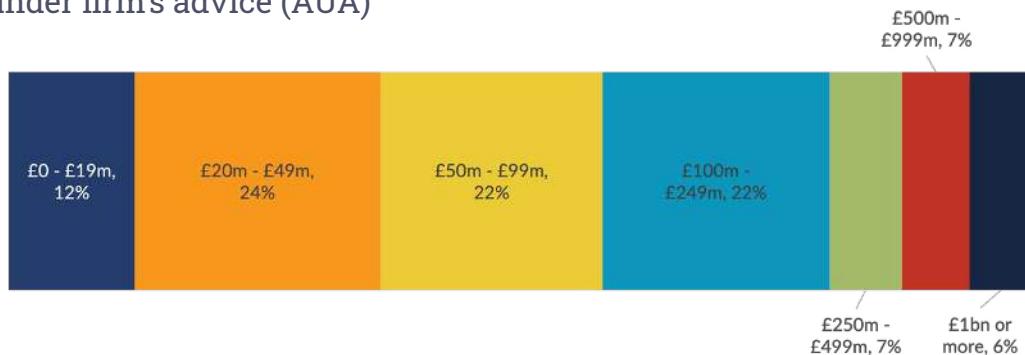
The profile of respondents is similar to past years:

Firm status

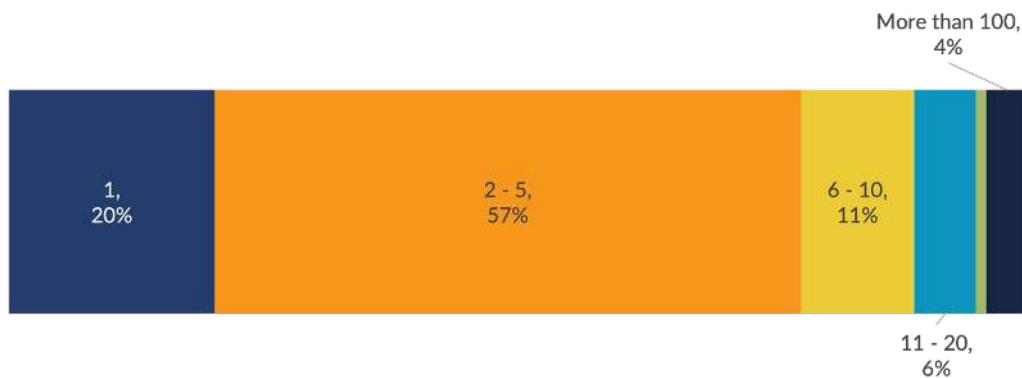


■ Independent ■ Restricted

Assets under firm's advice (AUA)



Client-facing financial advisers providing advice within firm



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