A GUIDE TO BUILDING A CENTRALISED RETIREMENT PROPOSITION

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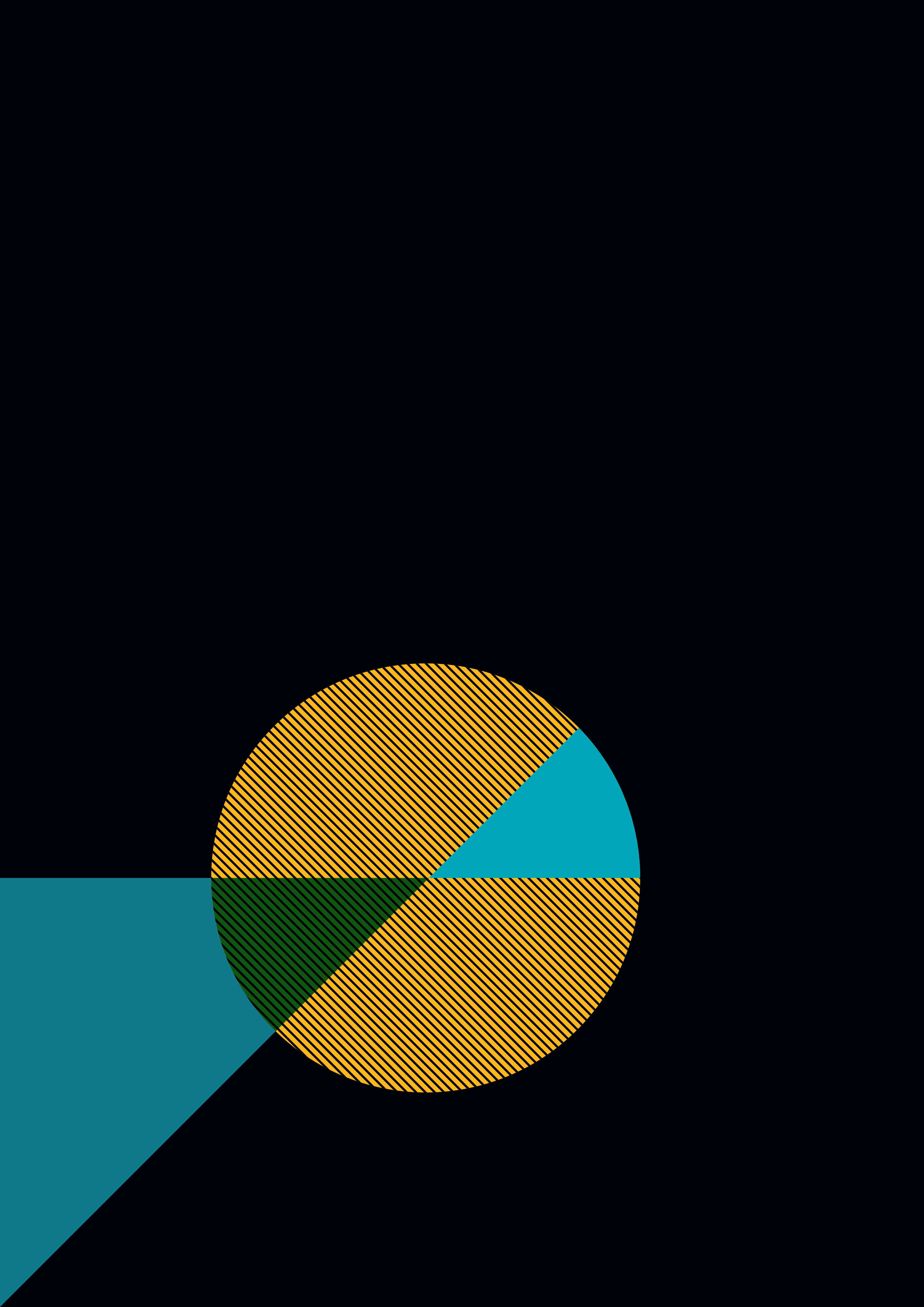


Centralised Retirement Propositions Survey

Throughout this guide, we cite findings from our Centralised Retirement Propositions Survey 2021 conducted in partnership with NextWealth.

Get your copy of the full survey findings to find out more.

For investment professionals only

Introduction

Financial planning in retirement has become a key capability for many advice firms as more and more clients seek guidance on how to make the years after they stop, or reduce, work comfortable and financially secure.

Every client's retirement needs are special to them. But as retirees account for a growing proportion of clients – and challenges such as low interest rates and longer life expectancy persist – many firms have discovered the benefits of standardising and centralising all or some elements of their retirement advice process.

Such an approach is known as a Centralised Retirement Proposition or CRP.

In our 2021 CRP research, 69% of advice firms said they have, or plan to introduce, some sort of CRP. Yet concerns about CRPs remain – particularly that they force clients into certain courses of action or don't give advisers scope to calibrate advice to a client's individual needs.

Getting the right balance

In this short guide, we aim to show how advisory firms are creating CRPs that can help them deliver efficiencies and reliable, repeatable advice processes, while still retaining the flexibility to advise clients individually.

We've partnered with NextWealth to interview outsourced paraplanning firms to gather real-life insight and examples. As well as having helped many advice firms create and run their own CRPs – all three have working knowledge of best practice across the advice sector. Our thanks therefore to:

Tony Slimmings – paraplanninghub.co.uk

Richard Allum – theparaplanners.com

Alasdair Wilson – weareverve.co.uk

We hope this guide is of value to any advice firm looking to evolve its retirement planning proposition. If you have any questions or comments, please contact your usual M&G Wealth Platform team or email us at platformaskus@mandg.com

Justin Blower
Director of Sales, M&G Wealth Platform

Why have a Centralised Retirement Proposition?

Research shows firms are recognising a range of benefits from centralising their retirement planning advice process.

Today, retirement planning is the dominant focus for advice firms across the UK. According to our research, 62% of adviser assets are for clients receiving retirement advice and 60% of advised clients are phasing into retirement or are fully retired.

Having a framework in place that can make the retirement advice process consistent, systematic and – therefore – scalable across a growing client bank can make strong business sense. From a regulatory perspective, being able to demonstrate a clearly-defined and executed advice process for all clients, applied consistently by all advisers, can also be very valuable – provided it can flex to meet the individual needs of each client.

The need for scale

Currently 49% of advice firms in the UK say they have a centralised retirement proposition, and a further 20% have plans to introduce one. Reflecting the need for a scalable process, the larger a firm is, the more likely it is to have a CRP: 54% of advisers at firms with more than five client-facing advisers have a CRP compared to 40% of sole traders.

Benefits of a CRP

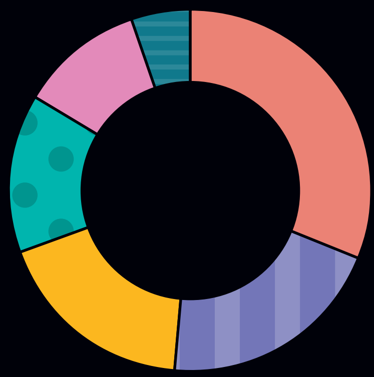
Business efficiency and regulatory compliance are two strong reasons for having a CRP. However, firms with a CRP primarily cite the benefit it can provide to clients as the key reason for having one – see Figure 1.

There are even tentative signs that having a CRP is helping firms attract more business. Our research shows that, in 2020, advisers at firms with a CRP in place were more likely to say they had gained more clients than usual over the past year (13%) than those without a CRP (4%).

Today, 32% of advice firms report clients delaying retirement and 39% report a reduction in withdrawal rates. As would-be retirees become more concerned about their financial prospects, an advice firm that can demonstrate a clear, robust and highly disciplined approach to retirement financial planning may be especially appealing to prospective clients.

> **If you've got your retirement proposition process in place, in combination with PROD rules, platform due diligence and a centralised investment proposition, then it just streamlines the whole process. Otherwise, when a client comes on board, you're doing it from start to finish every time.**
>
> Alasdair Wilson
> The Verve Group

Figure 1: Greatest perceived benefit of a CRP



Source: M&G Wealth Platform Centralised Retirement Proposition Survey, 2021
Base: All advisers whose firm has a CRP in place or intend to introduce one, n=139

Getting started

Centralising your retirement planning advice process is a big step. So, it's important to work out what approach is right for you, how far to centralise and who to involve in the proposition's development.

The first thing to recognise is that it is the processes within the CRP that need to be consistent.

The CRP itself, and the outcomes that it produces for each individual client, are bespoke to the firm and its clients and represent that firm's best ideas for retirement strategies, as illustrated in Figure 2.

Therefore, the approach to building your firm's CRP that we outline in this guide aims to work through some key questions that you can consider to keep your agreed framework as useful and flexible as possible both for your advisers and your clients.

1. What are our reasons for introducing a CRP?

Advice firms cite different benefits from centralising and standardising their retirement planning advice process. The two greatest perceived benefits are how it can support client outcomes and the greater efficiency it can create within the business – see Figure 1 in previous section.

As a firm it's useful to discuss what you hope to achieve by centralising your retirement planning process from an operational, tools, commercial, regulatory, and client-servicing perspective – and which features are most likely to deliver on those goals.

2. How will it work with our Centralised Investment Proposition?

If you already have a centralised approach to advising clients in the accumulation stage of their investment journey, then it makes sense to have a centralised approach to the decumulation phase too. It may still be a total return approach but you might also want to consider other ways of turning capital into income.

A Centralised Retirement Proposition can therefore be structured to complement a Centralised Investment Proposition. From a regulatory perspective, it can be particularly valuable to be able to demonstrate to the FCA how processes such as risk profiling, capacity for loss analysis and cashflow modelling differ for a young client focused on growing their capital versus an older client seeking an income and/or capital preservation.

Figure 2: Creating a foundation for consistent, bespoke advice

Asking the right questions of the firm means the CRP is as BESPOKE to your firm as possible

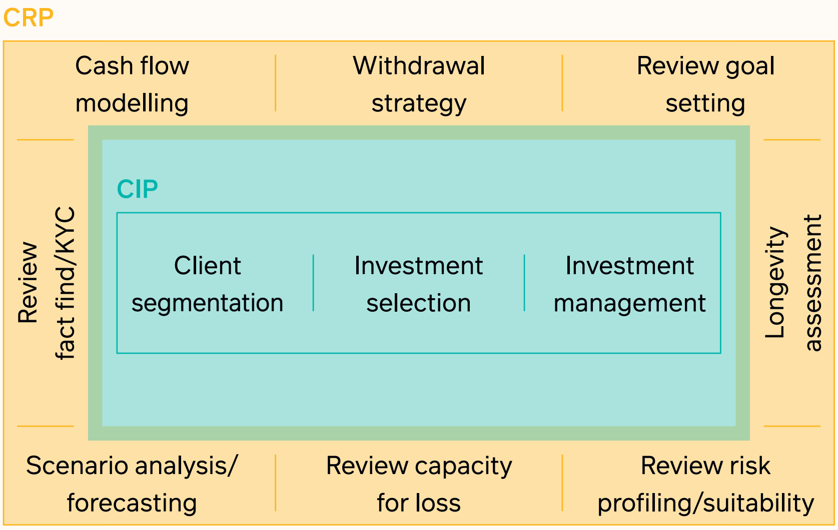
Getting the right CRP in place means your processes are as CONSISTENT as possible

Following your CRP means the OUTCOME is always bespoke to the client

Don't pick up somebody else's CRP and try to implement it in your own firm... you should be able to stand up and explain to any client who asks what your beliefs, approach and starting point are. Producing the CRP should be as bespoke to your firm as it can possibly be.

Tony Slimmings
Paraplanning Hub

Where the CIP focuses on suitability and investment selection, the CRP encompasses many more aspects of the planning process, as illustrated below.



Some elements of a CIP and CRP have the same requirement but will often take on a different angle as clients approach or reach retirement. So should be reviewed with this new lens and changing life stage.

3. Who should be involved in the CRP's construction?

Centralising your retirement planning process affects everyone in your business so it's vital that all stakeholders feel a sense of ownership and control. You may want to involve advisers, paraplanners and the back office team in its creation – perhaps creating a core team to determine its final features.

You may also want to consider whether to enlist the services of an outside paraplanning firm with experience of building a CRP. In this way, you can get to know what's considered best practice, while keeping your CRP totally tailored to your firm.

> **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. 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'.**
>
> Tony Slimmings
> Paraplanning Hub

4. What have been the common elements to our retirement planning to date?

Whether or not you choose to enlist outside help, it can be useful to look at all your clients that have received retirement planning advice over, say, the last five years and look at what your planners have done for those clients. If there are things that are consistently repeated for each client, that can help form the foundation for your CRP.

5. How will the CRP work with client segmentation?

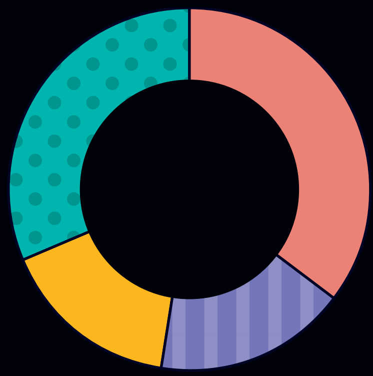
If you have a system in place to divide client servicing by level of assets, life stage or complexity of needs, consider how the CRP would work with this. Should the CRP be the same for all segments – or does it need to be adjusted in some way for any of them? If your firm has an extensive retiree client base, there may be a case for segmenting by retirement stage – e.g. pre-retirement, semi-retirement, drawdown, and full/late retirement. But care needs to be taken to demonstrate to the regulator that the advice process is robust and consistent for all clients.

6. On what basis should advisers use the CRP?

This may be something you can only answer over time as your CRP beds in, but it is advisable to have guidelines as to how advisers are expected to use the CRP. For example, 35% of firms with a CRP currently say planners are required to use the CRP and must present a reason to go outside it. An almost equivalent proportion (31%) say the CRP is only a proposal and there is no requirement to follow it – see Figure 3. It's important to stress, however, that this is a central retirement proposition and not a central drawdown proposition, which should be considered separately.

Generally, the larger a firm is, the more likely it will stipulate using the CRP as a requirement.

Figure 3: Requirements to use a CRP



Source: M&G Wealth Platform Centralised Retirement Proposition Survey, 2021
Base: All advisers whose firm has a CRP in place, n=99

Implementation of a CRP – case study from Paraplanning Hub

An advice firm with seven advisers had been working to a CIP for the past three years. 18 months ago we worked with the MD to build out a specific CRP for them.

Our starting point was the goals document that advisers talked through with their clients. We really looked at how to tighten it up and make sure there was something in each box about why we take a certain approach, and not others.

The firm now has a framework that provides a formulaic but detailed goals discussion; it's a working document that every adviser goes through with every client. Even for a straightforward annuity client, the document the adviser works through shows very clearly why the recommendation has been made.

When I look at the goals document now, even if the adviser's name is covered up, I can guess exactly who wrote it because their nuances still come through, and we use the CRP to make sure that is kept within acceptable tramlines. And, nine times out of ten it is.

The CRP does not allow advisers to deviate unless they can very specifically show why they need to go outside the parameters.

It makes the MD's life very easy because everything is consistent. The FCA could look at any file and see why the advice has been given. It also protects the adviser.

The CRP has become very much the way they now do business. In the last few years the firm has parted company with just one adviser who didn't get it and held to the view that 'I'm the adviser – I know best, so I decide'. With a CRP in place, it's the process that decides.

Building your CRP

Once you've decided what your CRP aims to achieve, you can start deciding what elements it should feature, so your planners can advise retiree clients as efficiently and consistently as possible.

A Centralised Retirement Proposition can consist of as many or as few elements as your business requires. Firms typically focus on those elements where a consistent, standardised approach can allow time and resources to be used efficiently, assure good outcomes for each client – and demonstrate good practice and risk management to the regulator.

But as we've stressed earlier, the key is to focus on what you want the CRP to achieve for your business and your clients – then choose the elements that can fulfil that.

Here are some potential features of a CRP:

Fact-finding and goal-setting

The fact find is probably the easiest (and most essential) element to standardise to ensure information held on clients is consistent across the business. But once hard quantitative facts have been established, advisers also need to assess the more qualitative factors that can help pinpoint a client's life objectives. As part of a CRP, such questions can include:

- What is their 'secure' income going to look like?
- What is their discretionary versus non-discretionary spending?
- What liquidity do they think they're going to need?
- How might their spending vary heading into retirement, mid-retirement, and late-retirement?
- How do they feel about security of income as opposed to access to capital?
- What are their wishes for passing on capital?
- What are their wishes for ethical, responsible or impact investing?

Learning from the past

Specifying a withdrawal strategy can be a daunting challenge given the impact it can have both on a client's capital and their standard of living. As a useful starting point, Paraplanning Hub's Tony Slimmings references the Dimensional Matrix Book. Compiled by Dimensional Fund Advisors, it details 30 years of returns from a range of fixed income and other asset classes. By putting income and capital returns in a long-term context and showing how they have averaged out over time, the data can help clients to be more comfortable about short-term downturns and understand what level of income is realistic.

Client withdrawal strategy

This is by far the most-adopted element of a CRP. Over three-quarters of firms (77%) with a CRP include a consistent approach to assess a suitable level of withdrawals for a retirement client. In terms of responding to market events and portfolio fluctuations, around a third of firms have a centrally-agreed approach to dealing with sequencing risk (the risk that the timing of withdrawals can damage an investor's overall return by diminishing the overall pot of capital). Guardrails (predefined thresholds that trigger an increase or decrease in retirement spending) are only included in a CRP by 9% of firms although this is a doubling on 2020 figures.

Sustainable withdrawal rate and statement

In tandem with a withdrawal strategy, many CRPs adopt a central policy on withdrawal rates. Deciding an appropriate approach demands considered discussion. Forty-two percent of CRP users still use a fixed rate – such as the 4% rule – to calculate an appropriate and sustainable withdrawal level. However, 30% take a more dynamic approach and use modelling tools such as Timeline. GAD rates and annuity rates are each used by less than 10% of CRP users. Reflecting the current low-rate environment, just 7% of firms with a CRP advise that clients only take natural portfolio income.

You also need to create a statement to show how these rates are calculated or the research tools used to create them.

Cashflow modelling tools

Given a client's changing needs and goals – and the fluctuating market environment – cashflow modelling may need to be conducted at every yearly review. This will, of course, be informed by the fact find and goal-setting questions mentioned above.

Over half (54%) of CRPs include a dedicated tool to estimate a retirement client's income needs year on year, and a large proportion (78%) of firms make use of cashflow modelling tools more widely in the business.

Attitude to Risk/Capacity for Loss tools

Currently, close to half of firms with a CRP include a specific questionnaire for retirement clients to assess their attitude to risk and 10% include a tool to assess capacity for loss.

Stress testing various scenarios using cashflow modelling tools is an increasingly popular way to probe customers ATR and CFL and to make sure they understand and buy into the results.

Life expectancy tools

Determining how long a client may live, and therefore how long their income needs to be sustained, is an important factor in managing lifetime wealth. Currently, around a fifth of firms rely on ONS data to assess life expectancy. More advanced life expectancy tools – such as hereditary modelling – are yet to see any meaningful uptake.

ESG/Impact considerations

Brexit means that UK advisers won't be subject to MiFID II plans requiring them to consider a client's interest in sustainability as part of product recommendations. In our research, advisers say that clients raise the issue of responsible investing in 14% of conversations. As public concern on issues such as climate change grows, and ESG-focused strategies account for a growing proportion of fund sales, a structured assessment of what a client wishes to achieve with their money, beyond their personal financial goals, could be increasingly important.

Investment choice

If firms operate a centralised fund buylist, this will of course need to be incorporated into a CRP. In 2021, only 58% of advice firms with a CRP said their framework included a specific set of fund choices for retirement clients (down from 70% in 2020). This may be because the continued popularity of total return investing is enabling advisers to use the same range of funds for both accumulation and decumulation phases. To create a sustainable income for retiree clients in the current low-rate environment, 44% of advice firms are using a total return approach always or most of the time, compared to 27% using an income-driven approach.

Withdrawal policy statement

A written agreement needs to be drawn up between the client and adviser and agreed. It should include examples of the withdrawal level and what might happen to that level based on various scenarios.

Implementing the CRP

Applying a standardised approach to some or all of the areas, in the Building your CRP section, can give firms the reassurance that all their advisers and planners are approaching and articulating retirement planning in a similar way.

A financial planner described to us how, prior to introducing a CRP, “we were doing it, but it wasn’t as robust as it should have been. We had 15 advisers, all ticking the boxes, but doing it in a slightly different way. So during the last 18 months we’ve collectively decided on our proposition and it’s now a formal and robust process. The CRP introduction was led by compliance, but with ongoing collective input”.

Building and implementing a CRP doesn’t happen overnight. Refining tools, questionnaires and investment choices may require practical experience to get right. Training may be required to get advisers up to speed on each element, and including advisers in the initial structuring of the CRP can deliver essential buy-in.

Enlisting the services of outsourced expertise and experience that has implemented CRPs for other firms can help to guide and accelerate the process.

Maintaining the CRP

Every CRP needs two ongoing review processes – one to see how it's working for each client and a second to see what benefits it's delivering for the business.

A bedding-in period

There can be a big difference between what clients think their retirement is going to look like versus what they discover they actually need in practice.

A suggestion, therefore, from one of the paraplanning consultants is to consider a bedding-in period. This involves setting up an arrangement so the first two years of retirement income are covered, based on what the client thinks they will need in terms of regular and ad hoc expenditure. Generally, it is recommended to overestimate what those two years will cost (and given the recent past, that period might be extended a little until clients have more opportunity to experience what normal feels like), and put that money in cash. Adviser and client can then review actual spending patterns over that period, how comfortable the client felt with the income at their disposal and use that as the basis for the client's investment strategy going forward.

Annual client reviews

Following the bedding-in period, it's important to assess regularly that the agreed strategy for each client is meeting their needs and expectations in terms of:

- level and frequency of income
- capital preservation/portfolio performance
- portfolio risk/volatility

Once a client has experienced portfolio performance in practice – rather than theory – aspects of the CRP such as cashflow modelling, attitude to risk and capacity for loss may need to be rerun. This is also the case after any significant life event such as illness, divorce or the acquisition of new capital.

> **The early years of retirement are critical in the CRP process. In particular, it's important not to make any irredeemable decisions until you and the client have got a feel for what seems right. Looking at the client's options as they come into retirement, it's useful to set up a situation where they're taking no risk and don't have to make any choices right away. Then you have the time to see how that feels before implementing a long-term retirement strategy.**
>
> Richard Allum
> The Paraplanners

Annual internal reviews

The paraplanning consultants advise that the CRP should be reviewed once a year, from a business perspective, alongside any centralised investment proposition and due diligence processes for product providers and platforms. Reviews should include feedback from all advisers using the CRP and make extensive use of management information (MI). This can allow a firm to assess to what extent the CRP has:

- made the retirement-planning advice process more efficient for advisers
- enabled advisers to articulate the retirement-planning process to clients more easily
- allowed for swifter/more effective decision-making, especially during events such as market downturns
- made the retirement-planning advice process more auditable for regulatory purposes.

Equally, it's important to find out from advisers if the CRP has felt restrictive in any way. And under what circumstances, they have felt a need to divert from it. This feedback can then be used to help the proposition to flex further or enable exceptions to it to be specified.

Internal vs external: Making the CRP explicit to clients

Should the CRP be an internal document, or something to share with clients? The outsourced paraplanning experts have different views. Tony Slimmings of Paraplanning Hub says: "I've only ever known one client who wanted to see the process they were going through in a document… I think the process document is something for advisers to use to prove to themselves and to the regulator that they treat every client consistently. But the client needs to feel that it's a unique proposition and discussion."

However, Richard Allum of The Paraplanners says: "In my view there should be a document you can give to clients. I think part of a firm's value-add is demonstrating a really good process that ensures that – when the client starts to move from saving money to spending money – the firm knows what it's doing. That means having the right checks and balances in place, and reviewing everything on a regular basis. In this way, each client can feel secure about staying with a firm."

Given our research findings indicating that firms with a CRP in place have founded it easier to attract clients (see Why have a CRP section), there does appear merit in publicising a disciplined retirement planning process.

It is up to each individual firm to what extent they report on the CRP process to clients. But reminding clients of what has been agreed with them in terms of aspects such as cashflow modelling, a withdrawal rate strategy and risk tolerance may help reinforce their confidence in the advice they have been given.

Reporting to the regulator

Around a fifth of firms using a CRP believe its main benefit is regulatory – demonstrating that all retiree clients are being treated similarly and are subject to the same thorough advice process. To this end, it is worth considering what reporting trail should be generated by the CRP to demonstrate best practice to the FCA.

Tony Slimmings describes a matrix approach to work through the various combination of options that work for each client, within a defined framework:

"It should almost be impossible that you build the same plan for two different clients. If you've got five layers of five options, then I'm not a mathematician or statistician, but that's an awful lot of options and variety. But the point is, it's still a framework, it's still a structure, and you'll need to consider each layer. But, what order you do it in is up to you and your client. Running through that sort of deep step by step detail, helps agree where you are and what it means. Then by the time we get to the bottom, you've gone through a process, but it's still unique.

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

As far as the regulatory audit trail goes, Paraplanning Hub create two documents for each client file – an Initial File Review document, that gathers all the plan information and soft facts into one document, and the Goals document and between the two the intention is that there will always be something in the file to make it clear that this is the process that has been followed and this is the best option for that client. The outcome is not adviser-driven, nor client-driven, but process-driven.

The paraplanners emphasise the value of good firm-level management information to record client outcomes and map those against the firm's expectations, for example around how many clients annuitise, the drawdown rates that clients are taking from their funds."

Final things to think about

A Centralised Retirement Proposition has the potential to radically transform the efficiency of a business. Here are some final words of experience from the paraplanning consultants.

- The framework comes first and then clients go into the framework:
  The CRP framework is where you start, and then your management information allows you to say where your clients are at that moment. It's understanding where that client is, at the start of each review and putting them in the right segments.
- Identical questions can deliver bespoke outcomes:
  A well-constructed CRP is a set of questions and a set process that each client will go through initially and at each review. So, every client that comes into your firm, is going to go through the same steps. But with a well-designed CRP, you can still be reassured that the outcome is bespoke and the most appropriate to that client.
- It's all about process:
  The final decisions about which platform or which model portfolio to use might be a little different, but the process for deciding how you are going to structure a portfolio, how much income will be held in cash, whether or not the client will be fully invested, how you're going to start to drip money down from high-risk to lower risk investments, when you're going to review security of income, all that should be consistent across the firm.
- Keep good MI at the firm level:
  The firm should be able to show things like how many clients annuitise, what the drawdown rate is, how many clients have transitioned from savings to spending in the last year, was there any variance in the risk we took with investing their money, for example. Then you can map those outcomes against the CRP, what you expected to happen and what is actually happening and why.
- Don't give people what they think they want, give them what they need:
  When a client comes into your firm, every conversation you have is going to go through the same steps. Some might not be applicable, but the process is how you step back and take clients through to the most suitable outcome without just giving them what they think they first wanted.
- Always ask clients:
  Where are you on the journey at this moment? Keep looking at the whole financial picture. Keep following the same process every year. Ask the same questions and review the outcome so you can tap the tiller based on where the client is on that journey.

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Family linking – you can link spouse/civil partner, children, parents, grandparents and grandchildren, to reduce costs even further with the charges applied proportionately to each member of the group

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