

Retirement income advice review

**Speakers: Technical marketing team
(pensions)**



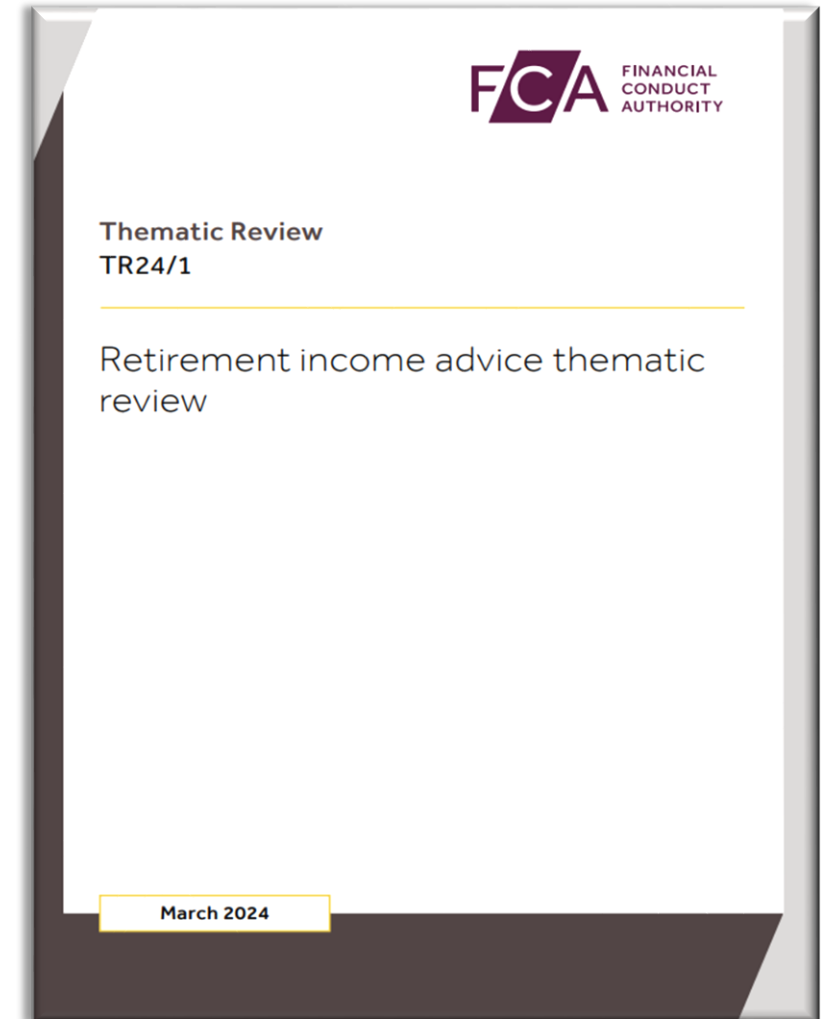
Learning objectives

By the end of this session, you should be able to:

- **List the regulator's main concerns with retirement income advice**
- **Consider the suitability of your retirement income advice**
- **Outline best practice for income drawdown reviews.**

Research methodology

- Data Survey – 977 advice firms
- Desk based review – 24 advice firms
- 100 advice files



Areas of concern



Areas of concern

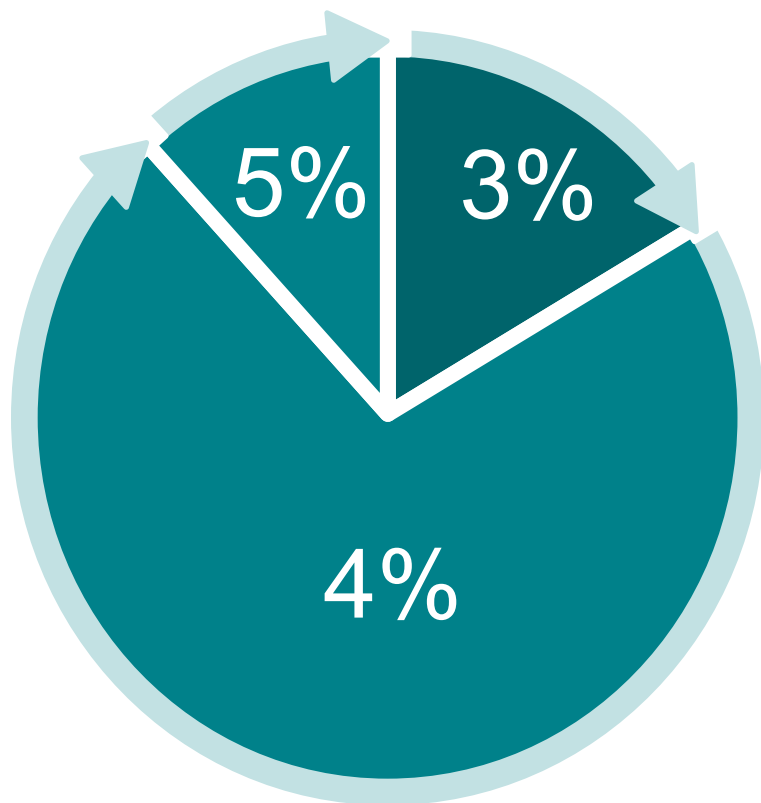
- Income withdrawal strategy / methodology
- Risk profiling
- Advice suitability
- Control frameworks
- Periodic review of suitability



Income withdrawal strategy / methodology



Research methodology



276 out of 962 advisers stated they had a standard rate of withdrawal:

- 45 firms used 3%
- 199 firms used 4%
- 32 firms used 5%

810 firms stated they used some form of cash flow modelling (CFM).

111 firms stated they did not use CFM or have a standard rate.

Use of cash flow modelling

Capacity for loss

Underlying assumptions

Stochastic vs Deterministic

Poor practice

Poor practice

One firm stated CFM tools were used but it was up to advisers to decide whether and how to use these. No guidance was given to advisers so in practice their use might be inconsistent and lead to variable outcomes for customers.

Another firm could not show how they had decided which CFM tool to use. There was no evidence of any research and the firm did not show it understood what standard assumptions were used in the modelling.

Centralised Retirement Propositions (CRPs)

CRP vs Centralised Investment Proposition (CIP)

Accumulation vs decumulation

Consistency



Risk profiling



Risk profiling

- Attitude to risk (ATR) - subjective
- Capacity for loss (CFL) - objective
- Both important
- Accumulation / decumulation
- Finalised guidance

Assessing suitability:

Establishing the risk a customer is willing and able to take and making a suitable investment selection



March 2011

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Risk profiling

221 out of 970 firms had a different process for assessing ATR in decumulation (as opposed to accumulation).

293 out of 960 firms had a separate process for assessing CFL which was distinct from the ATR assessment.



Advice suitability



Areas of concern

Investment risk not aligning with client's risk profile.

Unnecessary or excessive costs or charges.

Recommended product not meeting objectives.



Advice suitability

Review results of the 67 files showed:

- 45 files (67%) were assessed as suitable
- 7 files (11%) where we had concerns about suitability
- 15 files (22%) had (MIGs) and could not be fully assessed as firms had not collected the necessary information

Unnecessary charging

21 of 24 firms received positive feedback.

Transparent / easy to understand.

Broadly align with work involved in delivering the level of service.



Recommended product not meeting objectives

Maintaining independence.

Target market groups.

Differing needs in decumulation.



Recommended product not meeting objectives

For advice to be considered independent, firms should be able to show they have a diverse range of products to meet customers' needs.

The long-term nature and complexity of retirement income products make fair charges and continued value over the life of a product important factors.

Where firms hold themselves out as acting independently and use a single platform service, they must also ensure this does not conflict with the requirement to show they have a sufficiently diverse range of products and providers.

Recommended product not meeting objectives

Maintaining independence

Target market groups

Differing needs in decumulation



Advice suitability

Potential **vulnerability** was **not identified**, recorded or explored even where information on file suggested vulnerability may have been present.

Knowledge and **experience** of investments and **understanding of risk** was either recorded at a high level, inconsistently or not supported by the information on file.

Expenditure analysis was not recorded or completed, so it was **not clear** what the **minimum income** need was or what proportion of this was for essential (nondiscretionary) expenditure.



Advice suitability

				Reviewer	QA
5 Has the firm obtained the necessary information regarding the client's estimated expenditure throughout retirement?					
Has the adviser captured detail on the client's expenditure plans in retirement?		Yes			
Current regular expenditure		Page Ref	Retirement regular expenditure		Page Ref
Captured monthly or annually?	Monthly		Captured monthly or annually?	Monthly	
Basic cost of living (p.m)			Basic cost of living (p.m)		
Lifestyle expenditure (p.m)			Lifestyle expenditure (p.m)		
TOTAL non-discretionary expenditure (p.m)			TOTAL non-discretionary expenditure (p.m)		
Discretionary / savings (p.m)			Discretionary / savings (p.m)		
Basic cost of living (p.a)			Basic cost of living (p.a)		
Lifestyle expenditure (p.a)			Lifestyle expenditure (p.a)		
TOTAL non-discretionary expenditure (p.a)			TOTAL non-discretionary expenditure (p.a)		
Discretionary / savings (p.a)			Discretionary / savings (p.a)		
Additional comments					

Advice suitability

Information about wider financial circumstances, for example, other pension provision and the state pension was missing.

Income, including any lump sum capital needs were not quantified or the timeframe for which income was required was not stated.

Future lifestyle changes were not explored or recorded, for example, when a partner would retire/receive a pension or how objectives or income needs were likely to change.



Advice suitability

				Reviewer	QA
6 Has the firm obtained the necessary information regarding the client's financial situation?					
Current income (client)		Page Ref	Current income (spouse/partner)		Page Ref
Salary (p.a)			Salary (p.a)		
Pensions/investment income (p.a.)			Pensions/investment income (p.a.)		
Other income (p.a)			Other income (p.a)		
TOTAL	£0.00		TOTAL	£0.00	
Additional comments					
Income sources in retirement excluding this pension (client)		Page Ref	Income sources in retirement (spouse/partner)		Page Ref
Forecast state pension (p.a)			Forecast state pension (p.a)		
State pension date			State pension date		
State pension forecast or inferred?			State pension forecast or inferred?		
Other secured gross pension income (p.a)			Other secured gross pension income (p.a)		
TOTAL	£0.00		TOTAL	£0.00	
Additional comments					
Gross income from non-pension assets (p.a)			Gross income from non-pension assets (p.a)		
Gross income from state benefits (p.a)			Gross income from state benefits (p.a)		
Additional comments					
Other assets			Other assets (spouse/partner)		
Money purchase pensions (TV)			Money purchase pensions (TV)		
Investments (FV)			Investments (FV)		
Cash assets			Cash assets		
Property (ex main residence)			Property (ex main residence)		
Other assets			Other assets		
Additional comments					
Liabilities					
Outstanding mortgage					
Date of final payment (client age)					
Other secured debt					
Unsecured debts					
Will this pension be used to repay any of this debt?					
Additional comments					

Advice suitability

Information about wider financial circumstances, for example, other pension provision and the state pension was missing.

Income, including any lump sum capital needs were not quantified or the timeframe for which income was required was not stated.

Future lifestyle changes were not explored or recorded, for example, when a partner would retire/receive a pension or how objectives or income needs were likely to change.



Advice suitability

It was unclear whether information relating to the **risk of capital erosion**, the potential for **annuity rates to be worse in future**, or that **income levels might not be sustainable** had been disclosed.



Control framework



Main areas of concern

- Recommended solutions not recorded
- Ceding scheme missing
- Underlying guarantees missing
- Underlying safeguarded benefits missing
- Initial or ongoing advice fees missing
- Unclear if quality assurance checked



RIAAT – Ceding scheme

RETIREMENT INCOME ADVICE ASSESSMENT TOOL

						Reviewer	QA
7	Has the firm obtained the necessary information regarding the ceding scheme(s)?						
Number of products switched out of:							
Product details	Product 1	Product 2	Product 3	Product 4	Product 5	Page Ref	
Product type switched out of							
Product owner							
Provider name switched away from							
Is this the client's current workplace scheme?							
Fund value at date of advice							
Transfer/surrender value at date of advice							
Ongoing costs - Total (%)							
One off switch/exit costs (%)							
Does the product contain guarantees or other benefits?							
Additional comments on benefits/guarantees in ceding scheme.							
Product type switched in to							
Provider name switched to							
Page Ref:							

RIAAT – Proposed new scheme(s)

RETIREMENT INCOME ADVICE ASSESSMENT TOOL

8

Has the firm obtained the necessary information regarding the proposed scheme(s) or solution(s)?

Reviewer

QA

Number of products recommended to withdraw from:

Product details	Product 1	Product 2	Product 3	Product 4	Product 5
Product type					
Product owner					
Provider name					
Is this the client's current workplace scheme?					
Fund value at date of advice before					
Initial product cost (%)					
Ongoing product cost (%)					
Is product held on a platform?					
Name of platform					
Initial platform cost (%)					
Ongoing platform cost (%)					
Have the firm considered Investment Pathways as part of their advice?					
Has a DIM been recommended?					
Name of DIM					
Initial DIM cost (%)					
Ongoing DIM cost (%)					
Initial underlying investment cost (%)					
Ongoing underlying investment cost (%)					
Additional comments on costs					
Are NMPIs or non-standard investments recommended?					
Name of NMPI or non-standard investment.					
Name of provider					
Additional comments on NMPIs					
Page Ref:					

Periodic review of suitability



Main areas of concern

- Change of circumstance
- Vulnerability
- Disclosure
- Tracking



COBS 9.3.3 states: *When a company provides a personal recommendation to a retail client regarding income withdrawals, ... it must take into account all pertinent factors, including:*

1. The client's investment objectives, need for tax-free cash and state of health;
2. Current and future income requirements, existing pension assets and the relative importance of the plan, given the client's financial circumstances;
3. The client's attitude to risk, ensuring that any discrepancy is clearly explained between his or her attitude to an income withdrawal, uncrystallised funds pension lump sum payment or purchase of a short-term annuity and other investments...

Building a robust review process

Reconfirm the original advice and plans put in place for the client

- How the plan aims to meet their needs and objectives

Update client financial details

- Assets and liabilities
- Income and expenditure
- Who's dependent on income from this plan



Building a robust review process

Identify any changes to the client's personal circumstances and whether these require action

- Changes in attitude to risk and / or capacity for loss
- Annuitise?
- Update beneficiaries
- Health
- Altering regular / ad hoc withdrawals
- Emergency funds
- New sources of income – defined benefit, state pension etc
- Inheritances



Building a robust review process

Review of investment performance

- Income sustainability / sequencing risk
- Charges
- Impact of change in attitude to risk or capacity for loss

Identify any recent or imminent legislation changes which may impact the client

- Investment pathways
- PROD
- Consumer Duty
- Retirement income advice review
- Would the client benefit from transferring to a new provider?



Building a robust review process

Agree and implement any changes

- Clearly explaining the roles and expectations of both the client and the adviser / firm

Document outcomes

- Lasting record
- Evidence / Client signature?

Schedule next review

- Reconfirm ongoing frequency
- Major review with minor reviews in interim?



Learning objectives

You should now be able to:

- **List the regulator's main concerns with retirement income advice**
- **Consider the suitability of your retirement income advice**
- **Outline best practice for income drawdown reviews**



Thank you

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