AKG

AKG Research Briefing 2022

Coming back to the table on CRPs

IN ASSOCIATION WITH: Investec

CONTENTS

INTRODUCTION

Since pension freedoms were introduced in April 2015, and due to the impact of the associated changes brought in, the evolution of retirement planning and advice processes and products/propositions/solutions for those clients who are approaching, at- or in-retirement has been fascinating to watch.

But seven years into the world of pension freedoms, after a relatively benign opening period, the landscape has quite suddenly and quite dramatically changed over the past two to three years. Economic ripples from the impact of the COVID-19 pandemic followed by the war in Ukraine have turned into waves and served to bring about multiple challenges, including investment volatility, but chief among these is the current inflationary environment and the associated cost of living crisis.

Subsequently, the challenges and opportunities for supporting clients with vital retirement planning considerations and decision making are myriad. What tools do advisers and firms need at their disposal and what processes to adopt in order to service client requirements? It could be argued that something resembling a 'Swiss army knife' might be required at present.

The overarching theme of this AKG research briefing is to delve into the world of retirement planning and within this to take a more specific temperature check on the understanding, development and use of Centralised Retirement Proposition (CRP) within intermediary firms.

Whilst the concept of Centralised Investment Propositions (CIPs) is relatively well established in the intermediary sector over the past 10 years (the FSA as it was at the time produced guidance on the use of CIPs in 2012), the concept of CRPs is the newer kid on the block.

Hence finding out what it means to different people is of interest. For example, is it an extension of CIP? Is it something entirely different? Is it a process or proposition? For whose interest/benefit is it?

In an industry which spends much of its time debating definitions and terminology (and we can see via the briefing that this is set to continue for CRP!), we sought to use a relatively high-level, investment themed, description to support thinking for this research briefing.

'A Centralised Retirement Proposition is a distinctive and separate centralised investment proposition for clients moving into income drawdown or phased retirement'

Attempting to have a clear focus here on retirement planning, acknowledging the different/unique challenges and requirements of servicing clients at- and in-retirement from an investment perspective. Although not forgetting of course requirements for guaranteed income provision.

Seeking to ascertain what stage intermediary firms are at with recognising these retirement planning challenges for their clients and developing the requisite solutions to service them, now and in future.

And finally, as with each of AKG's industry research publications, with this briefing we are also aiming to provide a platform for further industry consideration and discussion of emerging themes.

1.1 // RESEARCH EXERCISES

AKG ensures that each of its industry research publications is underpinned with fresh market research. For this project, two separate but complementary exercises were carried out to inform our thinking and findings from both of these exercises feature throughout this briefing.

Adviser quant
An online adviser survey featuring 13 quantitative questions (see appendix for full set of questions posed) was carried out to support the delivery of this project. The survey was facilitated on AKG's behalf by independent research company Pureprofile (https://www.pureprofile.com/) during May 2022 and targeted 200 adviser respondents.

Adviser qual
To provide additional perspective and understanding, a series of 17 qualitative interviews with key representatives from intermediary firms was also carried out to support the delivery of this project.

These interviews were facilitated on AKG's behalf by market research specialist Frank Fletcher, of Widewater Consulting. Interviews were conducted in compliance with Market Research Society guidelines and all interviews were done on a confidential basis.

A mix of telephone and teleconferenced in depth interviews were conducted between mid-April and mid-May 2022 with representatives operating in a variety of roles across a broad range of intermediary firm types.

Interviews lasted approximately 30 minutes (though some ran slightly longer) and covered the following broad subjects:

- Respondent firm type and individual profile/role
- Views on key industry challenges and opportunities
- Client challenges and opportunities
- Centralised Retirement Propositions – status and views
- Advising clients in retirement/drawdown
  - Overall
  - Tactics and tools
- The future

Participants from a total of 17 firms were interviewed. The aim was to ensure that a broad range of perspectives from different intermediary firm types and representatives was gathered. As such, interviews were conducted with a balance of representatives from the intermediary community, including:

- Networks/service providers
- Consolidator and Vertically Integrated firms
- National and mainstream firms (generally catering for the mass affluent market)
- Wealth managers and holistic financial planners (generally serving clients with higher value portfolios)

Individuals interviewed covered a range of roles from senior managers/strategy formulators through retirement proposition directors, compliance personnel through to client facing advisers. This helped to ensure a broad and comprehensive perspective was gathered as targeted.

Such categorisation of firm type is predominantly relying on the self-descriptions of respondents. Furthermore, in some cases and providing an example of the evolution of the intermediary sector, there is huge overlap and cross-over between firms. For example, one respondent could be classified as a national, a mainstream adviser because of its main target market, a chartered financial planner because of its range of services and an EBC because of its range of employer and workplace services.

Where verbatim quotes are used in this briefing, they are all anonymised and referred to only by broad description of the respondent firm type.

1.2 // SPONSOR

This research project and the briefing has been sponsored by and produced in collaboration with Investec Wealth & Investment.

Investec

AKG would like to thank them for their support with the delivery of this work.

Contextual thematic quotes from key representatives at Investec Wealth & Investment are also included within this briefing.

For more information on how Investec Wealth & Investment can support advisers please visit www.investec.com/ifa.

EXECUTIVE SUMMARY

Impact of inflation/cost of living crisis and investment volatility on retirement planning (and by association CRPs), is underlining the requirement for firms to review and evolve processes/propositions.

Leading to a 'perfect storm' where advisers and their clients are currently grappling with understanding and managing longevity risk, inflation risk, investment risk and sequencing risk. Presenting real challenges to income sustainability in retirement. Cash flow modelling is seen by many as a key tool to underpin retirement planning.

As a result, there is a great requirement for education on pension and retirement planning risks – to be improved across all age groups – and this will be essential to the successful long-term future of the market.

Advising clients in retirement/drawdown is seen by most firms interviewed as more risky and more expensive than advising clients in accumulation. Risks are exacerbated once clients start to take income.

Income generation and supply tactics will be crucial to support client needs – from sustainable withdrawal rates/strategies to income generation techniques. Whether done in-house and/or using outsourced investment support there will be a period of concerted pressure on investment management in drawdown.

Despite process efficiencies and consistency that can be brought about by adoption of CIP and CRP, advisers recognise that not all clients are the same and hence there is a requirement to provide plenty of scope for bespoke/individualised approaches and portfolios where needed.

Potentially contrasting views on CRP adoption as adviser survey shows this as being widespread, whereas adviser firm interviews suggest that these are only emerging and that development has typically been taking the form of structured/mandated processes rather than mandated products/propositions. Either way, the driver is the need for compliance, consistency and efficiency.

A key concern is that a CRP might compromise independence if there is too close a tie to a specific product or provider. Whole of market status is ferociously guarded by IFAs.

Perhaps it is more a case of 'P' for processes for advisers and 'P' for proposition in the minds of providers, platforms, DFMs and asset managers. The market for solutions to support the proposition delivery element is extremely competitive with multiple players targeting AUM, but it is felt that there is still room for development of more decumulation and retirement income specific solutions.

More consistency of views are held when it comes to challenges for adviser firms. Consumer Duty is seen as a major current concern, along with costs and administrative burdens of servicing client's retirement portfolios. CRPs are seen as something that can help firms to mitigate some risks and meet some challenges.

Advisers foresee serious issues around the scarcity of advice at a time when advice needs are already proliferating, especially as DC pensions are becoming the dominant form of pension saving.

There are concerns that many of the issues emerging today may get worse before they get better and from the adviser point of view centralised retirement advice/planning processes will be key to supporting consistency and targeting positive client outcomes.

BACKDROP/ENVIRONMENT

3.1 // INDUSTRY CHALLENGES & OPPORTUNITIES

Behind the following tongue in cheek comment from an interviewed adviser, a lot of the current (albeit in many cases, hopefully, only temporary) concerns and challenges for the industry and its clients are summarised here.

"The 1970s are back; we know they are back - strikes, inflation, recession, energy shortages, war and above all ABBA have reformed."
National/Mainstream

The one mitigating factor for those currently retired and those approaching retirement is that these generations have seen such things before. What is different, however, and should not be underestimated is the fact that newer retirees are and will be more directly at the mercy of the financial markets given the growing importance of and reliance on DC pension provision, against the steady decline in influence of DB pensions.

More specifically:

- The economic concerns are current or emerging in the form of recession, inflation and consequent market turbulence
- In terms of demographics, longevity risk is commonly cited by advisers as a challenge in regard to managing client expectations
- Current economic conditions are generating substantial concern and challenge in the form of investment risk, interest risk and volatility risk. These in turn give rise to concerns about sequencing (or return) risk to add to the challenges created by longevity risk
- On the other hand, retirement planning, later life planning and inheritance planning are seen as growing areas of opportunity especially in the context of the growth of DC pensions, tax law and the privileged position of pensions outside the inheritance tax net under current rules. Overlaying these factors are the needs of generations both older and younger than those approaching retirement
- Advisers do not necessarily see further substantial regulatory or legislative challenges on the horizon but there is more than enough on the plate at present. Consumer Duty was mentioned by many advisers as an emerging requirement. This will take up a lot of time and consume resources, but at a high-level it is also seen by many as a logical evolution of a process that started with Treating Customers Fairly and developed through various incarnations, most recently PROD. Hence in their eyes, and assuming impact is not being underestimated, it represents a further clarification of similar requirements in many ways

Industry challenges and opportunities in their words – verbatim comments from research interview participants:

"Regulation, consumer duty and competition are the three biggest current challenges." Network/Service Provider

"Value, regulation – the need to justify price and consider foreseeable customer harm which might put an end to the risks of insistent clients." Network/Service Provider

"Charging models fit for purpose." Network/Service Provider

"Inflation – a new experience for many." Network/Service Provider

"Regulation is a particular challenge for ARs." Network/Service Provider

"There are a lot of current challenges – cost of living, the economy, Ukraine to name a few –which for younger clients in it for the long term might not matter too much but for clients approaching or in retirement they may signify a lot of sequence risk." Network/Service Provider

Industry challenges and opportunities in their words – verbatim comments from research interview participants, continued:

"I feel the regulator is being firmer and more aggressive at present with consumer duty, price for service; this affects the whole industry across four areas – governance, price, communications and customer service." Network/Service Provider

"The regulator is increasingly focused on price and consumer duty." Consolidator/VI

"Consumer duty and value for money are the current focus adding to cost pressures." Consolidator/VI

"Demand for advice is a big and growing issue across the industry. With the growth of DC demand for retirement advice is expanding. Pension freedoms opened up so many more options." Consolidator/VI

"With benign investment conditions, little has changed in 10 years but now all of a sudden, there are increasing concerns around portfolio construction – for example the role of bonds." Consolidator/VI

"The FCA approach is now turning increasingly to smaller firms." Consolidator/VI

"On ESG, the FCA needs to catch up, regulation is lagging." Consolidator/VI

"On the positive side, experience continually shows the resilience of the UK advice model from transactional to long term relationship." Consolidator/VI

"Commercially, an ageing population aiming to retain wealth on death is an opportunity." Consolidator/VI

"Issues are not changing much; number of advisers relative to the number of potential clients is always a concern; large firms need to take the lead in training up." Consolidator/VI

"I don't believe remote working has helped in some ways – you need team interaction." Consolidator/VI

"Volatility and inflation mean that cash flow management is becoming more imperative – for example managing income – natural versus encashment." Consolidator/VI

"Achieving efficiency is increasingly the main challenge." National/Mainstream

"Investment performance is interesting, in recent months. Ethical investments have suffered more than dirty ones, but ethical investors seem happy to accept this; for them it is about how you make your money." National/Mainstream

"Inflation is the big scare monster though many around retirement will remember the 1970s and 1980s." National/Mainstream

"Big challenges are improving compliance and research, improving back office systems for greater efficiency, improving time taken for transactions and tightening up documentation to ensure it is ready for consumer duty." National/Mainstream

"Cost of providing advice with FCA, FSCS and PI among other things." National/Mainstream

"Duty of care is the coming introduction but really it is nothing too different from what started with TCF all those years ago." HFP

"Insistent client now no defence – you have to decline to act." HFP

"Cost pressures in investment management – the screws are being turned now." HFP

"Technology – just how good is Fintech – really? Platforms are still losing money and not always delivering," HFP

"You need active fund management to cope with volatility; passive does not work." HFP

3.2 // CLIENT CHALLENGES & OPPORTUNITIES

To a large extent some of the consumer challenges mirror those being experienced by the industry, but opportunities are also present.

On the positive side, pension freedoms unlocked a great deal of choice for customers/clients plotting their route into retirement – though at the same time they threw into sharp focus the need for advice for which provision continues to lag the latent demand.

On the negative side, the lack of education and the advice capacity issues mean that client understanding of a range of retirement planning risks is often inadequate. Inflation risk, investment risk, longevity risk, sequence risk, the purchasing power of pension investments and others are common currency in the industry but the simple fact is that client understanding is just not as strong.

Client challenges and opportunities in their words – verbatim comments from research interview participants:

"Consumer expectations in a challenging environment." Network/Service Provider

"Interest rates and understanding of inflation are important concerns. While older consumers will have been here before, this time is different in the sense that previously inflation occurred when they were saving; now it is happening as they may be seeking to maximise returns and optimise income." Network/Service Provider

"The aim is to solve tomorrow's problems but there has currently to be a lot of focus on today's." Network/Service Provider

"Consumer duty means that clients need to understand clearly what they are getting. Everything has to be clear and not misleading – this ramps up the need for communications to be good." Network/Service Provider

"The adviser market should flourish as there is more need than ever for advice." Network/Service Provider

"It is the job of the adviser to stop clients from doing stupid things. But this means consumers need to be educated which should not be the job of the adviser." Network/Service Provider

"You have to look at the position of the market after so many years of growth. In the new environment, there is greater focus on costs and charges. There are 4 market segments – at the top clients are fine, at the bottom, getting or taking advice will always be a problem but in the middle longevity and sequence risk are very real problems." Consolidator/VI

"The big consumer challenge now and increasingly into the foreseeable future will be saving a big enough pot actually to support retirement. Inflation is not helpful and consumers may have to take more risk than they are comfortable with. People do not appreciate the full impact and plans will need to leave scope for asset growth even through retirement." Consolidator/VI

"Over a working lifetime, people may start workplace pensions in a range of different places – could be difficult to manage." Consolidator/VI

"There are big issues with taking on new clients close to retirement or with complex needs." Consolidator/VI

"Inflation is a coming issue specially with its impact on early withdrawals." National/Mainstream

"Client expectations – not knowing how to get from A to B." National/Mainstream

"Mistrust and the need for confidence. For many actually getting advice is very difficult." National/Mainstream

"Good to see more clients seeking and taking advice." HFP

"Default investment pathways are a concern for me – are they the right way to go for everyone?" HFP

"Sustainability of retirement savings relative to longevity will be an issue clients will need to confront – clients need to be educated; we use Just Retirement tools overlaid with cash flow modelling." HFP

"Getting clients to understand what pensions will actually buy – we mandate cash flow planning." HFP

"Sustainable investments will become dominant." HFP

"Longevity in decumulation may become a problem against the background of market volatility and lower equity returns – we will need to have longer term plans (5 years) in place and ensure 2 years income in cash." HFP

STATE OF PLAY - PREVALENT ROLE OF DRAWDOWN

Whilst annuities and guaranteed/secure income solutions should most certainly not be written off (a point to which we will return), income drawdown has been the main product/proposition 'winner' in the market since pension freedoms were introduced.

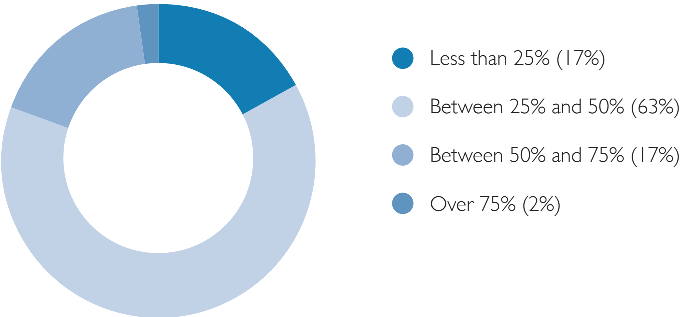
Retirement and drawdown planning is therefore a growing component of intermediary firm business, with there also being a correlation between the retirement progression of the baby boomer generation.

4.1 // DRAWDOWN - A GROWING PART OF FIRMS' BUSINESS (ADVISER QUANT)

We wanted to see via the adviser survey what proportion of firm's advisory business relates to clients in drawdown and the findings echo the sentiment above.

- The highest proportion, just under two-thirds of advisers responding to this question in the adviser survey said that between 25% and 50% of their firm's advisory business relates to clients in drawdown
- Whilst 17% said that clients in drawdown represented a higher proportion of their advisory business – between 50 and 75%

Q. What proportion of your firm's advisory business relates to clients in drawdown?



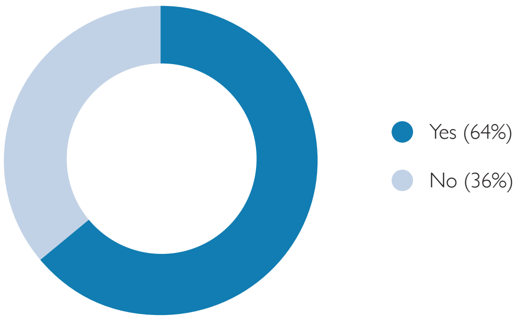
Source: Adviser quant findings

4.2 // FURTHER DRAWDOWN GROWTH ANTICIPATED (ADVISER QUANT)

Then, looking further ahead, we wanted to get a sense of future client demand for drawdown-specific advice and this also painted a healthy outlook for retirement/drawdown planning focus.

- 64% of those advisers responding to this survey question envisage increased client demand for drawdown-specific advice from their firm in the next five years

Q. Does your firm envisage increased client demand for drawdown-specific advice in the coming 5 years?



Source: Adviser quant findings

4.3 // MAIN CHALLENGES FACED WHEN ADVISING ON CLIENT PORTFOLIOS (ADVISER QUANT)

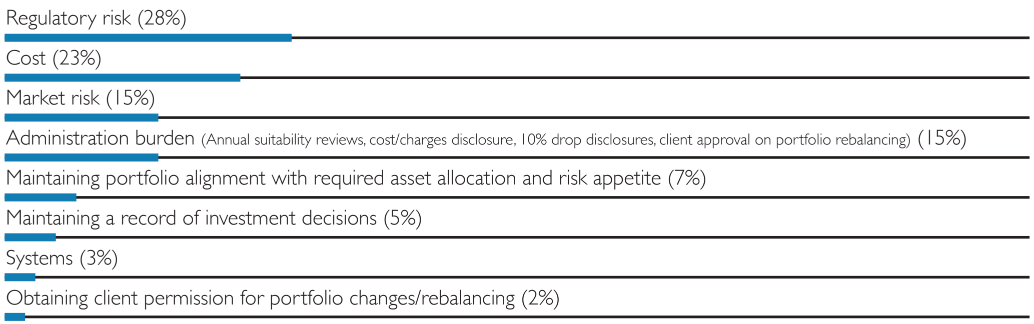
But, as alluded to in the earlier industry challenges section, advising clients on drawdown portfolios in retirement is not a straightforward exercise given the multiple risks (and associated mitigations) to be considered for clients.

This question in the adviser survey asked respondents to rank the main challenges they face when advising on client portfolios, with the list of options provided having more of an operational business feel.

Chiming with sentiment from the adviser interviews, regulatory risk and costs were ranked highest.

Market risk (unsurprisingly given the current economic backdrop) and administrative burden were also considered important challenges faced.

Rank the main challenges you face when advising on client portfolios*



Source: Adviser quant findings
*Respondents were asked to rank top 3 challenges (in order) - this graph shows rank 1 results

4.4 // EQUITY MARKET OUTLOOK (ADVISER QUANT)

Equities are and will continue to be a vital contributing factor when it comes to powering and sustaining client's drawdown portfolios. It was interesting therefore to see via the adviser survey what the general equity market outlook of clients looked like.

Whilst in the shorter term (1 year) there was some concern about a flat equity market, the outlook over the mid-term (3 years) and the longer term (5 years) was largely positive.

Q. On average what is the general equity market outlook of your clients over the following periods?

ANSWER CHOICES	1 YEARS	3 YEARS	5 YEARS
Strongly positive	20%	32%	47%
Positive	44%	50%	39%
Flat	28%	13%	10%
Negative	7%	5%	2%
Strongly negative	1%	0%	1%
All positive	**64%**	**82%**	**86%**
All negative	**8%**	**5%**	**4%**

Source: Adviser quant findings

"We believe that rising interest rates and higher inflation are adversely impacting growth and will remain a headwind for equities in the short term. However, with the starting yield on UK equities being attractive and scope for a cyclical recovery in the medium term, our longer term expectations for equity returns are positive.

Our view is that equities play a critical role in a client's portfolio in particular to help manage the longevity and inflation risks of the overall portfolio. A diversified portfolio encompassing both active and passive management is critical with a close attention being paid to ESG given the increasing impact this will have on company performance in the future."

Ronelle Hutchinson, Senior Investment Director at Investec Wealth & Investment

4.5 // ADVISING CLIENTS IN DRAWDOWN – OVERALL (ADVISER QUAL)

Almost all advisers interviewed recognise that there is more regulatory risk involved in advising clients in retirement/drawdown. Many also recognise that there is more risk to the client as well especially in trying to optimise the benefits from a diminishing pension pot.

In addition, largely because of the time involved, the majority of advisers believe advising clients in retirement/drawdown is more costly for their firms. Some maintain that good planning in advance of retirement does mitigate this factor but there is no avoiding the frequency of review activity, meetings and recourse to tools like cash flow modelling, risk assessment and investment strategy monitoring as well as the tax planning considerations.

This raises issues about the sustainability of some current business models and remuneration approaches. Percentage charges on a diminishing portfolio at one extreme suggest potential economic issues for advisers but the option of time cost charging may make advice unviable for the client at the other.

This looks to be an issue that will have increased profile in terms of value for money in the new consumer duty regime.

Advising clients in drawdown in their words – verbatim comments from interview participants:

"The need for ongoing advice is greater than ever but charging models are not always well aligned." Network/Service Provider

"Definitely more time than in accumulation." Network/Service Provider

"There is more work involved – for example around how income is generated. There is more service rather than transaction activity." Network/Service Provider

"We recognise charging structures are not well aligned with retirement servicing needs and we are exploring different models with the advent of consumer duty and the need to demonstrate fair value." Network/Service Provider

"Not more regulatory risk as far as I am concerned but perhaps more FOS risk, potential complaint risk." Consolidator/VI

"It is easier to get decumulation advice wrong; everything must be documented, and I think the key is how you capture client income requirements and respond to them." Consolidator/VI

"There is more risk; there is greater need for advice, more possible considerations and complications." Consolidator/VI

"Yes, it is more expensive for the firm, but I am not sure how well reflected this is in remuneration. We used to segment by asset value but now it is more about circumstances." Consolidator/VI

"There is more work and more risk – in accumulation you have services like Vanguard robo-advice. There is not a decumulation equivalent so you need more human interaction." Consolidator/VI

"Yes, it can be more costly to advise in decumulation, but I believe having a clear plan set up in advance including consideration of annuity purchase helps. For more complicated situations however, the need for ongoing review is unavoidable." Consolidator/VI

"Yes, it is more costly but to an extent this can be planned for at set up followed by regular monitoring." National/Mainstream

"There is more risk with regulation and also, it is a sensitive time for clients switching from accumulation to decumulation." Consolidator/VI

"Adviser charging – there is a need to move from %-based charges towards agreed fees – I can't see hourly charging as the solution." National/Mainstream

"There is more risk – longevity for example and the risk of clients running out of money; you have to be careful." National/Mainstream

"Clients are taking more risk when they are taking funds out. There is also the risk that clients start to tap in too early." National/Mainstream

"It is more expensive not least because you have to consider all the options since pension freedoms came in." National/Mainstream

"I don't think it is more risky except in the context of DB." HFP

"There is more risk developing sustainable plans and also considering the potential for possible care costs." HFP

"There is more risk once clients start to take income – there is a need for ongoing review." HFP

STATE OF PLAY - CRP USAGE

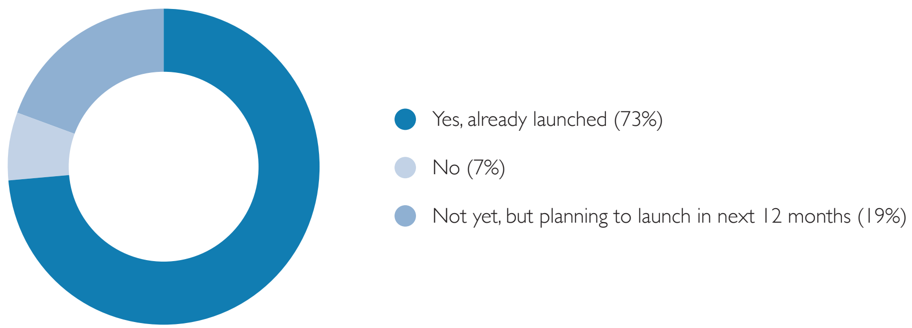
Through both research exercises we wanted to get a sense of current approach to CRP usage.

5.1 // ADOPTION OF CRPS (ADVISER QUANT)

Via the adviser survey the picture appeared relatively clear-cut in terms of CRP adoption (and further perspective on this was sought via the adviser interviews).

- Perhaps a little surprisingly given the new kid on the block status of CRPs, just under three-quarters (73%) of advisers responding to this question in the survey said their firm had already launched a separate/distinct CRP

Q. Does your firm have a separate/distinct Centralised Retirement Proposition?



Source: Adviser quant findings

- One-fifth (19%) said their firm hadn't yet launched a separate/distinct CRP but were planning to do so in the next 12 months, evidently development work in progress for some firms
- Only 7% said their firm doesn't have a separate/distinct CRP, whilst none said they don't need a CRP as their CIP is suitable for pre and post retirement clients

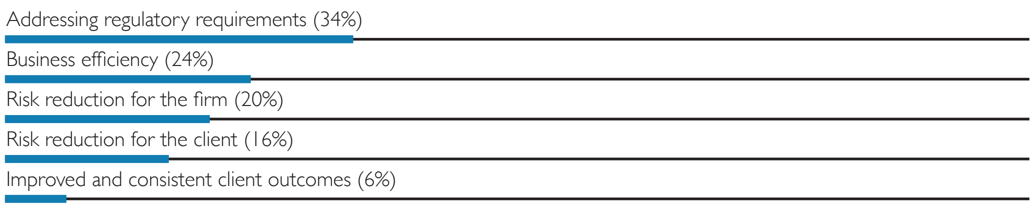
The quantitative overview is therefore provided here, but there is no doubt that getting under the skin via the adviser interviews provides some additionally useful context.

5.2 // PERCEIVED BENEFITS OF CRPS (ADVISER QUANT)

Interesting then to seek adviser input via the survey on perceived benefits of CRP adoption for their firm, positioned by asking them to pick their top ranked items from a list of options.

- Just over one-third (34%) of those responding to this question in the adviser survey ranked addressing regulatory requirements as the number one benefit of their firm having adopted a CRP
- Just under one-quarter (24%) selected business efficiency as the top ranked benefit to their firm of having adopted a CRP
- One-fifth of those advisers responding to this survey question ranked risk reduction (for the firm) as the number one benefit of their firm having adopted a CRP

Rank the benefits to your firm of having adopted a Centralised Retirement Proposition*



Source: Adviser quant findings
*Respondents were asked to rank top 3 benefits (in order) - this graph shows rank 1 results

- 16% selected risk reduction for the client as the number one benefit for adopting a CRP

Addressing regulatory requirements is clearly a big concern for firms as evidenced via these findings from the adviser survey. The need to create business and process efficiencies is evident as well as the requirement to reduce risk for the firm.

Whilst the question is positioned towards benefits to the firm, risk reduction for the client is acknowledged here, although further down the top ranked benefits, with even less perceived benefit for improved and consistent client outcomes.

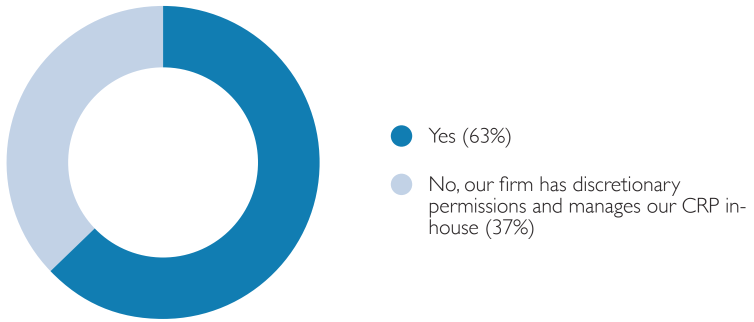
5.3 // IN-HOUSE VS OUTSOURCED (ADVISER QUANT)

This area is a fascinating one. Given the investment focus of drawdown strategies for retirement planning there has been a glut of investment solutions from a range of players launched in the market to dovetail with CIPs and CRPs (although more so the former to date).

And given the obvious challenges for intermediary businesses in servicing clients, do they want to facilitate and manage their CRP in-house or via an outsourced solution from a third party?

- Just over three-fifths (63%) of advisers responding to this question in the survey said their firm's CRP is outsourced to a discretionary wealth manager

Q. Is your firm's Centralised Retirement Proposition outsourced to a Discretionary Wealth Manager?



Source: Adviser quant findings

- Just under two-fifths said their firm has discretionary permissions and manages its CRP in-house

"We act as a partner with advisers when it comes to outsourcing their CRP to discretionary wealth managers. With resources including over 300 investment managers operating out of 15 offices throughout the UK and Northern Ireland we are focused on working with advisers to help them put in place investment solutions which meet client's income and other needs in retirement.

Our bespoke discretionary managed investment service is highly flexible and can be built around an adviser firm's propositions and client mandates. Portfolios are actively managed which allows an adviser to leave the day-to-day investment decision-making to us. This enables us to respond quickly to market changes or capitalise on opportunities to achieve client goals.

In addition, our portfolios are designed to minimise volatility, by incorporating alternative assets that offer uncorrelated returns, that may not be generally accessible to retail platforms. This services to further enhance the value proposition of outsourced CRPs."

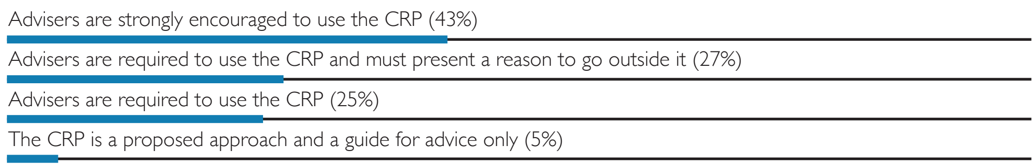
Simon Taylor, Head of Strategic Partnerships & Platforms at Investec Wealth & Investment

5.4 // PRESCRIPTION OF CRP USAGE (ADVISER QUANT)

Evidence from the survey here suggesting that there is potentially a more balanced approach when it comes to the extent to which a firm's CRP is mandated for advisers.

- The highest percentage, 43%, of those responding to this question in the survey said advisers in their firm are strongly encouraged to use the CRP
- 25% said their firm requires advisers to use the CRP
- 27% said their firm requires advisers to use the CRP and must present a reason to go outside it

Q. To what extent is your firm's Centralised Retirement Proposition mandated?



Source: Adviser quant findings

- Only 5% of those responding to this question in the survey said that the CRP in their firm is a proposed approach and a guide for advice only

5.5 // CENTRALISED RETIREMENT PROPOSITIONS – STATUS & VIEWS (ADVISER QUAL)

Further perspective on CRP status and views was sought via the series of interviews with intermediary firm representatives.

As many advisers increasingly identify themselves as financial advisers/planners, rather than specialists in investment management (although acknowledging that some firms still operate in-house investment propositions), CIPs have grown in significance across the intermediary world.

On the basis of the views gathered from interview participants, as long as they can retain an element of flexibility, CIPs can address the needs of large numbers of mainstream and mass affluent clients. CIPs are felt to bring the benefits of:

- Compliance
- Consistency
- Control
- Comfort
- Certainty

With core investment process/proposition in place they leave advisers free to focus on overseeing their clients' financial wellbeing on a holistic basis.

Repeatedly, however, advisers interviewed here emphasised that all clients are different – hence the need for flexibility in any CIP – and indeed some clients may need more bespoke solutions. For this reason, CIPs are therefore apparently not for all advisers and not for all clients.

Advisers recognise that CIPs, as currently constituted, focus very much on the needs of clients in accumulation rather than decumulation. There is, moreover, felt to be a continuing shortage across the market of relevant modern products focused on the needs of clients in decumulation.

Although somewhat 'weather-beaten' by the pension freedoms changes, annuities and their focus on continued guaranteed income provision may remain the first (and for many only) port of call for clients with more modest pots and a need to underpin income needs in retirement.

However, above this base, there are growing numbers of clients (assuming they can get access to and act on advice) who want more options from their retirement.

Across all types of firm interviewed for this project, the view is prevalent that retirement planning is not solely about maximising income. It should be about understanding what clients wish to achieve in their retirement, looking at their resources in the round and then helping them to plot the best possible routes to optimising their income and achieving as many of their retirement aims as possible.

It has however become apparent, via sentiment from those interviewed, that the best way to achieve and accommodate these client outcomes is not necessarily through a CRP that is product led. For most advisers in this exercise this could be seen to compromise their independence and also risk shoehorning clients into a one size fits all retirement solution.

For sure, there are calls for innovative products to complement those already out there from annuities to target date funds – longevity risk funds for example that, like a tontine, pay bonuses for survival, or target return funds (reportedly developing in the US market) – but the flexibility issue and the need to accommodate an almost infinite variety of client circumstances, aims and resources are paramount for most advisers.

As a result, advisers interviewed are more likely to talk in terms of centralised retirement processes rather than propositions. Back to industry definitions here!

And based more on this process definition, many adviser firms already have strongly mandated approaches in place. But the range of perspectives and approaches taken is fascinating and evidently less clear cut in places than the adviser survey results.

Specifically:

- Some firms tend not to recognise the need to develop a distinct shade of CIP for retirement clients – indeed many argue that if the advice process is robust enough and planning careful enough, an existing CIP (with added annuity functionality) can do the trick. It is the mandated process that dictates the solution whether CIP or bespoke
- There is a mix of in-house and outsourced CIP solutions but DFMs are always part of the mix at least at the bespoke end of the spectrum but also in many cases in the delivery of MPS solutions. Beyond this, for the basic CIP, multi-asset and multi-manager funds/portfolios organised in a risk-rated range are major solutions
- CRPs are not mandated (indeed many firms say their CRPs are still in development and one went as far as to say it may never see the light of day) but increasingly centralised retirement processes are mandated and rigidly enforced

The following verbatim quotes offer a range of insights on current thinking and developments:

CRP status and views in their words – verbatim comments from interview participants

"As a network we have a white-labelled CIP but not a CRP and, of course, it cannot be mandated." Network/Service Provider

"We are a network; we can't compel. We offer compliance, tools and file checking." Network/Service Provider

"On CIP, network members do not like to be told what to do." Network/Service Provider

"For our CIP, the main driver is product governance depending on client circumstances. PROD provides useful guidance on different asset classes including platforms." Network/Service Provider

"Based on PROD we look for reasons why someone should NOT do something." Network/Service Provider

"CRP is not a thing as far as the regulator is concerned. In any case a good CIP negates the need for a CRP. It seems to be at the moment it is about providers trying to get advisers to buy into exclusivity." Network/Service Provider

"CRP is difficult. Retirement does not just mean pension; we have to look at everything up to and including Equity Release factoring in considerations like long term care." Network/Service Provider

"CRP should be about the process not the product. There are considerations about natural income versus encashment. No two clients are alike so how can one solution be right for all?" Network/Service Provider

CRP status and views in their words – verbatim comments from interview participants, continued:

"We have a robust process to manage investment advice and solutions to provide assurance and consistency but allowing advisers freedom to use their chosen solutions." Consolidator/VI

"We are Whole of Market; independence is key." Consolidator/VI

"We have a CIP based on restricted panel; we outsource investment management and provide oversight." Consolidator/VI

"AR firms have a documented advice proposition; it is more about process than product – cash flow planning is crucial especially for measuring essential spending against guaranteed income." Consolidator/VI

"Our CIP is growth focused; there are no good CRPs out there at the moment." Consolidator/VI

"We have a proposition that aligns with PROD and a tightly monitored advice process." Consolidator/VI

"We have a fluid panel, no ties to any company or platform and we are agnostic re active vs passive management." Consolidator/VI

"Our approach is to look at risk depending on client investment knowledge." Consolidator/VI

"We segment clients by income needs from essential to more dynamic." Consolidator/VI

"For clients in retirement, we have a wide range of services from the Brooks Macdonald decumulation service (which is very sophisticated including structured products) to income products like Just and 7IM." Consolidator/VI

"We have a range of core solutions, reviewed regularly and we adopt a best of breed approach with providers." Consolidator/VI

"On CRP, I am not sure what best practice looks like. I like the fact that you can reduce risk for advisers and clients but equally you need flexibility." Consolidator/VI

"Our focus is on ensuring clients can cover the cost of an annuity and beyond that, maximum flexibility." Consolidator/VI

"We have a toolkit from annuity providers to fully fledged drawdown." Consolidator/VI

"We have a focus on total return – a minority of clients aim for natural income but for others we have targeted model portfolios and an in retirement range." Consolidator/VI

"Yes we have a CIP – core platform, core investment panel, managed funds and MPS but we are allowed to go off platform when justified. A CRP is still 12-18 months away." National/Mainstream

"Any retirement strategy should be focused on avoiding what the client does not want to happen." National/Mainstream

"Benefits of a CRP are consistency, efficiency, less danger of complaints and for clients, understanding and relative security." National/Mainstream

"We have a mandated advice process but some flexibility in terms of outcomes and solutions." National/Mainstream

"Our CRP is advice based and sits around our CIP." National/Mainstream

"We have a range of advised portfolios based on risk, an adviser portfolio and DFM for more complex cases with lots of variants based on cash flow modelling and attitude to risk." National/Mainstream

"We use dynamic core but not for all; service can be bespoke for more affluent clients if the client wants guaranteed income." National/Mainstream

"We have no CRP – service is currently utterly bespoke." National/Mainstream

"For a larger advice firm you need consistency, systems and control but all advice is still bespoke to the client." National/Mainstream

"Pre-approval is needed if stepping outside the mandated process." National/Mainstream

"We are mandated to do what is right – here is the guidance on what is right, tell us why you are not using it." National/Mainstream

"We have built accumulation and decumulation processes which fit 90% of client circumstances; for the other10% we use DFM." National/Mainstream

"Investment is outsourced – we are financial advisers; we look at annuities for all clients, we look at what clients want to achieve and also take into account non-pension assets." National/Mainstream

"The benefit of our process is continuity – all follow the same process, the providers used are down to the advisers." National/Mainstream

"We have our own investment proposition but while a CRP would stop advisers wandering off into a minefield, investments have to be bespoke to individual clients." HFP

"Because we are IFAs, we can't have a mandated product solution. It is a mandated sales/advice process. We look at annuities, controlled spending and full drawdown. We have to cash flow them all. Essential spend into annuity, then MPS and onto DFM." HFP

"CRP offers good benefits for clients – in showing understanding of their circumstances. It is clear and gives confidence but it has to be monitored." HFP

"We have a CIP, core selected MPS, multi-asset funds and DFM." HFP

"Any CIP/CRP should include consideration of property." HFP

"We use a CIP comprising DFM, platform and managed funds for regulatory reasons plus buying power and platform fees." HFP

STATE OF PLAY - CRP CHARACTERISTICS & TACTICS

The composition, characteristics and tactics of retirement and drawdown planning and associated CRPs, whether this be with a 'P' for proposition or process, also merit consideration.

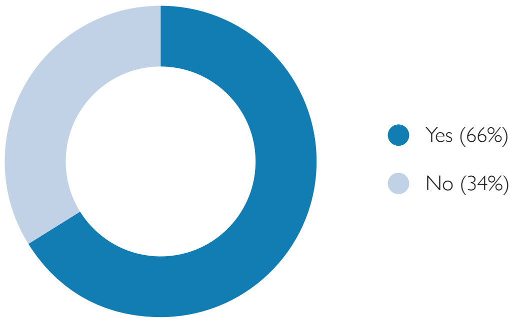
6.1 // ASSESSING ATTITUDE TO RISK (ADVISER QUANT)

Ensuring that advisers appropriately test (and re-test) a client's attitude to risk (ATR) has long been a concern of the regulator. Particularly to ensure this includes consideration of capacity for loss and recognises differences between accumulation and decumulation.

Reassuring here to see via the adviser survey that 66% of those responding to this question say their firm uses a distinct/specifically different ATR questionnaire when providing advice to retirement clients.

Perhaps a consideration for those who don't would be, is the ATR currently used fit for purpose across accumulation, consolidation and decumulation clients?

Q. Does your firm use a distinct/specifically different ATR questionnaire when providing advice to retirement clients?



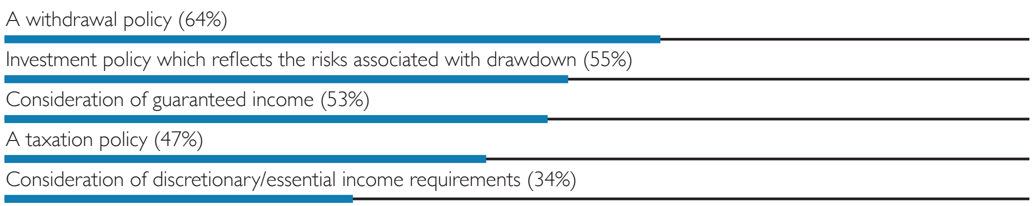
Source: Adviser quant findings

6.2 // CRP COMPOSITION (ADVISER QUANT)

Beyond approach to ATR, looking at how firms go about certain rules and protocols within the CRP was also something that we wanted to explore in the adviser survey. The comprehensiveness required to formulate a compelling retirement planning service should not be underestimated.

- The highest proportion (64%) of advisers responding to this survey question said that their firm's CRP includes a withdrawal policy
- 55% said the CRP includes an investment policy which reflects the risks associated with drawdown
- 53% said their firm's CRP included consideration of guaranteed income

Q. Which of the following does your Centralised Retirement Proposition include?



Source: Adviser quant findings

- 47% of advisers responding to this question in the survey said their firm's CRP includes a taxation policy
- The lowest proportion (34%) of advisers responding to this survey question said their firm includes consideration of discretionary/essential income requirements in its CRP

Where firms do not have a policy on some of these items they might need to consider whether they are missing any vital component parts of their retirement planning services. Such services need to continue to evolve given the obviously challenging backdrop for clients.

"When considering how best to maximise the income available to a client from their pensions, taxation is a key factor. The client's full income position should be known, for example, they may have income from other sources including retained interests in businesses, bank interest, income from investment portfolios or property income. In addition, the client's future plans will play a key factor: for example, are they fully retired or are they planning on finding work on a part-time basis? When will they take their State Pension or are they going to defer it?

All these questions need to be considered to ensure that a client has the ability to plan a tax-efficient income strategy from their pensions."

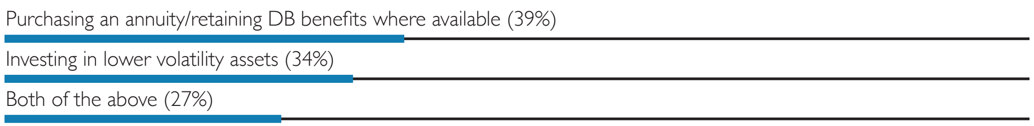
Simon Taylor, Head of Strategic Partnerships & Platforms at Investec Wealth & Investment

6.3 // ADDRESSING ESSENTIAL INCOME REQUIREMENTS (ADVISER QUANT)

With all of the focus on the investment 'sizzle', it is crucial that the provision of secure/sustainable income is not overlooked for clients who may be more cautious in their outlook or if not who might still require an element of underpin to cover necessities in retirement.

- 34% of those advisers responding to this question in the survey said that their firm's CRP addresses clients' essential income requirements by investing in lower volatility assets
- 39% do so by purchasing an annuity or retaining DB pension benefits where available
- Whilst 27% say they achieve this via a combination of the two methods

Q. How does our CRP address clients' essential income requirements?



Source: Adviser quant findings

This feels like an area which will continue to command attention and it is also an area where the market has been potentially slow to provide associated solutions to facilitate such essential income requirements.

"We can see that clients' spending patterns in retirement can vary widely. For example, some clients could spend a lot in the early years of retirement by going on holidays or buying new cars as they may want to enjoy their wealth and be healthy enough to do so. In later years, they may spend less as they settle into a more steady and predictable spending pattern. Therefore, it is key to understand what essential expenditure a client will have and what discretionary expenditure they anticipate. When this is known, it can help to create an investment strategy for the underlying pension investments."

Ronelle Hutchinson, Senior Investment Director at Investec Wealth & Investment

6.4 // SUSTAINABLE WITHDRAWAL RATES (ADVISER QUANT)

A widely debated component part of retirement planning processes and propositions, we wanted to test thinking via the adviser survey on approaches taken for sustainable withdrawal rates.

- The approach taken by the majority, 64%, of those responding to this question was for firms to generally assume a fixed sustainable rate
- The remainder, 36%, said their firm uses Government Actuary's Department (GAD) and annuity rates to determine a sustainable withdrawal rate

Q. What sustainable withdrawal rate does your firm generally assume for clients in drawdown?

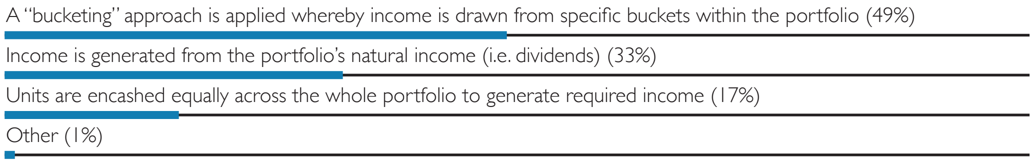
Source: Adviser quant findings

Again, given the current economic backdrop, thinking will need to evolve here to support resilient and sustainable withdrawal strategies for clients.

6.5 // INCOME GENERATION TECHNIQUES (ADVISER QUANT)

For those advisers responding to this survey question the top ranked, by half (49%), technique used for income generation from within the client's portfolio was via the application of a 'bucketing' approach whereby income is drawn from specific component parts within the portfolio.

Q. For drawdown portfolios that your firm advises upon, how is income generated from within the portfolio?*



Source: Adviser quant findings

*Respondents were asked to rank these options in order of use within their firm - this graph shows rank 1 results

One-third of those responding to this question said that income is generated from the portfolio's natural income, i.e., via dividends.

17% said that units are encashed equally across the whole portfolio to generate required income.

Whoever is responsible for delivering these income generation techniques, there will be associated administrative and process driven considerations.

"Pension assets can be managed in a variety of ways, be that growth, income or both. If a client is planning on leaving their pension for their family to inherit, then a growth or total return strategy would seem a sensible approach. However, some clients may wish to maximise the income from their pension fund while preserving the capital value. Clearly it will be important to implement an investment strategy that matches the client's objectives for income and estate planning.

A common approach is to divide the pension assets into three 'pots' for different time horizons, this helps to manage the specific risks associated with drawdown (market, sequencing, inflation, longevity and behavioural). Colloquially known as the 'bucketing approach', this investment strategy splits assets into:

***Short-term:** this would typically be over a 12 to 24-month period and would be used for paying income to the client. The underlying investments would normally be cash or cash-like investments which are low-risk.*

***Medium-term:** typically a 5 to 10-year period and this pot would include investments that will be disinvested to replace withdrawals from the cash pot. As investments in this pot have a longer time horizon, they would take the form of a diversified portfolio. (Structured Products bias Portfolio or Medium risk Balanced Portfolio)*

***Long-term:** underlying investments in this pot would be invested for over ten years and therefore would be focusing on long-term growth. Over time, the assets in this pot would move to the medium-term pot followed by the short-term pot, before being withdrawn as income for the client. (Capital Growth Portfolio)"*

Ronelle Hutchinson, Senior Investment Director at Investec Wealth & Investment

6.6 // ADVISING CLIENTS IN DRAWDOWN – TACTICS & TOOLS (ADVISER QUAL)

It is recognised that the arsenal of tools at the disposal of advisers has broadened, strengthened and generally improved over the last few years. It does not seem so long ago that cash flow modelling was seen at least as much as a shiny new toy than a crucial tool. Cash flow modelling and planning, while still highly dependent on the assumptions and variables fed into the models in the first place, is front and centre in almost all retirement income planning that underpins advice to those in the retirement space.

Such cash flow modelling is generally used and revisited on a continual basis for review meetings etc. and for many adviser firms its use is a key mandated part of the ongoing advice process.

Attitudes to risk are being increasingly revisited during the current period of asset value volatility and bear market conditions in many asset classes. More often than not however, the tools being used are at best only minor adaptations of the approaches used in asset accumulation. Advisers would argue that the long-term planning in the lead up to retirement has surfaced the issues and they should already have been accommodated.

More important for some advisers in the current environment is capacity for loss and this is certainly under closer scrutiny than before. It is likely that many advisers have consumer duty requirements in mind already. As far as approaches to investment strategies, withdrawal strategies, percentage withdrawal rate and tax strategies are concerned, these are seen to be at the heart of individual client/adviser relationships.

Adviser firms generally argue that each client is unique and approaches need to be bespoke to their circumstances. This is a key reason that centralised retirement advice processes appear to be more prevalent in the market than centralised retirement propositions at the present.

One way or another, all advisers factor in essential versus discretionary spending though how this is manifested and the strategies executed varies from firm to firm and client to client as the quotes below suggest. As a result due consideration is always given to essential/guaranteed income requirements. For many firms and their clients especially in the mass market space, this is the starting point and the area where consideration of annuity solutions is most embedded.

Tactics and tools for advising clients in drawdown in their words – verbatim comments from interview participants:

"We regard retirement as starting 5 years in advance of the actual expected date. And we use attitude to risk as a conversation focus much more." Consolidator/VI

"We insist on providing full ongoing service for clients in retirement; otherwise we won't advise them." Consolidator/VI

"Strategy approaches are bespoke to individual clients." Consolidator/VI

"We adopt client specific approaches to strategies, but the process is always the same and closely monitored." HFP

"All approaches are bespoke to individual clients and as part of this we seek to preserve pensions as much as possible." National/Mainstream

"Risk depends on the individual client; we don't use specifically different tools." Network/Service Provider

"Our standard approach is to use cash flow management tools and determine income needs." Network/ Service Provider

"All strategies – income, tax, withdrawal rate etc are client specific." Consolidator/VI

"We look at risk tolerance on an individual basis." Consolidator/VI

"Cash flow modelling is essential." National/Mainstream

"Even with tools like cash flow modelling, outcomes are only as good as the planning, the assumptions and the inputs." Consolidator/VI

"We use cashcalc for simple analysis rather than stochastic models." Consolidator/VI

"We use cash flow modelling to show clients the risks associated with different strategies." National/ Mainstream

"We use the same risk questionnaire and cash flow modelling but CFM can be too conservative in the context of inflation." National/Mainstream

"We look at safe maximum withdrawal rates." National/Mainstream

"We have tried but struggle to make the bucket approach work in dynamic and changing circumstances, but we do separate essential from discretionary spending needs." National/Mainstream

"We regularly reassess risk for decumulation clients." National/Mainstream

"We don't recommend cash but adopt a larder, fridge freezer approach – 3 to 5 years income in low to medium assets, 5 to 10 years in medium to high risk and then higher risk for investment growth." National/Mainstream

"We actually place more emphasis on capacity for loss in decumulation than just attitude to risk." HFP

"As clients get older they become more risk averse anyway." HFP

"We use capacity for loss tools." HFP

"Cash flow planning is mandatory." HFP

"US is well ahead of the UK – we need to start looking in more depth at things like target return funds." HFP

PENSION/RETIREMENT PLANNING - THE FUTURE (ADVISER QUAL)

Long term, the most important need identified by advisers interviewed is education. The fact is that auto-enrolment and the development of DC pensions means that there is a knowledge gap from understanding the workings of compound interest to what sort of income a particular level of saving might buy in the future and all the potential pitfalls/risks along the way.

It is an integral part of the job of the financial adviser to carry their clients with them into their retirement years highlighting and managing the various risks – inflation, longevity, sequencing, investment etc. Whilst challenging at this level, the problem is less with the clients who already have advisers; it is more with the growing population of unadvised clients at least some of whom are destined for a distinctly uncomfortable retirement.

That is why so many advisers believe more has to be done to instil basic financial knowledge and understanding at the earliest opportunity and certainly during the years of secondary education.

A positive side-benefit might be to open the minds of more young people to the potential of a career in financial advice. It is a long-term strategy, but the problem of adviser capacity/numbers is also a long-term one which shows no sign of abating.

Advisers recognise the need to look for efficiencies in the advice process and gradually and increasingly work with technology – something which should come easier to future generations of retirees compared with past generations prior to the baby boom generation. This will be particularly important in delivering value for money in the new Consumer Duty regime and against the background of potentially shrinking money purchase pension pots.

There are many shorter term things that may mitigate the problems of the mismatch between advice needs and advice uptake and interview participants had no shortage of ideas:

- Retirement planning should be more about plans and what individuals want to achieve rather than simple number crunching which should be going on behind the planning conversations
- New products are needed to provide good and guaranteed income. One adviser suggested a longevity hedge product (akin to a tontine) providing longevity bonuses to survivors. The feeling was that this would help in the development of blended solutions
- Drawdown functionality is capable of substantial improvement in some cases
- Above all, there is a need to ensure that more people can access advice
- Pension investment should start as early as possible to take advantage of compounding and concepts like pound cost averaging
- Literature should be easier and simplified. Too much and/or too complex will not get read
- Different investment solutions are needed. For example, a platform with a guaranteed income underpin
- Target return funds are increasing in importance in the USA and may gain further traction here
- Products that help manage volatility against diminishing pension pots could be developed

The future of pension/retirement planning In their words – verbatim comments from interview participants:

"The key is at the very beginning – education is needed at school." Consolidator/VI

"There is still lots of inconsistency in the market that centralised propositions would help address." Network/Service Provider

"A tontine-based longevity-hedge product - something annuity providers might develop that would help with blended solutions." Consolidator/VI

"Smoothed products not really designed for decumulation but we sometimes have to use them." Consolidator/VI

"All stakeholders in the market have a role to play and are potential strong strategic partners." Consolidator/VI

"DFMs know how to do investment management." Consolidator/VI

"Centralised Retirement Propositions in the future can help deliver consistency but they can't be totally uniform." Consolidator/VI

"CRP should include property." HFP

"You can't treat people as if they are all the same – you need to understand what they want." National/Mainstream

"It should be a simple process – get adviser to plan long term, review meetings regularly, frequent communications – e-mail, webinars etc." Consolidator/VI

The future of pension/retirement planning In their words – verbatim comments from interview participants, continued:

"Retirement is an absolute concept, retirement planning needs to change – it should be about what you want to do – plan and expectations." National/Mainstream

"It's all about education and client choices – you either save or you don't." National/Mainstream

"The thing that would have the biggest effect would be mandating financial education at school." National/Mainstream

"Telling people to join a pension scheme as soon as they can and stick with it is the best thing we can do." National/Mainstream

"I don't believe you can mandate solutions." National/Mainstream

"Everything we access, we pay for – I am very wary about what is free." HFP

"Target return funds are increasingly being talked about in the USA and we are about 5 years behind them. Vanguard are offering something on about 0.3%." HFP

WRAPPING UP

In wrapping things up, there is quite simply more than enough going on to encourage adviser firms to 'come back to the table' and (re)appraise their retirement planning processes and propositions.

From the impact of COVID-19, to the economic ripples felt across Europe (and the UK) from war in Ukraine and onto the cost of living crisis, inflation, rising interest rates, investment volatility and political uncertainty, there is much to occupy adviser thoughts as they support clients approaching, at- and in-retirement. Advisers and clients will need all the help they can get with their retirement planning strategies in navigating these choppy waters.

And further, from a regulatory standpoint, advisers have Consumer Duty (including consideration of vulnerable customers) considerations, plus (as we 'go to print') emerging news of renewed FCA focus on the retirement market and in particular the use of income drawdown.

A perfect storm indeed for retirement planning, and so through this AKG research briefing and its emerging findings/themes we encourage further discussion and debate on CRPs.

"Whether it's Processes or Products in the retirement industry, the real "P" that matters for clients, advisers and investment firms alike is Partnership. In 2022, amidst the market meltdown that is rocking the very foundation of our investment principles, like the 60/40 investment portfolio, it is indeed crystal clear that none of us can act independently.

Decumulation, which is vastly different from accumulation, focuses our minds on several combined risks – sequencing risk, longevity, inflation & market risk. Investment portfolios will have to evolve to mitigate these risks. This is particularly evident given the current economic climate.

It is vital that we ensure investment portfolios evolve to mitigate these risks in the future. We are working with our partners to look at ways to combine the certainties of a guaranteed annuity with the flexibility of a drawdown portfolio.

Nonetheless, the biggest challenge at the adviser level will remain managing behavioural risks and the business risks that serve to make CRPs a compelling solution. The bucketing approach, increasingly adopted by advisers, is becoming central to solving both the behavioural and investment dilemma that collides during decumulation.

In our research into asset class returns and withdrawal rates, we find that there are three fundamental elements that must be managed for advisers to ensure their clients' portfolio achieves its objective:

1. Sustainable withdrawal rate
2. Appropriate Asset allocation mix
3. Minimising the volatility of the investment portfolio

It is the power of partnership on these three elements that will ensure that we deliver sustainable outcomes for clients in their retirement years.

At Investec, with our dedicated DFM and MPS resources available to meet these challenges, we remain committed to partnering with advisers to ensure the enduring worth of their clients."

Ronelle Hutchinson, Senior Investment Director at Investec Wealth & Investment

APPENDIX 1 – ADVISER SURVEY QS

Q1. Does your firm have a separate/distinct Centralised Retirement Proposition?

Q2. Is your firm's Centralised Retirement Proposition outsourced to a Discretionary Wealth Manager?

Q3. Rank the benefits to your firm of having adopted a Centralised Retirement Proposition

Q4. To what extent is your firm's Centralised Retirement Proposition mandated?

Q5. Which of the following does your Centralised Retirement Proposition include?

Q6. How does your Centralised Retirement Proposition address clients' essential income requirements?

Q7. Does your firm use a distinct/specifically different attitude to risk questionnaire when providing advice to retirement clients (i.e. for decumulation planning as opposed to accumulation)?

Q8. What sustainable withdrawal rate does your firm generally assume for clients in drawdown?

Q9. With respect to drawdown portfolios that your firm advises upon, how is income generated from within the portfolio?

Q10. What proportion of your firm's advisory business relates to clients in drawdown?

Q11. Does your firm envisage increased client demand for drawdown-specific advice in the coming 5 years?

Q12. Rank the main challenges you face when advising on client portfolios

Q13. On average, what is the general equity market outlook of your clients over the following periods?

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AKG is an independent organisation specialising in the provision of assessment, ratings, information and consultancy to the financial services industry

ISSUED 26 OCTOBER 2022

IN ASSOCIATION WITH:

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