NEXTWEALTH

RICHARD PARKIN CONSULTING

Managing Lifetime Wealth: retirement planning in the UK

Delivering good outcomes for clients approaching and in retirement

AEGON

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Foreword from Aegon



Aegon is delighted to once again have partnered with Heather and her team at NextWealth and with Richard Parkin in this 5th edition of their retirement advice report. The report looks at the key developments and trends shaping the retirement advice market and 2022 was quite a year!

In this year's report, as you'd expect, there's a significant focus on what the FCA's Consumer Duty means for advisers in this market. This includes where advisers expect to change their approaches, the key foreseeable harms advisers identify here and a look at what delivering value means. There's also an in depth look at the impact of the cost-of-living crisis on retirement advice and plans, something which will continue as a key theme for 2023. The report also looks at people's hope and fears for retirement, which may of course have been influenced by those recent events. There's also, as always, an analysis of the most popular retirement investment strategies.

With the report being in its fifth year, we believe it's a really valuable benchmark of current practices and approaches as well as a means of tracking and highlighting the biggest trends that have shaped, and will in future shape, the retirement advice market. So to round things off, the report analyses what's changed – and what's changed less than might have been expected – over the last 5 years.

It was fascinating to extend the research underpinning the report to clients receiving retirement advice. This provides some insightful observations to compare, and in places contrast, adviser and client views. I believe this is particularly timely as the deadline for the Consumer Duty approaches.

I also very much enjoyed meeting with Heather and Richard to film a series of discussions looking at various aspects of the report and to debate the recent and future developments shaping this crucial market. Please look out for our 'box set' to view at your leisure.

Once again, it's great to see the retirement advice market going from strength to strength.

Steven Cameron,
Pensions Director at Aegon

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Introduction

Over the five 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.

Advisers tell us that 58% of their client assets are for clients receiving retirement advice, and they expect that share to grow further. This is the single most important aspect of a financial advice firm's business in the UK.

There hasn't yet been a quiet year for delivering retirement advice. This year's rise in demand comes against a backdrop of a cost-of-living crisis and a new set of regulatory rules in the shape of the Consumer Duty. While a period of relative calm might be welcome in many respects, some advisers fear the "Goldilocks zone" when everything is just right. Steering and reassuring clients through difficult periods is what advisers do best and where their value can be most appreciated.

This year we have changed our methodology to reflect the sharper regulatory focus on the outcomes delivered to clients. As well as interviewing advisers as we have done each year, we also sought the views of advised clients on the retirement planning service they receive.

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. Whilst most advised clients are broadly satisfied, our findings indicate room for improvement in some key areas, as well as a tension between what advisers want to be valued for and how clients measure value.

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 Hopkins & Richard Parkin

Methodology

The 2023 report findings are based on quantitative and qualitative research conducted in later November and December 2022, before the November Budget U-turn:

- Online quantitative survey of 221 financial planners
- Online quantitative survey of 209 end consumers of retirement advice
- In-depth qualitative interviews with 10 financial planners and 10 consumers - all current active clients receiving financial advice on investable assets of at least £100,000 excluding home but including pension.
- Comparisons are offered to earlier versions of this report which were also based on a similar approach of qualitative and quantitative methodologies with financial planners. Quantitative survey results in this report had the following number of respondents: 212 in 2022, 212 in 2021 and 227 in 2020.

The profile of financial planner 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

Demand for advice

58% of advised assets are for clients receiving retirement advice

58%

Uncertainty and volatility are the most important factors driving demand

Advisers expect this to rise to 62% in the next three years

Second most important is changes to the funding of social care

NB: This research was conducted prior to the November Budget which pushed funding back 2 years

Impact of the cost-of-living crisis and market volatility

Among those looking to change portfolio risk, 70% plan to reduce their risk

About three-quarters of advised consumers are making changes to their retirement income strategy as a result of current economic conditions.

The most common planned changes are to portfolio risk, income requirements and plans to pass wealth to children and loved ones.

Client objectives

The most common client objective is still to use savings to create a sustainable lifetime income while preserving all or part of the capital with 87% of advisers saying this applies for most or some of their clients.

Just under a quarter are planning to stay in work longer.

Services offered

Only 22% of advisers are still providing defined benefit transfer advice, down from 60% in 2018. Of these, a third expect to stop or significantly reduce activity over the next 12 months.

Beyond core retirement planning activity, advisers are most likely to have helped clients with claiming State Pension and other entitlements and helped them with wills and trusts.

The use of Centralised Retirement Propositions has not grown as many expected with 52% of advisers currently using a CRP compared to 46% five years ago.

Approach to delivering retirement advice

Consumers are least likely to want or to have received advice on endowment and philanthropy and managing the non-financial aspects of the transition from full-time work.

Only 29% of advisers are using a fixed rate to determine sustainable withdrawals, down from two-thirds in 2018. The majority now use modelling tools to set withdrawal rates.

29%

Annuities are starting to come back into consideration with nearly a quarter of advisers saying they always or often recommend them, 46% saying they are recommending them more often than they did 12 months ago.

Executive summary

Investing in retirement	The total return approach to retirement investment is most favoured with nearly half of advisers saying they use it 'always' or 'most of the time'.	Multi-asset funds and model portfolios are the two products advisers are most likely to recommend to clients in retirement.	The most important reason for increasing use of multi-asset and multi-manager funds is to simplify the advice process.
The percentage of advisers who 'never' recommend a DFM has fallen sharply in the past two years. In 2023, 38% say they 'never' recommend a DFM for MPS compared to 48% in 2020.	**Looking ahead**	The cost-of-living crisis and ongoing investment performance/market volatility jointly top advisers' list of concerns for their retirement advice businesses in the coming 12 months.	Advisers also describe the additional challenge of managing client expectations in the current climate, particularly for those who are relatively new to investing.

Adviser & Client Perceptions: key findings and the impact of the Consumer Duty

Adviser perceptions	Client perceptions
Financial advisers emphasise the less tangible benefits of financial planning (understanding goals and aspirations, peace of mind, etc.).	Advised clients consider performance of assets the most important component of advice. Their goal however is rarely to maximise performance but to achieve good returns while minimising risk.
Only a quarter (26%) of advisers are currently 'very focused' on quantifying the value of advice, with half (51%) saying they do this to some extent, and a quarter admitting they give it little or no attention.	Investment management costs are the least understood component of the advice fee, particularly by those with less to invest.
The three areas where advisers are most likely to make changes as a result of the Consumer Duty are around how they communicate with clients, how they quantify the value of their advice and how they segment their client base.	Clients give most aspects of advice at, or around, seven out of ten for satisfaction. However nearly a quarter (23%) scored their adviser four or less for ongoing support.
The top three Consumer Duty 'foreseeable harms' that advisers identify are: 1. Clients running out of money sooner than expected 2. Clients having insufficient savings to meet their needs 3. Inflation reducing spending power during retirement.	71% of consumers feel that working with an adviser made them more confident in achieving their retirement goals.

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1. Demand for retirement advice

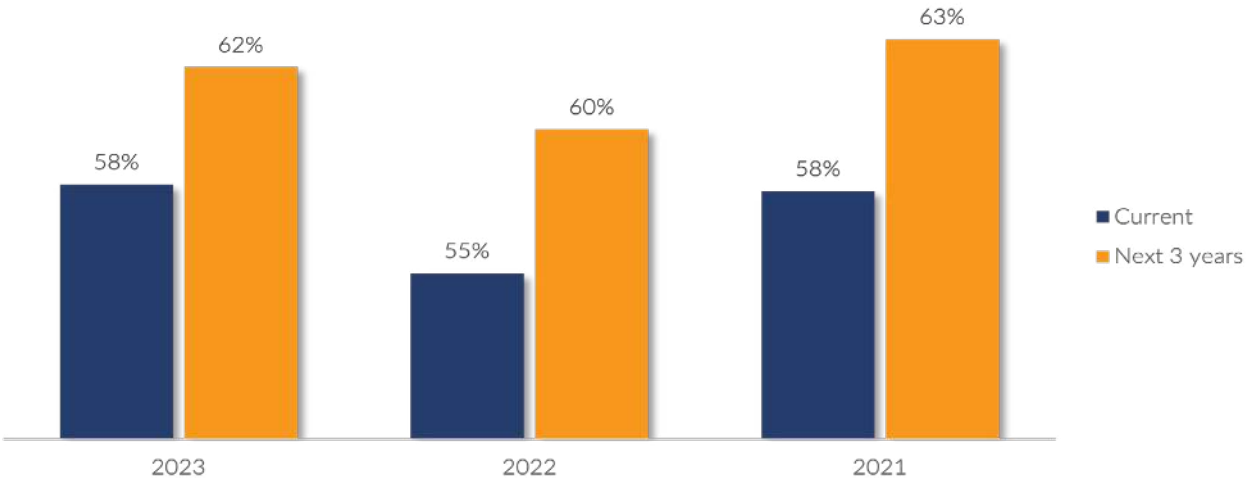
In this section we explore the importance of retirement advice to financial advice firms and the drivers of demand for advice.

1.1 Importance of retirement advice to financial advice businesses

Retirement advice remains very important to financial advice businesses. Financial advisers say that well over half of their client assets are for clients receiving retirement advice and that they expect that share to continue to grow. As illustrated in Figure 1:

- Financial advisers estimate that 58% of the assets they advise on personally are for clients receiving retirement advice.
- That share has remained fairly steady over the past three years and advisers think that it will rise to 62% in the next three years.

Figure 1: Percentage of assets for clients receiving retirement advice



We heard similar views in our in-depth interviews with financial advisers.

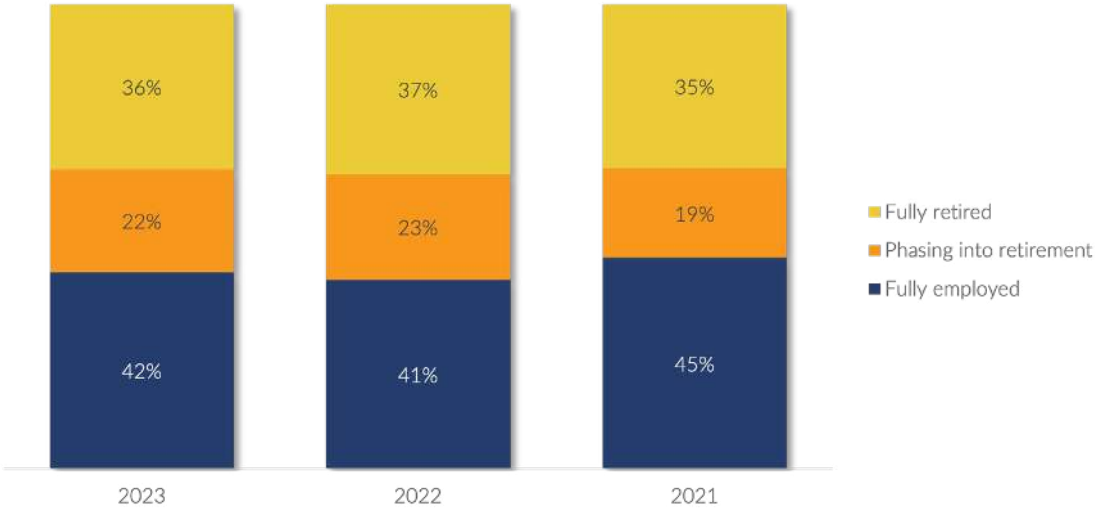
> *"I would probably guess somewhere like half of my clients are either in some sort of retirement process or are very close to it. And we're in discussions about how to switch from accumulation to decumulation."*
>
> Wealth Management adviser, 20 adviser firm, London and Midlands

> *"It's probably the bulk of my business, I think probably about 55% to 60% of my business is retirement, and I would say the split - now that I'm getting older - is probably of that 60%, maybe half are in retirement and half are still getting there."*
>
> Chartered Financial Planner, 1 adviser firm, AR of large national, Scotland

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The life-stage of advised clients also remains consistent year to year. About one third of advised clients are fully retired and a further 22% are phasing into retirement.

Figure 2: Proportion of clients receiving retirement advice by life stage



> *"So I would say you would class them in retirement if they have accessed the pension, but some of them may access it when they're still working. They are sort of partially accessing so they're semi-retired. So they do need a bit more touch points and help."*
>
> **Chartered Financial Planner, 1 adviser firm, AR of large national, Scotland**

1.2 Drivers of demand for retirement advice

In our interviews with financial advisers, we heard that demand for financial advice remains strong despite recent market declines and the cost-of-living crisis. In fact, some of our interviewees said that uncertainty and market shifts can drive up demand for advice.

> *"When times are volatile, we're needed. What I hate is the level, the nothing happening. You know, the Goldilocks zone is anathema to me because it means that you've got no input to make."*
>
> **Financial Adviser, Sole trader, Southeast**

The results of our survey support this but also reveal a tension. When we asked financial advisers the impact of a number of factors on demand for retirement advice, the largest share (57%) said that the current economic environment will increase demand for financial advice. Conversely, this factor ranked second highest (17%) as having a negative impact on demand for advice although a net 40% felt it would drive demand.

Warren Buffett famously quipped "when the tide goes out, you find out who is swimming naked." In rising markets, as with rising tides, all boats float. As markets decline, some investors will be caught out and may decide to seek professional help when managing their portfolio. Some of our interviewees suggested that demand for financial advice may be countercyclical.

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While we've seen strong demand for advice over the past few years, fuelled by Pension Freedoms in particular, recent market declines and volatility may prompt more consumers to seek professional support with their finances.

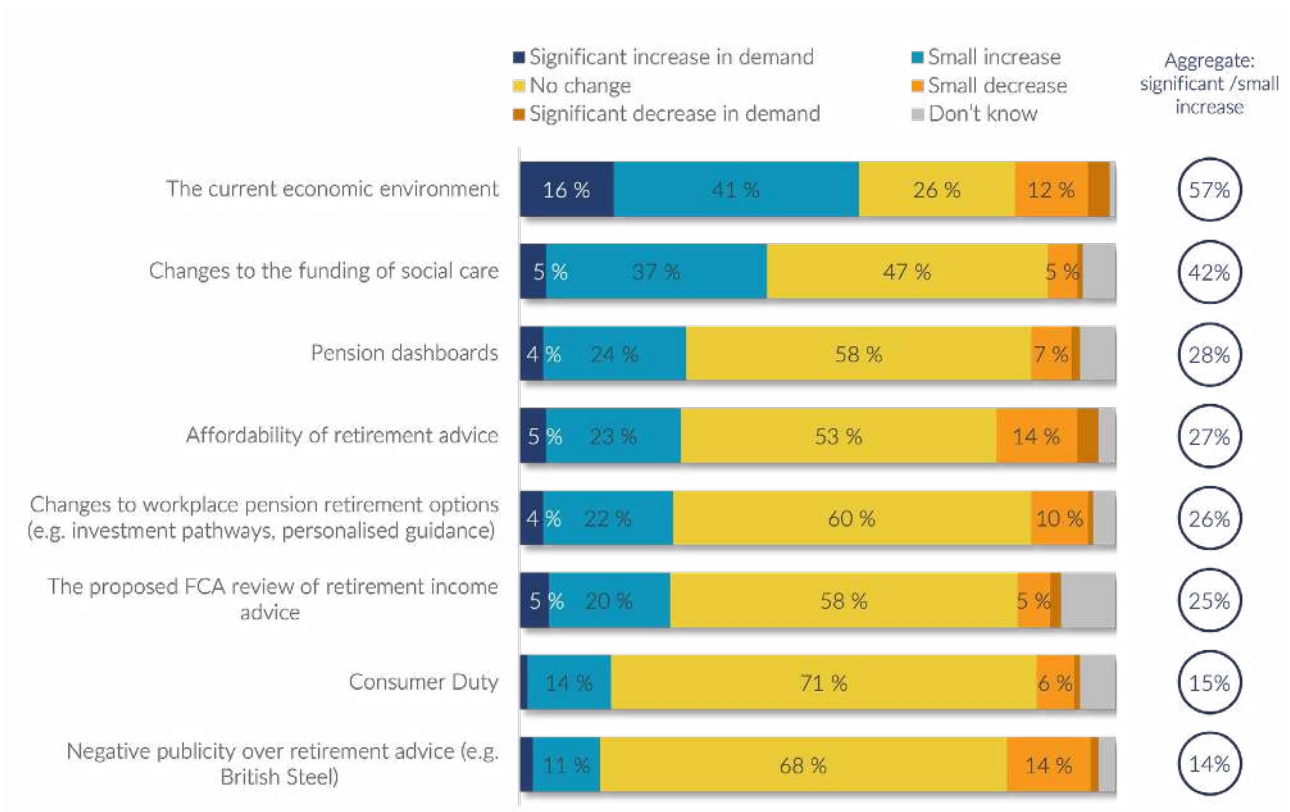
> *"If you're nearing retirement, you can't afford to take big hits. And once you're retired, you can't afford any, because you have no income to cover those losses. You definitely need financial advice to derisk whatever investments you've got."*
>
> **Consumer, 72 years, £400,000-£600,000 investible assets**

> *"I saw what damage world events can take. And I wasn't really defensive enough. I didn't realise the weaknesses in my investments. Because I was still earning, it didn't alert me but when I saw what happened to my funds, and again this year from maybe from that mini budget four weeks ago, I can't sit here any longer and worry about something out of my hands. So I want a more balanced, slightly lower risk investment portfolio."*
>
> **Consumer, 67 years, £400,000-£600,000 investible assets**

Other results to highlight from our survey:

- The second highest factor driving up demand for retirement advice, chosen by 42% of respondents, was 'changes to the funding of social care'. However, our fieldwork was undertaken just before the Autumn Statement when these changes were deferred for two years. Nonetheless, we see this as a key growth opportunity for advisers in the coming years.
- Other factors advisers think most likely to dampen demand for retirement advice were affordability and negative publicity.

Figure 3: Drivers of demand for advice



2. Client objectives and concerns: the advisers' view

We asked financial advisers and advised clients about aspirations and concerns in retirement. In this section we cover the views of financial advisers on the hopes and fears of their clients. In the following section (section 3) we share the client's perspective.

In our interviews with financial advisers, a recurring theme was the need for clients to think about their future selves. One adviser put it this way: "You haven't met yourself as a retired person."

This ability to help clients empathise and relate to one's future needs is a core skill of the financial planner. It is also critical to defining retirement aspirations and concerns.

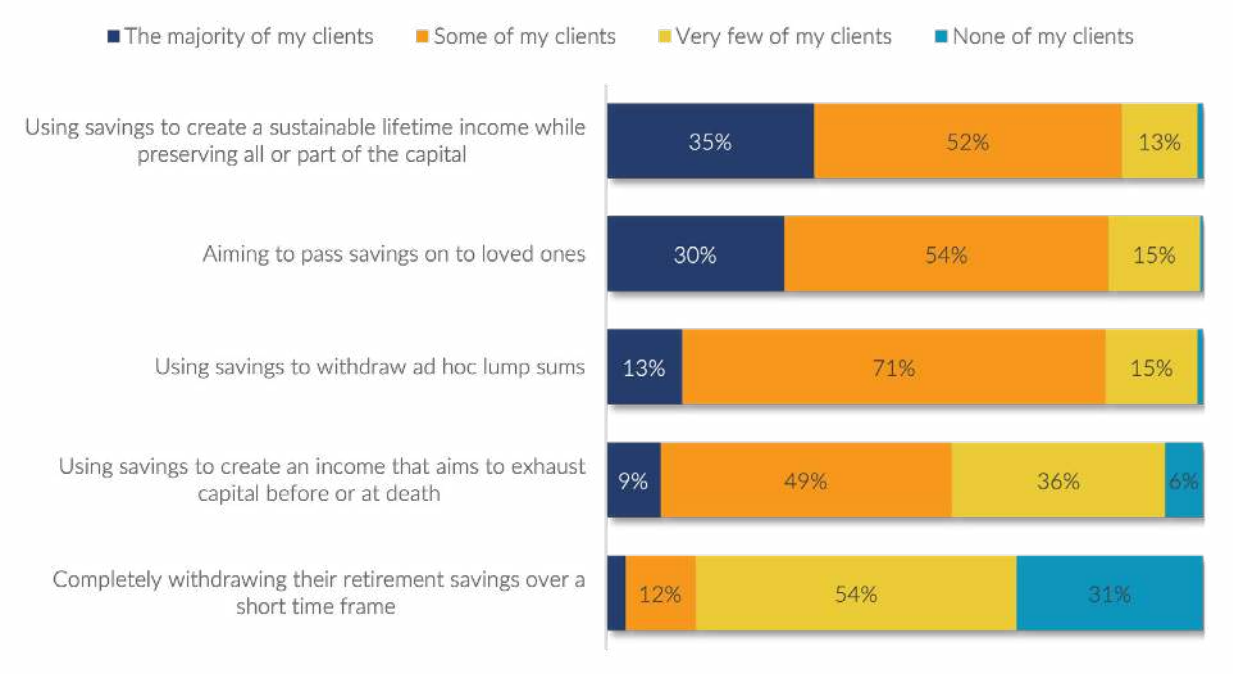
> *"The first conversations should be about 'tell me about you'. What do you want to do? Where do you want to go?' The most intriguing question is, 'Why have you never spoken to a financial adviser? And the first thing they say is I didn't think we needed one."*
>
> **Founder, Sole trader, Kent**

> *"I'm quite loose on how much you need because people don't know how much they need because you've never met yourself as a retired person. So you know you don't know what you're going to spend.*
>
> *"Clients tend to be very compartmentalised before they enter the world of financial planning. I've got clients who've got funeral plans, plans for their kids and university plans for grandchildren. But you don't know if the grandchildren are going to university. I'll ask them, why have you got a box called funeral? That is a box of money. And I think that's where we can make a big difference. We can say to people 'this is your total wealth, what do you want to do', not 'let's plan for your retirement.'"*
>
> **Financial Adviser, Sole trader, Southeast**

The most common client objective in retirement (according to advisers) is to use savings to create a sustainable lifetime income while preserving all or part of the capital. This was cited as a goal for some or most clients by 87% of advisers. However, we saw a drop in the proportion of advisers saying this was an objective for the majority of their clients, down from 45% in 2022 to 35% this year.

There was a corresponding increase in advisers saying that clients were looking to create income and exhaust capital on or before death with 58% of advisers saying some or most clients were looking to do this compared to 50% in 2022. This perhaps reflects the reality that market returns in 2022 will have impacted client ambitions and their ability to pass savings on at death. While 84% said that some or most clients are aiming to pass savings to loved ones, this is down from 90% last year.

Figure 4: Client objectives in retirement



The following chart reveals the topics most often raised by clients receiving retirement advice. Results this year are similar to last year, with the most common topics being the hope of maintaining the same standard of living in retirement and concerns about running out of money.

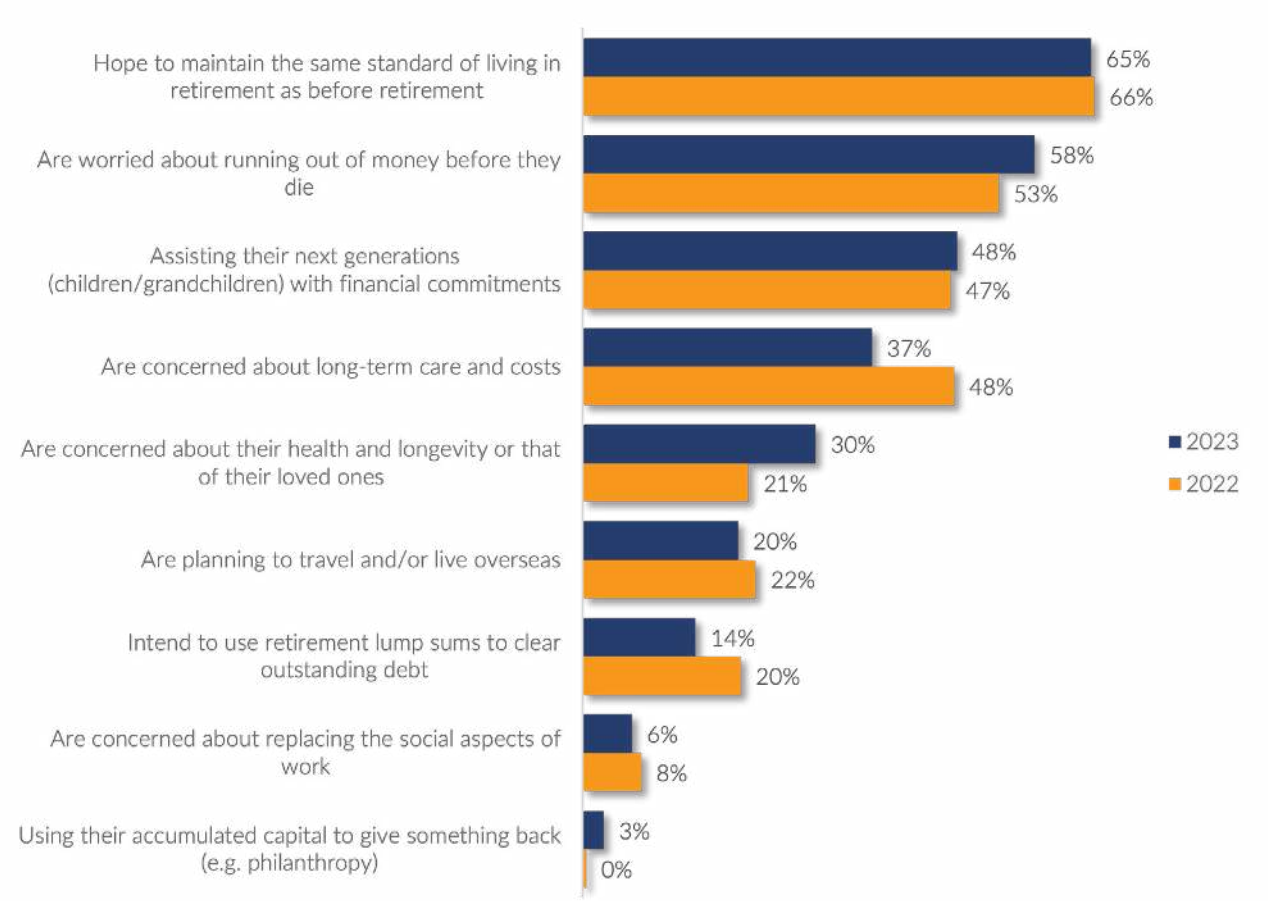
> *"The biggest thing for me, and I think the biggest thing for clients, based on the responses to our survey that we did, is they fear running out of money. All our financial plans run to age 100. It's all about, you know, spending too much at the moment."*
>
> **Chartered Financial Planner, 2 adviser firm, Southeast**

Fewer advisers say that clients are raising concerns about long-term care costs compared with last year (37% versus 48%). While social care costs may be out of the headlines for now thanks to the new rules being deferred for two years in last year's Autumn Statement, financial advisers told us they have an important role to play in helping clients understand the costs of social care and to incorporate it into planning decisions.

> *"This is where, if you have to go into a care home, the active word there is 'home', you're going to exchange your home. So if you need to use your home, that's what it's there for. And that focuses the mind and allows you to then build in how you're going to pay for it. And some people say 'we'll worry about that at the time', but we try and drag them back to reality of it. I think my mum's care is £1,450 a week. So that sort of brings up people short."*
>
> **Financial Adviser, Sole trader, Southeast**

The proportion of advisers saying clients are asking about using retirement lump sums to clear outstanding debt fell this year (14% versus 20%). However, this year we have seen a slight increase in the share of advisers saying clients are asking about using their accumulated capital to give something back. While only 3%, it is up from 0.3% last year.

Figure 5: Topics raised most often by retirement clients



In our in-depth interviews, a few financial advisers told us that clients are increasingly considering phasing into or retiring earlier than anticipated.

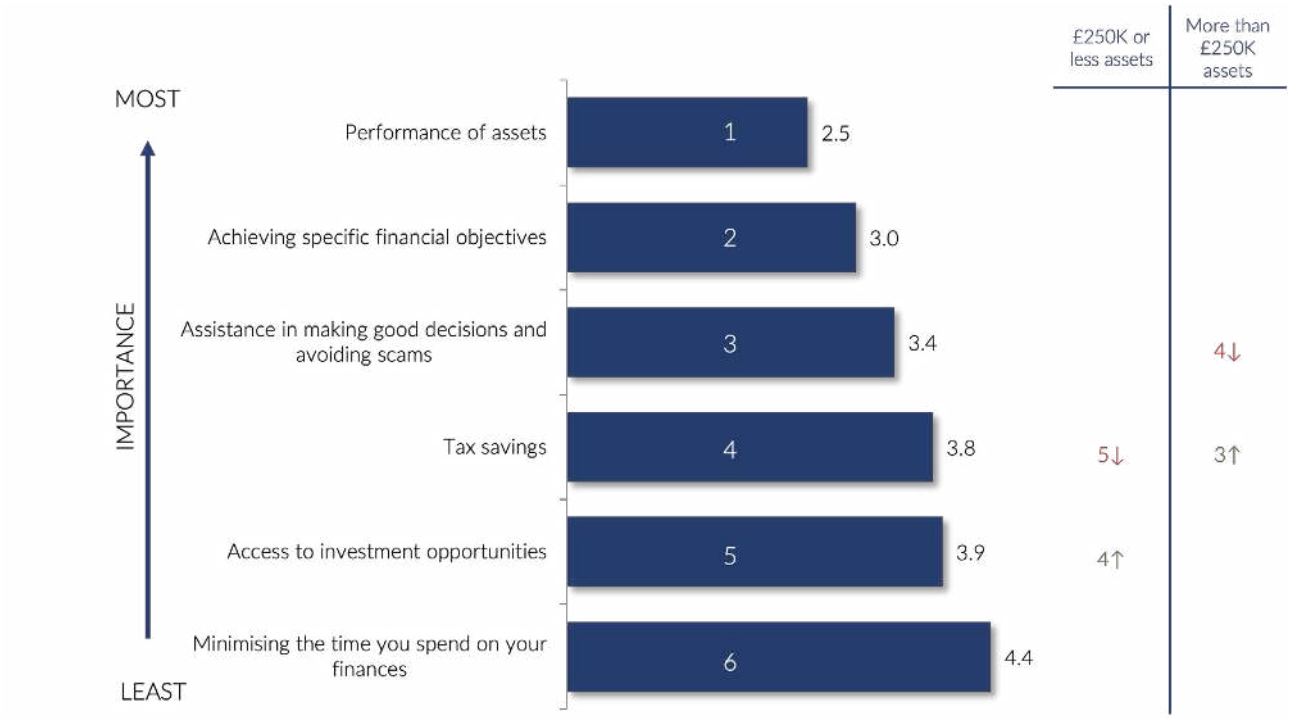
> *"I've got plenty of 55-year-olds and 57-year-olds saying 'that's it, we're either part retiring or retiring', or starting the journey, whereas that would have been held off for a few years, that's a definite change. It's a whole lifestyle thing, now we've seen what it could be. So now we want to work from home, or we want to work less, and we want to, you know, play more golf, or see the kids more."*
>
> Financial Adviser, Sole trader, Southeast

3. Client objectives and concerns: the clients' view

3.1 Importance of advice

While financial advisers emphasise the less tangible benefits of financial planning (understanding goals and aspirations, peace of mind, etc.), advised clients told us that performance of assets is the component of advice they consider the most important. (See Figure 6). There is a clear tension here – financial advisers believe the true value is in financial planning, but clients say they ultimately value portfolio performance.

Figure 6: Importance of components of retirement advice to clients (lower score = more important)



While performance of assets is a key value that investors seek from working with a financial adviser, our interviews revealed some nuance to this. The following quotes from interviews with advised clients show that the financial planning process helped them understand capacity for loss and in one case triggered a decision to consider retiring. These benefits are hard to distil into a multiple-choice question.

> *"As I got older, I realised the portfolio I had was becoming too diverse. We'd be investing in ISAs every year, buying various funds, tech companies, cryptocurrency, gold. So we had the conversation that we need to consolidate and [the adviser] made us realise that once you're retired, you won't have the income to cover big dips."*
>
> Consumer, 67 years, £400,000-£600,000 investible assets

"Over the years I've paid into various pensions. My husband is self-employed, so the pension has always been through me, so we want to get our pension income right. My friends said, 'speak to this [adviser], he will get all your pensions put into one pot for you'. That's when we thought about when I would want to retire, and what sort of income I would be expecting… [the adviser] handles it all so that we don't have to spend too much time worrying about whether things are in the right place."

Consumer, 57 years, £250,000-£400,000 investible assets

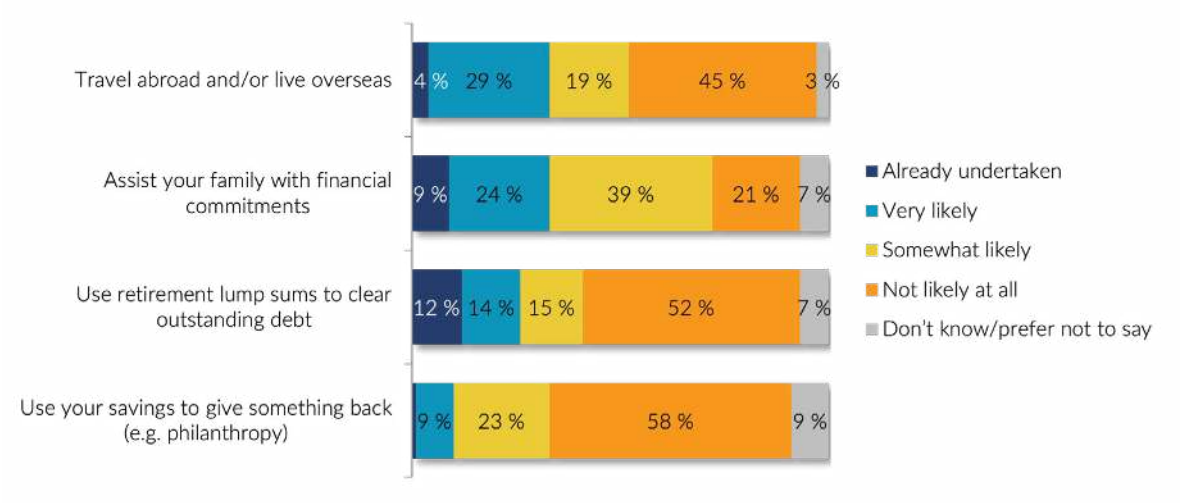
So, it may be that consumers are more broadly focused on ensuring that their assets are invested appropriately rather than simply focusing on how well they have performed. Encouragingly, the achievement of financial objectives wasn't too far behind in terms of its importance, and this is probably the area advisers would prefer clients to focus on.

Beyond this, making good decisions, tax savings and providing access to investment opportunities were most important though, unsurprisingly, those with more to invest ranked tax savings more highly. Clients told us that minimising time spent on finances is least important.

3.2 Client aspirations in retirement

We then asked consumers about some of their aspirations for their retirement savings. Consumers are most likely to use, or to have used, retirement lump sums to travel and assist their family with financial commitments. A large minority (42%) are likely to want to use lump sums to clear debt. Overall, the relative importance of these aspirations for clients was consistent with what we heard from advisers.

Figure 7: Likelihood to use retirement savings for specific activities



"We are doing a lot more traveling than we used to…that's our big thing… going to Spain, Israel… and then just seeing an advert in the Times and we'll go to 'such and such' for a week."

Consumer, 57 years, £400,000-£600,000 investible assets

"I have a son and three grandchildren. So I would like to have an investment to leave. And it's something for them.".

Consumer, 66 years, £150,000-£250,000 investible assets

"The overriding aim through all of it is to be debt free, own our own property, and to have money in bank that we can call on as we wish, as opposed to 'we want to go off and do this'. We've done a lot of what we wanted to already."

Consumer, 56 years, £250,000-£400,000 investible assets

3.3 Client confidence

We moved on to consider potential concerns. We asked clients about these slightly differently from how we asked advisers as the aim of taking advice must be to allay those concerns and give clients confidence.

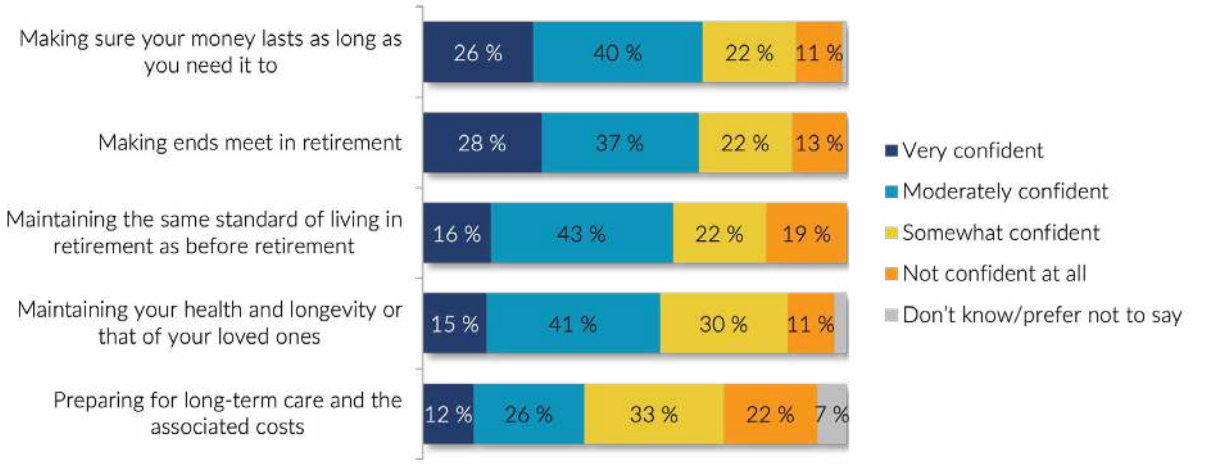
Advisers told us that maintaining living standards in retirement is the most important subject for clients. 19% of clients told us they were not confident of doing this which may seem high, but advisers may not be able to make a huge difference here, particularly if the client has sought advice close to retirement when they have limited ability to save more.

Perhaps the most valuable area advisers can help clients in retirement is making sure they don't run out of money. This was listed as the second biggest concern by advisers and, encouragingly, two thirds of clients are at least moderately confident that they will achieve this, with only 11% saying they are not at all confident of achieving this. Similar proportions are confident of making ends meet in retirement.

"I think the main thing is to de-risk the portfolio, which we've been doing over a number of years. And with State Pensions and stuff kicking in, that's made a big difference. So the day-to-day spending is largely taken care of."

Consumer, 67 years, £400,000-£600,000 investible assets

Figure 8: Client confidence in achieving goals in retirement



"I'm naturally cautious, so I'm mainly worried about not having a salary or income. But over the last couple of years, I'm more comfortable with retirement because I think we can sustain our lifestyle, as long as we're around."

Consumer, 56 years, £400,000-£600,000 investible assets

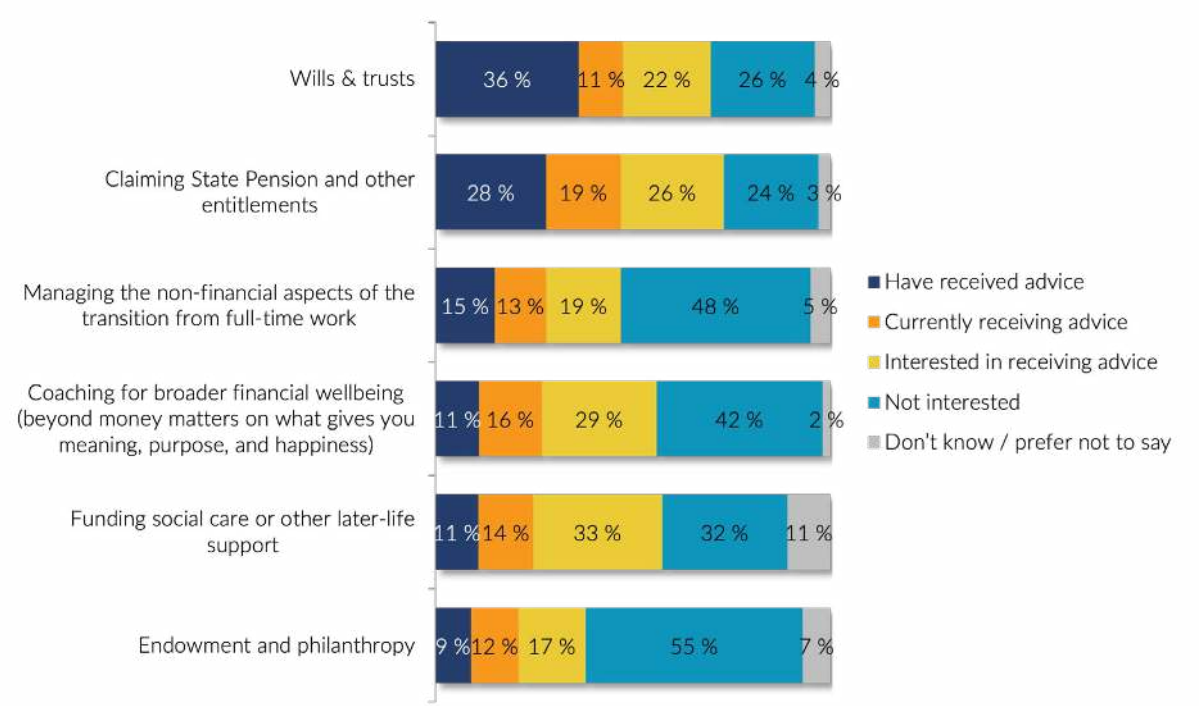
> *"I need to know if there's something else I can I do so that I have as much money as possible when I finally retire, hopefully at 75. That seems like a reasonable aim. I don't know how long I'll be able to carry on working, but I feel like I'll have to work forever."*
>
> **Consumer, 70 years, £80,000-£150,000 investible assets**

Clients are least confident about their preparedness for meeting long-term care costs. As we see later, this is a potential area for advisers to develop the service they offer clients. It seemed that, after many years of waiting, we had reached a decision on social care funding only for this to be deferred for two years in the 2022 Autumn Statement. We can only hope this is just a delay and not taken as an opportunity to change policy again. Without certainty of policy clients and advisers clearly cannot make plans in this area.

3.4 Other areas of retirement advice

Of course, all retired clients will be receiving advice on how to invest and withdraw their retirement savings. We wanted to understand what other areas they were receiving advice on. Consumers are most likely to have received or are interested in receiving advice on wills and trusts and claiming State Pension and other entitlements. Consumers are least likely to want or to have received advice on endowment and philanthropy and managing the non-financial aspects of the transition from full-time work.

Figure 9: Client interest in advice products



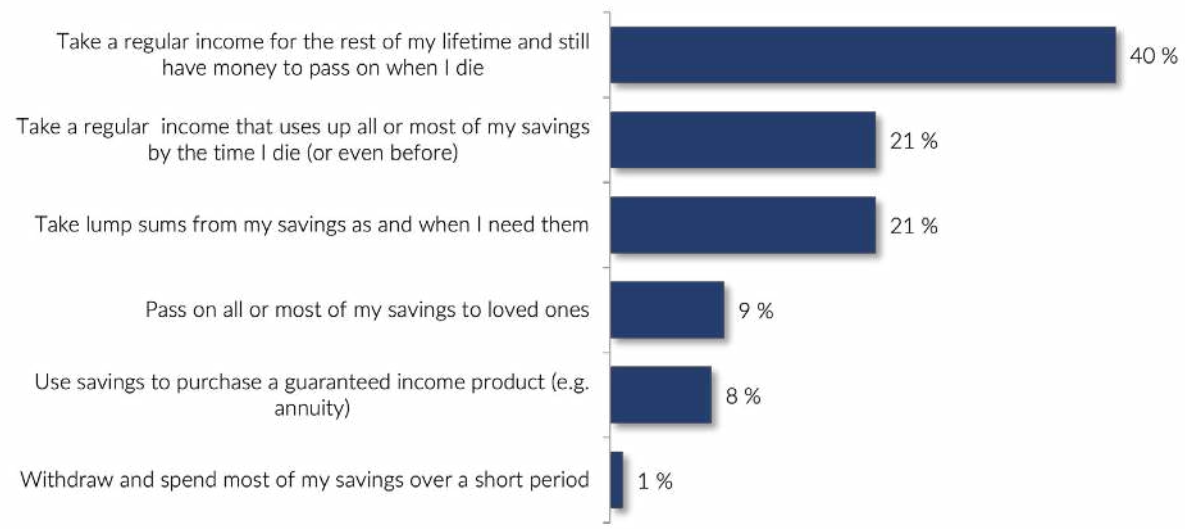
Consistent with our findings on client confidence, we see social care funding is an area where a relatively low proportion are receiving or have received advice (25%). It is also the subject clients are most interested in receiving advice on suggesting a potential area of growth for advisers in the future.

3.5 Client objectives in retirement

Most consumers expect to take a regular income for the rest of their lifetime and still have money to pass on (Figure 10). This is consistent with what financial advisers said is the most common client objective in retirement (Figure 4).

One fifth expect to take regular income that uses up all or most of their savings and the same proportion are using savings to provide ad hoc lump sums. Advisers ranked ad hoc lump sums some way ahead of creating income that exhausted capital but it's not clear this is a significant difference.

Figure 10: Client retirement savings plans



While the majority of advised customers say they want to take an income and pass on some of the wealth at death, our interviews reveal that they see this unfolding in a wide variety of ways. Even within the same wealth level, some recognise the privilege that their wealth provides, whilst others feel more exposed to market fluctuations.

> *"We're hoping our children outlive us and…inherit 50:50 the money that's left. We're assuming there will be a significant sum. But we're not planning on living frugally so that they can inherit as much as possible - they're already wealthier than we were at their age".*
>
> **Consumer, 57 years, £400,000-£600,000 investible assets**

> *"My mother-in-law is 96 and has £60,000 care home fees. It's a life change that we hadn't expected. I always thought we would pass our house down to our children. Now I realise all my money's got to come from my pension, my Isas and my property. I just want to make sure it lasts long enough and take the money out from wherever in the correct order."*
>
> **Consumer, 72 years, £400,000-£600,000 investible assets**

> *"Big holidays, or moving house, that's where the savings will be spent. The pot that you take when you first retire would go into savings as well. I see the pension allowing me to live reasonably, but to be able to afford my house and pay the bills. Anything else majorly big would come out of the money made from our properties."*
>
> **Consumer, 56 years, £200,000-£400,000 investible assets**

3.6 Impact of economic conditions on client behaviour

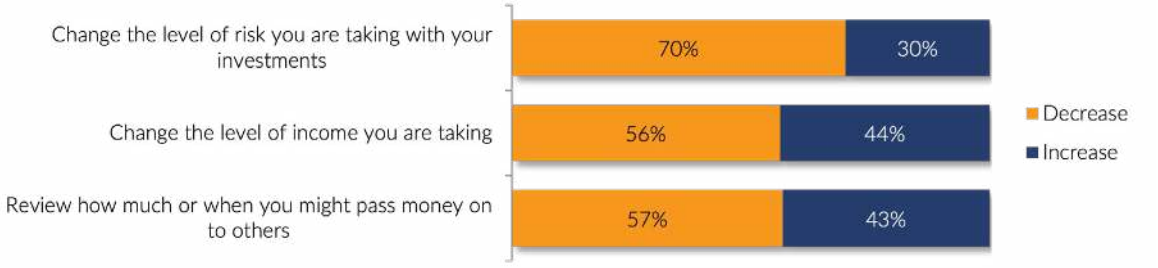
We asked consumers the impact of the events of 2022 on their retirement savings plans. This year's FCA retirement income review will consider how advice firms are responding to changing consumer needs as a result of cost-of-living increases, and our findings indicate some important shifts:

- More than one quarter of consumers are changing, or plan to change the level of risk they are taking, review how much or when they might pass money onto others, or change the level of income they are taking.
- Figure 12 provides additional context to the changes they plan to make. Of those retirement advice clients looking to change their risk profile, 70% plan to lower it. Results were mixed for the other questions.
- Just under a quarter are, or are planning on staying in work longer.

Figure 11: Changes to client retirement plan



Figure 12: Specific changes to retirement plan



3.7 Alignment of advisers and clients

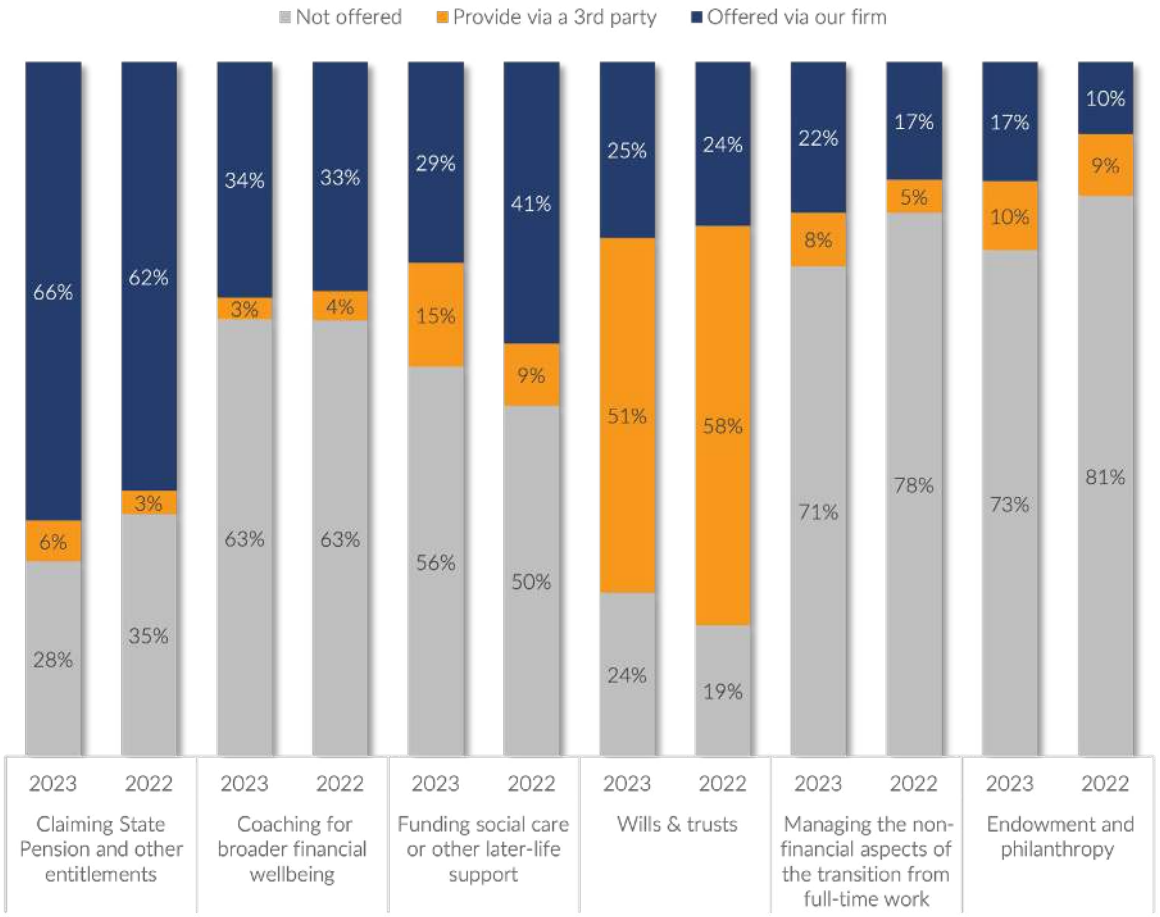
In summary, we generally found good alignment between clients and advisers on what's important for clients in retirement. Moreover, we found advised clients are generally confident that they will make ends meet in retirement and won't run out of money. While one would expect advised clients to be wealthier and so more confident than the general population of achieving this, they are not so wealthy that this is a given. While clients do still focus on investment performance as a key element of retirement advice, it seems they also recognise its value in making sure they achieve their financial objectives which has to be at the heart of effective retirement planning.

4. Retirement advice approach

4.1 Services offered

When we think of retirement advice, we understandably focus on the mechanics of how retirement savings are deployed to meet the client's income and wealth transfer objectives. But there are other areas where advisers can and do add value to helping clients achieve their goals in retirement. The chart below shows the extent to which advisers are supporting clients beyond core retirement planning.

Figure 13: Retirement planning services offered



The two best supported capabilities are helping clients with claiming State Pension and other entitlements and helping them with wills and trusts. Even for wealthy clients, the State Pension is a significant source of retirement income and ensuring that clients are getting their full entitlement can be a very effective way of using retirement savings to create income. The cost of making up missing years in a client's National Insurance record is usually very attractive given the benefit they might receive especially for those with favourable life expectancy. Also, given the State Pension is taxable income, and is edging closer towards consuming almost all of an individual's personal income tax allowance, there may be scope to defer payment to minimise tax paid.

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> *"Certainly, as part of our fact-finding process, we will want to know what assets clients have, including State Pension. Most clients get a State Pension forecast and we'll look into whether they've got gaps to try and maximise the secure level of income they've got before accessing any private savings."*
>
> **Wealth Management adviser, 20 adviser firm, London and Midlands**

Supporting wills and trusts is an obvious extension of retirement planning though most firms are outsourcing this.

> *"What we'll say to the client is 'there are these different areas of financial planning that we've identified' and usually prioritise retirement planning. Once [the client] has got the figures, we will highlight the opportunities for their State Pension… get that up and running, then make recommendations on wills and trusts, but we don't put them in place."*
>
> **Technical Director, 16 adviser firm, UK-wide**

As we discuss later, advisers are looking to move the focus of their client relationships away from product and fund selection and more towards supporting clients in achieving their hopes and goals in retirement. Given this we are surprised to see that only a third of firms suggest they offer clients coaching around broader financial wellbeing and a little less supporting non-financial aspects of moving into retirement. This may be a matter of definitions, but we expect the Consumer Duty will lead advisers to focus on how they add value to clients beyond delivering investment performance.

In Figure 6 above we saw that clients still consider portfolio performance the most important component of financial advice. We think client perceptions of financial advice are yet to catch up with the shift to more holistic financial planning. Clients are still most likely to initially seek, and therefore expect, advice for a financial than non-financial objective.

> *"I've not really looked into coaching. I've seen it a lot but I haven't intentionally gone out of my way to look at it. It's on the radar, but quite low down the list of things that I need to look up and learn."*
>
> **Wealth Management Adviser, 20 adviser firm, London and Midland regions**

Equally surprising is that less than half of advisers (44%) support clients with funding social care. Admittedly, this is not applicable to all clients, nor has it been easy to formulate advice given the uncertainty around the future funding model. However, clients do identify the ability to meet care costs as a core concern and it is the area where most are interested in receiving advice as we saw earlier. This suggests there is an opportunity for advisers here, and one that is easier for firms to advise on now that the rules have been decided albeit they've been further delayed in last year's Autumn Statement.

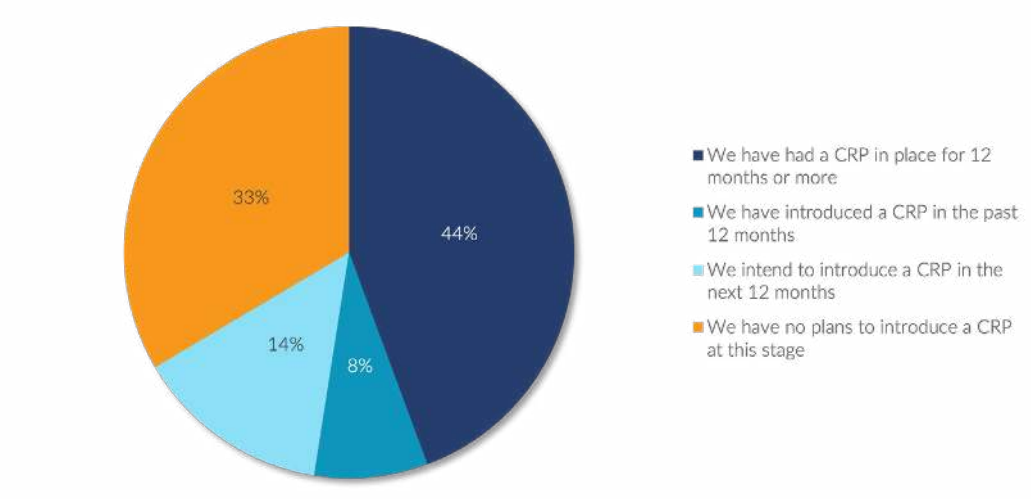
4.2 Use of Centralised Retirement Propositions (CRPs)

The RDR prompted advisers to formalise their investment selection process and to justify that process. This gave rise to Centralised Investment Propositions (CIPs), and many expected pension freedoms to give rise to a Centralised Retirement Proposition or CRP. Definitions of what exactly constitutes a CRP vary but we define it 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.'

When we produced our first report in 2018, we found that 46% of advisers were using a CRP with a further 13% expecting to introduce one in the following 12 months. Nearly five years on, we find that the use of CRPs has not moved much further forward with just over half (52%) of firms using one today with a further 13% saying they expect to introduce one over the next 12 months.

Figure 14: Usage of a CRP (Centralised Retirement Proposition)



The benefits of a CRP are similar to that of a CIP. It provides a consistency of approach across an organisation and facilitates oversight and optimisation of the process to reduce risk and improve efficiency. Given this it is perhaps surprising that we aren't seeing greater use.

In the past, we have heard that larger firms struggle to implement a consistent approach across a large adviser base and smaller firms see little need to formally standardise given advisers will already have a common approach. However, the main reason for not operating a CRP this year was that client needs are too diverse to be captured in a single process (77% of advisers) with others saying that they have a common approach to advice across accumulation and decumulation.

There is no doubt that client retirement needs are diverse and demand tailoring of solutions, but this does not preclude introducing some level of consistency in terms of approach and products used. We expect that many firms have this consistency but simply choose not to formalise it. We wonder whether Consumer Duty and the forthcoming FCA retirement income advice review might encourage some firms to think again.

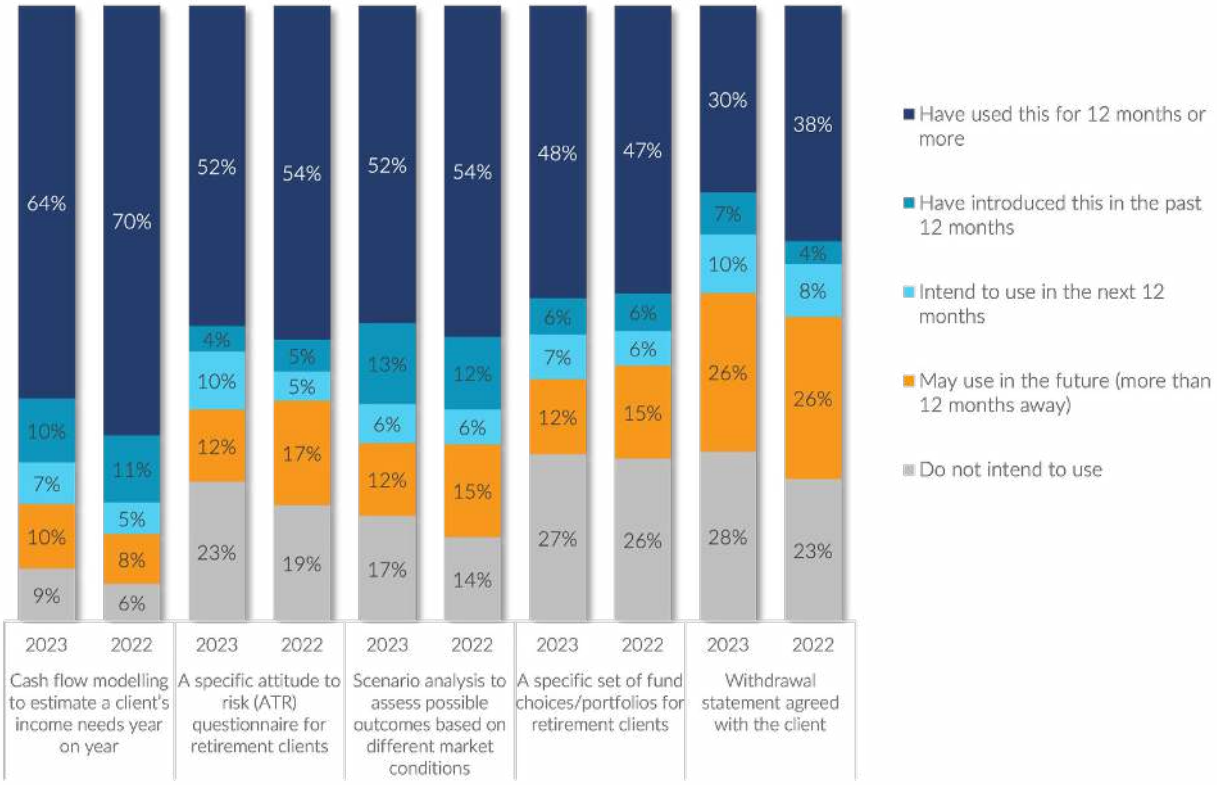
4.3 Retirement advice techniques

A CRP is not the only way firms can bring some consistency to the retirement planning process. We continue to track the use of retirement specific elements within the advice process as shown in Figure 15.

In general we find that use of these techniques and tools has not changed significantly over the past 12 months despite expectations of increased use last year. This is not unusual and we have found that, over the past few years, advisers haven't always been able to follow through on intentions to develop their advice processes, particularly when economic circumstances are driving much higher client activity as they did last year.

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Figure 15: Techniques used to management retirement income



Cashflow modelling remains widely used although, as we discovered last year, it may not be employed for all or even most of a firm's retirement advice clients. In some ways it's surprising that use of cashflow modelling is not universal given that most firms will have some clients where having a clear plan of outgoings will be essential to delivering effective advice.

We also wonder whether the market events of 2022, and the forthcoming FCA review of retirement income advice, might cause firms to think again about employing different ATR questionnaires and investment portfolios for retirement advice clients. The FCA made much of looking at retirement risks beyond investment risk in their guidance on defined benefit pension transfers, and we expect they'll return to this theme in their review of retirement income advice. Also, the effect the sharp rise in interest rates has had on supposedly "low-risk" portfolios, often used for decumulation clients, should be getting advisers to think about whether forecast volatility is the only measure of risk that they should be considering when matching portfolios with client objectives.

4.4 Determining sustainability of income

In 2018, we found two-thirds of advisers were simply using a fixed rate to determine the level of income that was sustainable from a portfolio and the majority were using the infamous 4% rule. This year we find only 29% use this fixed rate approach and within this we see many using a range of rates based on individual client circumstances.

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Figure 16: Where clients are using drawdown to create an income for life, how do you usually determine a safe withdrawal rate?

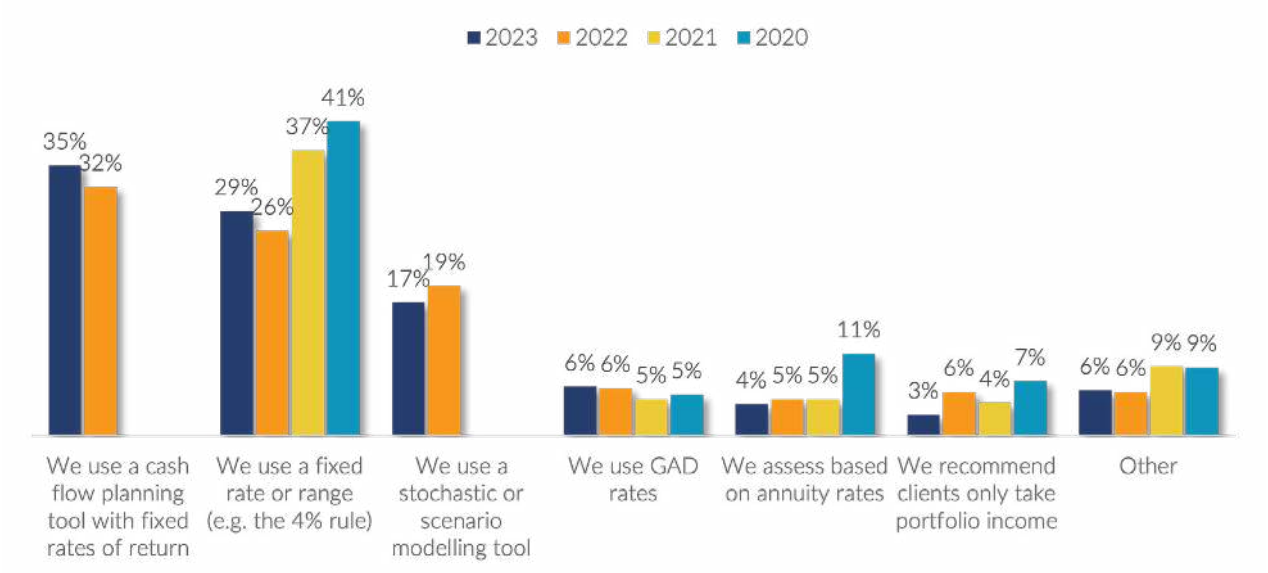


Table 1: Fixed withdrawal rate or range used

Rate used	2023	2022	2021	2020
< 4%	40%	25%	32%	21%
4%	31%	31%	42%	48%
> 4%	18%	27%	12%	16%
Variable	11%	17%	14%	15%

The increased use of cash flow modelling to identify a client's income requirements has also allowed advisers to better assess the achievability of client objectives and whether their income requirements are sustainable. That is, whether they are likely to meet their income requirements without running out of money with an acceptable level of certainty. This might be by using fixed rates of return that are considered achievable and stress-testing these or it may go as far as using a stochastic modeller to generate a range of scenarios in which sustainability of income can be calculated.

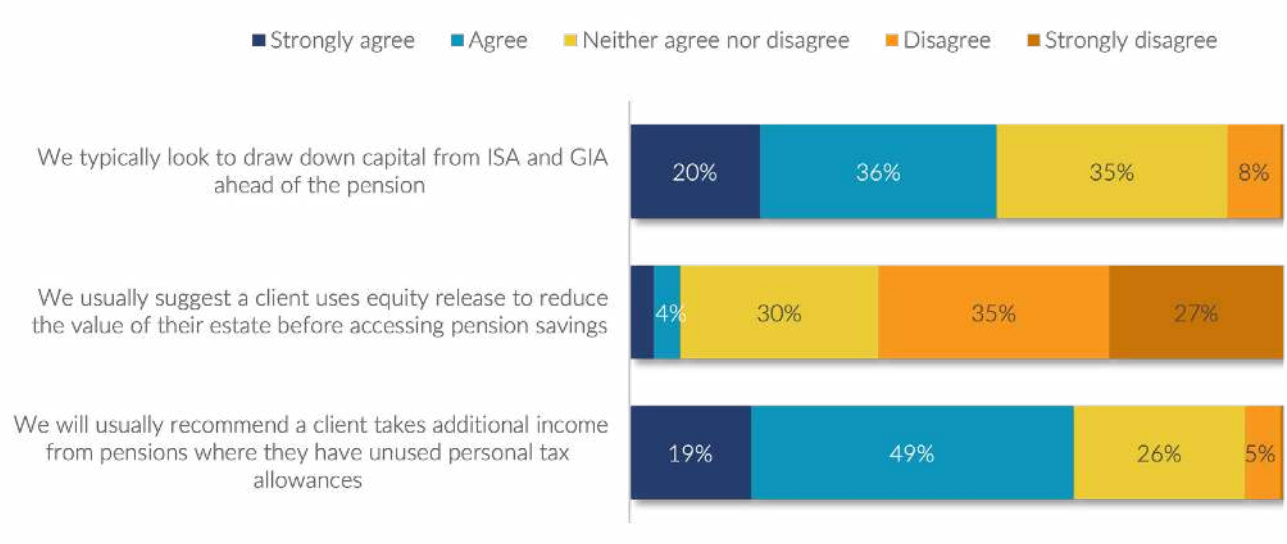
52% of advisers now use these approaches (35% cash flow tool, 17% scenario modeller), broadly similar to last year. While the move to using these tools has plateaued for now, we expect that advisers will continue to move towards a goals-based planning approach which will likely drive further growth in their use.

4.5 Optimising withdrawals across tax wrappers

Alongside the introduction of pension freedoms, the government changed the tax treatment of pension assets on death. In particular, it removed the penal 55% tax charge that applied on any remaining monies in drawdown arrangements and to pension pots that had not been accessed for those dying at or after age 75. Some saw this change as an extra tax-break for the wealthy. In practice, the application of such a penal tax charge would have been incongruous in a retirement market where drawdown was the norm rather than the exception and with the political narrative of pension freedoms that people should be allowed to use their money as they see fit.

A consequence of this change, coupled with the flexibilities introduced under pension freedoms, is that clients no longer need to worry about dying with unused pension assets. Indeed, because pensions usually fall outside of a client's estate, passing on assets through pension vehicles can be more tax-efficient than leaving wealth in other forms. We were keen to see the extent to which advisers are taking advantage of this.

Figure 17: Impact of tax considerations around pensions use in retirement



We found that the approach of leaving the pension until last when drawing down on retirement assets was typically used by 56% of advisers, with only 8% saying they disagree with doing this as a matter of course. This not only makes sense in terms of death benefits but may also help manage income tax by allowing clients to supplement income from capital while working without adding to their taxable income.

> *"For tax efficiency [it's typically the] inheritance tax issue, they will spend down some of their other assets first and keep the pension. I'm a big advocate for building up ISAs, so that you've got the tax-free pot to draw from in retirement."*
>
> Director, 3 adviser firm, Renfrewshire

> *"The majority of my clients are wealthy in other areas. So, if you go back before pensions freedoms, one of the things we would have been doing is trying to strip the pension out in the most tax efficient way and keep other assets. But since pensions freedoms a lot of my clients will actually be spending their Isas and GIAs and leaving the pension to last.*
>
> Partner, 4 adviser firm, Hertfordshire

Another example of how advisers are adding value through effective tax planning in retirement is where pension income can be taken tax-efficiently due to clients having unused personal allowance. We found a significant majority of advisers (68%) usually recommend this course of action to clients.

Some have suggested that the favourable treatment of pensions on death could lead to this being exploited and even that additional retirement assets could be released from housing equity to reduce overall inheritance tax. While this might make sense on paper, we found limited appetite for this amongst advisers with only 8% saying this was something they usually suggest to clients. With interest rates rising, this approach is likely to become even less feasible going forward.

> *"We usually see property coming into play if there's a long-term shortfall in cash flow. We would have a conversation saying 'it looks like your fund might run out when you get to age 89. We're going to obviously invest it, but if it did run out, what would you do?' And then equity release quite often comes up as the shortfall plan... But the amount that we used to be able to factor in for equity release has come down significantly...we would still very much suggest it as an option, but always a fallback."*
>
> **Technical Director, 12 adviser firm, UK-wide**

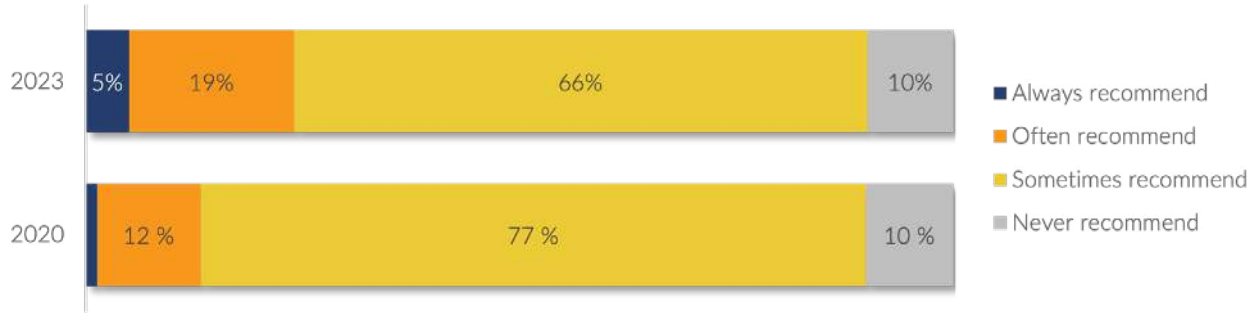
4.6 Use of guaranteed income products

For many, including retirement clients invested in bond-heavy portfolios, the sharp rise in interest rates we saw in 2022 was very unwelcome. What should have been relatively low-risk portfolios posted double-digit losses which are likely to take a long time to recover from given rates are unlikely to fall back significantly any time soon.

However, this rise in interest rates has had a profound effect on annuity rates. While rates have come back from the highs seen in October 2022, at the start of 2023 a healthy individual age 65 could get a level lifetime income of just under £6,600 per annum and a healthy couple would get just over £6,000 per annum, both guaranteed for ten years . This is an increase of nearly 50% from where rates were just a year ago.

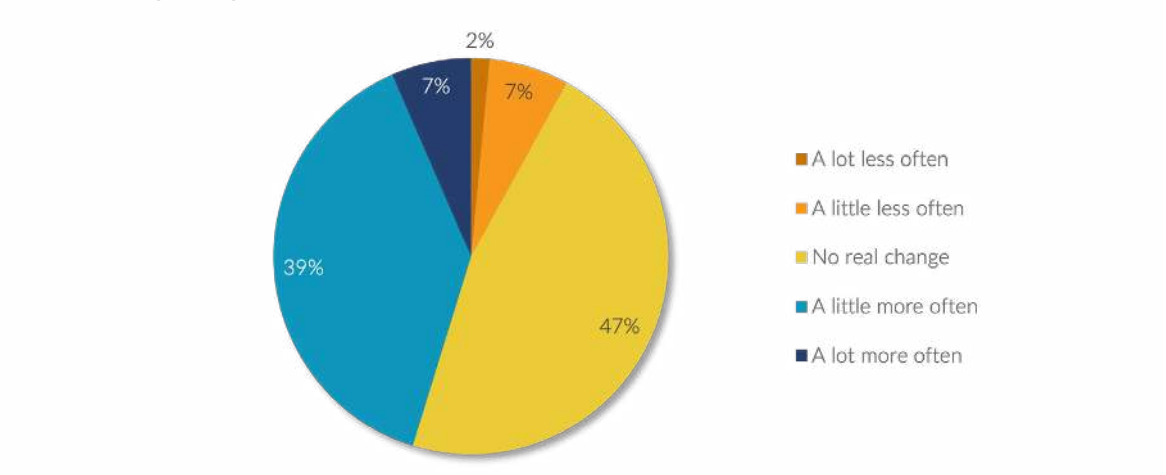
We haven't asked advisers about guaranteed income since 2019, as it was so seldom used, but we wanted to see how this sharp rise in rates has changed how advisers think about annuities.

Figure 18: Recommendation of guaranteed income products to retirement clients



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Figure 19: Change in guaranteed income recommendation over 12 months

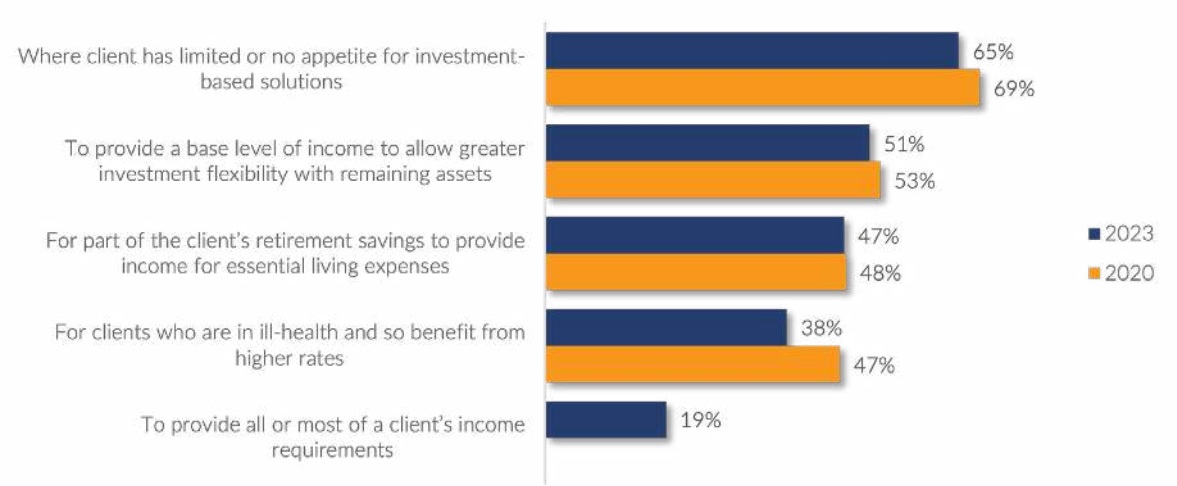


As one might hope, annuities are starting to come back into consideration with nearly a quarter of advisers saying they always or often recommend them, and 46% saying they are recommending them more often than they did 12 months ago.

> *"I'm seeing annuity rates getting much more competitive and much more attractive. And looking at some of our older clients who are in drawdown and assessing 'what's the growth prospects of that fund? What's the drawdown being taken versus an annuity? And actually, doesn't annuity make more sense?' Hasn't done for a long time, because yields have just been so poor, but now that we've seen a sudden spike, I'm generating a lot of interest from that."*
>
> **Wealth Management adviser, 20 adviser firm, London and Midland**

The chart below provides more insight to where annuities are being recommended. They are, unsurprisingly, often used where clients have low appetite for investment risk. However, they are also being widely used to provide a base level of income, often determined by considering essential living expenses. Not only does this provide clients with certainty that they will be able to meet their basic needs, it also provides scope to take on greater investment risk knowing that, even in the worst case scenario, the client has income to fall back on.

Figure 20: Common circumstances for recommending a guaranteed income product



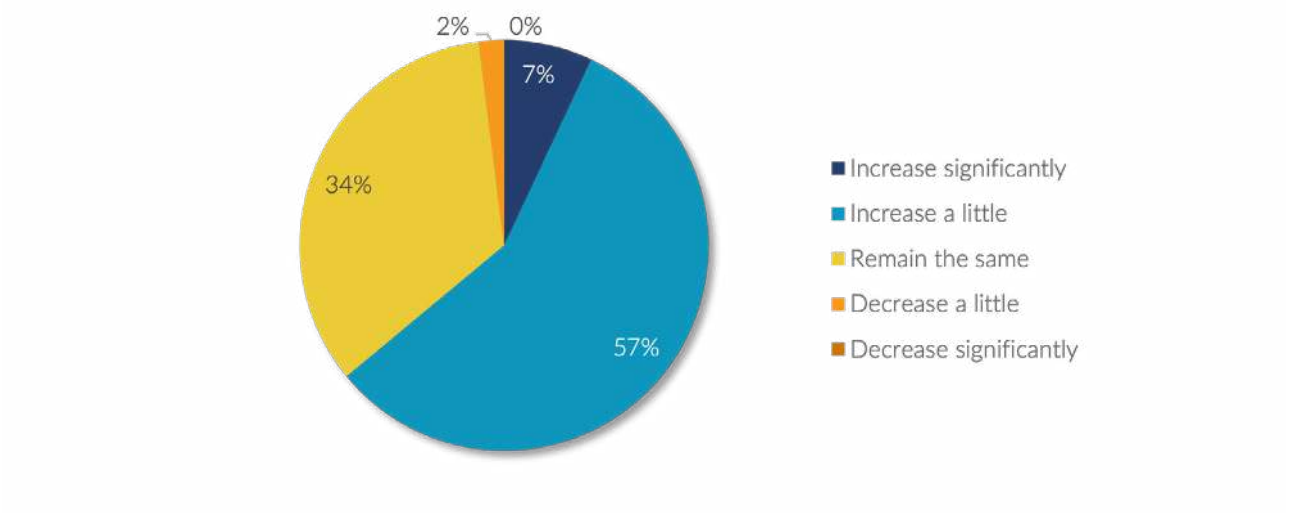
Combining guaranteed income and drawdown could significantly improve overall retirement outcomes and we expect to see increasing use of this approach over coming years, particularly as the cohort of defined benefit transferees who switched when interest rates were at their lows start reaching retirement age.

Higher rates and increased demand may also drive new product development by insurers. For example, it would be great to see the development of a later-life deferred annuity market to help clients manage longevity risk. At the moment, the uncertainty over life expectancy can mean clients having to take a lower level of income than they might like and/or ending up with an unwanted legacy on death. Deferred annuities would give more certainty of how long other assets need to last so allowing a more efficient withdrawal approach.

> *"If a client's only pot of money is a £100,000 pension, you've got to be pretty careful with it. There are people that are taking 5-6% on that money as drawdown now and have just lost 10% and capital value. So they're the people that you think might need to buy an annuity. It's not an easy one to answer because everybody's different."*
>
> **Partner, 4 adviser firm, Hertfordshire**

> *"Until this year even when you asked, 'do you want a guaranteed income?' [clients] would say 'yes, but I don't want an annuity'. This year [it's different]. Obviously, rates are better. But from the client's point of view, they don't necessarily know that. I think from the client's point of view, they've had enough of market volatility, so they're willing to talk about an annuity"*
>
> **Technical Director, 20 adviser firm, UK-Wide**

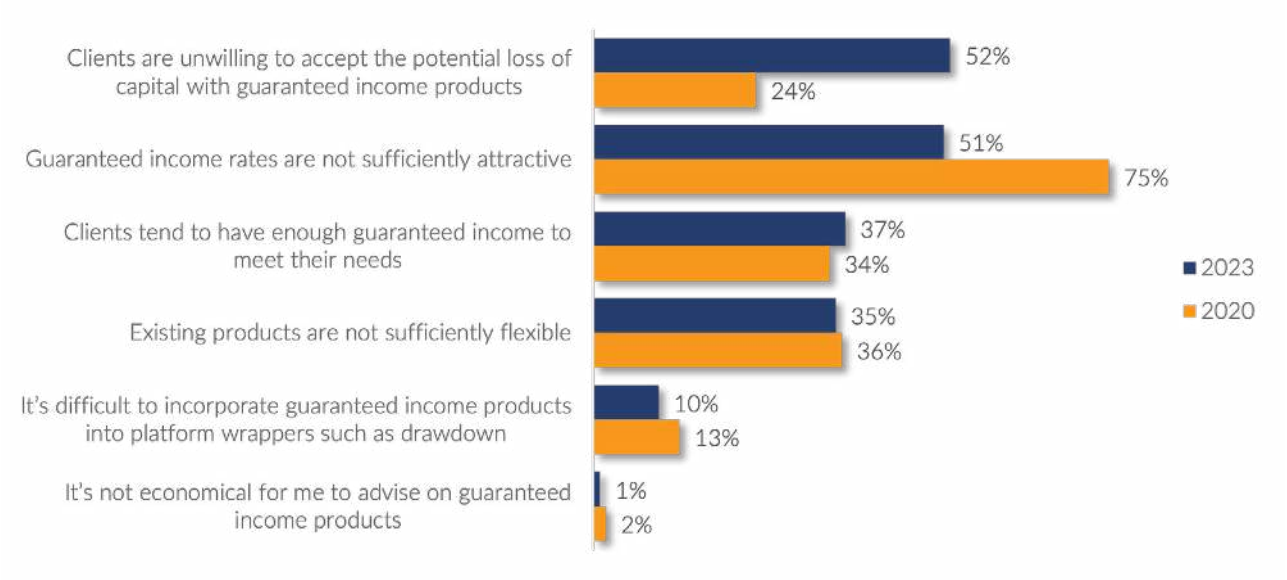
Figure 21: Change in guaranteed income over next three years



Looking forward, just under two-thirds of advisers expect their use of annuities to increase albeit most only expect it to increase a little. Given the sharp increase in rates, might we have expected a more positive reaction from advisers?

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Figure 22: Reasons for not recommending guaranteed income products more often



The chart above shows the reasons advisers aren't recommending annuities more often. The main reason is now the potential for loss of capital on death. Even with 10-year guarantee periods, there is still scope for clients to not recoup a large part of their purchase price on death. Perhaps surprisingly, over half of advisers still see rates as still not sufficiently attractive. Again this is a matter of perspective. For those with a very low capacity for loss, rates may look compelling but those who are better able to take on investment risk may be less convinced.

> *"Guaranteed income products are more on my radar for people who have potentially enhanced annuities. But I still think the annuity rate doesn't really warrant the sort of clients I've got."*
>
> Founder, Sole trader, Kent

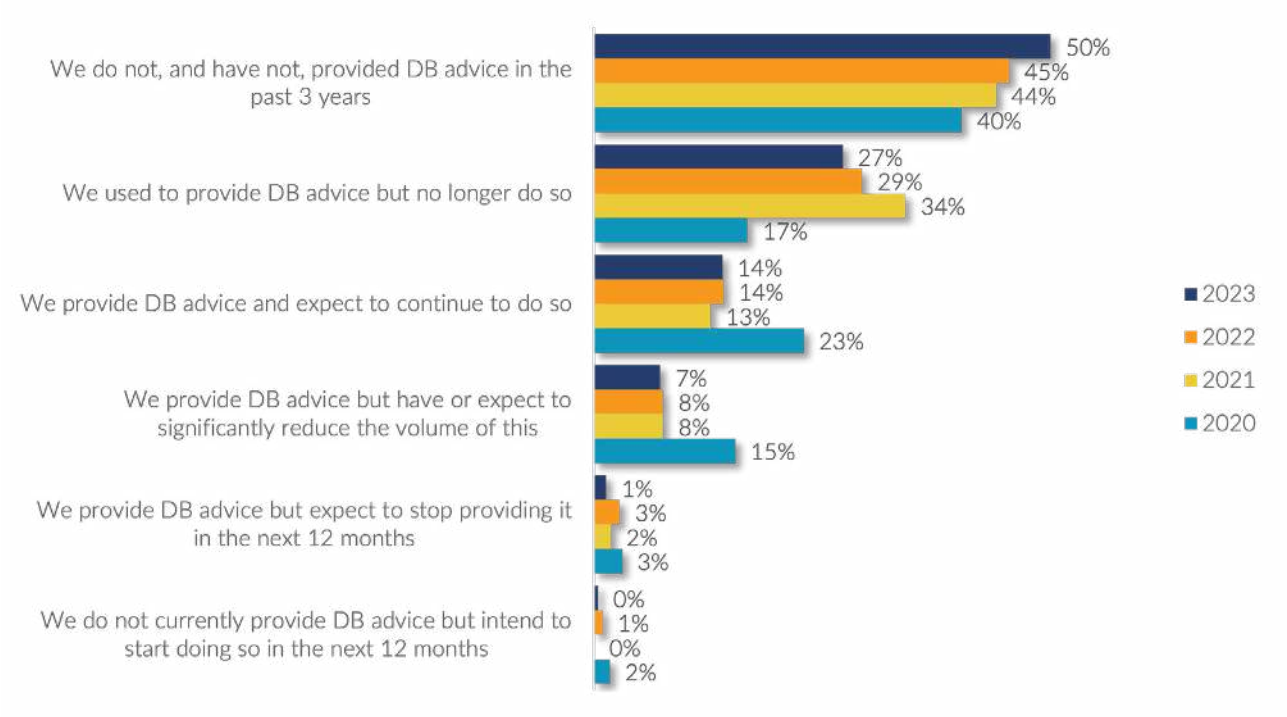
Other perennial reasons for not recommending annuities are that clients already have lots of guaranteed income, either from company pension schemes or State Pension, and that annuity products are not sufficiently flexible. Advisers ranked these factors almost identically to how they viewed them three years ago.

4.7 Defined benefit transfer advice

In past years we have devoted a separate chapter of this report to the topic of defined benefit transfer advice. However, we have seen signs that the provision of this advice was stabilising so this year we limited ourselves to confirming whether respondents offer this service.

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Figure 23: Approach to providing Defined Benefit (DB) transfer advice



In our first report in 2018, 60% of firms were providing defined benefit transfer advice but this has fallen to 22% with 8% saying they intend to stop or significantly reduce the volume of this. The changes that the FCA has introduced over recent years together with the business risk of undertaking this advice have been key contributors to the reduction in supply. With interest rates having risen sharply, it seems likely demand will also wane as transfer values look far less attractive than they did just 12 months ago.

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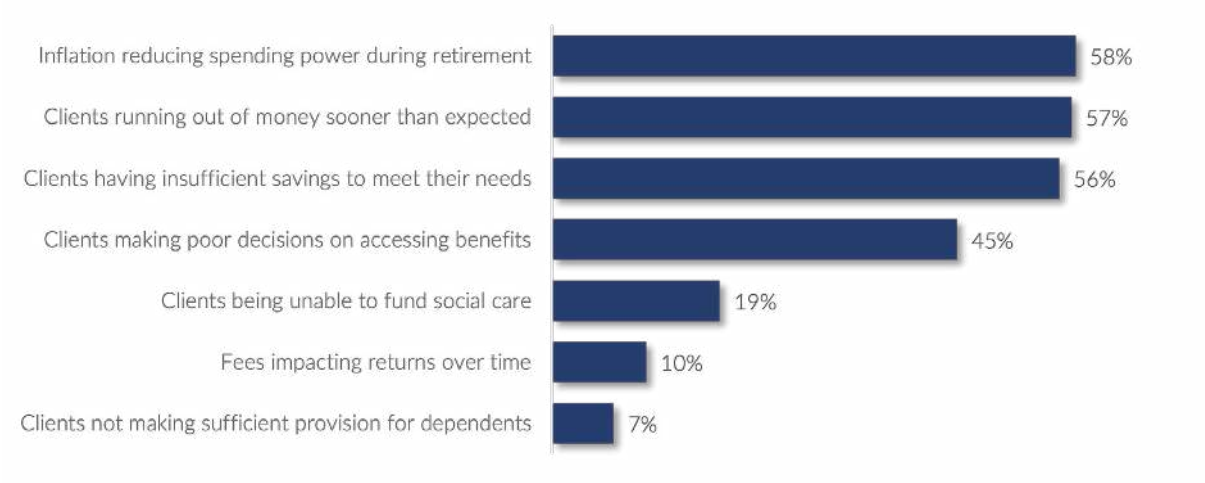
5. Retirement advice and the Consumer Duty

With the Consumer Duty coming into effect this year, we wanted to understand the extent to which advisers are expecting to adjust their retirement advice models. We take a look at client segmentation and quantifying the value of advice, but first we consider the harms that might befall clients in retirement.

5.1 Foreseeable harms in retirement

Retirement planning is arguably the most complex area of financial planning. As well as the technical complexity of pension and tax rules and decisions that can often not be undone, advisers must deal with uncertainty over income requirements, inflation, investment returns and even how long they need to be planning for. Given this it's not hard to see where there might be potential harms to retirement clients.

Figure 24: Most significant foreseeable harms facing clients in retirement



We asked advisers to choose their top three "harms" and we found three really stood out:

- Running out of money sooner than expected
- Clients having insufficient savings to meet their needs
- Inflation reducing spending power during retirement.

Close behind this came the risk of clients making poor decisions on accessing benefits.

The FCA rules require advisers to avoid causing foreseeable harm. Many of the harms listed are inherent in decumulation and so we might think of the responsibility here as helping clients avoid or limit these harms rather than just advisers not adding to them.

Advisers will likely have a limited ability to remedy clients having insufficient savings, particularly if they are only engaged when the client is close to retirement. However, ensuring clients don't run out of money and avoiding poor benefit decisions are central to what an adviser delivers for retirement clients and where they can add significant value compared to a client managing their own retirement. The impact of inflation is a challenging one. Advisers will clearly be able to help clients identify how they can reduce this risk but the cost of doing this with certainty can often be overly expensive.

Of course, there is scope for advisers to cause harm in retirement if advice isn't suitable. In particular, we see potential challenges for advisers in:

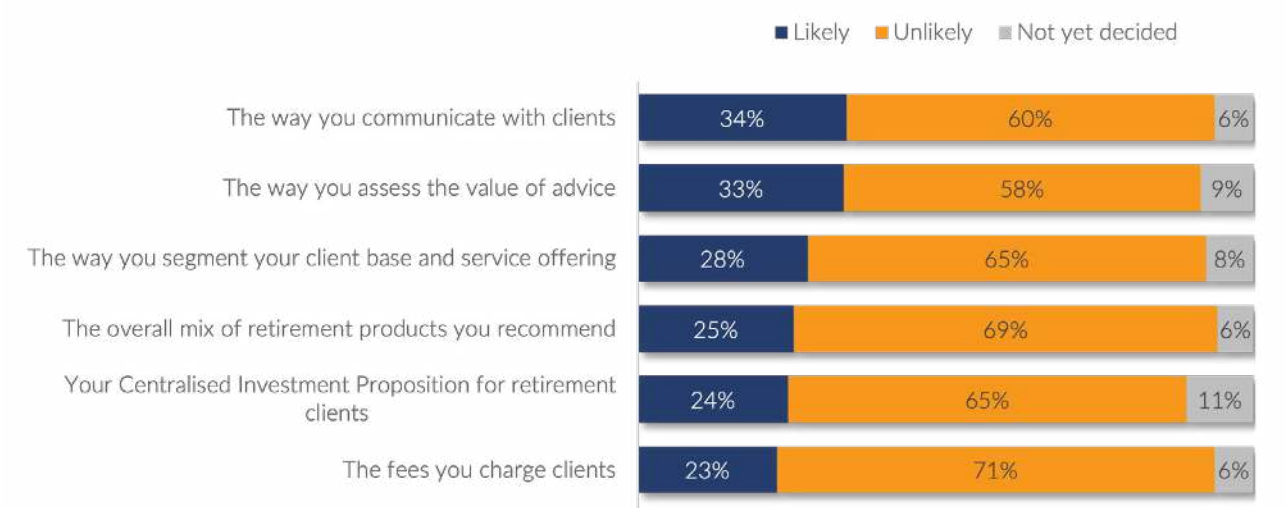
- Determining the right level of risk in retirement and, in particular, the extent to which clients use drawdown versus guaranteed income
- Demonstrating that ongoing advice is adding sufficient value given the fees being charged
- Justifying investment costs particularly where the client has limited investment experience and/or the adviser is taking a fee for managing investments.

All these have been raised as concerns by the FCA in its defined benefit transfer work and we expect will also be core themes in its supervision of the implementation of the Consumer Duty and its forthcoming review of retirement income advice.

5.2 How the Consumer Duty will affect retirement advice

The Consumer Duty will inevitably have a significant impact on all adviser firms and no doubt all are having to make changes to the way they do business, if only to demonstrate they are meeting the regulator's expectations. However, many argue that the Consumer Duty is just reinforcing current best practice and so there is little need for good advisers to adjust their offering to clients. We asked advisers the extent to which they were expecting to change their retirement advice offering in light of the Consumer Duty and, while many agreed with this sentiment, a significant proportion do expect to make changes in each of the areas listed.

Figure 25: Likelihood of Consumer Duty impacting retirement advice

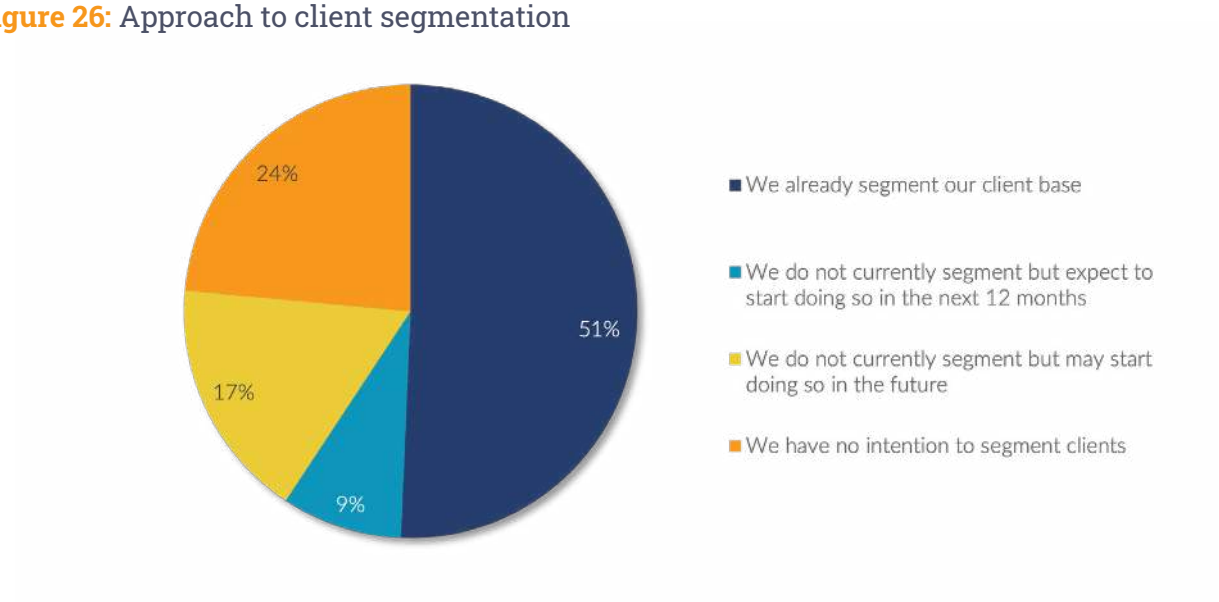


The three areas where advisers are most likely to make changes are around how they communicate with clients, how they quantify the value of their advice and how they segment their client base. We will take a look at each of these in turn.

5.3 Client segmentation

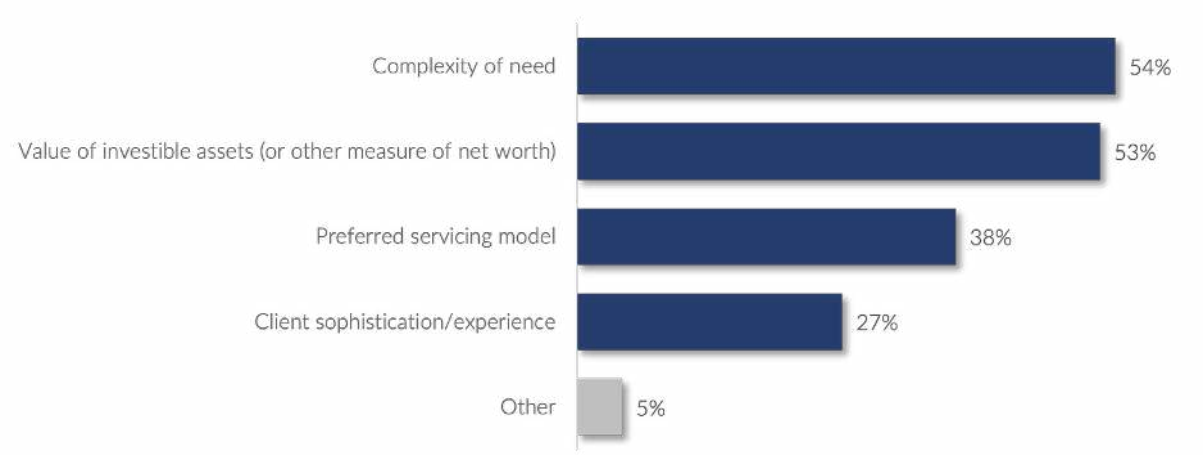
Client segmentation has been a hot topic for advisers for many years. On paper it makes sense but in practice it can be difficult to implement and deliver, particularly in an area like retirement advice where client needs are so varied.

Figure 26: Approach to client segmentation



We found that just over half of advisers currently segment their client base with a further 9% saying they expect to start doing this in 2023. Given 28% of advisers say they are likely to review the way they segment clients, this suggests that many of those who segment clients are going to look again at the basis on which they do this.

Figure 27: Types of segmentation used for clients

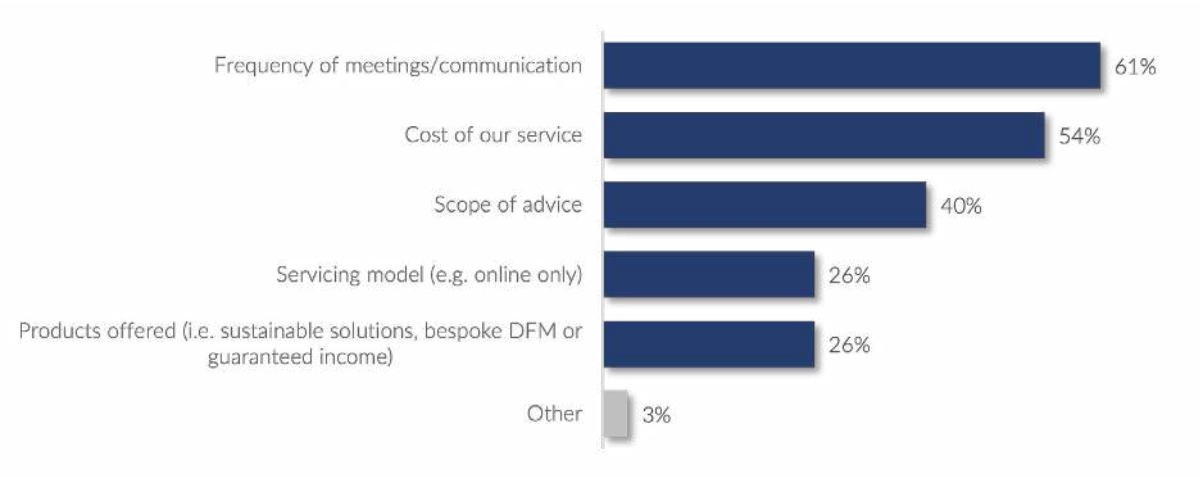


The value of clients' investable assets is one of the most popular bases for segmentation. It makes sense that advisers will want to provide different services to clients with different levels of assets, but it is less clear that this will always be what clients need. Some wealthy clients may have relatively simple needs while some clients with less to invest may have complex needs. It's reassuring that complexity of need is the most popular basis for segmentation and we expect advisers will put more emphasis on this going forward than size of client investments.

Segmentation is often considered from the adviser's perspective. The Consumer Duty makes it clear that advice firms also need to consider client needs and preferences. For example, some may only want or need advice on specific issues rather than a holistic service. Similarly, some clients may not need or want regular contact or may be happier with online meetings rather than in person. 38% of advisers say that their segmentation already recognises the client's preferred servicing model and, again, we expect this to increase.

Having understood how clients are segmented we asked advisers how they differentiate their offering between segments.

Figure 28: Client segment differentiation



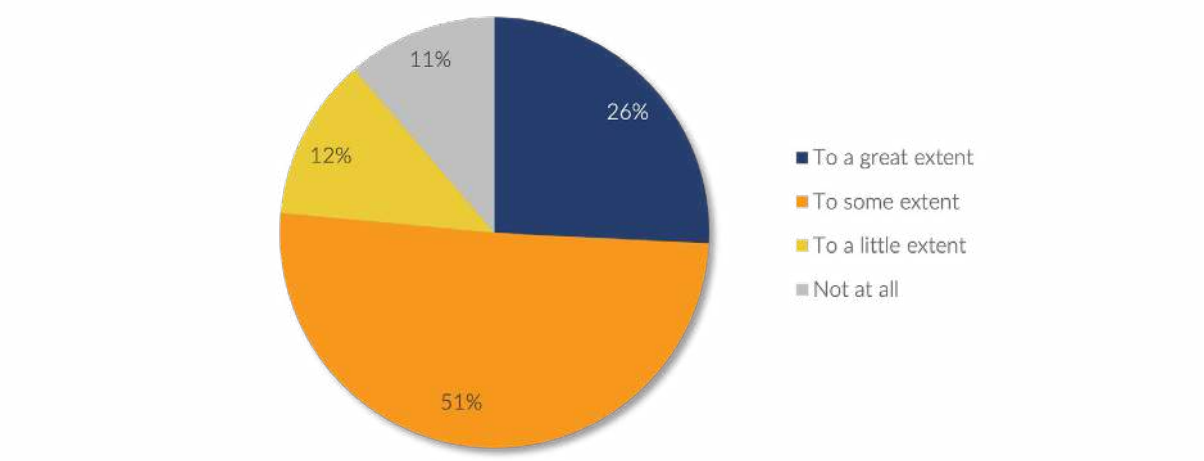
The main points of differentiation are the frequency of communication from the adviser (61% of respondents) and the cost of the service provided (54%) with the scope of advice also featuring for 40% of firms.

Even from this brief discussion, it can be seen that segmentation can be hugely complex. It also needs to be remembered that advisers don't have to segment their service, they just need to be confident that the service they're offering is appropriate for what the client needs and wants. In practice, effective segmentation is going to involve triangulating between a client's needs, their servicing preferences, and a fee model that meets both the client's and the adviser's expectations and delivers value.

5.4 Quantifying the value of advice

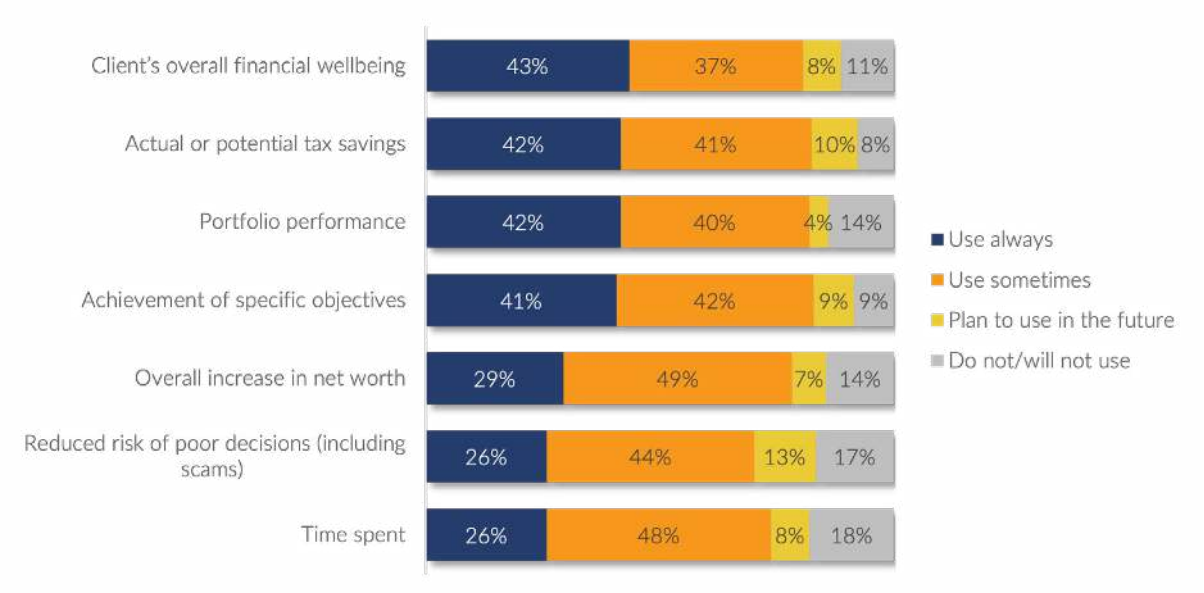
Price and value are a key area of focus for the Consumer Duty. Price is hopefully well understood but we were keen to understand the extent to which advisers are already quantifying the value of the advice they offer and how they are measuring this.

Figure 29: Extent of advisers currently quantifying the value of their advice



Only a quarter (26%) say they are very focused on quantifying the value of advice, with half (51%) saying they do this to some extent, and a quarter admitting they give it little or no attention. It therefore seems surprising that only a third of advisers told us that they were likely to make changes here.

Figure 30: Measures used to quantify value of advice



Interestingly, there are four measures that are being used with almost identical frequency by advisers. Improving a client's overall wellbeing and achievement of specific objectives are, we would argue, exactly what advisers are trying to achieve for clients and so their inclusion in quantifying value makes sense. In fact, one might expect them to be the main determinant of value for all advisers. Tax savings are a clear and objective way of demonstrating value, particularly if those savings outweigh the fees charged.

We were surprised to see such a focus on portfolio performance. Where the adviser is involved in managing the portfolio then this may make sense and it was ranked as the most important component of advice by clients. Of course, advisers need to demonstrate that their investment recommendations are sound, but this should perhaps be in the context of the client's overall financial wellbeing. We know many advisers are keen to move away from being judged on whether they pick the best funds to whether they obtain the returns the client needs to achieve their objectives. We would see this as particularly important in the context of retirement where risk is as important, if not more so, than return in delivering what the client needs.

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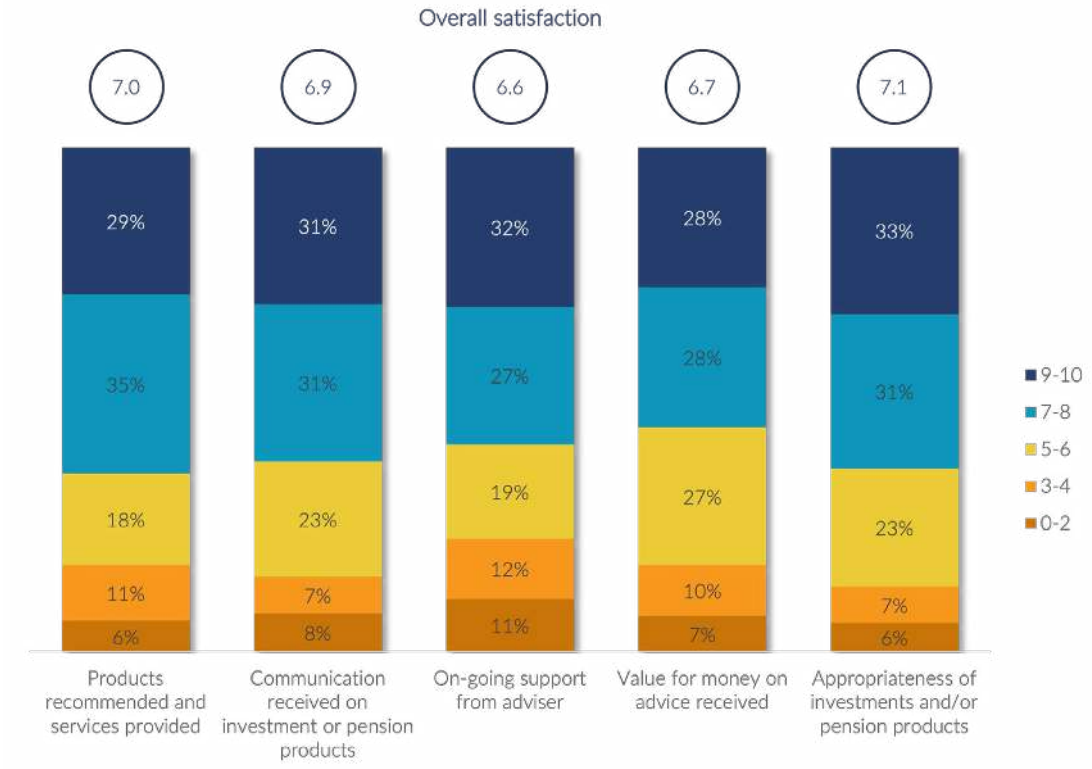
6. Consumer perspective on retirement advice as we approach the Consumer Duty

Having considered how advisers are thinking about Consumer Duty, we wanted to get a consumer perspective on some of the aspects that FCA has put at the centre of the new rules. We will take a closer look at perceived value and communication, but we start by looking at client satisfaction.

6.1 Client satisfaction

We asked clients to score various aspects of the advice and service they receive on a scale of 0 to 10. These broadly line up with the Consumer Duty outcomes of products and services, price and value, consumer understanding and consumer support. The results are shown in the chart below.

Figure 31: Client satisfaction with retirement advice received



The headline scores across categories are broadly similar with clients rating most aspects at, or around, seven out of ten; not a bad score but not up amongst the best in terms of customer satisfaction. Drilling into the results we see a wide dispersion of scores in each category with a significant proportion scoring advisers four or less, suggesting some clients are very dissatisfied with the service they're getting.

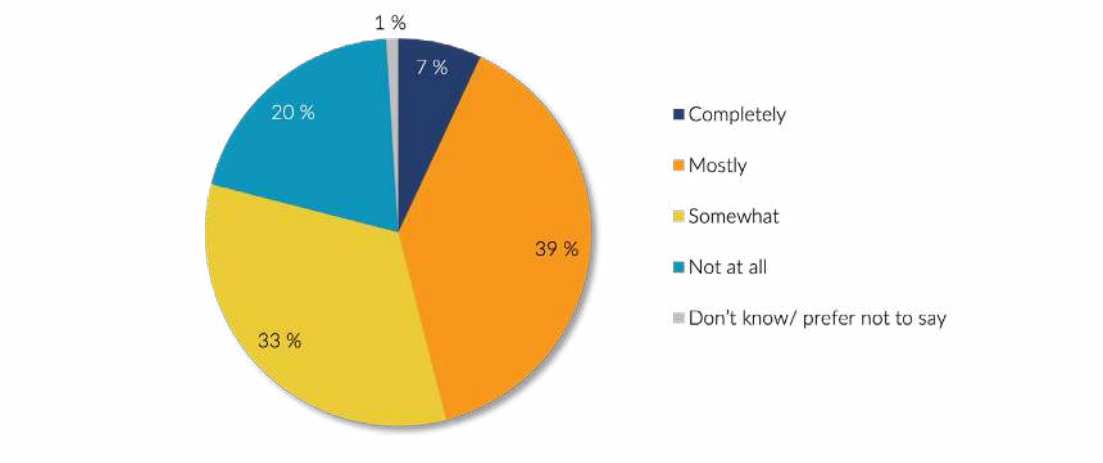
In particular, nearly a quarter (23%) scored their adviser four or less for ongoing support. Of course, we don't know whether the level of support provided might be considered adequate, but the important point is that it is clearly falling short of client expectations.

It's worth noting that those with more than £250k of investable assets were slightly more satisfied than those with less to invest across all aspects other than value for money where they were less satisfied. However, the differences were generally very marginal except for on communication where clients with more than £250k scored 7.3 compared to 6.7 for those below.

6.2 Assessing value for money

As we saw earlier, consumers consider investment performance to be the most important component of financial advice, some way ahead of achieving their financial objectives. We therefore start by looking at whether advisers have delivered for clients in these two core areas.

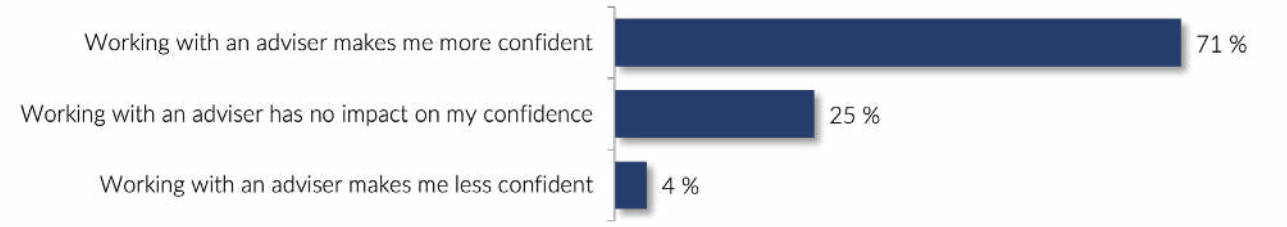
Figure 32: Performance of investments compared to expectations



Advisers can't change the way markets perform but they can set and manage client expectations around investment performance. It seems that, for a reasonably significant proportion of clients, they didn't achieve that in 2022. Of course, the rapid rise in interest rates and the gyrations around the "mini-Budget" were widely reported. However, many of the advisers we have spoken to were as shocked as their clients to find that what were supposed to be lower-risk funds posted double-digit losses.

As we discussed earlier, advisers would probably prefer to be judged on whether they have helped the clients achieve their financial objectives rather than narrowly on how investments have performed. So how have they fared in this regard? To assess this, we asked clients how working with an adviser affected their confidence that they would meet their financial objectives.

Figure 33: Impact of working with a financial adviser on client confidence

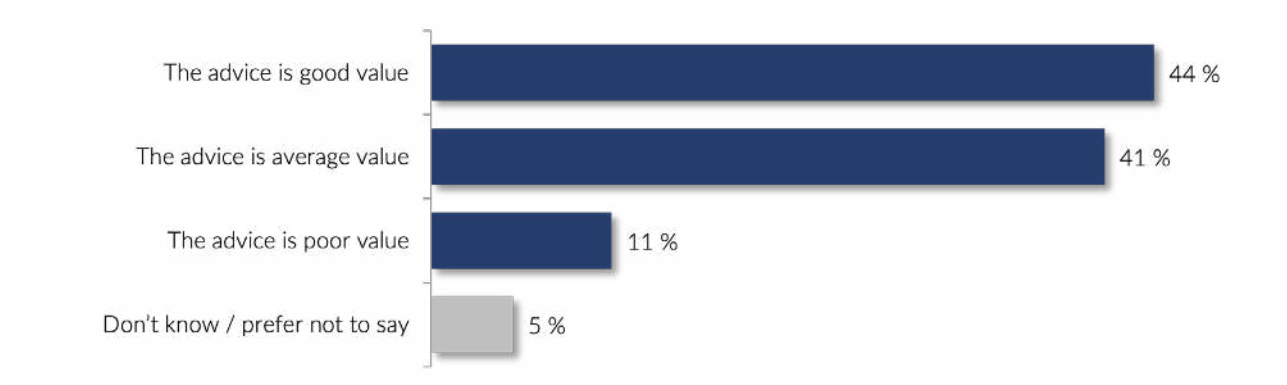


Overall, we found that 71% felt working with an adviser made them more confident in achieving their retirement goals and 4% said it made them less confident. That any client is feeling less confident from taking advice is a worry although it may be down to realism, but should we also be concerned that more don't feel more confident? We think not. There will be a reasonable proportion of advised clients who are sufficiently wealthy that they will always be able to meet their retirement goals, with or without advice. The benefit they get from working with an adviser is that they can do so more efficiently and effectively and perhaps give them scope to generate additional wealth beyond their objectives.

> *"I'm not so sure now, but I don't think it's a fault on him. I think it's more the way the markets are going now. And the situation we're in. So I wouldn't put the blame and say he's given me wrong advice, I think it's to do with the uncertainty. I think he has given me good advice over the years. You know, if I didn't get that advice, or taken the advice he gave me, my investments wouldn't have performed as well as it has. So I will say yes, I'm pretty happy with his advice. Because I would have had my money in a savings account getting nothing."*
>
> **Consumer**

Having looked at whether advisers are delivering on the components of retirement advice that are most important to clients, we now turn to the $64,000 question. Do clients see they are getting value from the advice they receive?

Figure 34: Client perception of value of retirement advice



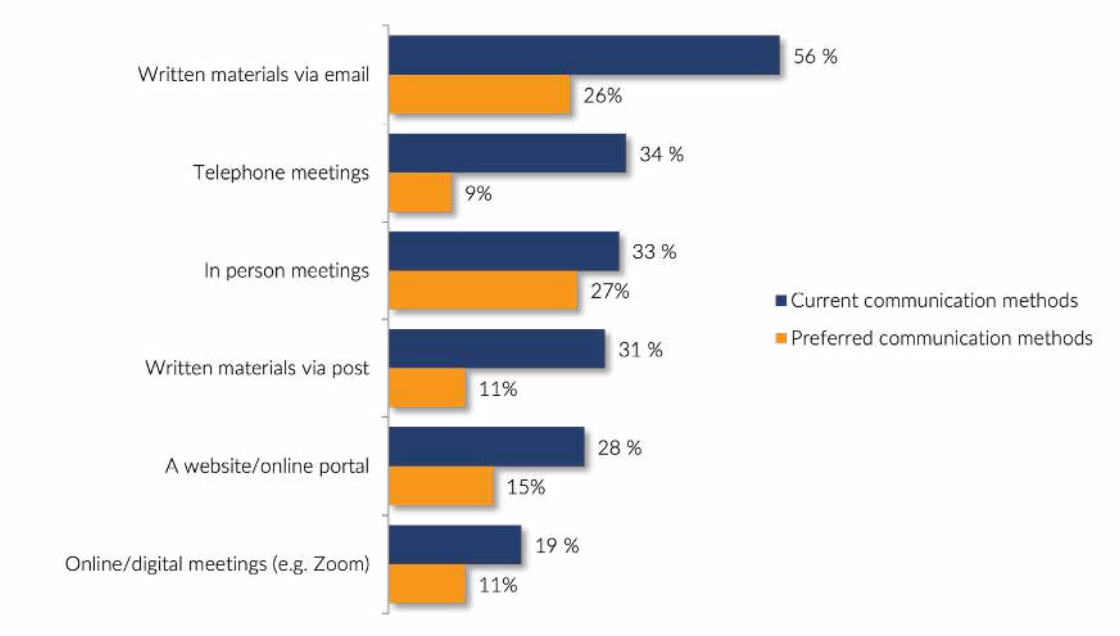
Clearly, it would be great if clients were unanimous that they see the advice received as good value but that is probably unrealistic, especially after a year when markets have delivered returns very different from client expectations. Indeed, that only 11% see the advice as poor value given some of the satisfaction scores we saw earlier might be considered a good result.

6.3 Communication and client understanding

Consumer understanding is another of the core outcomes the FCA focuses on in the new Consumer Duty. We finish this section by looking at how advisers communicate with clients and how this matches up to their expectations and the extent to which they understand the advice and information they receive.

We asked clients about what communication methods their adviser uses with them today and what their preferred method of communication is.

Figure 35: Method and preference of communication from adviser



In person meetings and written materials via e-mail are preferred by clients in almost equal measure and are clearly preferred to other communication methods. While we have heard that online meetings are acceptable to clients following the pandemic, given the choice, more would prefer to see their adviser face-to-face.

We further analysed the data to identify the extent to which the communication methods offered by advisers married up with individual client preferences. The results are shown in the table below.

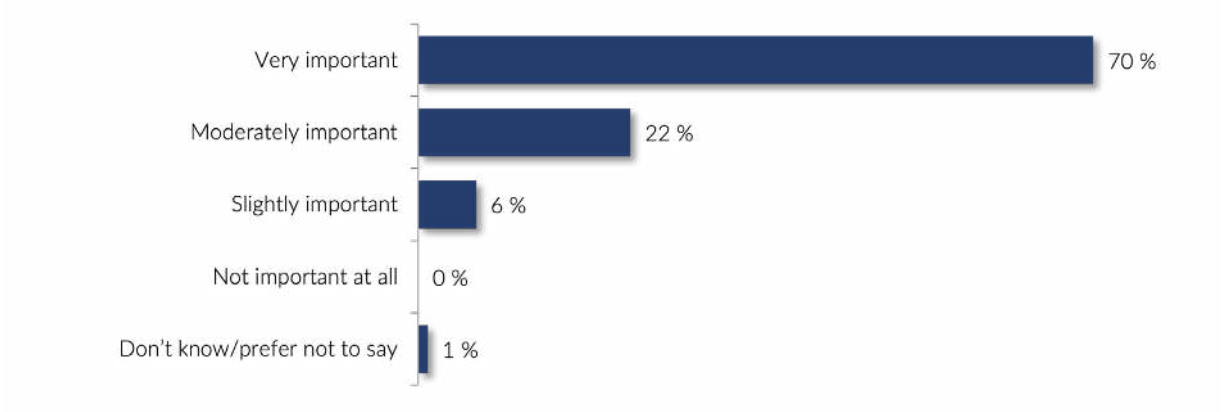
Table 2: Proportion of clients who prefer a communication method not currently received

	Prefer but do not receive
In person meetings	6%
Online/digital meetings (e.g. Zoom)	5%
A website/online portal	4%
Written materials via post	2%
Written materials via email	1%
Telephone meetings	1%

Generally, clients can get communication in their preferred method, but some would clearly prefer a different approach when it comes to meeting their adviser.

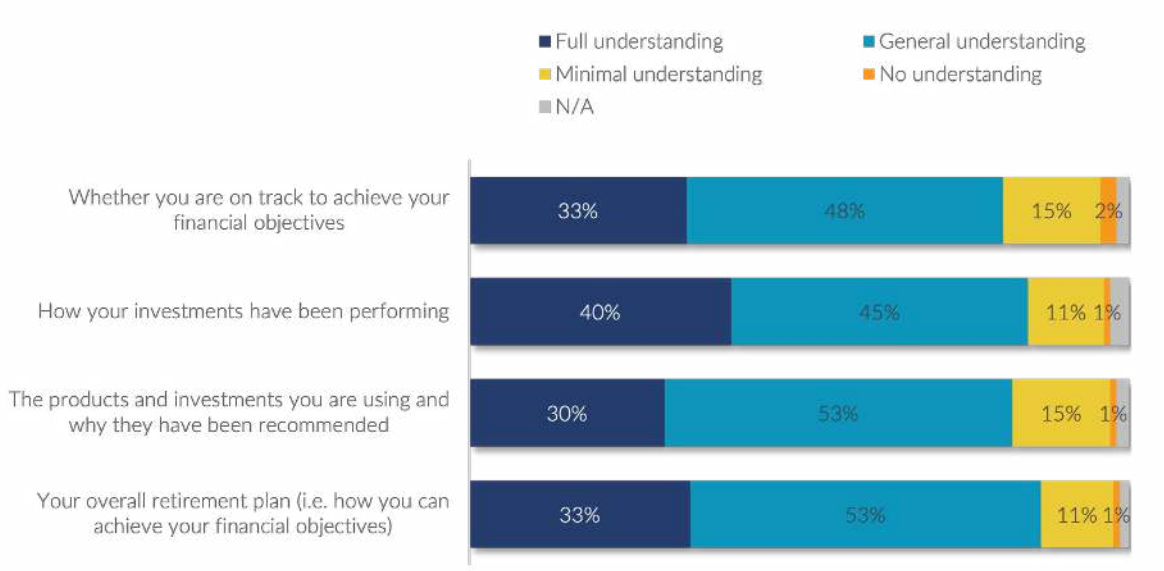
We conclude by looking at the effectiveness of communication. We start by asking clients how important it is for them to understand the communications they receive. This may seem an odd question, but we wanted to test whether those taking advice felt that they could then abdicate responsibility for understanding what was being done on their behalf. Reassuringly, a significant majority say a full understanding of communications is very or moderately important.

Figure 36: Importance of understanding all retirement advice communication from adviser



Having satisfied ourselves that clients regard understanding communications as important, we then looked at the extent to which current communications were understood.

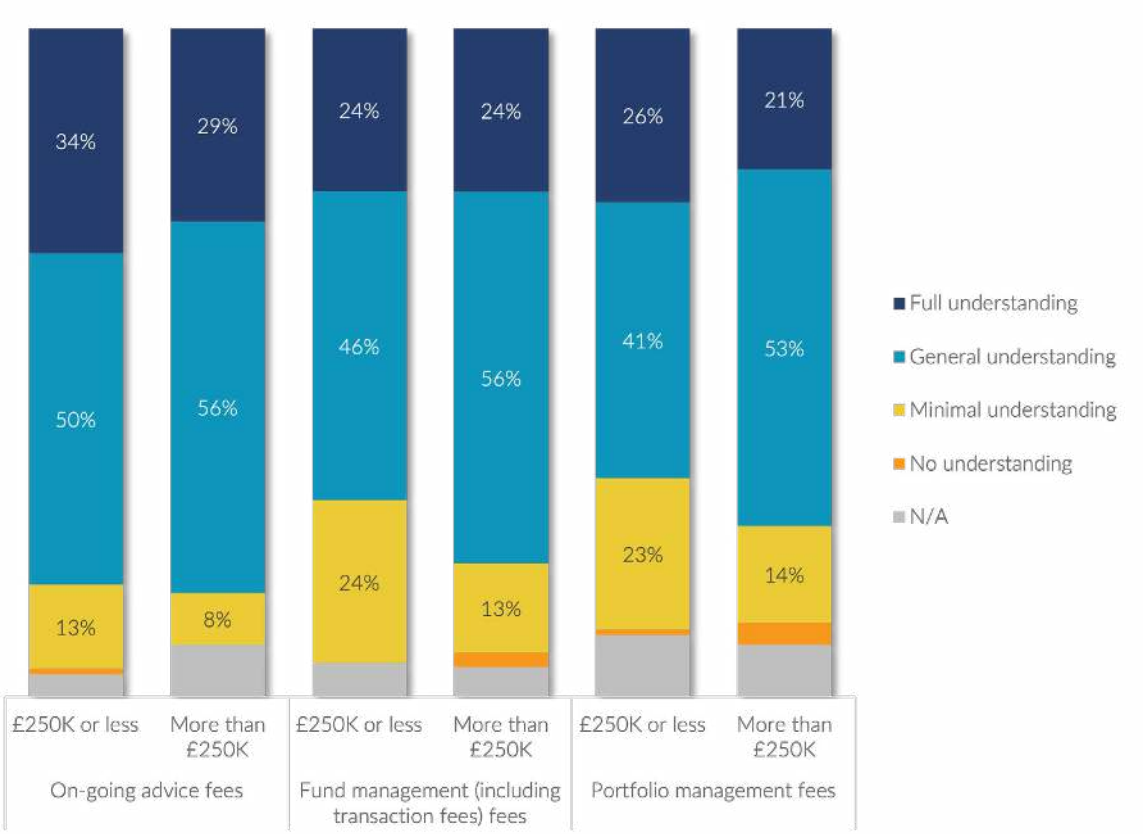
Figure 37: Client understanding of retirement advice components



Overall, it seems clients have a good understanding of the advice given and whether they are on track to meet their objectives. It's interesting that more clients have a full understanding of investment performance than they do of whether they are on track to meet their objectives. As discussed earlier, we expect many advisers would prefer clients to focus more on the objectives they are trying to achieve than on the investment returns they earn.

Finally, we asked clients about their understanding of the fees they pay for different aspects of the service they receive.

Figure 38: Client understanding of fees and charges paid for retirement savings



Here the results are less positive. While advice fees are generally well understood by clients, investment management costs are less well understood, particularly by those with less to invest.

6.4 Conclusion – Impact of Consumer Duty on retirement advice

It is difficult to come to any firm conclusions in what is a relatively subjective area but overall it does seem advisers are, in the main, delivering what clients want and expect. Given the economic environment and market performance in 2022 it is inevitable that there will be some level of client dissatisfaction and, if anything, it is perhaps surprising that this wasn't reflected more strongly in client assessments.

7. Investing in retirement

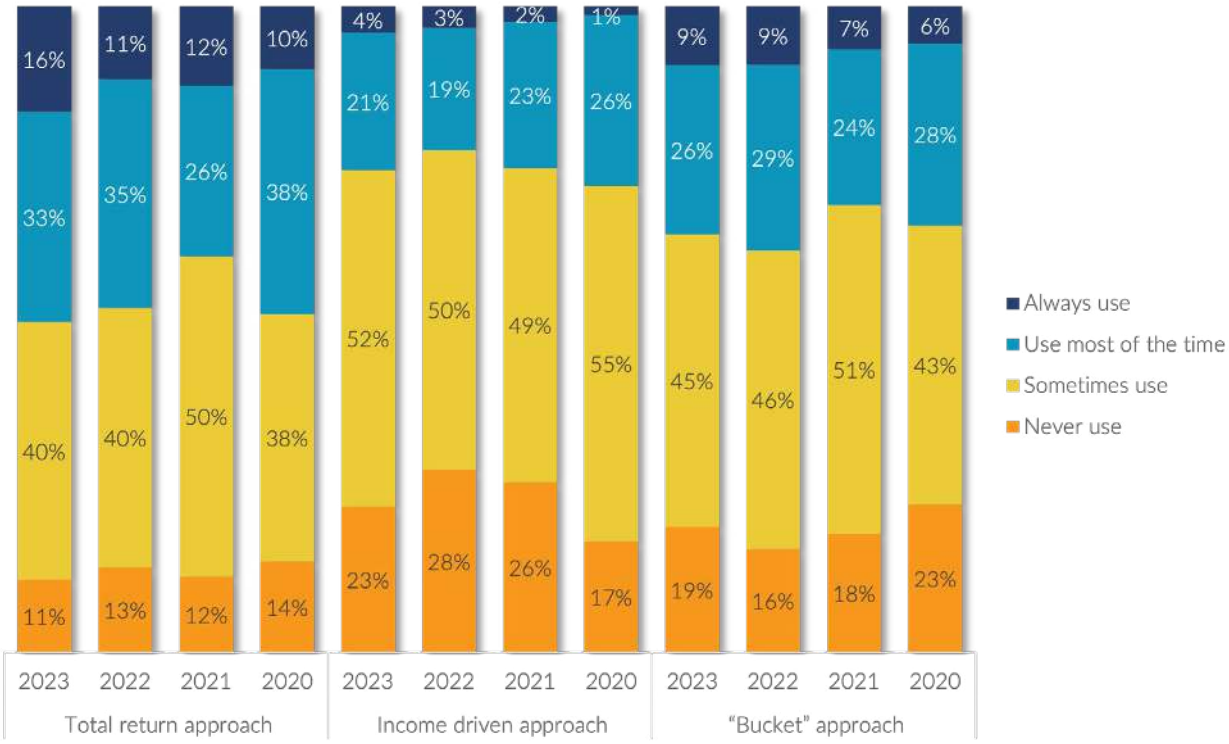
Over the course of this study we have tracked approaches to investing in retirement. After pension freedoms were introduced, there was an expectation that we would see significant product innovation. In this section we consider the way that advisers structure investment portfolios, the products recommended and use of sustainable investing criteria.

7.1 Structuring client portfolios

Each year, we asked financial advisers the approach taken to structuring client portfolios for those seeking a regular income. We offer three options:

- Total return: invest for total return with income payments funded by selling investments.
- 'Bucket' or time-segmented 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.

Figure 39: Structure of investment portfolios for clients taking retirement income



As with previous years, the favoured option is the total return approach, used by nearly half of advisers 'always' or 'most of the time.' Only 11% say they 'never' use it. Over the past two years we have seen a rise in interest in the 'bucket' approach. 35% of advisers said they use this approach 'always' or 'most of the time.'

The results also confirm that advisers take a variety of approaches, tailoring advice to individual client needs and preferences. Over half of advisers 'sometimes use' the least commonly applied income-driven approach. There are also signs that the

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income-driven approach is being more widely used having fallen sharply out of favour as a result of the dividend crunch in 2020. With interest rates and yields rising, this approach to generating retirement income will likely come back into favour.

> *"The keystone of the advice we give is cash flow planning...we will take into consideration all the client's assets. And we will talk to the client about the liquidity order, so which should be drawn down on first. It depends on the client situation... Where possible, I'd like to try and build up a pot or a number of different pots for clients...So it's trying to work out 'what's the most optimal to take from this pot, at this point?' I'm trying to have half an eye on what the next 12 months might look like, so that you don't end up drawing down one side and then exhausting that pot.".*
>
> Technical Director, 12 adviser firm, UK-wide

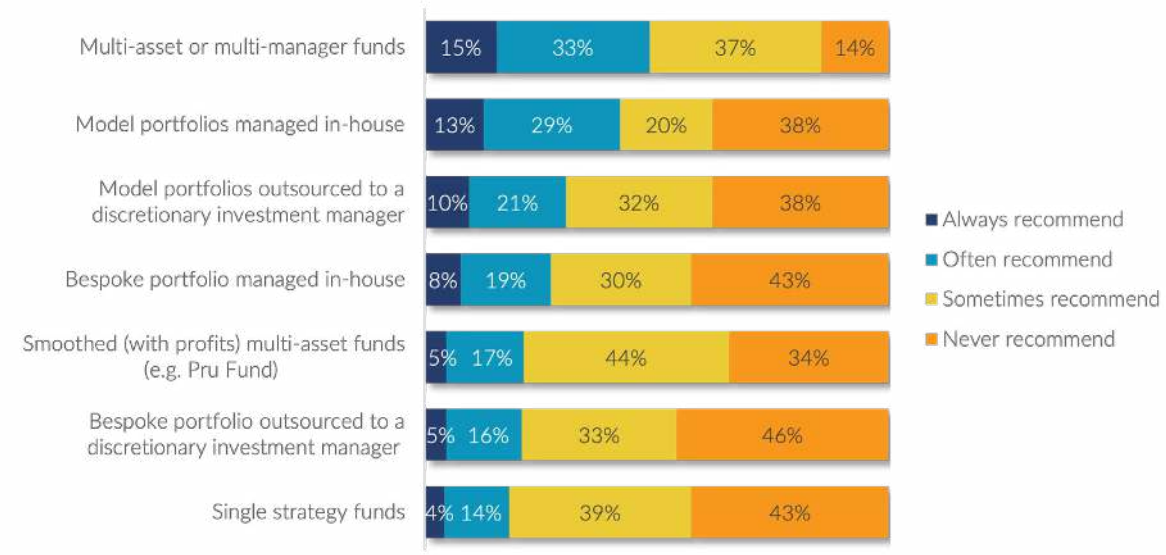
> *"There isn't a house view on what you do with somebody in drawdown and managing their short versus medium versus long term income requirements because there's different ways of doing it. It on a sustainable withdrawal rate? Are you trying to manage volatility on some of the assets? What I tend to do is leave a couple of years income in cash, then another couple of years of income in something low volatility, and then have a feeder system. But it's not perfect. And not all clients need that, because they've got so much money, it doesn't make any difference over a 10-year period so you might as well just ride the market."*
>
> Partner, National firm

7.2 Investment products used for retirement clients

7.2.1 Products used

Given that the 'total return' approach is favoured, it makes sense that multi-asset funds and model portfolios are the two products advisers are most likely to recommend to clients in retirement. Nearly half (48%) 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 40: Investment products recommended to clients in retirement



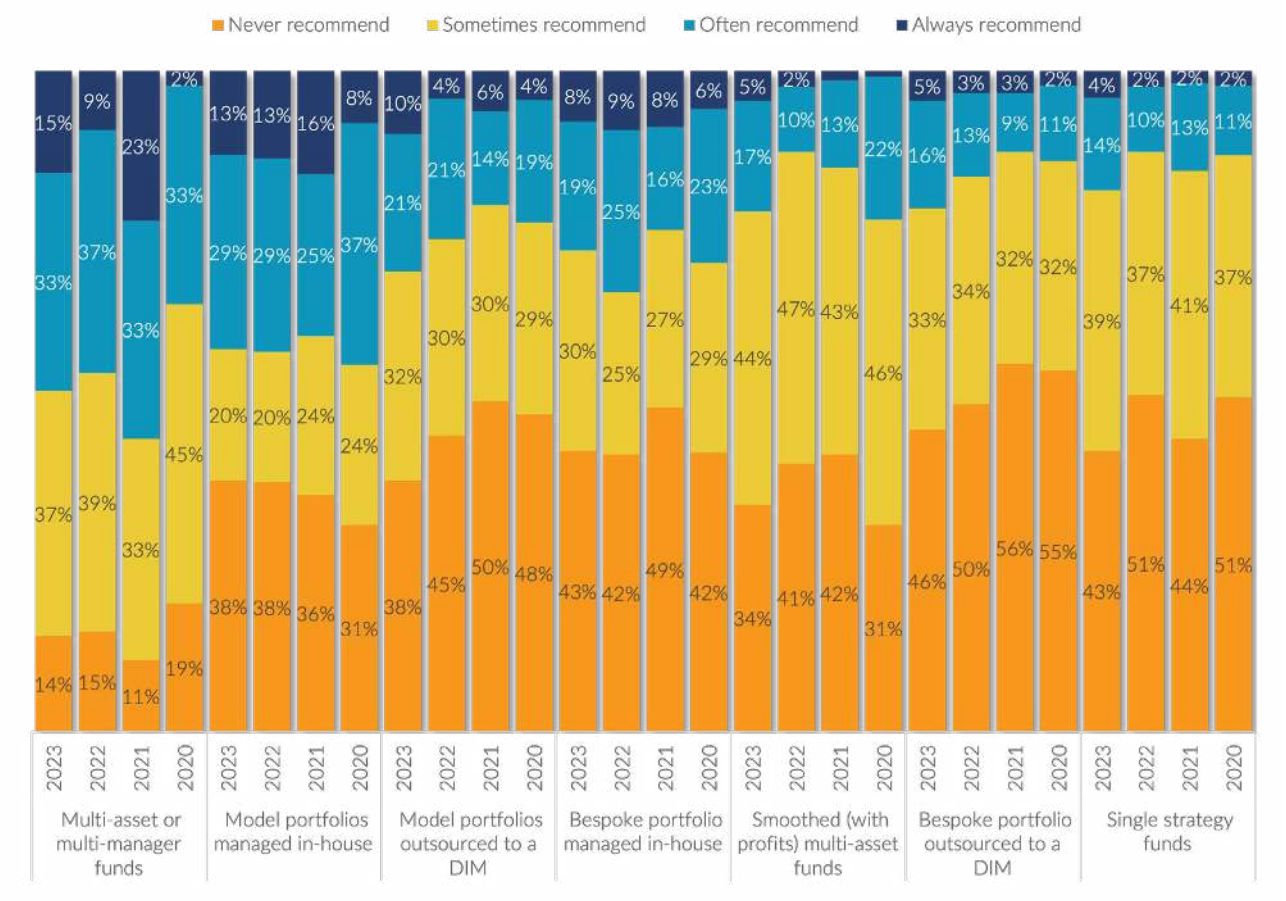
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The biggest change to the investment approach taken for retirement clients is the rise in use of outsourced discretionary fund managers (DFM) for both model portfolios and bespoke discretionary. In 2020 and 2021 half of advisers told us they 'never' recommend a DFM for either model portfolios or bespoke discretionary. That has fallen sharply in the past two years.

- In 2023, 38% say they 'never' recommend a DFM for MPS compared to 48% in 2020. The proportion that 'always' recommend them has shifted from 4% in 2020 to 10% in 2023.
- In 2023, 46% say they 'never' recommend bespoke portfolios managed by a DFM. That is down from 55% in 2020.

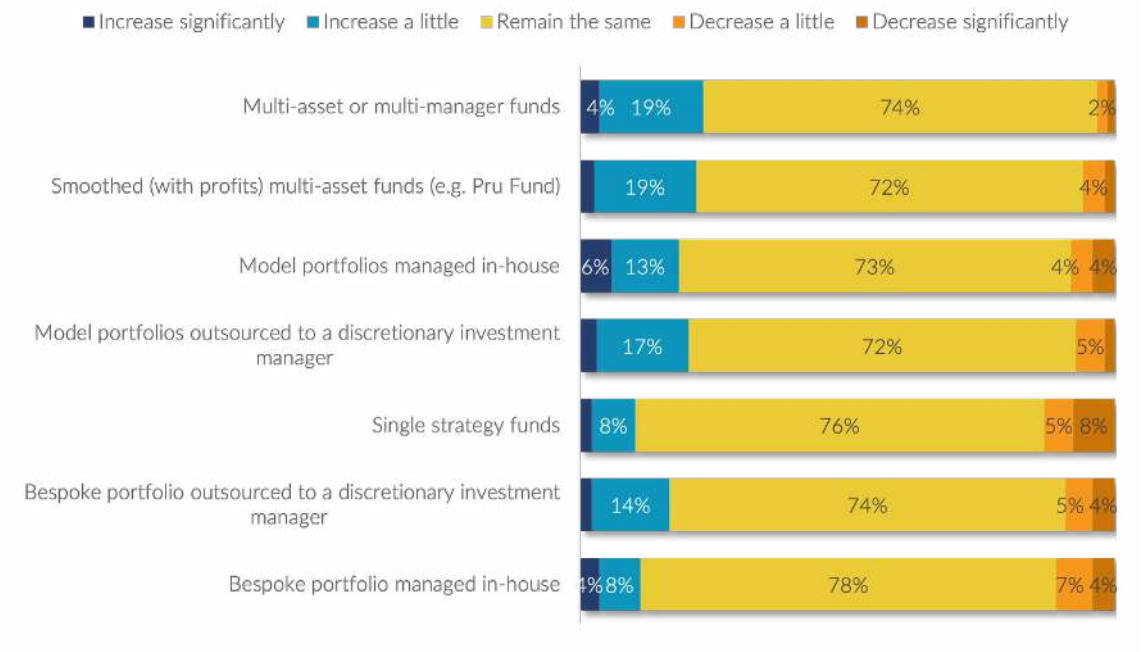
The other change over last year is a slight recovery in use of 'smoothed (with profits)' funds. While last year 41% said they 'never' recommend these products, that fell to 34% in our most recent survey.

Figure 41: Investment products recommended to clients in retirement – year on year comparison



Looking ahead, advisers expect to continue to increase use of multi-asset and multi-manager funds as well as DFMs for both MPS and bespoke discretionary.

Figure 42: Expected change in use of products in the next three years



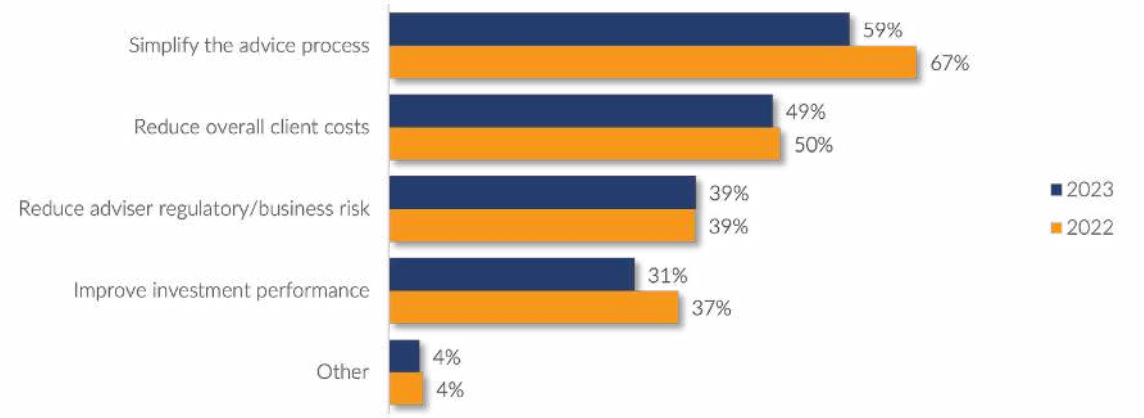
7.2.2 Drivers of change in product use

To help us understand the factors that influence choice of product, and in particular the expected increase in use of multi-asset and multi-manager funds and the expected decrease in in-house portfolio management, we asked two clarifying questions.

- The most important reason for increasing use of multi-asset and multi-manager funds is to simplify the advice process. This is followed by reduction in overall client costs.
- Similarly, the most common reason chosen for moving away from model portfolios managed in-house was to simplify the advice process and reduce overall client costs.

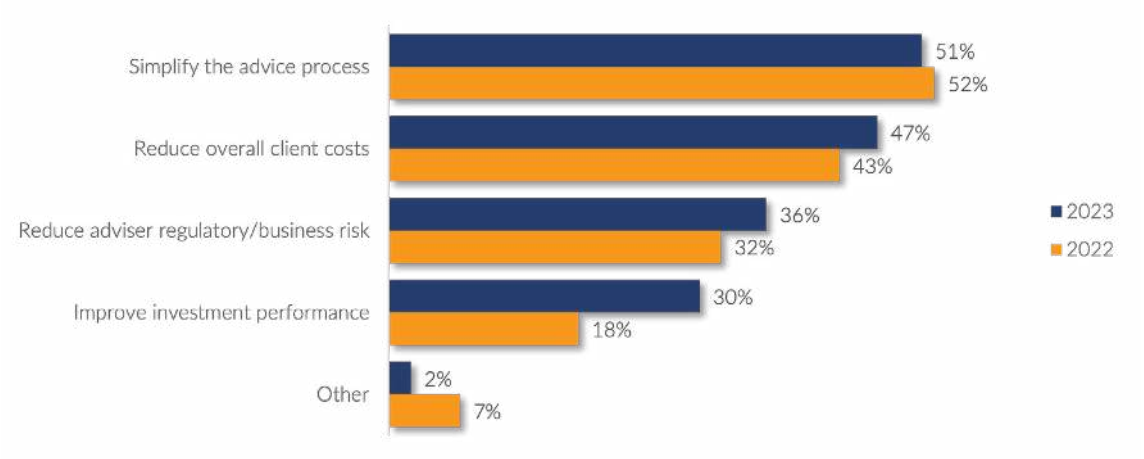
In-house portfolio management is often operationally difficult as clients must agree to every portfolio change.

Figure 43: Reasons for <u>increasing</u> use of multi-asset or multi-manager funds in the next three years



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Figure 44: Reasons for reducing use of model portfolios managed in-house in the next three years

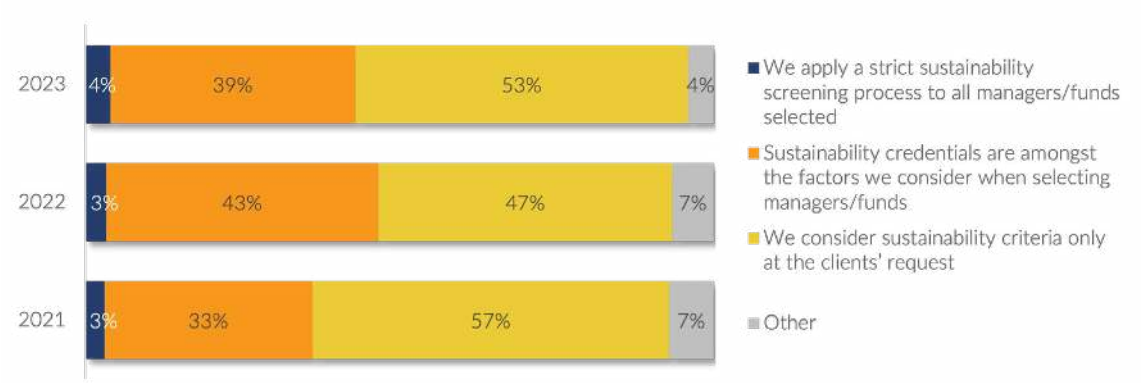


7.3 Sustainable investing

NextWealth's Sustainable Investing Tracker Study, supported by Aegon, shows a continued steady shift of advised assets toward sustainable investment solutions. In our last report, financial advisers estimated that 21% of their client assets were invested in sustainable, ethical or impact solutions.

As part of this study, we wanted to understand how financial advisers take sustainable investing into consideration when building portfolios for retirement clients. The majority consider sustainability criteria only at the request of the client. Just over one third say that sustainability credentials are amongst the factors considered when selecting funds and fund managers.

Figure 45: Extent to which sustainable investment/ ESG issues are considered when building portfolios for retirement clients



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8. Looking ahead

8.1 Advisers' concerns and challenges

The cost-of-living crisis and ongoing investment performance/market volatility jointly top advisers' list of concerns for their retirement advice businesses in the coming 12 months. One adviser we interviewed described the resulting challenge in managing client expectations:

> *"I would probably say it's managing expectations of what a sustainable income is. And I'd say it probably, it's all as a result of the last 12 months and market performance."*
>
> *I also think we're still stuck in a position where there's not enough emphasis on existing providers to meet service level agreements and give the information accurately and in a timely manner."*
>
> Financial Adviser, 11 adviser firm, North West

Another adviser described the challenge of managing clients who are fairly new to investing and have had a fairly bumpy introduction:

> *"To be fair, it's been a very challenging five years. So if people have only invested for four or five years or two or three, it doesn't look good, does it? We've had two crashes and we've had Covid in the middle, even though that has sort of recovered, I think we will probably look back on this as a really ropey five year period."*
>
> Chartered Financial Planner, 1 adviser firm, AR of large national, Scotland

We expect the economic situation and the implementation of Consumer Duty to dominate this year.

Longer term, some advisers express concerns around changing regulation:

> *"Long term...you know, the worry we have as an industry is they will change the rules. So what happens if they suddenly say that pensions are no longer free of IHT when you die? For example, what do we do then? They've been trying to get rid of tax free cash for 30 years? You know, will they do it? I don't think they will. Because there's always that, you know, MPs have an interest. So they don't want that to happen. Lifetime allowance is a big problem for a number of clients, because their pots are growing and growing, or they've been putting money in and suddenly they've got to pay extra tax. So that's always an issue for my clients anyway. But I think changing the legislation could have a fundamental difference."*
>
> Partner, 4 adviser firm, Hertfordshire

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8.2 Advisers' wish lists

We also discussed what advisers would like to see change to improve how they deliver retirement advice to clients.

8.2.1 Personalised guidance

Advisers express a desire to be able to work with a wider range of clients, perhaps through a 'middle ground' between full advice and guidance:

> *"Well, paperwork, we would be able to help more people, you know the great number of people that are not particularly well-served by the financial advice community, were it not for the regulatory regime that we have at the moment. It would be lovely to be able to offer a very light touch service, pointing people to low cost investment solutions. If we did not have the regulatory framework that we currently have, with regards to PII liabilities and so forth. If we were able to offer somewhere between advice and money guidance and full advice, if we were able to offer something in the middle. That would be great."*
>
> Chartered Financial Planner, 2 adviser firm, Southeast

8.2.2 Fixed term annuities

> *"What I would really like to see the industry develop is much better things like fixed term annuities. So some of them are written under annuity rules. Some of them are under drawdown rules. And it's a nightmare, because often I find the providers don't particularly know what they've got. And so you can get quite far down the line, before someone will turn around and say, 'Oh, hang on a minute, you can't do that because of x,y,z'. And it's just really frustrating. I'm always looking for more toolkits and more tools to be able to offer clients better solutions."*
>
> Wealth Management adviser, 20 adviser firm, London and Midlands

8.2.3 Solution-based products

> *"It's about kind of issues and needs, and maybe about solving technical, solving clients' problems. And some of that might be a bit techy. It's not about the features. And it's not about the ABC of the products, it's about how the products fit into solutions for clients. So I think anything they can do, to, you know, highlight the issues of clients."*
>
> *Partner, large national firm*

Conclusion – Reflecting on five years of retirement advice research

This is our fifth annual report on retirement advice and we wanted to reflect back on what has changed and not changed over the course of the study.

Three big changes in retirement advice in the past five years

1

Availability of DB transfer advice

When we wrote the first report in this series in 2018, 60% of financial advisers in our survey were offering DB transfer advice. The consensus from advisers was that client demand was going to keep growing.

We were less optimistic as we saw the emergence of issues at British Steel and indications of a tougher regulatory approach. This was borne out and our latest research shows that only 22% of advisers still offer DB advice and only 14% expect to continue to do so at their current level.

The changes that the FCA has introduced over recent years together with the business risk of undertaking this advice have been key contributors to the reduction in supply. With interest rates rising sharply, it seems likely demand will also wane as transfer values look far less attractive than they did just 12 months ago.

2

How advisers go about setting withdrawal rates

In 2018 two-thirds of advisers used a fixed rate or range to determine a safe withdrawal rate, with most opting for the 4% rule. Our most recent survey finds that only 29% use a fixed rate or range. More advisers are opting to use cash flow modelling or scenario modelling – 52% in this year's survey.

The increased use of cash flow modelling to identify a client's income requirements has allowed advisers to better assess whether clients will be able to meet their income requirements without running out of money. This is hugely important –the most common retirement advice client objective is to use savings to create a sustainable lifetime income while preserving all or part of the capital. Cash flow modelling and scenario modelling allow advisers to answer this critical question with more certainty.

While the move to using cash flow and scenario modelling tools appears to have plateaued, we expect that advisers will continue to move towards a goals-based planning approach which will likely drive further growth in their use.

3

Increased use of investment outsourcing

Over the five years of our research, we have seen a growth in the use of multi-asset with 48% of advisers now saying they always or often recommend multi-asset funds compared to 35% in 2019. Similarly we have seen a growth in outsourcing to DFMs with use of DFM model portfolios rising from 23% to 30% and bespoke portfolios rising from 14% to 21%. This year we saw the biggest change in use of DFMs with a sharp decrease in the share of advisers that said they would 'never' recommend a DFM for model portfolios or bespoke discretionary portfolios.

Two things that have changed less than expected

1

Use of centralised retirement propositions or CRPs

When Richard and the team at NextWealth embarked on this research five years ago, we expected use of CRPs to grow as advisers continued to professionalise the process of delivering financial planning advice.

At that time, we defined CRPs as a common approach to retirement advice across a firm. Most other definitions of CRP equated it to a centralised investment proposition for retirement. We believed then and do now, that it should include the processes and tools used to deliver retirement advice.

In 2018, 46% of financial advisers told us they had a CRP. Today it's still only 52%, although another 14% say they intend to introduce one in the next 12 months.

The main reason for not introducing a CRP is that advisers prefer to tailor advice to individual client needs. This is absolutely right, but we still believe that having a common framework within which to retirement advice overall is important.

We expect that we may see a growth in CRPs or at least some greater standardisation of retirement advice within firms coming off the back of Consumer Duty and the FCA retirement income advice review.

2

Retirement investment approach

Another area where we have seen less change than we might have expected is in the investment approach used by advisers to support clients in retirement. The total return approach remains most popular and only 48% of advisers use a different set of portfolios for clients in retirement, marginally down on the 53% who did this in 2018. This latter point is surprising given the very different characteristics of clients decumulating assets from those saving for retirement.

The negative effect of interest rate rises on supposedly low-risk portfolios will no doubt cause some to examine their approach to retirement investing going forward, especially as most agree that investment conditions will continue to be challenging over the coming years. With yields returning to more "normal" levels we may see income-driven investing make a comeback and more blending of total return strategies with products that deliver some certainty of income.

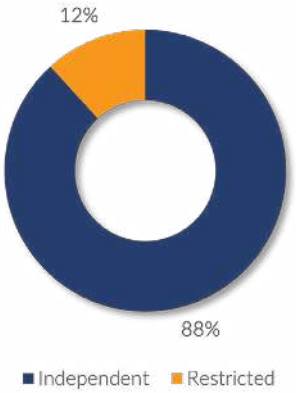
As we look forward to the next five years, we see demand for retirement advice continuing to grow. There are concerns that financial advisers may not be able to meet that demand. We expect to see a rise in guided journeys for investors with simpler needs. We also expect financial advisers and the wealth management market more broadly to offer better solutions for funding social care.

We look forward to charting the course for retirement advice over the next five years.

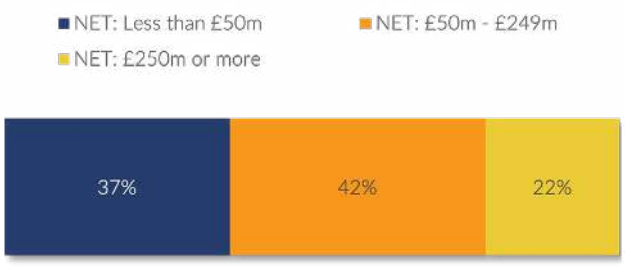
Respondent profile

The profile of respondents is similar to past years:

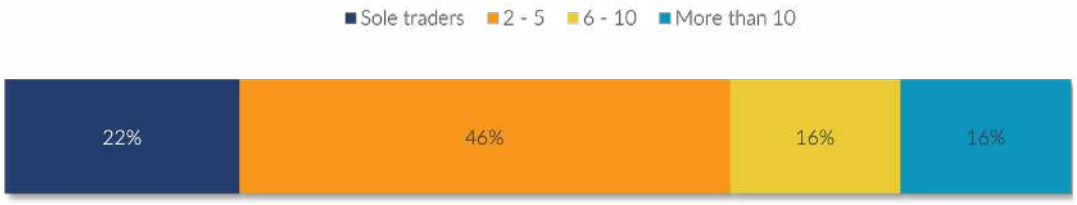
Firm status



Assets under firm's advice (AUA)



Client-facing financial advisers providing advice within firm



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Contact **Tess.Gee@aegon.co.uk** for media enquiries. For more information visit **www.aegon.co.uk**.

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