M&G wealth

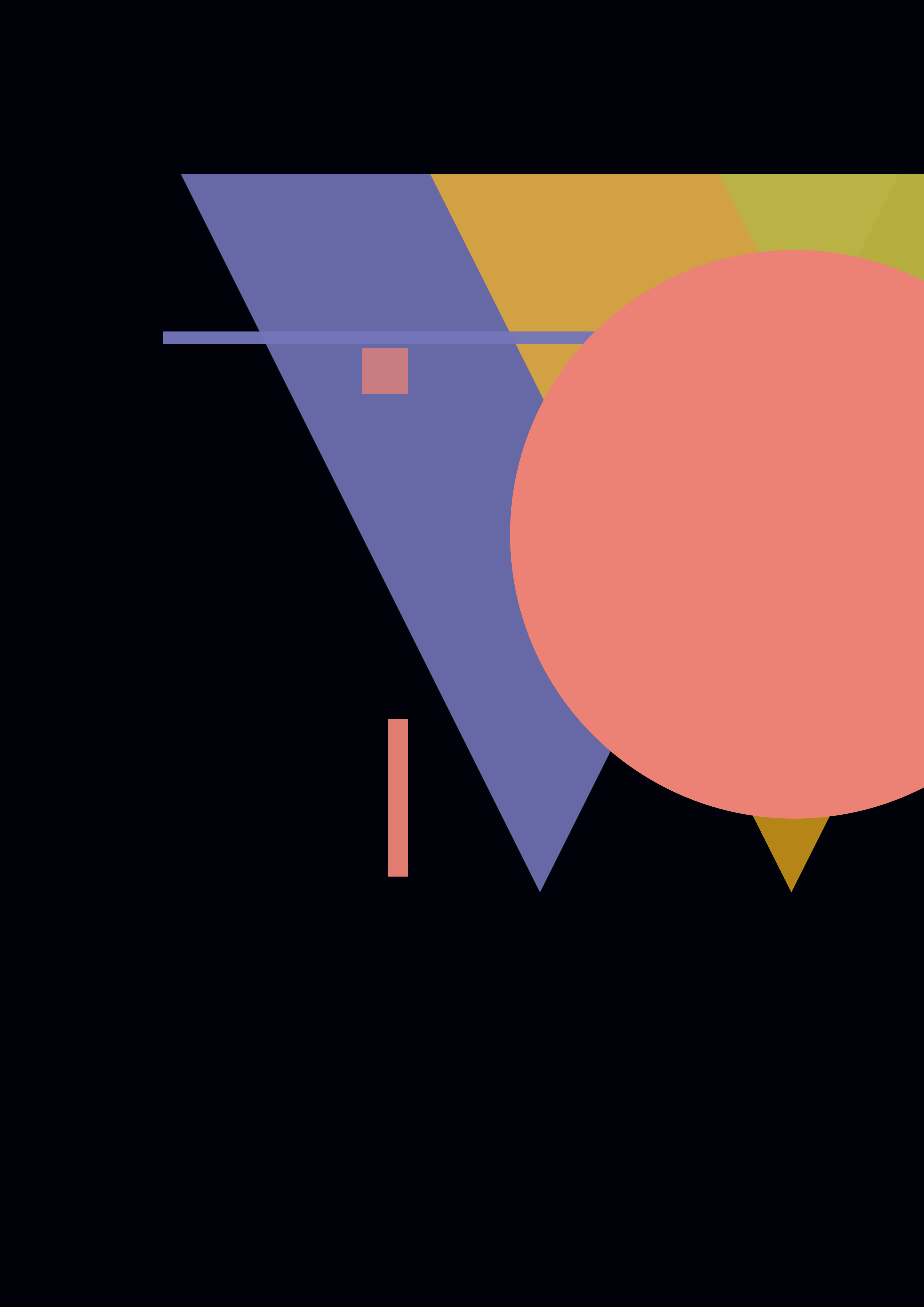
2021

CENTRALISED RETIREMENT PROPOSITIONS

The second annual benchmarking report on the use and adoption of CRPs and the evolution of retirement advice including the impact of the pandemic.

Researched by NextWealth, for M&G Wealth Platform

NEXTWEALTH



For investment professionals only

Foreword

We're delighted to partner with NextWealth on this second annual study into Centralised Retirement Propositions (CRPs).

In an unprecedented year, seeing how advisers are approaching retirement planning has been illuminating.

As the findings on the following pages show, many firms have had to put plans to introduce a CRP on hold as other issues have (understandably) taken priority.

But we also see the benefits that other firms are reaping from having a firm-wide, repeatable approach to planning in retirement – from greater business efficiency to greater client benefit, to keeping the regulator happy.

There are even signs that firms that do have a CRP in place have found it easier to attract new clients over the past year than those who don't.

So, what does that tell firms who are still deliberating whether to put a CRP in place?

It may indicate that having a CRP is becoming a powerful client acquisition tool as much as a business management one.

With more people delaying retirement – and many concerned about the resilience of their retirement pot in the wake of Covid-19's economic fall-out – demonstrating that your firm has a clear, robust and highly disciplined approach to help optimise retirement cashflow and manage risk is especially compelling.

What this year's research has started to show is that firms are discovering the balance between advice and service that's systematic and efficiently delivered but still highly tailored to each client.

We hope this research sheds a valuable light on how advisers are evolving their retirement-planning processes, tools and services for a post Covid-19 world.

None of us knows exactly what's ahead in the next 12 months. But we would safely predict that being clearly positioned to help each client achieve greater financial peace of mind in retirement will be a definite advantage.

Jo Kite
Director of Platform and Marketing,
M&G Wealth Platform

Executive summary

This year's research shows CRP adoption is up slightly on last year, but also that many firms have had to put plans on hold.

Despite this, the benefits of having a firm-wide, repeatable approach to planning in retirement are clear – greater business efficiency, greater client benefit and keeping the regulator happy. It may even help to on-board new clients.

50% of firms currently have a CRP in place compared to 48% a year ago. A fifth of firms plan to introduce one this year. Page 11

On average, 62% of adviser assets are for clients receiving retirement advice. Page 10

(2020: 60%)

60% of advised clients are phasing into retirement or fully retired. Page 10

(2020: 57%)

Greatest benefit of a CRP Page 16

- Benefit to client
- Business efficiency
- Meeting regulatory requirements
- Risk reduction
- NEW: Business process improvement
- Client service design

Main reason not to have a CRP Page 16

- is the preference to tailor advice to each client individually
- Others challenge the notion that repeatable processes are incompatible with custom advice

Business process improvement is a new benefit cited this year, specifically considering the role of the CRP as part of systematically reviewing the firm's processes and targeting areas for improvement, a crucial focus for firms seeking to maximise efficiency and use of resources. Page 16

The impact of Covid-19 on adviser businesses and retirement planning

87% of advisers have taken on new clients since the start of the pandemic, however 41% have taken on fewer new clients than in a 'normal' year. Page 13

13% Those with a CRP in place are more likely to have said that they have gained more clients than usual in the past year (13%), compared to those without a CRP (4%). Page 13

39% of advisers report their clients decreasing their withdrawal rates since March 2020, and 32% say their clients have postponed their planned retirement. Page 14

2020 was the year that sequencing risk went from a concept to a reality, and the strategy was tested, and in most instances proven, by the ability to ride out market volatility especially through the use of cash buffers. Page 20

Top 3 tools used in a CRP according to advisers

Page 19

Cashflow modelling to estimate a client's income needs year on year	**54%** (2020: 58%)
Specific attitude to risk (ATR) questionnaire for retirement clients	**47%** (2020: 65%)
Tool to assess capacity for loss	**33%** (2020: 35%)

77%

of firms have an approach to assess the sustainability of withdrawals, forming a consistent strategy on withdrawal rates. Page 20

(2020: 74%)

Client segmentation

Page 28

27%

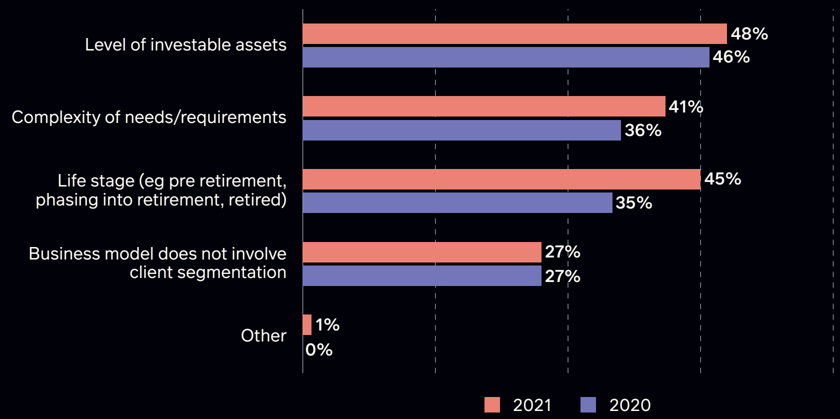
of advisers do not segment their clients

(2020: 27%)

Among those that do, most still base this on level of investible assets (48%), however segmentation by other criteria such as need and life stage is now growing.

91%

of advisers do not segment retirement clients by different criteria to those in accumulation



Older client needs

Page 29

81%

of advisers personally advise clients on inheritance tax planning

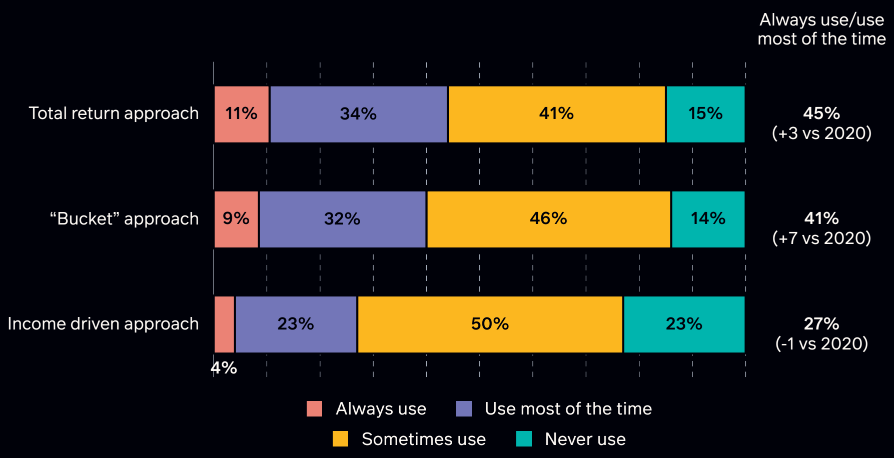
(2020: 84%)

75%

of advisers' clients have or will gift money before death

(2020: 75%)

Portfolio construction for those taking retirement income Page 22



In 2020 the bucket approach gained most ground, while the total return approach has remained the most popular overall. The income driven approach has declined due to low interest rates and dividend returns.

Portfolio construction – in more detail

Last year, 70% of advisers said they would recommend a different set of fund choices to clients in retirement compared to their accumulating clients. This year that's decreased to 58% in our most recent survey. Similarly, fewer are now recommending different platforms and providers to their retirement clients. Page 21

52% of advisers who make use of illiquid assets have diverted their clients' assets away from these funds to alternative funds in the past year. Page 25

Cash strategies and guarantees Page 16

On average, 39% of clients are currently receiving a guaranteed income in retirement that covers their basic needs Page 27

(2020: 39%)

91% of advisers recommend a cash buffer for clients in retirement. In 40% of cases the cash is held on platform Page 26

Responsible investing Page 23

On average, 14% of retirement clients raise the issue of responsible investing with their adviser

82% of advisers now cover responsible investing in the client fact find

A word from NextWealth

In this report on the use of Centralised Retirement Propositions, prepared for M&G Wealth Platform, we examine how the provision of retirement planning is evolving, how financial advisers and planners have fared during the exceptional circumstances of 2020 and the role for CRPs in meeting the needs of both advice firms and their clients.

Now in its second year, this report updates our benchmarks on the usage and structure of CRPs, which we define as a centrally agreed approach to planning in retirement, typically covering the investment and withdrawal strategy and in some cases extending to fact finding, assessing attitude to risk, longevity and capacity for loss.

At the beginning of 2020, nearly half of the 200 advice firms we surveyed were working to a Centralised Retirement Proposition, and a further quarter expected to get one in place during the course of the year. The reality of 2020 meant many plans were put on hold; however in our in-depth interviews with advice firms we heard many stories of silver linings from the pandemic, in which advice firm owners were able to step back and consider their business processes, implement changes, review the technology supporting their businesses and review the needs of their clients.

2021 is another year in which planners will be tested under difficult circumstances; yet at the same time greatly valued by their clients who will seek their reassurance and guidance as they consider their plans for retirement.

Considering the needs of retirement clients, we look at how segmentation practices are evolving, the changing structure of retirement portfolios and the handling of responsible investing for clients in decumulation.

We hope you find this report useful in defining current practice among financial advice businesses and providing a benchmark against which you can consider your own retirement advice proposition. As always, we welcome feedback and input for future studies.

Methodology

The report findings are based on quantitative and qualitative inputs:

- Online quantitative survey of 200 financial advisers conducted between 10 December and 18 December 2020
- In-depth qualitative interviews with ten financial advisers, conducted between 1 and 15 December 2020

The profile of respondents is presented below:

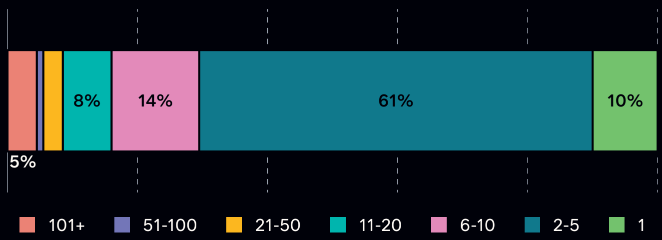
On average,

62%

of adviser assets are for clients receiving retirement advice

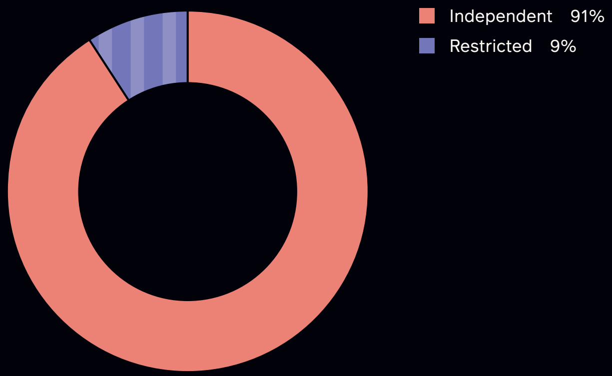
(2020: 60%)

Figure 1: Registered individuals providing advice within firm



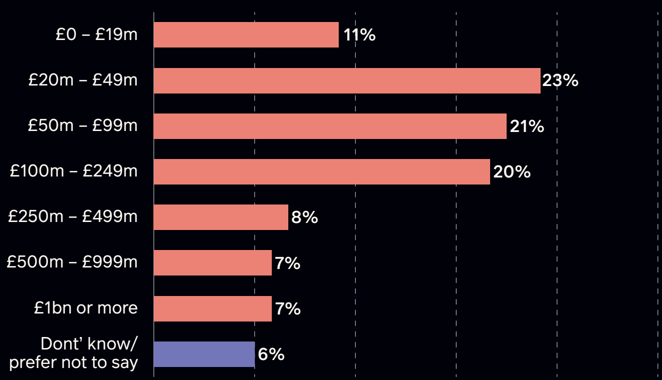
Source: "How many client-facing financial advisers/planners does your firm have?" Base: All advisers, n=200

Figure 2: Firm status



Source: "What is the status of your firm?"

Figure 3: Level of assets per firm



Source: "What level of assets are currently held under your firm's advice?"

Figure 4: Clients classified by lifestage, average

Source: "What percentage of your clients would you classify as...?"

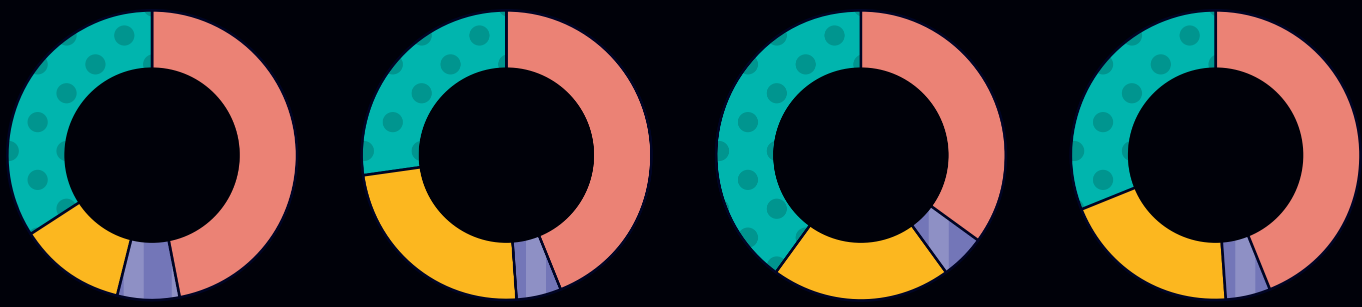
1
CRP benchmarks

At the beginning of 2020, nearly half of financial advice firms reported working to a Centralised Retirement Proposition, and nearly a quarter planned to get one in place during the course of the year. As with many plans last year, the pandemic threw a spanner in the works, and our new survey reveals that just 6% of firms followed through on their intentions to introduce a formalised process for delivering retirement advice.

A fifth of firms tell us they now intend to introduce a CRP during 2021, and if that comes to fruition that would take the total proportion of firms with a CRP to 70%, which was predicted for the end of 2020 in last year's study.

Financial advisers at larger firms are more likely to have a CRP in place. Figure 5 shows that 54% of advisers at firms with more than five client-facing financial advisers have a CRP in place compared to 40% of sole traders.

Figure 5: Existence of a CRP by number of client-facing advisers



>5 client-facing advisers
- In place for 12 months or more 47%
- Introduced in the past 12 months 7%
- Intend to introduce in the next 12 months 12%
- No plans to introduce 34%

2-5 client-facing advisers
- In place for 12 months or more 44%
- Introduced in the past 12 months 5%
- Intend to introduce in the next 12 months 24%
- No plans to introduce 27%

Sole trader
- In place for 12 months or more 35%
- Introduced in the past 12 months 5%
- Intend to introduce in the next 12 months 20%
- No plans to introduce 40%

Full base
- In place for 12 months or more 44%
- Introduced in the past 12 months 5%
- Intend to introduce in the next 12 months 20%
- No plans to introduce 31%

Source: "Does your firm have a Centralised Retirement Proposition (CRP)?"

	2021	2020
In place for 12 months or more	44%	43%
Introduced in the past 12 months	6%	5%
Intend to introduce in the next 12 months	20%	23%
No plans to introduce	31%	28%

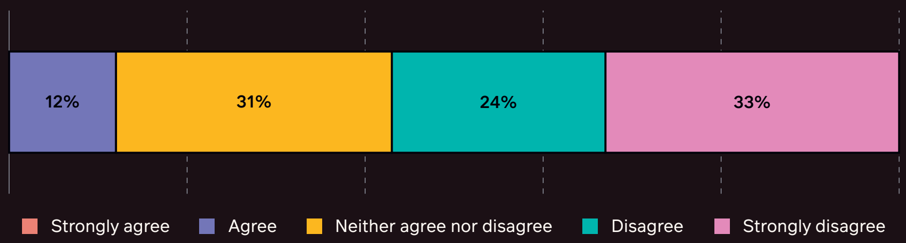
2
The impact of Covid-19

2.1 Impact of Covid-19 on the introduction of CRPs

For this report we followed up with an advice firm we interviewed a year ago; at the time they had planned to roll out a CRP during 2020. They told us “Covid did get in the way” of their plans, and instead they concentrated on one element of the CRP by introducing a standardised approach to the cash buffer.

For those firms who did introduce standardised processes, the pandemic itself was only an influencer in 12% of cases (those who agreed/strongly agreed), as shown in figure 6.

Figure 6: Influence of Covid-19 on decision to implement a CRP



Source: “To what extent would you agree or disagree that this decision has been influenced by the Covid-19 pandemic?” Base: All advisers who introduced a CRP in the past 12 months or intend to in the next 12 months, n=50

However, from a wider industry perspective, the director of a firm that provides outsourced paraplanning services to financial advice firms noted:

> **One outcome of Covid is people have become a lot more process-driven; a lot more focused on delivering things consistently. Maybe, irony of ironies, the financial planning outcomes are probably going to be better because of Covid. Because people are now having to think about the process, rather than just meandering down a path.**

2.2 Impact of Covid-19 on client retention

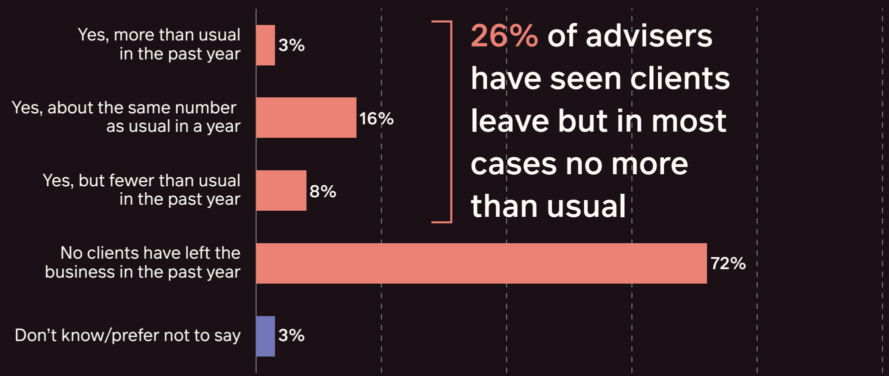
The pandemic undoubtedly impacted on new business pipelines, as advice firms shifted to servicing existing clients remotely and struggled in some instances to build new relationships without face-to-face meetings.

Figure 7 shows the impact of Covid-19 on the number of clients lost and gained in the past year.

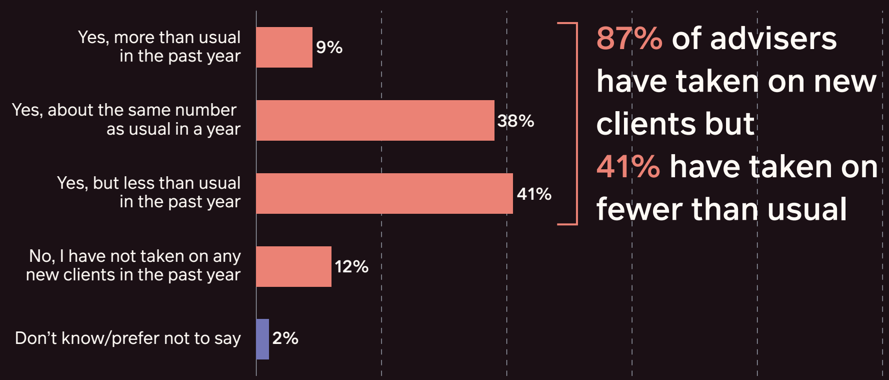
However the picture is not entirely negative. 87% of advice firms have taken on some new clients. Just over a quarter of firms have seen clients leave, but in the most part no more than in a normal year.

Figure 7: Client retention over the past year

Clients left since the start of Covid-19 pandemic



New clients since the start of Covid-19 pandemic



Source: "Have any of your clients left the business since the start of the Covid-19 pandemic (March 2020)?".
"Have you taken on new clients since the start of the Covid-19 pandemic (March 2020)?".

Have firms with CRPs performed better than those without?

Those with a CRP in place are more likely to have said that they have gained more clients than usual in the past year (13%), compared to those without a CRP (4%).

On page 16 we examine the advantages that firms have experienced from having a CRP; primarily they are in benefiting the client and improving business efficiency, both of which would support client acquisition by increasing capacity and in helping advisers articulate a clear proposition to prospective clients.

2.3 Impact of Covid-19 on client behaviour

Many people faced unforeseen changes to their circumstances in 2020 as a result of the pandemic, through redundancies, health or family challenges. The value of financial planning was underlined in this difficult year, and advisers were able to support their clients with adjustments to their income requirements or by modelling various scenarios to help give peace of mind.

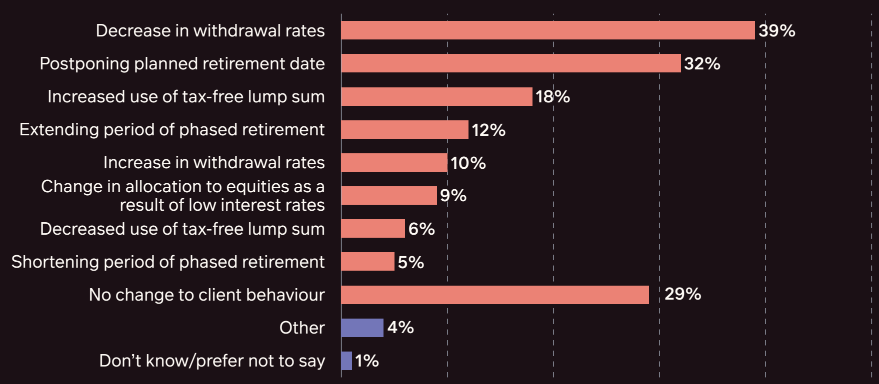
As we discuss in section 3.5, sequencing risk shifted in 2020 from a somewhat ethereal concept for many to a reality, and advisers were able to show how their strategy for portfolio construction helped buffer their clients against the impact of market volatility.

Several advisers told us the pandemic did not prompt any changes to the strategy for managing retired clients' assets, however it did serve to illustrate the reason for holding a cash buffer.

> **The only change this year was that clients dipped into that cash buffer. It had always been the plan – it just kicked into effect.**

Over the past year, nearly 40% of advisers have observed clients taking a decrease in withdrawal rates; the pandemic restrictions curtailed some clients' activities and they simply required less expenditure. In some cases at an annual or more frequent review of withdrawal strategy, advisers have discussed a lower level of sustainable withdrawals given the value of the portfolio.

Figure 8: Change in client behaviour in past 12 months



Source: "What changes, if any, have you seen in client behaviour in the past 12 months?"

3
The practicalities of working to a CRP

3.1 Existence of a CRP in all but name?

From our in-depth interviews with advice firms, it appears some firms may have a partial or even full CRP in place without actually realising it. Advisers refer to elements of a centralised strategy or framework for delivering retirement advice:

> **So we call it an investment framework. So rather than saying, for this sort of client you recommend this, we simply map out a bunch of situations and a bunch of solutions, and balance the risk.**

> **This year we've gone for a standardised approach to the cash buffer. Different advisers were having different conversations, and we realised we needed a matrix. 'If the client has this, then this is what we do.' Next year we plan to roll out a centralised withdrawal strategy, with a withdrawal policy statement that clients will sign.**

Firms may consider mapping out each element of the retirement planning process: the fact find; withdrawal strategy; cash flow modelling; longevity assessment; investment strategy; attitude to risk, and so on. To help identify any gaps where a more robust framework could enhance the client proposition as well as increase business efficiency and reduce regulatory risk.

3.2 CRPs and the desire to offer bespoke advice

Notwithstanding the obvious impact of 2020's momentous events, it appears the number of firms intending to introduce a CRP has plateaued. Last year 28% of respondents reported having no plans to introduce a CRP, and this year that figure has risen to 31%.

As we see in section 3.3, the principal reason for firms choosing not to go for a centralised retirement proposition is the perceived incompatibility between having a repeatable and robust process and their desire to provide bespoke, individual advice.

As one interviewee told us:

> **I'm required to do research on every client individually. So a centralised proposition would actually fall outside of my remit. For me, it's bespoke research every time and to come up with the answer every time.**

Another perspective on this issue was given by the director of an outsourced paraplanning firm, who advises his clients to work to a matrix of options. Such that the process is repeatable but it is near impossible for two clients to come out with exactly the same plan, given their unique position and needs.

He underlines the need for this approach as follows:

> **All the FCA want is for advisers to be consistent. Show me your process. What they don't want to hear is "we're bespoke, it'll be individual", because that means potentially they're not treating every client the same.**

Thus we may conclude that rather than a bespoke versus 'cookie-cutter' approach that may seem undesirable for some financial planners, the choice may be between presenting custom-made options from a matrix rather than an entirely unique, and perhaps less robust or repeatable, tailor-made solution.

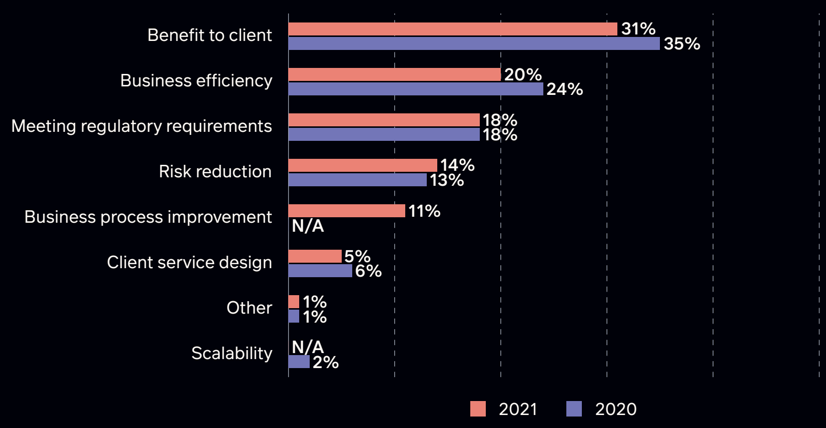
3.3 CRP benefits and challenges

Advice firms currently or planning to work to a centralised retirement proposition are doing so in order to benefit the client in terms of the service and outcomes they receive. As well as to improve the smooth running of the business.

Figure 9 shows the greatest benefits that survey respondents recognise, the most common reason this year, as last, being benefit to the client.

A new benefit cited this year is business process improvement; specifically considering the role of the CRP as part of systematically reviewing the firm's processes and targeting areas for improvement. Given the extensive time and resource pressures under which many advice firms are operating, we think business process improvement is a key area for focus in the running of successful advice firms.

Figure 9: Greatest benefit of a CRP



Source: "In your opinion, which one of the following is the greatest benefit to an advice business from having a CRP in place?" Base: All advisers whose firm has a CRP in place or intend to introduce, n= 139

Key challenges to implementing a CRP

Of the firms with a CRP currently in place:

43%

did not encounter any particular challenges to rolling it out across the business;

Of the

22%

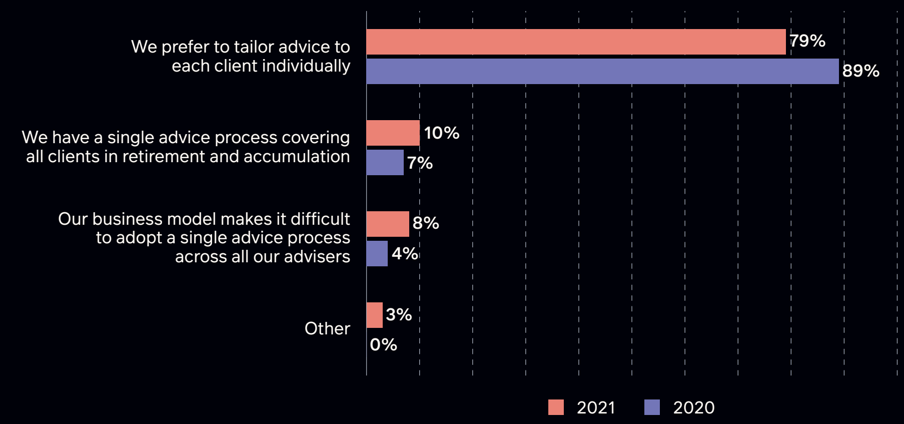
of firms who did encounter some difficulty in the initial set up and implementation, specifically:

12% found it challenging to make the CRP flexible enough to work for all clients, suggesting that firms may benefit from additional guidance in creating a CRP framework that encompasses the majority of the planning options;

10% cited initial set-up and research challenges

As discussed in more depth in section 3.2, not all businesses are sold on the idea of a centralised process. The primary concern, cited by 79% of firms who do not currently have a CRP in place, or any plans to create one, is that a CRP would override their ability to deliver tailored, individual advice to each client.

Figure 10: Main reason for not having a CRP



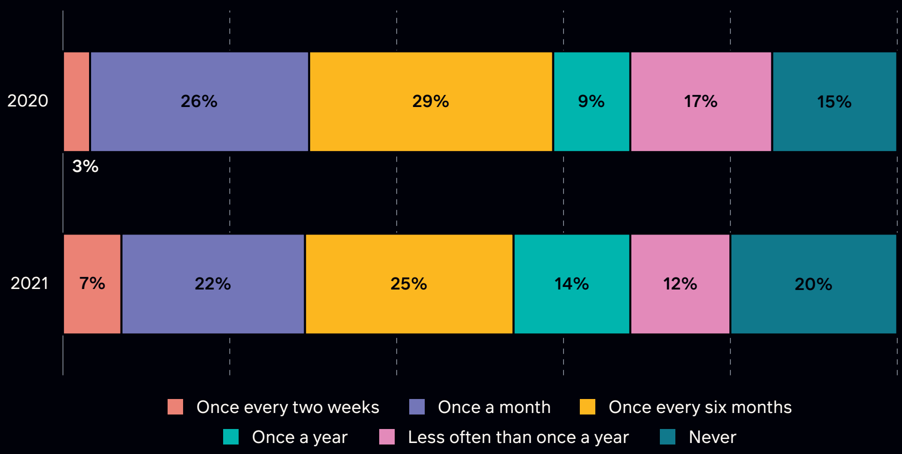
Source: "What is the main reason that you do not have a CRP?" Base: All advisers whose firm does not have a CRP in place or do not intend to introduce one. n= 61

3.4 Scope of the CRP

For those firms that have a CRP in place, this is a framework for delivering a retirement proposition guiding the majority of their work rather than a strict 'one way only' practice. Just 15% of respondents report that they never go outside its scope, compared with a fifth of advisers last year.

Close to 30% say they look at bespoke solutions for clients at least once a month, and another 30% go outside the CRP a couple of times a year.

Figure 11: Frequency of going outside firm's CRP



Source: "How frequently do you go outside your firm's CRP and look at bespoke solutions for your clients?" Base: All advisers whose firm has a CRP. n= 99

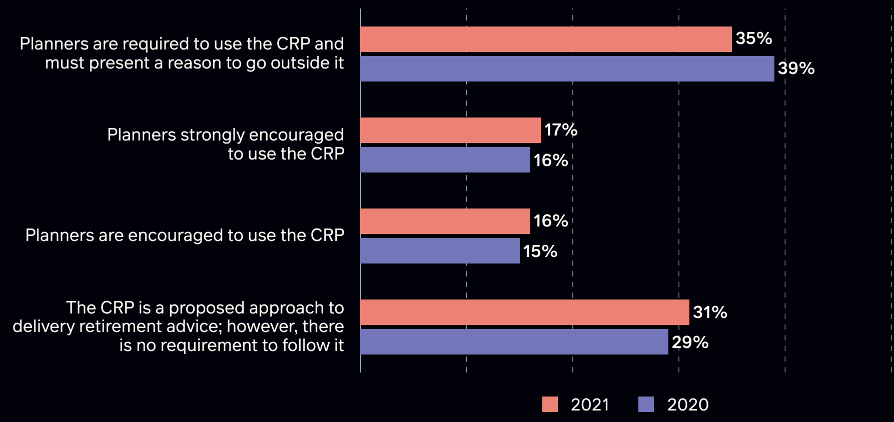
In our in-depth interviews, planners told us:

> **We were doing it, but it wasn't as robust as it should have been. 15 advisers – all ticking the boxes but doing it in a slightly different way. During the last 18 months we collectively decided on our proposition. It's a formal and robust process. If an adviser wants to go outside then it needs compliance sign-off. The CRP introduction was led by compliance but with ongoing collective input.**

The third and fourth most common reasons for working to a centralised retirement proposition (after the benefit to clients and supporting business efficiency) are regulatory compliance and risk reduction. Therefore it makes sense to have a consistent process in place and to monitor any other activity.

This is particularly true for larger firms. 50% of firms with more than ten financial advisers say the CRP is a requirement, and anyone wishing to go outside its scope must present a reason to do so, compared to around a third for smaller firms with two or more advisers.

Figure 12: Requirements to use the CRP



Source: "To what degree are all planners within your firm required to use the CRP?" Base: All advisers whose firm has a CRP. n= 99

> So stuff that we've got high conviction on, we've done lots of due diligence, and we've got high conviction that the solution is good, we'll make it really easy for advisers to recommend. If there's something that we've got low conviction on, or it's really risky, we're going to make them do a hell of a lot of work to justify it. I will say to them, it's not my job to tell you what to do. It's my job to show you where the risks are and ask you that you evidence that you've thought through and justified why it's right.

3.5 Elements of the CRP

One of our interviewees expressed the difference between the CRP and CIP as Yin and Yang:

They are completely different animals. The CIP is about your investment philosophy, the actual investments that you're going to put to different types of people. You're saying to a client, if you come to us, this is what you're going to get.

In decumulation, it's about taking money out of a portfolio, whilst also thinking of the myriad of other things that you need to think about that you don't think while you're accumulating, so longevity, income, life stages, and the list goes on. You've then got the fact finding of really getting depth on where the client's going in life, how they see their retirement mapping out, their health, longevity, trying to get some real understanding of a client's background of family and health, and then moving into the risks, then moving into the planning of how that money is going to be taken from an investment. The retirement income is all about making sure the whole financial planning gambit, including inheritance tax, wealth, protection, income, sustainability, is taken into consideration. So the CRP is very much about a framework to sitting down with an individual and going, 'there's so many different tentacles to this and so many different approaches and so many things to think about'.

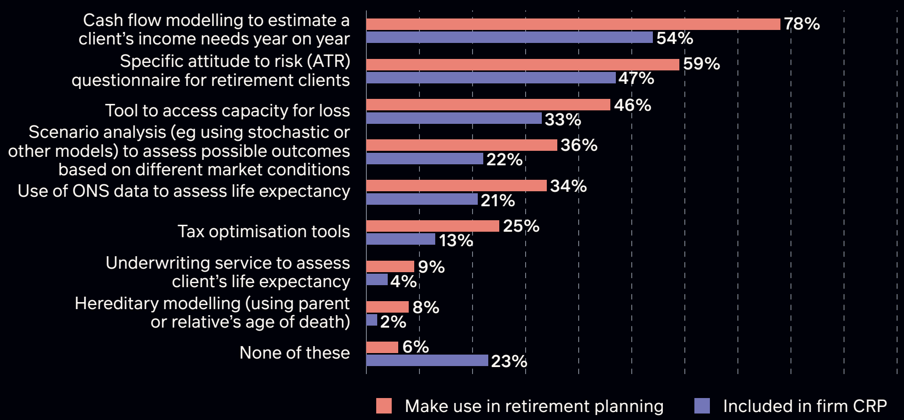
So beyond investment strategy, the CRP is concerned with many elements: the fact find; withdrawal strategy; cash flow modelling; longevity assessment; attitude to risk, and so on, and often incorporates the use of particular tools.

Figure 13 shows the tools that firms are using with their retirement clients, and whether or not those tools are included in a centrally-agreed approach to delivering retirement advice.

Last year, the most common tool to feature in a CRP was a specific risk assessment for retirement clients. This year, cash flow modelling has overtaken and has now been adopted by 78% of advisers as part of their retirement service, though only formally part of the CRP for 54% of firms.

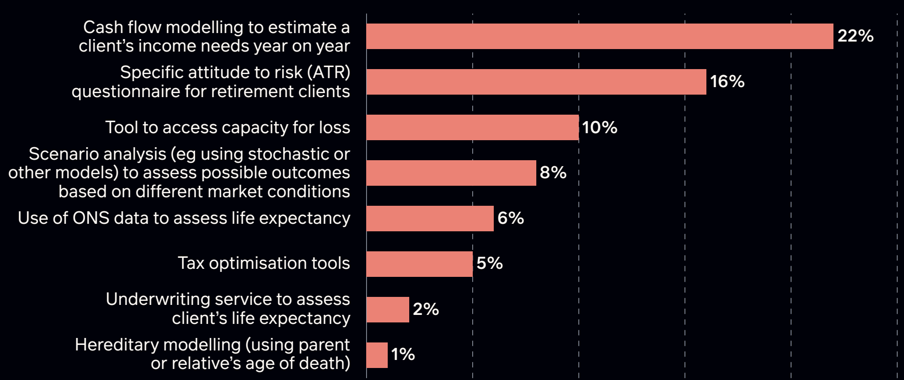
New cash flow modelling tools are also the most likely to have been brought in by advice firms within the past year, as illustrated in figure 14.

Figure 13: Tools used in retirement planning and within a CRP



Source: "Which of the following tools do you use as part of your retirement planning service for your clients?"; "And for each tool that you use, please indicate if it is included in your firm's CRP."

Figure 14: Tools adopted by advice firms in the past year



Source: "And for each tool that you use, please indicate which of these have been adopted in the past year."

Withdrawal strategy

Withdrawal strategy is a backbone of the retirement proposition. Over three-quarters of respondents include an approach to assessing the sustainability of withdrawals as part of the CRP.

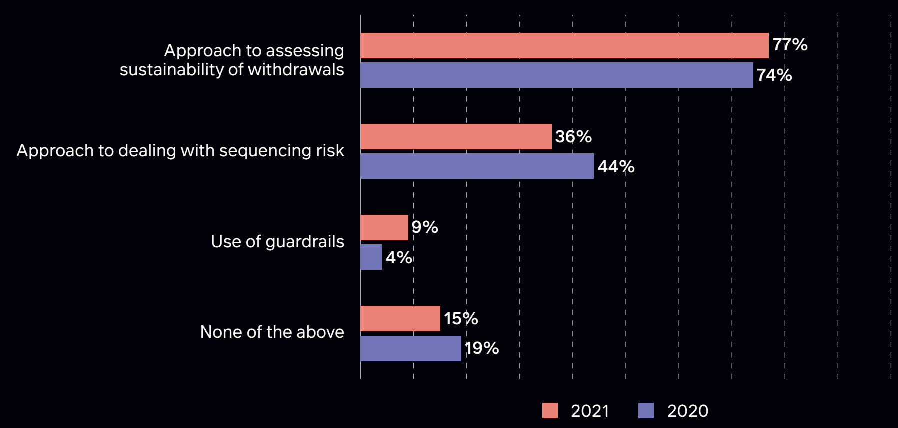
One interviewee's firm will this year roll out a centralised withdrawal strategy, as a core element of the CRP, "with a withdrawal policy statement that clients will sign". This strategy is supported by the use of Timeline. The adviser continued: "clients who are paranoid about running out of money – we can really add some value there."

For many firms we interviewed, 2020 was the year that sequencing risk went from a concept to a reality, and the strategy was tested, and in most instances proven, by the ability to ride out market volatility. As one interviewee explained:

> **In March this year we spoke to clients in our CRP – 'you know those premium bonds and the cash we recommended you hold that you were whingeing about six months ago – now is the time to run that money down'. We told them that because of volatility they don't want to be selling down the portfolio at that point.**

This year's data show some flexibility in the approach to client withdrawals used by advice firms, with a decrease in those adopting a consistent method of handling sequencing risk, but an increase in the use of guardrails to support a flexible withdrawal approach.

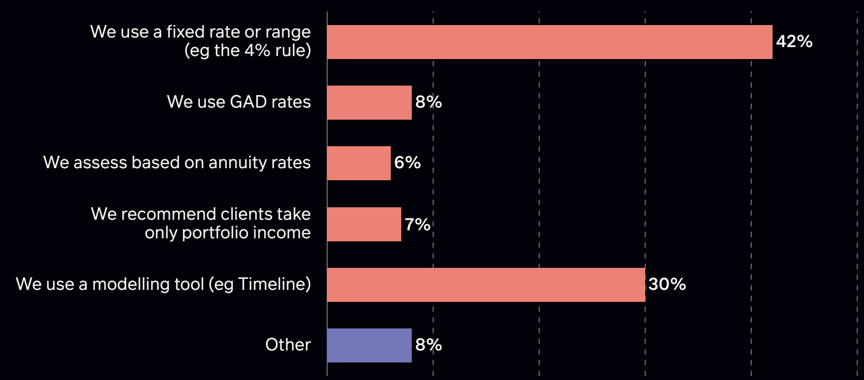
Figure 15: Inclusion of a consistent strategy on client withdrawal



Source: "Does your firm's CRP include a consistent strategy on client withdrawals in any of the following areas?" Base: All advisers whose firm has a CRP. n= 99

The greatest proportion of firms, 42%, are using a fixed rate to calculate sustainable withdrawals, such as the 4% rule. In our research elsewhere we have seen this figure decline over recent years. Meanwhile the uptake of more sophisticated tools for defining withdrawal strategies is increasing.

Figure 16: Sustainable withdrawal rate



Source: "Where clients are using drawdown to create an income for life, how do you usually determine a sustainable withdrawal rate?"

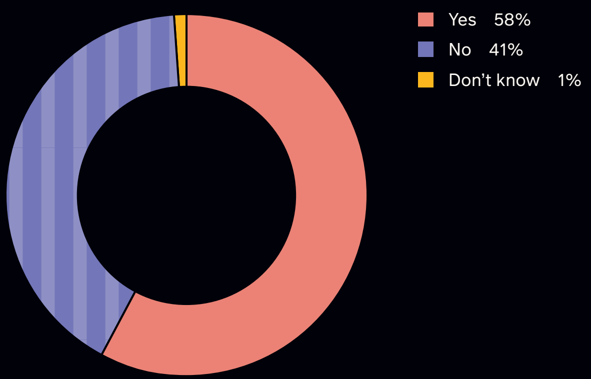
Investment choice and approach

While last year, 70% of advisers said they would recommend a different set of fund choices to clients in retirement, that has decreased to 58% in our most recent survey. In the past, advisers told us that the change could be as simple as moving a client into the income equivalent of a fund or portfolio. That has become less relevant as dividends have been cut and interest rates remain low.

The continued popularity of the total return approach to investing for clients in retirement is another reason for this shift. Portfolios for retirees using the total return approach won't necessarily need a new set of fund choices for retirement as the needs won't be different. We are also much more aware of the need to invest for growth in retirement portfolios.

Advisers may need to tweak a portfolio to adapt to the new strategy rather than a wholesale change.

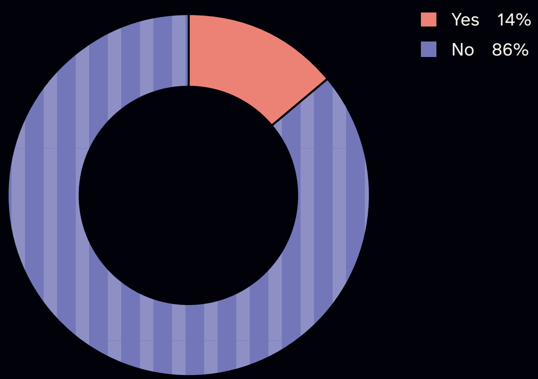
Figure 17: Inclusion of a specific set of fund choices/ portfolios for retirement clients



Source: "Does your firm's CRP include a specific set of fund choices/ portfolios for retirement clients?" Base: All advisers whose firm has a CRP. n= 99

In 2020, 70% included a specific set of fund choices/ portfolios for retirement clients

Figure 18: Recommendation of platforms and/ or providers for drawdown compared to those in accumulation



Source: "Does your firm's CRP recommend the use of different platforms and/or providers for drawdown than those used for clients' accumulating wealth?" Base: All advisers whose firm has a CRP. n= 99

In 2020, 75% did not recommend a different platform and/or providers for drawdown compared to those in accumulation

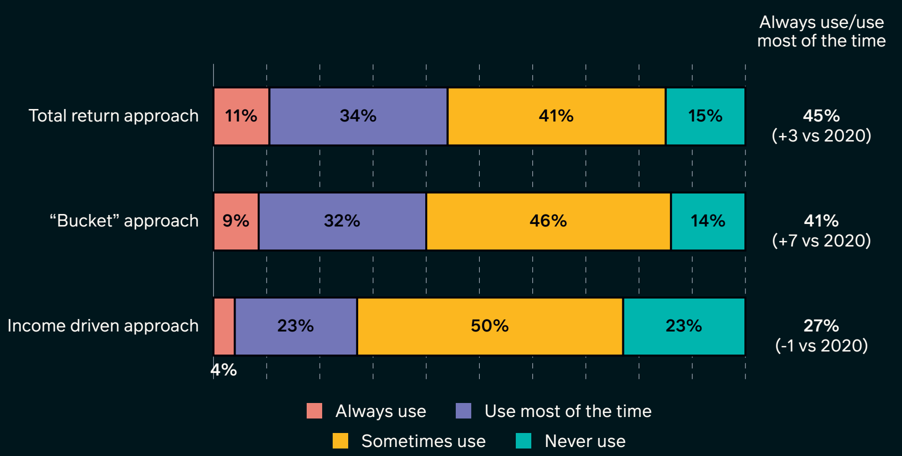
4
Retirement portfolios

4.1 Investment portfolio structure

The total return approach to investing for clients taking retirement income continues to be the most widely used approach. Low rates and dividend cuts have continued to erode the appeal of the income driven approach.

Comparing results year on year, the bucket approach gained most ground with 41% of financial advisers saying they always or mostly use this approach with retirement clients, compared with 34% last year. Firms with a CRP in place are also more likely than average to use the bucket approach. 28% of advisers in firms with no CRP 'always' or 'mostly' use the bucket approach compared to 48% of those that do have a CRP in place. The bucket approach typically means that the client's portfolio is divided between three portfolios, typically cash, intermediate and growth assets.

Figure 19: Investment portfolio structure for clients taking retirement income



Source: "When creating portfolios for clients taking retirement income, how does your firm tend to structure investment portfolios?"

4.2 Responsible investing

Responsible investing, which in this survey encompasses ESG, impact, ethical and sustainable investing, has been a focus for financial advisers as consumer interest and product availability have both increased in recent years. Despite the intense industry and media focus, advisers say it's only introduced by clients in an average of 14% of conversations.

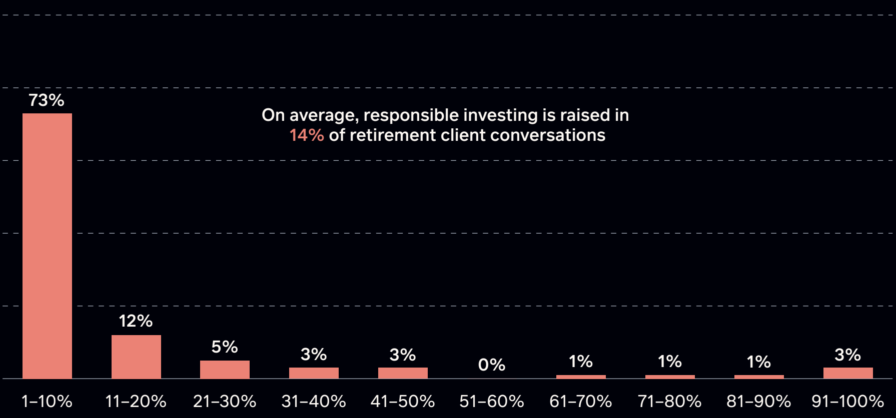
As the UK leaves the European Union the much-anticipated MiFID II rules that would have required advisers to consider a client's interest in sustainability as part of a product recommendation have been shelved. We understand from our conversations with the regulator that ESG and responsible investing is still high on the agenda.

Considering responsible investing for clients has created an additional requirement in retirement planning and should be considered as part of your centralised strategies pre and post retirement.

Despite the lack of a clear regulatory requirement, most advisers say they cover responsible investing in the client fact find pre and post retirement.

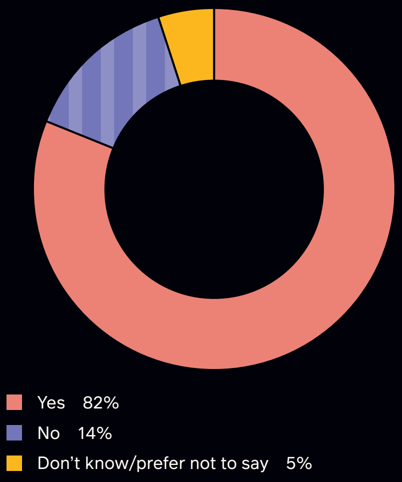
NextWealth's ESG Tracker Study, kindly supported by M&G, found that this typically falls under the ethical heading and is in most cases cursory.

Figure 20: Responsible investing in client conversations



Source: "In what percentage of your retirement client conversations does the client raise the question of responsible investing (by responsible investing we mean ESG, impact, ethical and sustainable investing)?"

Figure 21: Responsible investing within the fact find for retirement clients



Source: "Do you cover responsible investing within the client fact find for retirement clients?"

4.3 Investment strategies and criteria for using DFMs

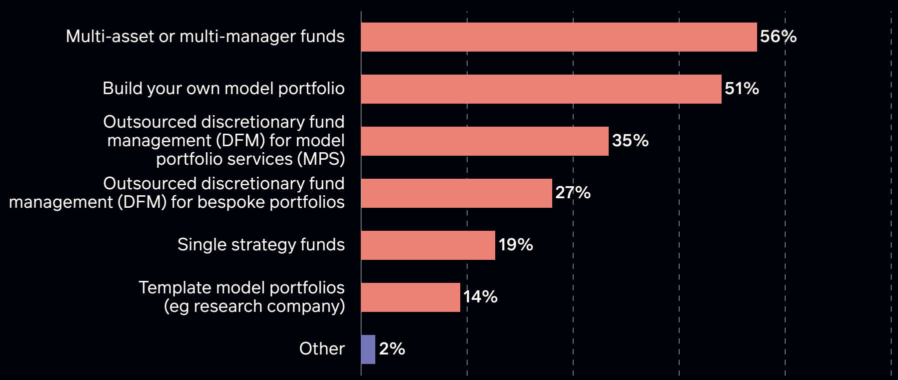
The most commonly used investment strategy for retirement clients is multi-asset or multi manager funds, followed by adviser managed models. Over half of advisers use at least one of these strategies for retirement clients.

Among the advisers that do use a DFM for retirement clients, expertise and performance are the two most important selection criteria.

One adviser we spoke to thought DFM is a particularly good solution for clients with specific ESG or ethical preferences.

> **If they're specific then it's bespoke. We explore different DFMs that have ethical options. We also have a discretionary model portfolio service.**

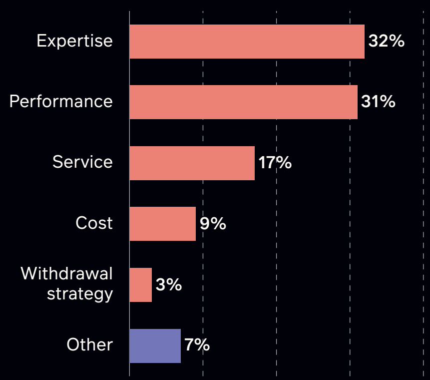
Figure 22: Investment strategies used for retirement clients



Source: "Which of the following investment strategies, if any, do you use with your retirement clients?"

While DFM model portfolios are used by only one-third of advisers, we expect to see growth in assets to this strategy as DFMs improve propositions for retirement clients. One financial adviser told us in our research for this report that "DFMs are good at growing assets." The adviser felt DFMs aren't as well suited to decumulation portfolios for tax management reasons and for supporting the withdrawal strategy articulated by the adviser.

Figure 23: Most important criteria for selecting DFM for retirement clients



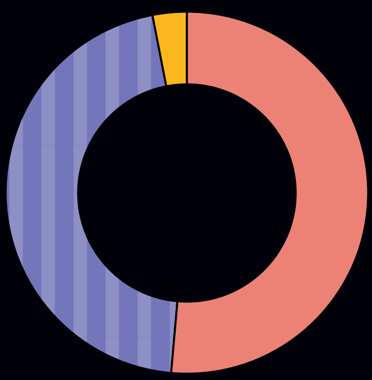
Source: "What is the most important criteria on which you select a DFM for your retirement clients?" Base: All advisers who make use of DFM, n=87.

4.4 Use of illiquid assets

2020 saw the closure of several property funds prompting the regulator to consider whether to introduce a notice period for taking withdrawals from funds holding illiquid assets.

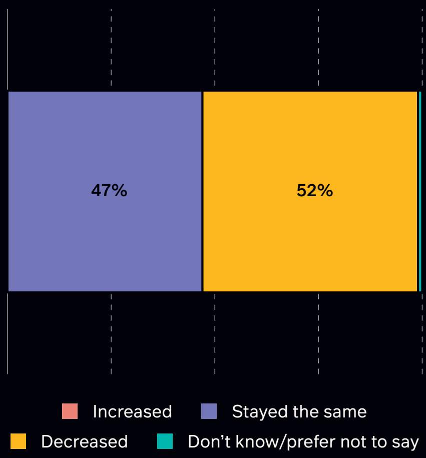
In the past, property funds have been considered a good solution as part of a retirement portfolio due to the income they generate. Just over half of advisers told us they use illiquid assets, such as property funds, in portfolios for retirement clients. Among those that make use of these funds, half have reduced their allocation to these funds, diverting these, in most cases, to other funds.

Figure 24: Use of illiquid assets in retirement portfolios



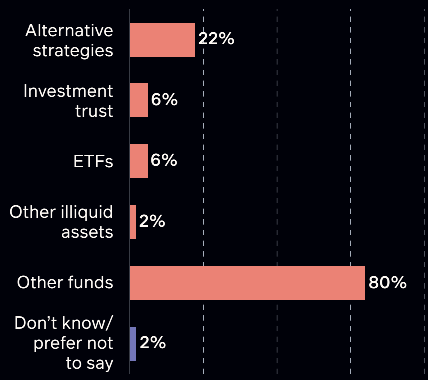
Source: "Do you use or have you used illiquid assets (eg property funds) in portfolios for your retirement clients?"

Figure 25: Changes to the allocation to illiquid assets in the past year



Source: "How, if at all, has your client assets allocated to illiquid assets changed in the past year?" Base: All advisers who make use of illiquid assets, n=103.

Figure 26: Destinations for assets transferred out of illiquid holdings



Source: "You have stated that your allocation to illiquid assets has decreased in the past year. Where has this allocation been transferred to?" Base: All advisers whose use of illiquid assets has decreased, n=54.

4.5 Strategies around cash holdings

Most financial advisers – all but 9% – recommend a cash buffer to retirement clients. Cash buffers come in for criticism as being a drag on an investment portfolio but they play an important role in easing client concerns about market volatility and risk.

One adviser we spoke to put it this way:

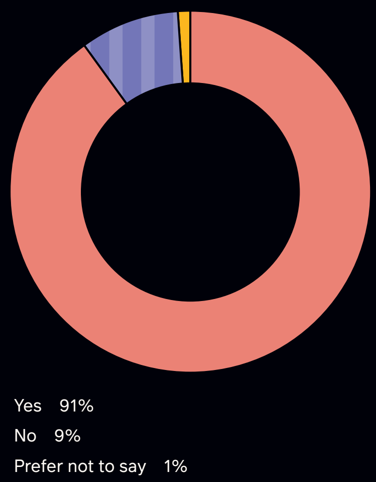
> **For clients taking drawdown, the cash buffer has an important psychological impact. Investments have fallen, but don't worry you've got 6, 9, 12 months' income in cash so we're not touching the investments. It drags performance but there's a trade off with peace of mind.**

The most common solution for holding the cash buffer is a bank account. Advisers typically use a combination of solutions for cash holdings – often using a bank account in combination with either the platform or NS&I. For the bank account, some advisers will use a bank account separate to the client's current or savings account in order to have more visibility of that cash.

One adviser we spoke to sets up a Cater Allen bank account for clients and uses a standing order to deliver a monthly sum of cash to the client's main bank account, akin to a salary. The Cater Allen account is topped up regularly but those top ups stop temporarily if markets fall.

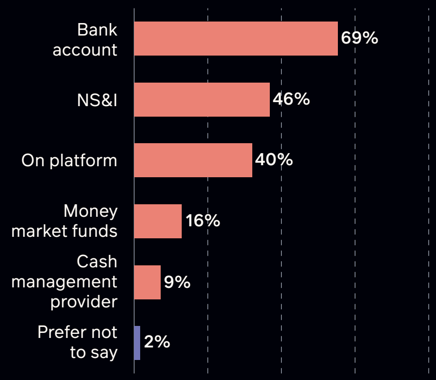
Investment platforms are used to hold client cash for 40% of advisers. While cash is typically needed to pay fees, several advisers said they try to keep cash holdings to a minimum on platform.

Figure 27: Recommendation of cash buffers for retirement clients



Source: "Do you recommend a cash buffer for the majority of your retirement clients?"

Figure 28: Main solution for retirement clients' cash holdings



Source: "What are the main solutions you use for your retirement clients' cash holdings?"

4.6 Use of guarantees

The decline of annuities was swift after the introduction of pension freedoms. Poor rates and the cost of guarantees were blamed. Some alternative products were introduced to offer guarantees to retirees, but most have failed to gather assets, again because of the high cost of offering guarantees.

Research for this report shows that 39% of advised clients have guaranteed income to cover their basic needs.

Where clients do not have their basic needs met by guaranteed income, we asked advisers the likelihood to recommend a guaranteed income product. 35% said recommend these products always or most of the time in these cases.

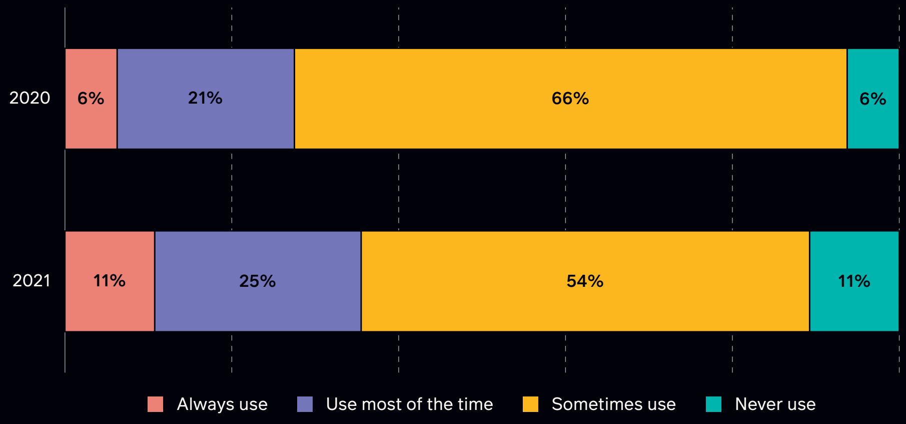
Figure 29 shows that likelihood to recommend a guaranteed income product increased this year. We suspect the market volatility and greater sense of uncertainty fuelled this change. We also increasingly hear from advisers who recommend deferring the decision to purchase an annuity to a later phase of retirement. During the early active stage of retirement, the flexibility offered by drawdown is appealing and appropriate. In later stages, there is more certainty about longevity and health and rates tend to improve.

On average,

39%

of clients are currently receiving a guaranteed income in retirement that covers their basic needs

Figure 29: When basic needs are not met, likeliness to recommend a guaranteed income product, eg Lifetime annuity



Source: "When a client does not have basic needs met, how likely are you to recommend a guaranteed income product such as a lifetime annuity?"

5
Client segmentation

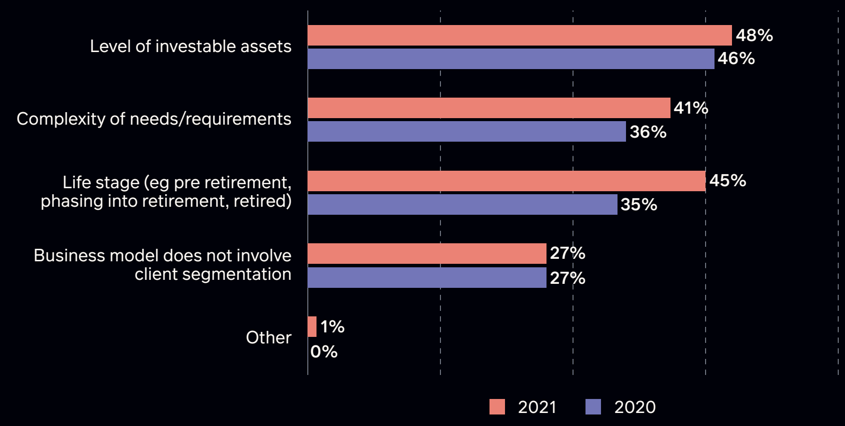
Client segmentation strategies are evolving. Compared with a year ago, more advice firms are dividing their client banks by criteria other than purely asset levels, for instance by complexity of needs or life stage.

The issue of segmentation has been the subject of much regulatory and wider industry attention in recent years. We believe successful advice firms have the needs of their clients firmly at the centre of the business, and this requires a deep understanding of who the firm currently serves and its defined target market. Therefore segmenting the client bank only by asset levels risks missing opportunities to improve client service and to identify valuable niches of clients.

Other firms have found segmentation exercises useful as a way to bring consistency to the business and to ensure advisers are offering a comparable service to clients with similar needs.

Beyond the 45% who say they segment by life stage, most do not take a different approach to client segmentation for retired clients.

Figure 30: Segmentation criteria



Source: "When considering your client base, which of the following criteria do you take into account when segmenting your clients?"

6
Needs of older clients

Advising clients in retirement can bring added complexity to the advice given and the relationship with the client. Two additional areas we asked about in our survey were inheritance tax planning and intergenerational wealth transfer.

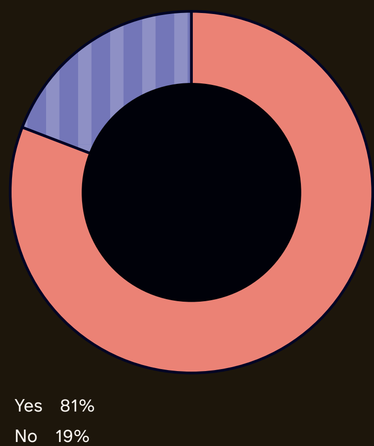
A high proportion of advisers (81%) personally advise on inheritance tax planning.

In our survey, we found that advisers overwhelmingly say clients have or will gift money to heirs before death and that their clients are focused on minimising inheritance tax liabilities. Just over half (53%) say that intergenerational wealth transfer is a core part to the service they offer retired clients. 59% say it is important to meet with retired clients' dependents.

Our survey results reflect that most advisers are helping clients to gift money and minimise inheritance tax. The focus for advisers isn't about retaining client assets on death. We think this reflects the highly personalised service advisers offer their clients with a clear recognition that the customer is the client, not the client's wealth.

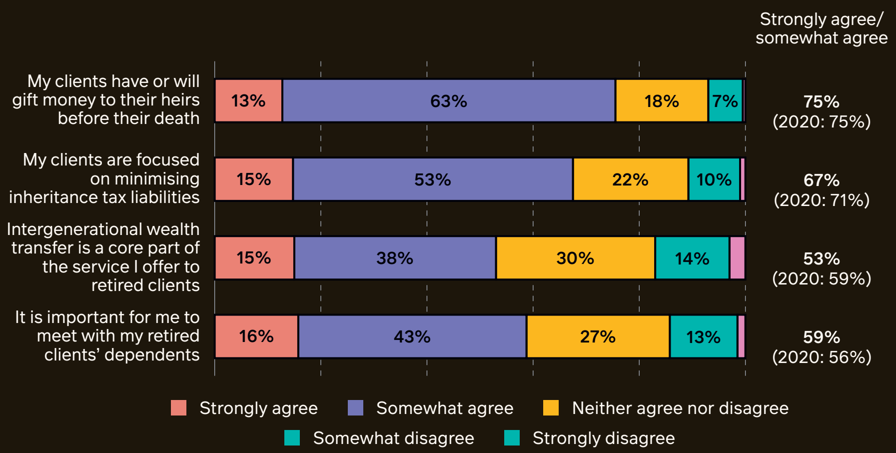
Indeed, despite the restrictions on client meetings this year, the findings show a small increase in the number of advisers who say it is important to meet with retired clients' dependents; 59% of respondents this year compared with 56% in the prior year, which underlines the focus on fully appreciating the needs of both generations in constructing the retirement plan. And may reflect the fall in minimising IHT liabilities and intergenerational wealth transfer.

Figure 31: Advice on inheritance tax planning



Source: "Do you personally advise clients on inheritance tax planning?"

Figure 32: Intergenerational wealth transfer



Source: "Intergenerational wealth transfer has become an increasing focus, both in gifting money to children and grandchildren and through inheritance. Please indicate to what extent you agree with the following statements."

Conclusion

The events of 2020 highlighted the value that financial planners bring to their clients. We saw advice firms increase their communications with clients by multiples; offering personal reassurance through turbulent times, giving particular attention to the vulnerable clients on their books and even opening their expertise to non-clients in online clinics.

Many people saw their circumstances shift in the past year, and financial planners, supported by tools and technology, rose to the challenge of modelling various scenarios to give peace of mind and answers to queries about retirement dates, redundancy options, withdrawal rates and cash flows.

The key takeaways from this research, are the markers of advice firms placing the needs of clients at the heart of their businesses – which is key to the successful advice models of the future – and the underpinning of retirement planning strategies with resilient and repeatable processes to support the smooth running and future growth of the business.

The primary reason for firms introducing a centralised retirement proposition is the direct benefit to the client of a consistent and robust process. Client segmentation strategies are evolving to consider other criteria than purely assets, and advisers are openly considering new ways to structure retirement portfolios to improve client outcomes.

When it comes to centralised retirement propositions, whilst the number of firms choosing to work to an agreed framework has not moved forward as expected, a fifth of firms are currently exploring the idea. We believe many firms would welcome further guidance on how they might structure a framework that delivers a robust and repeatable process while embracing the desire to treat clients as individuals. We do not believe the two ambitions are mutually exclusive. As the research findings indicate, having a CRP may also improve how advisers articulate the retirement proposition to clients and therefore support client acquisition and retention.

We hope this research into centralised retirement propositions is useful to you and your business.
It offers insight from other financial advisers, allowing you to benchmark your own approach. We believe that retirement advice supported by repeatable processes will underpin successful financial planning businesses.
If you have any suggestions for future reports or surveys, please do not hesitate to get in touch with M&G Wealth Platform at platformaskus@mandg.com

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