M&G wealth

2022

CENTRALISED RETIREMENT PROPOSITIONS

A report on the evolution of retirement advice, the economic impact of global issues and the role for CRPs, from M&G Wealth

Researched by NextWealth, for M&G Wealth Platform

NEXTWEALTH

For investment professionals only

Foreword

Helping individuals generate a sustainable and reliable retirement income has always required a special set of advisory skills.

But the current climate has taken the challenges facing retirees (and their advisers) to an intensity that hasn't been experienced for 30 years.

Widespread geo-political tension, ensuing market volatility, and the spectre of double-digit inflation have made expert retirement advice more valuable than ever. But the task facing advisers can equally feel more daunting.

Against this backdrop, this third annual survey on Centralised Retirement Propositions (CRPs) feels especially relevant.

To what extent are adviser firms across the UK choosing to 'centralise' their retirement advice process? What elements feature (and don't feature) in a CRP? What are proving to be the benefits of centralisation? And how is a balance between process centralisation and client personalisation being struck?

Seeing trends

M&G Wealth is delighted to partner on this research once more with NextWealth. Having conducted the survey for three years now, we're in a position to extrapolate some trends (albeit with an awareness that the Covid-19 pandemic may have shifted business focus). We hope this will enable adviser firms to get a useful overview of the directions their peers are taking when building a retirement advice proposition.

Consumer duty

And given the FCA's ambitious plans for new Consumer Duty rules, it's been especially compelling to explore how firms are working to provide retirement advice and support that's genuinely built around each client, while ensuring it's commercially viable and scalable to deliver.

Advisers pride themselves on helping clients navigate difficult times with confidence. We hope this research can enable firms to consider whether greater centralisation in their business might help them fulfil this and their many other roles even more effectively.

Justin Blower
Director, M&G Wealth

Executive summary

The proportion of financial advice firms with a Centralised Retirement Proposition (CRP) continues to grow – reaching 55% in 2022, up from 48% in 2020.

Benefits of having a CRP Page 11

- 31% say business efficiency is the greatest benefit.
- Tied for second were regulatory compliance and client outcomes.
- We've seen these three reasons consistently rank top since 2020.

The main reason for not having a CRP was the desire to tailor to specific client needs, as chosen by 64% of respondents.

Withdrawal strategy Page 14

- 35% of advisers said they use a fixed rate or range approach to withdrawal strategy.
- 32% say they use a modelling tool.
- The largest challenges to withdrawal strategy cited were market returns, inflation and risk profile of clients.

Tools for retirement planning Page 16

Attitude to risk questionnaires were used by 99% of advisers.

Cash flow modelling being the second most used at 88%.

Tools to assess capacity for loss 84%.

Flexibility within the framework of a CRP Page 19

- 12% say they never go outside the scope of the CRP.
- The requirement to use the CRP, or present a reason to go outside the CRP, has fallen from 39% to 29% since 2020.

Retirement portfolios Page 21

- For clients in retirement most advisers say they use the same (48%) or similar (36%) portfolios and fund choices as for those clients in accumulation.
- The most common strategies continue to be multi asset funds and building their own portfolios.
- The use of guaranteed income products continues to rebound with 40% of clients currently using GI. Use of GI is particularly prevalent in large firms.

Responsible investing Page 24

- The percentage of client conversations where the client raises responsible investing has risen from 14% to 19%.
- 85% of advisers now have responsible investment as part of their Know Your Customer (KYC).
- 31% of respondents said that retired clients show higher demand for responsible investing than clients in accumulation.

Wealth transfer Page 27

84%
of advisers say they personally advise on wealth transfer

88%
of advisers agree that it's important for them to meet with the spouse of their retired clients

57%
agree that it's important to meet with the children of retired clients

The demand for wealth transfer advice is growing Page 32

- 59% of financial advisers say that demand for wealth transfer advice has increased over the past three years.
- 72% of advisers say they expect demand for wealth transfer advice to increase to some extent in the next three years.

A word from NextWealth

Approaches to retirement advice and retirement planning are shifting and this report, in its third year, tracks use of Centralised Retirement Propositions (CRP) and approaches to meeting client needs for lifetime wealth.

The report updates our benchmarks on the use 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.

This year's report confirms that use of CRPs continues to rise, particularly in larger firms where centrally agreed processes and consistent outcomes are more important. The distinction between a CRP and a CIP is still not clear for many. Our view is that the CRP sits alongside the CIP, defining approaches to withdrawal strategies and tools to assess a safe withdrawal rate, capacity for loss and longevity.

Among firms with a CRP in place, we are seeing increased flexibility. Firms are giving advisers the option to go outside that framework where needed.

Finally, we are seeing a slow but steady increase in use of guaranteed products. With expected further market volatility in 2022, we think this is a trend to watch along with other strategies to achieve sustainable income for clients.

We hope you find this report useful as you consider your firm's approach to managing lifetime wealth for clients. As always, we welcome feedback and input for future studies.

Methodology

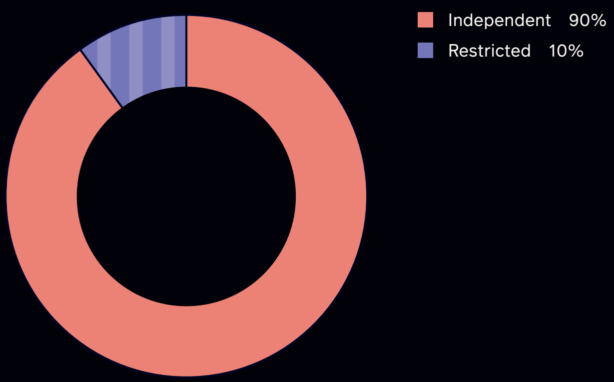
The report findings are based on quantitative and qualitative inputs:

- Online quantitative survey of 201 financial advisers conducted between 28 January and 7 February 2022
- In-depth qualitative interviews with eight financial advisers, conducted between 24 January and 24 February 2022

The financial advisers surveyed and interviewed were sampled from across the industry, and are not just those who use M&G Wealth Platform.

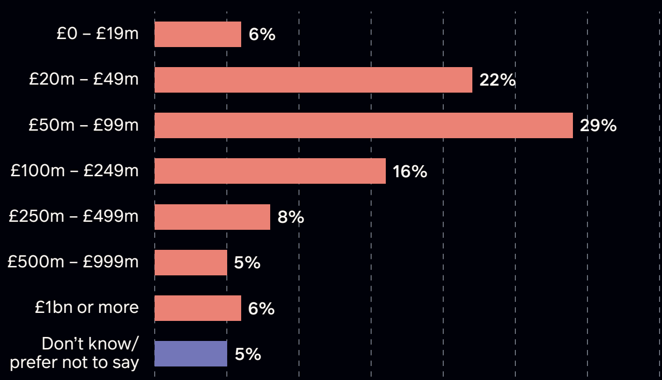
The profile of respondents is presented below:

Figure 1: Firm status



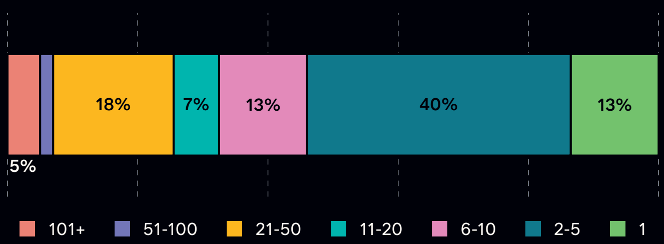
Source: "What is the status of your firm?"
Base: all advisers, n=201

Figure 2: Level of assets per firm



Source: "What level of assets are currently held under your firm's advice?"
Base: all advisers, n=201

Figure 3: Registered individuals providing advice within firm



Source: "How many client-facing financial advisers/planners does your firm have?"
Base: All advisers, n=201

1
Adoption of CRPs

The proportion of financial advice firms with a Centralised Retirement Proposition (CRP) continues to grow – reaching 55% in 2022, up from 48% in 2020. However, the growth is still shy of the 71% advisers expected when asked in 2020.

Over the last three years, we've tracked use of and plans to introduce a CRP. We've seen steady progress, with growing numbers of adopters, with one exception – 2021. Last year we reported that adoption had stalled and plans to introduce a CRP had also declined. As we emerge from the pandemic, we've seen a recovery in the momentum toward adopting a CRP. More firms have adopted CRPs and the share of advisers with no plans to introduce a CRP has declined to around one fifth.

We think there are two factors contributing to the renewed rise in adoption of CRPs. First, the pandemic stalled adoption of new processes as firms focused on shifting working practices and technology adoption to support remote working. Second, we know that larger firms are more likely to adopt a CRP and we've seen a steady shift in the make-up of financial advice businesses as large firms buy smaller ones.

Table 1: Adoption of CRPs

	2022	2021	2020
CRP in place in the firm	55%	50%	48%
Intent to introduce within the next 12 months	23%	20%	23%
No plans to introduce	22%	31%	28%

Sole traders remain least likely to use a CRP and show little intention to introduce one. Figure 4 shows adoption of CRPs by size of firm. Only 39% of sole traders have a CRP in place. This was also true in previous versions of this research. Consistency of approach is less of a concern when there's only one financial adviser and processes tend to be less rigid.

Figure 4: Existence of a CRP by number of client-facing advisers

1 client-facing adviser

- In place for 12 months or more 35%
- Introduced in the past 12 months 4%
- Intend to introduce in the next 12 months 15%
- No plans to introduce 46%

2-5 client-facing advisers

- In place for 12 months or more 54%
- Introduced in the past 12 months 5%
- Intend to introduce in the next 12 months 23%
- No plans to introduce 17%

6-10 client-facing advisers

- In place for 12 months or more 48%
- Introduced in the past 12 months 11%
- Intend to introduce in the next 12 months 19%
- No plans to introduce 22%

>10 client-facing advisers

- In place for 12 months or more 23%
- Introduced in the past 12 months 33%
- Intend to introduce in the next 12 months 27%
- No plans to introduce 17%

Source: "Does your firm have a Centralised Retirement Proposition (CRP)?"
All advisers, n=201.

The importance of a consistent approach in large firms came up in our interviews:

> **We've got 11 advisers, and they are all self-employed. They are quite used to doing their own thing. So, what happened gradually over time is that they've ended up blending. You'll find that someone will have done a growth portfolio, but they'll put a bit of ESG in and they'll put a bit of passive in to bring the charges down. I'm not proud of this. But at the moment, all of the advisers are sort of doing their own blend in different ways, which isn't what I will have happening, when we get back into looking at these things.**

1.1 Business benefits of having a CRP

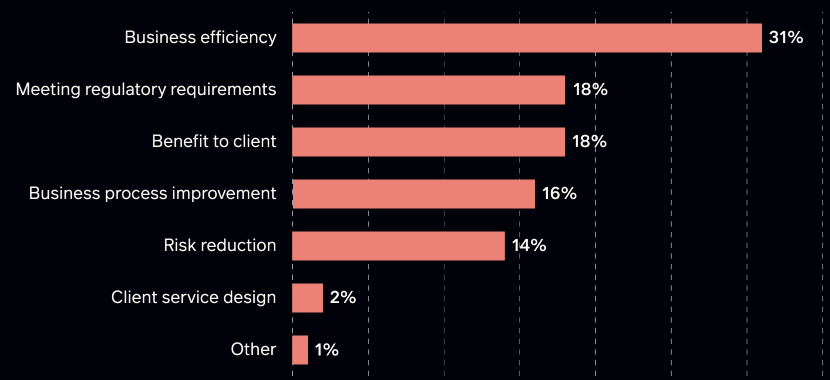
The rising share of firms with a CRP in place is testament to their value to financial advice businesses and their clients. The most common reason to have a CRP in place is to drive business efficiency, selected by 31% of advisers. Tied for second was meeting regulatory requirements and benefit to clients. These three reasons have consistently ranked top since 2020.

A CRP helps firms deliver consistent advice to clients, define the withdrawal strategy and the process for arriving at the recommendation.

Financial advice businesses have faced mounting Professional Indemnity Insurance (PI) costs and are under intense pressure to document processes and reasons for client recommendations. To make the business of financial advice more efficient, having agreed parameters within which to operate is important. A CRP helps firms deliver consistent advice to clients, define the withdrawal strategy and the process for arriving at the recommendation. It's not meant to constrain advisers, and so we're pleased to see that benefit to the client continues to be recognised by advisers as among the top benefits of adopting a CRP.

A CRP might also help firms evidence fair value as part of compliance with the proposed Consumer Duty rules that are expected to replace current principles of treating customers fairly (TCF).

Figure 5: Greatest business benefit of having a CRP



Source: All advisers whose firms have or plan to introduce a CRP, n=157.

I'm trying to get some consistency within the office, because I think it's quite important that we have streamlining from an admin office efficiency point of view, so that we're not doing too many different things. And also, it stops you making errors. So, when the admin guys have to do too many different things in too many different ways, it's a risk to the business, because you can end up with errors. But also, it's about consistency for clients that whoever they saw, they would actually get the same recommendation.

1.2 Reasons for not having a CRP

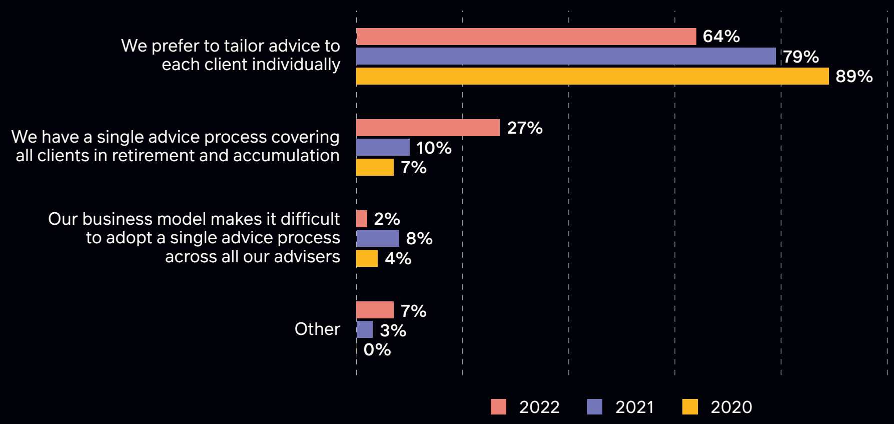
Among the 22% of respondents who don't have a CRP in place, most said this was because advice is tailored for each client individually. As mentioned above, this is feasible in a small firm, particularly among sole traders. Consistency across advisers is more difficult in larger firms unless processes are agreed, written down and shared.

The second biggest reason cited for not having a CRP is that there's a single advice process covering all clients in retirement and accumulation. In the next section we explore why we believe CRPs are fundamentally different from CIPs, challenging the perception that CRPs aren't needed.

> **We offer bespoke advice for each client. That is one of our USPs.**

> **We allow advisers individual freedom to choose the best solution.**

Figure 6: Main reason for not having a CRP



Source: All advisers in firms that do not have a CRP. n=44.

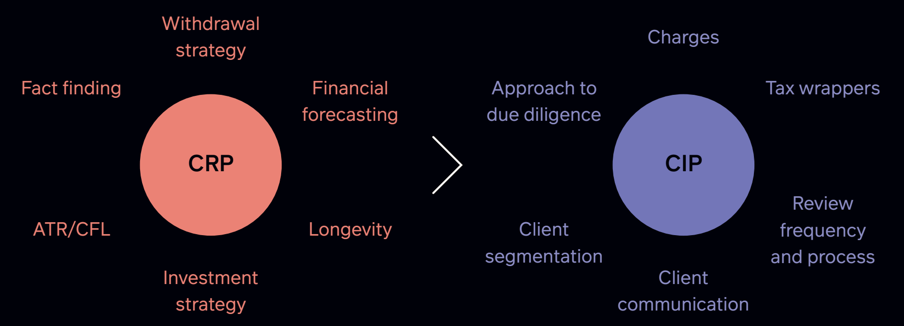
2
Elements of a CRP

What is a CRP? What is typically included in a CRP and is it different from a CIP?

We define a CRP as:

"A common and consistent approach to retirement advice that is followed by the whole firm and will typically cover investment and withdrawal strategy but may also extend into fact finding, assessing attitude to risk etc."

Figure 7: Components of a CRP and a CIP



One financial adviser we interviewed for this research explained the relationship between the CIP and the CRP this way:

We introduced a CRP about three years ago, maybe four. It was something we did on the wider scale with the centralised investment processes, we decided we were going to ask DFMs to run portfolios for us, so it came along with that. We wanted someone to run a retirement proposition for us as well. It's more of an investment structure that we use alongside some of our other stuff, such as cash flow modelling and things we use alongside it, but it's not integrated within it.

Our survey reveals that financial advice firms continue to conflate CRPs and CIPs. Two thirds of financial advisers in firms with a CRP told us that it is no different from the CIP. While there is little agreement on the distinction, the elements that we believe form part of a CRP are used by most firms, regardless of views on the CRP.

2.1 Withdrawal strategy

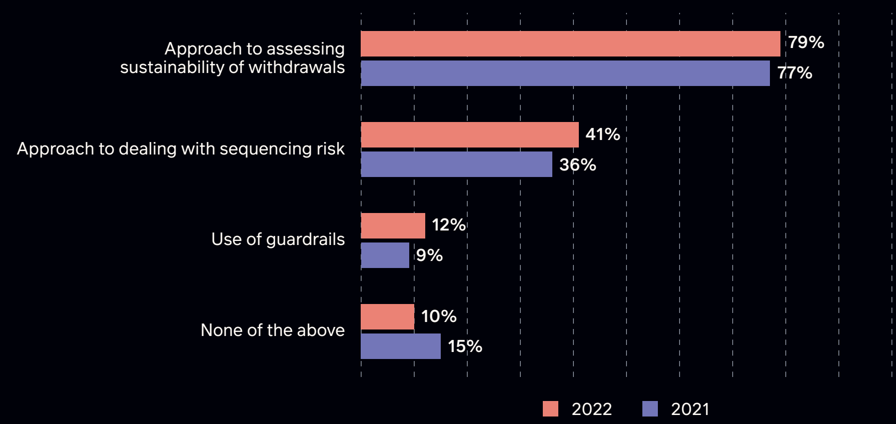
Among the most widely used components of a CRP is a strategy to determine sustainability of withdrawal rates. 79% of financial advisers working in firms with a CRP said this is included as part of the CRP. A further 41% said the CRP includes an approach to dealing with sequencing risk (Figure 8).

The most common strategies used to determine a suitable withdrawal rate for clients in drawdown are a fixed rate or range (such as 4%) and use of modelling tools (Figure 9). The importance of getting this right cannot be underestimated. One financial adviser told us:

> **Fear of getting this wrong is my biggest worry.**

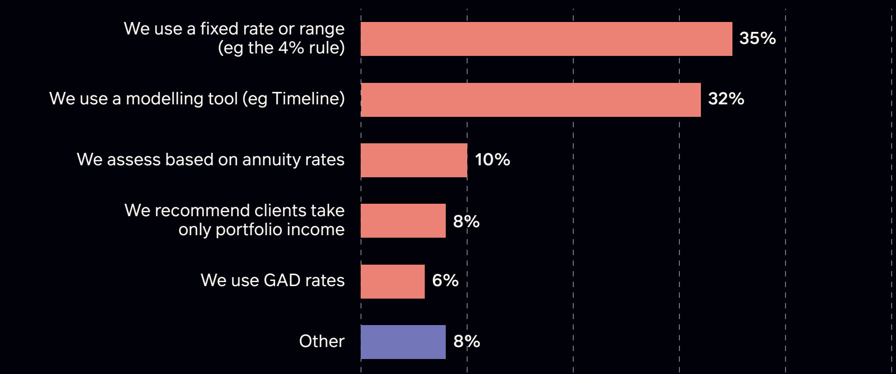
The tools and techniques used to calculate withdrawal rates for individual clients has improved markedly in recent years. We discuss these in more detail in Section 2.2.

Figure 8: Consistent strategy on client withdrawals included in CRP



Source: All advisers in firms that have a CRP, n= 111.

Figure 9: Strategy to determine suitable withdrawal rate for clients in drawdown included in CRP



Source: All advisers in firms that have a CRP, n=111.

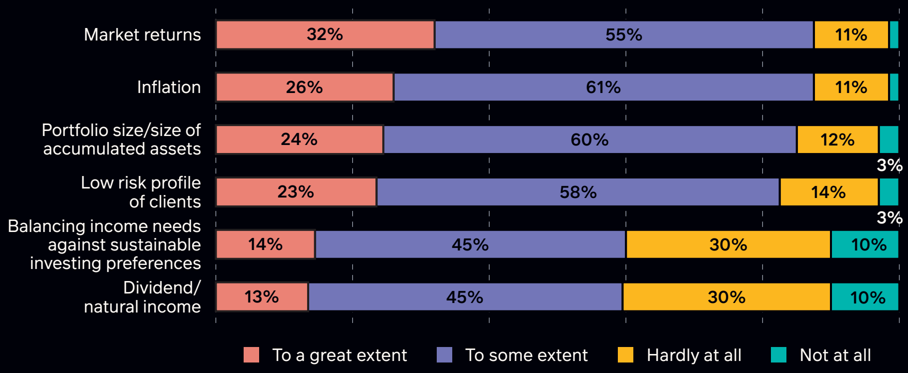
Recent market volatility and expected lower returns in the coming months and possibly years has increased the risk for some retirees that they will run out of money. We asked financial advisers the biggest challenges to the withdrawal strategies in place. Unsurprisingly, top of the list is market returns, identified as a challenge 'to a great extent' by 32% of financial advisers and 'to some extent' by a further 55%. Inflation was of almost equal concern.

Concerns about market returns and volatility in particular came through in our interviews with advisers too:

> **Decumulation needs more stability.**

> **Clients in retirement often have different investment goals with greater focus of capital preservation.**

Figure 10: Challenges to the withdrawal strategy



Source: All respondents, n=201.

The next biggest concerns for advisers are related – portfolio size and low risk profile of clients. Each was cited by over 80% of advisers as a challenge to withdrawal strategies. With many advised clients spending 25 or more years retired, the ability to deliver an income for life often means that a portion of the portfolio has to remain invested for growth. This need runs counter to the risk appetite of many clients. Doing the right thing for clients by encouraging them to remain invested while managing emotions during turbulent markets is where the true value of a trusted financial planning relationship comes to bear.

Doing the right thing for clients by encouraging them to remain invested while managing emotions during turbulent markets is where the true value of a trusted financial planning relationship comes to bear.

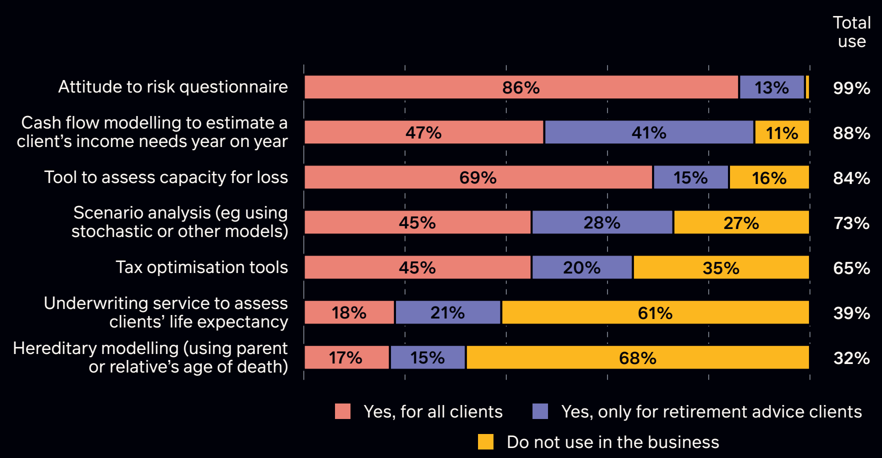
2.2 Retirement planning tools used

'Attitude to risk' (ATR) questionnaires are widely used by financial advisers for virtually all their clients. 86% of advisers use them for all their clients and a further 13% use them for retirement advice clients. This means 99% of advisers use ATR questionnaires in some capacity.

Cash flow modelling to estimate client income needs year on year is used by 88% of advisers but about half use this for retirement clients only. Financial advisers commented that they would like these tools to be better integrated to pull through client details and assets.

Tools to assess longevity remain woefully underutilised. About two thirds of financial advisers don't use an underwriting service to assess client life expectancy or hereditary modelling. Longevity risk can be significant. Financial planners can offer more tailored advice through a better understanding of the expected date of death.

Figure 11: Retirement planning tools used



Source: All respondents, n=201.

I am linked to FE Investments for my investment propositions. Now they've got the decumulation strategy, whereby you get, a tool on Analytics, which says how much goes into a short-term portfolio to protect against drops in the early part of retirement, and then you get the balance goes into the long-term portfolio to provide the longer term income. That works for me mentally.

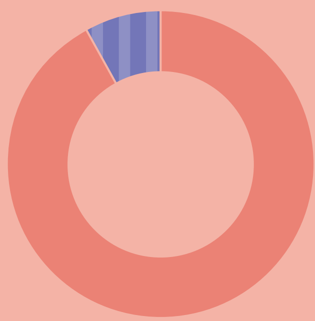
We've just moved to O&M for our cash flow modelling. I think cash flow modelling can be very in depth. When you try to just show a client that they're going to be okay or not okay. O&M fits with what we do for our retirement clients. We can do a pre-retirement/ post-retirement like the accumulation/decumulation. So that works very well and is very simple.

It's the same risk profile questionnaire that they answer, because what we start with is their natural level of risk. And the way we look at it, especially for decumulating clients it's the pots of money. So, we have the short-term pot, the mid-term and the long-term pot and the money kind of cascades down so your longer term, 15 years in the future would probably have more risk. Your medium would match your risk and then the two years would be very low risk and so the risk profile gives us that kind of natural level of risk, which we start from and then all the planning is built around these kinds of pots of money.

Platforms and providers

Among financial adviser working in firms that have a CRP, 92% use the same platforms and providers for clients in drawdown compared with those in accumulating wealth.

Most advised clients are at or near retirement age and financial advisers tell us that they choose platforms and providers that are fit for purpose to support clients to and through retirement.



Yes 92%
No 8%

Source: All advisers in firms that have a CRP, n=111.

2.3 Portfolio structure

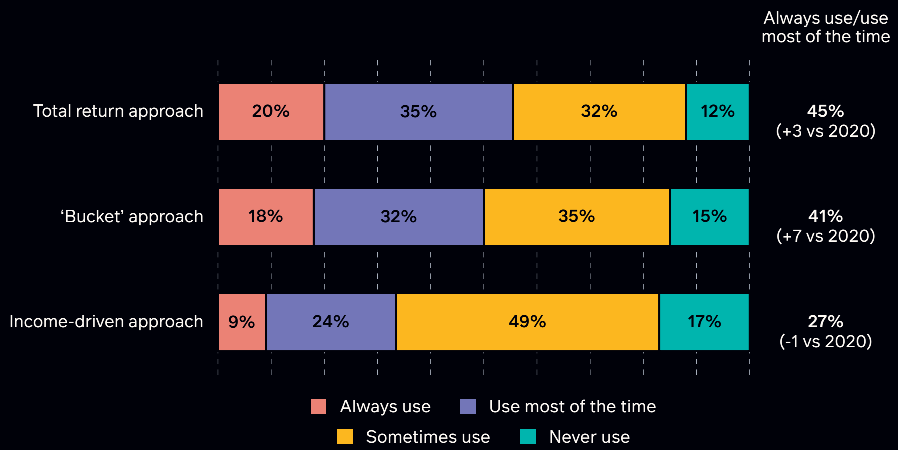
There are three main approaches to how financial planners structure portfolios for income:

- Total return approach – invest for total return with income payments funded by selling investments.
- 'Bucket' approach – dividing account into short, medium and long-term components to match future income needs.
- Income-driven approach – income payments made from income paid on investments and perhaps topped-up by selling investments.

Total return remains the favoured approach – always used by 20% of financial advisers and always or mostly used by 55%. This is up 11% from 2021 and 13% from 2020.

The 'bucket' and income-driven approaches continue to gain users as well with an even rate of growth across the three strategies.

Figure 12: Investment portfolio structure for clients taking retirement income



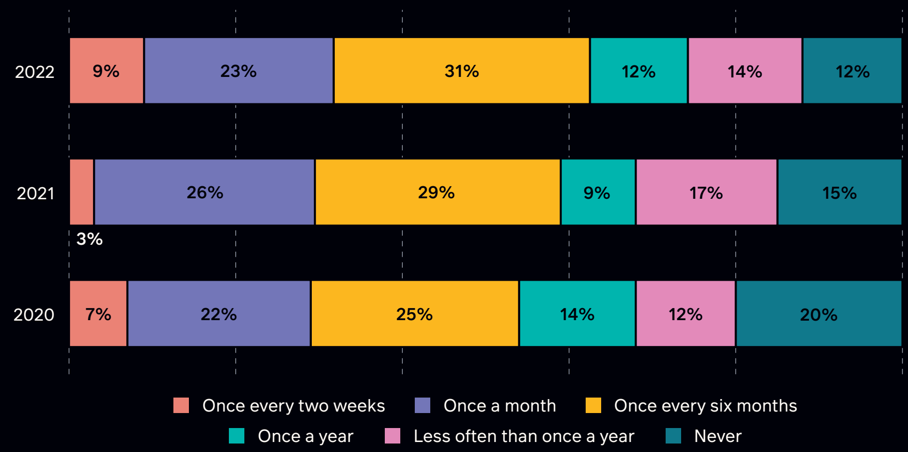
Source: All respondents, n=201.

3
Flexibility within a framework

The CRP is a framework for delivering a retirement proposition guiding the majority of a financial advice firm's work rather than a strict 'one way only' practice. Only 12% say they never go outside its scope. The share of advisers saying they never go outside its scope has decreased over the three years of this study from a fifth in 2020.

Nearly a third say they look at bespoke solutions for clients at least once a month, and another 31% go outside the CRP a couple of times a year.

Figure 13: Frequency of going outside firm's CRP to search for bespoke solutions

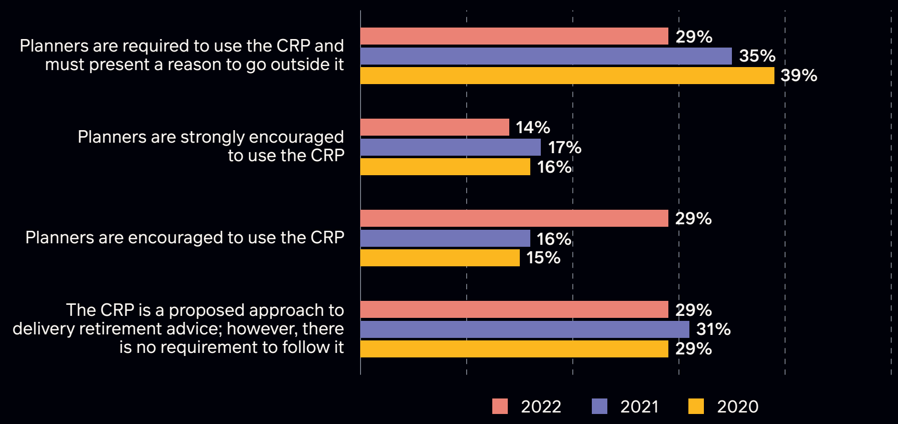


Source: All advisers whose firm has a CRP, n= 111.

> **It tends to be when a client has some reason to go outside of that situation. For example, this could be for specific requirements around ESG portfolios. The client might have very specific requirements in respect of eco funds. We would then have to build something or give it to a DFM and let the DFM build something.**

Having introduced a common approach, how tightly should the firm control adherence to the CRP? For 29% of respondents, the CRP is a requirement and planners must present a reason if they want to go outside it. This is down from 39% two years ago. Again, rigidity seems to have waned over the years. As more firms adopt a CRP, use is still encouraged but less often required.

Figure 14: Requirement to use CRP

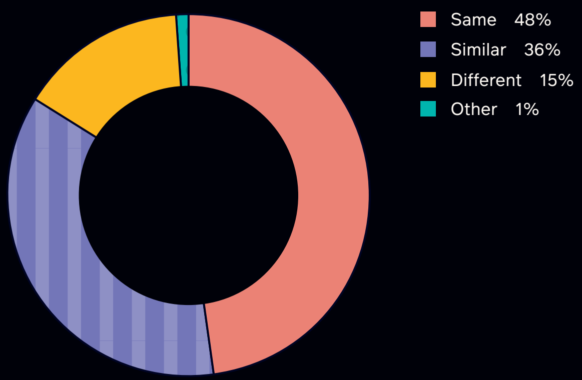


Source: All advisers whose firm already has a CRP, n=111.

4
Retirement portfolios

Financial advisers overwhelmingly use the same or similar portfolios and fund choices for clients drawing down wealth compared to those accumulating it. Nearly half say they are the same and a further 36% say they are similar. Among those that recommend different portfolios, the aim is typically to minimise volatility and to allocate a larger share of capital to cash to serve as a buffer to market movements.

Figure 15: Portfolios and fund choices for clients drawing down wealth versus those in accumulation



Source: All respondents, n=201

> **Greater consideration and allocation to emergency funds (cash). Documented withdrawal policy statement. Summary of all secure income vs desired income. Safe withdrawal rate summaries and scoring/scaling.**

> **Clients in retirement typically require more certainty/less volatility.**

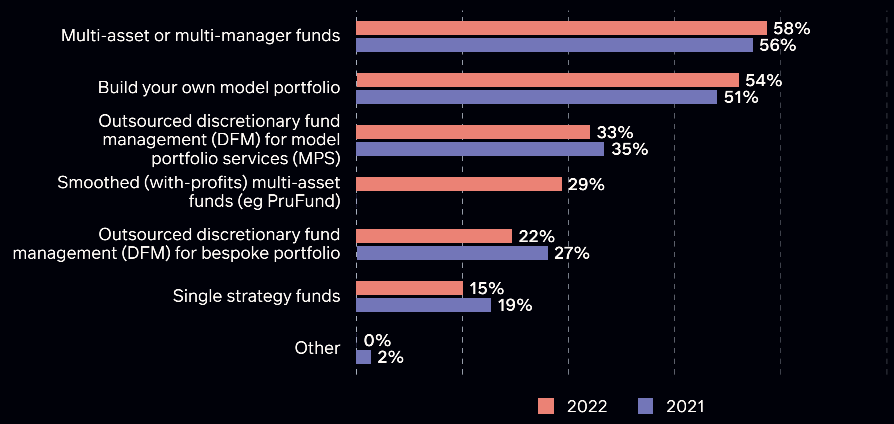
We also explored the investment strategies used and the demand for responsible investing options from retired clients.

4.1 Investment strategies

Multi-asset funds and build your own model portfolios are most widely used by financial advisers for retired clients, each used by more than half of financial advisers.

We've long expected use of outsourced discretionary MPS to increase for retired clients. The rise in discretionary MPS should come at the expense of bespoke discretionary and adviser managed models. This will be driven by three factors: a desire to simplify operations and risk in financial advice firms, increasing sophistication of tools and functionality to support discretionary MPS and a shift from more expensive bespoke solutions to discretionary MPS. We've seen a decrease in use of bespoke discretionary but no meaningful increase in use of discretionary MPS. We'll continue to monitor this trend as financial advice firms increasingly professionalise the operations of their business and costs continue to come down for discretionary MPS.

Figure 16: Investment strategies used for retirement clients



Source: All respondents, n=201.

4.2 Use of guaranteed income

Just eight years ago, George Osborne stood at the dispatch box and uttered the words: “Let me be clear: no one will have to buy an annuity.” The annuity market collapsed. Many advised clients have guaranteed income. We wanted to understand whether annuities are being used selectively in cases where clients have no guaranteed income.

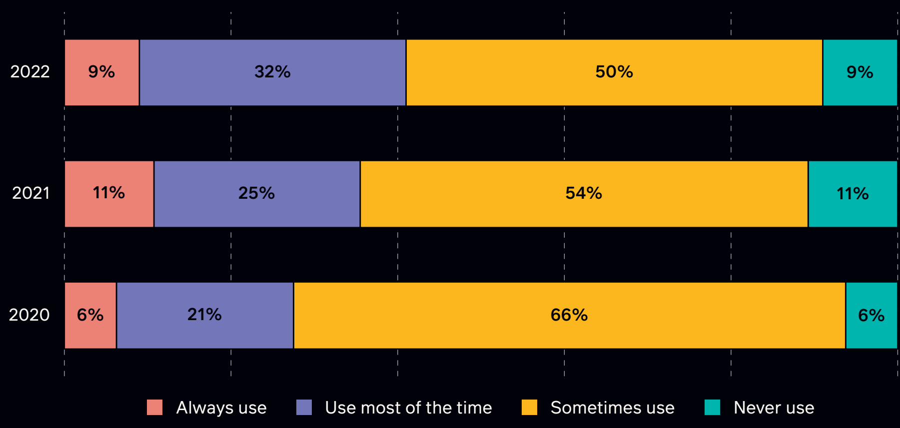
On average,

40%

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

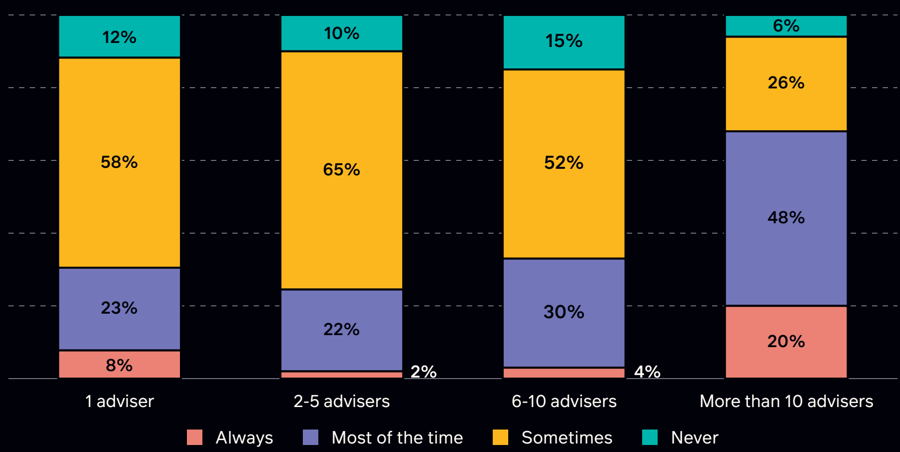
- Research for this report shows that 40% of advised clients have guaranteed income to cover their basic needs.
- In cases where clients don’t have their basic needs met by guaranteed income, 41% of financial advisers recommend a guaranteed income product, such as a lifetime annuity ‘always’ or ‘most of the time’.
- The share of advisers that say they will recommend a guaranteed income product has been increasing over the past two years, up 14% since 2020 and up 4% since 2021.
- Financial advisers in larger firms are more likely to recommend guaranteed products, 20% ‘always’ recommend them when basic needs aren’t met and 48% recommend them ‘sometimes’.

Figure 17: Likelihood to recommend a guaranteed income product (eg lifetime annuity) when basic needs are not met



Source: All respondents, n=201.

Figure 18: Likelihood to recommend a guaranteed income product by firm size



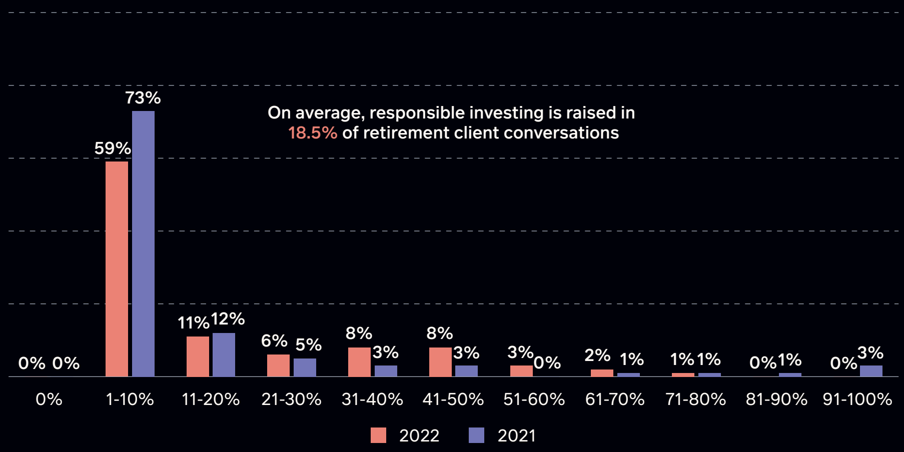
Source: All respondents, n=201.

4.3 Responsible investing

Interest in responsible investing remains strong among a relatively small number of clients. We asked financial advisers the proportion of client conversations in which the client raises the topic of responsible investing, defined as ESG, ethical, impact or sustainable approaches to investing.

Only one adviser chose zero – reflecting the widespread interest in the topic. Figure 19 shows the spread of responses and the concentration in 1% to 10%. On average, responsible investing is raised by 19% of retirement clients, up from 14% last year.

Figure 19: Percentage of retirement client conversations in which the client raises the topic of responsible investing

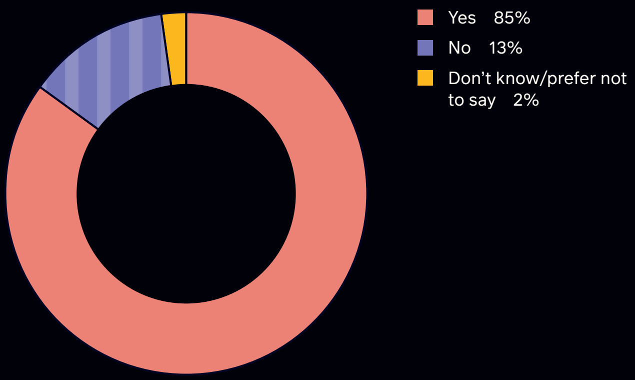


Source: All respondents, n=201.

There was much talk about obligations for financial advisers to consider a client's interest in responsible investing as part of product suitability considerations due to MiFID II in early 2020. Of course, as a result of Brexit those rules were never introduced in the UK. Roll forward two years and the UK regulator is carefully considering its own set of rules around responsible investing, including disclosure requirements, labelling of funds as well as obligations for financial advisers. We expect to know more later this year once the FCA completes a consultation.

In the meantime, most financial advisers already cover responsible investing in the fact find for retired clients.

Figure 20: Inclusion of responsible investing in the fact find for retirement clients

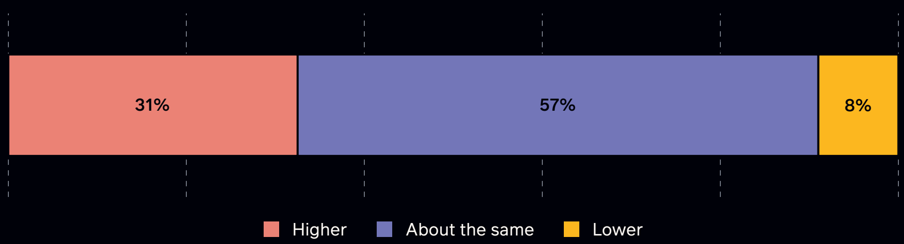


Source: All respondents, n=201.

> We ask on the risk questionnaire whether they have any preferences, a lot of clients now put 'Yes'. So, we tend to drill down more because a lot of people just put 'Yes', because it's the right thing to say. We would drill down. For example, we have a minister in the Church of England, and she said she didn't want to invest in anything arms related, or pornography. She was very specific. But for a lot of people, it's just a matter of wanting to know they're doing the right thing.

57% of financial advisers said they see no difference in demand for responsible investing solutions between clients that are retired and those that are accumulating wealth. However, 31% said demand is higher among clients that are retired. As we've seen in the quotes from the interviews, interest in responsible investing is driven more by individual interest than any particular client profile.

Figure 21: Retirement versus accumulation clients' demand for responsible investing



Source: All respondents, n=201.

It's purely individual. If you've got a couple where their grandchildren are grown up, or they haven't got grandchildren, they tend to be less concerned. But I think school age grandchildren are having quite an influence on grandparents with regards to that, because it's an area that grandparents are concerned about; what kind of world are they going to inherit?

It's a little bit strange, really, because our perception when we started, was it would be younger people, but it's not, it isn't just the younger people. We've got quite an old client bank anyway, generally speaking, and they're quite open to it. So, I couldn't say that it was the older clients more open than the younger ones, because we don't really have that many younger ones. But certainly, the older ones are very open to it.

One financial adviser we interviewed said that her clients are very interested in sustainable investing. Her comment though was not about age, but gender:

Because I find as well, that my ideal client, the age and gender [45-55 women], that they tend to be more interested in sustainable investing or ESG. Clients prefer an element of something that's sustainable, longer term, because that's what's going to have the impact. It's more about sustainable impact investing rather than just having a label.

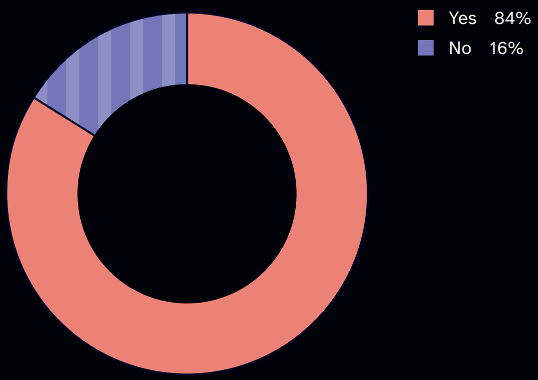
5
Wealth transfer

5.1. Provision of wealth transfer advice

With an estimated £5.5 trillion expected to pass between generations in the UK in the next 30 years[1], the topic of wealth transfer is front and centre for our industry. Financial advisers are at the coal face helping clients navigate questions about inheritance tax planning and gifting of wealth to children.

Our survey confirms that wealth transfer is a core part of the service of most financial advisers, with 84% saying they advise clients on wealth transfer.

Figure 22: Personally advise on wealth transfer



Source: All respondents, n=201.

> **When structuring for client needs, we take a view of risk and affordability. 99% of our clients have very little need to take a lot of risk with their money because of the size of wealth that they have and the way they spend. We do more on IHT with the tax team. Our clients have far too much money at the end of life so don't need to worry about a sustainable withdrawal rate, they can spend more than they want to. We talk more to them about the legacy they want to leave to their children and how to structure that, philanthropy, charitable goals, etc.**

[1]Passing on the Pounds, published by Kings Court Trust: https://www.kctrust.co.uk/wealthtransfer

5.2 Wealth transfer advice focus

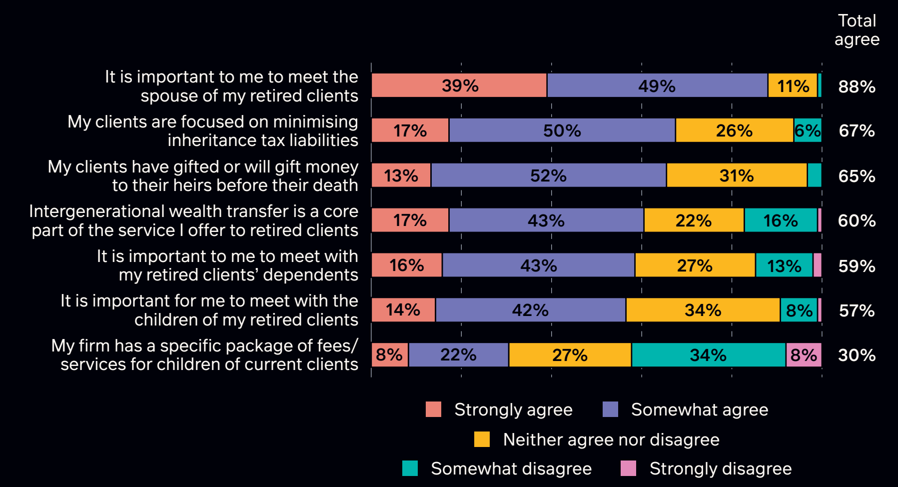
Feminisation of wealth

Much of the media focus has been on intergenerational wealth. But wealth often transfers to the surviving spouse, so women stand to inherit much of the UK's wealth before it reaches the next generation. A survey by the Centre for Economics and Business Research estimated that women will hold 60% of wealth by 2025.[2]

Our survey reveals that financial advisers are taking a proactive approach to engaging with the spouse of their clients. 88% of advisers in our survey agreed that is important to meet with the spouse of retired clients. By contrast, only 57% agree that it is important to meet with the children of retired clients.

> **We actively drive engagement with the family through joint meetings. If the husband wants to come in but not involve his wife – we are not the firm for them. We don't believe in doing business in that way.**

Figure 23: Importance of wealth transfer services



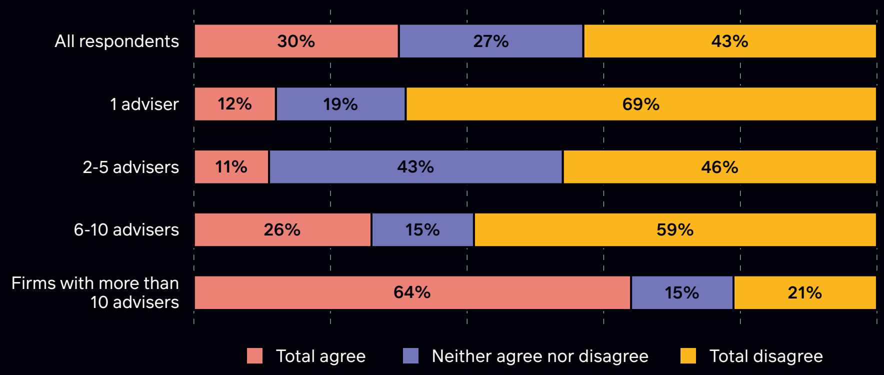
Source: All respondents, n=201.

[2]Centre for Economics and Business Research (CEBR), 2020.

Supporting children of clients

There is much debate about how best to engage with the next generation of clients and our research reveals clear differences by size of firm. 64% of respondents in firms with 10 or more client-facing advisers say their firm offers a specific package of fees/services for children of current clients. This compares to 11% in firms with five or fewer client-facing advisers.

Figure 24: Specific package of fees/services for children of clients, broken down by firm size



Source: All respondents, n=201.

Half of financial advisers said they encourage engagement with dependents but are led by client preference. A further 29% aim for a natural client engagement process. This focus on the individual client needs is important and particularly reflective of planning processes in smaller businesses.

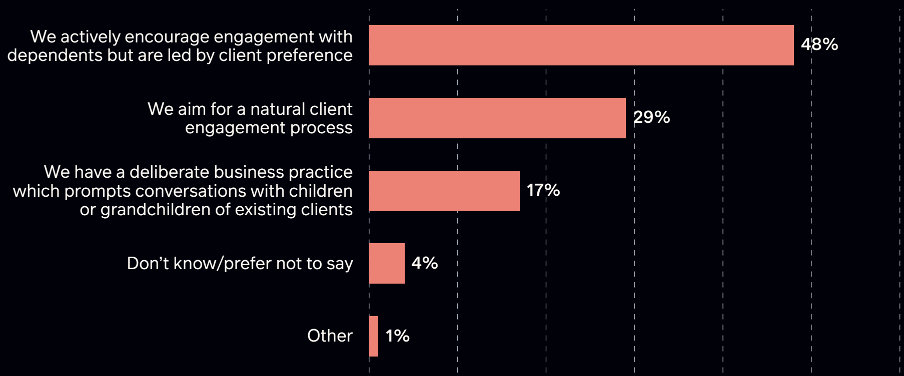
As might be expected, larger firms have more processes defined to engage with younger clients. Among those in larger firms, with more than 10 client facing advisers, 38% said they have a deliberate business practice to prompt conversations with children or grandchildren of existing clients, compared to only 17% overall.

A financial planner in a small firm discussed the challenge of advising clients with smaller pots:

> **I would gladly do it. But I don't. I am careful. When I do new business, I want a minimum of £125,000 to invest. So, it tends to be consolidating pensions, inheritances, and things like that. I don't actively seek it.**

Larger firms sometimes have trainee financial advisers who can work with clients with smaller pots of wealth. Many firms are also taking a different approach to advising younger clients – charging a subscription fee for financial planning rather than a fee based on accumulated assets.

Figure 25: Approaches to engaging with dependents (spouse, children or grandchildren) of existing clients



Source: All respondents, n=201.

This organic and client-led approach to engaging with dependents came through in one of our interviews for this report:

> **I'd say it's organic. We took on a client last year, she was going through a divorce and she was educating herself on everything financial, and she said, 'I want to bring my children into this'. So, we sent them details about courses with NatWest, things that were going on in schools. Those children as yet don't have any money with us, but we've engaged with them, and she said, they've all got your number, if something was to happen to me. So, it's looking at the added extras, all the time, which don't actually cost, except for our time sending an email doesn't actually cost anything, but always looking to engage the younger generation, because that's how your business keeps going, isn't it? You just don't want all these retirees?**

Another adviser, emphasised the early educational element involved in supporting dependents:

For a lot of our clients, it is first generation wealth. There is big educational piece of work to do on what can be put in place to help. We are led by our client and will take kids on as clients as part of family group. We get them in for education, provide reading material. We talk to them about mortgages, the difference between a debit and credit card. We help them think about what they want to do with their ISA... We offer a tiered charging structure based on the family's wealth and can levy the charge in whatever way the client wants.

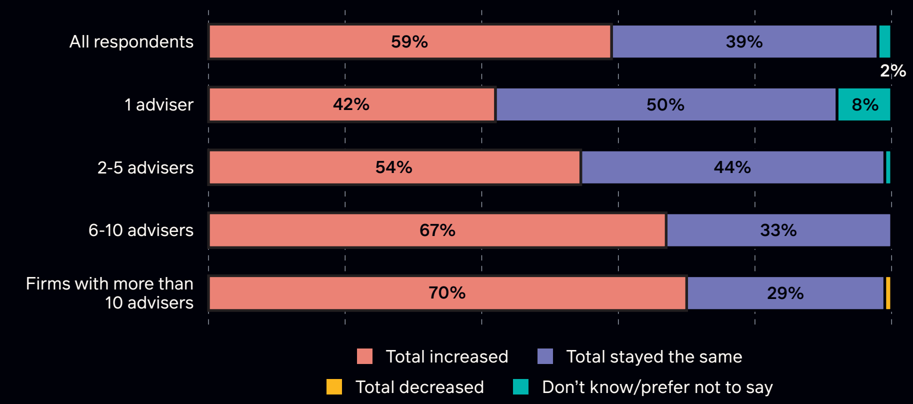
5.3. Rising demand for wealth transfer advice

Overall, 59% of financial advisers say that demand for wealth transfer advice has increased over the past three years. In our interviews with financial advisers we heard that the Covid-19 pandemic is forcing many to re-evaluate priorities and has spurred many to get their financial lives in order. One financial adviser we spoke to put it this way:

> **Pre-Covid, I think there were an awful lot of people who had almost a 'keep up with a Joneses' type attitude, they were influenced by everybody around them as to kitchens, the holidays, the cars, when they retired, what they did. They saw their contemporaries and thought, I want some of that because they've got it. What Covid has done is it's taken them out of that bubble and allowed them time to think about what they want. And it's made people think a bit more actually I didn't really need the new kitchen. I don't need the new carpet. I would like to go on holiday. But it's just made people think a bit more about what they want for them. Not they want it because other people have got it.**

Financial advisers in larger firms were more likely to report an increase in demand for wealth transfer advice (70% compared to 59% overall). As we reported earlier, larger firms offer more services to the children of existing clients, which perhaps has prompted more advisers in those businesses to have the conversation with clients.

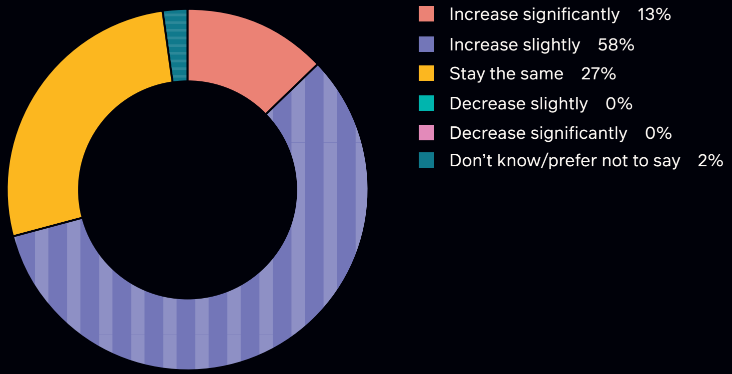
Figure 26: Change in demand for wealth transfer advice in past three years by size of firm (number of advisers)



Source: All respondents, n=201.

Looking ahead three years, most financial advisers expect demand for wealth transfer advice to increase slightly.

Figure 27: Anticipated change in three years in demand for wealth transfer advice



Source: All respondents, n=201.

Conclusion

Demand for retirement advice continues to grow and will continue to rise. The risk of getting things wrong means that a financial plan has never been more valuable. But that risk of getting things wrong also weighs on the minds of financial advice professionals.

Over the three years of this survey, we've seen firms adopt standard processes and approaches to defining a safe withdrawal rate and increased use of tools to support planning decisions. We've also seen an increase in adoption of Centralised Retirement Propositions, to bring consistency to approaches, particularly in larger firms.

Importantly, the CRP is a framework within which to deliver retirement advice. Financial advisers report that they are now more likely to go outside that framework, as they continue to deliver a bespoke service to clients. We think this is significant. The CRP provides a set of guidelines, but individual clients may need different products or approaches. One common reason to work outside the CRP is to meet specific ESG investing requirements. Flexibility is important in respecting the knowledge and professionalism of advisers and the strong relationship they have with clients.

This year we will publish three practical guides to accompany this research. They will be published in the coming months and will cover, among other things, approaches to client segmentation, articulating and demonstrating value for money and a comparison of approaches between clients in accumulation and those drawing down their wealth.

We know that regulatory change is one of the biggest business challenges facing financial advisers. We expect to see an overhaul to treating customers fairly (TCF) as the FCA looks to introduce Consumer Duty. Our guides will offer practical support which may help as you start to prepare for changes.

The past few years have seen societal, economic and geo-political disruption not seen in several generations. But none of these shocks has changed the fundamental need to have a plan for retirement and support to see that plan through. We look forward to working with you as you help your clients to achieve their financial goals and objectives and a happy, fulfilling retirement.

This report is provided for information only, and does not constitute advice.

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