Decisions, decisions, decisions

Why it pays for many to seek professional financial advice at retirement.

As we await the outcome of some of the proposed changes following the Budget announcement, which are still in a period of consultation. In the meantime, if we assume that many of the solutions that are available today to retirees will still be available after 6 April 2015, let’s consider the “at retirement” marketplace.

Now that we are one year on from the introduction of the ABI Retirement Choices Code (RCC) Colin Thomas, Business Consultancy Manager with Prudential, shares his views on the value of advice at retirement.

So here we are then, 12 months into the post ABI (RCC) world and what have we learned so far? Well in a nutshell the picture is not all that clear. In theory, clients who are nearing their “nominated retirement date” are now better informed than ever about their retirement options as a result of receiving their comprehensive information pack. However, in practice anecdotal evidence suggests that for some clients this represents “information overload” and are “freezing” when faced with such an overwhelming choice.

This “increased complexity” represents a significant opportunity for financial advisers. It may mean that many more retirees decide to seek professional financial advice from someone who is suitably qualified and really knows what they are doing – more on this opportunity later!

How difficult can it be?

Once a client is ready to retire, typically they will be focussed on one thing – getting the highest possible income in retirement – and for the majority that means starting with an annuity. However, with the range of potential solutions now available and numerous choices to make within each solution, the situation is far from simple. Martin Wheatley of the FCA has recently said that “The need to get an income in retirement unites us all. But once you’ve bought an annuity you can’t change your mind.” but the difficulty arises when the client has to decide which solution is right for them.

Historically one of the great myths surrounding retirement provision is that the Open Market Option (OMO) is simply about selecting the highest annuity income currently available. However, by seeking advice, retirees can dispel this myth through recognising that the OMO is actually first and foremost about choosing the most appropriate solution at retirement.

The level of income is clearly important but so too is the timing and shape of that income. For many clients they may well be better off if they do consider alternative options – which is where I believe professional financial advice comes in.

Similarly, one area of consideration which is becoming increasingly important is the subject of enhanced annuities. The approach taken by a product provider (in particular when it comes to the level and depth of underwriting that takes place) can make a huge difference to a client’s income in retirement.

Anecdotal feedback from a number of advisers puts this difference at typically somewhere between 5% and 10% but on a case by case basis it could be much higher than this. The FCA’s analysis around seeking an enhanced annuity estimates that consumers of some firms could increase their annual income by as much as £278 by purchasing an annuity on the open market with an average figure of £135 (albeit that this analysis used only a single enhancement factor).

What choice does the client have?

One option available is to use an annuity comparison website which typically seeks to guide the client through the maze of potential choices towards a suitable outcome. Whilst this might appear attractive to many clients, using these comparison websites is not without risk and for now at least the number of clients choosing to go down this route is still in the minority with one estimate putting this figure as low as 6%.

For clients who decide to explore this option they should be aware of the FCA’s recent thematic review findings when they looked at 13 annuity comparison websites. “All of the websites we reviewed raised concerns. Key information and risk warnings were often missing or insufficiently prominent.”

In addition, it may also be that the process being followed does not include exploring in sufficient detail what is available from the client’s current provider – such as guaranteed rates available, or there may even be penalties for crystallising benefits. Furthermore, if a client decides to seek financial advice at least there is typically far more protection available if they end up with advice which is not suitable for them. Of course, it is entirely possible that many users of online websites have done their own research and are looking at a simple purchase; so if the processes are robust and all warnings are present, then they certainly have their uses.
What is the real value of advice?
Good advice can be an incredibly important investment. It is against the backdrop described earlier that we should consider the value of advice at retirement. In reality, once a client is ready to retire they will understandably be focussed on getting the highest income in retirement, however, as described earlier, the situation is not always straightforward with a potentially bewildering range of features, and their associated benefits to consider. In an ideal world all of this should really be taken into account before clients proceed with their decisions at retirement.

So what can financial advisers do in this situation? Well one option is to sharpen their skills when it comes to articulating to clients just what’s involved and the importance of getting this right first time. There are 3 key characteristics that are distinct within the “at retirement” market and no doubt as a professional financial adviser you are already highlighting these to your clients:
- You have worked hard all your life it is now time for your money to work as hard as possible on your behalf – how comfortable are you with making this decision?
- You only retire once and any decisions made at this time are likely to be irreversible – can you really afford not to take financial advice before making any decisions?
- The different approaches taken by the product providers can make an enormous difference to income levels available – how do you ensure that you take account of this?

Articulating the value of your advice
When it comes to articulating advice in a way that engages the client without confusing them whilst at the same time emphasising just how much is involved in this process and the importance of your role within it.

The following text highlights the nine important areas to consider carefully for an “at retirement” client when they are weighing up their options and the decisions they make. These can be summarised in a discussion with a client as follows:

Objectives
- What are you really looking to achieve when you are in retirement?
- Who else do you want to consider i.e. spouse or your dependants, and what is the interaction with estate planning?

Key considerations
- What else do we need to take into account regarding your current situation and your future changing circumstances and requirements?
- What is your current state of health and what are your expectations for your future health?
- What action do you want to take and when is the right time to act?

Assessing attitude to risk
- Taking into account your objectives what does your attitude to risk at retirement look like?
- How do we ensure that the solution you are recommended relates to your specific objectives?
- What impact is inflation likely to have on your standard of living if a fixed income is purchased?

Required research and planning
- What value do you place on the importance of fully researching the marketplace and understanding the various options available?
- What provision have you already made for your retirement and what solution(s) are available through your existing provider(s)?
- What else is available in the marketplace that might be suitable for you and when?

Tax efficiency
- How do we make the “at retirement” solutions for you as tax efficient as possible whilst also considering the interaction with estate planning?

Potential benefits
- What is most important to you when you are in retirement? What really matters to you?
- What about the other people in your life e.g. spouse, dependants, who matter most to you?

Potential solutions
- Which retirement product(s) might be suitable for you?
- What type of retirement planning solution best fits your objectives and when should we act?
- There are lots of potential solutions how do we identify the right course of action?
Outcome

How do we ensure that you get a personal income in retirement solution that meets your needs, is sustainable, and addresses your desire to provide for any dependants?

Ongoing review

What do we need to do to ensure that these solutions remain on track to deliver what you want in retirement?

What happens next?

We can all do more to educate and inform clients about the value of advice, that includes distributors, product providers and professional bodies and it is pleasing to see Keith Richards, CEO of the PFS currently heading up the Consumer Confidence Campaign with its aims of encouraging a more vibrant profession where more consumers seek out professional financial advice.

Furthermore, when it comes to the size of the potential opportunity, some of our recent research into the “at retirement” marketplace found that 79% of respondents did not already have a financial adviser, however, of those that did have one, nearly 3 out of 10 had found an adviser recently because they were thinking about their income in retirement.

So, in summary, there are clearly opportunities here for financial advisers and clients will no doubt benefit from seeking professional advice. However, in an increasingly competitive marketplace, it is crucial that you are able to differentiate yourself and how you do this could be vital to your success in this marketplace.

One final thought to leave you with...

When faced with an “at retirement” client, how do you articulate what you offer and how do you get across the benefits you provide to a client in an effective way which means that they choose to take professional financial advice from you?

For further information on the value of advice and to access a fully editable graphic to help bring the “providing income in your retirement” to life please speak to your usual Prudential contact.

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