Retirement Planning Today

A special three-part insight into the challenges facing the retirement planning industry
We have seen unprecedented change in the retirement planning market in recent years. As we move from defined benefit towards defined contribution provision, there is increasing awareness that current retirement patterns no longer work.

People are not saving enough to give them an adequate income in retirement and increasing longevity means products such as annuities are not seen as providing the value they once did.

But changes have been made. Auto-enrolment has brought millions more people to pension saving and it is to be hoped they will save larger pensions than they otherwise might have done.

In addition, we have seen much product development in recent years with the expansion of income drawdown and strong growth in the enhanced annuity market. Fixed-term, investment-linked and variable annuities have also been developed and are gaining in popularity.

But despite these changes, the recent Budget proved a real game changer for the retirement industry. The general public are being given unprecedented flexibility in how they take their retirement income.

Many are expected to take their pension as a lump sum while others are expected to utilise a mix-and-match approach to their retirement planning utilising annuities and income drawdown.

These changes bring both challenges and opportunities for the financial adviser. Utilising the latest retirement planning strategies and products advisers can develop retirement planning that meets their clients’ retirement income needs throughout their retirement.

However, concerns remain over those who are unable to access the services of an adviser. How can they navigate the new retirement landscape? If people are going to access their pension as a lump sum, what are they going to do with it? Are they aware of the tax implications and will they just put it in the bank? Will we see retirees blow the lot on a Lamborghini and face relying on state benefits – who knows?

The coming months will be vital in terms of establishing what support will be offered to these people with much focus being put on the ‘Guidance Guarantee’ announced by chancellor George Osborne in the Budget. Is there a role here for financial advisers in terms of delivering this Guidance Guarantee? Or will it act as a pathway guiding more people towards advice? As yet, we do not know.

In our inaugural Retirement Income Market research brought to you in partnership with Scottish Widows, we seek to present insight into how financial advisers are getting to grips with this evolving market.

In the first chapter we look at what advisers think of the current retirement products available in the market. What ones do they use? What do they expect to use more of in the future? What are the challenges they face in delivering advice? And what impact will the recent Budget have on their businesses?

Over the coming weeks, we will publish more insight into adviser’s view of the retirement planning market.

It’s great to see Retirement Planner carrying out research with advisers about the challenges facing the pension industry. These types of surveys provide valuable insight into the industry and how advisers are responding to the challenges and opportunities afforded by the government’s liberalisation of the retirement market. So it’s an exciting time for the industry.

Retirement planning is a key focus for Scottish Widows and the recently announced Budget reforms give us an opportunity to continue to lead the market in retirement planning.

For example, the survey showed flexible drawdown to be an area where the market will see considerable growth and I am delighted to announce that Scottish Widows will be launching our flexible drawdown product in the near future.

I was particularly interested in the section around challenges advisers face when advising on retirement. The number-one rated challenge “Clients don’t understand the importance of putting a plan in place” is something our own research has really borne out and was behind our recent brand campaign “Life feels better when you have a plan”. With providers, government and advisers all agreed on the need to put a retirement plan in place, we are sure this will be a message that will resonate with the general public.

Looking at the opportunities ahead for Scottish Widows, while regulatory reform undoubtedly presents opportunities, we do feel some stability for the industry is also important to ensure we can embed these changes properly to ensure they benefit our customers.

The Budget introduces some of the most far-reaching changes in the retirement market in a generation. Engaging customers is arguably the greatest challenge facing the industry. With this in mind, I’ll leave with you some of our high-level findings from our recent customer research in this area:

- Customers know less than we might expect about pensions
- Customers are willing to learn, increasingly so as they approach retirement
- People are less likely to take the cash option than we expected – mainly due to tax issues
- Guaranteed guidance will be helpful, but many customers will need more help
- No matter how much research they do themselves, customers would still rather an adviser helped them decide what to do with their retirement pots.
The heat is on: Coping with an ever-changing market

From the Budget changes to people’s attitudes to saving for a better future, the retirement planning market is in a state of flux. But the forecast for the future of the industry looks promising, as Retirement Planner, in conjunction with Scottish Widows, discovers.

At a glance
• Budget changes will have major impact on industry, experts argue
• Unanimous drive to improve clients’ urge to plan for retirement
• More flexible draw-down plans expected to be sold in five years

There are many factors contributing to the increased interest in retirement planning. Increasing longevity coupled with the Baby Boomer generation reaching retirement have raised important issues about whether the general public are saving enough to give them a reasonable standard of living in retirement.

Retirement Planner carried out this survey to gauge the issues advisers face when advising on retirement planning. We wanted to gauge potential growth prospects for the industry as well as the challenges advisers face. A survey was circulated to our readership by email and we received responses from 192 participants. We started off by asking participants how much of their business retirement planning accounts for. The answers show it accounts for a large percentage: 11% said retirement planning accounted for less than 10% of their business, while 18% said it accounted for between 11%-25% of business.

Almost four in ten (38%) said retirement planning formed between 26%-50% of their business, while a further quarter said it accounted for between 51%-75%. Seven per cent said retirement planning formed between 76%-99% of their business, and 1% said it accounted for all of it (see chart one).
Prospects for growth

We then went on to ask participants how they expect the retirement aspect of their business to develop over the coming 12 months. Growth was widely predicted, with 25% saying they expect this part of their business to grow to a large extent.

More than half (51%) expect it to grow to a small extent, while 19% expect it to remain the same. Only 6% of respondents predicted retirement to shrink as a portion of their business, with 4% saying they expect it to decrease to a small extent and a further 2% expecting it to decrease to a large extent (see chart two).

There were many reasons why participants expected this area to grow. Perhaps not surprisingly, the Budget changes were cited as a key factor for growth, while increasing longevity and auto-enrolment were also seen as key factors.

Uniq Family Wealth managing director Marlene Outrim believes clients' changing expectations regarding lifestyle are also fuelling increased awareness of retirement planning. “As financial planners, we focus on financial independence and so this will cover retirement planning even if the clients are relatively young,” she says.

“We are finding that people are working longer and phasing into retirement to retain their standard of living. They have enjoyed a certain standard of living when working and don’t want to give it up.”

“This is a big difference to previous generations of retirees who accepted their lifestyles would change and that they might have to give things up.”

She continues: “This is the generation that wants to do it all. They want to maintain a good lifestyle while also helping their children and grandchildren.”
One interesting point is that while the Budget changes were seen as an opportunity for growth for many people, they were also seen as a factor behind retirement planning declining as a proportion of some advisers’ business.

One survey participant said they expected clients to hold off making retirement decisions as a result of the new rules, while another said they expected to see a drop-off in annuity sales as people take their pension fund in cash.

**Challenges**

Participants were then asked to explain more about the challenges they face when advising on retirement issues, naming their top five challenges along the way. The two major issues highlighted by 74% of advisers in both cases were that clients do not understand the importance of putting a plan in place, and clients have not saved enough.

Also level pegging with 68% each was the fact that clients do not trust pensions and poor annuity rates. The rate of regulatory reform was highlighted as a major challenge by 50% of participants, while a further 43% said that clients do not understand the products available. The problems of advising clients with small pension pots was highlighted by 34% of participants, and a fifth (20%) said they believed the market was too complex (see chart three).

Other challenges highlighted by the participants included the role of the media. One said that the bad press surrounding the area means that “pension planning will only work if it is a legal requirement”, while another said: “Mis-information in the mainstream financial press is confusing clients.”

On a similar note, another participant added: “Clients are put off seeking advice at retirement because the costs
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Anna Sofat, Addidi

3. What are the major challenges you face when advising on retirement?

- Clients don’t understand importance of putting a plan in place 74%
- Clients have not saved enough 74%
- Clients do not trust pensions 68%
- Poor annuity rates 68%
- Regulatory reform 50%
- Clients don’t understand the products 43%
- How to advise clients with small pension pots 34%
- The market is too complex 20%

The rapid growth of enhanced annuities was reflected in that 69% of participants said they advised on them, while 64% advised on flexible drawdown. Other product areas mentioned included capped drawdown (62%), SIPP (59%), investment-linked annuities (54%) and fixed-term annuities (53%). More than one in four (43%) said they advised in all areas (see chart four).

Flexible drawdown has come a long way since it was introduced in 2011, and it is clearly a tool advisers find useful. As such, it comes as no surprise that flexible drawdown was the most popular answer (67%) when participants were asked to name the areas of the market that would experience most growth in the coming five years. Addidi managing director Anna Sofat says the firm has been making full use of this strategy for some time.
“All of our clients have been using it because they have been able to access it via a low-cost SIPP,” she says. “They will continue to make use of it as long as it is in their best financial interests, so I think it will remain popular.

“The challenge with this market could come if we get very product-focused versions becoming available where the client does it on their own.”

Auto-enrolment was also a popular choice and was named by 57% of participants, with SIPPs coming in close behind with 55%. The Budget announcements have brought great uncertainty to the annuity market, which could be a factor why after years of strong growth, enhanced annuities were only named by 23% of participants as a major growth area.

However, Bradbury Hamilton CEO Sheriar Bradbury believes they will continue to play an important role in retirement planning: “I still feel that there is a place for enhanced annuities – I don’t believe that market will die off. Having a guaranteed income is still very valuable for many people. It’s just been the case that standard annuity rates have been so poor over recent years.”

Fixed-term annuities were named by 17% as a major growth area, while investment-linked annuities were named by 16% of participants. Only 2% said they expected the standard annuity market to be a major growth area in the coming five years (see chart five).

Holistic approach to retirement
The days of retirees choosing to go down the annuity or income drawdown route are over. Increasingly, advisers are adopting a more “mix-and-match” approach, whereby a mix of different approaches are utilised over time to meet clients’ changing needs. The shift to this more holistic

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Sheriar Bradbury, Bradbury Hamilton
5. What areas of the market will experience most growth over the coming five years?

- Flexible drawdown 67%
- Auto-enrolment 57%
- SIPP 55%
- Personal pensions 34%
- Capped drawdown 26%
- Enhanced/impaired annuities 23%
- Fixed-term annuities 17%
- Investment-linked annuities 16%
- Standard annuities 2%

6. Do you employ a mix-and-match approach to retirement income planning whereby you utilise a mix of annuities and drawdown for your clients over time?

- Yes 74%
- No 26%

approach was demonstrated in the survey, with 74% saying they have adopted this approach (see chart six).

But while this approach has merits, advisers face real challenges in trying to go down this route. Low annuity rates were mentioned, with one participant saying: “Annuity rates are low, which means clients have wanted to adopt a higher level of risk than they would have adopted beforehand. The challenge is to manage expectations of that risk.”

Client understanding was also highlighted as a key factor. One adviser said clients don’t understand enough about their potential income needs in retirement to appreciate the approach, while others said explaining the investment and longevity risk to clients was a challenge.

Complexity was another important factor, with one participant saying adopting such an approach was clunky as it involved working with several providers. Others pointed to the sheer amount of paperwork involved in adopting such an approach.

Achieving the correct balance between strategies was also seen as a concern, while ensuring clients have a sufficient level of assets to consider such an approach was also an important factor.

The cost of providing such a service is also a major challenge, especially for those with smaller fund values, says Bradbury: “It is a major challenge for us to ensure we can deliver advice that is cost effective for someone who may not have much money and yet may have complex needs.

“More needs to be done to reduce the regulatory burden on IFAs to enable them to advise more people.”

So it would seem there are plenty of opportunities for advisers operating in the retirement planning market. As clients get to grips with the Budget changes the demand for advice will grow.

However, big challenges remain. While demand for advice will grow, regulatory pressures mean many advisers will struggle to deliver advice to the mass market. This is something that will need to be addressed if the general public’s retirement outcomes are to be improved.