# CASE STUDY NO. 2

**ADVISER PROFILE: a Chartered Independent Financial Planner, working primarily with business owners and the self-employed. Around 28% of client funds are currently in drawdown/providing an income in retirement.**

## Adviser insights: centralised retirement propositons

With the retirement income market an area of continued growth and focus, we wanted to better understand how advisers are dealing with the broad spectrum of needs, priorities, risks and options to be considered with and for their clients. In short, their retirement philosophy.

Working with our friends at the lang cat, we spoke with a number of advisers to find out what a centralised retirement proposition (CRP) means to them, how it may (or may not) fit into their proposition and their views on some of the key themes around retirement income planning.

Our grateful thanks goes to the advisers for sharing their time, experience and expertise with us.

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THE LANG CAT

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## 1

Does your firm currently have a CRP and can you summarise your interpretation of what a CRP is?

Not really, by any definition that I've seen of a CRP. I've seen it described as a separate investment proposition, and as an approach and process that you take with retirement clients.

## 2

Do you take a different approach to clients in retirement compared to those in accumulation? If so, how does your approach to clients in retirement differ?

I take a full financial planning approach and every client gets full cashflow planning. Clearly, if the client is approaching retirement, it will be about what they want to achieve in retirement and how we'll generate the income they need from the portfolio to do that. But essentially it's the same process and the same questions.

I'm not sure what you would need to do differently for retirement. You still want to know what a client wants, when they want it and what it'll cost them. If you're doing a proper financial planning process, there's no difference.

## 3

Please talk us through how you approach the following key areas of the advice process, when dealing with clients in retirement.

**Risk profiling:** It's exactly the same. The only thing that becomes more real is capacity for loss, from around five years to retirement. If investments fall and income falls, how does it affect the client's lifestyle? Then you have to look at capacity for loss.

**Cash flow modelling:** Again, nothing changes. It's the same investments, the same reporting process and generally the same review process, except you're also looking at income sustainability.

**Client reporting:** Exactly the same.

**Client review process:** The same, except you're looking at sustainability. Is the client still on track? Has any part of the plan changed? If so, we need to remodel.

> “*I'm not sure what you would need to do differently for retirement. You still want to know what a client wants, when they want it and what it'll cost them. If you're doing a proper financial planning process, there's no difference.*”

**Disclosure e.g. MiFID II costs and charges:** I can't think why in regulatory terms it would be any different. In fact, from a regulatory perspective there can be no difference, it must be exactly the same.

**Anything else:** These days it's generally the same products, but the only difference is that they are being used in drawdown arrangements. The only real change is where you would use annuity products, and that's a one-off piece of advice rather than a process.

## 4

Do your clients pay a different fee structure depending on whether they are pre- or post-retirement?

Absolutely not. It's the same service, so why would they pay any differently? Every client gets the same care and attention, the same financial planning and the same structure. If you are doing full financial planning with every client, why would you do anything differently? It's the same process.

## 5

Peoples' needs in retirement are changing rapidly. What do you see as the biggest current challenge in the wider retirement landscape and in what way is this impacting how you approach decumulation clients?

It doesn't necessarily affect me, as I work primarily with business owners and the self-employed, but more and more people are coming to retirement with a pot of money rather than with DB (defined benefit) pensions. Hopefully those clients will engage with advice earlier.

We're seeing advisers being more professional in working with this. The younger generation of advisers accept that cashflow planning is the way it's done. So what will change is client needs, and hopefully the generation change in the advice sector will help meet those needs.

Over the past 10 to 15 years, the expectations of people reaching retirement have been changing. We had a generation that expected to retire at 55 to 60 and have a much higher standard of living in retirement than their parents did. People are now retiring at 60 to 65 but they want the standard of living that their parents experienced. They're accepting that to achieve that, they will have to retire later.

> ***The younger generation of advisers accept that cashflow planning is the way it's done.***

## 6

How is increasing intergenerational wealth transfer affecting your approach to clients in retirement? Can you give examples of the actions you're taking around this?

We work with a number of families. Sometimes we work with a child who will refer us to a parent, or vice versa. The main thing is to ensure you're talking to at least the two generations where there is a wealth transfer. It's important when talking about IHT (inheritance tax) planning and estate planning that both sides are aware of what's being done and what needs to be done. The average age of my clients is still under 60. As they move into their 60s they will become more aware of wanting to pass their wealth on. It's just sensible financial planning.

## 7

What level of detail do you go into when it comes to centralisation/segmentation of your client base? Have the PROD rules been a driver of this part of your process?

We do it badly, by portfolio size. It's not a great way of doing it, but I've yet to come across a better way. If you're doing full financial planning, there's no real difference. You get the odd client with different needs, but most needs can be met with good ISAs, pensions and GIAs.

You rarely need to do anything much sexier unless you're dealing with very high earners, and you don't get many of them in our part of the country.

## 8

What impact does sequence risk have on your advice proposition for clients in retirement?

It's probably the one thing that's very different in retirement because it's probably very real for anyone in or very near to retirement. It's important to be using real market data. The cashflow planning we do is based on what markets have done in the last 30 years. We do a 'disaster plan' on the approach to retirement – two or three years out – and in retirement. If there was a crash in the first year of a big pension pot withdrawal or in the year a client retires, you need to ask what difference it would make to them. If there was a crash in the next year, how would it affect their investments? It's about those for whom capacity for loss becomes real. You're modelling capacity for loss.

> *If there was a crash in the first year of a big pension pot withdrawal or in the year a client retires, you need to ask what difference it would make to them.*