Retirement IQ

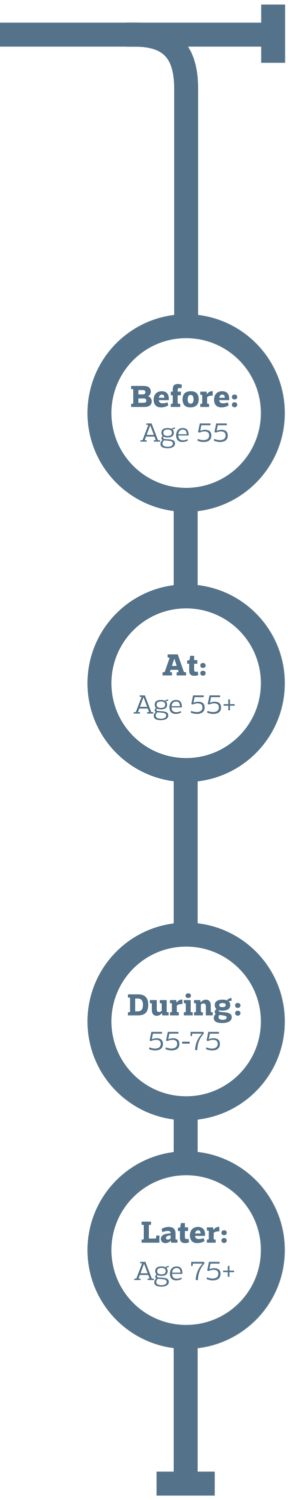
RETIREMENT IS A JOURNEY NOT AN EVENT

QUESTIONS & ANSWERS

A GUIDE FOR FINANCIAL ADVISERS

PRUDENTIAL

Contents



This guide was first published in April 2017 and was updated in June 2018

Introduction: Billy Burrows

Billy Burrows
Director Retirement IQ

Pension freedoms has made it very easy for individuals to take money from their pension pots, but the decision whether to take cash, purchase an annuity or invest in drawdown is one of the most difficult and important decisions in financial planning.

It may be tempting to consider retirement options in isolation from other financial assets but in most cases the best outcomes are achieved with 'holistic financial planning'. This should be good news for advisers because there has never been a better time to specialise in retirement income planning.

A good way to broaden the advice proposition towards more holistic planning is to think of retirement as a journey rather an event. This approach has many advantages not least because it helps advisers and their clients plan for the future in a more intuitive and engaging way.

This guide sets out some of the key points along this journey and provides answers to a number of important questions.

Foreword: Vince Smith-Hughes

It is clear from our dealing with advisers that financial advice is more important than ever as retirement advice is now needed throughout the retirement journey. There has been an increase in advice about DB to DC transfers, advice on retirement investment strategies has become more important and the annuity versus drawdown debate still rages on.

We think that advisers will benefit from this straightforward guide which looks at some of the key questions that advisers should consider along the retirement journey.

Vince Smith-Hughes
Director of Specialist
Business Support,
Prudential

The Retirement Journey

Retirement income advice

Q1: What is meant by 'Retirement is a journey not an event'? p.6

Q2: How do I convince a client that advice is important and necessary? p.7

Before: Age 55

At: Age 55+

Before retirement

During the countdown to retirement it is important to focus on the pre-retirement investment strategy and key retirement issues

Q3: How do I deal with DB Transfers? p.8

Q4: What is the best investment strategy in the run-up to retirement? p.9

At retirement

Time to start thinking about the options to convert pension pots into cash and income, especially pension drawdown or annuities

Q5: How to decide between cash, annuity or drawdown? p.10

Q6: What is a 'sustainable' level of drawdown income? p.12

Q7: What is the best way to invest for drawdown? p.13

During: 55-75

Later: Age 75+

During retirement

This is a normally a period of consolidation where reducing risk and increasing the level of guaranteed income becomes a higher priority

Q8: How to manage the 'sequence of returns' risk? p.14

Q9: How should drawdown plans be reviewed? p.15

Later Life

Pensions and investments should be settled so other issues such as equity release, IHT, wills and EPAs take priority

Q10: When should I start talking to my clients about equity release? p.16

Q11: How do I go about discussing 'lasting power of attorney'? p.17

Giving better advice

Q12. How can the retirement advice process be improved in order to achieve better client outcomes? p.18

Q1. What is meant by 'Retirement is a journey not an event'?

In the past many people thought of retirement in 'black and white' terms. They were either working or retired, getting income from work or pensions, or they purchased an annuity or invested in drawdown.

Before pension freedoms many advisers and their clients thought about pension income in terms of a one-off decision which determined the amount and shape of future pension income. Since pension freedoms the decisions have become more fluid and instead of making a single decision a number of separate, but linked decisions are made during retirement.

The retirement journey opens the door to 'holistic' retirement planning rather than product based solutions. Put simply, in order to get the best outcomes, it is necessary to have a retirement plan.

Holistic retirement planning is important but many people compartmentalise their savings and investments. Left to their own devices they will deal with their pensions, investments and estate planning separately.

Whilst this may be understandable from a behavioural finance perspective, it does not make financial planning sense because all aspects of an individual's personal finances are interlinked. In most cases the outcome from a series of independent and unrelated transactions is probably not as beneficial as a series of related decisions which are part of a properly constructed financial plan.

Creating a retirement plan is a prerequisite for sound financial advice but formulating a plan is easier in theory than in practice.

There are some useful techniques that advisers can use to make the planning easier including:

- ✓ Breaking the retirement journey into bite-sized chunks (see graphic below)
- ✓ Identifying the planning issues at each stage of the retirement journey
- ✓ Looking at the behavioural aspects of retirement as well as the technical issues.

BEFORE RETIREMENT	AT RETIREMENT	DURING RETIREMENT	LATER LIFE
Behavioural factors			
• Many don't engage with pensions as retirement seems a long way off	• Clients tend to concentrate on short-term benefits rather than longer term objectives	• Peace of mind and financial security starting to become more important	• Aware of their vulnerability and finding it increasingly difficult to understand detail
Technical issues			
• Maximise pension contributions and review the Lifetime Allowance • Appropriate pre-retirement investment strategies	• Hierarchy of needs e.g. guaranteed income • Compare all relevant annuity and drawdown options • Tax efficient income	• De-risk investment risks • Monitor annuity rates as benefit from mortality cross subsidy increases	• Review lasting power of attorney and make sure there is an up to date will • Equity release may be appropriate

Back

Q2.

How do I explain to new clients that advice is important and necessary?

On the one hand, pension freedoms has made it much easier for clients to access their pension pots and as a result some people think they can do it themselves without advice.

On the other hand, the decision about how best to convert a pension pot into cash and income is one of the most difficult and complex decisions in personal finance and it is simply too difficult for most people to do without expert advice.

Perhaps the best way to explain the benefits of advice is to show clients how you can get them the best outcome and to warn them about the dangers of making the wrong decision.

There are a number of reasons why advice at retirement is so important including:

- ✓ It is one of the most important financial decisions, apart from buying a house, that most people will ever make so it is important to make the right decisions
- ✓ There are so many different options and choices that most people simply cannot work out which option is best for them, and get the best outcome, without expert advice
- ✓ Left to their own devices, most people will put short-term gain before longer term financial security – a financial adviser encourages people to take a long-term view of retirement needs
- ✓ A financial adviser is authorised and regulated by the FCA which not only means they are qualified to a very high standard, but if things go wrong clients can seek compensation. This is in contrast to non-advice firms where sales consultants are not normally so highly qualified and there is no redress if things go wrong.
- ✓ The stakes are high – get it right and clients will enjoy a financially secure retirement but get it wrong and they may have financial problems in later life.

TOP TIPS

Don't be surprised if at first new clients do not buy into your proposition or accept your fee proposal because in the age of 'populism' and 'post truth' there is often a reluctance to trust the experts.

One way to overcome client objections is take the 'toe in water' approach. In order to get new client engagement you should consider the following three steps:

- ✓ **Toe in water** – At first contact, don't try to over sell your services but concentrate on making the client understand the key issues and look for ways of gaining their confidence
- ✓ **Up to the waist** – Provide clients with something tangible for instance; a personalised report. This does not have to be too detailed and certainly does not constitute financial advice
- ✓ **Fully immersed** – By this stage most clients will realise the importance of taking your advice and respect you for your professionalism

Don't forget, this process doesn't not have to involve three time consuming meetings, I used this approach with great success over the phone and by email.

Q3.

How do I deal with DB Transfers?

Before: Age 55

Defined Benefit (DB) pension transfers have been under intense scrutiny as the number of transfers has increased as a result of high transfer values and pension freedoms. In response to concerns about the quality of DB advice the FCA published policy statement PS18/6 in March 2018 with final rules and guidance for Advising on Pension Transfers.

PS18/6 is essential reading as it provides a new framework for advising on DB transfers and introduces new rules and process. One the biggest changes is the move away from TVAS and Critical Yield and their replacement by an Appropriate Pension Transfer Analysis and Transfer Value Comparator (TVC).

The FCA remain with the assumption that a DB transfer will normally be unsuitable by stating; *"for most people keeping safeguarded benefits is likely to be in their best interests".* However, some people may benefit by transferring their DB pension to a personal pension or SIPP (see table below). Those with DB pensions of more than £30,000 must still seek advice from a qualified pension transfer specialist before transferring out.

PENSION TRANSFER SPECIALIST (PTS)

The role of a PTS has been redefined and only a PTS can give or check advice on pension transfers. They must produce a personal recommendation.

APPROPRIATE PENSION TRANSFER ANALYSIS

The APTA will be introduced in October 2018 and will replace the current transfer value analysis. It will help demonstrate the suitability of the transfer advice and must be personalised to client needs and objectives. It will be good practice to use cash flow modelling and to incorporate both behavioural and non-financial analysis.

TRANSFER VALUE COMPARATOR (TVC)

The TVC replaces the much-criticised Critical Yield and is basically a comparison of the transfer value with the cost of buying an annuity at normal retirement date. The TVC is intended to give the client a clear indication of whether they will be better or worse off after transfer by comparing the scheme's pension with an annuity.

FURTHER CONSULTATION

The FCA is considering other changes, including adviser charging structures, e.g. contingent charging.

They are also proposing that PTS's should have qualifications for advising on investments before they can advise on or check pension transfer advice.

DB TRANSFERS MAY BE SUITABLE IF:	DB TRANSFERS MAY BE UNSUITABLE IF:
✓ The DB member is unmarried and does not have financial dependants	✓ The priority is for a secure income for life without taking undue risks
✓ They are in very poor health with significantly shortened life expectancy	✓ The member is reliant on the scheme for core income and therefore no risk can be taken
✓ The priority is for flexibility, control and better death benefits	✓ The DB member is risk adverse and has a small capacity for loss
✓ There are concerns about the financial strength of the scheme or sponsor	✓ The DB scheme has generous benefits such as inflationary increases

More about DB Transfers available from **fca.org.uk**

Back

Q4. What is the best investment strategy in the run up to retirement?

Investment decisions taken in the years before retirement will help determine the amount of future pension income. Invest too aggressively and the pension pot could reduce in value if equity prices fall. Invest too cautiously and the pension fund will have insufficient growth potential.

Before pension freedoms it was common for advisers to recommend lifestyle funds or investment strategies that reduced risk in the countdown to retirement. This approach is now outdated for clients who will be investing in drawdown instead of annuities. Therefore, advisers need to find suitable pre-retirement investment strategies.

Some pension plans are still offering funds with an investment strategy that reduces investment risk and hedges against annuity prices in the run up to retirement. The theory is that if annuity rates fall, the price of the bonds will rise to compensate.

Now fewer people are purchasing annuities and drawdown is more popular, it is important to align the before and after investment strategy. For instance, if the intention is to invest in drawdown it may not make sense to sell equities in the run up to retirement only to buy them again when the drawdown plan is set up.

This is a complicated subject, but there are a number of simple things that can be done including:

- ✓ Encouraging clients to think about their options well ahead of retirement
- ✓ Start to de-risk investments in the run up to retirement in line with the client's risk profile and post retirement income objectives
- ✓ Identify suitable pre-retirement funds
- ✓ Continually monitor and review the investment strategy and attitude to risk

Finally, it is important to remember that a client's attitude to risk and capacity for loss may change as they approach retirement. What may seem an appropriate level of risk at age 55 may be very different from the appropriate risk at age 60 or 70.

The days of simply investing in a managed fund right up to retirement are gone.

TOP TIPS

The new buzz word is 'glide paths' which describes a process which automatically moves a pension fund into more secure investments in the years before retirement.

One way to get clients to understand the importance of de-risking as they approach retirement is discuss their retirement objectives.

- ✓ If the pension pot is going to be taken as cash capital preservation will be the priority
- ✓ If an annuity is to be purchased consider hedging against changes in gilt and bond yields in order to maintain the annuity purchasing power
- ✓ If the intention is to invest in drawdown, it makes sense to invest in funds that will be suitable for drawdown.

Q5. How to decide between cash, annuity or drawdown?

At: Age 55+

Converting a pension pot into cash and income is probably one of the most important and complex decisions in personal finance and it is simply too difficult for most people to do without specialist financial advice.

It is easy to think that very small pots should be taken as cash, average size pots (around £ 30,000) should purchase an annuity and everybody else should invest in drawdown. This black and white approach is no longer appropriate because everyone can take advantage of the new flexible options. Advisers need to make sure they have an advice process which makes sure client's get the best outcome.

Before a decision can be made about taking cash or income some very important questions have to be considered. These key questions include; when is the right time to take benefits, guaranteed income or flexibility and how much risk should be taken?

WHEN IS THE BEST TIME TO TAKE CASH OR INCOME?

There are three important issues to consider when discussing timing:

When and how much pension income is actually needed? The best way to find this out is to prepare a cash flow forecast. This does not have to be very complicated but without a plan it is difficult to budget and easy to make a mistake.

It might be tempting for someone to dip into their pension pots when they reach age 55, but if this is done without good reason, for instance they think it is better to have the money in their own bank account rather than leaving it in a pension, they will probably not get the best outcome.

Sound financial reasons for taking cash or income include; cash is needed for a special purchase, there is a shortfall between income and expenditure or to bridge a gap before before the start of the state or a DB pension.

In some circumstances it may be sensible to take tax-free cash to repay outstanding mortgages or debt.

Is it better to take income from savings or pensions? Now that pension pots can be transferred to any beneficiary after death, there is an argument for taking income from savings before accessing pension pots. By deferring pension income, the maximum amount is available for estate planning purposes.

A counter argument is that it might be better for clients to enjoy the benefit of the pension themselves rather than sacrifice income in order to benefit their beneficiaries. Another reason is that a future government could change the rules and make transferring pensions on death less attractive.

What about tax? There are a number of ways of arranging pension income in a tax efficient manner and these should be always be considered. For example, phasing cash sums or income over several tax years can significantly reduce the overall amount of tax payable for those who would otherwise pay higher rate tax.

TOP TIP

A good advice process will take all the key issues into consideration including:

i. When is the best time to take cash or income?

ii. How much income should be guaranteed and how much flexibility is needed?

iii. What is the appropriate level of risk?

Back

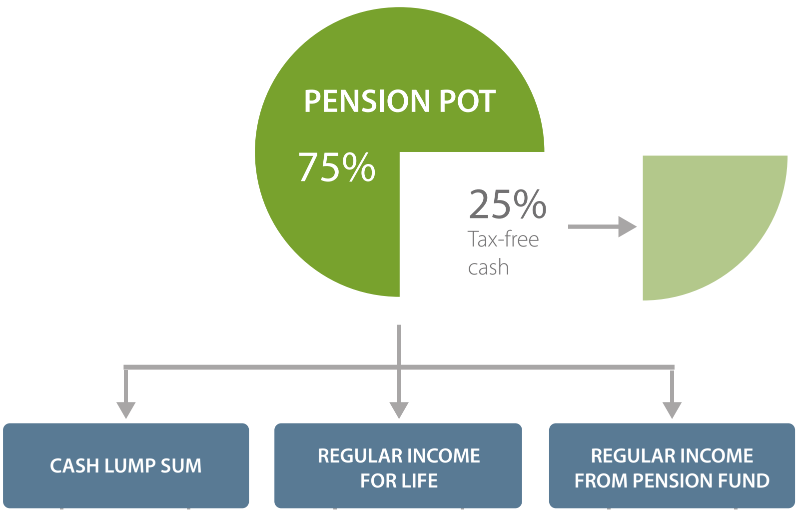
Don't forget: those in poor health may qualify for an enhanced annuity.

HOW MUCH INCOME SHOULD BE GUARANTEED AND HOW MUCH FLEXIBILITY IS NEEDED?

One of the benefits of planning ahead for retirement is it helps when calculating how much income is required to meet essential expenditure. The so called 'income pyramid' should be well understood by advisers so there is no need to explain this in detail.

However, there are shortfalls with the income pyramid approach. For example, it normally suggests lifetime annuities to meet essential income expenditure but this may not provide flexibility. Just because someone needs a certain amount of secure income it does not necessarily follow that this needs to be secured by a lifetime annuity. Although annuities are the only policy that can guarantee income for life, there are other ways of securing a guaranteed income albeit not for life. For instance, fixed term income plans and some guaranteed income funds. Therefore, all alternative options should be considered.

It also important to consider if the amount of guaranteed income needed increases or decreases as people get older. It might be a mistake to lock into too much guaranteed income too early, especially if other sources of guaranteed income e.g. state or DB pensions are payable later.



Above: Options at retirement

WHAT IS THE APPROPRIATE LEVEL OF RISK?

This question is inextricably linked to the question about certainty or flexibility. Someone may want flexibility over their pension income options but can they accept the risk associated with this flexibility?

All advisers will have a process for assessing their client's attitude to risk, but in many cases the risk profiling techniques used for younger clients may fall short when applied to older clients considering drawdown. This is because before retirement the main risks are framed in terms of the gains and losses associated with market volatility. During retirement, the assessment of risks should take other factors into consideration such as income risk, health risks and longevity.

Generally speaking, clients should not invest in drawdown or other riskier retirement options unless they have their essential needs secured and or have other sources of income to fall back on if their drawdown plan goes through a difficult patch.

However, advisers might not appreciate that capacity of loss also has a non-financial side to it. Just because someone has significant financial assets which they can fall back on if their drawdown plan goes through a difficult phase, it does not follow that they have the emotional capacity to accept this risk. Another way of putting this is that a client's attitude risk may change as they get older and what is an acceptable level of risk at retirement may not be acceptable several years later.

In practice, this may translate into a form of de-risking as a client journeys through retirement. For instance, investing in safer funds or purchasing annuities.

For more on Retirement Options see **"You and Your Pension Pot"** at **www.retirementIQ.co.uk**

Q6.

What is a 'sustainable' level of drawdown income?

At:
Age 55+

One of the most important areas of drawdown advice is working out how much income can be safely withdrawn from a drawdown pot each year in order to produce a sustainable income.

There are two parts to the sustainable income equation; sustainable in terms of not running out of money and sustainable by maintaining spending power i.e. keeping up with inflation.

The concept of safe withdrawal rates comes from the US where the 4% rule originated. Research using UK data suggests the safe withdrawal rate is between 2.5% and 3.5% depending on assumptions.

The original research on safe withdrawal rates (SWR) was by was by US financial adviser William Bengen in 1994. He worked out the SWR was 4% of the initial amount invested, assuming the income increased each year by inflation and the fund was invested 50% in equities and 50% in bonds. This became known as the 4% Rule.

In the UK the 4% rule has been revised downwards to between 2.5% and 3.5% depending on assumptions e.g. the equity/bond mix. A 60/40 equity/bond spilt will allow for a higher SWR compared to a 50/50 split, but the former will be higher risk. A SWR of 4% can be considered if the income does not increase each year.

THE 4% RULE

Many people misunderstand the original 4% rule. It is not 4% of the fund value each year. It is 4% of the original fund and this amount increases each year by inflation.

If the income was a fixed percentage of the fund the income wound not be predicable as it would change each year depending on investment growth. This will not be suitable for clients who want a predictable income.

STATIC APPROACH

The static approach is where the withdrawal rate is agreed at the outset and continues without major adjustments. For instance, 3% of the original amount which increases with inflation or 4% of the original amount which remains level.

DYNAMIC OR FLEXIBLE APPROACH

The dynamic or flexible approach is where the income is adjusted each year in line with some simple rules. A good example is a 'cap and collar' arrangement where is there is an upper and lower limit for income adjustments. An interesting variation on this is where income starts higher in the early years and changes throughout the different stages of retirement.

The SWR is a useful rule of thumb but advisers shouldn't just use this blindly as the income strategy for a particular client should be tailored to their individual circumstances. These include; life expectancy, specific income requirements and their attitude to risk and capacity for loss.

Finally, it is important not to ignore the link between annuities and SWRs. After all an index linked annuity is the only way to guarantee a truly sustainable income in real terms.

TOP TIPS

Sustainable income should be reviewed regularly taking into account factors such as age, health and investment returns.

- ✓ Income may be increased or decreased each year depending on circumstances
- ✓ The 4% rule is a useful rule of thumb but needs adjusting for the UK market and equity/bond mix
- ✓ If a high level of income is required it might be better to purchase an annuity.

More about Sustainable income from: **pruadviser.co.uk**

Back

Q7. What is the best way to invest for drawdown?

There is no 'best way', but a range of investment strategies depending on the client's circumstances. Advisers should align the investment strategy with the planned income withdrawal strategy and manage the sequence of returns risk.

There are a number of ways of doing this including diversified multi-asset funds and smoothed returns such as the PruFund range of funds.

What separates attitude to risk before and after retirement is time and money. Before retirement clients have time to recover from a period of poor returns and they do not need to withdraw money. After retirement, time is not on their side and money is needed to meet their income requirements. Drawdown investors face several specific risks, for example, experiencing the wrong sequence of returns (see next question) can have devastating consequences.

There are many different investment strategies for drawdown, including:

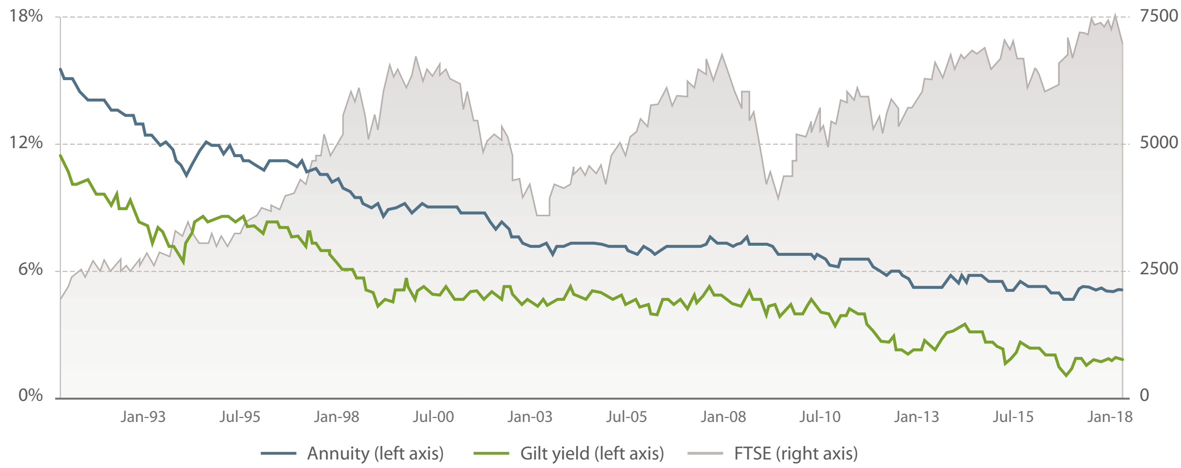
- **i.** Investing in managed or multi-asset funds and selling units when income is needed
- **ii.** Smoothed return funds such as Prufund
- **iii.** Investing in high yielding funds and taking the running yield as income
- **iv.** The bucket approach: short-term cash – mid-term safety and long-term growth
- **v.** Guaranteed funds and structured products

Advisory firms should consider having a centralised retirement proposition (CRP) so they have a standardised approach to drawdown advice. This may include, active or passive funds, model portfolios, or discretionary investment management.

It is easy to underestimate the risks associated with drawdown, especially when there is volatility in the financial markets. A good drawdown adviser will keep an eye on equity and bond markets and monitor annuity rates to see if there are times when it might make sense to lock in some investment gains and secure some guaranteed income by purchasing an annuity.

The chart below compares the income from annuities, gilt yields and the FTSE 100. This acts as a good reminder that shocks to the system, such as the dot com bubble crash in 2000 or credit crunch in 2008 have a negative impact. It also shows there can be times when both equities and annuities are falling at the same time; the so-called 'double whammy' effect.

For the latest annuity charts go to **william burrows.co.uk**



Source: Retirement IQ

Q8. How to manage the 'sequence of returns' risk?

During: 55-75

Most advisers will be aware of sequence of return risk, but it is easy to think of it as a theoretical risk rather than a real risk.

If an explanation of sequence of returns risk is needed for clients it can be explained as: "the risk that investment returns are lower than expected or negative in the early stages of drawdown resulting in capital being eroded quicker than anticipated". This means that unless investment returns are higher than expected in the longer term, the drawdown fund may not be able to sustain future income payments or there is increased risk of lower income and in the extreme, running out of money.

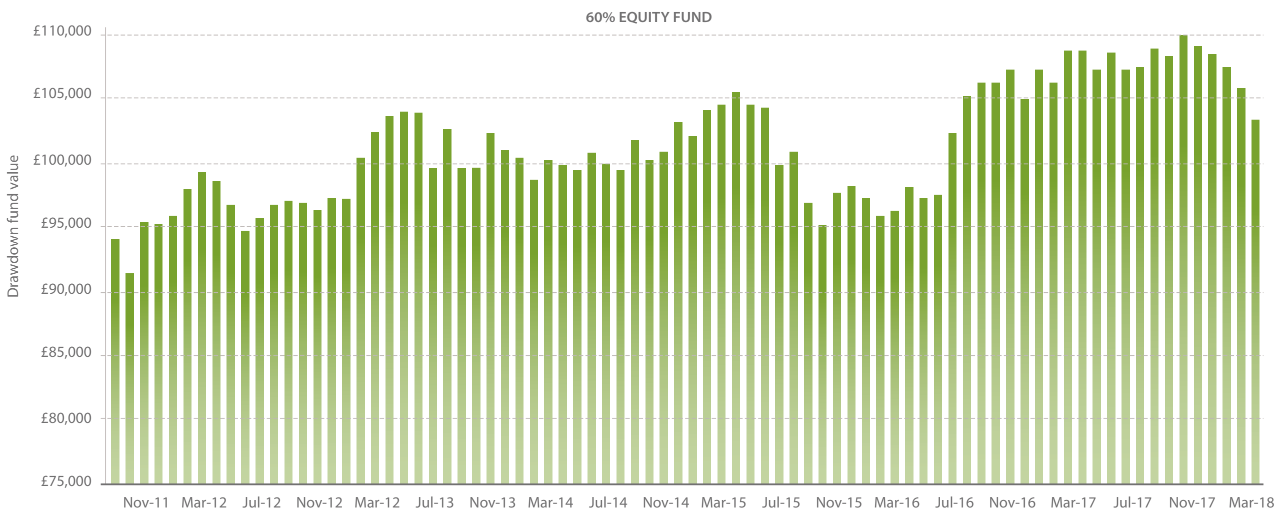
The classic way to demonstrate sequence of returns risk is to show a drawdown fund over a given period where the returns rises in the early years but falls in the later years. This is compared to the situation where the returns are reversed i.e. fall in early years but rises in later years. The second scenario produces a lower fund value compared to the first scenario one.

This example may seem too abstract so it is helpful to look at a real-life example. The chart below shows the sequence of returns risk in practice over the period 1st July 2011 to 1st December 2016.

Although this is a short, and perhaps untypical time period, it shows that sequence of returns is a real risk and not just theoretical. There are a number of ways of investing in order to reduce or eliminate the sequence of returns risk and these include:

- ✓ Paying income out a cash fund and topping up the cash in good years
- ✓ Investing in 'smoothed returns' funds
- ✓ Using guaranteed funds or structured funds
- ✓ Reducing (or stopping) drawdown when returns are negative

More about Sequence of returns risk at **pruadviser.co.uk**



Above: £ 100,000 was invested in July 2011 and income equivalent to a single life annuity (age 65, guaranteed 5 years and level payments) of £ 6,500 per annum gross (£ 542 per month) is paid. The fund was invested in a typical pension fund which 60% equity content. The chart shows the value of the fund each month. There is a fall in value in September 2011, again in May 2012 and then from July 2015 to July 2016 before a strong rally thereafter before the market correction in early 2018.

Back

Q9. How should drawdown plans be reviewed?

In many cases, the success or failure of a drawdown plan hinges on the quality of the review process. This means reviewing the investment strategy to make sure it is on track to achieve the required returns in line with the client's attitude to risk and is meeting the stated objectives.

Reviews should take place at regular intervals and advisers should keep a watching brief to make sure the investment strategy reflects any changes in the economic and financial outlook as well as any changes in personal circumstances.

PERSONAL CIRCUMSTANCES

It is important to review all the relevant personal circumstances such as health, family matters and any concerns they might have.

This is particularly important as clients get older and may be looking for more simplicity and structure with their financial affairs.

INCOME REQUIREMENTS

There are often two questions bubbling beneath the surface: Does the current level of income meet their needs? Should some of this income be guaranteed?

A good adviser will keep a watching brief on annuity rates and any changes in attitude to risk. If appropriate, converting some of the drawdown pot into guaranteed annuities.

INVESTMENT STRATEGY

This is the most important part of the review because investments have the biggest impact.

A structured review of the investment strategy should take place at least once a year to make sure it is on target to deliver the required returns and is in line with the stated attitude to risk.

A good adviser will not leave the investment review until the annual review date but will monitor the investments at regular intervals looking for any early warnings signs that the strategy needs changing in the light of global investment conditions.

HOLISTIC RETIREMENT PLANNING

Holistic planning involves taking everything into account.

The advantageous treatment of death benefits and their taxation gives rise to a number of IHT planning opportunities. A forward-thinking adviser may point out that the Government may change the rules in the future so this should be factored into any advice given.

There may be scope for tax efficient retirement income planning. For instance, reducing income withdrawals if this brings income from all sources into a lower tax bracket.

One area sometimes overlooked by advisers is the overall amount of investment risk. For instance, if a client has significant savings in addition to their pensions, the exposure to risk across all investments should be taken into account to make sure it is in line with their risk profile.

TOP TIP

Make sure to regularly review:

- ✓ Personal circumstances
- ✓ Income requirements
- ✓ Investment strategy
- ✓ Holistic retirement planning

Q10.

When should I start talking to my clients about equity release?

Later:
Age 75+

The average age for equity release is around 70 so it makes sense to start talking about equity release when clients reach retirement age.

Although clients will probably be too young to benefit from equity release when they first retire, it is important to take account of the possibility of equity release and where appropriate build it into the retirement plan. Used correctly, equity release can be a good way to help fund increased expenditure in later life.

It is a well-known fact that much of the personal financial wealth in the UK is tied up in property and many older people are 'cash poor but property rich'. Equity release can be used to provide additional cash in later retirement which can be used to finance major items of expenditure or to supplement pension income.

Equity release schemes allow home owners to release the equity tied up in their property without moving home. However, unlike conventional mortgages, equity release plans do not have a fixed term and include a provision for the client to remain in their home for the rest of their lives.

There are two types of equity release plans; lifetime mortgages and home reversion plans. With a lifetime mortgage the client retains full ownership of their property and interest on the loan can be fixed or rolled up. The outstanding loan and rolled up interest is repaid after the client has died or if they sell the property and move to another home, e.g. for long term care. Home reversion plans operate differently because all or part of the property is sold to a reversionary provider in exchange for a cash lump sum.

Lifetime mortgages are the most popular option and offer a number of options including a drawdown option where cash can be taken in a series of lump sums rather than all at once. Also, some providers allow for higher loan to equity ratios for customers with reduced life expectancy.

This is a very specialised area of financial services, and advisers must have the relevant Institute of Financial Services or Chartered Insurance Institute qualifications in order to advice in this area.

The most popular age for equity release tends to be 65 to 75, however some experts say equity release customers are getting older with the average age rising from 69 to 71.

Important as it is, clients should probably not be encouraged to take advantage of equity release too early. One reason for this is the effect of compound interest on rolled up interest. Most equity release plans allow interest to be rolled up which increases the debt. Therefore, it generally makes sense to take income and or cash from pensions and savings before tapping into housing wealth.

Equity release is not just used by cash strapped clients to raise extra cash or income, it can be a valuable tool by high net worth clients in IHT planning.

TOP TIP

Advisers need to be regulated to give advice on equity release. If you don't have the necessary qualifications you can refer equity release business to a qualified adviser.

The Equity Release Council has lots of useful information at **www.equityreleasecouncil.com**

Q11. How do I go about discussing 'estate planning'?

Estate planning is one of those things that advisers and their clients know is important but it is often ignored until it is too late. It is never too early to start discussing estate planning and during mid retirement when clients can give the matter their full attention is a good time. It is always good practice to involve other family members in the discussions as it may avoid problems in the future.

It is relatively straight forward to arrange a will and lasting power of attorney but the financial cost and emotional anguish of leaving it too late can be huge and result in complex problems.

Estate planning is a broad topic but two of the most aspects, in addition to inheritance tax mitigation, are wills and lasting power of attorney.

WILLS

Advisers will be only too aware that in the absence of a valid will, a deceased person's estate will be distributed according to the rules of intestacy. Therefore, it is important not only to have a valid will but to ensure that it is regularly reviewed and kept up to date.

LASTING POWER OF ATTORNEY (LPA)

A lasting power of attorney (LPA) is a way of giving someone (the attorney) the legal authority to make decisions on behalf of a person (the donor) who no longer can or wishes to make decisions on their own behalf. In many cases LPAs are arranged for individuals who now, or in the future, cannot make decisions because they don't have the mental capacity.

The attorney can manage the finances, or make decisions relating to the health and welfare of the donor.

There are two types of LPA:

- ✓ LPA for financial decisions
- ✓ LPA for health and care decisions

Benefits of making an LPA:

- ✓ Making an LPA ensures that the person who the donor wants to make decisions for them will be able to do so. This prevents a stranger, or someone they may not trust, from having this power.
- ✓ Making an LPA before the onset of a problem will make things easier for the donor and their family and friends in future. It will be more expensive, difficult and time-consuming to get the authority to act on the donor's behalf when they lose mental capacity.
- ✓ Making an LPA can start discussions with the family or others about what the donor wants to happen in future.

The first step in arranging an LPA is to speak with the donor's immediate family and if there is no close family, close friends or their professional advisers such as solicitor.

TOP TIP

There are many good websites that provide information on LPA's and one of the best is the government's website:

www.gov.uk/power-of-attorney/overview

Other good sites include:

www.ageuk.org.uk

www.alzheimers.org.uk

Q12. How can advisers improve their retirement advice process to achieve the best outcomes for their clients?

There is an advice gap in the UK, especially for clients with modest pension funds who need expert advice about their retirement options. A customer friendly and efficient advice process which is fully compliant can help fill this gap and ensure they get the best outcomes.

The key to getting better client outcomes is to appreciate that at any point of the advice process there are two factors at work. First there are a number of behavioural factors which must be taken into account when discussing a client's retirement objectives and analysing their attitude to risk. Secondly, there a number of technical factors which impact on the solutions recommended. Good advice takes both of these into consideration as the client progress through their retirement journey.

The previous questions have looked at specific questions which advisers might ask along the retirement journey but this answer will consider how these answers can be used together to improve the quality of holistic advice. To answer these questions it is necessary to take account of:

THE BEST OUTCOME

The best outcome has a number of different components including:

- ✓ It will meet the client's stated objectives, especially income and the need for flexibility
- ✓ Will be in line with their attitude to risk and capacity for loss
- ✓ Provides value for money

1	INITIAL MEETING TO START THE ADVICE PROCESS	Explain new pension freedoms and options as well as key issues
2	AGREE RETIREMENT OBJECTIVES AND PRIORITIES	Complete retirement planning questionnaire
3	RESEARCH THE MARKET AND ANALYSE OPTIONS	Present retirement options report
4	MAKE ADVICE RECOMMENDATIONS	Prepare suitability letter with recommendations
5	ARRANGE PRODUCT SOLUTIONS	Deal with all administration matters

GOOD ADVICE PROCESS

When I published the "Retirement Advice Survival Guide" (Prudential was one of the sponsors) in 2014 I set out a five-stage advice process (see graphic).

A lot has happened in the retirement income market since this guide was published but the underlying process remains the same but now there are many options to consider. This process is not set in stone and adviser firms will have their own advice process tailored to meet the requirements of their clients, compliance oversight and resources. The process will also be modified to meet the requirements of clients with different amounts of financial wealth and complexity.

A good advice process is particularly important when dealing with clients with modest financial wealth, some of whom may have fallen into the so-called advice gap. The challenge for these clients is to provide advice which does not compromise on the important aspects of suitability and better outcomes but makes the process more client friendly and cost-efficient.

Some firms are developing robo-advice propositions, and while these have obvious benefits, many advisers will have clients who prefer a personal service. One way in which advisers can make their advice proposition more cost-effective is by better use of technology.

Back

SKILLS OF THE TRADE

Although I have many years' experience in the retirement advice market I cannot tell advisers how to run their businesses or how they should give advice, but I can help them develop their skills, so they can improve their own advice process.

I have identified a number of behavioural and technical skills which will help advisers improve the quality of their advice. Although every adviser will have their own unique style, most will benefit from improving and refining their advice process.

SKILLS & ABILITIES	SPECIFIC DISCIPLINES
Foresight	✓ Life expectancy ✓ Annuity and interest rates ✓ Market trends
Relationship skills	✓ Establish rapport ✓ Help clients articulate their objectives ✓ Understand what makes clients tick
Risk management	✓ The risk dilemma and paradox ✓ Attitude to risk and capacity for loss ✓ Managing risk
Comprehensive product knowledge	✓ Annuities – including hybrid solutions ✓ Fixed term income plans and drawdown ✓ Investment products e.g. bonds & ISA
Technical expertise	✓ Rules for retirement options e.g. UFPLS ✓ Death benefits ✓ Critical yield and mortality drag
Understanding tax	✓ Income tax e.g. marginal rate of tax ✓ Money Purchase Annual Allowance ✓ Tax efficient income strategies

BEHAVIOURAL SKILLS

Another way of looking at behavioural skills is to try and understand what clients are thinking or what really matters to them. A good adviser will be aware of their client's behaviour and biases and 'nudge' them to consider and understand the key issues.

To keep up to date with the latest news and developments go to **www.pruadviser.co.uk**

TECHNICAL SKILLS

This is an area where good advisers should excel. The obvious technical areas include; investments, tax and product knowledge. There are many resources to help advisers continually refresh their knowledge.

Billy Burrows – Retirement IQ

Billy Burrows has been involved with annuities for over 20 years, advising clients on all aspects of annuities and retirement income options. He runs his own consultancy business Retirement IQ and is a regulated financial adviser with Better Retirement.

In 1993 he helped establish Annuity Direct and then in 1997 he set up William Burrows Annuities. A year later he joined Prudential Annuities as their Marketing Director for annuities. In 2001 he returned to running William Burrows Annuities and in 2010 the business was incorporated with Better Retirement Group Ltd to provide clients with a wider range of services.

Billy now divides his time between running Retirement IQ which provides consultancy services to insurance companies on marketing and strategy and advising individual clients in conjunction with Better Retirement.

He is frequently quoted in the national press and appears on radio, podcasts and videos and writes extensively on annuity and drawdown options.

www.williamburrows.co.uk
billy@williamburrows.co.uk

Prudential

Prudential plc is an international financial service group with significant operations in Asia, the US and the UK. We serve around 26 million customers worldwide and have £669 billion of assets under management. We are listed on stock exchanges in London, Hong Kong, Singapore and New York.

The Group is structured around four main business units: Prudential Corporation Asia, Jackson National Life Insurance Company, Prudential UK and M&G.

Prudential uses long-term thinking to create long-term value. Through our strong financial performance and international strategy, we aim to create financial benefits for our shareholders and investors and deliver economic and social benefits for the communities in which we operate.

www.prudential.co.uk

Retirement IQ

Design: paulmckenziestudio.co.uk 07/18