For professional advisers only

Rethinking Retirement: Changing Gear?

How advisers are building propositions for clients transitioning through retirement

A report by Copia Capital based on research by the lang cat

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01. Introduction

Deciding how and when to start the transition from accumulating wealth into decumulation and retirement is one of the most challenging financial decisions an individual will make in their lifetime.

The combined effects of pension freedoms and auto-enrolment mean that this market is now huge and one that advisers can't ignore. In 2022, the Defined Benefit (DB) market was £2.17tn and the Defined Contribution (DC) market was £1.41tn. [1] The success of auto-enrolment has increased the number of individuals accumulating DC pension savings with an estimated 22.6m employees [1] in a workplace pension scheme. These consumers will need to consider their options, and ultimately make decisions about how they access their pension savings when they retire. Accessing high-quality financial planning, underpinned by robust investment solutions has never been more important for individuals facing these decisions.

The importance of making the right decisions has not gone unnoticed by the regulator. Their recent thematic review of the retirement income advice market explores in detail the challenges consumers face. They now need to consider not just how they fund their retirement, but also the level of income to draw and what an appropriate investment strategy might be for pensions that remain invested. Advisers have a key role in this market. They have the opportunity to demonstrate the value of their advice and services when helping consumers sustainably meet their income needs in decumulation. As an investment manager, our role is to design, build and manage investment solutions that meet consumer needs and deliver sustainable outcomes.

As the FCA's thematic review suggested, advisers should review their processes for delivering retirement income advice to ensure best practice is being followed. We hope this paper will help advisers with this review. It provides fresh research conducted on our behalf by the lang cat which shows how the advice profession has been constructing their retirement propositions. . The rules introduced last year as part of Consumer Duty play a key role here in ensuring the regulatory requirements are being followed, and in addition to this paper, I'd like to draw your attention to the Consumer Duty Toolkit we published last year. This guide will hopefully stimulate some thought about how your retirement proposition might need to evolve, and the toolkit will give you the details on how to do it.

As always, we welcome your thoughts and feedback. Please contact me or my colleagues if you'd like to discuss any of the points raised.

Tony Hicks

Head of Sales, Copia Capital

[1] Source FCA TR24/1

02. Our research cohort

This research was conducted during January 2024 via the lang cat's Adviser Research Panel. We received 160 survey responses, with just under two-thirds (62%) of respondents identifying as an adviser. The remainder covered paraplanning, compliance and investment manager roles. 93% of respondents are employed by or own independent advice firms.

The FCA's own Intermediary Data [2] shows that 90% of advice firms have fewer than five advisers, with half of firms having only one adviser. Our research cohort is aligned with this market view, reflecting the nature of relatively small firms in terms of number of advisers. However, even these small firms are still serving large numbers of clients, with the median figures being 280 clients served by three advisers. Mean firm assets under management (AUM) is a healthy £276m. Our respondents all run a Centralised Investment Proposition (CIP) and most (but not all) AUM is held within a CIP. On average, 31% of clients have fully transitioned into retirement and are decumulating.

	Clients	Advisers	AUM	AUM within CIP	% in decumulation
Mean	764	6	£276,487,832	£171,614,748	31%
Median	280	3	£100,000,000	£75,000,000	30%

Finally, to complete the pen portrait of our research cohort we find that 94% of respondents are using cashflow modelling tools as part of their retirement planning process. Cashcalc (36%), Voyant (29%) and Intelliflo (11%) are the most popular tools being used.

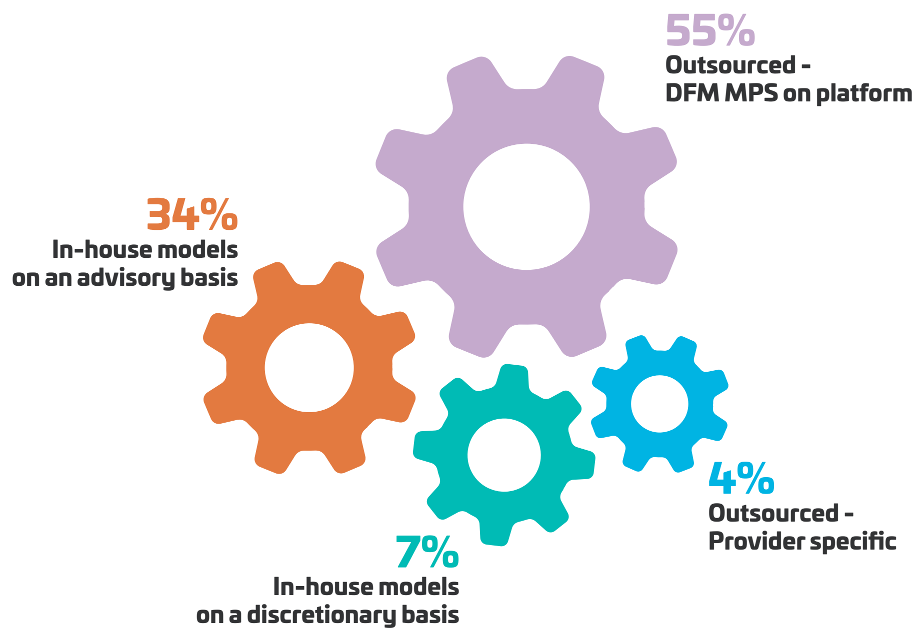
[2] https://www.fca.org.uk/data/retail-intermediary-market-2022

03. Key Research Findings

INVESTMENT PROPOSITION DESIGN

This research was completed solely by firms who are running a Centralised Investment Proposition (CIP), however separate research conducted by the lang cat [3] shows that CIP use is far from a minority sport, with nine out of 10 firms choosing to have a CIP as part of their business.

Among the research cohort for this paper, when we look at the primary element of their CIP (ie where the majority of client assets are placed) we can see that outsourced model portfolio services (MPS) provided by an external discretionary fund manager (DFM) are the most popular investment solution, with 55% of firms placing client assets this way. A third (34%) of firms are running their own in-house model portfolios on an advisory basis, with a small number either using provider-specific solutions or operating under their own discretionary permissions.



Over recent years we have seen a shift in adviser behaviour, with more and more firms deciding to adopt outsourced MPS solutions. There have been a number of drivers behind this trend, including operational efficiencies, accessing specialist investment expertise and regulatory pressures as a result of Consumer Duty. The supply side has also improved, not only with more firms offering standard MPS portfolios, but also custom portfolios such as those available via our Copia MPS Custom Service.

[3] State of the Advice Nation Wave 6, the lang cat, February 2024

WHY DID YOUR FIRM DECIDE TO OUTSOURCE?

"So I can focus on planning and client service"

"Time-saving, their superior depth of research, consistency"

"We made the decision back in 2019 to get rid of our advisory portfolios and run a custom mandate with the DFM"

"They're better at it than me."

CENTRALISED RETIREMENT PROPOSITIONS?

While CIPs have been embedded in the majority of advice firms for several years, the question of whether firms should adopt a Centralised Retirement Proposition (CRP) is still to be fully resolved.

As it stands, most respondents use the same investment solutions for clients who are accumulating and/or decumulating. Fewer than one in five firms is operating a separate CRP alongside their investment proposition.

Which of the following statements most closely matches your firm's retirement approach?	
We operate a Centralised Retirement Proposition (CRP), separate to our CIP.	17%
Clients who are accumulating or decumulating will invest in the same model portfolios as part of our CIP. Planning needs to change as clients transition through retirement, but essentially the underlying investments remain the same.	80%
Clients transitioning through retirement tend to invest in bespoke portfolios.	3%

However, while this current position might seem fairly conclusive, there are signs that this could change over the coming months and years. A fifth (20%) of respondents state they are already planning on making changes, citing changing market conditions and the FCA's retirement income thematic review as the catalyst.

WHY ARE YOU PLANNING ON MAKING CHANGES TO YOUR CIP?

"We are working on a CRP, factoring in annuities and whether additional portfolio choices are needed when considering our cash reserve policy."

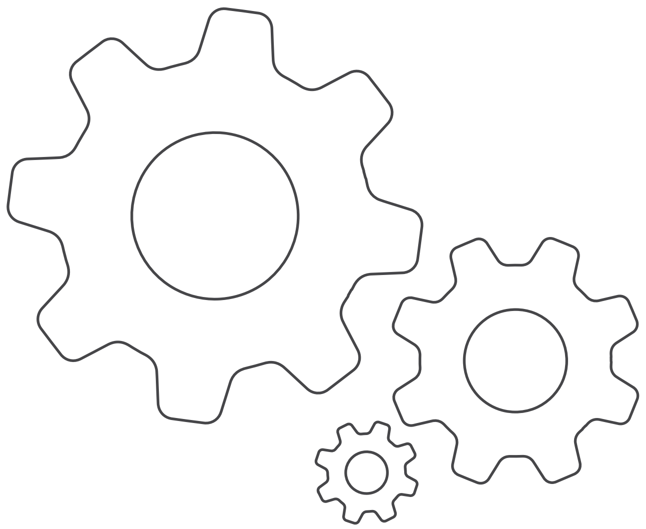
"We will implement a CRP, but that's more about the planning process rather than bringing in retirement-specific investment strategies."

"Things change! eg annuity rates last year."

"Following the publication of the FCA paper, I fully expect a need to revisit this with a standalone CRP required."

With the results of the thematic review now available, it is encouraging to see the regulator's thoughts are aligned with the views of the advice profession. The FCA is asking firms to review their processes to ensure they deliver the best possible outcomes, but this is a case of ensuring best practice is followed rather than implementing fundamental changes. Evolution as opposed to revolution.

The thematic review recognises that not all firms will run a separate CRP, and indeed a few firms have chosen to operate without a CIP or CRP. Whatever you are doing, the FCA's advice suggests you need to ensure you deliver consistent and suitable advice, aligned to the needs of your customers. Our research shows that the majority of firms choose to do this via a centralised process, recognising that, at a high level, customers approaching retirement can be seen to have broadly similar needs. The challenge is then to build enough flexibility into the process to ensure individual client suitability. Firms should also ensure they have adequate training and management information in place to support the delivery of this advice.

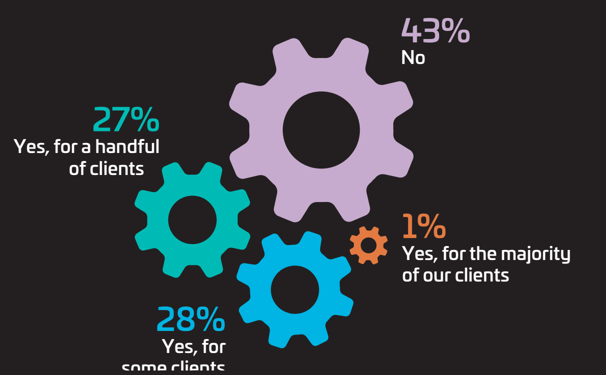


GUARANTEED INCOME

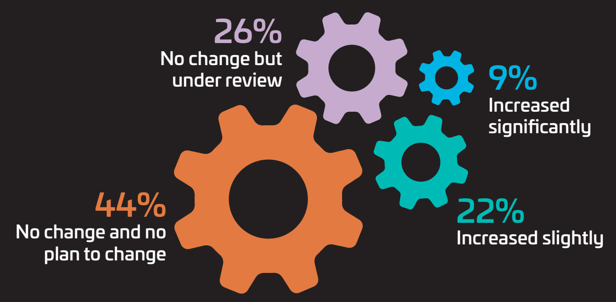
As we can see in some of the earlier quotes from advisers, one of the key challenges for retirement advice is incorporating guaranteed income solutions when client needs dictate. As market conditions evolve, firms need to review their approach to ensure the best possible outcomes are being generated.

Our research shows that over half of firms are currently using guaranteed or smoothed investment products with their clients, with 30% of firms reporting an increase in the last 24 months.

Do you use any form of guaranteed or smoothed investment products with your at-retirement clients?

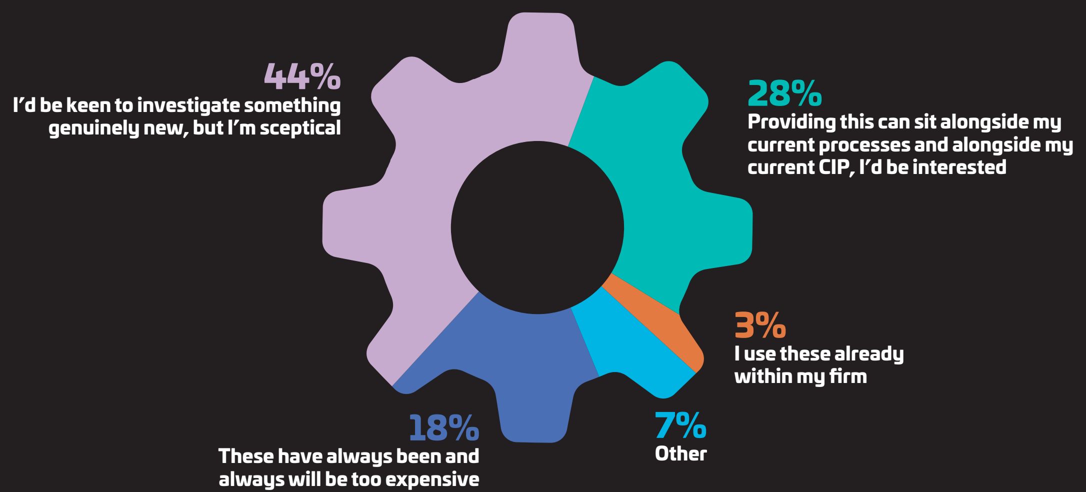


Has this changed in the last 24 months with rising interest rates and gilt yields?



Away from actual use, advisers have a broad range of views regarding these products. Some remain to be convinced, however, the majority approach things with an open mind. For over a quarter of firms, integration with their CIP as well as client suitability will be a factor. The overall solution has to work from an operational perspective, as well as delivering the required customer outcome.

Guaranteed / Third-way Products

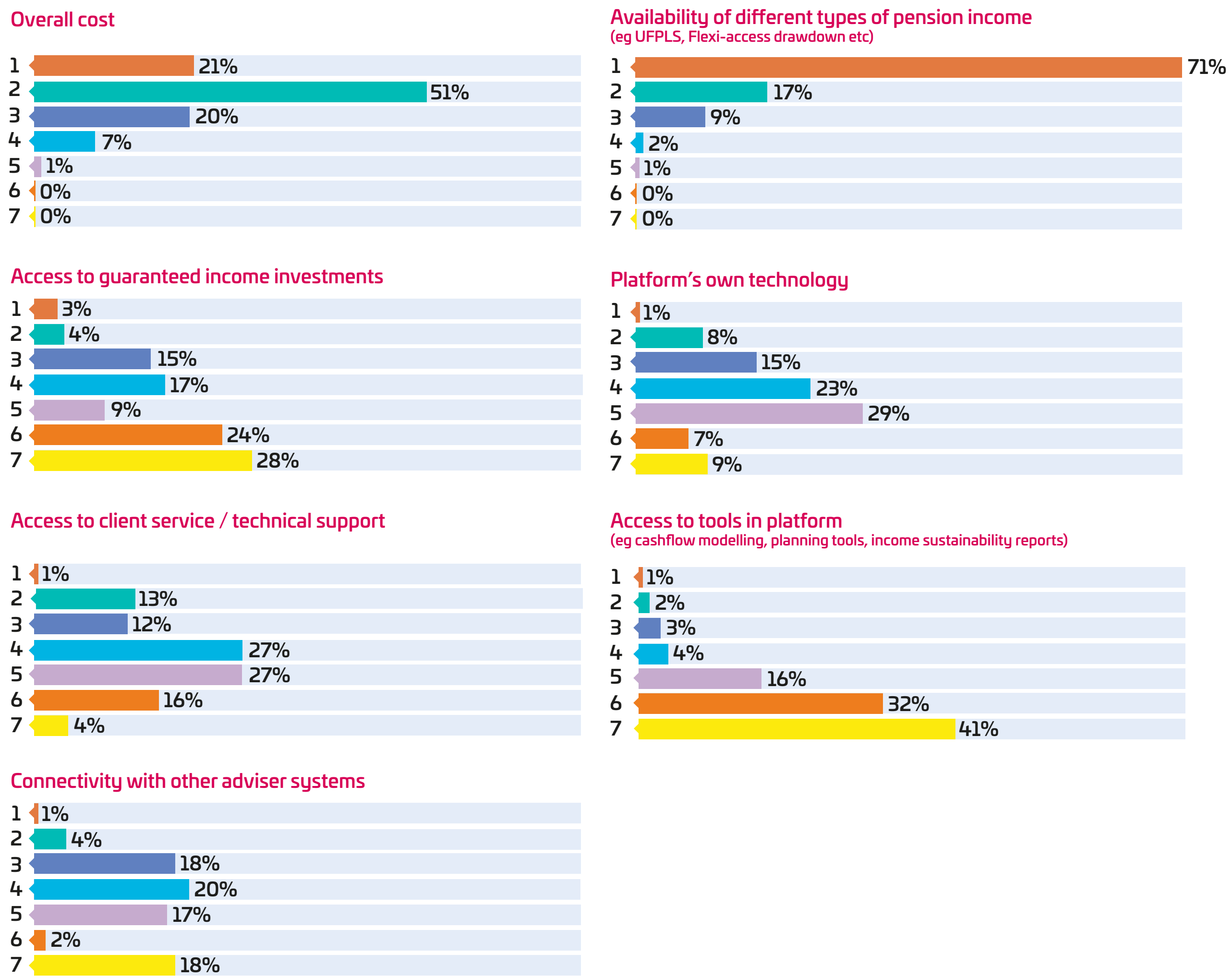


Source: State of the Advice Nation Wave 6, the lang cat, February 2024

A PLATFORM FOR RETIREMENT CLIENTS

The final part of the retirement proposition will be selecting the most appropriate platform. When we asked our respondents to rank the most important platform criteria for at-retirement clients, the availability of income options at a competitive cost came out as the two main factors driving selection.

What criteria are most important to you in a platform for a CRP? (1 most important)



When we asked whether firms consider changing platforms as the client transitions from accumulation to retirement, 43% of respondents stated "no". For the rest, it depends on the needs of each client, however, most firms are selecting platforms at outset that will meet the client needs now and in the future.

DO YOU CONSIDER SWITCHING PLATFORMS WHEN A CLIENT TRANSITIONS INTO RETIREMENT TO ACCESS GREATER RETIREMENT FUNCTIONALITY?

"Consider, yes. In practice, most are already where they should be in preparation."

"Depends where the clients are already - if we have already given platform advice (rather than remaining in existing workplace pensions, etc) then it's likely that the platform is good enough for retirement."

"No - we use a platform that has functionality to serve both the accumulation and decumulation phase appropriately."

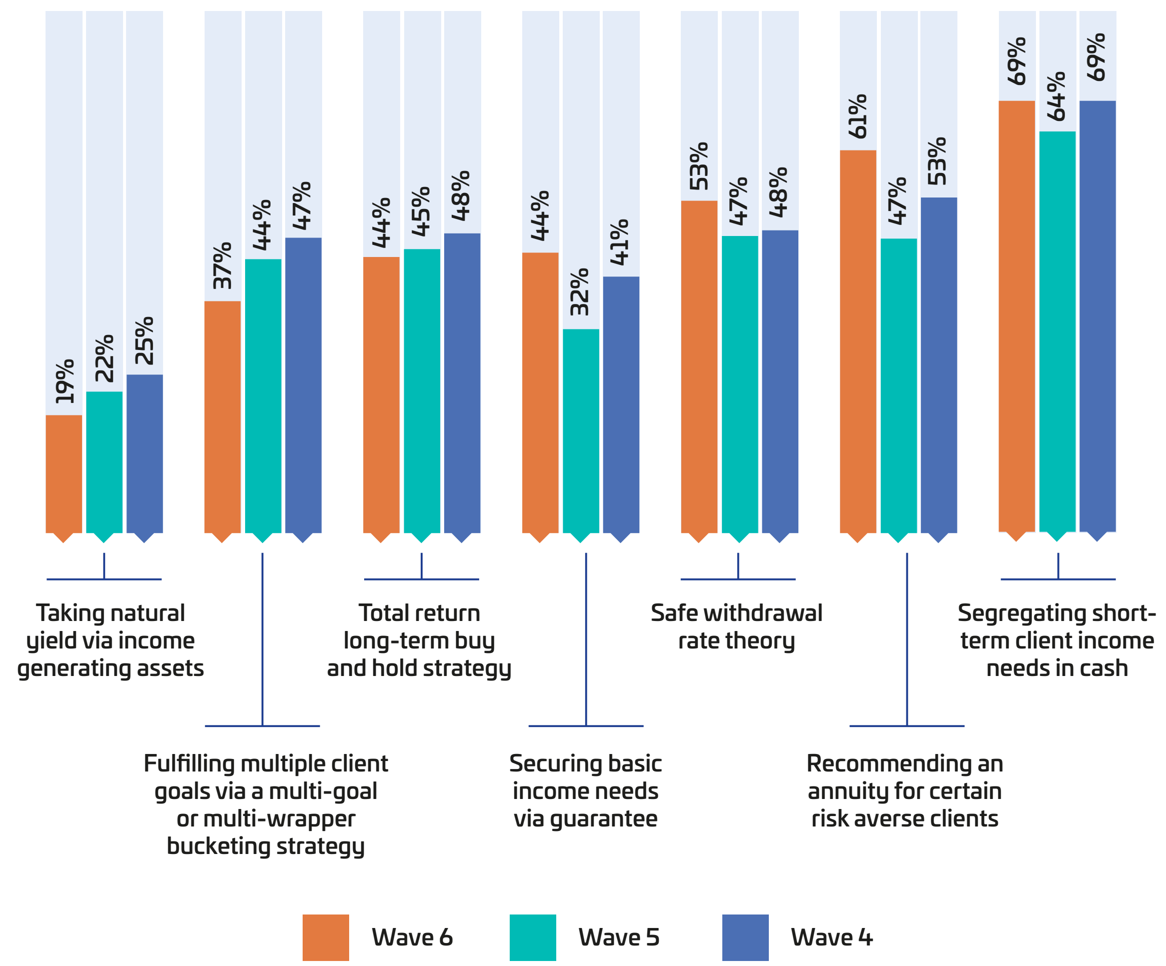
"No. But we ensure that continued platform use is still appropriate based on the size of clients' portfolios."

The FCA's thematic review highlights how firms need to be able to show that they have considered the needs of all clients when selecting platforms. Clients in decumulation will potentially have different needs and objectives to those in accumulation, and firms should ensure this is assessed as part of their platform research and due diligence process. The review also highlights the importance of regularly reviewing platform selection to ensure the platform continues to meet the needs of clients, with an annual review cited as good practice.

PLANNING AND WITHDRAWAL STRATEGIES

Of course, retirement advice and planning is not just about the investment solutions and platforms being used. A key consideration for advisers will be how they source and generate income for the clients, balancing the need for regular income with long-term sustainability.

Withdrawal strategies used



Source: State of the Advice Nation Wave 6, the lang cat, February 2024

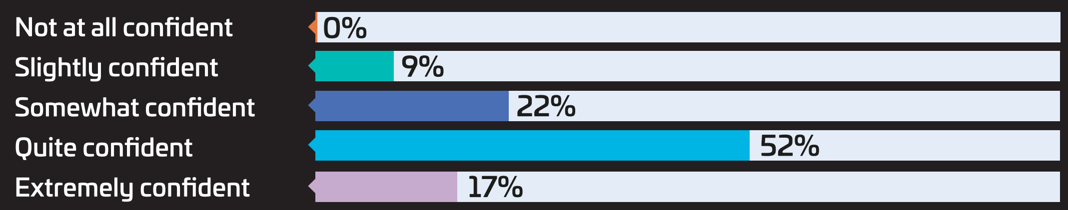
The lang cat's State of the Advice Nation study has been tracking the approaches being used for several years in different 'waves' (see chart above). The most recent wave of research shows that no single withdrawal strategy provides a "silver bullet" for all clients. While the investment solutions and platforms tend to be centralised, with the same solutions used for multiple clients, the withdrawal strategy is bespoke for each client, tailored to their individual needs. Segregating short-term income needs in cash has remained the most popular approach for each wave, indicating that advisers find the "bucket approach" to retirement planning, separating out short, medium and long-term needs, to be effective.

This research also demonstrates how the use of these different strategies has evolved over recent years, with use of income-generating assets falling while at the same time annuity and guaranteed assets have become more attractive.

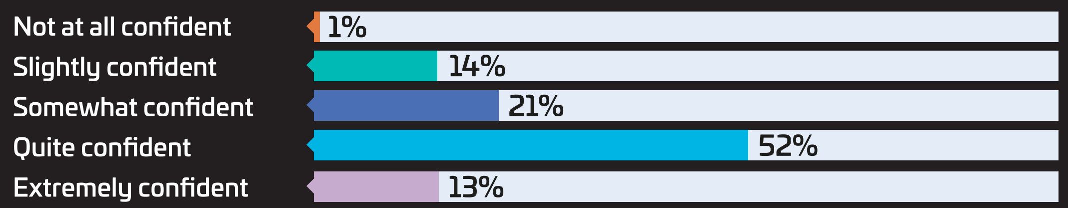
04. Conclusion

When we asked our respondents how confident they are with their approach to retirement planning, the majority responded positively. This is clearly a good sign, and indeed it would be perhaps surprising to hear anything different. However, with at-retirement making up the vast majority of a typical advice firm's client base, firms should be looking to ensure they adopt a process of continuous improvement to meet client needs and achieve competitive differentiation.

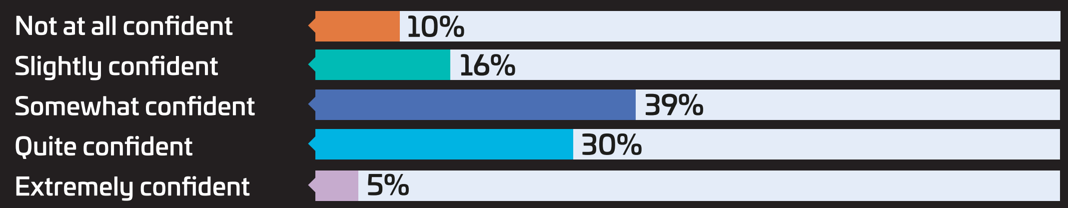
Meets your client's needs in the light of changing societal and economic conditions



Minimises risk to your firm in terms of the requirements of the regulator for example in avoiding foreseeable harms, offering value for money etc, in the light of the Consumer Duty requirements and the forthcoming Thematic Review?



Is it a competitive differentiator for your firm?

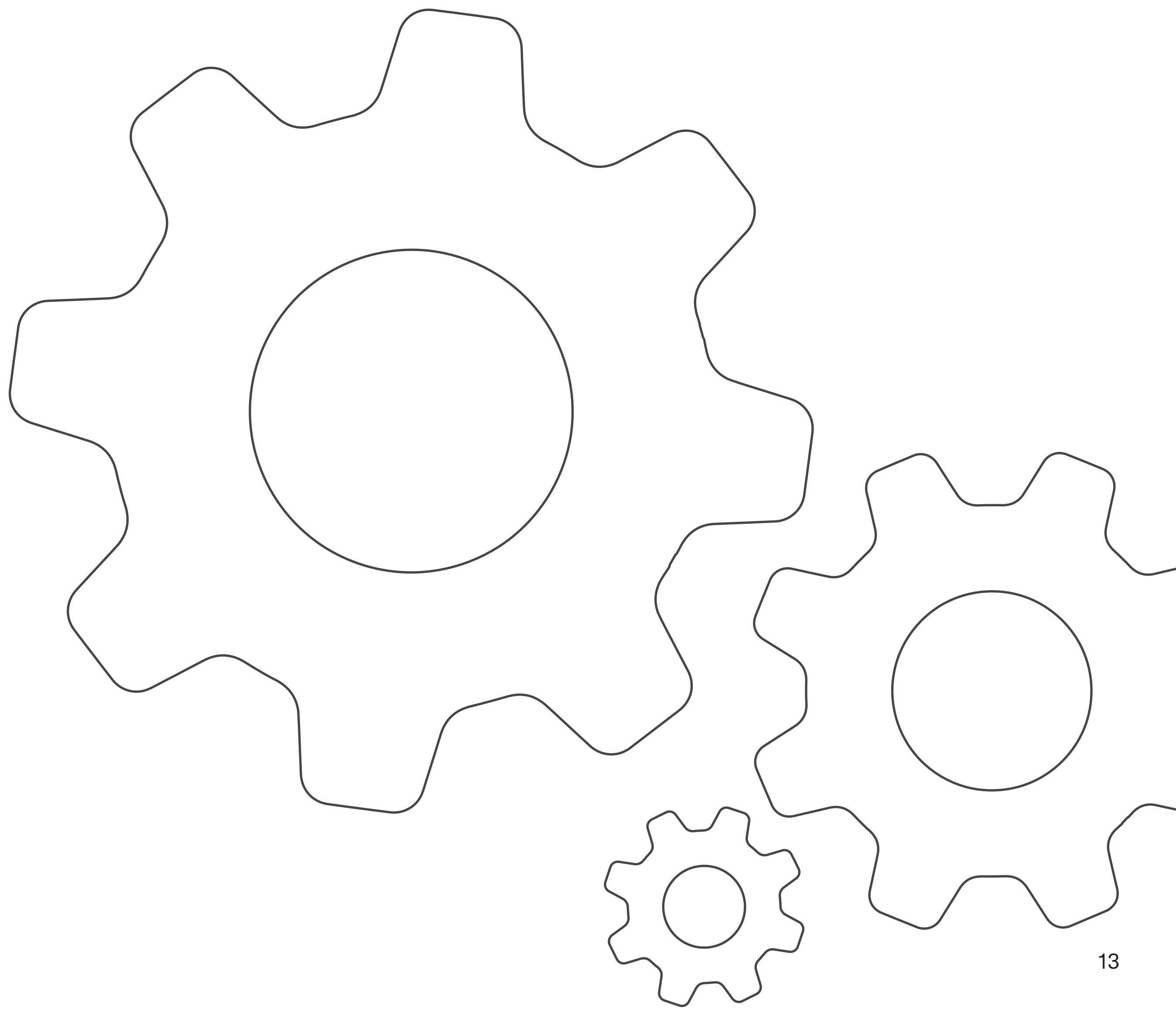


The FCA's thematic review is pleasingly aligned with these views. The majority of advisers are rightly confident in how their retirement proposition is working, but they're not resting on their laurels. Regular reviews of the outcomes being generated, the solutions being used and the process itself are not only sensible business practices but are something that the regulator is strongly encouraging firms to do in light of the thematic review.

It is worth recognising that the FCA's review also highlights some poor practices in terms of the approach many advice firms are taking to retirement income. In several areas, firms could be seen to be failing to take account of the different needs of customers in decumulation, as opposed to accumulation. And more work needs to be done to embed Consumer Duty best practice.

The regulator's comments about the sustainability of income withdrawal are particularly important given that people in retirement have few options to boost their income if they start to run out of money too soon. Firms need to consider different investment approaches for clients in decumulation to mitigate some of the specific risks faced, like sequencing and longevity risk. They also need to ensure their investment approach, whether using a Centralised Retirement Proposition, Centralised Investment Proposition or something else, is suitable for clients who are taking an income.

While there is clearly an onus on advisers to deliver appropriate advice to clients approaching and in-retirement, there is also a need for platforms and DFMs to offer functionality and propositions that support the different needs of those in decumulation. This includes flexibility and choice over tax wrappers and managing income, as well as innovative investment choices that deliver a sustainable long-term income, perform in different market conditions and continue to meet the client's objectives and risk profile.



How Copia and Wealthtime can help

I hope you have found this report useful and its insights helpful if you're currently reviewing your firm's retirement strategy.

At Copia Capital and Wealthtime, we're committed to working in partnership with advisers to develop solutions that allow you and your clients to prosper.

Copia Capital

To manage the specific risks investors face in decumulation, and offer advisers and their clients greater choice over how they achieve their retirement goals, we recently launched two purpose-built ranges for investors in decumulation:

- Copia Select Retirement Income Plus (RI+) uses a guaranteed income solution, which is delivered by Just Group's Secure Lifetime Income (SLI), with a complimentary investment proposition managed by our expert investment team.
- Copia Select: Retirement Income (RI) uses a strategic asset allocation model derived from long run risk return characteristics of major asset classes and built to provide an asset allocation that addresses sequencing risk associated with decumulation investing.

For many advisers our **MPS Custom Portfolio** service forms another vital part of their decumulation strategy. This service offers bespoke portfolios which have been designed to satisfy the specific requirements of your firm's client base. We work in partnership with you to define your clients' precise portfolio specifications and then create and manage a personalised investment strategy to suit your goals.

To find out more about how Copia can support you, have a look at our website, or speak to a member of our sales team by calling **020 4599 6475**.

Wealthtime

The FCA's thematic review of retirement income advice makes it clear that platforms need to up their game to ensure advisers have access to all the services they need to properly support clients in decumulation. Alongside all the standard investment wrappers, we're proud to be the only platform that offers all these essential retirement planning services:

- Secure Lifetime Income (provided by Just)
- Full drawdown functionality
- With-profits fund (provided by Wesleyan)
- A true blended retirement solution (provided by Copia's RI+)
- An array of intergenerational planning options and products

rethinking retirement

wealthtime copia:capital

As the market evolves, we plan to stay ahead of the pack by continuously developing our retirement proposition. Book a demo to see how we can help you achieve better outcomes for your clients. Alternatively, give us a call on 0345 680 8000. Our sales team will be happy to answer any questions you have.

And finally, to find out more about our shared approach to Rethinking Retirement, visit our Hub here: https://retirement.wealthtime.com/rethinking-retirement

Understanding the risks

- Investment model portfolios may not be suitable for everyone
- The value of funds can increase and decrease, past performance and historical data cannot guarantee future success
- Investors may get back less than they originally invested

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