CASE STUDY NO. 3

ADVISER PROFILE: a firm of Chartered Financial Planners with AUA of £300 million, working mainly with later life clients, the average age of which is around 67 years old.

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.

For financial advisers only.

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1

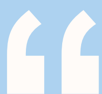
Does your firm currently have a CRP and can you summarise your interpretation of what a CRP is?

To me, a CRP is an investment proposition that is agreed at firm level, specifically to meet the needs of retirees and it's not something we have at our firm. We do adjust portfolios for the investment term but not specifically for retirees. Most of our retirees will go in our 10-20 year portfolios and we also offer a 10-year portfolio and a 20+ year portfolio. As you would probably expect, our 20-year portfolio has more in equities and emerging markets and our 10-year portfolio has more in gilts, while our 10-20 year portfolio will be something in between.

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?

No, we don't have a different approach. The average age of the new clients we take on is around 65 so we are almost exclusively working with people who are at an age where they are winding down or are in retirement. But – and this is the important part – just because a client is retired it doesn't necessarily mean that they are automatically in decumulation. They may have income from elsewhere which meets their needs, or they are drawing down cash, or they may be a non-executive director. So when we refer to retirement clients throughout this interview this doesn't necessarily mean that I'm talking about clients that are in decumulation.



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3

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

Risk profiling: We use a standard risk profile questionnaire through EValue.

Cash flow modelling: We use Voyant and we carry out cashflow modelling for every client, irrespective of their age.

Client reporting: We have an annual review process for all our clients. We use cashflow modelling as part of this and also include any recommendations or changes to investments. We don't use client reporting functionality because I don't really see any benefit – the investment side of things is all centralised and meeting notes etc. are all done through Microsoft Word.

Client review process: A few months before a review is due the client will receive a pack which includes a balance sheet covering things like their income, expenditure and assets as they were last year. The client then needs to update this as part of the review. They will also get a risk profile questionnaire and an agenda. All of this basically updates us on the client's current situation. We'll then use this as we look at their investments and risk profile and cashflow planning, as well as changes to income, or obviously not if they're making contributions. And we'll produce a report following this.

We tend to do everything face-to-face (we visit the client) including client review meetings, although we do have a light touch service

which is still face-to-face but the client comes to our office or it's done online.

In addition to our annual reviews, we obviously have ad hoc contact with our clients throughout the year too.

Disclosure e.g. MiFID II costs and charges: We did this type of disclosure – adviser fee, platform fee and fund fee – even before MiFID II. The only thing that's really changed is we now have more information because fund managers have to provide it and the thing that is new is the looking back over 12 months and the looking forward over the next 12 months. But the actual core data – what you're paying in percentage and pounds – we've been doing for years.

4

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

No, they pay the same as anyone would in accumulation or pre-retirement.

What we do to factor in [market] shocks is to check if a client would still be able to meet their goals if 25% was wiped off their investment value.

The middle generation of a family may be passed down wealth which they don't really need, so they let it skip a generation and pass it to their own children.

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?

I don't think things have massively changed in the retirement market. The one thing I would say is that clients now have to expect lower annual returns in the next 10 years versus the previous 20 years. We need to manage people's expectations around this – cashflow planning can in some ways help with things like a sustainable withdrawal rate, but the problem with this is that it principally works with long-term expected average returns, so it might not be quite as good at accounting for problems like sequencing. One of the ways to tackle this is to have cash balances in place to handle market shocks or having guaranteed income to do it. What we do to factor in shocks is to check if a client would still be able to meet their goals if 25% was wiped off their investment value. If so, then you can probably be pretty sure that financial shocks aren't going to have a massive impact.

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?

Not many of our clients between the ages of 60-70 actually plan to pass money before they pass away; we do assist with sensible planning on death but it does not tend to be a significant priority. If someone is mass affluent or wealthy, then they've probably already helped their kids with a deposit for their first home, and/or funded private education. Most of our clients have already done this before they come to us.

But what we do see is that around a third or maybe even half our retired clients still have parents or other elderly relatives who are alive which means that the middle generation of a family may be passed down wealth which they don't really need, so they let it skip a generation and pass it to their own children (or grandchildren) instead.

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?

PROD means that our clients are already sort of segmented because we know that we're dealing with 65 year olds mainly, the majority of which are about to stop work and will have pension assets because our firm also has an employee benefits consultancy, meaning we're often involved in GPPs (so pensions-heavy). So, we've got a pretty good idea of who our clients are. We don't do it manually because it has kind of already been done for us.

We do have MI on what investment solutions our clients are in, their age, post code and whether they're sensitive to market volatility. This is not just the results of the risk questionnaire – it's more about being labelled, for example, a "high sensitivity" client, i.e. the client is very sensitive to volatility, so we know to get on the phone to them as soon as something happens in the market. Conversely, we may have clients who are risk-averse, but do not respond to market events in the same way.

We don't really segment services or solutions on wealth and, while we do have a light touch service, this isn't based on wealth either – it tends to be members of GPPs who use this, where the employer pays for some service, but not financial planning (the employee can 'top up' this service). We do also have gold, silver and bronze services, determined by our advisers, but again this isn't based on wealth. Essentially, the way we work as a firm means that we have a high touch financial service for about 85-90% of our clients and they get that service irrespective of whether they've got £0.25m, £2.5m, or more.

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8

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

A lot of this goes back to what I said about assessing a client's capacity for loss, but sequence risk doesn't have a specific impact for us. Most of our clients will make a significant drawdown in their first year of retirement and we will discuss with the client what that may mean for them. Sequencing risk is just one of many systemic risks which might impact people but it's really different depending on a client's wider circumstances and individual risks, which can't be modelled. For example, someone who is receiving a maintenance from a divorce which may stop if their ex-partner dies. We run these 'what if ' scenarios through our cashflow modelling rather than using a sequence risk model which only focuses on one particular thing.

We also put an assumption in our cashflow modelling of what the charges will be and we always explain these to clients – most new clients will ask what costs are involved – but this isn't something we do exclusively or differently for clients in retirement.